Nationwide Building Society

Half-Yearly Financial Report
For the period ended
30 September 2010

Proud to be different

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Underlying Results

Profit before tax shown on a reported and underlying basis are set out on page 10. Reported profit before tax of £259 million has been adjusted for the movement in the value of derivatives and hedge accounting of £118 million, and transformation costs of £6 million, in connection with the restructuring of the business, to derive an underlying profit before tax of £147 million.

Forward Looking Statements

Statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/ deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward looking statements.

We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

This document does not constitute or form part of an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by the means of a prospectus that may be obtained from the Society and will contain detailed information about the Society and management as well as financial statements.

HALF-YEARLY FINANCIAL REPORT
FOR THE PERIOD ENDED 30 SEPTEMBER 2010

Nationwide is today reporting a strong and profitable performance in a challenging market environment. The Group has delivered an underlying profit of £147 million, and a reported statutory profit before tax of £259 million. Nationwide's strong capital ratios have improved further in the period through prudent balance sheet management.

Graham Beale, Nationwide's Chief Executive said:

"This is another strong performance from Nationwide, with underlying profit up 26% when compared with the first half of last year. We have maintained our strong balance sheet, excellent capital ratios and strong consumer franchise. Our focus on the needs of our members has resulted in us performing well in our core markets. In savings we have had a highly successful ISA season, with our market share of growth in cash ISA balances reaching 19% between April and June. The Champion product range remains popular with savers looking for consistently competitive rates and we have launched a new savings product, MySave Online Plus, which provides an online option for those members looking for a great rate and easy access to their money.

"In mortgages we have preserved our position, with a gross lending market share of 8.5%, and are working hard to keep the housing market moving against a backdrop of subdued conditions. We have simplified our product range and we have honoured our Base Mortgage Rate (BMR) pledge, with the majority of our existing mortgage customers on a rate which is capped at 2% above the Bank of England (BoE) base rate. Other mortgage customers have benefitted from our waiver of the contractual floor of 2.75% on tracker mortgages.

"We have also made strong progress towards delivery of our strategy of diversifying our income through growth across our broad range of non mortgage and savings products. Sales of new current accounts and credit cards increased by 61% and 88% respectively compared with the first half of last year, whilst demand from customers for equity linked alternatives to traditional savings products, coupled with innovative product development, has driven an increase in sales of investment and protection products of 14%. As a result, Group non-interest income has risen by over 20%.

"This performance provides a very firm foundation on which we will build. Despite the fragile economic environment I am confident that our long term, good value products, excellent service and strong balance sheet will hold us in good stead for the second half of the year."

CHIEF EXECUTIVE'S REVIEW

Strong performance in a challenging market environment

I am pleased to report the Group's results for the half year ended 30 September 2010 as set out below. These results continue to demonstrate both the resilience of our business model and the strength of our customer franchise in a challenging market environment.

	Half Year to 30 September 2010 £m	Half Year to 30 September 2009 £m	Year to 4 April 2010 £m
Underlying profit	**147**	117	212
Reported profit before tax	**259**	143	341

Strong financial performance

- Underlying profit of £147 million, up 26% despite difficult trading conditions, low interest rate environment and margin compression
- Reported profit of £259 million includes £118 million relating to fair value gains on derivatives and hedge accounting, and have been excluded in reporting the Group's underlying performance
- Strong growth in underlying non-interest income, up 21% to £216 million in line with our strategy to diversify the Group's income base
- Continued focus on cost control resulting in a flat underlying cost base
- Total impairment charge on loans and advances to customers has reduced by 44% to £179 million (30 September 2009: £317 million) reflecting our consistent and prudent lending strategy. Commercial property impairment charges down 47% to £95 million (30 September 2009: £180 million)
- High quality assets with Nationwide originated residential mortgage accounts more than three months in arrears of 0.67% (4 April 2010: 0.68%) – less than a third of the Council of Mortgage Lenders (CML) industry average (2.15%)

Successful consumer franchise

- Increase in retail savings balances of £0.9 billion (4 April 2010: net reduction of £7.3 billion). Strong retail funding performance across the new Champion Saver, Champion ISA and e-ISA product range and launch of variable online savings product 'MySave Online Plus'
- Gross residential mortgage lending of £6.0 billion, 8.5% market share, in a weak mortgage market
- Continued support for mortgage holders who have benefitted from our Base Mortgage Rate (BMR) and our continued waiver of the contractual tracker floor
- Strong growth in current account and credit card volumes in line with our strategic focus to diversify our business through growth of our consumer banking portfolio. In the six month period to 30 September 2010 we opened 260,000 new current accounts and 120,000 new credit card accounts, up 61% and 88% respectively compared with the prior half year
- Increase in protection and investment income, up 61% to £53 million, driven by product development and continued demand for equity-linked investments as an alternative to traditional savings accounts
- Launched a range of member-focused initiatives including alignment of fixed rate ISA pricing with equivalent rates for non-ISA products, simplification of our mortgage product range incorporating free mortgage payment protection insurance for the first two years for first time buyers and other higher loan to value customers, and the launch of our unique free European travel insurance offer to all prime FlexAccount customers

Stable and strong balance sheet

- Strong capital ratios improved further through prudent balance sheet management: Core Tier 1 ratio of 12.5%, Tier 1 ratio of 15.8% and total solvency ratio of 19.9% (4 April 2010: 12.2%, 15.3% and 19.4% respectively)
- Core liquidity ratio has remained broadly stable at 13.9% (4 April 2010: 13.8%)

- Increased maturity profile of wholesale funding portfolio (56.7% of balances due in more than one year compared with 50.3% as at 4 April 2010), combined with positive retail flows reducing our requirement for wholesale funding, with the ratio falling to 26.1% (4 April 2010: 27.8%)
- Issuance of a €1.25 billion 5 year covered bond in September 2010 – this was the first externally issued covered bond by the Group since September 2007. Since the half year the Group has launched its second public issuance of residential mortgage backed securities, raising £1.52 billion Sterling equivalent

Our business

The Group has delivered a strong performance for the first half of the year, with underlying profit up 26% to £147 million (30 September 2009: £117 million). Strong growth in non-interest income has partly offset the impact of margin compression in the low rate environment, and our strategic focus on cost control has ensured that underlying costs remained flat. The overall improvement in performance has been driven by a significant reduction in the loan impairment charge, which has fallen from £317 million in the first half of last year to £179 million for the six months to 30 September 2010.

Nationwide has lent £6.0 billion of mortgages during the first half of the year, representing a market share of 8.5% (30 September 2009: 8.3%) of gross lending in the UK. In order to support transparency in lending, we have taken steps to simplify our product range, offering better deals for existing customers whilst supporting first time buyers. In the subdued mortgage market, capital repayments have remained strong as borrowers continue to pay down their debt, resulting in an overall reduction in total mortgage balances.

We have maintained our approach to margin management, which balances the challenge of a low rate environment with our commitment to provide our members with long term good value products. We continue to support our borrowing members by honouring our Base Mortgage Rate (BMR) pledge, ensuring that the majority of our existing mortgage customers have access to a rate which is capped at 2% above Bank of England (BoE) base rate. Given the continued low rate environment, there is less incentive for borrowers to move product and BMR balances have therefore increased. We estimate the opportunity cost of maintaining BMR at this level, relative to other rates charged in the market, has been in the region of £300 million for the first six months of the year. In addition, we have also continued to waive the contractual floor of 2.75% on tracker mortgages, instead applying the floor at 2%, representing a saving to our members of £34 million in mortgage interest over the six month period. The tracker floor benefit will continue to reduce as borrowers roll off their tracker period.

The UK retail savings market remains subdued, with market balance growth of £7.3 billion in the six months to 30 September 2010 largely attributable to interest capitalised. This compares with a market growth of £8.3 billion for the first half of last year, and £21.8 billion in the second half year. The low rate environment has prompted many investors to seek alternative forms of investment with equity-linked returns, or to use their savings to pay down their debt. In this environment, we have actively managed our flow of retail savings to ensure an optimum balance between securing funds at an economic rate and providing long term good value to our members. We attracted £423 million of net receipts across the savings and current account book during the first half of the year. This is in contrast with last year's net outflow of funds, and reflects a strong funding performance from all of our new Champion Saver, Champion ISA and e-ISA products.

We have continued to offer our members competitive variable and fixed term products, with total deposits into our Champion Saver of £5.9 billion at 30 September 2010. Nationwide had a strong ISA season, taking 19% market share of the growth in cash ISA balances in the first quarter of the financial year compared with our par market share of ISA balances of 15.1% (as at December 2009). We have also ensured our overall mix of funding remains well balanced between fixed and variable deposits, allowing us to manage our cost of funding effectively.

The launch of our latest online product 'MySave Online Plus' on 30 September 2010 will further strengthen our presence in the 'easy access' variable rate market and will provide a highly competitive rate for those members wishing to manage their savings online.

Managing costs

Controlling our cost base is an important and prudent measure that will allow us to compete effectively in our core markets and continue to provide long term value to our members.

We have already demonstrated our commitment and ability to manage costs. In the preceding three years we delivered over £150 million of savings across a range of Group activities to offset increasing costs arising from merged businesses, employee costs and investment in key transformation projects.

A number of projects to reduce our cost base further have already been announced, including: the integration of our Regional Brands network; operations efficiency; branch counter efficiency and the closure of Nationwide agencies. Through these initiatives we have identified savings for this financial year, which will offset expected cost increases, including employee costs, continuing business investment and the forthcoming VAT increase.

We are conscious that these initiatives affect our customers and employees and we consider these impacts very carefully before taking what are often difficult decisions. However we believe it is important to continue to manage the business in the long term interests of all of our members.

Asset Quality

The UK housing market has broadly stagnated during the first half of the year in terms of both house prices and activity levels. After increasing by 9.0% in the year to March 2010, house prices were unchanged in the six months to September on a seasonally adjusted basis.

Our asset quality remains strong, reflecting our prudent approach to lending. The average loan to value (LTV) of new residential lending is low at 64% (4 April 2010: 63%) and the indexed LTV for the whole residential portfolio has reduced to 47% (4 April 2010: 48%). The proportion of the Group's originated mortgage accounts three months or more in arrears was 0.67% at 30 September 2010 (4 April 2010: 0.68%). This is significantly better than the Council of Mortgage Lenders (CML) industry average of 2.15%. The proportion of Nationwide originated prime mortgage accounts (excluding Regional Brands) three months or more in arrears was even lower, at only 0.51% (4 April 2010: 0.52%).

The UK commercial property market was badly hit by the recession, with peak to trough falls in capital values of 44%. Since July 2009 there has been a 16% increase in values, as measured by the Investment Property Databank (IPD) index although the rate of recovery in asset values, which has been focused predominantly on prime sites, is now slowing. At 30 September 2010 the proportion of Nationwide originated commercial balances three months or more in arrears was 3.15% (4 April 2010: 2.77%), with arrears balances of £47 million, although there are positive signs that the arrears trend is now stabilising. Following a realistic assessment of all impaired cases, we have booked a total commercial impairment charge of £95 million in the first half of the year, 20% lower than the charge of £119 million in the second half of last year.

Funding, liquidity and capital

We have one of the strongest balance sheets in the financial services sector:

	30 September 2010	4 April 2010
	%	%
Solvency ratio (Basel II)	**19.9**	19.4
Tier 1 ratio	**15.8**	15.3
Core Tier 1 ratio	**12.5**	12.2
Core liquidity ratio	**13.9**	13.8
Wholesale funding ratio	**26.1**	27.8

Our capital ratios have further improved since the year end and remain well in excess of current regulatory requirements. In July 2010 the Group issued €750 million of lower Tier 2 subordinated debt in order to refinance the subordinated debt called in August 2010. Demand for our capital from institutional investors was high and reflects strong market confidence in our business. On 17 November we confirmed that we intend to call £100 million of lower Tier 2 capital which falls due for call on 17 December 2010.

We have maintained high levels of liquid assets and our core liquidity ratio has remained broadly stable at 13.9% (4 April 2010: 13.8%).

The Society has a strong and diversified funding base, predominantly funded by retail savings. We have continued to extend the maturity profile of our wholesale funding and in September 2010 the Group issued a €1.25 billion 5 year covered bond. This was the first externally issued covered bond by the Group since September 2007. Since the half year, the Group has launched its second public secured issuance of residential mortgage backed securities (RMBS) through the Silverstone Master Trust Vehicle. The issuance, in both US dollar and Euro denominated notes, has raised £1.52 billion Sterling equivalent and has provided further investor diversification to complement our initial Sterling RMBS issuance in November 2009.

The table below summarises the residual maturity of the wholesale funding book. Over 56% of our portfolio now relates to balances due in more than one year (4 April 2010: 50%).

	30 September 2010		4 April 2010	
	%	**£bn**	%	£bn
Balances due in less than 1 year	**43.3**	**19.8**	49.7	24.5
Balances due in more than 1 year	**56.7**	**25.9**	50.3	24.8
Total	**100.0**	**45.7**	100.0	49.3

In line with other major UK banks we have voluntarily accelerated the repayment of certain central bank facilities.

Reforming financial services

The statement in the ‘Programme for Government’ to “foster diversity, promote mutuals and create a more competitive banking industry” is a welcome intent of the Government to strengthen financial services and deliver a better deal for consumers. A diverse financial services sector, focused more squarely on meeting consumer needs, helps to reduce systemic risk, provides more consumer choice and increase effective competition. Mutuals operate a resilient and risk-averse model based on foundations of long term relationships, trust, excellent customer service and value creation for members. In particular Nationwide, as the UK’s leading mutual, is able to provide effective competition on a national scale to the plc banking community and is in a unique position to work with the Government to meet these challenges.

It is necessary to understand the context in which Nationwide is currently operating. As with all types of financial firms, building societies must evolve to remain competitive and profitable, particularly in the current environment of widespread regulatory change. While these changes are largely understandable from a financial stability and market efficiency perspective, their primary focus is to ensure the continued stability of the plc banking sector, and therefore the cumulative impact on building societies risks being overlooked. In addition to new capital and liquidity requirements, Nationwide faces additional costs relating to new requirements under the Building Societies Sourcebook, Financial Services Compensation Scheme (FSCS) levies predominantly in respect of failed banking institutions and the new bank levy due to be introduced on 1 January 2011.

The Government's ambitions for retail financial services are more likely to be achieved with strong building societies supported by appropriate regulation. Capital raising under this new regime remains the prime example of how this can be achieved. We continue to work with Government and regulators – at both domestic and European levels – to create a suitable Core Tier 1 capital instrument that is consistent with mutual principles and meets the needs of regulators and investors. This is essential not only to bring stability to the sector, but also to allow building societies to compete effectively with the banks and provide a genuine alternative to consumers. It is encouraging to note that the European Parliament, in considering how Basel III should be transposed into European law, has made specific reference to ensuring that proper account is taken of the needs of co-operatives and mutuals, in order to guarantee a level playing field which does not disadvantage certain business models.

Strategy

Nationwide's strategy is both transparent and well-established; we continue to focus on growth of our core UK retail financial services franchise for the exclusive benefit of our members. Our aim is to offer a meaningful alternative to our publicly listed bank competitors by delivering better products, pricing and service. As the UK's leading mutual financial services provider, we do not seek to maximise our earnings; rather, we aim to generate sufficient profit to maintain a strong balance sheet and invest in our future. In support of our strategy, we continue to maximise revenues from our non-member business streams in order to support our member businesses.

Whilst our long term strategy is unchanged, we have had to adapt to the significant challenges posed by the adverse economic conditions. The main impact has been felt in our margin, but this has been partially mitigated by a greater emphasis on cost control and our continued success in diversification of non-margin income through sales of current account and other retail products. In addition, we have continued to take a balanced approach in the retail funding market, offering good value for our customers without offering uneconomic pricing.

We will maintain our position as a leading provider of mortgage and savings products, and extend our capability and market presence in banking, personal loans, insurance and protection & investment products. We will achieve this by encouraging broader and deeper customer relationships. Increasing scale in these areas will, in addition to supporting the needs of our customers, provide a more diversified business mix and reduce our reliance on margin income.

In line with our mutual ownership and ethos, Nationwide aims to provide industry-leading service to all of our customers. Whilst all organisations will inevitably get some things wrong, I am proud of the fact that Nationwide attracts far fewer complaints than our size and position would normally suggest. Our relative success is evident in the FSA release of firm-specific complaints data at the end of September; when the numbers are normalised to take account of the timing of the FSA's waiver on overdraft complaints, Nationwide ranked only eleventh in the list of complaints received despite our position as a top three mortgages and savings provider.

To support our commitment to cost efficiency and customer service, we must operate modern, flexible systems supported by knowledgeable, well trained employees. In this context we continue to invest in the replacement of core systems. This includes the launch of a new mortgage sales and originations system for mortgage intermediaries and going forward, through the Voyager programme, we will deliver an integrated banking platform.

We will continue to align our strong Corporate Responsibility ethos, which focuses on housing, financial inclusion and education, environmental issues and a strong commitment to local communities, with our business priorities. Whilst we have undertaken a number of mergers and acquisitions in recent years, our strategy is one of organic development and growth. Future mergers would only be considered if they could be shown to add unequivocal benefits to our existing members.

Outlook

The UK economy has continued to recover over the first half of the year, but still faces considerable challenges in the years ahead. The measures announced in the Comprehensive Spending Review will ensure the longer term stability of the UK public finances, but are expected to keep the pace of economic recovery relatively subdued in the near term. One side-effect of the spending review is that the Bank of England is likely to keep interest rates near record low levels for longer in order to offset the dampening impact of spending cuts. We do not expect any change in the Bank of England base rate until late 2011, despite inflation remaining above the Government's target. The persistence of low interest rates will keep liability margins relatively compressed and make it difficult for the size of the retail savings market to grow from its current weak levels.

In the housing market, conditions have weakened noticeably over the last six months, with both a decline in buyer demand and a modest downward trend in house prices. Buyer activity is expected to remain weak during the period of uncertainty surrounding the implementation of fiscal tightening measures. In addition, the supply of properties for sale is now significantly higher than last year. However, we believe that large house price falls of the magnitude seen in 2008 are unlikely given that interest rates will remain low and limit the level of mortgage arrears and distressed sales.

We believe that our margins have now stabilised, and that a progressive return to a more normalised interest rate environment in future years will result in a strong upturn in the overall level of Group profitability. Alongside this likely improvement in profitability, we are continuing both to diversify our income streams and maintain a tight control of our cost base. By doing so, we will make steady progress towards our medium term cost income ratio target of 50%.

The commercial impairment charge has reduced significantly in the first half year, and we anticipate a broadly similar charge in the second half. The uncertainty around the strength of economic recovery and the level of real estate debt to be refinanced in the coming years, clearly pose some risks to the commercial property market, so that we continue to remain cautious in our outlook for commercial lending.

In the second half of the financial year the Group will become liable to further FSCS interest levies, currently estimated to be in the region of £40-50 million. There is also the possibility that FSCS levies arising from recovery shortfalls from previous bank failures may also start to be recognised.

The Government previously announced its intention to introduce a new bank levy, which will apply to certain UK banks, building societies and the UK operations of foreign banks from 1 January 2011. Nationwide will be subject to the new levy; at this stage in the legislative process it is not possible to reliably quantify the potential impact although we do expect the construct of the levy, which acknowledges the low risk profile of retail and long term wholesale funding, to have a more benign impact on Nationwide than some other institutions.

Nationwide has continued to trade profitably in uncertain market conditions. The strong balance sheet, excellent capital ratios and strong consumer franchise will ensure that we remain resilient in an ongoing period of economic fragility, and we will continue to provide good value products and excellent service to our members going forward.

Graham Beale
Chief Executive

22 November 2010

FINANCIAL SUMMARY

	Half year to 30 September 2010	Half year to 30 September 2009	Half year to 4 April 2010	Year to 4 April 2010
Financial Performance	**£m**	£m	£m	£m
Underlying profit before tax	**147**	117	95	212
Reported profit before tax	**259**	143	198	341
Lending Volumes	**£bn**	£bn	£bn	£bn
Group residential – gross	**6.0**	5.8	6.2	12.0
Group residential – gross market share	***8.5%***	*8.3%*	*9.2%*	*8.7%*
Group residential – net	**(1.8)**	(1.7)	(1.9)	(3.6)
Commercial – gross	**0.8**	0.8	1.0	1.8
Commercial – net	**(0.1)**	0.1	(0.1)	-
Consumer finance – net unsecured lending	**-**	-	-	-
Savings Volumes*	**£bn**	£bn	£bn	£bn
Retail savings balance movement	**0.9**	(5.6)	(1.7)	(7.3)
Net receipts / (outflow)	**0.4**	(6.1)	(2.1)	(8.2)
Key Ratios	**%**	%	%	%
Cost to income ratio – underlying basis	**64.4**	59.5	63.2	61.3
Cost to income ratio – reported basis	**58.0**	58.1	66.0	62.1
Net interest margin	**0.81**	0.91	0.83	0.87

	30 September 2010	4 April 2010
Balance Sheet	**£m**	£m
Total assets	**190,275**	191,397
Loans and advances to customers	**151,143**	152,429
Member savings balances	**121,856**	120,943
Total shares, deposits and loans (SDLs)	**173,085**	175,370
Total regulatory capital	**9,868**	9,722
Asset Quality	**%**	%
Proportion of residential mortgage accounts 3 months+ in arrears:		
Nationwide originated	**0.67**	0.68
Nationwide originated plus acquired**	**0.77**	0.82
Average indexed loan to value of residential mortgage book	**47**	48
Average indexed loan to value of new residential lending	**64**	63
Commercial accounts 3 months+ in arrears:		
Nationwide originated	**3.15**	2.77
Nationwide originated plus acquired**	**3.43**	2.90
Percentage of unsecured personal loan accounts 30 days+ in arrears	**6.29**	7.07
Key Ratios	**%**	%
Solvency ratio (Basel II)	**19.9**	19.4
Tier 1 ratio	**15.8**	15.3
Core Tier 1 ratio	**12.5**	12.2
Wholesale funding ratio	**26.1**	27.8
Core liquidity ratio	**13.9**	13.8
Loan to deposit ratio ***	**113.4**	116.8

* Savings volumes include current account credit balances

** ‘Acquired’ relates to assets acquired from Derbyshire, Cheshire and Dunfermline building societies

*** The loan to deposit ratio represents loans and advances to customers divided by (shares + other deposits + amounts due to customers).

BUSINESS REVIEW

INCOME STATEMENT OVERVIEW

Profit before tax on a reported basis and an underlying basis are set out below. Certain aspects of the results are presented to reflect management's view of the Group's underlying performance.

Underlying profit before tax equates to reported profit before tax adjusted for the impact of movements in the value of derivatives and hedge accounting of £118 million and transformation costs of £6 million. The comparative period additionally includes an adjustment for a gain of £40 million on the acquisition of the former Dunfermline Building Society social housing portfolio, and a £1 million credit relating to the Financial Services Compensation Scheme (FSCS).

Half year to 30 September 2010	**As reported £m**	**FSCS costs £m**	**Reported profit pre FSCS costs £m**	**Movements on derivatives and hedge accounting £m**	**Transformation costs £m**	**Underlying £m**
Net interest income	**758**	**-**	**758**	**-**	**-**	**758**
Other income	**216**	**-**	**216**	**-**	**-**	**216**
Movements on derivatives and hedge accounting	**118**	**-**	**118**	**(118)**	**-**	**-**
Total income	**1,092**	**-**	**1,092**	**(118)**	**-**	**974**
Administrative expenses	**563**	**-**	**563**		**(6)**	**557**
Depreciation and amortisation	**70**	**-**	**70**	**-**	**-**	**70**
Impairment losses on loans and advances to customers	**179**	**-**	**179**	**-**	**-**	**179**
Provisions for liabilities and charges	**(10)**	**-**	**(10)**	**-**	**-**	**(10)**
Impairment losses on investment securities	**31**	**-**	**31**	**-**	**-**	**31**
Profit before tax	**259**	**-**	**259**	**(118)**	**6**	**147**

Half year to 30 September 2009	As reported £m	FSCS costs £m	Reported profit pre FSCS costs £m	Movements on derivatives and hedge accounting £m	Gain on portfolio acquisition £m	Underlying £m
Net interest income	891	-	891	-	-	891
Other income	218	-	218	-	(40)	178
Movements on derivatives and hedge accounting	(15)	-	(15)	15	-	-
Total income	1,094	-	1,094	15	(40)	1,069
Administrative expenses	561	-	561	-	-	561
Depreciation and amortisation	75	-	75	-	-	75
Impairment losses on loans and advances to customers	317	-	317	-	-	317
Provisions for liabilities and charges	(1)	1	-	-	-	-
Impairment gains on investment securities	(1)	-	(1)	-	-	(1)
Profit before tax	143	(1)	142	15	(40)	117

Year to 4 April 2010	As reported £m	FSCS costs £m	Reported profit Pre FSCS costs £m	Movements on derivatives and hedge accounting £m	Transformation costs £m	Gain on portfolio acquisition £m	Underlying £m
Net interest income	1,714	-	1,714	-	-	-	1,714
Other income	421	-	421	-	-	(40)	381
Movements on derivatives and hedge accounting	34	-	34	(34)	-	-	-
Total income	2,169	-	2,169	(34)	-	(40)	2,095
Administrative expenses	1,195	-	1,195	-	(62)	-	1,133
Depreciation and amortisation	151	-	151	-	-	-	151
Impairment losses on loans and advances to customers	549	-	549	-	-	-	549
Provisions for liabilities and charges	(103)	117	14	-	-	-	14
Impairment losses on investment securities	36	-	36	-	-	-	36
Profit before tax	341	(117)	224	(34)	62	(40)	212

Profit

A Summary Income Statement on an underlying basis is as follows:

	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m	Year to 4 April 2010 £m
Net interest income	**758**	891	1,714
Other income	**216**	178	381
Total income	**974**	1,069	2,095
Expenses	**627**	636	1,284
Impairment losses on loans and advances	**179**	317	549
Impairment losses /(gains) on investment securities and other provisions	**21**	(1)	50
Underlying profit before tax	**147**	117	212

Underlying profit for the half year was £147 million (30 September 2009: £117 million), up 26% on the comparable period and up 55% on the second half profit for 2009/10 of £95 million. The fall in net interest income has been partly offset by strong growth in other income and tight cost control. The increase in underlying profit has been driven by a significant reduction in the charge for impairment losses on loans and advances, particularly in commercial lending, where the impairment charge has fallen from £180 million in the first half of 2009/10 to £119 million in the second half of 2009/10 and £95 million for the six months to 30 September 2010.

PERFORMANCE BY INCOME STATEMENT CATEGORY

Net interest income

Net interest income, at £758 million, was £133 million lower than the comparable period to 30 September 2009, and £65 million lower than the six month period to 4 April 2010.

	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m	Year to 4 April 2010 £m
Net interest income	**758**	891	1,714
Weighted average total assets	**189,984**	200,061	197,320
	%	%	%
Net interest margin	**0.81**	0.91	0.87

The Group's net interest margin for the six months to 30 September 2010 was 0.81%. Although the margin has declined, this was only 2 basis points lower than the previous six month period to 4 April 2010 of 0.83%. The downward trend in our margin over the last 12 months reflects the exceptional level of liquidity management gains (£75 million) in the first half of last year compared with a more normal level (£26 million) of such gains in this first half.

Margins have declined steadily in the low interest rate environment, as retail liabilities re-priced significantly and at a faster rate than assets. We have now reached a position in the cycle where retail liabilities are re-pricing at relatively constant levels and the margin is stabilising. We anticipate that a progressive return to a more normalised interest rate environment in future years will result in a strong upturn in the overall level of Group profitability.

The main factor driving the reduction in margin continues to be the increased cost of retail funding, reflecting the competitive savings market, partly offset by wider spreads on new mortgage pricing. The impact of new mortgage pricing is constrained by the very low levels of re-mortgage activity and our BMR commitment to existing borrowers referred to below.

The net interest margin reflects our commitment to our historic BMR cap, which guarantees that our BMR mortgage will be no more than 200 basis points above the BoE base rate. Given the low rate environment, there is currently no incentive for existing borrowers to move away from BMR. The margin also reflects the fact that customers have continued to benefit from our decision to implement the mortgage tracker floor when base rates reached 2%, 0.75% below their contractual floor limit of 2.75%, saving our members approximately £34 million in mortgage interest in the six months to 30 September 2010.

Other income

Underlying other income at £216 million was £38 million higher than the comparative period (30 September 2009: £178 million). The increase in other income has been driven by strong sales of protection and investment products, predominantly Unit Trust and Equity ISAs. General insurance commission and mortgage payment protection income has increased following contract renegotiations. In addition, profit share from mortgage payment protection insurance policies has increased as a result of lower unemployment claims in the first half of the year compared with the prior period to 30 September 2009.

Expenses

	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m	Year to 4 April 2010 £m
Employee costs:			
• Wages and salaries	**231**	239	469
• Social security costs	**18**	21	44
• Pension costs	**42**	37	71
	291	297	584
Other administrative expenses	**266**	264	549
Depreciation and amortisation	**70**	75	151
	627	636	1,284

Total expenses amounted to £627 million, representing a reduction of 1% over the comparative period to 30 September 2009. As part of our strategic focus on cost control we have already identified significant savings for the financial year which will partly offset expected cost increases, including employee costs, business investment and VAT increases. We are on track to deliver these cost savings and remain confident that our underlying cost base will remain broadly flat for the full financial year.

Our underlying cost income ratio for the period was 64.4% (30 September 2009: 59.5%). The increase reflects the pressure on income as a consequence of operating in a low interest rate environment.

Impairment losses on loans and advances

	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m	Year to 4 April 2010 £m
Prime residential	**29**	5	10
Specialist residential	**16**	40	79
Residential lending	**45**	45	89
Consumer banking	**43**	62	126
Commercial lending	**95**	180	299
Other lending	**(4)**	30	35
	179	317	549

The charge for impairment losses on loans and advances of £179 million in the first half of 2010/11 is 44% lower than the £317 million charge for the same period last year, and 23% less than the £232 million charge for the second half of 2009/10. The underlying quality of lending remains strong, but is inevitably affected by recessionary conditions and falling asset values in the commercial sector.

The residential lending charge of £45 million (30 September 2009: £45 million) incorporates an increase in prime provisions of £24 million and a reduction to the specialist provisions of £24 million. Although we have not seen any worsening of arrears in our prime book, we have taken a prudent approach in making additional provisions in the half year by increasing the charge on the prime book to £29 million, reflecting increased uncertainty over the future direction of house prices and an allowance for forbearance policies within our provisioning models. In spite of the increase, the prime provision held on the balance sheet remains very low as a proportion of overall balances at 0.04%, due to the high quality and low average LTV profile of our prime portfolio. The charge relating to specialist lending of £16 million is lower than the same period last year, reflecting a reduction in arrears and higher indexed property valuations over the period. Residential impairment provisions held on balance sheet are £176 million, compared with £160 million at 4 April 2010, giving a coverage ratio against total balances of 0.15% (4 April 2010: 0.13%) and against balances more than three months in arrears of 15.5% (4 April 2010: 13.7%).

In our commercial lending division, ongoing difficult market conditions resulted in further defaults and a charge for the first half of £95 million. Defaults have been triggered by tenant failures and our borrowers' subsequent inability to service loans, along with covenant breaches and business failures on owner occupied properties. The number of Nationwide-originated commercial property cases more than three months in arrears increased from 285 cases at 4 April 2010 to 313 cases at 30 September 2010. This equates to 3.15% of commercial originated accounts (4 April 2010: 2.77%).

The commercial portfolio includes £194 million of subordinated exposures. For Nationwide originated assets, the subordinated exposure is £137 million, against which provisions of £60 million have been raised. The remaining subordinated exposures relate to Cheshire-originated assets of £57 million, for which fair value adjustments of £25 million were made when the Cheshire assets were acquired by the Society. All unprovided exposures are being closely monitored and are performing satisfactorily.

The overall level of provision for commercial lending as a percentage of Nationwide originated assets is 2.09% (4 April 2010: 1.97%) and the provision coverage ratio against balances more than three months in arrears is 51.5% (4 April 2010: 48.0%).

The charge for consumer banking for the six months to 30 September 2010 reflects a decrease of £19 million, compared with the same period last year. This is driven by Personal Loans and FlexAccount, in both cases the change being due to the collective provisions increasing during 2009/10, but decreasing during the first half 2010/11 in line with the reduction in delinquent balances. The book improvement is coupled with improved collection processes and a slight improvement in our customers' ability to repay.

Other lending benefits from a small one-off reduction to provisions in respect of a portfolio of European commercial loans acquired by our Treasury division. The portfolio is managed on our behalf by a leading European manager.

Impairment losses / (gains) on investment securities and other provisions

	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m	Year to 4 April 2010 £m
Treasury investments	**31**	(1)	36
Other provisions	**(10)**	-	14
	21	(1)	50

The Treasury investments impairment charge of £31 million includes £20 million for a small number of US residential mortgage backed securities (RMBS) exposures and £11 million on notes of a Structured Investment Vehicle (SIV) which was restructured in 2007. At the start of the credit crunch in August 2007, the Group held £167 million in seven SIVs and the exposure to all of these was removed through participation in various restructures that had mostly occurred by the end of our 2007/8 financial year. The £11 million impairment relates to one of these restructured items and is not expected to be a recurring feature in future charges. The prior full year charge of £36 million was driven by a £29 million impairment of a small number of US RMBS exposures and £7 million in respect of our small private equity portfolio.

The credit to other provisions in the period to 30 September 2010 is the result of reductions in other provisions, including £13 million relating to customer bonus schemes, partly offset by a provision charge for PPI redress of £3 million.

Derivatives and hedge accounting

All derivatives entered into by Nationwide are recorded on the balance sheet at fair value with any valuation movements being taken to the income statement. Derivatives are only used to limit the extent to which the Group will be affected by changes in interest rates, exchange rates or other market indices. Derivatives are therefore used exclusively to hedge risk exposures and are not used for speculative purposes.

The £118 million credit (30 September 2009: £15 million charge) from derivatives and hedge accounting represents the change in fair value during the period of derivative instruments that are matching risk exposures on an economic basis offset, where applicable, by the change in fair value of the underlying asset or liability attributable to the hedged risk. Some income statement volatility arises due to accounting ineffectiveness of designated hedges or because hedge accounting has not been adopted or is not achievable. The impact can be volatile, and has been especially so in this period as a result of the following matters, but over time will trend to zero and has therefore been excluded in reporting the Group's underlying performance.

In the period the Group recorded gains from fair valuation of mortgage commitments (£10 million). As a result of structural changes in our balance sheet this practice ceased (see note 2). The Group enters into derivatives to economically hedge forecast fixed rate savings. The accounting mismatch between the derivative being entered into and recognition of the liability created a gain of £28 million. Finally the Group has recognised material hedge adjustments on disposal of gilt assets (£30 million) and early cancellation of a covered bond liability (£26 million). The volatility associated with these disposals reversed losses previously reported, including those arising on the failure of the related micro hedge fair value relationships due to ineffectiveness.

Taxation

The effective tax rate is 23.9% (4 April 2010: 22.6%) compared with the standard rate of tax of 28% (2010: 28%) and reflects the tax charge accruing on the profits for the year to date. The rate is decreased by the recognition of previously unrecognised losses, lower overseas tax rates and the effect through the income statement on deferred tax of the change in corporation tax rate to 27%. This has been partially offset by the effects of non-deductible expenditure and tax paid in respect of a foreign branch. As higher costs are expected in the second half of the year due to FSCS levies, reduced profitability could result in the above items having a larger effect on the full year rate than at the half year.

BALANCE SHEET

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 83.5% of our total loans and advances to customers, commercial lending 14.6%, and consumer banking 1.5%. The composition of lending has remained broadly consistent with that reported at 4 April 2010.

Loans and advances to customers	30 September 2010 £bn	%	4 April 2010 £bn	%
Prime residential mortgages	**106.7**	**70.7**	108.7	71.3
Specialist residential mortgages	**19.3**	**12.8**	18.7	12.2
Total residential mortgages	**126.0**	**83.5**	127.4	83.5
Commercial lending	**22.0**	**14.6**	22.2	14.6
Other lending	**0.6**	**0.4**	0.6	0.4
Consumer banking	**2.3**	**1.5**	2.3	1.5
Gross balances	**150.9**	**100.0**	152.5	100.0
Impairment provisions	**(0.8)**		(0.8)	
Fair value adjustments for micro hedged risk	**1.0**		0.7	
Total	**151.1**		152.4	

Residential

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels. In addition, our balance sheet includes prime mortgages totalling £4.3 billion that were brought onto our balance sheet following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios.

Specialist residential mortgages are made up of £16.4 billion of advances made through our specialist lending brands, The Mortgage Works UK plc (TMW) and UCB Home Loans Corporation Ltd (UCB), and £2.9 billion arising from the acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios. Loans were advanced primarily in the Buy to Let and self-certification markets. Buy to Let mortgages make up 69% of total specialist lending, 22% relates to self-certification mortgages, 7% relates to near prime and just 2%, amounting to approximately £0.4 billion, relates to sub prime.

Gross prime lending in the half year amounted to £4.7 billion. Gross specialist lending in the half year of £1.3 billion was almost exclusively in the Buy to Let sector, with insignificant amounts of self-certified lending and no sub or near prime lending.

We have continued to focus on affordability and loan to value (LTV) ratios in underwriting loans during the period. The average LTV of residential mortgages completed has marginally increased to 64% as we increase our support of the first time buyer market combined with a shift away from the remortgage market. Despite this increase, the average indexed LTV of residential mortgages at 30 September 2010 has fallen to 47%.

Loan to value analysis:

	30 September 2010 %	4 April 2010 %
Total book		
<50%	**55**	54
50% - 60%	**10**	10
60% - 70%	**11**	10
70% - 80%	**11**	10
80% - 90%	**8**	8
90% - 100%	**4**	6
> 100%	**1**	2
	100	100
Average LTV of stock (indexed)	**47**	48
Average LTV of new business*	**64**	63

* The average LTV for new business excludes further advances.

The table below shows that arrears on Nationwide-originated prime lending was broadly stable, whilst there has been a reduction in specialist arrears helped by strong book growth, low reversion rates and a buoyant rental market. We continue to maintain our very favourable position to the industry on both originated business and lending including acquired loans. Our originated specialist mortgages continue to perform well and remain broadly in line with the industry measure that includes prime.

Cases 3 months or more in arrears as % of total book	**30 September 2010** **%**	4 April 2010 %
Nationwide self originated mortgages:		
Prime	**0.51**	0.52
Specialist	**2.18**	2.28
Nationwide self originated mortgages	**0.67**	0.68
Including effect of acquired societies:		
Prime	**0.53**	0.54
Specialist	**2.77**	3.37
Group – including acquired loans	**0.77**	0.82
Industry average (prior year re-stated by CML)	**2.15**	2.27

Residential mortgage assets acquired with the Cheshire, Derbyshire and Dunfermline's brands were fair valued on a basis which included a credit risk adjustment of £199 million for anticipated losses over the remaining life of the loans. To date, £59 million of losses have been written off and, as reported at 4 April 2010, we continue to believe it is unlikely that these loans will contribute any significant losses to the Group in excess of the fair value allowance made at the time of acquisition. Accordingly, in evaluating the Group's exposure to losses, as well as the quality of its underwriting processes, it is relevant to focus on arrears levels excluding rather than including the effect of acquired assets.

We maintain close relationships with customers experiencing financial difficulties and work with them to agree the most appropriate course of action. In the case of short term difficulty, we will seek to agree revised payment schedules with the customer, which may include a reduction to the contractual payment due. If the customer can meet the interest portion of their repayment, we may grant a temporary interest only concession which would be non arrears bearing as long as the customer continues to meet the terms of the new arrangement. Where this is not the case, arrears will continue to accrue and will be included in the arrears numbers reported above. Payment holidays are also non arrears bearing, but a credit score assessment is included as part of the eligibility criteria to restrict the use of this concession.

If a customer demonstrates they are able to meet a payment schedule at a normal commercial rate for a period of six months, and only if they request it, we may 'capitalise' the arrears on their account. This will result in an enlarged outstanding balance but no arrears and consequently these cases will no longer be reported as arrears.

The number of Group borrowers in possession, including acquired societies, of 868 represents 0.06% of the total portfolio. As Buy to Let landlords may have more than one property, possession measures are slightly higher on a property basis but, at 941 properties, representing 0.07% of our book, this compares very well with the industry measure of 0.12%. Excluding the impact of acquired societies, our position relative to the industry is even more favourable. The table below shows possessions as a percentage of book for both originated and acquired residential mortgages.

Possessions as % of total book (number of borrowers)	30 September 2010 Number of cases	%	4 April 2010 %
Nationwide self-originated mortgages:			
Prime	**283**	**0.024**	0.021
Specialist	**380**	**0.307**	0.414
Nationwide self-originated mortgages	**663**	**0.052**	0.055
Including effect of acquired societies:			
Prime	**302**	**0.025**	0.021
Specialist	**566**	**0.381**	0.497
Group – including acquired loans	**868**	**0.063**	0.069

Possessions as % of total book (number of properties)	30 September 2010 Number of cases	%	4 April 2010 %
Nationwide self-originated:			
Prime	**283**	**0.024**	0.021
Specialist	**453**	**0.328**	0.461
Nationwide self-originated mortgages	**736**	**0.057**	0.064
Including effect of acquired societies:			
Prime	**302**	**0.025**	0.021
Specialist	**639**	**0.392**	0.528
Group – including acquired loans	**941**	**0.068**	0.077
Industry average		**0.121**	0.127

Our approach to dealing with customers in financial difficulties, combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the half year, 602 properties relating to Nationwide originated lending have been taken into possession, representing only 3.29% of properties taken in by the industry as a whole, against our par share of all cases of 11.44% (4 April 2010: 11.58%).

Commercial

Our commercial lending portfolio of £22.0 billion (4 April 2010: £22.2 billion) consists of £20.7 billion (4 April 2010: £20.9 billion) of self-originated lending and £1.3 billion (4 April 2010: £1.3 billion) of assets acquired from Derbyshire, Cheshire and Dunfermline building societies. Our originated portfolio comprises £12.1 billion secured on commercial property ('Property Finance'), £7.2 billion advanced to Registered Social Landlords and £1.4 billion advanced under the Private Finance Initiative (PFI). Our Property Finance portfolio is well diversified by industry type and by borrower. On self-originated lending we have only modest exposure to development finance, with total balances of £166 million, and a total further commitment of £35 million to three high quality office developments in the centre of London.

The self-originated portfolio includes £137 million of subordinated exposures, against which £60 million of provisions have been raised. The Group's residual exposure to these subordinated loans is therefore restricted to the unprovided balances of £77 million (6 cases) which are currently performing satisfactorily.

The number of Nationwide-originated commercial property cases more than three months in arrears increased from 285 cases at 4 April 2010 to 313 cases at 30 September 2010. This equates to 3.15% of commercial originated accounts (4 April 2010: 2.77%). Total arrears balances on these cases at 30 September 2010 were £47 million (4 April 2010: £42 million). Robust arrears management is carried out by dedicated teams who, supported by daily arrears reporting, maintain a focus on early intervention to maximise economic value and mitigate losses. There are currently no arrears of three months or more on the Registered Social Landlord or PFI portfolios.

Commercial mortgage assets totalling £1.3 billion acquired through mergers with Cheshire and Derbyshire and the acquisition of the Dunfermline's social housing portfolio have been fair valued in the same way as described for residential assets above, including a credit risk adjustment of £179 million for anticipated losses over the remaining life of the loans, none of which relates to Dunfermline's social housing portfolio. A loan loss provision of £10 million has been raised since the mergers as 31 individually assessed cases have an impairment provision requirement in excess of the original fair value adjustment. However, in most cases, the credit risk adjustment exceeds the current impairment provision requirement and we continue to believe that acquired loans are unlikely to contribute any significant net losses to the Group over their lifetime.

Although we continue to expect difficult market conditions, and further impairment provisions, we remain confident that our book, which is primarily focused on low risk lending, will perform better than most and this, combined with proactive management, will ensure that commercial lending continues to make a positive contribution to the Group over the long term.

Other lending

Other lending includes £278 million of secured European commercial loans and £261 million of unsecured lending relating to a student loan portfolio. The European commercial loan portfolio is spread across 72 separate entities and 11 countries, with the maximum individual exposure amounting to £9.9 million. Only one of the 72 entities has defaulted since April 2010, and another entity has entered restructuring negotiations, resulting in total impairment of £1.4 million for the first half of the financial year. Changes in the provision held for restructured loans in the portfolio, as well as a change in the collective provision, resulted in a release of £6.2 million, fully offsetting the small impairment charge this year. There is no significant impairment on the student loan portfolio. This lending is included within the Head Office functions business segment, as the portfolios were acquired by our Treasury division.

Consumer banking

In consumer banking, the balance of accounts more than 30 days in arrears has shown an improvement in this half year, and our performance compared with the industry remains favourable. For Personal Loans and Credit Cards, the table below shows our arrears levels are significantly better than averages for the industry (FLA and APACS):

	30 September 2010		4 April 2010	
Percentage of accounts more than 30 days in arrears	**NBS %**	**Industry %**	NBS %	Industry %
Personal loans	**6.29**	**20.5**	7.07	19.6
Credit cards	**4.31**	**6.10**	5.15	6.64

Funding and liquidity

Overview

The Society has a strong and well-diversified funding base, which continues to comprise primarily of retail savings. Over the course of the last six months we have continued to actively manage our balance sheet in response to market conditions in both wholesale and retail markets. However, in contrast to the position over the previous full financial year, the balance sheet size has only marginally decreased over the last six months, with an increase in members' balances partly offsetting a modest reduction in wholesale funding.

As a building society, we have always maintained a high level of unencumbered liquid assets relative to our banking peers. Over the previous financial year we increased core liquidity from 12.8% (4 April 2009) to 13.8% (4 April 2010) and at the 30 September 2010 the ratio stood at 13.9%. Liquidity and funding are intrinsically inter-connected and a number of steps continue to be taken to manage the Group's funding profile that have had beneficial impacts on the Group's overall liquidity position. Over the last two years we have steadily increased the amount and quality of core liquidity in line with the change in regulatory policy as described below.

Liquidity

Liquidity, together with funding and capital, represents the cornerstone of the financial management of a financial institution. Much focus has been applied to this discipline by regulatory authorities in recent years. This has resulted in the FSA publishing a liquidity policy statement, PS 09/16, for BIPRU firms in the UK. In addition, the FSA has set out a separate risk management framework for building societies, PS 10/5. Compliance with these new policy statements, given their tight timeframes, has been a key objective of the Group during the past year: PS09/16 required the completion of an Individual Liquidity Adequacy Assessment (ILAA) by June 2010, and PS10/5 required a building society to have communicated its financial risk management and lending approaches to the FSA by October 2010. While these timeframes have both been met, there are additional requirements (aspects of regulatory reporting and stress testing) which will necessitate further work into 2011.

Liquid assets generally comprise cash deposits held with central banks or unencumbered securities that may be freely sold or are capable of financing through repurchase agreements ('repo') or other similar arrangements either directly with those central banks to which the Group has direct access, or with market counterparties. The stock of liquid assets managed by Nationwide's Treasury division fall into the following four categories:

Core liquidity

The Group has continued to focus on the growth and diversification of its core liquidity portfolio through investing in a greater volume of highly liquid sovereign securities. The core portfolio is aligned to the 'Liquid Assets Buffer' defined by the FSA in BIPRU 12 and comprises:

- Deposits held at, and securities issued by, the Bank of England (BoE); and
- High quality debt securities of varying maturities issued by governments or designated multi-lateral development banks.

As at 30 September 2010, the core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 13.9% (4 April 2010: 13.8% and 30 September 2009: 12.9%). This calculation is made net of any core liquidity holdings that are subject to repo arrangements.

In line with other major UK banks, we have voluntarily accelerated the repayment of certain central bank facilities which currently contribute to core liquidity.

Other eligible central bank assets

In addition to the core portfolio, as at 30 September 2010 the Group held a stock of unencumbered securities (excluding self-issuance) that are eligible collateral for either the European Central Bank's (ECB) repo operations or for the BoE extended collateral repo operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

Other securities

Nationwide holds other third party liquid assets (such as Floating Rate Notes) that are not eligible at either the BoE's or the ECB's operations, but may be capable of financing through third party repo agreements.

Self- issued RMBS and covered bonds

The Group holds a stock of self-issued AAA residential mortgage backed securities (RMBS) and covered bonds. These self-issued securities are capable of repo financing either directly with the market or with central banks to which the Group has direct access, and therefore represent contingent liquidity available to the Group if necessary.

The table below sets out the fair value – before any 'haircut' deduction - of each of the above liquidity types as at 30 September 2010. The table includes off balance sheet liquidity (including treasury bills held under the Special Liquidity Scheme and self issued RMBS and covered bonds) but excludes any encumbered assets.

	30 September 2010	4 April 2010
	£bn	£bn
Core liquidity	**23.8**	23.4
Other central bank eligible assets	**6.9**	4.7
Other securities	**3.5**	3.4
Self-issued RMBS and covered bonds	**12.4**	11.8
Total	**46.6**	43.3

Funding profile

The retail savings market in the UK has been relatively subdued in the six months to 30 September 2010, with market growth in balances of £7.3 billion driven mainly by interest capitalised. This contrasts with the extremely competitive conditions in the previous financial year, where a lack of access to wholesale markets led some institutions to compete aggressively for retail deposits by offering attractive rates to generate demand resulting in balance growth of £8.3 billion in the first half and £21.8 billion in the second half of the year.

We have continued to actively manage our flow of retail savings in order to secure funds at an economic rate whilst offering long term good value products to our members. In the previous financial year, we restricted our pricing to a level which we considered economic and sustainable in the medium term and accepted a net reduction in retail savings balances of £5.6 billion in the first half of the year and a further £1.7 billion in the second half of the year. In contrast, in the six months to 30 September 2010, we have attracted a positive inflow of funds, and retail savings balances have increased by £0.9 billion to £121.9 billion.

The increase in retail savings balances combined with a marginal decrease in balance sheet size has resulted in a reduction in wholesale funding balances such that the wholesale funding level reduced to 26.1% (4 April 2010: 27.8%).

Wholesale funding

An analysis of the Group's wholesale funding (made up of deposits from banks, other deposits and debt securities in issue as disclosed on the balance sheet) is set out in the table below:

Wholesale funding portfolio mix

	30 September 2010		4 April 2010	
	£bn	**%**	£bn	%
Repo and other secured agreements	**3.9**	8.6	7.9	16.0
Deposits	**7.3**	15.9	6.1	12.4
Certificates of deposit	**6.2**	13.5	6.1	12.4
Commercial paper	**5.4**	11.8	6.4	13.0
Covered bonds	**9.9**	21.7	9.1	18.4
Medium term notes	**8.9**	19.5	10.1	20.5
Securitisations	**2.2**	4.8	2.2	4.5
Other	**1.9**	4.2	1.4	2.8
Total	**45.7**	100.0	49.3	100.0

The reduction in the absolute amount of wholesale funding and in the wholesale funding ratio is a function of the overall management of the Group's balance sheet, as we have controlled the level and quality of lending undertaken and increased members' savings balances. However, we have seen much improved access to wholesale funding in the capital markets as instability has eased.

In its 2009/10 financial year, the Group was particularly active in the term debt capital market, issuing £8.5 billion equivalent of term unsecured and secured debt relative to £4 billion equivalent of maturing term debt. In the current financial year, the long term refinancing requirement is a more modest £1.8 billion equivalent of wholesale term debt maturing, and in September 2010 the Group issued a €1.25 billion 5 year covered bond. This was the first externally issued covered bond by the Group since the start of the crisis in 2007.

In October 2010, the Group launched its second public secured issuance of residential mortgage backed securities (RMBS) through the Silverstone Master Trust Vehicle via the issue of both US dollar and Euro notes. This raised £1.52 billion Sterling equivalent and has provided further investor diversification to complement our initial Sterling RMBS issuance in November 2009.

Both of these transactions further re-established the Group's presence in the secured term funding market and provided breadth and diversification to the unsecured issuances undertaken in the 2009/10 financial year. In addition to public issuances, the Group has also successfully issued over £200 million Sterling equivalent of private placements, with a weighted average life of over 5 years over this period.

Outside of wholesale funding and therefore not included in the portfolio mix and residual maturity tables included in this section, the Group issued €750 million of lower Tier 2 subordinated debt. This July issuance refinances the subordinated debt called in August 2010. This also demonstrated the strength of institutional support for the Group. On 17 November we confirmed that we intend to call £100 million of lower Tier 2 capital which falls due for call on 17 December 2010.

The Group continues to enjoy a strong franchise in the short term unsecured funding markets, with balances of £16 billion at 30 September 2010 (4 April 2010: £16 billion and 4 April 2009: £20 billion). The average term at issuance of the short term funding book at 30 September 2010 was 150 days (4 April 2010: 155 days and 4 April 2009: 125 days).

The Group has extended the maturity profile of its wholesale funding portfolio from 26 months to 27 months and increased the split between short and long term with a further reduction in the less than one year maturity category to 43.3% from 49.7% at the 2009/10 financial year end (4 April 2009: 63.3%).

The table below sets out the residual maturity of the wholesale funding book:

Wholesale funding residual maturity	**30 September 2010**	**30 September 2010**	4 April 2010	4 April 2010
	£bn	**%**	£bn	%
Less than one year	**19.8**	**43.3**	24.5	49.7
One to two years	**8.4**	**18.4**	4.3	8.8
Two to five years	**9.7**	**21.2**	11.7	23.6
More than five years	**7.8**	**17.1**	8.8	17.9
Total	**45.7**	**100.0**	49.3	100.0

Our short and long term credit ratings from the major rating agencies as at 22 November 2010 are as follows:

	Long Term	**Short Term**	**Subordinated**	**Date of last rating action/confirmation***
Standard & Poor's	A+	A-1	BBB+	October 2010
Moody's	Aa3	P-1	Baa3	November 2010
Fitch	AA-	F1+	A	November 2010
DBRS	AA	R-1 (middle)	AA (low)	June 2009

* The current outlook for Moody's is stable. The outlook for Standard & Poor's, Fitch and DBRS is negative.

Treasury asset quality

The amount of on balance sheet treasury assets, viewed from an asset quality perspective, will be different to the amount from a liquidity perspective, in that the former will exclude off balance sheet liquidity but will include encumbered assets that do not count for liquidity purposes.

Group treasury assets at 30 September 2010 were £29.4 billion (4 April 2010: £29.4 billion) and are held in two separate portfolios; the prudential portfolio and the investment portfolio. At 30 September 2010, the prudential portfolio totalled £25.9 billion (4 April 2010: £25.7 billion) with the investment portfolio totalling £3.5 billion (4 April 2010: £3.7 billion).

We have continued to manage the prudential portfolio to maintain the quality and liquidity of the assets, with 64% of the portfolio held in sovereign and supranational exposures, compared with 63% as at 4 April 2010. Over 99% of the portfolio is rated A or better, with 84% rated AA or above (4 April 2010: 99% rated A or better, 85% rated AA or better).

The following table shows an analysis of the on balance sheet prudential portfolio at 30 September 2010

Prudential portfolio	30 September 2010 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2010 £bn
Bank of England	**4.0**	100	-	-	-	100	-	-	-	4.0
Loans to financial institutions	**2.3**	3	24	73	-	83	-	3	14	1.7
Other (including items in transit and clearing accounts)	**0.5**	-	-	-	-	100	-	-	-	0.3
Non AFS assets	**6.8**									6.0
Gilts	**7.6**	100	-	-	-	100	-	-	-	6.4
Non domestic government bonds	**2.9**	100	-	-	-	-	66	34	-	3.9
Supranational bonds	**2.0**	100	-	-	-	-	-	100	-	2.0
Residential mortgage backed securities (RMBS)	**2.6**	92	7	1	-	45	-	51	4	2.7
Covered bonds	**0.8**	80	20			-	3	89	8	0.9
Medium term notes/floating rate notes	**3.2**	4	23	64	9	21	5	58	16	3.8
AFS assets	**19.1**									19.7
Total	**25.9**	**78**	**6**	**15**	**1**	**61**	**8**	**27**	**4**	25.7

Ratings are obtained from Standard & Poor’s in the majority of cases, from Moody’s if there is no Standard & Poor’s rating available, with internal ratings used if neither is available.

We have no direct sovereign exposure to Greece, Ireland, Italy, Portugal and Spain (‘GIIPS’) as at 30 September 2010.

Amounts shown above in respect of RMBS and covered bonds include securities collateralised on assets originated in GIIPS amounting in aggregate to £1.4 billion, of which 87% is rated AAA and 13% is rated AA. As part of our normal credit risk management process we monitor all secured investments by reference to assumptions made on collateral performance at the time of investment. We do not currently anticipate any impairments within this secured portfolio.

We also have £0.9 billion of senior debt exposures to financial institutions based in GIIPS, including £10 million to Greece, £120 million to Ireland, £161 million to Italy, £62 million to Portugal and £579 million to Spain. 78% of these note exposures are rated A (58%) or AA (20%) and the weighted average maturity of these exposures is less than 3 years.

The treasury investment portfolio was originally established to generate additional income for the Group. Over 85% of the investment portfolio is rated A or better (4 April 2010: 87%), with over 61% rated AA or better (4 April 2010: 69%). In light of current market conditions, we have not actively sought to expand the portfolio and we are managing the existing portfolio to minimise potential risk. The reduction in the investment portfolio to £3.5 billion (4 April 2010: £3.7 billion) has been driven by paydowns received relating to the asset and mortgage backed securities and maturing investments.

The following table shows an analysis of the investment portfolio at 30 September 2010:

Investment portfolio (all AFS assets)		**30 September 2010 £bn**	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2010 £bn
	Collateralised debt obligations (CDO)	**0.1**	-	-	-	100	-	100	-	-	0.1
(i)	Collateralised loan obligations (CLO)	**0.5**	5	75	20	-	25	75	-	-	0.6
(ii)	Commercial mortgage backed securities (CMBS)	**0.7**	38	31	15	16	49	13	38	-	0.6
	Corporate bond portfolio	**0.1**	-	26	-	74	40	26	34	-	0.1
	Credit card backed securities	**0.3**	100	-	-	-	35	65	-	-	0.3
(iii)	Financial institutions including subordinated debt	**0.6**	-	15	68	17	22	30	40	8	0.7
(iv)	Residential mortgage backed securities (RMBS)	**0.4**	30	26	20	24	67	29	2	2	0.3
(v)	US student loan	**0.7**	69	6	16	9	-	100	-	-	0.8
	Other investments	**0.1**	36	20	17	27	27	39	25	9	0.2
	Total	**3.5**	**35**	**26**	**24**	**15**	**30**	**52**	**16**	**2**	3.7

An independent monthly review is undertaken by Risk Management division on the current and expected future performance of all treasury assets. A governance structure exists to identify and review under-performing assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are impaired where there is objective evidence that current events and/or performance trends will result in a loss.

There have been no significant changes in the profile of the investment portfolio over the six month period and additional detail on the more material exposures is set out below. The portfolio has experienced some negative rating migration as a result of the ongoing implementation of rating agency methodology changes and continued collateral deterioration, particularly for financial institutions including subordinated debt, US student loans, CMBS and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

Included under financial institutions and other investments above are GIIPS' related subordinated bond exposures to financial institutions of £60 million (£31 million to Ireland, £11 million to Italy and £18 million to Portugal).

Nationwide has £94 million of exposure to monoline wrapped transactions, which are shown above under their underlying holdings. For all but £9 million of these holdings, we anticipate full repayment without any assistance from the wrap provider. This is mainly as a result of the approach taken upon investment, where we placed no reliance on the wrap, requiring the investment to stand up to credit analysis in its own right.

(i) CLOs comprise £549 million of senior positions. 80% of this portfolio retains AA or AAA rating. Our focus on the selection of strong managers has provided some protection from downward rating migration.

(ii) 38% of the CMBS portfolio is AAA rated. The portfolio consists of exposures to established commercial real estate markets, with the bulk of our holdings in the UK and Germany. Underlying collateral consists of office, retail, industrial and warehouse exposures, with experienced sponsors supporting the underlying loans.

(iii) Included in the financial institutions portfolio are £442 million of subordinated lower Tier 2 bonds that were acquired as part of the process of restructuring SIV capital note investments.

(iv) Total investment holdings in RMBS are £410 million. The £117 million of US exposure is made up of prime and Alt A RMBS. 17% of this US portfolio retains AAA rating.

(v) The US student loan portfolio comprises 60% FFELP (Federal Family Education Loan Programme) originated loans which are 98% guaranteed by the US government, and 40% alternative student loans.

Available for sale reserve

Out of a total of £29.4 billion of treasury assets held in the prudential and investment portfolios, £22.6 billion are held as available for sale (AFS) and under IFRS they are marked to market through other comprehensive income and fair value movements are accumulated in reserves. The non-AFS assets are predominantly short term loans to financial institutions or deposits with the Bank of England. Of the £22.6 billion of AFS assets, only £112 million are classified as Level 3 (not based on observable market data) for the purposes of IFRS 7.

The fair value movement of AFS assets that are not impaired have no effect on the Group's profit for the period or its regulatory capital. The assets have been carefully reviewed based upon latest performance data, and an impairment charge of £31 million has been booked against AFS assets in this period.

As at 30 September 2010, the balance on the AFS reserve had improved to £603 million negative, net of tax (4 April 2010: £715 million negative), reflecting improved pricing as market sentiment has improved.

	Cumulative AFS Reserve 30 September 2010 £bn	**Fair Value on balance sheet 30 September 2010 £bn**	Cumulative AFS Reserve 4 April 2010 £bn	Fair Value on balance sheet 4 April 2010 £bn
Gilts and supranational bonds	(0.6)	12.5	(0.3)	12.3
Residential mortgage backed securities (RMBS)	0.3	2.6	0.2	2.7
Covered bonds and floating rate notes	(0.2)	4.0	0.1	4.7
Prudential portfolio	**(0.5)**	**19.1**	-	19.7
Collateralised debt obligations (CDO)	0.1	0.1	-	0.1
Collateralised loan obligations (CLO)	0.1	0.5	0.1	0.6
Commercial mortgage backed securities (CMBS)	0.2	0.7	0.3	0.6
Corporate bond portfolio	-	0.1	-	0.1
Credit card backed securities	-	0.3	-	0.3
Financial institutions including sub debt	-	0.6	-	0.7
Residential mortgage backed securities (RMBS)	-	0.4	0.1	0.3
US student loan	0.1	0.7	0.1	0.8
Other investments	-	0.1	0.1	0.2
Investment portfolio	**0.5**	**3.5**	0.7	3.7
Negative AFS reserve before hedge accounting and taxation	-		0.7	
Hedge accounting adjustment for interest rate risk	0.8		0.3	
Taxation	(0.2)		(0.3)	
Negative AFS reserve (net)/Total value of AFS assets	**0.6**	**22.6**	0.7	23.4

Fair value measurement

The following table provides an analysis of financial assets and liabilities held on the Group balance sheet at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

30 September 2010	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investment securities - AFS	**12,374**	**10,151**	**112**	**22,637**
Investments in equity shares	**-**	**6**	**84**	**90**
Derivative financial instruments	**-**	**5,038**	**124**	**5,162**
	12,374	**15,195**	**320**	**27,889**
Financial liabilities				
Derivative financial instruments	**-**	**(5,469)**	**(54)**	**(5,523)**
Other deposits - PEB	**-**	**-**	**(1,874)**	**(1,874)**
		(5,469)	**(1,928)**	**(7,397)**

4 April 2010 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities - AFS	12,130	11,149	106	23,385
Investments in equity shares	-	7	79	86
Derivative financial instruments*	-	4,814	38	4,852
	12,130	15,970	223	28,323
Financial liabilities				
Derivative financial instruments*	-	(4,860)	(82)	(4,942)
Other deposits - PEB	-	-	(1,128)	(1,128)
	-	(4,860)	(1,210)	(6,070)

Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.
Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, asset backed securities, certain Collateralised Debt Obligations (CDOs), Collateralised Loan Obligations (CLOs) and OTC derivatives.
Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.
* The derivative financial instrument comparatives have been re-classified to conform to the current year's presentation. The adjustment does not affect total derivative financial assets and liabilities.

There were no significant transfers between the Level 1 and 2 portfolios during the period. Other than an increase in the Level 3 Other deposit – PEB balances and related derivative transactions, there have been no material changes in the amount of Level 3 balances and the composition remains the same as reported in the 2010 Annual Report and Accounts (see page 144 of that report). Similarly there have been no material changes in the Level 3 sensitivities.

CAPITAL STRUCTURE

Capital is held by the Group to protect its depositors, to cover its inherent risks, to provide a cushion for unexpected losses and to support the development of the business. In assessing the adequacy of its capital resources, Nationwide considers its risk appetite, the material risks to which the Group is exposed and the appropriate strategies required to manage those risks.

The Group is required to manage its capital in accordance with prudential rules issued by the FSA and from 1 January 2008 the Group has complied with these rules which implement the EU Capital Requirements Directive (Basel II). Since 4 April 2009 the Group has calculated its capital requirement on an Internal Ratings Based (IRB) approach.

As at 30 September 2010, regulatory capital stood at £9.9 billion (4 April 2010: £9.7 billion) with the Group's total solvency ratio remaining strong at 19.9% (4 April 2010: 19.4%). The Core Tier 1 solvency ratio stood at 12.5% (4 April 2010: 12.2%). In July 2010, the Group issued €750 million of lower Tier 2 subordinated debt to refinance subordinated debt called in August 2010.

The following table shows details of the Group capital position as at 30 September 2010.

	30 September 2010 Basel II IRB	4 April 2010 Basel II IRB
	£m	£m
Tier 1		
General reserve	**6,385**	6,363
Permanent interest bearing shares (Note 1)	**1,610**	1,524
Pension fund net deficit add back (Note 2)	**513**	355
Intangible assets (Note 3)	**(447)**	(353)
Deductions from Tier 1 capital (Note 4)	**(238)**	(232)
	7,823	7,657
Tier 2		
Revaluation reserve	**69**	68
Subordinated debt (Note 1)	**2,118**	2,132
Collective impairment allowance	**96**	97
Deductions from Tier 2 capital (Note 4)	**(238)**	(232)
	2,045	2,065
Total capital	**9,868**	9,722
Risk weighted assets – Pillar 1 (Note 5)		
Retail mortgages	**14,695**	14,653
Commercial loans	**18,073**	18,316
Treasury	**8,128**	8,351
Other	**4,463**	4,375
Operational Risk	**4,137**	4,328
Market Risk	**66**	50
	49,562	50,073
Key capital ratios:		
Total capital	**9,868**	9,722
Core Tier 1 (%) (Note 6)	**12.5**	12.2
Tier 1 ratio (%) (Note 6)	**15.8**	15.3
Total capital (%) (Note 6)	**19.9**	19.4
Tier 2 to Tier 1 ratio (%)	**26.1**	27.0

Notes

(1) Permanent interest bearing shares and subordinated debt include any fair value adjustments arising from micro-hedging and adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet and any amortisation of the capital value of lower Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity.

(2) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next 5 years, less associated deferred tax.

(3) Intangible assets do not qualify as capital for regulatory purposes.

(4) Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Deductions are subject to different treatment under IRB in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with FSA guidance.

(5) The Basel II Pillar 1 capital requirements are calculated using: the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline Building Societies) and unsecured retail lending; Foundation IRB for treasury portfolios (other than corporates); and the Standardised approach for all other credit risk exposures. The Standardised Approach is adopted for Operational Risk.

(6) Solvency ratios are calculated as relevant capital divided by Risk Weighted Assets. Core Tier 1 relates to Tier 1 capital excluding permanent interest bearing shares.

A reform programme continues to be developed by the UK and European authorities (Authorities) to further strengthen the resilience of the global banking system. Notably in October 2010, the Basel Committee on Banking Supervision released a report prepared for the 2010 G20 summit detailing the key elements of proposals for new global capital and liquidity standards (referred to as Basel III). Details of the package are due to be finalised by the end of 2010 with phased implementation expected from 2013 through to 1 January 2019. We continue to monitor the evolving requirements and it is expected that the Group will maintain a robust capital position in relation to the total impact of all the measures announced to date. We welcome further guidance on the remaining uncertainties, in particular capital surcharges for systemically important financial institutions and the interplay of the proposed Basel buffers with Pillar 2 Capital Planning Buffer.

Whilst we support the reforms in the objective of promoting a more resilient system, it is imperative that the Authorities take account of different business models, and in particular provide a consistent approach with regard to mutual organisations. Work has continued on a Core Tier 1 capital instrument for mutual organisations and we will persist in our efforts to ensure access to capital markets is maintained. We are optimistic that the Authorities, in particular the European Commission, recognise the unique circumstances of mutual organisations, and encourage the Authorities to ensure that the proposals will not disadvantage mutual business models. We continue to engage with our trade body, the Building Societies Association, and the UK and European authorities to influence the regulatory agenda and ensure the proposed changes avoid placing Nationwide at a commercial disadvantage relative to its banking peers.

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

The Group operates final salary and Career Average Revalued Earnings (CARE) defined benefit arrangements and defined contribution arrangements. The net retirement benefit liability for the defined benefit arrangements, measured under IAS 19, is £720 million (4 April 2010: £508 million). The increase in the net liability reflects both an increase in the measurement of the liabilities and a fall in the market values of Fund assets. The primary reason for the increase in liabilities is a reduction in the discount rate (based on AA long term corporate bond yields) to 5.1% (30 September 2009: 5.5%, 4 April 2010: 5.6%).

We have been actively managing our retirement benefit liability and, over the last few years, have taken a number of steps to contain the deficit:

- Nationwide Pension Fund (NPF) final salary and CARE arrangements closed to new members since 2001 and 2007 respectively;
- Special contributions were paid following the last two full NPF valuations, with £150 million paid in the period 2005-2007; and a further £50 million paid in 2008. This follows an initial special contribution of £100 million paid in 2003;
- Employee contributions (for NPF final salary arrangements) increased from 5% to 7%;
- Transfers in and new AVC arrangements for all defined benefit arrangements were stopped from 31 December 2009; and
- The Trustee boards continue to work closely with their advisors to optimise the investment strategy for the schemes' assets.

We will continue to review our options to manage the pension liability in a responsible way. A full triennial valuation of the NPF as at 31 March 2010 is currently underway. The final results will not be available until later in the year, after which a plan will be agreed between the Trustee board and the Group to manage the ongoing retirement benefit liability. This is expected to include changes to the benefits, as well as the payment into the NPF of additional deficit contributions.

On 8 July 2010 the Government announced its intention to introduce legislation that will require minimum occupational pension benefit increases to be set by reference to the Consumer Price Index (CPI) rather than RPI as at present. We are currently assessing the impact of the expected legislation on the Fund.

PERFORMANCE BY BUSINESS STREAM

Nationwide classifies its business streams as follows:

Retail
- Prime residential mortgage lending
- Specialist residential mortgage lending
- Consumer banking
- Retail funding
- Protection and investments
- General insurance
- Distribution channels supporting these product divisions

Commercial
- Commercial lending

Head Office functions
- Treasury group operations and income generation activities
- Capital
- Items classified as being non-attributable to our core business areas

The contribution to underlying profit before tax by each of these business streams is set out in the table below:

	Half year to 30 September 2010 Underlying £m	Half year to 30 September 2009 Underlying £m	Year to 4 April 2010 Underlying £m
Retail	**65**	150	265
Commercial	**7**	(98)	(122)
Head Office functions	**75**	65	69
Total contribution before tax	**147**	117	212

For the half year to 30 September 2010, the segmental results above reflect for the first time the transfer pricing of liquidity. This has had the impact of reducing contribution within the Retail business stream by £52 million and the Head Office functions business stream has received a corresponding benefit. Prior year figures have not been restated.

RETAIL BUSINESS STREAM

	Half year to 30 September 2010 Underlying £m	Half year to 30 September 2009 Underlying £m	Year to 4 April 2010 Underlying £m
Total income	**708**	834	1,650
Expenses	**565**	577	1,156
Impairment and other provisions	**78**	107	229
Contribution from Retail	**65**	150	265

The contribution from the Retail business stream has declined in the period to £65 million (30 September 2009: £150 million) and includes a charge of £52 million in the six months to 30 September 2010 for the cost of liquidity referred to above. Prior year comparatives have not been restated.

Total income in the period has fallen by 15% to £708 million compared with the six months to 30 September 2009, with a reduction in net interest of £157 million, due to margin compression in a low interest rate environment and the additional cost of liquidity in the period being partly offset by growth in non-interest income of £31 million from increased sales of protection and investment products and contract renegotiations on insurance products.

The retail impairment and other provisions charge of £78 million represents a residential impairment charge of £45 million (30 September 2009: £45 million), a charge in relation to consumer banking of £43 million (30 September 2009: £62 million) and a credit of £10 million (30 September 2009: nil) reflecting the net release of allowances made in respect of various customer claims.

The residential charge of £45 million represents a prime residential charge of £29 million (30 September 2009: £5 million) and a specialist residential charge of £16 million (30 September 2009: £40 million). Asset quality remains strong, and there has been no worsening of arrears. The prime residential charge has increased by £24 million reflecting modelling refinements and a prudent assessment of the impact of forbearance on future default and loss rates. The increase in the prime impairment charge has been offset by a reduction in the specialist lending charge reflecting a reduction in arrears and higher indexed property valuations over the period. The charge for consumer banking has reduced by £19 million, driven by lower collective provisions in line with a reduction in delinquent balances.

Residential mortgage lending

Prime residential mortgage lending

The UK housing and mortgage markets remain fragile and activity levels are subdued, in particular in the remortgage market where customers, either through choice or necessity, are increasingly opting to remain with their existing lender when their existing fixed rate or concessionary period comes to an end.

To promote transparency in lending and help customers choose the right product for them, Nationwide has taken steps to simplify its product range. The simplification includes a commitment to provide a better deal for existing customers (compared to a new customer in the same position). At the same time Nationwide has continued to support first time buyers and other higher loan to value customers through, for example, our protector mortgage which includes free mortgage payment protection insurance for the first two years.

We have continued to lend in a prudent and responsible manner, to support our core mortgage markets. Group gross residential lending, including specialist lending, was £6.0 billion (30 September 2009: £5.8 billion), representing a market share of 8.5%. Prime residential gross lending was £4.7 billion (30 September 2009: £4.9 billion).

Our long term commitment to prudent and responsible lending is reflected in our strong arrears performance. Nationwide-originated prime residential mortgage cases 3 months or more in arrears at 30 September 2010 was 0.51% (4 April 2010: 0.52%). Repossession remains a last resort and we provide individual support to customers in financial difficulties, even if they are not yet in mortgage arrears.

Specialist residential mortgage lending

The specialist lending division has total balances outstanding at 30 September 2010 of £19.3 billion, of which approximately 69% was Buy to Let. New lending is promoted through The Mortgage Works (TMW) and it continues to focus on self-originated, high quality Buy to Let loans.

During the first half of this financial year we have seen an increase in activity across the Buy to Let sector as a whole. The outlook for the sector remains good, with strong demand for rental properties expected to continue, void periods falling and rents reaching historic highs. These factors have served to support confidence in the sector and this, combined with historically low mortgage rates for existing customers, has led to further reductions in arrears levels. Asset quality in the specialist portfolio remains better than industry average.

Consumer banking

Our focus remains on building a more diversified business through the growth of our consumer banking portfolio, which includes current accounts, credit cards and personal loans. These products already provide a valuable income stream and, using our current account to create strong customer relationships, we aim to increase our market share as a 'challenger' to the larger high street providers.

During the period we have opened 260,000 new current accounts, almost 100,000 more than the same period last year. Our current account base now stands at 5.1 million accounts, up from 4.9 million at the start of the year. In August 2010 we launched our unique free European travel insurance offer, rewarding all prime FlexAccount holders for their loyalty. Throughout the period we have also continued to reward our prime FlexAccount customers by offering preferential deals on personal loans, credit cards and mortgages under the branded 'Flexclusives' campaign. FlexAccount was also awarded a 5 star Defaqto (2010) rating for our features, benefits and charging.

The Society has continued to champion good value, transparent lending products, and we are pleased with the Department for Business Innovation & Skills' (BIS) decision to make 'positive order of payments' a credit card industry standard following our use of this policy for many years. In the six months to 30 September 2010 we opened 120,000 new accounts, 56,000 higher than the same period last year. The total account base now stands at 1.4 million accounts.

We have continued to offer great value personal loans, with customers holding a prime FlexAccount with us receiving the best rate on the high street. In the six months to 30 September 2010 we completed 36,400 new loans. We continue to utilise and develop our risk-based pricing to ensure customers receive an appropriate rate for their risk profile.

Retail funding

Retail deposits continue to be the primary source of funding for our retail lending activity and, despite the low interest rate environment, we have maintained our strategy of providing good long term value and security to our members.

We have actively managed our flow of retail savings, ensuring an optimum balance between securing funds at an economic rate and providing member value. Despite slow savings market growth and conditions remaining highly competitive, we attracted £423 million of net receipts across the retail savings and current account book during the first half of the year. The total change in retail balances was £0.9 billion (12.3% market share), reflecting a strong funding performance from across the new Champion Saver, Champion ISA and e-ISA product range. Champion Saver balances reached £5.9 billion as at 30 September 2010, and Nationwide had a strong ISA season taking 19% market share of the growth in cash ISA balances in the first quarter of the financial year, compared with our par market share of ISA balances of 15.1% (as at December 2009). We have also ensured our overall mix of funding remains well balanced between fixed and variable deposits, allowing us to manage our cost of funding.

The launch of our new online product 'MySave Online Plus' in September, will further strengthen our presence in the 'easy access' variable rate market, and will provide a highly competitive rate for those members wishing to manage their savings online.

Protection and investments

The first half of the year has seen income grow by 61% against the same period last year across all protection and investment products. This has been driven through the embedding of product development delivered last year and the continued low interest rate environment, which continues to drive demand for equity-linked investments as an alternative to traditional savings accounts.

We plan to further extend our investment range early in the new year through the addition of further low risk funds to give our customers greater choice in this area, and we are currently formulating our strategy and plans in response to the FSA's Retail Distribution Review.

General insurance

General Insurance continues to deliver a strong non-margin income stream for the Group. As at 30 September 2010 we had a book size of 2 million general insurance covers, which generated a net income of £45 million in the first half year. This is despite a depressed residential mortgage lending market, which has historically been an important source for general insurance. The strong performance is a result of successful stand alone acquisition and retention activity, which focused on rewarding customer loyalty, supported by 5 star Defaqto rated Home & Car products.

Despite the difficult economic conditions, we have seen a steady reduction in the number of new mortgage payment protection insurance claims as well as a reduction in the duration of existing claims.

Distribution channels supporting these product divisions

Our distribution channels have continued to perform strongly despite challenging trading conditions. Group Distribution has focused on driving out cost, increasing productivity and enhancing the customer experience. Notably, sales of our new current account product have increased by 110% compared with the first half of 2009/10. Nationwide continues to evidence high levels of customer satisfaction with our branch network, internet bank and telephone channels.

The branch network remains the most popular channel of choice for our customers. During the period a range of measures were implemented to migrate certain types of transactions normally undertaken at the counter to alternative channels, increasing the time available for our customers and reducing queue lengths. Customer usage of telephone and internet channels continues to grow.

The Group continued to assess the structure and shape of its branch network. In some branch sites we have invested to increase capacity. Elsewhere, we announced the closure of four branches where local member usage failed to justify the costs. As part of the ongoing review of distribution arrangements, Nationwide also confirmed that it is to withdraw from third party agencies as of 31 December 2010, having concluded that operating third party agencies is no longer economically sustainable in the current environment.

Investment continues in all channels, underpinning Nationwide's long standing commitment to its retail customers, combined with the need to maintain a focus on enhancing commercial performance. A new mortgage sales and originations system was rolled out to all mortgage intermediaries in this period to enhance brokers' experience and ease of doing business with Nationwide.

COMMERCIAL

	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m	Year to 4 April 2010 £m
Total income	**118**	100	213
Expenses	**16**	18	36
Impairment and other provisions	**95**	180	299
Contribution from Commercial	**7**	(98)	(122)

The Commercial business stream made a £7 million profit in the period as a result of strong income performance, driven by fees charged and margin improvement on renegotiated facilities, and a reduced impairment charge.

Despite our continued selective lending to the commercial property market, higher than expected levels of repayments has generated a contraction of £102 million in commercial loans outstanding for the period. Commercial lending income has improved, supported by the widening of margins and by fees, particularly the repricing of maturing loans and where restructures have been agreed with borrowers.

Over the last six months the individual impairment charge was £95 million, compared with £119 million in the second half of last year. The performance of the Nationwide-originated loan portfolio has improved, with arrears levels stabilising and impairments improving in the first half of 2010/11, alongside continued close monitoring of the overall portfolio. However, the fragility of the economic recovery, along with deep public sector cuts, poses an ongoing risk to the commercial property market. In addition there is uncertainty regarding the level of real estate debt to be refinanced over the coming years.

Since the July 2009 low point, prime UK commercial property values have increased by 16% (IPD Sept 2010). However, the rate of recovery in asset values is now slowing down and market conditions have remained challenging as regional and secondary property performance has remained much more subdued.

The principal drivers of provisions in the commercial portfolio continue to be covenant breaches on LTVs as a result of falls in capital values, reduced tenant demand either as a result of tenant failure or reduced ability to cure void periods at the end of lease terms, and business failures on owner occupied properties.

Having tightened new lending criteria and reduced volume targets at the onset of the downturn, the Commercial division has continued to focus on loss mitigation through arrears management, debt restructures and loan reviews during the first half of 2010/11. All new lending has been in lower risk sectors on a very selective basis to take advantage of widening margins.

Including assets acquired via the mergers with the Derbyshire, Cheshire and Dunfermline building societies, the commercial lending portfolio of £22.0 billion comprises £12.6 billion secured on commercial property (“Property Finance”), £8.0 billion advanced to Registered Social Landlords and £1.4 billion under the Private Finance Initiative.

The Property Finance portfolio is diverse both in terms of sectors and geographic spread and has a low risk profile with no equity exposure or house builder exposure. Higher risk Nationwide-originated exposure to development and subordinated debt is limited to £166 million and £137 million respectively. Development exposures are to 3 high quality London office projects all of which are performing assets. Subordinated debt exposures have experienced impairment due to the nature of their structures and a total of £60 million of provision is held on individual exposures.

Registered Social Landlords and Private Finance Initiative portfolios have not experienced any losses and there are no arrears at 30 September 2010. Both of these books continue to experience low credit risk due to the involvement of Government in regulating Social Landlords and the wider public sector providing income streams to Private Finance Initiative projects.

HEAD OFFICE FUNCTIONS

	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m	Year to 4 April 2010 £m
Total income	**148**	135	232
Expenses	**46**	41	92
Impairment and other provisions	**27**	29	71
Contribution from Head Office functions	**75**	65	69

The contribution from Head Office functions was £75 million (30 September 2009: £65 million).

Total income of £148 million is £13 million higher than the comparative period, and includes the benefit of a £52 million recharge for the cost of liquidity to the Retail business stream. Administrative expenses have increased by £5 million, reflecting higher corporate costs.

Impairment and other provisions of £27 million includes a charge of £31 million (30 September 2009: £1 million credit) for treasury investments and £1 million (30 September 2009: £2 million) in relation to a portfolio of student loans. This is partly offset by a net credit of just under £5 million (30 September 2009: £28 million charge) in relation to loan losses on a portfolio of European commercial loans, acquired by our Treasury division, details of which are provided on page 19. The Treasury investments impairment charge of £31 million includes £20 million for a small number of US RMBS exposures and £11 million on notes of a SIV which was restructured in 2007.

PRINCIPAL RISKS

The Disclosure and Transparency Rules (DTR 4.2.7R) require that a description of the principal risks and uncertainties are given in the Half-Yearly Financial Report for the remaining six months of the financial year. Nationwide’s principal inherent risks are described in the Risk Management and Control section on pages 29 to 36 of the 2010 Annual Report and Accounts. Additional information on risk is also provided in the Pillar 3 disclosure available at nationwide.co.uk/about_nationwide/results_accounts.

The Chief Executive's Review and the Business Review in this Half-Yearly Financial Report comment on the primary risks and uncertainties affecting Nationwide for the remaining six months of the year. These risks and uncertainties, and how Nationwide is mitigating them, are summarised below.

The principal risks and uncertainties have not changed since the annual report published in May 2010.

Risk management framework

Nationwide seeks to manage appropriately all the risks that arise from its activities. The most significant risks to which the Group is exposed are credit risks, funding and liquidity risks, market risks (including interest rate risk, currency risk and pension obligation risk) and operational risks.

There is a formal structure for monitoring and managing risks across the Group, comprising a risk appetite agreed by the Board and detailed risk management policies. The Three Lines of Defence model is embedded across the Group to ensure effective risk management in the first line, independent governance and oversight of risk in the second line, and a regular audit programme in the third line to provide assurance. Further details of the Group's risk management framework are provided on pages 29 to 36 of the 2010 Annual Report and Accounts.

Credit risk

Credit risk is defined as the risk that a borrower or counterparty fails to pay the interest or to repay the capital on a loan. Credit risk arises from residential mortgages, unsecured lending, commercial lending, and the liquid and other investments held by Treasury division. Nationwide is also exposed to counterparty credit risk in relation to derivatives.

Market background

The key drivers of credit risk for residential mortgages and unsecured lending include the slowdown in the UK economy leading to higher unemployment, deterioration in household finances due to inflation or other pressures, and house price deflation. The extent of further economic slowdown, its impact upon arrears performance and falls in house prices affect the level of impairment losses.

The principal commercial lending exposure is to the property investment sector. Commercial lending is also undertaken for Registered Social Landlords and funding for accommodation and infrastructure projects originated under the Government's Private Finance Initiative. Under difficult economic conditions, borrowers' ability to fulfil their commitments has been increasingly exposed to the risk of tenant failures, lower demand and occupancy levels, increased void periods and associated costs. These factors, when combined with reduced collateral values, have had a significant adverse effect on impairment losses.

Wholesale credit markets have improved consistently during the year, and this is reflected in a significant positive movement in mark-to-market adjustments in the Group's portfolio of available for sale assets since the last year end. The improvement supports our continued expectation of minimal incidence of impairment in our liquidity and investment portfolios.

Risk Management response

Comprehensive credit risk management methods and processes are established as part of the Group's overall governance framework to measure, mitigate and manage credit risk within its risk appetite. As a mutual, the Group maintains a low risk appetite, evidenced by the quality of our balance sheet, which is documented in the Balance Sheet section of the Business Review. Credit risk portfolios are managed within concentration limits and are subjected to stress testing and scenario analysis to simulate outcomes and derive their associated impact.

a) Retail credit risk management response

Retail credit risk is managed using automated decision systems that are provided centrally by the Retail Credit Risk function in Risk Management Division. The decision systems differentiate between credit risks for residential mortgage loans and other consumer products and services. An underwriting unit also considers those applications for Society mortgages and unsecured loans which require individual underwriting. Underwriting for specialist mortgages is carried out within the relevant subsidiaries, with oversight provided by the Risk Management Division. All risk management policy and limits in respect of retail credit risk are maintained by the Retail Credit Risk function and owned by the Retail Credit Committee. This committee receives regular reports from Retail Credit Risk about the performance of all retail credit portfolios.

In respect of our mortgage businesses, the focus remains on the quality of the business we write. We will continue to monitor applicant quality closely, defined in terms of credit, loan to value and affordability profile. In the light of current market conditions, we have maintained tight lending criteria (particularly with respect to high loan to value lending) and we will continue to keep this under review. We remain cautious on unsecured retail lending, given the current stage of the economic cycle, and will continue to prioritise quality of lending ahead of volume targets in these portfolios.

The Group's collections and recoveries functions aim to provide a responsive and effective operation for the end to end arrears management process. This encompasses an early two-way communication with borrowers, obtaining their commitment to maintain payment obligations and re-establishing a regular payment habit. Activity encompasses many functions including, but not limited to, establishing repayment plans, including appropriate forbearance and managing Individual Voluntary Arrangements (IVAs), through to ending of customers' relationships taking possession and selling mortgaged properties and, ultimately, the closure of customers' accounts. Experience in these areas allows for continual feedback into the underwriting process across the overall credit lifecycle covering origination, account management and recovery.

Nationwide participates in the Government's Mortgage Rescue Scheme, but has chosen not to take part in the Government Homeowner Mortgage Support Scheme. Instead, it has developed its own Homeowner Mortgage Charter which applies to all borrowers experiencing financial difficulties who are willing to work with us in good faith.

b) Commercial credit risk management response

Nationwide's commercial risk appetite remains under active consideration. It is regularly reviewed in the light of changing economic and market conditions and is also subject to annual review.

We continue to remain cautious about commercial lending and will continue to prioritise quality of lending ahead of volume targets. As such, commercial lending is undertaken on a prudent basis, focusing activity on lower risk commercial sectors. The Group remains committed to providing finance to good quality businesses and, in particular, is attracted to high quality propositions secured on property and/or supported by long term covenanted income. We continue to operate within a framework of relatively conservative credit criteria, with significant focus on the underlying income stream and debt servicing cover rather than property value alone.

We have significantly increased resources and emphasis on the proactive management of our existing portfolio. These actions further develop our arrears management, recovery functions and processes, our portfolio management capability, and our stress testing analytics to enhance our ability to identify and respond appropriately to emerging risk issues.

c) Treasury credit risk management response

Nationwide's treasury risk appetite remains under active consideration and is regularly reviewed in response to any concerns highlighted by portfolio monitoring or in response to economic or market factors or to changing business needs. In this respect, the Group has increased the quality of its liquidity portfolio by increasing the weighting to certain core sovereign exposures and this is expected to continue.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is not able to meet its obligations as they fall due, or can do so only at excessive cost. In order to ensure that the Group continues to meet its funding obligations and maintains or grows its business generally, comprehensive liquidity policies have been developed, with the Group's operations funded primarily from retail sources supported by a well-diversified wholesale funding capability. The liquidity and funding policy has been fundamentally reviewed following the new liquidity regime introduced by the FSA in Policy Statement 09/16.

Market background

There has been a recent easing of wholesale market conditions and we have recently issued new asset-backed long term funding in public markets for the first time since markets closed in 2007. However, the planned withdrawal of Government-backed funding is expected to impact the availability and cost of both wholesale and retail funding in the forthcoming year.

Despite this, availability and cost of funding has not returned to pre-2007 levels. Post 2007 difficult market conditions were mitigated by the provision of Government-guaranteed funding through the Special Liquidity Scheme (SLS) and Credit Guarantee Scheme (CGS). In line with other banks, Nationwide has been able to repay some of the government funding schemes early and it is anticipated that this will continue.

The introduction of new liquidity regulations has led to increased demand for longer term funding and Government-issued debt for use as liquid assets. This is expected to continue with the phasing in of the regulations in forthcoming years.

Conditions in the wholesale market have led to increased competition and increased cost of retail savings, significantly influenced by those institutions that are pursuing retail funding to replace potentially unavailable or expensive wholesale funding.

Nationwide, as a leading UK mortgage lender and savings institution, has been impacted by these developments. We continue to manage retail funding flows through active monitoring of market pricing and Nationwide's relative performance. We have also launched new variable rate products to reduce reliance on the highly competitive term fixed rate retail market. In wholesale markets we have maintained investor relations activity, underpinned our strong reputation with clear and transparent financial reporting, and have accessed all our major markets at an early stage according to availability. As a result we have progressively improved the maturity profile of our wholesale funding portfolio from the low point in the aftermath of the crisis.

Risk Management response

Management has focused on its current and future funding strategy and on implementing a revised liquidity risk appetite. In line with new liquidity regulation – PS09/16 *Strengthening Liquidity Standards* – we have improved our systems for measuring and managing liquidity risk exposure, including management reporting systems, the pricing of risk and stress testing.

Internal methodologies for calculation of liquidity and funding risks are fully independent of financial accounting.

Liquidity risk is managed against limits using a number of stress scenarios. The range of limits has been increased during the period, with the level and quality of liquidity both increasing. Stress scenarios are based upon forward liquidity ladders that extend two weeks, thirty days, and three months, with further assessments in place to capture longer time horizons.

Secured transactions have been undertaken to increase Group liquidity through the receipt of both cash and other highly liquid assets. Collateral delivered to counterparties has included self-issued covered bonds, retail mortgage backed securities from our Silverstone programme and other liquid investments issued by third parties. Cash proceeds have been obtained from secured transactions in the money markets, through repurchase transactions and Bank of England Open Market Operations, and in the capital markets through structured borrowings.

The quality of the Group's liquidity has been increased to focus on the highest quality Government-issued debt. The proportion of short-term funding has been significantly reduced over the year and the duration of term funding extended.

Executive management meets on a frequent basis to review the business plans and liquidity position of the Group. The maturity profile and refinancing of funding transactions will continue to be a significant factor in making business decisions.

The Group is more than 70% funded from retail sources and we continue to be perceived as a safe harbour for savings. In the face of increased levels of competition for retail savings, we continue to enhance our savings range to maintain our competitive position.

Market risk

Market risk is the risk of changes in the value of, or income arising from, the Group's assets and liabilities as a result of changes in interest rates, exchange rates or other market indices. Interest rate risk, which includes basis risk, is our principal market risk.

Interest rate risk

Market background

Interest rate risk arises from the mortgage, savings and other financial services products that we offer. The varying interest rate features and maturities of retail products and wholesale funding create exposures to interest risks. This is due to the imperfect matching of variable interest rates, in particular Bank of England base rate and LIBOR, and timing differences on the re-pricing of assets and liabilities. The risk is managed through the use of derivatives and other appropriate financial instruments and through product design.

The contractual terms of products and transactions determine the flexibility to manage net interest margin. In the current low interest rate environment, this flexibility has been constrained by a natural floor, at zero percent, for banking and savings rates, and a contractual ceiling for Base Mortgage Rate (BMR), relative to the base rate. New mortgages written by the Society do not contain a contractual cap relative to base rate in order to increase our flexibility in this regard.

The Group's exposure to the mismatch between base rate and LIBOR-linked balances (basis risk) has changed during the period. At the start of the year the position was a net LIBOR asset, reflecting fixed rate mortgages hedged to LIBOR and funded through variable savings linked to base rate. During the year, customer preference has moved towards variable rate mortgages and fixed rate savings bonds. These changes have resulted in a net base rate asset at the half year end. A large element of the net basis position is driven by government funding schemes, which acts as a base rate asset due to the fee paid, but which will have fully reversed out by the end of the next financial year.

Swap spread risk is the risk of loss from changes in the relationship between swap rates and sovereign debt yields. Swap spread risk arises at Nationwide from long-dated sovereign debt that has been purchased for liquidity purposes. This fixed rate debt is swapped into LIBOR using an interest rate swap. After taking the swap into account, the mark to market value of the debt falls if the credit spread on sovereign debt increases relative to the credit spread on inter-bank borrowing. The risk is only crystallised if the sovereign debt and associated swap are sold ahead of maturity.

The lower interest rates have exposed us to changes in customer behaviour, driven by associated changes in the financial dynamics of transactions, particularly with respect to early repayment of fixed rate mortgages. Some of this effect has been mitigated by the relative constriction of the mortgage market as well as increased early redemption fee income.

Risk Management response

The consistency of interest earned on the Group's free reserves has been protected through our policy of investing such balances with an interest rate maturity profile of several years.

Risks relating to products are mitigated through appropriate product terms and conditions, application and offer procedures, as well as close analysis of the product pipeline and early repayment behaviour. Derivative instruments are used to manage various aspects of interest rate risk including the net basis position where appropriate. In doing so, we comply with the Building Societies Act 1986 restriction to the use of derivatives only for the purposes of reducing risk.

Currency risk

Foreign exchange risk arises from movements in the foreign exchange market adversely affecting the value of the Group's foreign currency holdings and planned future cash flows. A proportion of treasury funding and investment activity is undertaken in foreign currencies and some commercial loans are denominated in Euros.

Risk Management response

Foreign currency exposure is hedged on the balance sheet through matching assets and liabilities held by currency or by using derivatives to reduce currency exposures to acceptable levels. After hedging we have no substantial net exposure on an economic basis to foreign exchange rate fluctuations or changes in foreign currency interest rates. The Assets and Liabilities Committee sets and monitors limits on net currency exposure.

Pension obligation risk

The Group has funding obligations for a number of defined benefit schemes, the most significant being the Nationwide Pension Fund ("the Fund") which is closed to new entrants. Pension risk is the risk that the value of the Fund's assets, together with ongoing employer and member contributions, will be insufficient to cover the projected obligations of the Fund over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The projection of the Fund's obligations includes estimates of mortality, inflation and future salary rises, the actual outturn of which may differ from the estimates. The Fund is also exposed to possible changes in Pension legislation.

Risk Management response

To mitigate these risks, management, together with the Trustees of the Fund, regularly review reports prepared by the Fund's independent actuaries to assess these risks and take appropriate actions which may, for example, include adjusting the investment strategy and/or contribution levels. The Triennial valuation of the Fund is taking place during 2010.

Operational risk

Nationwide has adopted the standardised approach to operational risk and has applied the industry standard definition: “the risk of loss arising from inadequate or failed internal processes, people and systems or from external events”. This has been aligned to the Group’s integrated corporate risk map and ensures that there is effective oversight, monitoring and reporting of the key operational risk exposures facing Nationwide. The key operational risks are classified under 11 categories, which include legal and regulatory risk. Further consideration is also given to evaluating the current and potential impact on earnings and capital arising from negative public opinion through an assessment of reputation risk.

A key objective of the framework is to ensure the Group make decisions that strike an appropriate balance between risk and reward that is consistent with the Group’s overall strategies, risk appetite and ability to establish new relationships or services or continue to service existing relationships. Further details of Nationwide’s exposure to contingent liabilities, some of which may arise from operational risks, are provided in note 17 of the Half-Yearly Financial Report.

Signed by

Mark Rennison
Group Finance Director
22 November 2010

CONSOLIDATED INCOME STATEMENT
For the half year ended 30 September 2010

	Notes	**Half year to 30 September 2010 (Unaudited) £m**	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
Interest receivable and similar income	3	**2,218**	2,416	4,568
Interest expense and similar charges	4	**1,460**	1,525	2,854
Net interest income		**758**	891	1,714
Fee and commissions income		**214**	175	378
Fee and commissions expense		**(2)**	(3)	(5)
Income from investments		**1**	-	1
Other operating income	5	**3**	46	47
Gains/(losses) from derivatives and hedge accounting	6	**118**	(15)	34
Total income		**1,092**	1,094	2,169
Administrative expenses	7	**563**	561	1,195
Depreciation and amortisation		**70**	75	151
Impairment losses on loans and advances to customers	8	**179**	317	549
Provisions for liabilities and charges	9	**(10)**	(1)	(103)
Impairment losses/(gains) on investment securities		**31**	(1)	36
Profit before tax		**259**	143	341
Analysed as:				
• Profit before tax, FSCS levies, transformation costs, gains/losses from derivatives and hedge accounting and gain on portfolio acquisition		**147**	117	212
• FSCS levies - release	9	**-**	1	117
• Transformation costs	7	**(6)**	-	(62)
• Gains/(losses) from derivatives and hedge accounting	6	**118**	(15)	34
• Gain on portfolio acquisition	18	**-**	40	40
Profit before tax		**259**	143	341
Taxation		**62**	41	77
Profit after tax		**197**	102	264

The accounting policies and notes on pages 47 to 59 form an integral part of this condensed consolidated half-yearly financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 30 September 2010

	Half year to 30 September 2010 (Unaudited) £m	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
Profit after tax	**197**	102	264
Other comprehensive income:			
Available for sale investments:			
Fair value movements taken to equity	**155**	1,184	1,834
Amount transferred to income statement	**5**	(72)	(55)
Taxation	**(48)**	(311)	(485)
	112	801	1,294
Revaluation of property:			
Revaluation before tax	**-**	-	1
Taxation	**1**	-	-
	1	-	1
Effect of tax rate change on other items through the general reserve	**(2)**	-	-
Actuarial loss on retirement benefit obligations:			
Actuarial loss before tax	**(225)**	(249)	(169)
Taxation	**52**	70	48
	(173)	(179)	(121)
Total comprehensive income	**135**	724	1,438

The accounting policies and notes on pages 47 to 59 form an integral part of this condensed consolidated half-yearly financial report.

CONSOLIDATED BALANCE SHEET
As at 30 September 2010

	Notes	**30 September 2010 (Unaudited) £m**	30 September 2009 (Unaudited) £m	4 April 2010 (Audited) £m
Assets				
Cash and balances with the Bank of England		**3,963**	3,336	3,994
Loans and advances to banks		**2,767**	4,364	2,017
Investment securities – available for sale	10	**22,637**	26,840	23,385
Derivative financial instruments		**5,162**	5,323	4,852
Fair value adjustment for portfolio hedged risk		**2,654**	2,978	2,798
Loans and advances to customers	11	**151,143**	154,214	152,429
Investments in equity shares		**90**	81	86
Intangible assets		**447**	204	353
Property, plant and equipment		**925**	956	916
Investment properties		**9**	9	9
Accrued income and expenses prepaid		**113**	102	77
Deferred tax assets	12	**342**	584	357
Other assets		**23**	51	124
Total assets		**190,275**	199,042	191,397
Liabilities				
Shares		**121,856**	122,675	120,943
Deposits from banks		**3,951**	11,759	8,031
Other deposits		**5,823**	5,483	4,509
Due to customers		**5,556**	4,707	5,085
Debt securities in issue		**35,899**	38,707	36,802
Fair value adjustment for portfolio hedged risk		**285**	115	106
Derivative financial instruments		**5,523**	5,205	4,942
Other liabilities		**519**	556	529
Provisions for liabilities and charges	9	**57**	222	118
Accruals and deferred income		**374**	276	376
Subordinated liabilities	13	**2,170**	2,174	2,166
Subscribed capital	13	**1,610**	1,508	1,524
Current tax liabilities		**81**	67	42
Retirement benefit obligations	14	**720**	586	508
Total liabilities		**184,424**	194,040	185,681
General reserve		**6,385**	6,141	6,363
Revaluation reserve		**69**	69	68
Available for sale reserve		**(603)**	(1,208)	(715)
Total reserves & liabilities		**190,275**	199,042	191,397

The accounting policies and notes on pages 47 to 59 form an integral part of this condensed consolidated half-yearly financial report.

CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS
For the half year ended 30 September 2010 (Unaudited)

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Total £m
At 5 April 2010	6,363	68	(715)	5,716
Profit for the half year	**197**	**-**	**-**	**197**
Revaluation of property	**-**	**1**	**-**	**1**
Net movement in available for sale reserve	**-**	**-**	**112**	**112**
Effect of tax rate change on other items through the general reserve	**(2)**	**-**	**-**	**(2)**
Net actuarial loss on retirement benefit obligations	**(173)**	**-**	**-**	**(173)**
Total comprehensive income	**22**	**1**	**112**	**135**
At 30 September 2010	**6,385**	**69**	**(603)**	**5,851**

For the half year ended 30 September 2009 (Unaudited)

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Total £m
At 5 April 2009 (adjusted)	6,218	69	(2,009)	4,278
Profit for the half year	102	-	-	102
Net movement in available for sale reserve	-	-	801	801
Net actuarial loss on retirement benefit obligations	(179)	-	-	(179)
Total comprehensive income	(77)	-	801	724
At 30 September 2009	6,141	69	(1,208)	5,002

For the year ended 4 April 2010 (Audited)

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Total £m
At 5 April 2009 (adjusted)	6,218	69	(2,009)	4,278
Profit for the year	264	-	-	264
Net movement in available for sale reserve	-	-	1,294	1,294
Revaluation of property	-	1	-	1
Reserve transfer	2	(2)	-	-
Net actuarial loss on retirement benefit obligations	(121)	-	-	(121)
Total comprehensive income	145	(1)	1,294	1,438
At 4 April 2010	6,363	68	(715)	5,716

The 5 April 2009 general reserve was adjusted in the half year ended 30 September 2009 to reflect changes made to the initial accounting for the acquisition of core parts of the Dunfermline Building Society.

The accounting policies and notes on pages 47 to 59 form an integral part of this condensed consolidated half-yearly financial report.

CONSOLIDATED CASH FLOW STATEMENT
For the half year ended 30 September 2010

	Notes	**Half year to 30 September 2010 (Unaudited) £m**	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
Cash flows from operating activities				
Profit before tax		**259**	143	341
Adjustments for:				
• Non-cash items included in profit before tax	15	**110**	426	580
• Changes in operating assets	15	**1,032**	2,796	5,377
• Changes in operating liabilities	15	**(1,441)**	(3,457)	(11,305)
• Interest paid on subordinated liabilities		**(41)**	(42)	(91)
• Interest paid on subscribed capital		**(46)**	(46)	(87)
• Dividend income		**(1)**	-	(1)
• Taxation		**(14)**	16	(17)
Net cash flows from operating activities		**(142)**	(164)	(5,203)
Cash flows from investing activities				
Purchase of investment securities		**(6,629)**	(10,698)	(12,942)
Sale and maturity of investment securities		**7,638**	6,119	11,283
Purchase of property, plant and equipment		**(48)**	(135)	(153)
Sale of property, plant and equipment		**10**	4	10
Purchase of intangible assets		**(112)**	(10)	(184)
Purchase of Dunfermline social housing portfolio	18	**-**	-	(377)
Dividends received		**1**	-	1
Net cash flows from investing activities		**860**	(4,720)	(2,362)
Cash flows from financing activities				
Maturity of subordinated liabilities		**(619)**	(15)	(15)
Issue of subordinated liabilities		**630**	-	-
Net cash flows from financing activities		**11**	(15)	(15)
Net increase/(decrease) in cash		**729**	(4,899)	(7,580)
Cash and cash equivalents at start of period		**5,811**	13,398	13,391
Cash and cash equivalents at end of period	15	**6,540**	8,499	5,811

The accounting policies and notes on pages 47 to 59 form an integral part of this condensed consolidated half-yearly financial report.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

1 Reporting period

These results have been prepared as at 30 September 2010 and show the financial performance for the period from and including 5 April 2010 to this date.

2 Basis of preparation

This condensed consolidated half-yearly financial report for the half year ended 30 September 2010 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim financial reporting' as adopted by the European Union (EU). The half-yearly financial report should be read in conjunction with the annual financial statements for the year ended 4 April 2010, which have been prepared in accordance with IFRS as adopted by the EU.

The accounting policies adopted by the Group in the preparation of its September 2010 half-yearly financial report and those which the Group currently expects to adopt in its 2011 Annual Report and Accounts are consistent with those disclosed in the 2010 Annual Report and Accounts except as detailed below. The accounting policies and disclosures adopted reflect the Group's current view of best practice. Copies of the 2010 Annual Report and Accounts are available at:
www.nationwide.co.uk/about_nationwide/results_and_accounts/2009-2010.

Changes in accounting policy

In the first half of the financial year, the Group adopted the following relevant IFRS and IFRIC pronouncements:

- IAS 27 (Revised) 'Consolidated and separate financial statements': The amendment requires the effects of all transactions with non controlling interests to be recorded in equity if there has been no change in control. It also specifies the accounting when control is lost. The amendment has had no impact on the results to 30 September 2010.

- IAS 39 & IFRIC 9 'Eligible hedged items' (July 2008): The amendment clarifies how existing principles underlying hedge accounting should be applied in two particular situations: a) one-sided risk in a hedged item; and b) inflation in a financial hedged item. The amendment has had no impact on the results to 30 September 2010.

- 'Improvements to IFRSs' (April 2009): Several small amendments have been made to a number of standards. None of these amendments have had an impact on the results to 30 September 2010.

In addition, during the period the Group ceased electing to fair value its mortgage commitments as doing so would have created an accounting mismatch. As a result at 30 September 2010 there are no items relating to mortgage commitments carried on the balance sheet. Up to the time that the Group ceased to elect to fair value its mortgage commitments, an accounting mismatch did occur and this contributed to the gains from derivatives and hedge accounting shown on the face of the income statement.

Certain of the prior year balance sheet comparatives have been reclassified to conform to the current year's presentation. This adjustment does not affect total assets.

Future accounting developments

A number of relevant pronouncements have been issued by the International Accounting Standards Board (IASB) that are not effective for this financial year. With the exception of IFRS 9 'Financial Instruments - Classification and Measurement' the Group does not expect adoption of any of these pronouncements to have a significant impact on its results.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

2 Basis of preparation (continued)

IFRS 9 'Financial Instruments – classification and measurement' is a new standard which addresses phase 1 of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard requires financial assets to be classified as at amortised cost or at fair value. The available for sale (AFS) category for financial assets, currently used by the Group, will no longer be available under IFRS 9. Financial liabilities will be treated as at present under IAS 39, with the exception that where we opt to fair value, the movement in fair value due to own credit risk would be directly recognised in other comprehensive income. Where this would result in an accounting mismatch, however, the movement would be recognised in the income statement. With the exception of the protected equity bond product, the Group has not currently opted to fair value its liabilities. The derecognition requirements within IAS 39 remain unchanged. Phase 1 will have a significant impact for the Group, the full extent of which is currently being considered. The effective date for the new standard is accounting periods beginning on or after 1 January 2013, with early adoption permitted once endorsed by the EU.

IFRS is subject to ongoing review and endorsement by the EU or possible amendment by interpretative guidance from the IASB and is therefore subject to change. In addition, practice may develop with regard to interpretation and application of the standards or further standards may be introduced with the option for early adoption. We will update our results for any such changes should they occur. The Group's full year Annual Report and Accounts may, therefore, be prepared in accordance with different accounting policies to those used in this document.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Details of critical accounting estimates are provided on pages 83 and 84 of the 2010 Annual Report and Accounts.

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are discussed in the Business Review, including the Principal Risks section of this report.

The Directors have assessed, in the light of current and anticipated economic conditions, the Group's ability to continue as a going concern.

The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing this half-yearly financial report.

Related party transactions

Full details of the Group's related party transactions for the year to 4 April 2010 can be found in the 2010 Annual Report and Accounts. The Group has had no material change to these disclosures, with the exception that loans to key management, undertaken on normal commercial terms, increased to £1.6 million (£0.9 million at 4 April 2010).

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

3 Interest receivable and similar income

	Half year to 30 September 2010 (Unaudited) £m	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
On residential mortgages	**2,506**	2,660	5,289
On other loans	**559**	584	1,150
On investment securities	**601**	527	1,056
On other liquid assets	**14**	30	47
Other interest receivable	**1**	5	-
Foreign exchange difference	**-**	7	20
Net expense on financial instruments hedging assets	**(1,546)**	(1,455)	(3,116)
Expected return on pension assets	**83**	58	122
	2,218	2,416	4,568

Interest receivable on residential mortgages and interest receivable on other loans, which are primarily commercial loans and loans to Registered Social Landlords, are net of amortisation of fair value adjustments relating to the acquisitions of the Derbyshire and Cheshire building societies, core parts of the Dunfermline Building Society and the Dunfermline Registered Social Landlord loan portfolio.

The foreign exchange differences of £7 million in the six months to 30 September 2009 and £20 million in the year to 4 April 2010 reflect gains on foreign exchange derivatives held to mitigate the economic risk of future payments in foreign currencies.

Interest receivable on investment securities in the period to 30 September 2010 includes £24 million relating to the sale of investment securities (30 September 2009: £72 million, 4 April 2010: £76 million). The gain of £72 million in the period to 30 September 2009 includes £75 million (30 September 2010: £24 million includes £26 million) from the sale of Gilts which were achieved as a result of market movements that were driven in part by the Bank of England's policy on Quantitative Easing.

4 Interest expense and similar charges

	Half year to 30 September 2010 (Unaudited) £m	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
On shares held by individuals	**1,207**	1,215	2,326
On subscribed capital	**47**	47	96
On deposits and other borrowings			
• Subordinated liabilities	**53**	47	95
• Other	**132**	221	384
On debt securities in issue	**427**	449	884
Net income on financial instruments hedging liabilities	**(489)**	(523)	(1,077)
Pension interest cost	**83**	69	146
	1,460	1,525	2,854

Interest expense on shares held by individuals, deposits and other borrowings, subscribed capital and debt securities in issue includes amortisation of fair value adjustments relating to the acquisitions of the Derbyshire and Cheshire building societies and core parts of the Dunfermline Building Society.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

5 Other operating income

	Half year to 30 September 2010 (Unaudited) £m	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
Gain on portfolio acquisition	**-**	40	40
Rental income	**3**	3	6
Loss on revaluation and sale of fixed assets	**-**	-	(4)
Other	**-**	3	5
	3	46	47

Further information on the portfolio acquisition is provided in note 18.

6 Gains/(losses) from derivatives and hedge accounting

The £118 million gain from derivatives and hedge accounting (30 September 2009: £15 million loss, 4 April 2010 £34 million gain) represents the change in fair value of derivative instruments that are matching risk exposures on an economic basis, offset where applicable by the change in fair value of the underlying asset or liability attributable to the hedged risk. Some income statement volatility arises due to hedge accounting ineffectiveness or because hedge accounting has not been adopted or is not achievable. The impact, which over time will trend to zero, can be volatile and has been especially so in this interim period as a result of the following:

- The Group has recognised hedge accounting gains on the disposal of gilt assets (£30 million) and the early cancellation of a covered bond liability (£26 million). These gains represent the reversal of losses which had been reported in previous periods.
- The Group enters derivatives to economically hedge forecast fixed rate savings. During the interval between the acquisition of the derivative and the recognition and inclusion of the liabilities in hedging relationships an accounting mismatch is experienced which resulted in a £28 million gain.
- The Group has recorded a £10 million gain from fair valuing mortgage commitments. As disclosed in Note 2 the Group has ceased electing to fair value its mortgage commitments to avoid an accounting mismatch for future periods.

7 Administrative expenses

	Half year to 30 September 2010 (Unaudited) £m	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
Employee costs:			
• Wages and salaries	**231**	239	469
• Social security costs	**18**	21	44
• Pension costs	**42**	37	71
	291	297	584
Other administrative expenses	**272**	264	611
	563	561	1,195

Administrative expenses include £6 million (30 September 2009: £nil, 4 April 2010: £62 million) of transformation costs which include £nil (30 September 2009: £nil, 4 April 2010: £7 million) directly relating to business combinations. The remaining transformation costs primarily relate to restructuring parts of our business.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

8 Impairment losses on loans and advances to customers

	Half year to 30 September 2010 (Unaudited) £m	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
Impairment charge for the period			
Prime residential	**29**	5	10
Specialist residential	**16**	40	79
Consumer banking	**43**	62	126
Commercial lending	**95**	180	299
Other lending	**(4)**	30	35
	179	317	549
Impairment provision at the end of the period			
Prime residential	**43**	19	17
Specialist residential	**133**	129	143
Consumer banking	**150**	149	148
Commercial lending	**442**	368	422
Other lending	**12**	48	20
	780	713	750

These provisions have been deducted from the appropriate asset values in the balance sheets.

9 Provisions for liabilities and charges

	FSCS £m	**Other Provisions £m**	**Total £m**
At 5 April 2010	93	25	118
Provisions utilised	**(48)**	(3)	**(51)**
Release for the period	**-**	**(10)**	**(10)**
At 30 September 2010	**45**	**12**	**57**
At 5 April 2009	258	13	271
Provisions utilised	(48)	-	(48)
Release for the period	(1)	-	(1)
At 30 September 2009	209	13	222
At 5 April 2009	258	13	271
Provision utilised	(48)	(2)	(50)
(Release)/Charge for the year	(117)	14	(103)
At 4 April 2010	93	25	118

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

9 Provisions for liabilities and charges (continued)

Financial Services Compensation Scheme (FSCS)

Based on its share of protected deposits, the Group pays levies to the FSCS to enable the scheme to meet claims against it. The FSCS has initially met claims from depositors of a number of defaulted financial institutions by way of loans received from HM Treasury. The total of these facilities is approximately £20 billion. The FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms. While it is anticipated that the substantial majority of these facilities will be repaid wholly from recoveries from the institutions concerned, there is the risk of a shortfall, such that the FSCS may place additional levies on all FSCS participants.

As at 30 September 2009, the Group held a provision of £209 million, being the Group's estimated share of the levies which it would incur in respect of the period of the initial three year loan facility from HM Treasury. At that time, the Group did not provide for its estimated share of any shortfalls because these could not be reliably estimated.

In line with the approach taken in the 2010 Annual Report and Accounts, the amount provided by the Group as at 30 September 2010 of £45 million (4 April 2010: £93 million) has been restricted to the latest estimate of its share of levies in respect of scheme years ending on and before 31 March 2011, for which our liability is already confirmed. The Group will become liable to levies for the following scheme year ending March 2012 during the second half of this financial year. The Group has estimated it will provide £40-£50 million as its share of HM Treasury loan interest costs in the second half of this financial year. There is also the possibility that levies arising from recovery shortfalls may be included in the scheme year ending 31 March 2012 and therefore start to be recognised.

The basis for estimating the costs and the uncertainties involved in estimating the FSCS levy remain consistent with those disclosed on page 84 of the 2010 Annual Report and Accounts.

Other provisions

Other provisions have been made in respect of various customer claims, including claims in relation to previous sales of payment protection insurance (PPI). The FSA released their Policy statement 10/12: *The assessment and redress of Payment Protection Insurance complaints* on 10 August 2010 and the Group has been monitoring the subsequent level of claims, a process which will continue in the second half of the financial year. A £3 million charge has been recognised for customer redress in respect of PPI during the first half of the year in line with the current run rate of claims, resulting in a provision at 30 September 2010 of £10 million. It is expected that the liability will predominantly crystallise over the next 12 - 24 months. The net provision release for the period is the result of reductions in other provisions, including £13 million relating to customer bonus schemes.

10 Investment securities – available for sale – sale and repurchase arrangements

Investment securities with a carrying value of £1,257 million (30 September 2009: £6,386 million, 4 April 2010: £3,734 million) have been sold under sale and repurchase agreements. This comprises £422 million of private listed securities and £835 million government securities (30 September 2009: £3,860 million private listed securities and £2,526 million government securities, 4 April 2010: £3,303 million private listed securities and £431 million government securities). These assets have not been de-recognised as the Group has retained substantially all the risks and rewards of ownership. The proceeds of all repurchase agreements of £2,416 million (30 September 2009: £9,926 million, 4 April 2010 £6,441 million) are included within deposits from banks.

At 30 September 2010 the Group does not hold any collateral under reverse sale and repurchase agreements and this was also the position at 30 September 2009 and 4 April 2010.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

11 Loans and advances to customers

	30 September 2010 (Unaudited) £m	30 September 2009 (Unaudited) £m	4 April 2010 (Audited) £m
Prime residential mortgages	**106,608**	110,424	108,704
Specialist residential mortgages	**19,207**	18,353	18,609
Consumer banking	**2,180**	2,212	2,143
Commercial lending	**21,574**	22,012	21,765
Other loans	**527**	603	556
	150,096	153,604	151,777
Fair value adjustment for micro hedged risk	**1,047**	610	652
	151,143	154,214	152,429

Certain loans and advances to customers are used to secure debt securities in issue (funding) as follows:

	30 September 2010 (Unaudited)		30 September 2009 (Unaudited)		4 April 2010 (Audited)	
	Assets pledged £m	**Secured funding £m**	Assets pledged £m	Secured funding £m	Assets pledged £m	Secured funding £m
Covered bonds	**36,549**	**9,911**	36,644	9,472	39,917	9,050
Securitisations and other secured lending	**33,557**	**3,749**	30,524	1,499	32,371	3,749
	70,106	**13,660**	67,168	10,971	72,288	12,799

Pledged assets include those available to Nationwide Covered Bonds LLP, Silverstone Master Trust and other funding vehicles, even where they have not yet been used to provide collateral to support external funding transactions. Secured funding disclosed above, however, is that obtained from issuance to external counterparties and does not include self issuances that may be used as collateral for repo and other similar type operations. As a result, the relationship between pledged assets and secured funding above is not representative of the haircut applied to collateral values in determining the available level of funding.

The Society established Nationwide Covered Bonds LLP in November 2005. The LLP provides security for issues of covered bonds made by the Society to external counterparties and also for the purpose of creating collateral. On 14 September 2010 the Society issued a €1.25 billion 5 year covered bond through the Covered Bond LLP programme. External funding of £1.04 billion in Sterling equivalent was raised.

The Society established the Silverstone Master Trust securitisation structure on 16 July 2008. Notes are issued by Silverstone Master Issuer plc (Securities 2008 - 1 and 2009 - 1) to external counterparties and the Society, either for the purposes of creating collateral to be used for funding or for subsequent sale of the notes to investors outside the Group.

On 22 October 2010, after the balance sheet date, Silverstone Master Issuer plc made an issuance of a residential mortgage backed securitisation for settlement on 28 October 2010. External funding of £1.52 billion Sterling equivalent was raised in Euros and US dollars.

All of the assets pledged are retained on the Group's balance sheet as the Group substantially retains the risks and rewards relating to the loans.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

12 Deferred tax assets

The Finance (No 2) Act 2010 included legislation to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011. The legislation was substantively enacted in July 2010 and, as a result, the Group's deferred tax asset has been reduced as at 30 September 2010 by £11 million, resulting in a credit to the income statement of £5 million and a charge to other comprehensive income of £16 million.

The proposed further reductions in the rate of corporation tax by 1% per annum to 24% by 1 April 2014 are expected to be enacted separately each year, starting in 2011. The effect of these further changes upon the Group's deferred tax balances cannot be reliably quantified at this stage.

13 Subordinated liabilities and subscribed capital

	30 September 2010 (Unaudited) £m	30 September 2009 (Unaudited) £m	4 April 2010 (Audited) £m
Subordinated liabilities			
Subordinated notes	**2,037**	2,082	2,071
Fair value adjustment for micro hedged risk	**145**	102	104
Unamortised premiums and issue costs	**(12)**	(10)	(9)
	2,170	2,174	2,166
Subscribed capital			
Permanent interest bearing shares	**1,415**	1,415	1,415
Fair value adjustment for micro hedged risk	**239**	141	155
Unamortised premiums and issue costs	**(44)**	(48)	(46)
	1,610	1,508	1,524

All of the Society's subordinated notes and permanent interest bearing shares (PIBS) are unsecured. The Society may, with the prior consent of the FSA, redeem some of the subordinated notes early. The PIBS are repayable, at the option of the Society, with the prior consent of the FSA.

The subordinated notes rank pari passu with each other and behind claims against the Society of all depositors, creditors and investing members. The PIBS rank pari passu with each other and behind claims of the subordinated notes. The claims of the PIBS holders in a winding-up or dissolution of the Society would be restricted to the principal amount of the PIBS together with the interest accrued.

The interest rate risk arising from the issuance of fixed rate subordinated notes and PIBS has been mitigated through the use of interest rate swaps.

On 17 August 2010 the Group, with the consent of the FSA, redeemed early the €750 million 3⅜% subordinated loan due 17 August 2015 at par at a Sterling equivalent cost of £619 million. On 22 July 2010 the Group issued a €750 million 6.75% subordinated loan due July 2020 raising a net Sterling equivalent of £630 million.

14 Retirement benefit obligations

The Group's net retirement benefit obligation at 30 September 2010 totalled £720 million (30 September 2009: £586 million, 4 April 2010: £508 million). The change reflects both an increase in the measurement of Fund liabilities and a fall in the market values of Fund assets. The primary reason for the increase in the Fund liabilities is a reduction in the discount rate (which is based on AA long term corporate bond yields) to 5.1% (30 September 2009: 5.5%, 4 April 2010: 5.6%).

NOTES TO THE HALF YEARLY FINANCIAL REPORT

15 Notes to the cash flow statement

	Half year to 30 September 2010 (Unaudited) £m	Half year to 30 September 2009 (Unaudited) £m	Year ended 4 April 2010 (Audited) £m
Non-cash items included in profit before tax			
Net increase in impairment provisions	**30**	243	280
Impairment losses/(gains) on investment securities	**31**	(1)	36
Depreciation and amortisation	**67**	75	151
Profit on sale of fixed assets	**-**	-	(1)
Interest on subordinated liabilities	**53**	47	92
Interest on subscribed capital	**47**	47	91
Loss on the revaluation of land and buildings	**-**	-	5
(Gains)/losses from derivatives and hedge accounting	**(118)**	15	(34)
Gain on portfolio acquisition	**-**	-	(40)
	110	426	580
Changes in operating assets			
Loans and advances to banks	**10**	569	578
Investment securities	**(261)**	(968)	(1,434)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**(48)**	1,163	1,863
Deferred tax assets	**15**	282	509
Loans and advances to customers	**1,256**	1,012	3,177
Other operating assets	**60**	738	684
	1,032	2,796	5,377
Changes in operating liabilities			
Shares	**913**	(5,617)	(7,349)
Deposits from banks, customers and others	**(2,295)**	(1,378)	(5,702)
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	**760**	(905)	(1,177)
Debt securities in issue	**(903)**	3,913	2,008
Retirement benefit obligations	**212**	255	177
Other operating liabilities	**(128)**	275	738
	(1,441)	(3,457)	(11,305)
Cash and cash equivalents			
Cash and balances with the Bank of England	**3,963**	3,336	3,994
Loans and advances to other banks repayable in 3 months or less	**2,577**	4,162	1,817
Investment securities with a maturity period of 3 months or less	**-**	1,001	-
	6,540	8,499	5,811

Changes in other operating liabilities include movements in the Group's wholesale funding balances of deposits from banks, other deposits and debt securities in issue. These are considered operating activities as they relate to the Group's lending activity and liquidity management and so form part of the normal course of business. Movements in subordinated liabilities and subscribed capital are considered financing activities because these form part of our capital management for solvency purposes.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

15 Notes to the cash flow statement (continued)

The Group is required to maintain balances with the Bank of England which, at 30 September 2010, amounted to £190 million (30 September 2009: £197 million, 4 April 2010: £200 million). These balances are included within loans and advances to banks on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

16 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Directors' Committee. The Executive Directors' Committee, which is responsible for allocating resources and assessing performance of operating segments, has been identified as the chief operating decision maker.

The following section analyses the Group's performance by business segment. For management reporting purposes, the Group is organised into the following business groupings, determined according to similar economic characteristics and customer base:

- Retail;
- Commercial; and
- Head office functions.

These business groupings reflect how management assesses performance and makes decisions on allocating resources to the business on the basis of product and customers. Revenues from external and internal customers are allocated to the appropriate business segment.

Goodwill is allocated to segments based on the underlying cash generating unit to which it relates. Goodwill includes that arising on the acquisition of The Mortgage Works (UK) plc by Portman Building Society and that arising on the acquisition of the Derbyshire Building Society and is therefore allocated to the Retail segment. Goodwill is subject to an annual impairment test.

Retail

Retail functions include prime residential lending, specialist residential lending, consumer finance, retail funding (savings products), insurance and investments and retail products marketed by our Derbyshire, Cheshire, and Dunfermline brands. The distribution channels supporting these products are included in this segment.

Commercial

This segment comprises the commercial lending business stream.

Head office functions

Head office functions comprise treasury operational and income generation activities, head office and central support functions, and consolidation adjustments.

Head office and central support functions include: executive management, corporate secretariat, legal services, human resources, strategy and planning, finance, risk management, capital management, corporate affairs, property services and internal audit. Consolidation adjustments largely reflect the elimination of inter-segment transactions.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

16 Operating segments (continued)

Half year to 30 September 2010 (unaudited)	**Retail**	**Commercial**	**Head office functions**	**Total**
	£m	**£m**	**£m**	**£m**
Net interest income/(expense) from external customers	**1,212**	**432**	**(886)**	**758**
(Charge)/revenue from other segments	**(706)**	**(323)**	**1,029**	**-**
	506	**109**	**143**	**758**
Other income (note i)	**202**	**9**	**5**	**216**
Total revenue	**708**	**118**	**148**	**974**
Expenses (note ii)	**565**	**16**	**46**	**627**
Impairment and other provisions (note iii)	**78**	**95**	**27**	**200**
Segment results/underlying profit before tax	**65**	**7**	**75**	**147**
Transformation costs	**(1)**	**-**	**(5)**	**(6)**
Gains from derivatives and hedge accounting	**-**	**-**	**118**	**118**
Profit before tax	**64**	**7**	**188**	**259**
Taxation				**62**
Profit after tax				**197**
Total assets	**127,991**	**22,633**	**39,651**	**190,275**
Total liabilities	**127,412**	**-**	**57,012**	**184,424**

Half year to 30 September 2009 (unaudited) Restated	**Retail**	**Commercial**	**Head office functions**	**Total**
	£m	**£m**	**£m**	**£m**
Net interest income/(expense) from external customers	1,498	439	(1,046)	891
(Charge)/revenue from other segments	(835)	(343)	1,178	-
	663	96	132	891
Other income (note i)	171	4	3	178
Total revenue	834	100	135	1,069
Expenses (note ii)	577	18	41	636
Impairment and other provisions (note iii)	107	180	29	316
Segment results/underlying profit/(loss) before tax	150	(98)	65	117
FSCS levies – release	1	-	-	1
Gain on portfolio acquisition	-	40	-	40
Losses from derivatives and hedge accounting	-	-	(15)	(15)
Profit/(loss) before tax	151	(58)	50	143
Taxation				41
Profit after tax				102
Total assets	130,966	22,648	45,428	199,042
Total liabilities	127,413	-	66,627	194,040

The reporting of business segments was restated in the 2010 Annual Report and Accounts. The main change was that the specialist lending business was transferred to the Retail business segment. Previously specialist lending was grouped with commercial lending. Further details can be found in note 14 of the 2010 Annual Report and Accounts.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

16 Operating segments (continued)

Year to 4 April 2010 (audited)	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net interest income/(expense) from external customers	2,998	865	(2,149)	1,714
(Charge)/revenue from other segments	(1,712)	(663)	2,375	-
	1,286	202	226	1,714
Other income (note i)	364	11	6	381
Total revenue	1,650	213	232	2,095
Expenses (note ii)	1,156	36	92	1,284
Impairment and other provisions (note iii)	229	299	71	599
Segment results/underlying profit/(loss) before tax	265	(122)	69	212
FSCS levies – release	117	-	-	117
Transformation costs and gain on portfolio acquisition	(62)	40	-	(22)
Gains from derivatives and hedge accounting	-	-	34	34
Profit/(loss) before tax	320	(82)	103	341
Taxation				77
Profit after tax				264
Total assets	129,456	22,417	39,524	191,397
Total liabilities	126,017	-	59,664	185,681

Notes

(i) Other income excludes gains/losses from derivatives and hedge accounting.
(ii) Expenses exclude transformation costs.
(iii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.

The Group operates predominantly in the UK, the Isle of Man and the Republic of Ireland and accordingly no geographical analysis has been presented.

17 Contingent liabilities and bank levy

Contingent liabilities

During the ordinary course of business the Society is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Society does not expect the ultimate resolution of any proceedings to have a significant adverse effect on the financial position of the Society and has not disclosed the contingent liabilities associated with such claims either because they cannot reasonably be estimated or because such disclosure could be seriously prejudicial to the conduct of the claims.

NOTES TO THE HALF-YEARLY FINANCIAL REPORT

17 Contingent liabilities and bank levy (continued)

Bank levy

On 22 June 2010 the Government announced its intention to introduce a new bank levy which will apply to certain UK banks, building societies and the UK operations of foreign banks from 1 January 2011. HM Treasury has concluded a consultation to seek views on the detailed implementation of the levy and draft legislation was issued on 21 October 2010. Nationwide will be subject to the new levy which will apply to chargeable equity and liabilities of institutions. Certain liabilities are excluded, for example Tier one capital, insured retail deposits, repurchase agreements (repos) secured on sovereign debt and policyholder liabilities of retail insurance businesses within banking groups. The levy will not be charged on the first £20 billion of chargeable equity and liabilities. The announcement of the final rates for chargeable equity and liabilities in excess of the £20 billion allowance is expected in December 2010. Given the expected timing of the 2011 Finance Bill being enacted, the liability is expected to crystallise for the Group in the first half of 2011/12.

18 Portfolio acquisition – acquired 30 June 2009

The social housing portfolio was not part of the original acquisition of core parts of the Dunfermline Building Society and was acquired from DBS Bridge Bank Limited on 30 June 2009. The acquisition of the social housing portfolio has been treated as the purchase of a mortgage book in line with IAS 39 'Financial Instruments: Recognition and Measurement' as follows:

	£m
Observable market price of portfolio	420
Related deposit liability assumed	(3)
	417
Purchase price of portfolio on acquisition	377
Gain on acquisition	40

The gain of £40 million was taken to the income statement on acquisition in the 2009/10 financial year. The initial value of the loan portfolio is being amortised up to the redemption value of the portfolio over the life of the loans.

Further details are provided in note 48 of the 2010 Annual Report and Accounts.

19 Events occurring after the balance sheet date

As disclosed in note 11, on 22 October 2010 Silverstone Master Issuer plc made an issuance of a residential mortgage backed securitisation for settlement on 28 October 2010. External funding of £1.52 billion Sterling equivalent was raised in Euros and US dollars.

ADDITIONAL INFORMATION

a) Retail loan portfolio

The average indexed loan to value (LTV) ratio of the Group's residential mortgages is 47% (4 April 2010: 48%) whilst the average LTV of new residential mortgage lending was 64% (4 April 2010: 63%). Further LTV information on the Group's residential loan portfolio is set out in the Business Review.

	Half year to 30 September 2010 %	Year ended 4 April 2010 %
New business profile:		
First time buyers	**24**	26
Home movers	**39**	38
Remortgages	**9**	18
Buy to Let	**28**	18
	100	100

The analysis of new business profile excludes further advances. Further advances have also been excluded from the analysis of the average loan to value of new business.

The tables that follow provide further information on retail loans and advances by payment due status:

	30 September 2010					4 April 2010				
	Prime lending £m	**Specialist lending £m**	**Consumer banking £m**	**Total £m**	**%**	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%
Not impaired:										
Neither past due nor impaired	**104,031**	**17,225**	**2,134**	**123,390**	**96**	106,267	16,577	2,074	124,918	96
Past due up to 3 months but not impaired	**2,055**	**1,261**	**35**	**3,351**	**3**	1,889	1,169	45	3,103	3
Impaired	**565**	**854**	**161**	**1,580**	**1**	565	1,006	172	1,743	1
	106,651	**19,340**	**2,330**	**128,321**	**100**	108,721	18,752	2,291	129,764	100

The status 'past due up to 3 months but not impaired' includes any asset where a payment due is received late or missed. The amount included is the entire financial asset rather than just the payment overdue. Loans on interest only or payment holiday concessions are initially categorised according to their payment status as at the date of concession, with subsequent revisions to this category assessed against the terms of the concession.

Loans in the analysis above which are less than 3 months past due have collective impairment provisions set aside to cover credit losses on loans which are in the early stages of arrears. Loans acquired through the acquisition of the Derbyshire, Cheshire, and Dunfermline building societies were fair valued on a basis which made credit loss adjustments for anticipated losses over the remaining life of the loans. These loans are categorised in the same way as originated loans in the analysis above.

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

Impaired retail assets are further analysed as follows:

	30 September 2010					4 April 2010				
	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%
Impaired status:										
Past due 3 to 6 months	**279**	**300**	**70**	**649**	**41**	280	342	60	682	39
Past due 6 to 12 months	**176**	**252**	**47**	**475**	**30**	174	282	67	523	30
Past due over 12 months	**80**	**187**	**44**	**311**	**20**	81	222	45	348	20
Possessions	**30**	**115**	**-**	**145**	**9**	30	160	-	190	11
	565	**854**	**161**	**1,580**	**100**	565	1,006	172	1,743	100

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale.

£131 million of loans that would be past due or impaired have had their terms renegotiated in the last 6 months (12 months to 4 April 2010: £329 million). Customers with arrears are only permitted to renegotiate where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period. Once renegotiated the loans are categorised as not impaired as long as contractual repayments are maintained.

Collateral held against past due or impaired retail residential mortgages:

	30 September 2010				4 April 2010			
	Prime lending £m	%	Specialist lending £m	%	Prime lending £m	%	Specialist lending £m	%
Past due but not impaired	**2,053**	**100**	**1,250**	**99**	1,884	100	1,159	99
Impaired	**533**	**100**	**721**	**98**	532	99	829	98
Possessions	**29**	**97**	**107**	**93**	29	97	150	94
	2,615	**100**	**2,078**	**98**	2,445	100	2,138	98

Collateral held in relation to secured loans that are either past due or impaired is capped to the amount outstanding on an individual loan basis. The percentage, in the table above, is the cover over the impaired asset.

Negative equity on retail residential mortgages:

	30 September 2010		4 April 2010	
	Prime lending £m	Specialist lending £m	Prime lending £m	Specialist lending £m
Past due but not impaired	**2**	**11**	5	10
Impaired	**2**	**18**	3	17
Possessions	**1**	**8**	1	10
	5	**37**	9	37

ADDITIONAL INFORMATION

a) Retail loan portfolio (continued)

The make up of specialist lending is as follows:

	30 September 2010		4 April 2010	
	£m	**%**	£m	%
Self-certified	**4,289**	**22**	4,559	24
Buy to Let	**13,326**	**69**	12,305	66
Near prime	**1,280**	**7**	1,427	8
Sub prime	**445**	**2**	461	2
Specialist lending	**19,340**	**100**	18,752	100

Near prime is defined as a borrower with a County Court Judgement (CCJ) or default less than or equal to £1,000 or one missed mortgage payment in the last 12 months. Sub prime lending is defined as a borrower with a CCJ or default in excess of £1,000 or more than one missed mortgage payment in the last 12 months.

b) Commercial and other operations loan portfolio

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under Private Finance Initiatives. Balances for other operations shown below include a secured European commercial loan portfolio of £278 million (4 April 2010: £299 million) and unsecured lending of £261 million (4 April 2010: £277 million) relating to a student loan portfolio. These investments were acquired by the Treasury division and are therefore held within the Head office functions business segment.

The tables below provide further information on commercial and other operations loan portfolios by payments due status:

	30 September 2010				4 April 2010			
	Commercial		**Other operations**		Commercial		Other operations	
	£m	**%**	**£m**	**%**	£m	%	£m	%
Not impaired:								
Neither past due nor impaired	**20,396**	**93**	**576**	**98**	20,868	94	538	93
Past due up to 3 months but not impaired	**711**	**3**	**6**	**1**	393	2	5	1
Impaired	**909**	**4**	**7**	**1**	926	4	33	6
	22,016	**100**	**589**	**100**	22,187	100	576	100

The status ‘past due up to 3 months but not impaired’ includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.

Loans in the analysis above which are less than 3 months past due have collective impairment allowances set aside to cover credit losses on loans which are in the early stages of arrears. This analysis includes commercial mortgage assets totalling £1.3 billion (4 April 2010: £1.3 billion) acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline. These loans were fair valued on a basis which made allowances for anticipated losses over the life of the loans. Impaired loans totalling £66 million (4 April 2010: £67 million) in the above analysis have thus been fair valued and are therefore unlikely to contribute any significant further losses to the Group.

There are £13 million (4 April 2010: £38 million) past due or impaired balances classified above as other operations. All of the £13 million (4 April 2010: £11 million) relates to the unsecured student loan portfolio.

ADDITIONAL INFORMATION

b) Commercial and other operations loan portfolios (continued)

Impaired commercial and other operations assets are further analysed as follows:

	30 September 2010				4 April 2010			
	Commercial		**Other operations**		Commercial		Other operations	
	£m	**%**	**£m**	**%**	£m	%	£m	%
Impaired status:								
Past due 3 to 6 months	**184**	**20**	**2**	**29**	291	31	14	42
Past due 6 to 12 months	**371**	**41**	**2**	**29**	397	43	15	46
Past due over 12 months	**353**	**39**	**3**	**42**	238	26	4	12
Possessions	**1**	**-**	**-**	**-**	-	-	-	-
	909	**100**	**7**	**100**	926	100	33	100

Commercial assets totalling £1,145 million (4 April 2010: £960 million) have individual provisions against them. These include cases which are not more than 3 months past due.

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale.

£168 million of loans that would be past due or impaired have had their terms renegotiated in the last 6 months (12 months to 4 April 2010: £300 million). The 4 April 2010 balance has been adjusted to include distressed loans that have been restructured. Once renegotiated the loans are categorised as not impaired as long as contractual repayments are maintained.

Collateral held against commercial lending

	30 September 2010		4 April 2010	
	£m	**%**	£m	%
Past due but not impaired	**653**	**92**	382	97
Impaired	**771**	**85**	834	90
	1,424	**88**	1,216	92

Collateral held in relation to secured loans that are either past due or impaired is capped to the amount outstanding on an individual loan basis. The percentage in the table above is the cover over the asset. No collateral is held against the commercial property held in possession.

Negative equity on commercial lending

	30 September 2010	4 April 2010
	£m	£m
Past due but not impaired	**58**	11
Impaired	**137**	92
Possessions	**1**	-
	196	103

RESPONSIBILITY STATEMENT

The directors confirm that, to the best of their knowledge, this condensed consolidated half-yearly financial report has been prepared in accordance with IAS 34 as adopted by the European Union. The half-yearly financial report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R namely:

- an indication of important events that have occurred in the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months and any material changes in the related party transactions described in the 2010 Annual Report and Accounts.

A full list of the Board of Directors can be found in the 2010 Annual Report and Accounts, with the following amendments during the 6 months to 30 September 2010:

R K Perkin and A P Dickinson were appointed to the Board as non executive directors on 20 April 2010 and 15 June 2010 respectively.

K Loosemore retired from the Board on 21 April 2010. D J Rigney stepped down from the Board on 21 July 2010. Mrs S J David and D A Ross retired from the Board at the Annual General Meeting held on 22 July 2010.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director
22 November 2010

INDEPENDENT REVIEW REPORT

Independent Review Report to Nationwide Building Society

Introduction

We have been engaged by the Society to review the condensed consolidated interim financial information in the half-yearly financial report for the six months ended 30 September 2010, which comprises the income statement, statement of comprehensive income, balance sheet, statement of movements in members' interests, cash flow statement and related notes on pages 47 to 59. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated interim financial information included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Society a conclusion on the condensed consolidated interim financial information in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Society for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the half-yearly financial report for the six months ended 30 September 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London 22 November 2010

OTHER INFORMATION

The half-yearly financial report information set out in this announcement is unaudited and does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The financial information for the year ended 4 April 2010 has been extracted from the 2010 Annual Report and Accounts. The 2010 Annual Report and Accounts have been filed with the Financial Services Authority and Registry of Friendly Societies in England and Wales. The Auditors' Report on the 2010 Annual Report and Accounts was unqualified.

Nationwide voluntarily adopted the British Bankers' Associations Code on Financial Reporting Disclosure with effect from its 2010 Annual Report and Accounts. The code sets out five disclosure principles together with supporting guidance. These principles have been applied, as appropriate, in the context of this half-yearly financial report.

A copy of this half-yearly financial report is placed on the website of Nationwide Building Society. The directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

GLOSSARY

For a full glossary of terms used within this report refer to pages 161 to 164 of the 2010 Annual Report and Accounts.

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