Nationwide Building Society

Interim Results
For the period ended
30 September 2011

Nationwide
On your side

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Underlying Results

Profit before tax shown on an underlying and statutory basis are set out on page 11. Underlying profit before tax of £172 million is before adjustments for the movement in the value of derivatives and hedge accounting of £71 million and transformation costs of £5 million, in connection with the restructuring of the business. The statutory profit before tax of £238 million includes these adjustments.

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.

INTERIM RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2011

Nationwide is today reporting a strong performance for the half year ended 30 September 2011, in a challenging economic environment. The Group has delivered an underlying profit of £172 million, and a statutory profit before tax of £238 million. This has been driven by an excellent performance across Nationwide's entire range of personal financial products. Capital ratios continue to be amongst the best in the industry and demonstrate the Group's financial strength and robust balance sheet, with a Core Tier 1 ratio of 12.7%, and high levels of liquidity.

There has been a 48% increase in gross lending of £8.9 billion and an underlying growth in mortgage assets of £1.4 billion, funded by new savings deposits of £1.4 billion and a growth in balances of £2.4 billion, up 250% and 167% respectively. Nationwide has continued to progress its strategy of expanding its market share in other areas, most notably banking products, in order to diversify income and satisfy more of its members' needs.

Graham Beale, Nationwide's Chief Executive said:

"The results in our first six months continue the trend established last year, with growth across all of our principal product lines. Underlying profit of £172 million is up 17% on the first half of last year.

It is particularly pleasing to see a 48% increase in our gross mortgage lending of £8.9 billion, and demonstrates our commitment to supporting growth in the economy as well as meeting the needs of our borrowers.

Our funding requirements have been satisfied by a 250% increase in the level of savings receipts to £1.4 billion and places Nationwide as the second largest savings provider in the UK – an endorsement of our brand and product propositions.

We continue to act as a 'challenger' to the established banks and have seen a 24% increase in the combined sales of our current accounts, credit cards and personal loans. Furthermore we have been independently rated number one for customer service satisfaction compared with our large high street competitors.

Market conditions are likely to remain difficult until the economy in the UK is more certain and the financial crisis in the Eurozone is resolved. However, we are well placed to respond: our balance sheet is one of the strongest of its kind with a Core Tier 1 ratio of 12.7%, a core liquidity ratio of 13.5%, diverse funding platforms and high quality assets.

Despite the uncertainties, I am confident that we can continue to invest in the business, deliver more products and services to more customers and deliver our strategic vision of being the UK's leading provider of retail financial services. "

CHIEF EXECUTIVE'S REVIEW

Strong performance in a challenging market environment

	Half Year to 30 September 2011 £m	Half Year to 30 September 2010 £m	Year to 4 April 2011 £m
Underlying profit before tax	**172**	147	276
Statutory profit before tax	**238**	259	317

Strong and profitable performance

- Underlying profit up 17% to £172 million (H1 2010/11: £147 million).
- Statutory profit £238 million (including fair value credit on financial instruments of £71 million), compared with £259 million (including fair value credit on financial instruments of £118 million) in the first half of 2010/11.
- Net interest margin stable at 81 basis points (H1 2010/11: 81 basis points).
- Non-interest income up 6% to £228 million (H1 2010/11: £216 million).
- Impairment charge on loans and advances to customers reduced by 20% to £144 million (H1 2010/11: £179 million). Within this, commercial property impairment charges are down 24% to £72 million (H1 2010/11: £95 million).

Stable and strong balance sheet

- Strong balance sheet ratios with Core Tier 1 capital ratio of 12.7% (4 April 2011: 12.5%) and core liquidity of 13.5% (4 April 2011: 13.8%).
- Positive retail inflow of £1.4 billion and change in balance of £2.4 billion, increases of 250% and 167% respectively compared with the first half of 2010/11. We are now the second largest savings provider in the UK.
- In the period April to October 2011, we have raised £3.5 billion Sterling equivalent through a covered bond and a RMBS public issuance, plus an additional £1.0 billion through private placements. This more than replaces £3.5 billion of long term funding which matures in the financial year.
- We have made a number of repayments of drawings made on the Special Liquidity Scheme ahead of both our contractual and bilateral agreement with the Bank of England, and at the half year the facility had been substantially repaid.
- Robust asset quality with Nationwide originated residential mortgage accounts more than three months in arrears of 0.65%, less than one third of industry levels of 2.05%.
- We have no direct sovereign exposure to the peripheral Eurozone countries, namely Portugal, Ireland, Italy, Greece and Spain. We hold £1.9 billion of non-sovereign securities issued in these countries; the securities are fully performing and, over the half year, the outstanding exposure has reduced by 18%. A further £547 million will mature over the next 12 months. There have been no impairments to these holdings.

Our business

Support for the housing market

Our performance has been underpinned by the exceptional strength of our retail franchise. Over the six months to 30 September 2011, Nationwide Group advanced £8.9 billion of mortgages, an increase of 48% on the same period of 2010 (H1 2010/11: £6.0 billion), with net lending of £1.4 billion, compared with a net repayment of £1.8 billion experienced in the first half of 2010/11. We have continued to place an emphasis on supporting the house purchase market, in particular helping first time buyers get a foot on the housing ladder. To that end, we have lent over £1.2 billion to first time buyers, an increase of 3% on the first half of 2010/11, helping over

10,000 people buy their first property. Across Nationwide Group we have committed over £80 million per day in new lending.

We have also provided support to the rental market through our subsidiary The Mortgage Works (TMW), one of the leading providers of Buy to Let mortgages. TMW gross advances over the period were £2.6 billion, double our lending in the same period last year (H1 2010/11: £1.3 billion).

We have maintained our Base Mortgage Rate (BMR) pledge, ensuring the majority of our mortgage customers have access to a rate capped at 2% above Bank of England (BoE) base rate. We estimate the customer benefit of our BMR pledge has been in the region of £350 million for the past six months, equating to over £1,000 benefit for each account per annum.

Commitment to our savers

The low rate environment that has supported mortgage holders continues to pose challenges for savers, but we have maintained our policy of offering excellent savings products to new and existing members. Our success is evident in our ability to attract new money into the Group: net receipts of £1.4 billion represent an increase of 250% on the six months to 30 September 2010, while total balance growth of £2.4 billion is an increase of 167% on the same period. This was achieved in a market where retail savings balances have grown £14.3 billion, giving us a market share of balance growth in the six months to 30 September of 16.4%. This success means that we have regained our position as number 2 savings provider in the UK market.

We have achieved this excellent performance by offering a range of top quality, market leading products covering all segments of the market, allied to maintaining our industry leading standards of savings transparency, manifested through our seven ‘Savings Promises’. By the end of November, 7 million members will have received an annual statement showing the rate they are receiving on their savings, plus details of our full range of savings accounts, helping them to identify whether they have the most appropriate accounts for their needs.

ISA products remain particularly important to savers, and Nationwide continues to perform strongly in this market segment; during the core ISA period between April and June, our Group market share of ISA balance growth was 16%. This robust performance reflects both our products and our service.

Since the half year end, we have been the first mainstream provider to launch a Junior ISA product offering.

Broadening our product franchise

Our focus on growing the range and scale of our banking products, acting as a challenger brand to the high street banks, remains central to our strategic ambition of diversifying our product and income streams. Our combined product sales across current accounts, credit cards and personal loans have increased by 24% compared with the equivalent period last year.

In the first six months of the year we have opened 185,000 new current accounts (H1 2010/11: 194,000), and we estimate that our market share of main accounts is 6.4%. Our ability to attract customers and offer a real alternative to the banks is shown by the fact that in the twelve months to August 2011, our share of new main account openings was over 9%.

We have continued to build our credit card business. In the six months to 30 September 2011 we opened 190,000 new accounts, an increase of 58% on the same period last year. Our credit card account base now stands at 1.6 million, and our market share of active accounts increased from 2.7% to 3.2% over the period.

Our personal loan book is also growing strongly. In the six months we issued 59,000 new loans, 61% up on the same period in 2010. Total gross lending was £0.52 billion (H1 2010/11: £0.29 billion), taking our market share of new lending to 5.0% (H1 2010/11: 2.8%) and outstanding balances to £1.38 billion (H1 2010/11: £1.13 billion).

Transforming our business

We commenced a Transformation programme in 2008 to replace ageing legacy systems and to improve product innovation and customer service. The programme has successfully delivered a new mortgage origination and processing service for intermediaries, and this will be rolled out to our retail branch network in the New Year. This summer we introduced a new internet bank, and the migration of customers will be complete by the end of November. The new internet bank is more intuitive and provides customers with enhanced service and functionality. We are well advanced with our preparations for the implementation of the Payment Services Directive 2012, and we will replace our personal current account system next year, which will allow new product offerings and enhanced services to our current account holders.

Providing market leading customer service

Providing consistent, excellent service to our customers is central to the way we do business, and has been encapsulated in our new brand proposition 'On Your Side'. We are proud of the fact that we continue to attract positive feedback in a range of customer satisfaction surveys. Our own customer service survey has reported growing satisfaction with our branch, telephone and internet service, and we are independently rated as the top performer for service satisfaction compared to our large high street competition.*

There will inevitably be occasions when we do make mistakes, but we attract far fewer complaints relative to our size than our major competitors. Despite being the second largest savings provider, third largest mortgage lender, and having an increasing market share across consumer banking products, we account for less than 1.7% of total industry complaints (according to data from the Financial Services Authority) and we always aim to put things right as quickly and as equitably as possible. Our success is confirmed by recent Financial Ombudsman Service (FOS) data (January to June 2011) showing that whilst an industry average of 47% of complaints were upheld in favour of the customer, the figure for Nationwide was only 14%.

One issue making the headlines in the past few months has been complaints against sales of payment protection insurance (PPI). Whilst Nationwide has not been immune to such complaints, only 6% of Nationwide complaints raised to the FOS were ruled in favour of the customer, compared with an industry average of 51%. Our PPI provisions are far lower than those of our competitors and, though we have increased the provision by £15 million, £10 million of the increase relates to the cost of processing the claims, rather than to customer redress. This processing cost has been inflated by claims from consumers who have not purchased a PPI product from Nationwide. These vexatious claims account for almost 30% of all complaints, with the vast majority of these complaints being submitted by Claims Management Companies.

Managing costs

We have continued to focus on effective cost management during the first half of 2011/12, balanced against the need to invest in our business in order to generate long term value for our members. Underlying expenses for the half year were £669 million, an increase of 7% compared with the first half of 2010/11. The increase was driven largely by higher variable costs that come from our success in expanding our business volumes, together with investment costs and the new bank levy charge (£9 million).

Despite the rise in the Group cost to income ratio at 30 September 2011 to 66.5% (H1 2010/11: 64.4%), the delivery of our medium term target of 50% in a normalised interest rate environment remains central to our strategy.

* Combined product service satisfaction (current account, mortgages and savings) as measured by GfK NOP's Financial Research Survey (FRS, 3 months ending October 2011, extremely/very satisfied customers, peer group is Barclays, Halifax, HSBC, Lloyds TSB, NatWest, Santander).

Asset Quality

Our asset quality has remained strong as a result of our continued prudent approach to lending. The average loan to value (LTV) of new residential lending is low at 62% (4 April 2011: 66%) and the indexed LTV for the whole residential portfolio has reduced to 48% (4 April 2011: 49%). The proportion of the Group's originated mortgage accounts three months or more in arrears has reduced to 0.65% at 30 September 2011 (4 April 2011: 0.68%), significantly better and less than a third of the Council of Mortgage Lenders (CML) industry average of 2.05%. The proportion of Nationwide originated prime mortgage accounts three months or more in arrears has remained stable at an even lower level of 0.53% (4 April 2011: 0.53%).

The UK commercial property market remains characterised by low transaction volumes and stable prices, with prime capital values in September 1.7% higher than 12 months ago, according to the Investment Property Databank (IPD). However, the outlook outside London and for secondary property remains more challenging. At 30 September 2011 the proportion of Nationwide originated commercial balances three months or more in arrears has reduced to 2.27% (4 April 2011: 2.41%) with arrears balances of £56 million. Following an assessment of all impaired cases, the total commercial impairment charge is £72 million for the first half of the year, 24% lower than the charge of £95 million in the first half of last year.

Funding, liquidity and capital

We have one of the strongest balance sheets in the financial services sector, and have been able to maintain the three key goals of strong capital ratios, high levels of liquidity and a diverse funding platform.

	30 September 2011	4 April 2011
	%	%
Core Tier 1 ratio	**12.7**	12.5
Tier 1 ratio	**16.1**	15.7
Solvency ratio (Basel II)	**19.9**	19.5
Core liquidity ratio	**13.5**	13.8
Wholesale funding ratio	**25.6**	25.9

The Group has a strong and diversified funding base, predominantly funded by retail savings. In the current financial year we have £3.5 billion equivalent of maturing wholesale long term finance arrangements. In the six months to 30 September we issued £0.6 billion of private placements, and since the half year, we have issued a further £3.5 billion equivalent in a covered bond denominated in Euros and residential mortgage backed securities in both US dollars and Sterling, and a further £0.4 billion of private placements. We can therefore be selective in accessing public long term funding markets throughout the remainder of the financial year, but will continue to do so where it is appropriate and cost effective.

We have no direct sovereign exposure to the peripheral Eurozone countries, namely Portugal, Ireland, Italy, Greece and Spain. Within our treasury portfolio, we do hold £1.9 billion of non-sovereign securities issued in these countries, over two-thirds of which is backed by collateral. Over the half year, outstanding exposures have reduced by 18%, and there have been no impairments to the holdings. A further £547 million, primarily senior bank debt, will mature over the next 12 months.

Since 4 April 2011, we have provided notice to call £110 million of Lower Tier 2 subordinated debt, which includes notice given on £35 million post 30 September 2011. We can also confirm that we fully intend to call €300 million of Lower Tier 2 subordinated debt, which falls due for call in December 2011. There is no requirement to refinance the redemptions.

Reforming financial services

Reform of the financial services sector remains high on political and economic agendas. Most notably, the Independent Commission on Banking (ICB) published its final report in September, setting out a package of measures to improve stability and competition in the UK banking sector, with a core recommendation being the creation of a ring-fence to separate retail and investment banking. Our initial interpretation is that we already substantially meet the definition of a retail ring-fenced institution.

Nationwide, provides consumers with a competitive alternative to the big banks, and was highlighted by the ICB as the primary challenger to the banks. It is therefore important that the Government ensures that building societies are able compete on a level playing field with the banks, delivering on its Coalition commitment to foster diversity and promote mutuals in financial services.

There are four important issues that need to be addressed in the interests of consumers:

- First, mutuals must have access to external capital. The current draft of the Capital Requirements Directive makes clear that building societies will be able to issue instruments that align with mutual principles, and we are working with the UK regulatory authorities to develop an appropriate Core Tier 1 instrument.
- Secondly, there are unintended consequences of the ICB's proposed 4.06% leverage ratio on large, low risk institutions such as Nationwide, and which may act as a constraint on our lending activities. We believe that the ratio should either be recalibrated to a lower limit for low risk balance sheets or amended to align with Basel III requirements.
- Thirdly, we support the proposal for depositor preference but believe that consumers would benefit if the Government were to go further than the ICB recommendation by making all depositors preferred, rather than just those insured to Financial Services Compensation Scheme (FSCS) limit of £85,000. An end state whereby all retail depositors received preferred status which is underwritten by FSCS up to £85,000, would be a clear and succinct message for consumers which would enhance stability of retail funding markets.
- The 1986 Building Societies Act is now 25 years old and, despite a number of amendments over that period, still retains a number of anachronisms that should be modernised to allow Nationwide to operate efficiently and effectively and to compete on a level playing field with the banks.

Strategy

We are well on the way to achieving our vision of being the UK's leading retail financial services provider, offering a meaningful and unique alternative to the publicly listed banks, demonstrated through long term superior products and customer service. Our strategy is based on three core pillars: delivering mutuality, challenging the status quo and running a diversified business model. As the UK's leading mutual, we do not have to maximise our earnings to reward shareholders; instead, we focus all of our efforts on supporting our members, generating sufficient profit to maintain our strong balance sheet and invest in the future.

We will maintain our position as one of the UK's largest providers of mortgage and savings products, using our mutual status to offer a range of transparent, long term good value products that work to the benefit of our members. We will continue to play the role of the primary challenger to the banks by expanding our capability and market presence in current accounts, personal loans, credit cards, insurance, protection and investment markets. By doing so we aim to support more needs for more customers, and provide a diversified business mix that reduces our reliance on margin income. In support of our strategy, we will also continue to maximise revenues from our non-member businesses, using the profits purely to support our member proposition.

In line with our mutual ownership and a customer-centric ethos that runs throughout the business, Nationwide aims to provide industry-leading service for all customers. We continue to be rated as one of the top performers in customer service satisfaction, and we have a corporate aim to become number one with a significant lead over the rest of the market.

Outlook

The outlook for the UK economy has weakened over the last six months and prospects for the remainder of 2011/12 and 2012/13 are very challenging. Uncertainty surrounding the future of the Eurozone is increasing the risk of a significant slowdown in economic activity in the UK's principal export markets. Domestically, both public and household spending are being constrained by austerity measures, and we face the risk of higher levels of unemployment combined with declines in real disposable incomes. We continue to expect the UK recovery to be maintained, but at a modest pace, and the downside risk of a return to recessionary conditions in 2012 cannot be ruled out.

The sovereign debt crisis in Europe, and the uncertainty of how this may be resolved, has led to an increase in the cost of funding. Whilst the initial impact of this has been felt in the wholesale markets, there has been a consequent increase in the cost of retail funding, with greater competition in a savings market which is growing only slowly by historical standards. In the absence of a swift resolution of the crisis, this situation is likely to persist for the medium term, or could deteriorate further if the future of the Eurozone is not secured.

With the recovery likely to remain sluggish, UK interest rates are expected to remain on hold for an extended period, with the first increase in the Bank Rate not expected until 2013. In the meantime, the low interest rate environment and pressure on retail funding costs will continue to exert downward pressure on net interest income.

The UK housing market has remained muted throughout 2011, with transactions levels well below historic norms and with house prices essentially flat for the past eighteen months. We expect buyer activity to continue to be relatively subdued, with the potential to decline further should the labour market situation deteriorate markedly, or if strains in the financial system intensify and impair the flow of credit to the wider economy. Prices may decline slightly over the next year, but we do not anticipate large falls given that mortgage arrears and distressed sales are likely to remain low, supported by a prolonged period of low interest rates. The Nationwide House Price Index recorded an annual increase in house prices of 0.8% in October.

The outlook for the commercial property market continues to be uncertain in the light of the broader macroeconomic conditions. Potential for further weakening in tenant demand and investor appetite means the impairment outlook for our commercial lending business has become more uncertain in the last six months, and we retain our cautious approach to the market and associated provisioning.

Despite the deterioration in the economic outlook, we are well placed to meet the challenges we face. Our balance sheet remains amongst the strongest in the industry, supported by our prudent approach to lending, and we are making excellent progress in diversifying our business to provide a greater range of products to new and existing customers. As the deliveries from our transformation programme gather pace, we will deliver more value to more customers, diversify our income and continue our progress towards becoming the UK's leading provider of retail financial services.

Graham Beale
Chief Executive

21 November 2011

FINANCIAL SUMMARY

	Half year to 30 September 2011	Half year to 30 September 2010	Half year to 4 April 2011	Year to 4 April 2011
Financial Performance	**£m**	£m	£m	£m
Underlying profit before tax	**172**	147	129	276
Statutory profit before tax	**238**	259	58	317
Lending Volumes	**£bn**	£bn	£bn	£bn
Group residential – gross	**8.9**	6.0	6.8	12.8
Group residential – gross market share	***12.4%***	*8.5%*	*10.8%*	*9.5%*
Group residential – net	**1.4**	(1.8)	(1.7)	(3.5)
Commercial – gross	**0.9**	0.8	0.8	1.6
Commercial – net	**(0.1)**	(0.1)	0.0	(0.1)
Consumer finance – net unsecured lending	**0.3**	-	0.1	0.1
Savings Volumes (1)	**£bn**	£bn	£bn	£bn
Retail savings balance movement	**2.4**	0.9	0.7	1.6
Net receipts	**1.4**	0.4	0.2	0.6
Key Ratios	**%**	%	%	%
Cost to income ratio – underlying basis	**66.5**	64.4	64.7	64.5
Cost to income ratio – statutory basis	**62.6**	58.0	66.8	62.2
Net interest margin	**0.81**	0.81	0.81	0.81

	30 September 2011	4 April 2011
Balance Sheet	**£m**	£m
Total assets	**193,882**	188,917
Loans and advances to customers	**151,580**	149,417
Member savings balances	**124,903**	122,552
Total shares, deposits and loans (SDLs)	**177,662**	174,677
Total regulatory capital	**9,446**	9,233
Asset Quality	**%**	%
Proportion of residential mortgage accounts 3 months+ in arrears:		
Nationwide originated	**0.65**	0.68
Nationwide originated plus acquired (2)	**0.76**	0.77
Average indexed loan to value of residential mortgage book	**48**	49
Average indexed loan to value of new residential lending	**62**	66
Commercial accounts 3 months+ in arrears:		
Nationwide originated	**2.27**	2.41
Nationwide originated plus acquired (2) (5)	**3.79**	2.70
Percentage of unsecured personal loan accounts 30 days+ in arrears	**3.44**	5.45
Key Ratios	**%**	%
Core Tier 1 ratio	**12.7**	12.5
Tier 1 ratio	**16.1**	15.7
Solvency ratio (Basel II)	**19.9**	19.5
Wholesale funding ratio	**25.6**	25.9
Core liquidity ratio	**13.5**	13.8
Loan to deposit ratio (3)	**109.9**	111.4
Loan to deposit ratio (including long term wholesale funding) (4)	**94.5**	94.8

(1) Savings volumes include current account credit balances
(2) 'Acquired' relates to assets acquired from Derbyshire, Cheshire and Dunfermline building societies
(3) The loan to deposit ratio represents loans and advances to customers divided by (shares + other deposits + amounts due to customers).
(4) The loan to deposit ratio (including long term wholesale funding) represents loans and advances to customers divided by (shares + other deposits + amounts due to customers + wholesale funds with a maturity greater than 1 year)
(5) A more prudent measurement of Derbyshire commercial arrears has been taken in the half year to 30 September 2011. Comparatives have not been restated due to the unavailability of information

BUSINESS REVIEW

INCOME STATEMENT OVERVIEW

Profit before tax on a statutory 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 statutory profit before tax adjusted for the positive impact of movements in the value of derivatives and hedge accounting of £71 million, and transformation costs of £5 million.

Half year to 30 September 2011	**Statutory £m**	**FSCS costs £m**	**Statutory profit pre FSCS costs £m**	**Movements on derivatives and hedge accounting £m**	**Transformation costs £m**	**Underlying £m**
Net interest income	**778**	**-**	**778**	**-**	**-**	**778**
Other income	**228**	**-**	**228**	**-**	**-**	**228**
Movement on derivatives and hedge accounting	**71**	**-**	**71**	**(71)**	**-**	**-**
Total income	**1,077**	**-**	**1,077**	**(71)**	**-**	**1,006**
Administrative expenses	**(592)**	**-**	**(592)**	**-**	**5**	**(587)**
Depreciation and amortisation	**(82)**	**-**	**(82)**	**-**	**-**	**(82)**
Impairment losses on loans and advances to customers	**(144)**	**-**	**(144)**	**-**	**-**	**(144)**
Provisions for liabilities and charges	**(15)**	**-**	**(15)**	**-**	**-**	**(15)**
Impairment losses on investment securities	**(6)**	**-**	**(6)**	**-**	**-**	**(6)**
Profit before tax	**238**	**-**	**238**	**(71)**	**5**	**172**

Half year to 30 September 2010	Statutory £m	FSCS costs £m	Statutory 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
Movement 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

Year to 4 April 2011	Statutory £m	FSCS costs £m	Statutory profit pre FSCS costs £m	Movements on derivatives and hedge accounting £m	Transformation costs £m	Underlying £m
Net interest income	1,537	-	1,537	-	-	1,537
Other income	445	-	445	-	-	445
Movement on derivatives and hedge accounting	120	-	120	(120)	-	-
Total income	2,102	-	2,102	(120)	-	1,982
Administrative expenses	(1,158)	-	(1,158)	-	29	(1,129)
Depreciation and amortisation	(150)	-	(150)	-	-	(150)
Impairment losses on loans and advances to customers	(359)	-	(359)	-	-	(359)
Provisions for liabilities and charges	(52)	50	(2)	-	-	(2)
Impairment losses on investment securities	(66)	-	(66)	-	-	(66)
Profit before tax	317	50	367	(120)	29	276

Profit

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

	Half year to 30 September 2011 £m	Half year to 30 September 2010 £m	Year to 4 April 2011 £m
Net interest income	**778**	758	1,537
Other income	**228**	216	445
Total income	**1,006**	974	1,982
Expenses	**(669)**	(627)	(1,279)
Impairment losses on loans and advances	**(144)**	(179)	(359)
Impairment losses on investment securities and other provisions	**(21)**	(21)	(68)
Underlying profit before tax	**172**	147	276

Underlying profit for the half year was £172 million (H1 2010/11: £147 million), up 17% on the comparable period and up 33% on the second half profit for 2010/11 of £129 million. Total income growth continues to be constrained by the low interest rate environment. The improved profit performance has benefited from a reduction in the charge for impairment losses on loans and advances, notably in consumer banking and commercial lending.

PERFORMANCE BY INCOME STATEMENT CATEGORY

Net interest income

Net interest income, at £778 million, was £20 million higher than the comparable period to 30 September 2010, and in line with the six month period to 4 April 2011.

	Half year to 30 September 2011 £m	Half year to 30 September 2010 £m	Year to 4 April 2011 £m
Net interest income	**778**	758	1,537
Weighted average total assets	**192,847**	189,984	189,360
	%	%	%
Net interest margin	**0.81**	0.81	0.81

The Group's net interest margin for the six months to 30 September 2011 remains stable at 0.81%. This includes £59 million of gains arising from the management of our liquidity portfolio (H1 2010/11: £24 million).

The cost of funding continues to be the main factor for subdued margins, reflecting a competitive savings market that has been exacerbated by challenges within the wholesale funding market, which has been seriously affected by the uncertainty relating to the ongoing Eurozone crisis. Strong new business asset margins, including the significant positive impact of deal maturities that reprice as customers either revert to BMR or opt to take a new mortgage product, have partially offset the high cost of retail funding.

Other income

	Half year to 30 September 2011 £m	Half year to 30 September 2010 £m	Year to 4 April 2011 £m
Current account	**69**	58	125
Protection and investments	**55**	43	95
General insurance	**43**	45	88
Mortgage	**20**	25	53
Credit card	**24**	23	41
Commercial	**8**	9	20
Other	**9**	13	23
Total	**228**	216	445

Other income has increased to £228 million, representing an increase of 6% over the half year to 30 September 2010. We have achieved strong income growth from current accounts and protection and investment products in the period, reflecting our strategic focus to grow the range and scale of our banking products and to diversify our income stream.

Underlying expenses

	Half year to 30 September 2011 £m	Half year to 30 September 2010 £m	Year to 4 April 2011 £m
Employee costs:			
• Wages and salaries	**243**	231	461
• Social security costs	**23**	18	40
• Pension costs	**29**	42	82
	295	291	583
Other administrative expenses	**283**	266	546
Bank levy	**9**	-	-
Depreciation and amortisation	**82**	70	150
	669	627	1,279

Underlying total expenses amounted to £669 million, representing an increase of 7% over the half year to 30 September 2010. This is primarily driven by higher variable costs that come from expanding our business volumes, together with investment costs, the VAT rate increase and the new bank levy charge.

Bank levy costs are being reported for the first time in these accounts. The bank levy was enacted on 19 July 2011 and has effect from 1 January 2011. The £9 million charge includes a charge of £3 million for the 3 months to 4 April 2011. This was not provided at 4 April 2011 because the legislation had not been substantially enacted. The rest of the charge at the half year reflects half of the estimated liability for the year end 4 April 2012.

We are now more than halfway through our three year cost optimisation programme and remain on track to deliver gross cost savings in excess of £200 million over the life of the project, with a number of new initiatives being identified. The programme has enabled the business to absorb a significant proportion of the cost increases relating to strategic investment, inflationary pressures and organic growth associated with increased sales and servicing volumes. In addition, the VAT rise has resulted in estimated increased costs of £5 million.

The underlying cost income ratio for the half year was 66.5% (H1 2010/11: 64.4%). The increase reflects the continued pressure on income as a consequence of operating in a low interest rate environment, in conjunction with the continued investment in our business.

Impairment losses on loans and advances

	Half year to 30 September 2011 £m	Half year to 30 September 2010 £m	Year to 4 April 2011 £m
Prime residential	**8**	29	32
Specialist residential	**34**	16	69
Residential lending	**42**	45	101
Consumer banking	**28**	43	83
Commercial lending	**72**	95	175
Other lending	**2**	(4)	-
	144	179	359

The charge for impairment losses on loans and advances of £144 million in the first half of 2011/12 is 20% lower than the £179 million charge for the same period last year, and the £180 million charge for the second half of 2010/11. The underlying quality of lending remains strong, but continues to be affected by higher levels of unemployment and challenges in the commercial sector.

The prime residential book performance has remained relatively stable throughout the first half of 2011/12, with steady arrears and an essentially flat house price index (HPI). The overall prime residential provision charge remains very low at £8 million, due to stable arrears and the conservative LTV profile of our portfolio.

The charge relating to specialist lending of £34 million is higher than the same period last year, primarily due to an increased level of repossessions, notably in Northern Ireland. At 30 September 2011, 798 properties were in possession across the originated specialist lending book compared with 453 at 30 September 2010. The repossessions in Northern Ireland relate to historic lending through our UCB subsidiary, which is now closed to new business, and we do not anticipate significant further increases in repossessions. Compared to H1 2010/11, originated specialist lending balances more than 3 months in arrears have declined from 2.18% to 1.56%.

Total residential impairment provisions are £218 million, compared with £201 million at 4 April 2011, giving a coverage ratio against total balances of 0.18% (4 April 2011: 0.17%) and against balances more than three months in arrears of 18.8% (4 April 2011: 17.6%).

In our commercial lending division, ongoing difficult market conditions resulted in further defaults in the Property Finance portfolio, giving rise to a charge for the first half of £72 million, with defaults continuing to be driven principally by covenant breaches on LTVs, reduced tenant demand, and business failures. The number of Nationwide originated commercial property cases more than three months in arrears decreased from 235 cases at 4 April 2011 to 213 cases at 30 September 2011. This equates to 2.27% of commercial originated accounts (4 April 2011: 2.41%).

The overall level of provision for commercial lending as a percentage of Nationwide originated assets is 2.28% (4 April 2011: 2.18%), and the provision coverage ratio against balances more than three months in arrears is 67% (4 April 2011: 69%).

The charge for consumer banking for the six months to 30 September 2011 reflects a decrease of £15 million, compared with the same period last year. This is driven by both credit cards and current accounts, and principally relates to an overall reduction in the level of delinquent balances. Additionally, improved collection processes have increased the level of recoveries.

Other lending includes a net £1 million increase in provision for the secured European commercial loan portfolio and a £1 million increase in the unsecured lending provision relating to the student loan portfolio.

Impairment losses on investment securities and other provisions

	Half year to 30 September 2011 £m	Half year to 30 September 2010 £m	Year to 4 April 2011 £m
Treasury investments	**6**	31	66
Payment protection insurance (PPI)	**15**	3	16
Other provisions	**-**	(13)	(14)
	21	21	68

The £6 million treasury investments charge in the period is primarily in respect of our small private equity portfolio. The vast majority of this portfolio was disposed of in the period, realising a gain of £3 million, and the two retained positions have now been fully provided for. The Treasury investments impairment charge of £66 million in the previous financial year included £22 million for a small number of US residential mortgage backed securities (RMBS) exposures, £15 million on a UK commercial mortgage backed security (CMBS) and £11 million on notes of a restructured Structured Investment Vehicle (SIV). The remaining £18 million arose from a restructuring of subordinated debt from Irish banks (also acquired through SIV restructurings).

The increase in PPI provision follows significant developments since the initial PPI provision was estimated at the end of 2010/11. The Group has experienced a significant increase in complaints from PPI customers, fuelled by the outcome of a Judicial Review into FSA Policy Statement PS 10/12, media coverage of significant provisions raised by some of the larger banks and an increase in Claims Management Company activity which is leading to a significant number of vexatious claims. In addition the Group has received advice following a secondary legal review of the PPI root cause analysis prepared for the Group during 2010/11. This advice recommended that the review period for one of the two sales populations should be extended to also incorporate sales which arose during the period April 2006 to April 2007. In combination, these issues have led to a requirement to raise a PPI provision charge in the first half of the year of £15 million, of which £10 million relates to the increased cost of processing the claims rather than to potential customer redress.

The release of other provisions of £13 million in the period to 30 September 2010 related to a provision for historic customer bonus schemes which was no longer required.

Derivatives and hedge accounting

Nationwide uses derivative financial instruments to manage various aspects of risk. In doing so it complies with the Building Societies Act 1986 which limits the use of derivatives to the mitigation of consequences predominantly arising from changes in interest rates, exchange rates or other market indices.

The £71 million credit (H1 2010/11: £118 million and 4 April 2011: £120 million) 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. Even though the Group uses derivatives exclusively for risk management purposes, income statement volatility arises due to accounting ineffectiveness of designated hedges, as a result of strategy changes or because hedge accounting has not been adopted or is not achievable.

The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that risks are continually managed. Management believes that this volatility arises from application of the accounting rules, which do not necessarily reflect the economic reality at a particular point in time, and consequently it is excluded from underlying performance.

Additional information on derivatives and hedge accounting is included in note 5.

Taxation

The effective tax rate is 21.0% (4 April 2011: 21.8%), compared to the standard rate of corporation tax of 26% (2010: 28%), and reflects the tax charge on profits accruing to date. The rate has been reduced by adjustments with respect to prior periods, lower overseas tax rates and the effect on deferred tax balances of applying the corporation tax rate change from 26% to 25%. This is partially offset by the effects of non-deductible expenditure, in particular bank levy charges.

BALANCE SHEET

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 83.4% of our total loans and advances to customers. The composition of lending has remained broadly consistent with that reported at 4 April 2011.

Loans and advances to customers	**30 September 2011 £bn**	**30 September 2011 %**	4 April 2011 £bn	4 April 2011 %
Prime residential mortgages	**104.2**	**68.9**	104.3	69.7
Specialist residential mortgages	**21.9**	**14.5**	20.3	13.6
Total residential mortgages	**126.1**	**83.4**	124.6	83.3
Commercial lending	**21.9**	**14.5**	22.0	14.7
Other lending	**0.4**	**0.3**	0.5	0.3
Consumer banking	**2.8**	**1.8**	2.5	1.7
Gross balances	**151.2**	**100.0**	149.6	100.0
Impairment provisions	**(0.8)**		(0.8)	
Fair value adjustments for micro hedged risk	**1.2**		0.6	
Total	**151.6**		149.4	

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 £3.6 billion that were brought onto our balance sheet in prior years following our acquisitions of the Cheshire, Derbyshire and Dunfermline portfolios, and a small element of prime residential lending originated through our specialist lending brand, The Mortgage Works (TMW).

Specialist residential mortgages are made up of £19.1 billion of advances made through our specialist lending brands, TMW and UCB Home Loans Corporation Limited (UCB), and £2.8 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 75% of total specialist lending, 17% relates to self-certification mortgages, 6% 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 £6.6 billion (H1 2010/11 £4.7 billion). Gross specialist lending in the half year of £2.3 billion (H1 2010/11 £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 reduced to 62% (4 April 2011: 66%) as we have increased our proportion of lending to the remortgage market. The average indexed LTV of residential mortgages at 30 September 2011 has also fallen slightly, to 48% (4 April 2011: 49%).

Loan to value analysis:

	30 September 2011 %	4 April 2011 %
Total book		
<50%	**52**	52
50% - 60%	**10**	9
60% - 70%	**12**	11
70% - 80%	**12**	11
80% - 90%	**9**	10
90% - 100%	**4**	5
> 100%	**1**	2
	100	100
Average LTV of stock (indexed)	**48**	49
Average LTV of new business*	**62**	66

* The average LTV for new business excludes further advances.

The table below shows that arrears on Nationwide originated prime lending remained stable, whilst there has been a reduction in specialist arrears as a result of reducing arrears volumes on the self originated books, and strong book growth in TMW. We continue to maintain our very favourable arrears position relative to the industry on both originated business and total lending including acquired loans. Our originated specialist mortgages continue to perform well, with arrears favourable to the overall industry measure that is inclusive of prime lending.

Cases 3 months or more in arrears as % of total book	**30 September 2011** **%**	4 April 2011 %
Nationwide self originated mortgages:		
Prime	**0.53**	0.53
Specialist	**1.56**	1.96
Nationwide self originated mortgages	**0.65**	0.68
Including effect of acquired societies:		
Prime	**0.55**	0.54
Specialist	**2.16**	2.47
Group – including acquired loans	**0.76**	0.77
Industry average	**2.05**	2.09

Residential mortgage assets acquired with the Cheshire, Derbyshire and Dunfermline 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, £68 million of losses have been written off and, as reported at 4 April 2011, £33 million of surplus fair value credit risk adjustment on mortgage books has been released to margin. It is believed that the remaining £98 million is sufficient to cover all expected future losses. 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 so 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 or if they are able to overpay such that six months' full payments are made in a four month period, 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 properties in possession, including acquired loans, of 1,324 properties represents 0.096% of our book, which compares well with the industry measure of 0.123%. Excluding the impact of acquired loans, 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 properties)	**30 September 2011**		4 April 2011
	Number of properties	**%**	%
Nationwide self originated:			
Prime	**361**	**0.03**	0.03
Specialist	**798**	**0.47**	0.34
Nationwide self originated mortgages	**1,159**	**0.09**	0.06
Including effect of acquired societies:			
Prime	**378**	**0.03**	0.03
Specialist	**946**	**0.49**	0.38
Group – including acquired loans	**1,324**	**0.10**	0.07
Industry statistics	**13,800**	**0.12**	0.12

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, whilst the properties relating to Nationwide originated lending taken into possession has increased to 931, this still only represents 5.09% of properties taken in by the industry as a whole, against our par share of all cases of 11.58% (4 April 2011: 11.40%).

Commercial

Our commercial lending portfolio of £21.9 billion (4 April 2011: £22.0 billion) consists of £20.7 billion (4 April 2011: £20.8 billion) of self originated lending and £1.2 billion (4 April 2011: £1.2 billion) of assets acquired from the Derbyshire, Cheshire and Dunfermline building societies. Our originated portfolio comprises £11.7 billion secured on commercial property ('Property Finance'), £7.5 billion advanced to Registered Social Landlords and £1.5 billion advanced under Project Finance (principally via the Private Finance Initiative). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

On self originated lending we have only modest exposure to development finance, with total balances of £173 million which are due to reduce to £146 million during the next quarter with one of the three high quality London Office projects we fund being scheduled to redeem in full, having already exchanged contracts. The non-UK self originated element of commercial property portfolio, at £1.1 billion (4 April 2011: £1.1 billion) does not contain any exposure to Greece, Italy, Portugal or Spain and only a single £14 million gross, £8 million net of provisions exposure to Ireland.

The number of Nationwide originated commercial property cases more than three months in arrears decreased from 235 cases at 4 April 2011 to 213 cases at 30 September 2011. This equates to 2.27% of commercial originated accounts (4 April 2011: 2.41%). Total arrears balances on these cases at 30 September 2011 were £56 million (4 April 2011: £48 million). Robust arrears management continues to focus on close and proactive management of arrears and loan maturities and 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 £11 million has been raised since the mergers as 26 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 there are increasing downside risks to the outlook for commercial property, with challenges arising due to weak UK economic performance allied to Eurozone sovereign debt and banking concerns, we remain confident that our book, which is primarily focused on low risk lending, will still perform better than our peer group.

Other lending

Other lending includes £192 million of secured European commercial loans and £236 million of unsecured lending relating to a student loan portfolio. The European commercial loan portfolio is spread across 55 separate entities and 10 countries, with the maximum individual exposure amounting to £9.8 million. During the year impairment was raised for one entity, which had significantly under-performed since a debt restructuring, and a collective provision was raised. A previous impairment for another entity was released during the year after debt restructuring negotiations concluded with the Group's position remaining whole. A net increase in the provision held for restructured loans in the portfolio of £0.8 million, as well as an increase in the collective provision of £0.4 million, resulted in a charge of £1.2 million in the first half of 2011/12. Overall, with a £1.2 million charge for the student loan portfolio, there is a total impairment charge of £2.4 million reported in other lending for the first half of 2011/12. 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 both personal loans and credit card this half year, and where available our performance compared with the industry remains favourable. For FlexAccount, the increase in the percentage of accounts more than 30 days in arrears reflects a reduction in absolute arrears in conjunction with a more significant reduction in total overdraft balances as at 30 September 2011.

Percentage of accounts more than 30 days in arrears	**30 September 2011 %**	4 April 2011 %
FlexAccount	12.19	10.46
Personal loans	3.44	5.45
Credit cards*	2.95	3.36

* The credit card figure quoted relates to August 2011, as the calculation is based on industry comparable calculations

Funding and Liquidity

Overview

The Group has a strong and well diversified funding base, which continues to be predominantly comprised of retail savings. Over the course of the half year, we have continued to actively manage our balance sheet in response to conditions in both the retail and wholesale markets.

As a building society, we have always maintained a high level of unencumbered liquid assets relative to our banking peers, and our core liquidity remains strong at 13.5% (4 April 2011 13.8%).

Liquidity

Liquidity, together with funding and capital, represents the cornerstone of financial risk management in a financial institution.

Nationwide has a comprehensive Liquidity Risk Management Framework for managing the Group's liquidity risk. Stress tests applied under this Framework consider a range of possible wholesale and retail factors leading to loss of financing. Since June 2010, the Group has reported its liquidity position against backstop Individual

Liquidity Guidance (ILG) provided by the FSA. Calibration of the Group's Liquidity Risk Management Framework anticipated the final FSA rules and is therefore broadly consistent with current FSA standards.

In December 2010, the Basel Committee on Banking Supervision issued its proposals for liquidity risk management, standards and monitoring. These included a short term liquidity stress metric, the Liquidity Coverage Ratio (LCR), and a longer term liquidity metric, the Net Stable Funding Ratio (NSFR). These proposals are subject to ongoing refinement and have not yet been enacted into UK or European law. The Group monitors compliance against these internal metrics, and as at 30 September 2011 the LCR was estimated at 119% and the NSFR at 112%. Estimations are made using Nationwide's interpretation of the draft directive, which has yet to be incorporated into the European and UK regulatory framework and therefore remains subject to change. The FSA is expected to bring its ILG metrics into line with the Basel Liquidity Coverage Ratio over time.

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 direct with those Central Banks to which the Group has 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);
- Highly rated debt securities of varying maturities issued by governments or multi-lateral development banks.

In line with other major UK institutions the Group made use of the BoE Special Liquidity Scheme (SLS) facility at the height of the market dislocation in 2008. As at 30 September 2011 we had repaid the major part of our SLS drawings.

As at 30 September 2011, the core liquidity portfolio as a percentage of adjusted share, deposit and loan liabilities was 13.5% (4 April 2011: 13.8%). This calculation is made net of any core liquidity holdings that are subject to repo arrangements and includes assets held under reverse repo arrangements and Treasury bills held under the Special Liquidity Scheme.

Other Eligible Central Bank Assets

In addition to the core portfolio, as at 30 September 2011 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, for the BoE extended collateral repo operations or the BoE discount window facility. 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 2011. The table includes off balance sheet liquidity (including treasury bills held under the Special Liquidity Scheme, reverse repos, self issued RMBS and covered bonds) but excludes any encumbered assets.

	30 September 2011	4 April 2011
	£bn	£bn
Core liquidity	**23.7**	23.5
Other central bank eligible assets	**3.6**	5.6
Other securities	**4.4**	3.2
Self issued RMBS and covered bonds	**16.9**	18.3
Total	**48.6**	50.6

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 mix:

	30 September 2011		4 April 2011	
	£bn	**%**	£bn	%
Repo and other secured agreements	**3.2**	**6.8**	2.7	5.8
Deposits, including PEB balances	**8.8**	**18.7**	7.2	15.5
Certificates of deposit	**5.4**	**11.5**	4.7	10.2
Commercial paper	**3.0**	**6.4**	6.2	13.3
Covered bonds	**12.6**	**26.9**	12.3	26.5
Medium term notes	**8.0**	**17.1**	8.4	18.1
Securitisations	**3.7**	**7.9**	3.7	8.0
Other	**2.2**	**4.7**	1.2	2.6
Total	**46.9**	**100.0**	46.4	100.0

Included in the other category above are hedging adjustments and accrued interest, and stripping out the increases in these items, the absolute amount of wholesale funding has marginally decreased over the period. The wholesale funding ratio has therefore reduced to 25.6% (4 April 2011: 25.9%).

During 2010/11, we were particularly active in the long term debt markets issuing £5.8 billion against our £1.8 billion of maturing long term deals. In the current financial year we have £3.5 billion of long term debt maturing and we have already re-financed this through a combination of a covered bond and RMBS issuances in October 2011 (see below) and £0.6 billion of private placements in the period to 30 September 2011. The Group can therefore be selective in accessing public long term funding markets throughout the remainder of this financial year but will continue to do so where it is appropriate and cost efficient.

The following public issuances in October demonstrate the strength of institutional support for Nationwide.

- A €1.5 billion 5 year covered bond. This was the first benchmark UK issuance since August 2011.
- An RMBS issuance through our Silverstone Master Trust vehicle raising £2.25 billion Sterling equivalent in US dollars and Sterling. This was the first fully public asset backed securities deal since the re-emergence of the European sovereign debt concerns. Issuance was in 3 tranches with maturities of 3, 5 and 9 years respectively.

The £0.6 billion of long term private placements to institutional investors in the first half of the year had a weighted life of 8 years.

The Group has reduced the amount of short term instruments it holds to £13.4 billion (4 April 2011: £14.8 billion) from a high of £19.6 billion at 4 April 2009. We have maintained good and ready access to short term markets during the period – albeit at shorter average terms of issuance – despite the re-emergence of European sovereign concerns but have been selective in our usage of the different markets.

The table below summarises the residual maturity of the wholesale funding book at 30 September 2011 (and therefore does not include the covered bond and RMBS term issuances in October as noted above). The balances due in more than 1 year have reduced over the period as a consequence of the pre-funding in 2010/11 and no public issuances in the period to 30 September 2011 but are still only just below 50% - taking into account the long term issuance in October 2011 referred to above, this proportion has now returned to 55% and is therefore broadly in line with prior year end.

Wholesale funding residual maturity	**30 September 2011**		4 April 2011	
	£bn	**%**	£bn	%
Less than one year	**24.0**	**51.2**	20.3	43.7
One to two years	**1.8**	**3.8**	4.9	10.6
Two to five years	**12.8**	**27.3**	13.6	29.3
More than five years	**8.3**	**17.7**	7.6	16.4
Total	**46.9**	**100.0**	46.4	100.0

Our short and long term credit ratings from the major rating agencies as at 21 November 2011 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	A2	P-1	Baa1	October 2011
Fitch	A+	F1	A-	November 2011
DBRS	AA	R-1 (middle)	AA (low)	December 2010

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

On 24 May 2011 Moody's announced their intention to review the ratings of a number of UK financial institutions, including Nationwide, to reflect their expectation of lower levels of exceptional Government support going forward. The first stage of the Moody's review – which measured an institution's standalone strength before consideration of potential government support – was announced in early August 2011 and this resulted in an upgrade of our Bank Financial Strength Rating from C- to C with a stable outlook. As a consequence, our short term rating was confirmed as P-1 and our subordinated debt rating was upgraded by two notches from Baa3 to Baa1. In early October 2011 Moody's concluded its review of systemic support assumptions from the UK government and the impact of this was a reduction in the Group's long term rating from Aa3 to A2 with a stable outlook. A number of other financial institutions also received long term downgrades at the same time.

As part of its broad review of the larger and relatively highly-rated European banks, Fitch announced in November that Nationwide's long term rating has been downgraded by one notch from AA- to A+, and its short term rating has reduced from F1+ to F1, citing UK growth prospects, uncertainty regarding banking regulation and the low rate environment. As with the Moody's review, a number of other UK financial institutions similarly received downgrades at this time.

Treasury asset quality

The amount of on balance sheet treasury assets, viewed from an asset quality perspective, is different from the amount from a liquidity perspective, in that the former excludes off balance sheet liquidity but includes encumbered assets that do not count for liquidity purposes.

Group treasury assets at 30 September 2011 were £33.3 billion (4 April 2011: £31.9 billion) and are held in two separate portfolios: the treasury liquidity portfolio (previously known as the prudential portfolio) and the investment portfolio. At 30 September 2011, the treasury liquidity portfolio totalled £30.2 billion (4 April 2011: £28.6 billion) with the investment portfolio totalling £3.1 billion (4 April 2011: £3.3 billion).

We have continued to manage the treasury liquidity portfolio to increase the quality and liquidity of the assets, with 70% of the portfolio held in sovereign and supranational exposures (4 April 2011: 65%). The £1.6 billion increase in the portfolio comprises high quality, predominantly sovereign or government backed assets. 97% of the portfolio is rated A or better with 86% rated AA or above (4 April 2011: 99% rated A or better, 86% rated AA or better).

The treasury investment portfolio was originally established to generate additional income for the Group. 85% of the investment portfolio is rated A or better (4 April 2011: 84%) with 60% rated AA or better (4 April 2011: 63%). The reduction in the portfolio during the year has been predominately driven by paydowns received relating to the asset and mortgage backed securities and maturing investments. We are managing the existing portfolio to minimise potential risk whilst reinvesting some of the paydowns into high quality asset backed securities, mainly RMBS. The portfolio has experienced some negative rating migration as a result of the ongoing implementation of rating agency methodology changes and continued asset quality deterioration, particularly for CMBS and US RMBS. However, the overall credit quality remains strong with only a low level of impairment incurred.

We have no direct sovereign exposure to peripheral Eurozone countries (Portugal, Ireland, Italy, Greece and Spain). Within the treasury assets we have £1.9 billion nominal of non-sovereign securities issued in these countries as detailed below. Of this, 57% is rated AA or above (4 April 2011: 59%) and 75% is rated A or above (4 April 2011: 72%). This exposure has reduced by 18% over the half year and a further £547 million nominal, primarily senior debt, matures over the next 12 months.

The table below shows the fair value of our peripheral Eurozone AFS assets, the negative AFS reserves, which is the fair value movement of these AFS assets, and the sum of these, which represents our potential exposure to unrecognised losses. There are no other exposures outside of our AFS assets.

30 September 2011	**Greece £m**	**Ireland £m**	**Italy £m**	**Portugal £m**	**Spain £m**	**Total £m**
Residential mortgage backed securities (RMBS)	**-**	**154**	**129**	**50**	**394**	**727**
Covered bonds	**-**	**61**	**-**	**16**	**367**	**444**
Senior debt	**-**	**72**	**103**	**46**	**265**	**486**
Subordinated bonds	**-**	**-**	**-**	**16**	**-**	**16**
Other assets	**2**	**-**	**8**	**-**	**5**	**15**
Fair Value Total	**2**	**287**	**240**	**128**	**1,031**	**1,688**
AFS Reserve	**-**	**31**	**19**	**17**	**133**	**200**
Total Exposure	**2**	**318**	**259**	**145**	**1,164**	**1,888**

4 April 2011	Greece £m	Ireland £m	Italy £m	Portugal £m	Spain £m	Total £m
Residential mortgage backed securities (RMBS)	-	155	149	64	442	810
Covered bonds	-	63	-	19	373	455
Senior debt	-	98	117	63	485	763
Subordinated bonds	-	-	11	17	-	28
Other assets	3	-	12	-	6	21
Fair Value Total	3	316	289	163	1,306	2,077
AFS Reserve	-	50	21	18	126	215
Total Exposure	3	366	310	181	1,432	2,292

Movements in our exposure to peripheral Eurozone countries above relate to disposals, maturities and fair value movements and there has been no new investment in the period.

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 will result in a loss. None of our exposures to the peripheral Eurozone countries are in default, and we have not incurred any impairment on these assets in the period, but an impairment charge of £18 million was recognised in the last financial year from a restructuring of Irish banks' subordinated debt. We continue to monitor closely the exposures to these countries.

Additional information on the treasury asset portfolio is disclosed on pages 57 and 58.

Available for sale reserve

Out of a total of £33.3 billion of treasury assets held in the treasury liquidity 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 £132 million are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7 (for further information see note 11).

The assets have been carefully reviewed based upon latest performance data but no impairment charge has been booked during the half year against the AFS assets shown below. The fair value movement of AFS assets that are not impaired has no effect on the Group's profit for the period or its regulatory capital.

As at 30 September 2011, the balance on the AFS reserve has increased to £535 million negative, net of tax (4 April 2011: £487 million negative). This deterioration is a reflection of escalating European sovereign concerns and reduced liquidity in the period.

	30 September 2011 Fair Value on balance sheet £bn	**30 September 2011** Cumulative AFS Reserve £bn	4 April 2011 Fair Value on balance sheet £bn	4 April 2011 Cumulative AFS Reserve £bn
Gilts, non domestic bonds and supranational bonds	**14.8**	**(1.0)**	12.6	(0.1)
Residential mortgage backed securities (RMBS)	**2.0**	**0.2**	2.3	0.1
Covered bonds and floating rate notes	**2.7**	**0.1**	3.3	0.3
Treasury liquidity portfolio	**19.5**	**(0.7)**	18.2	0.3
Collateralised debt obligations (CDO)	**0.1**	**0.1**	0.1	0.1
Collateralised loan obligations (CLO)	**0.6**	**-**	0.6	-
Commercial mortgage backed securities (CMBS)	**0.5**	**0.1**	0.6	0.1
Corporate bond portfolio	**0.1**	**-**	0.1	-
Credit card backed securities	**0.1**	**-**	0.2	-
Financial institutions including sub debt	**0.3**	**-**	0.4	-
Residential mortgage backed securities (RMBS)	**0.6**	**0.1**	0.5	0.1
US student loan	**0.7**	**0.1**	0.7	0.1
Other investments	**0.1**	**-**	0.1	-
Investment portfolio	**3.1**	**0.4**	3.3	0.4
(Positive)/Negative AFS reserve before hedge accounting and taxation		**(0.3)**		0.7
Hedge accounting adjustment for interest rate risk		**1.0**		-
Taxation		**(0.2)**		(0.2)
Total value of AFS assets/Negative AFS reserve (net)	**22.6**	**0.5**	21.5	0.5

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 principally calculated its capital requirement on an Internal Ratings Based (IRB) approach.

In September 2011, Nationwide confirmed its intention to call £75 million of Lower Tier 2 subordinated debt, which fell due for call in October 2011. This has been excluded from Tier 2 capital in the table below. In October 2011, notice was given to call £35 million of Lower Tier 2 subordinated debt, due for call in December 2011. Nationwide can also confirm its intention to call €300m of Lower Tier 2 subordinated debt, which also falls due for call in December 2011. The £35 million and €300 million Lower Tier 2 subordinated notes are still included in Tier 2 capital in the table below. There is no requirement to refinance the redemptions and consent was received from the FSA.

The pension fund net deficit add back increased to £319 million (4 April 2011: £33 million), as a result of an increase in the liability to the pension fund. More detail is provided in the 'Pension Fund' section. As at 30

September 2011, regulatory capital stood at £9.4 billion (4 April 2011: £9.2 billion) with the Group's total solvency ratio remaining strong at 19.9% (4 April 2011: 19.5%). The Core Tier 1 solvency ratio stood at 12.7% (4 April 2011: 12.5%).

	30 September 2011 Basel II IRB £m	4 April 2011 Basel II IRB £m
Tier 1		
General reserve	**6,541**	6,659
Permanent interest bearing shares (note 1)	**1,632**	1,510
Pension fund net deficit add back (note 2)	**319**	33
Intangible assets (note 3)	**(605)**	(529)
Deductions from Tier 1 capital (note 4)	**(238)**	(256)
	7,649	7,417
Tier 2		
Revaluation reserve	**71**	70
Subordinated debt (note 1)	**1,851**	1,884
Collective impairment allowance	**113**	118
Deductions from Tier 2 capital (note 4)	**(238)**	(256)
	1,797	1,816
Total capital	**9,446**	9,233
Risk weighted assets – Pillar 1 (note 5)		
Retail mortgages	**15,323**	15,081
Commercial loans	**17,312**	17,610
Treasury	**4,273**	4,088
Other	**6,700**	6,388
Operational Risk	**3,760**	4,137
Market Risk	**35**	72
	47,403	47,376
Key capital ratios:		
Total capital	**9,446**	9,233
Core Tier 1 (%) (note 6)	**12.7**	12.5
Tier 1 ratio (%) (note 6)	**16.1**	15.7
Total capital (%) (note 6)	**19.9**	19.5
Tier 2 to Tier 1 ratio (%)	**23.5**	24.5

Notes

(1) Permanent interest bearing shares and subordinated debt include fair value adjustments related to changes in market interest rates, 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 Societies) and unsecured lending; Foundation IRB for treasury portfolios (other than sovereign and corporate exposures); and the Standardised approach for all other credit risk exposures.

(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 to further strengthen the resilience of the banking system. Notably in July 2011, the European Commission released its proposal for implementing Basel III into Europe, as well as a plan for a single European rulebook for regulation (the package is commonly referred to as CRD IV). We welcome the recognition of the Mutual business model in CRD IV and fully expect that the reforms will ensure an appropriate Core Tier 1 capital instrument for building societies is available. CRD IV has broadly implemented all other significant elements of Basel III, with the impact assessment of key comparable elements expected to be similar to that previously outlined for Basel III.

The release of CRD IV was followed by the final recommendations from the Independent Commission on Banking (ICB) in September 2011. Whilst we are broadly supportive of the ICB reforms, we feel that the imposition of a leverage ratio at a level well in excess of that proposed by Basel III/CRD IV is inappropriate for institutions with high-volume, low-risk balance sheets. We will continue to lobby policymakers to ensure that it does not hamper the ability of Nationwide to provide an effective challenge to the banks.

PENSION FUND (RETIREMENT BENEFIT OBLIGATIONS)

The Group operates final salary and career average revalued earnings (CARE) defined benefit arrangements, primarily through the Nationwide Pension Fund (the Fund), as well as defined contribution arrangements. The net retirement benefit liability for the defined benefit arrangements, measured under IAS 19, is £438 million (4 April 2011: £300 million). The movement in the net liability over the period comprises:

	Half year to 30 September 2011 £m
Net retirement benefit liability at 5 April 2011	300
Pension charge (defined benefit arrangements)	**23**
Expected return on assets	**(97)**
Expected interest cost	**83**
Actuarial loss	**399**
Employer contributions (including special contribution)	**(270)**
Net retirement benefit liability at 30 September 2011	**438**

The Group has taken a number of steps to control the defined benefit liability over recent years, including the closure to new entrants in 2007. Furthermore, following the triennial valuation of the Fund at 31 March 2010 and agreement with the Unions, the final salary section was closed on 31 March 2011. From 1 April 2011 accrual in the CARE section continues for existing members, with a revised benefit structure in operation. The impact of the changes is a reduction in both the pension charge and in the employer contributions to the Fund.

Following the triennial valuation of the Fund, the Group paid a special contribution of £240 million into the Fund during the period, in addition to £80 million paid in 2010/11.

The actuarial loss during the period is attributable both to a fall in the value of the assets, following significant falls in equity markets, and to an increase in the measurement of the liabilities. The Fund’s liabilities have increased due to a fall in the discount rate (based on corporate bond yields) to 5.1% at 30 September 2011 from 5.6% at 4 April 2011, partly offset by a fall in the inflation assumptions.

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.

Segmental reporting restatement for the half year to 30 September 2010
During the second half of the 2010/11 financial year but effective dated from the beginning of that financial year, the Group revised the methodology for the funds transfer pricing between the segments. Accordingly there have been certain changes to the measurement of business segment net interest receivable for the first six months of 2010/11 compared to the results reported in the 2010 half-yearly financial report.

	Half year to 30 September 2011 £m	Half year to 30 September 2010 Adjusted £m	Year to 4 April 2011 £m
Retail	**208**	233	424
Commercial	**(52)**	(82)	(169)
Head office functions	**16**	(4)	21
Underlying profit before tax	**172**	147	276

RETAIL BUSINESS

	Half year to 30 September 2011 £m	Half year to 30 September 2010 Adjusted £m	Year to 4 April 2011 £m
Total income	**904**	876	1,754
Expenses	**(611)**	(565)	(1,144)
Impairment and other provisions	**(85)**	(78)	(186)
Underlying profit before tax	**208**	233	424

The Retail business made an underlying profit of £208 million in the six months to 30 September 2011.

Total income increased by 3% to £904 million compared with the first half of 2010/11, with an increase in net interest income of 2% and an increase in other income of 6% reflecting strong income growth from current accounts and investment and protection products, in line with our strategy of broadening our income base. Expenses increased by 8% reflecting higher volume related costs and refined overhead allocation.

The impairment and other provisions charge of £85 million represents a residential impairment charge of £42 million (H1 2010/11: £45 million), a charge in relation to consumer banking of £28 million (H1 2010/11: £43 million), and a provision of £15 million (H1 2010/11: £3 million) in connection with payment protection insurance (PPI) as outlined on page 15. In addition, the comparable period to 30 September 2010 included a provision release of £13 million for historic customer bonus schemes which was no longer required.

Nationwide has a strong franchise, and our retail products have continued to perform well against a challenging backdrop. Group net residential mortgage lending was £1.4 billion in the first half of 2011/12 (H1 2010/11: net borrowing of £1.8 billion), representing a return to growth for the Group after two consecutive years of controlled reduction in mortgage balances.

Prime residential gross lending was £6.5 billion (H1 2010/11: £4.7 billion), whilst total Group gross lending, including specialist mortgage lending, was £8.9 billion (H1 2010/11: £6.0 billion). In total, this represents a market share of 12.4% compared with a par share of 10.4%. This was delivered through a significant increase in competitiveness across the entire mortgage product range.

The majority of the increased lending was at lower loan to values, maintaining our prudent approach to lending, whilst ensuring we continued to support those customers with smaller deposits (largely first time buyers). The average loan to value (LTV) on our prime residential lending was 59.6% in the first half of the year (H1 2010/11: 63.6%). Arrears levels for Nationwide originated business have remained stable at around a quarter of the industry average at 0.53% (4 April 2011: 0.53%).

Fixed rate mortgages represented 66% of prime residential gross lending in the first half of the year, as customers took advantage of the historically low interest rates to fix their mortgage payments. Tracker mortgages accounted for the remaining 34% of prime lending.

Existing mortgage customers have also benefited from the low interest rate environment, with £1.3 billion of balances switching to another mortgage product and £6.6 billion reverting onto our BMR rate at the end of their mortgage deal. We continue to offer the “Switch and Fix” option, allowing members to move from a tracker product to a fixed rate product during the deal term, without incurring exit fees.

Our BMR balances increased to £50 billion in the half year. Despite the low rate, which is capped at 2% above Bank of England (BoE) base rate, 55% of the £4 billion redemptions in the half year have come from the BMR book, alongside £1.4 billion of fixed rate redemptions and £0.4 billion of tracker redemptions.

As the demand for good quality rental property has risen, the Buy to Let sector has continued to perform strongly. Nationwide Group has played an active role in supporting this sector through its subsidiary, The Mortgage Works (UK) plc (TMW), which continues to focus on originating high quality Buy to Let loans.

The overall specialist lending book has grown to £21.9 billion as at 30 September 2011 (4 April 2011: £20.3 billion), with arrears levels performing well.

Nationwide is primarily a retail funded organisation. The low rate environment continues to make this a challenging time for savers, but we have responded positively through the year by continuing to refresh our product range. As a result the Group has continued to attract significant inflows, with net receipts of £1.4 billion (H1 2010/11: £0.4 billion). Over the six months to 30 September 2011 our savings balances grew by £2.4 billion, a market share of 16.4%.

Growth in our consumer banking portfolio remains central to our strategic ambitions of diversifying our income and challenging the high street banks. In the six months to 30 September 2011, we opened 185,000 new current accounts, 190,000 new credit cards and advanced 59,000 new personal loans. Our current account base now stands at 5.3 million accounts, whilst our credit card account base is 1.6 million with 2.1 million cards in issue.

Our protection and investment business and general insurance business have all performed well. In the first half of the year we sold around 29,000 protection plans and 113,000 investment products, and as at 30 September 2011 we had £5.4 billion assets under advice (4 April 2011: £5.1 billion). Despite the ongoing challenges in the housing market we sold 285,000 new household insurance covers and our general insurance book now stands at just over 2 million covers.

COMMERCIAL

	Half year to 30 September 2011	Half year to 30 September 2010 Adjusted	Year to 4 April 2011
	£m	£m	£m
Total income	**39**	29	38
Expenses	**(19)**	(16)	(32)
Impairment and other provisions	**(72)**	(95)	(175)
Underlying profit before tax	**(52)**	(82)	(169)

The Commercial business made a £52 million loss in the period, but delivered an ongoing improvement in income and a reduced impairment charge. Changes to the Society's internal funds transfer pricing methodology resulted in total income for the period to 30 September 2010 being restated from £118 million to £29 million.

Commercial lending income improved to £39 million, compared with £29 million in the six months to 30 September 2010. During the period the methodology for allocating the benefit of capital was revised, resulting in an increase in income of £21 million in the period compared with the same period last year. Income was also supported by the continued widening of margins, increasing fee income and particularly the repricing of maturing loans and restructures agreed with borrowers.

Our focus continues to be on active management of the portfolio. Our strategy includes restructuring or refinancing those cases which are capable of maintaining serviceability which, given our prudent cash flow based approach to this market pre-crisis, is true for the majority of maturities or covenant breaches we encounter. During the period we have restructured or refinanced £0.7 billion of loans.

The impairment charge for the period was £72 million, compared with £80 million in the previous six months, and continuing a gradual downward impairment trend over the past two years. Provisions in the Property Finance Portfolio continue to be driven principally by covenant breaches on LTVs, reduced tenant demand, and business failures. However, the challenges of a weak UK economic performance allied to Eurozone sovereign debt and banking concerns, pose significant downside risks to the UK property market. We continue to monitor and work with borrowers on an individual asset basis against robust criteria for entering into restructuring arrangements.

The Property Finance portfolio is diverse both in terms of sectors and geographic spread with no equity exposure or exposure to major housebuilders. Nationwide originated exposure to development and subordinated debt is limited to £263 million and £165 million respectively with development balances due to reduce by circa £27 million during the next quarter with one of the three high quality London Office projects we fund being scheduled to redeem in full.

The Non-UK element of our commercial property portfolio, at £1,051 million compared to £1,078 million six months ago, has seen margins, amortisation and profitability improve, and does not contain any exposure to Greece, Italy, Portugal or Spain and only a single exposure to Ireland.

The performance of the core Nationwide originated loan portfolio has remained stable with arrears levels showing some improvement. However, given the observations made above regarding market and economic conditions, we remain cautious and continue to focus on close and proactive management of arrears and loan maturities.

Our Registered Social Landlords and Project Finance portfolios have not experienced any losses and there are no arrears at 30 September 2011. Both of these books continue to exhibit inherently lower credit risk due to the involvement of Government in regulating Social Landlords and our Project Finance exposures being largely underpinned by wider public sector funded income streams.

Since the July 2009 low point, prime UK commercial property values have increased by 17.7% (IPD August 2011), although the rate of increase has slowed significantly in recent months and is now flattening out. London continues to attract international investment however secondary and regional commercial property performance remains weak with a widening yield gap and lower levels of confidence present in the market. Given our concerns over the broader UK and global economy combined with factors such as the impact of asset sales by other institutions and the significant amounts of market refinancing due in coming years, we recognise that the performance of this sector will remain challenging and potentially volatile.

We have continued to expand our Commercial deposits range for existing customers, launching a new 'corporate saver' business deposit account, aimed at slightly larger corporate customers, and renaming our existing small business deposit account 'business saver'. As at 30 September 2011 our deposit balances had increased to £293 million compared to £98 million six months earlier.

HEAD OFFICE FUNCTIONS

	Half year to 30 September 2011 £m	Half year to 30 September 2010 Adjusted £m	Year to 4 April 2011 £m
Total income	**63**	69	190
Expenses	**(39)**	(46)	(103)
Impairment and other provisions	**(8)**	(27)	(66)
Underlying profit before tax	**16**	(4)	21

Contribution from Head office functions was £16 million (H1 2010/11: loss of £4 million). Total income of £63 million is £6 million lower than the comparable period to 30 September 2010, reflecting the higher cost of wholesale funding, partially offset by higher gains from the management of the liquidity portfolio. Administrative expenses have reduced by £7 million, with a reduction in corporate costs being partly offset by the inclusion of the new bank levy of £9 million.

Impairment and other provisions of £8 million relates to impairment losses on treasury investments of £6 million (H1 2010/11: £31 million), as outlined on page 15, and a £2 million charge for other lending (H1 2010/11: £4 million credit) in connection with investments acquired by the Treasury division, as outlined on page 14.

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 Interim Results 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 37 to 45 of the 2010/11 Annual Report and Accounts. Additional information on risk is also provided in the Pillar 3 disclosure available at www.nationwide.co.uk/about_nationwide/results_and_accounts/2010-2011.

The Chief Executive's Review and the Business Review in the Interim Results 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.

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, liquidity and funding risks, market risks (including interest rate risk, foreign exchange risk and pension obligation risk), regulatory risks and operational risks.

There have been no material changes to Nationwide's approach to risk management during the first half of the year. However, there have been a number of significant events during the period as set out below. Further details of the Group's risk management framework are provided on pages 37 to 45 of the 2010/11 Annual Report and Accounts published in May 2011.

Risk management practises are continuously re-assessed to ensure their effectiveness in the current operating environment and against recent demands, and the framework is proving robust in light of the significant events described below.

Summary of Significant Events:

- Stressed UK economic conditions;
- Stressed commercial impairment losses;
- The Eurozone sovereign debt crisis;
- Stressed liquidity conditions; and
- Increasing capital requirements.

These are detailed in the following sections under Significant Events.

Credit risk

Significant Events

- The slowdown in the UK economy has led to higher unemployment and a deterioration in household disposable income due to inflation and house price deflation. These have influenced arrears performance and the level of impairment losses across much of the retail lending portfolio.
- Commercial lending impairment losses remain high due to the economic conditions as borrowers face increased tenant default, lower demand and occupancy levels, increased void periods and costs associated with these in addition to lower collateral values.
- The Eurozone debt crisis and the threat of sovereign default in peripheral countries, most specifically in Greece, have heightened the risk of default for certain European Financial Institutions and other counterparties. Potential contagion to banks and Financial Institutions within the core Eurozone countries, notably those with significant Greek and Italian exposure, remains.
- Year to date impairments in our retail and commercial portfolios have remained within planned levels.
- Year to date impairments in our liquidity and investment portfolios have also been minimal despite the prevailing economic conditions.
- There has been a negative movement in the Available For Sale reserve in recent months, as prices in certain asset classes fell due to volatility resulting from Eurozone concerns.

Outlook

Continued stress is anticipated across Europe as there appears to be no imminent solution to the Eurozone debt crisis. Impairments and losses could increase as a result. It is expected that Retail impairments will remain stable until base rates increase, now not anticipated until 2013. Downside risks to this forecast may result from material house price falls and/or a significant increase in unemployment, and/or a rapid rise in interest rates.

Liquidity and funding risk

Significant Events

- The introduction of the new liquidity regulations has led to increased demand for longer term funding and highly-liquid Government issued debt.
- More recently the Eurozone debt crisis has led to volatility in wholesale markets and subsequent increased competition for retail deposits as institutions look for alternative funding sources.

- Moody's has concluded its review of systemic support assumptions for UK banks and building societies. Along with other institutions, Nationwide's long-term rating has been cut, and is now two-notches lower at A2 (previously Aa3). The impact of this on the Society is expected to be negligible. In August, Moody's confirmed the Group's P-1 short-term rating as unchanged.
- Fitch, applying the outcome of a broader review of the "larger and relatively highly-rated European banks" cut Nationwide's rating by one-notch to A+ (previously AA-) with a negative outlook.

Outlook

- Competition within the retail savings market is expected to remain high while there is continued uncertainty in Europe.
- Nationwide remains well funded and has seen significant retail deposit inflows during the ISA season. The Group expects that these recent successes in operations and service quality over the ISA season will facilitate additional inflows going forward.

Market risk – Interest rate risk

Significant Events

- Low and flat interest rates have continued to dominate, driven by reduced expectations for economic growth. Base rates are unchanged but overall yields on longer term markets, principally gilts, have fallen by over half a per cent.
- The Eurozone debt crisis has had the additional effect of restricting inter-bank lending and widening the net margin between base rate and Libor. This is as a result of the concerns over the exposure of European Financial Institutions and Governments' credit-worthiness.

Outlook

- Flat rates are expected to dominate the market outlook until the risk of a 'double-dip' recession abates. The Eurozone debt crisis is expected to continue to impact liquid asset pricing and basis pricing.
- Competition for retail funding may increase the margins that have to be paid to attract and retain retail deposits.

Regulatory risk

Significant Events:

- A reform programme continues to be developed at the global and European level. This will lead to new capital and liquidity standards, further revisions to the Basel Accord and Capital Requirements Directive, and the introduction of a Capital Requirements Regulation. This includes new capital requirements, higher capital ratios, leverage ratio and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for financial institutions.

- In the UK, the Independent Commission on Banking recently published its final report, which includes proposals for a retail ring-fence, higher requirements versus international standards for loss-absorbency and leverage, and proposals to enhance competition. Its impact on us should be broadly positive – the retail banking sector will be more transparent, more consistent and more robust. Nationwide will continue to contribute to the discussions concerning the detail over the coming months.

- The FSA has released a consultation paper that covers the proposed requirement for firms to prepare and maintain Recovery and Resolution Plans (RRPs). RRPs aim to ensure financial institutions assess and document recovery options, and that these options can be mobilised quickly and effectively. In addition, firms must supply the regulatory authorities with information and analysis on the business to ensure an orderly resolution. Work is underway to ensure Nationwide complies with the proposed regulation to an appropriate standard and on time.

- The Financial Services Compensation Scheme (FSCS) has initially met claims from a number of defaulted institutions by way of loans received from HM Treasury. The FSCS recovers its costs by way of annual levies on member firms, including the Group. Financing arrangements for the HM Treasury loans run until the end of March 2012; financing arrangements that will apply from April 2012 are expected to be agreed in the second half of the financial year.

- In addition, new EU rules, currently in negotiation, propose that deposit guarantee schemes will be required to pre-fund a percentage of protected deposits after a transitional period of 15 years. The final agreed level of pre-funding is likely to be in the 0.5-1.5% range.

The Group is currently assessing the impact of the regulatory reforms and will continue to engage proactively with the relevant parties to ensure the proposed changes avoid placing Nationwide at a commercial disadvantage relative to its banking peers. The Group will assess the impact of any new FSCS requirements when there is a clearer understanding of the arrangements with members.

Other Risk Categories

The following are risk categories where there have been no significant events or material changes to the management approach since publication of the annual report:

- Market Risk – Pension obligation risk, Foreign Exchange Risk
- Operational risk
- Reputational Risk
- Business Risk
- Tax Risk

Signed by

Mark Rennison
Group Finance Director
21 November 2011

CONDENSED CONSOLIDATED INCOME STATEMENT
For the half year ended 30 September 2011

	Notes	**Half year to 30 September 2011 (Unaudited) £m**	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
Interest receivable and similar income	3	**2,518**	2,218	4,643
Interest expense and similar charges	4	**(1,740)**	(1,460)	(3,106)
Net interest income		**778**	758	1,537
Fee and commission income		**223**	214	440
Fee and commission expense		**(1)**	(2)	(4)
Income from investments		**5**	1	4
Other operating income		**1**	3	5
Gains from derivatives and hedge accounting	5	**71**	118	120
Total income		**1,077**	1,092	2,102
Administrative expenses	6			
- Employee costs		**(295)**	(291)	(583)
- Other administrative expenses		**(288)**	(272)	(575)
- Bank levy		**(9)**	-	-
		(592)	(563)	(1,158)
Depreciation and amortisation		**(82)**	(70)	(150)
Impairment losses on loans and advances to customers	7	**(144)**	(179)	(359)
Provisions for liabilities and charges	8			
- FSCS charge		**-**	-	(50)
- Other provisions		**(15)**	10	(2)
		(15)	10	(52)
Impairment losses on investment securities		**(6)**	(31)	(66)
Profit before tax		**238**	259	317
Taxation		**(50)**	(62)	(69)
Profit after tax		**188**	197	248

The notes on pages 41 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half year ended 30 September 2011

	Half year to 30 September 2011 (Unaudited) £m	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
Profit after tax	**188**	197	248
Other comprehensive income:			
Available for sale investments:			
- Fair value movements taken to equity	**3**	155	308
- Amount transferred to income statement	**(61)**	5	12
- Taxation	**10**	(48)	(100)
	(48)	112	220
Revaluation of property:			
- Revaluation before tax	**-**	-	3
- Taxation	**1**	1	1
	1	1	4
Effect of tax rate change on other items through the general reserve	**(2)**	(2)	(6)
Adjustment to deferred tax transferred from acquisitions	**-**	-	5
Actuarial (loss)/gain on retirement benefit obligations:			
- Actuarial (loss)/gain before tax	**(399)**	(225)	114
- Taxation credit/(charge)	**95**	52	(47)
	(304)	(173)	67
Total comprehensive income	**(165)**	135	538

The notes on pages 41 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET
At 30 September 2011

	Notes	**30 September 2011 (Unaudited) £m**	30 September 2010 (Unaudited) £m	4 April 2011 (Audited) £m
Assets				
Cash		**6,609**	3,963	6,130
Loans and advances to banks		**4,170**	2,767	4,181
Investment securities – available for sale		**22,574**	22,637	21,540
Derivative financial instruments		**5,023**	5,162	3,961
Fair value adjustment for portfolio hedged risk		**1,742**	2,725	1,634
Loans and advances to customers	9	**151,580**	151,143	149,417
Investments in equity shares		**31**	90	103
Intangible assets		**605**	447	529
Property, plant and equipment		**964**	925	948
Investment properties		**9**	9	9
Accrued income and expenses prepaid		**326**	113	215
Deferred tax assets		**230**	318	182
Other assets		**19**	23	68
Total assets		**193,882**	190,322	188,917
Liabilities				
Shares		**124,903**	121,856	122,552
Deposits from banks		**3,437**	3,951	2,746
Other deposits		**7,233**	6,003	5,809
Due to customers		**5,841**	5,376	5,762
Fair value adjustment for portfolio hedged risk		**323**	372	19
Debt securities in issue		**36,248**	35,899	37,808
Derivative financial instruments		**4,618**	5,523	3,234
Other liabilities		**551**	519	376
Provisions for liabilities and charges	8	**107**	102	150
Accruals and deferred income		**489**	329	391
Subordinated liabilities	10	**1,983**	2,170	1,973
Subscribed capital	10	**1,632**	1,610	1,510
Current tax liabilities		**2**	53	45
Retirement benefit obligations		**438**	720	300
Total liabilities		**187,805**	184,483	182,675
General reserve		**6,541**	6,365	6,659
Revaluation reserve		**71**	69	70
Available for sale reserve		**(535)**	(595)	(487)
Total reserves and liabilities		**193,882**	190,322	188,917

The notes on pages 41 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS
For the half year ended 30 September 2011 (Unaudited)

	General reserve £m	**Revaluation reserve £m**	**AFS reserve £m**	**Total £m**
At 5 April 2011	6,659	70	(487)	6,242
Profit for the half year	**188**	**-**	**-**	**188**
Net movement in available for sale reserve	**-**	**-**	**(48)**	**(48)**
Revaluation of property	**-**	**1**	**-**	**1**
Effect of tax rate change on other items through the general reserve	**(2)**	**-**	**-**	**(2)**
Net actuarial loss on retirement benefit obligations	**(304)**	**-**	**-**	**(304)**
Total comprehensive income	**(118)**	**1**	**(48)**	**(165)**
At 30 September 2011	**6,541**	**71**	**(535)**	**6,077**

For the half year ended 30 September 2010 (Unaudited)

	General reserve (Adjusted) £m	Revaluation reserve £m	AFS reserve (Adjusted) £m	Total £m
At 5 April 2010	6,343	68	(707)	5,704
Profit for the half year	197	-	-	197
Net movement in available for sale reserve	-	-	112	112
Revaluation of property	-	1	-	1
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	6,365	69	(595)	5,839

For the year ended 4 April 2011 (Audited)

	General reserve (Adjusted) £m	Revaluation reserve £m	AFS reserve (Adjusted) £m	Total £m
At 5 April 2010	6,343	68	(707)	5,704
Profit for the year	248	-	-	248
Net movement in available for sale reserve	-	-	220	220
Revaluation of property	-	4	-	4
Reserve transfer	2	(2)	-	-
Effect of tax rate change on other items through the general reserve	(6)	-	-	(6)
Adjustment to deferred tax transferred from acquisitions	5	-	-	5
Net actuarial gain on retirement benefit obligations	67	-	-	67
Total comprehensive income	316	2	220	538
At 4 April 2011	6,659	70	(487)	6,242

The notes on pages 41 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the half year ended 30 September 2011

	Notes	**Half year to 30 September 2011 (Unaudited) £m**	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
Cash flows from operating activities				
Profit before tax		**238**	259	317
Adjustments for:				
- Non-cash items included in profit before tax	12	**133**	110	317
- Changes in operating assets	12	**(4,642)**	1,060	5,806
- Changes in operating liabilities	12	**4,788**	(1,469)	(2,856)
- Interest paid on subordinated liabilities		**(63)**	(41)	(90)
- Interest paid on subscribed capital		**(45)**	(46)	(91)
- Income from investments		**(5)**	(1)	(4)
- Taxation		**(39)**	(14)	(33)
Net cash flows from operating activities		**365**	(142)	3,366
Cash flows from investing activities				
Purchase of investment securities		**(7,603)**	(6,629)	(13,525)
Sale and maturity of investment securities		**7,828**	7,638	14,898
Purchase of property, plant and equipment		**(96)**	(48)	(138)
Sale of property, plant and equipment		**2**	10	13
Purchase of intangible assets		**(100)**	(112)	(219)
Sale of investment properties		**-**	-	1
Sale of investment		**68**	-	2
Dividends received		**2**	1	4
Net cash flows from investing activities		**101**	860	1,036
Cash flows from financing activities				
Maturity of subordinated liabilities		**-**	(619)	(719)
Issue of subordinated liabilities		**-**	630	630
Net cash flows from financing activities		**-**	11	(89)
Net increase in cash		**466**	729	4,313
Cash and cash equivalents at start of period		**10,124**	5,811	5,811
Cash and cash equivalents at end of period	12	**10,590**	6,540	10,124

The notes on pages 41 to 52 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE INTERIM FINANCIAL INFORMATION

1 Reporting period

These results have been prepared as at 30 September 2011 and show the financial performance for the period from and including 5 April 2011 to this date.

2 Basis of preparation

This condensed consolidated interim financial information for the half year ended 30 September 2011 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 condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 4 April 2011, which have been prepared in accordance with IFRSs as adopted by the EU.

Comparatives are presented on a basis that is consistent with the current presentation.

Adjustment to comparative information

The opening reserves at 5 April 2010 have been adjusted to reflect a correction of an error in relation to hedge accounting; the impact of the correction as at 5 April 2010 has been to decrease the general reserve by £20 million and increase the AFS reserve by £8 million.

Accounting policies

The accounting policies adopted by the Group in the preparation of its September 2011 interim financial information and those which the Group currently expects to adopt in its 2012 Annual Report and Accounts are consistent with those disclosed in the 2011 Annual Report and Accounts. The accounting policies and disclosures adopted reflect the Group's current view of best practice. Copies of the 2011 Annual Report and Accounts are available at: www.nationwide.co.uk/about_nationwide/results_and_accounts/2010-2011.

During the period, the Group has become liable to the UK bank levy. In line with the Group's accounting policy for provisions, the liability for the bank levy is recognised progressively throughout the financial year, based on an estimate of the charge for the full year. Further details on the bank levy are given in note 8.

Future accounting developments

An overview of pronouncements that will be relevant to the Group in future periods is provided on page 92 of the 2011 Annual Report and Accounts. The IASB has issued further pronouncements. However, with the exception of IAS 19 'Employee Benefits', the Group does not expect adoption of any of these pronouncements to have a significant impact on its results.

IAS 19 'Employee Benefits' was revised in June 2011 and will be effective for the Group for accounting periods commencing from 5 April 2013. The revised standard updates the recognition, presentation and disclosures of retirement benefit plans. The most significant impact for the Group is the replacement of the expected return on plan assets and interest cost with a single measure of net interest income (or expense) based on the net retirement benefit asset (or obligation). The change is expected to reduce the Group's net interest income with an equivalent increase in other comprehensive income.

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 2012 Annual Report and Accounts may, therefore, be prepared in accordance with different accounting policies to those used in this document.

NOTES TO THE INTERIM FINANCIAL INFORMATION

2 Basis of preparation (continued)

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 99 and 100 of the 2011 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 interim financial information.

3 Interest receivable and similar income

	Half year to 30 September 2011 (Unaudited) £m	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
On residential mortgages	**2,380**	2,506	5,004
On other loans	**563**	559	1,148
On investment securities	**548**	601	1,029
On other liquid assets	**19**	14	32
Other interest receivable	**5**	1	-
Net expense on financial instruments hedging assets	**(1,094)**	(1,546)	(2,738)
Expected return on pension assets	**97**	83	168
	2,518	2,218	4,643

Interest receivable on investment securities includes £59 million relating to the sale of investment securities (H1 2010/11: £24 million, FY 2010/11: £47 million). The net gain of £59 million includes £65 million (H1 2010/11: £26 million, FY 2010/11: £40 million) from the sale of gilts.

NOTES TO THE INTERIM FINANCIAL INFORMATION

4 Interest expense and similar charges

	Half year to 30 September 2011 (Unaudited) £m	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
On shares held by individuals	**1,356**	1,207	2,510
On subscribed capital	**47**	47	96
On deposits and other borrowings			
• Subordinated liabilities	**54**	53	110
• Other	**126**	132	258
On debt securities in issue	**520**	427	915
Foreign exchange differences	**1**	-	3
Net income on financial instruments hedging liabilities	**(447)**	(489)	(952)
Pension interest cost	**83**	83	166
	1,740	1,460	3,106

5 Gains from derivatives and hedge accounting

The Group uses derivatives exclusively to hedge risk exposures, however, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting has not been adopted or is not achievable.

Gains from derivatives and hedge accounting of £71 million include a £67 million gain arising from increasing volatility seen in currency markets, which has led to a change in the estimation technique used to fair value cross-currency interest rate swaps hedging non-Sterling wholesale funding. Other material components include a gain of £20 million on derivatives hedging risk exposures that are not in a hedge accounting relationship and a loss of £18 million due to hedge ineffectiveness on assets and liabilities in hedge accounting relationships.

In the previous year the accounting volatility gain was primarily driven by £86 million of hedge ineffectiveness on large gilt asset and covered bond liability positions and £28 million on derivatives hedging savings before these savings were brought into a hedge accounting relationship.

When measuring the fair value of collateralised and non-collateralised derivative positions, the Group continues to use discount curves based on term Libor rates.

6 Administrative expenses

	Half year to 30 September 2011 (Unaudited) £m	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
Employee costs:			
• Wages and salaries	**243**	231	461
• Social security costs	**23**	18	40
• Pension costs	**29**	42	82
	295	291	583
Other administrative expenses	**288**	272	575
Bank levy	**9**	-	-
	592	563	1,158

NOTES TO THE INTERIM FINANCIAL INFORMATION

6 Administrative expenses (continued)

Administrative expenses include £5 million (H1 2010/11: £6 million, FY 2010/11: £29 million) of transformation costs, which relate to restructuring parts of our business as part of our ongoing cost optimisation programme and other initiatives. Further information on the bank levy is included in note 8.

7 Impairment losses on loans and advances to customers

	Half year to 30 September 2011 (Unaudited) £m	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
Impairment charge for the period			
Prime residential	**8**	29	32
Specialist residential	**34**	16	69
Consumer banking	**28**	43	83
Commercial lending	**72**	95	175
Other lending	**2**	(4)	-
	144	179	359
Impairment provision at the end of the period			
Prime residential	**42**	43	40
Specialist residential	**176**	133	161
Consumer banking	**67**	150	90
Commercial lending	**483**	442	463
Other lending	**12**	12	11
	780	780	765

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

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 Provisions for liabilities and charges

	Bank levy £m	FSCS £m	Other provisions £m	Severance provision £m	Total £m
At 5 April 2011	-	94	19	37	150
Provisions utilised	**(3)**	**(41)**	**(5)**	**(6)**	**(55)**
Charge for the period	**9**	**-**	**15**	**4**	**28**
Release for the period	**-**	**-**	**-**	**(16)**	**(16)**
Net income statement charge / (release)	**9**	**-**	**15**	**(12)**	**12**
At 30 September 2011	**6**	**53**	**29**	**19**	**107**
At 5 April 2010	-	93	25	62	180
Provisions utilised	-	(48)	(3)	(18)	(69)
Charge for the period	-	-	3	4	7
Release for the period	-	-	(13)	(3)	(16)
Net income statement charge / (release)	-	-	(10)	1	(9)
At 30 September 2010	-	45	12	45	102
At 5 April 2010	-	93	25	62	180
Provision utilised	-	(49)	(8)	(26)	(83)
Charge for the year	-	50	16	18	84
Release for the year	-	-	(14)	(17)	(31)
Net income statement charge	-	50	2	1	53
At 4 April 2011	-	94	19	37	150

Bank levy

On 1 January 2011 the bank levy came into force for certain UK banks, building societies and the UK operations of foreign banks. Of the £9 million charge in the half year ended 30 September 2011 (4 April 2011: £nil), £3 million represents the cost which arose in respect of chargeable equity and liabilities for the 3 months to 4 April 2011 and the remaining £6 million is an estimate of half of the cost which the Group estimates will arise in respect of chargeable equity and liabilities as at 4 April 2012.

Financial Services Compensation Scheme (FSCS)

The Group pays levies to the FSCS based on its share of protected deposits. The FSCS has initially met claims from a number of defaulted institutions by way of loans received from HM Treasury. The total of these facilities is approximately £19 billion. The FSCS recovers its interest costs by way of annual levies on member firms. While it is anticipated that the majority of these facilities will be repaid wholly from recoveries from the institutions concerned, there is the risk of shortfall such that the FSCS may place additional levies on all FSCS participants.

The amount provided by the Group of £53 million is in respect of the 2011/12 scheme year (4 April 2011: £94 million in respect of the 2010/11 and 2011/12 scheme years), for which our liability to levies is confirmed.

The Group will become liable to levies for the 2012/13 scheme year during the second half of this financial year. The amount to be provided by the Group will depend upon future financing arrangements of the FSCS which are expected to be agreed in the second half of the financial year.

The basis for estimating the costs and the uncertainties involved in estimating the FSCS levy remain consistent with those disclosed on page 100 of the 2011 Annual Report and Accounts.

NOTES TO THE INTERIM FINANCIAL INFORMATION

8 Provisions for liabilities and charges (continued)

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). Since the initial PPI provision was estimated at the end of 2010/11 the Group has experienced a significant increase in complaints from PPI customers, fuelled by the outcome of a Judicial Review into FSA Policy Statement PS 10/12: *The assessment and redress of Payment Protection Insurance complaints*, media coverage of significant provisions raised by some of the larger banks and an increase in Claims Management Company activity. These developments have led to a total PPI provision charge in the six months to 30 September 2011 of £15 million.

Severance provision

Provisions are made for the expected severance costs in relation to the Group's restructuring of activities where it is probable that the expenditure will be made. The net release for the period is included within staff costs.

9 Loans and advances to customers

	30 September 2011 (Unaudited) £m	30 September 2010 (Unaudited) £m	4 April 2011 (Audited) £m
Prime residential mortgages	**104,119**	106,608	104,229
Specialist residential mortgages	**21,761**	19,207	20,224
Consumer banking	**2,688**	2,180	2,376
Commercial lending	**21,379**	21,574	21,560
Other loans	**428**	527	481
	150,375	150,096	148,870
Fair value adjustment for micro hedged risk	**1,205**	1,047	547
	151,580	151,143	149,417

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

	30 September 2011 (Unaudited)		30 September 2010 (Unaudited)		4 April 2011 (Audited)	
	Assets pledged £m	**Secured funding £m**	Assets pledged £m	Secured funding £m	Assets pledged £m	Secured funding £m
Covered bonds	**32,433**	**12,522**	36,549	9,911	33,051	12,264
Securitisations and other secured lending	**30,236**	**5,244**	33,557	3,749	34,891	5,246
	62,669	**17,766**	70,106	13,660	67,942	17,510

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 which may be used in the future 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 Group established Nationwide Covered Bonds LLP in 2005. The LLP provides security for issues of covered bonds made by the Group to external counterparties and also for the purpose of creating collateral.

NOTES TO THE INTERIM FINANCIAL INFORMATION

9 Loans and advances to customers (continued)

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

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.

10 Subordinated liabilities and subscribed capital

	30 September 2011 (Unaudited) £m	30 September 2010 (Unaudited) £m	4 April 2011 (Audited) £m
Subordinated liabilities			
Subordinated notes	**1,861**	2,037	1,943
Fair value adjustment for micro hedged risk	**131**	145	40
Unamortised premiums and issue costs	**(9)**	(12)	(10)
	1,983	2,170	1,973
Subscribed capital			
Permanent interest bearing shares	**1,415**	1,415	1,415
Fair value adjustment for micro hedged risk	**257**	239	137
Unamortised premiums and issue costs	**(40)**	(44)	(42)
	1,632	1,610	1,510

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

The subordinated notes rank pari passu with each other and behind claims against the Group of all depositors, creditors and investing members. The PIBS rank pari passu with each other and behind claims of the subordinated notes.

NOTES TO THE INTERIM FINANCIAL INFORMATION

11 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 2011 (Unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investment securities - AFS	**14,542**	**7,900**	**132**	**22,574**
Investments in equity shares	**6**	**-**	**25**	**31**
Derivative financial instruments	**-**	**4,917**	**106**	**5,023**
	14,548	**12,817**	**263**	**27,628**
Financial liabilities				
Derivative financial instruments	**-**	**(4,545)**	**(73)**	**(4,618)**
Other deposits - PEB	**-**	**-**	**(2,611)**	**(2,611)**
	-	**(4,545)**	**(2,684)**	**(7,229)**

30 September 2010 (Unaudited)	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 2011 (Audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities - AFS	12,319	9,126	95	21,540
Investments in equity shares	5	-	98	103
Derivative financial instruments	-	3,873	88	3,961
	12,324	12,999	281	25,604
Financial liabilities				
Derivative financial instruments	-	(3,158)	(76)	(3,234)
Other deposits - PEB	-	-	(2,125)	(2,125)
	-	(3,158)	(2,201)	(5,359)

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.

There were no transfers between level 1 and level 2 assets and the increase in level 1 assets primarily reflects the increase in the gilt portfolio over the period.

NOTES TO THE INTERIM FINANCIAL INFORMATION

11 Fair value measurement (continued)

The increase in level 3 investment securities - AFS assets from £95 million to £132 million is due predominantly to the transfer of three holdings from level 2 to level 3 with a small offset for other fair value movements.

Level 3 investments in equity shares have reduced from £98 million to £25 million primarily as a consequence of the disposal of substantially all of the Group's small private equity portfolio. The increase in level 3 other deposits – PEB and the related derivative balances reflects the growth of the PEB portfolio and other market movements impacting valuation.

12 Notes to the cash flow statement

	Half year to 30 September 2011 (Unaudited) £m	Half year to 30 September 2010 (Unaudited) £m	Year ended 4 April 2011 (Audited) £m
Non-cash items included in profit before tax			
Net increase in impairment provisions	**15**	30	15
Impairment losses on investment securities	**6**	31	66
Depreciation and amortisation	**82**	67	150
Interest on subordinated liabilities	**54**	53	110
Interest on subscribed capital	**47**	47	96
Loss on the revaluation of land and buildings	**-**	-	1
Gain on the revaluation of investment properties	**-**	-	(1)
Gains from derivatives and hedge accounting	**(71)**	(118)	(120)
	133	110	317
Changes in operating assets			
Loans and advances to banks	**(2)**	10	13
Investment securities	**(1,259)**	(261)	472
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**(1,099)**	(48)	2,246
Deferred tax assets	**(48)**	43	179
Loans and advances to customers	**(2,178)**	1,256	2,997
Other operating assets	**(56)**	60	(101)
	(4,642)	1,060	5,806
Changes in operating liabilities			
Shares	**2,351**	913	1,609
Deposits from banks, customers and others	**2,194**	(2,295)	(3,308)
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	**1,688**	760	(1,882)
Debt securities in issue	**(1,560)**	(903)	1,006
Retirement benefit obligations	**138**	212	(208)
Other operating liabilities	**(23)**	(156)	(73)
	4,788	(1,469)	(2,856)
Cash and cash equivalents			
Cash	**6,609**	3,963	6,130
Loans and advances to banks repayable in 3 months or less	**3,981**	2,577	3,994
	10,590	6,540	10,124

NOTES TO THE INTERIM FINANCIAL INFORMATION

12 Notes to the cash flow statement (continued)

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 the Group's capital management for solvency purposes.

The Group is required to maintain balances with the Bank of England which, at 30 September 2011, amounted to £189 million (30 September 2010: £190 million, 4 April 2011: £187 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.

13 Operating segments

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.

During the second half of the 2010/11 financial year but effective dated from the beginning of that financial year, the Group revised the methodology for the funds transfer pricing between the segments. Accordingly there have been certain changes to the measurement of business segment net interest receivable for H1 2010/11 compared to the results reported in the 2010 interim results.

Further details of the operating segments and the change of transfer pricing methodology are contained in note 13 of the 2011 Annual Report and Accounts.

Half year to 30 September 2011 (Unaudited)	Notes	**Retail** £m	**Commercial** £m	**Head office functions** £m	**Total** £m
Net interest income		**690**	**31**	**57**	**778**
Other income	(i)	**214**	**8**	**6**	**228**
Total revenue		**904**	**39**	**63**	**1,006**
Expenses	(ii)	**(611)**	**(19)**	**(30)**	**(660)**
Bank levy		**-**	**-**	**(9)**	**(9)**
Impairment and other provisions	(iii)	**(85)**	**(72)**	**(8)**	**(165)**
Underlying profit/(loss) before tax		**208**	**(52)**	**16**	**172**
Transformation costs		**-**	**-**	**(5)**	**(5)**
Gains from derivatives and hedge accounting		**-**	**-**	**71**	**71**
Profit/(loss) before tax		**208**	**(52)**	**82**	**238**
Taxation					**(50)**
Profit after tax					**188**
Total assets		**128,568**	**22,584**	**42,730**	**193,882**
Total liabilities	(iv)	**130,988**	**-**	**56,817**	**187,805**

NOTES TO THE INTERIM FINANCIAL INFORMATION

13 Operating segments (continued)

Half year to 30 September 2010 (Unaudited) (Adjusted)	Notes	Retail £m	Commercial £m	Head office functions £m	Total £m
Net interest income		674	20	64	758
Other income	(i)	202	9	5	216
Total revenue		876	29	69	974
Expenses	(ii)	(565)	(16)	(46)	(627)
Impairment and other provisions	(iii)	(78)	(95)	(27)	(200)
Underlying profit/(loss) before tax		233	(82)	(4)	147
Transformation costs		(1)	-	(5)	(6)
Gains from derivatives and hedge accounting		-	-	118	118
Profit/(loss) before tax		232	(82)	109	259
Taxation					(62)
Profit after tax					197
Total assets		127,995	22,621	39,706	190,322
Total liabilities	(iv)	127,412	-	57,071	184,483

Year to 4 April 2011 (Audited)	Notes	Retail £m	Commercial £m	Head office functions £m	Total £m
Net interest income		1,339	18	180	1,537
Other income	(i)	415	20	10	445
Total revenue		1,754	38	190	1,982
Expenses	(ii)	(1,144)	(32)	(103)	(1,279)
Impairment and other provisions	(iii)	(186)	(175)	(66)	(427)
Underlying profit/(loss) before tax		424	(169)	21	276
FSCS levies – charge		(50)	-	-	(50)
Transformation costs		(4)	-	(25)	(29)
Gains from derivatives and hedge accounting		-	-	120	120
Profit/(loss) before tax		370	(169)	116	317
Taxation					(69)
Profit after tax					248
Total assets		126,829	22,107	39,981	188,917
Total liabilities	(iv)	128,647	-	54,028	182,675

Notes

Other income excludes gains from derivatives and hedge accounting.

(i) Expenses exclude transformation costs.

(ii) 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.

(iii) Commercial deposits are included within head office functions, reflecting the way in which the balances are managed by the Group.

The Group operates predominantly in the UK with a small level of operations in the Isle of Man and the Republic of Ireland and accordingly no geographical analysis has been presented.

NOTES TO THE INTERIM FINANCIAL INFORMATION

14 Related party transactions

Full details of the Group's related party transactions for the year to 4 April 2011 can be found in note 43 of the 2011 Annual Report and Accounts.

On 19 July 2011 the Group sold, at arm's length, private equity holdings with a carrying value of £65 million (included within Investments in equity shares) to the Nationwide Pension Fund, a related party, for £68 million. The resulting profit of £3 million is included in Income from investments.

There have been no further significant related party transactions in the six months to 30 September 2011.

15 Events occurring after the balance sheet date

On 14 October 2011 the Group contracted to acquire a portfolio of UK based residential mortgages from Bank of Ireland for consideration of approximately £1.1 billion. The acquisition by a subsidiary of the Group, The Mortgage Works (UK) plc, is expected to complete in December 2011.

Note 9 discloses certain loans and advances that are used to secure debt securities in issue relating to the use of Nationwide Covered Bonds LLP and securitisations via Silverstone Master Trust and other secured lending. On 13 October 2011 the Group issued a €1.5 billion public issuance 5 year covered bond through the Covered Bond LLP programme, raising £1.31 billion Sterling equivalent funding. On 21 October 2011 the Silverstone Master Issuer plc issued US$3.25 billion and £0.17 billion 3-9 year bonds, in total raising £2.25 billion Sterling equivalent funding.

Note 10 discloses subordinated liabilities and subscribed capital issued by the Group. All of the Group's £75 million 7.125% subordinated notes due 2016 were, with the prior consent of the FSA, redeemed early on 10 October 2011. Notice has also been given to the holders of the Group's £35 million 5¾% subordinated notes due 2016 that the notes will all be redeemed early on 6 December 2011.

ADDITIONAL INFORMATION

a) Retail loan portfolio

The average indexed loan to value (LTV) ratio of the Group's residential mortgages is 48% (4 April 2011: 49%) whilst the average LTV of new residential lending was 62% (4 April 2011: 66%). Further LTV information on the Group's residential loan portfolio is set out in the Business Review.

	Half year to 30 September 2011 %	Year ended 4 April 2011 %
New business profile:		
First-time buyers	**15**	23
Home movers	**26**	34
Remortgages	**27**	12
Buy to Let	**32**	31
	100	100

The analysis of new business above excludes further advances.

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

	30 September 2011					4 April 2011				
	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	**101,589**	**19,716**	**2,645**	**123,950**	**96**	101,763	18,204	2,335	122,302	96
Past due up to 3 months but not impaired	**1,995**	**1,365**	**38**	**3,398**	**3**	1,934	1,348	37	3,319	3
Impaired	**577**	**856**	**72**	**1,505**	**1**	572	833	94	1,499	1
	104,161	**21,937**	**2,755**	**128,853**	**100**	104,269	20,385	2,466	127,120	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 (continued)

a) Retail loan portfolio (continued)

Impaired retail assets are further analysed as follows:

	30 September 2011					4 April 2011				
	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	**263**	**311**	**46**	**620**	**41**	271	290	50	611	41
Past due 6 to 12 months	**191**	**217**	**26**	**434**	**29**	187	228	44	459	30
Past due over 12 months	**85**	**146**	**-**	**231**	**15**	81	185	-	266	18
Possessions	**38**	**182**	**-**	**220**	**15**	33	130	-	163	11
	577	**856**	**72**	**1,505**	**100**	572	833	94	1,499	100

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

£54 million of loans that would otherwise be past due or impaired have had their arrears capitalised in the last 6 months (12 months to 4 April 2011: £276 million). Customers are only permitted to capitalise arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period or by over paying such that six months full payments are made over a four month period. Once capitalised the loans are categorised as not impaired as long as contractual repayments are maintained.

For the Nationwide prime portfolio interest only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only and, if made, the arrears status of the account will not increase. As at 30 September 2011 2,827 (4 April 2011: 2,802) accounts were on an interest only concession.

Payment holidays allow non-arrears customers meeting required criteria to make reduced or nil payments. As at 30 September 2011 1,954 (4 April 2011: 2,313) accounts were on a payment holiday. Nationwide allows customers to extend their mortgage within term where the extension meets our lending criteria.

For interest only customers who come to the end of their term and are unable to repay, term extensions will be considered on an individual basis after discussion with the customer. Such cases are typically low LTV and of limited exposure.

The provision methodology recognises previous arrears as a driver of future default and therefore capitalised accounts typically attract a higher provision than the rest of the not impaired portfolio for the 12 months following capitalisation. The underlying performance of interest only concessions and payment holidays are also reflected in the provisioning methodology. For within term extensions, subsequent arrears performance is significantly better than for other concessions and therefore no specific provision is applied. Similarly, a provisions adjustment is not applied for end of term extensions which tend to be of limited exposure.

ADDITIONAL INFORMATION (continued)

a) Retail loan portfolio (continued)

Collateral held against past due or impaired retail residential mortgages:

	30 September 2011				4 April 2011			
	Prime lending £m	%	Specialist lending £m	%	Prime lending £m	%	Specialist lending £m	%
Past due but not impaired	**1,992**	**100**	**1,352**	**99**	1,928	100	1,334	99
Impaired	**535**	**99**	**655**	**97**	535	99	676	96
Possessions	**38**	**97**	**157**	**86**	31	94	116	89
	2,565	**100**	**2,164**	**97**	2,494	100	2,126	97

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.

Negative equity on retail residential mortgages:

	30 September 2011		4 April 2011	
	Prime lending £m	Specialist lending £m	Prime lending £m	Specialist lending £m
Past due but not impaired	**3**	**13**	6	14
Impaired	**4**	**19**	4	27
Possessions	**-**	**25**	2	14
	7	**57**	12	55

The make up of specialist lending is as follows:

	30 September 2011		4 April 2011	
	£m	%	£m	%
Self-certified	**3,825**	**17**	4,058	20
Buy to Let	**16,458**	**75**	14,633	72
Near prime	**1,227**	**6**	1,250	6
Sub prime	**427**	**2**	444	2
Specialist lending	**21,937**	**100**	20,385	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. Specialist lending has not offered self-certification mortgages since October 2009, and no near prime or sub prime mortgages since August 2007.

b) Commercial and other lending operations

Commercial lending comprises loans secured on commercial property, loans to Registered Social Landlords and loans advanced under Private Finance Initiatives. Other lending operations include a secured European commercial loan portfolio of £199 million (4 April 2011: £241 million) and unsecured lending of £241 million (4 April 2011: £251 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.

ADDITIONAL INFORMATION (continued)

b) Commercial and other lending operations (continued)

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

	30 September 2011				4 April 2011			
	Commercial		Other operations		Commercial		Other operations	
	£m	%	£m	%	£m	%	£m	%
Not impaired:								
Neither past due nor impaired	**19,732**	**90**	**425**	**96**	20,212	92	481	98
Past due up to 3 months but not impaired	**564**	**3**	**7**	**2**	391	2	4	1
Impaired	**1,566**	**7**	**8**	**2**	1,420	6	7	1
	21,862	**100**	**440**	**100**	22,023	100	492	100

The status 'past due up to three 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 have not been individually assessed for impairment carry a collective impairment allowance to cover credit losses which have not yet been specifically identified. This analysis includes commercial mortgage assets totalling £1.2 billion (4 April 2011: £1.2 billion) acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies. These loans were fair valued on a basis that made allowances for anticipated losses over the life of the loans. Impaired loans totalling £130 million (4 April 2011: £141 million) in the above analysis have thus been fair valued and are therefore unlikely to contribute any significant further losses to the Group.

Within other lending operations there are £15 million (4 April 2011: £11 million) past due or impaired balances, all of which relate to the unsecured student loan portfolio.

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

	30 September 2011				4 April 2011			
	Commercial		Other operations		Commercial		Other operations	
	£m	%	£m	%	£m	%	£m	%
Impaired status:								
Past due 0 to 3 months	**679**	**43**	**-**	**-**	695	49	-	-
Past due 3 to 6 months	**205**	**13**	**2**	**25**	111	8	1	14
Past due 6 to 12 months	**277**	**18**	**2**	**25**	235	16	3	43
Past due over 12 months	**404**	**26**	**4**	**50**	378	27	3	43
Possessions	**1**	**-**	**-**	**-**	1	-	-	-
	1,566	**100**	**8**	**100**	1,420	100	7	100

Commercial assets totalling £1,253 million (4 April 2011: £1,152 million) not subject to fair value adjustments have individual provisions against them.

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

Collateral held against past due or impaired commercial lending

	30 September 2011		4 April 2011	
	£m	%	£m	%
Past due but not impaired	**529**	**89**	363	93
Impaired	**1,110**	**64**	1,050	74
	1,639	**71**	1,413	78

ADDITIONAL INFORMATION (continued)

b) Commercial and other lending operations (continued)

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.

Negative equity on commercial lending

	30 September 2011 £m	4 April 2011 £m
Past due but not impaired	**35**	28
Impaired	**455**	369
Possessions	**1**	1
	491	398

c) Treasury financial instruments

Treasury liquid assets include cash, loans and advances to banks and investment securities available for sale. These are held in two portfolios – the Treasury liquidity portfolio and the Investment portfolio. Analysis of each of these portfolios by credit rating and by location of issuer is given below.

Treasury liquidity portfolio	30 September 2011 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2011 £bn
Cash	**6.3**	100	-	-	-	100	-	-	-	6.1
Loans to financial institutions	**3.7**	-	49	50	1	38	15	24	23	3.7
Other (including items in transit and clearing accounts)	**0.7**	100	-	-	-	100	-	-	-	0.6
Non-AFS assets	**10.7**									10.4
Gilts	**11.9**	100	-	-	-	100	-	-	-	8.6
Non domestic Government bonds	**1.5**	47	53	-	-	-	53	47	-	2.2
Supranational bonds	**1.4**	100	-	-	-	-	-	100	-	1.8
Residential mortgage backed securities (RMBS)	**2.0**	54	22	18	6	36	-	58	6	2.3
Covered bonds	**0.7**	68	11	12	9	-	4	87	9	0.7
Floating rate notes	**2.0**	10	16	56	18	14	13	58	15	2.6
AFS assets	**19.5**									18.2
Total Treasury liquidity portfolio	**30.2**	**75**	**11**	**11**	**3**	**71**	**5**	**20**	**4**	28.6

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.

The Group has continued to increase the quality of the Treasury liquidity portfolio, with 70% (4 April 2011: 65%) of assets held in sovereign and supranational exposures and 97% (4 April 2011: 99%) of the portfolio rated A or better, with 86% (4 April 2011: 86%) rated AA or above.

ADDITIONAL INFORMATION (continued)

c) Treasury financial instruments (continued)

Investment portfolio - all AFS assets	30 September 2011 £bn	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %	4 April 2011 £bn
Collateralised debt obligations (CDO)	**0.1**	-	-	-	100	-	100	-	-	0.1
Collateralised loan obligations (CLO)	**0.6**	6	80	14	-	32	68	-	-	0.6
Commercial mortgage backed securities	**0.5**	6	34	41	19	66	17	17	-	0.6
Corporate bond portfolio	**0.1**	-	39	-	61	61	39	-	-	0.1
Credit card backed securities	**0.1**	100	-	-	-	27	73	-	-	0.2
Financial institutions including subordinated debt	**0.3**	-	25	51	24	37	9	43	11	0.4
Residential mortgage backed securities (RMBS)	**0.6**	10	49	28	13	80	17	1	2	0.5
US student loan	**0.7**	68	6	17	9	-	100	-	-	0.7
Other investments	**0.1**	18	32	27	23	16	48	23	13	0.1
Total investment portfolio	**3.1**	**24**	**36**	**25**	**15**	**40**	**50**	**8**	**2**	3.3

85% (4 April 2011: 84%) of the investment portfolio is rated A or better with 60% (4 April 2011: 63%) rated AA or better.

Nationwide has £135 million of exposure to monoline insured transactions. Three holdings totalling £11 million were impaired in 2010/11 following coupon deferral (not covered by the terms of the insurance). The Group is reliant on the monoline insurance provider for one further holding (exposure £2 million) but in all other cases anticipates full repayment without any assistance from the insurance provider. This is mainly as a result of the approach taken upon investment, where no reliance is placed on the monoline insurance, requiring the investment to stand up to credit analysis in its own right.

Collateral held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities, treasury and other eligible bills are generally unsecured with the exception of asset backed securities and similar instruments, which are secured by pools of financial assets. In addition, collateral is held under sale and reverse sale and repurchase agreements.

RESPONSIBILITY STATEMENT

The directors confirm that, to the best of their knowledge, the condensed consolidated interim financial information have been prepared in accordance with IAS 34 as adopted by the European Union. The interim results include 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 consolidated interim financial information 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 2011 Annual Report and Accounts.

A full list of the Board of Directors can be found in the 2011 Annual Report and Accounts, with the following amendments during the 6 months to 30 September 2011:

- Mrs L M Peacock and M A Lenson were appointed to the Board as non executive directors on 18 July 2011.

- W Tudor John retired from the Board at the Annual General Meeting held on 21 July 2011.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director
21 November 2011

INDEPENDENT REVIEW REPORT

Independent Review Report to Nationwide Building Society ('the Society')

Introduction

We have been engaged by the Society to review the condensed consolidated interim financial information in the interim results for the six months ended 30 September 2011, which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of movements in members' interests, condensed consolidated cash flow statement and related notes on pages 41 to 52. We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

Directors' responsibilities

The interim results are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the interim results 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 these interim results 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 interim results 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 interim results for the six months ended 30 September 2011 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 21 November 2011

OTHER INFORMATION

The interim results 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 2011 has been extracted from the 2011 Annual Report and Accounts. The 2011 Annual Report and Accounts have been filed with the Financial Services Authority and the Registrar of Companies. The Auditors' Report on the 2011 Annual Report and Accounts was unqualified.

Nationwide have adopted the British Bankers' Association Code on Financial Reporting Disclosure ('the BBA code') in its 2011 Annual Report and Accounts. The code sets out five disclosure principles together with supporting guidance. Full details of the principles are included in the 2011 Annual Reports and Accounts. These principles have been applied, as appropriate, in the context of these interim results.

A copy of the interim results 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 glossary of terms used within this report refer to pages 170 to 174 of the 2011 Annual Report and Accounts.

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