

Nationwide Building Society

**Interim Results
For the period ended
30 September 2013**



CONTENTS

	Page
Financial summary	5
Chief Executive's review	6
Business review	10
Risk Management Report	34
Interim financial statements	74
Notes to the interim financial information	80
Responsibility statement	103
Independent review report	104
Other information	105
Contacts	105

Underlying Profit and Pre Provision Underlying Profit

Profit before tax shown on a statutory and underlying basis is set out on page 10. Statutory profit before tax of £270 million has been adjusted for a number of items, consistent with prior years, to derive an underlying profit before tax of £332 million. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across years. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.

Pre provision underlying profit of £655 million relates to underlying profit before impairment losses and provisions for liabilities and charges. The purpose of this measure is to demonstrate net income generation capacity and the ability of the business to absorb losses in a challenging economic climate.

Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 of the interim financial information for further details.

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 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.

**NATIONWIDE BUILDING SOCIETY
INTERIM RESULTS FOR THE PERIOD ENDED 30 SEPTEMBER 2013**

Graham Beale, Nationwide's Chief Executive said:

“The first six months of the financial year have seen Nationwide build on the momentum generated in 2012/13, with strong business volumes driving an excellent financial performance.

“We have continued to play a leading role in the financing of the housing market, consistent with our role as the UK's largest mutual building society: our gross mortgage lending is up 37% at £14.0 billion, a market share of 15.4%, and our net lending is up 75% at £5.6 billion. This represents our highest six month lending period for five years. We have placed a particular emphasis on supporting first time buyers, helping 30,400 into a home of their own, representing support for more than one in five first time buyers. We have balanced our mortgage growth with an inflow of retail savings and we have increased our deposit balances by £5.4 billion, with a primary focus on rewarding customer loyalty.

“We have made further strides towards growing our share of the current account market. Supported by the implementation of our new banking system and the launch of two new current accounts over the past year, we opened over 214,000 new accounts and saw 54,000 customers switching their primary banking relationship to us, proving yet again that while customers may need a bank account, they do not need a bank.

“These strong business volumes, coupled with a further significant strengthening in our net interest margin, have contributed to a 25% growth in total income, a reduction in our cost income ratio and a significant increase in profitability. Underlying profit is up 155% at £332 million (H1 2012/13: £130 million), while statutory profit is up 162% at £270 million (H1 2012/13: £103 million).

“Our balance sheet continues to be characterised by high quality assets and diversified funding, reflecting our mutual status. Our capital base is strong and is improving further in a manner consistent with the plan agreed with the Prudential Regulation Authority in July this year. Our Common Equity Tier 1 (CET1) ratio has risen by 1.9 percentage points to 11.0% (4 April 2013: 9.1%), and we are confident that the business is on track to meet our 3% leverage target by the end of 2015.

“There is no change to our long term strategy - our vision remains to be the first choice for financial services. Over the past six months, we have demonstrated yet again that we remain true to our core principles as a building society: helping people to save, helping them to buy their own homes and helping them to make the most of their money. We have grown our mortgage and savings balances, grown our personal current account base, provided safety and security for our members and have played an active role in lending to the real economy.”

**Graham Beale
Chief Executive**

KEY HIGHLIGHTS

SUPPORT FOR CORE MARKETS

- Gross mortgage lending up 37% to £14.0 billion, a market share of 15.4%
- Net lending up 75% at £5.6 billion, a market share of 82.8%
- Over 30,400 first time buyers helped into a home of their own, a market share of 22%
- 16% share of all completed Help to Buy Equity Loan Scheme cases
- Gross buy to let mortgage lending of £1.7 billion, a market share of 16%
- £5.4 billion increase in retail savings balances, a market share of 27.5%
- Loyalty Saver balances increased by £3.5 billion to £11.5 billion

GROWTH IN CONSUMER BANKING

- Over 214,000 new current accounts opened, up 16% on last half year
- Market share of main standard and packaged accounts increased by 0.8 percentage points to 6%

MARKET LEADING SERVICE

- Independently ranked number 1 for combined product service satisfaction within our peer group for the six months to September 2013¹
- Despite our significant and growing market shares, Nationwide accounts for only 2.2% of all industry complaints

STRONG FINANCIAL PERFORMANCE

- Total underlying income up 25% at £1.39 billion
- Underlying cost income ratio down to 52.8% (H1 2012/13: 59.0%)
- 155% increase in our underlying profit to £332 million
- 162% increase in statutory profit to £270 million

SAFE AND SECURE BALANCE SHEET

- Core Tier 1 ratio 14.2% (4 April 2013: 12.3%)
- Common Equity Tier 1 ratio 11.0% (4 April 2013: 9.1%)
- Core Liquidity ratio 11.1% (4 April 2013: 11.1%)
- Loan to deposit ratio 113.8% (4 April 2013: 115.4%)
- Residential mortgage arrears, at 0.70%, well below CML industry of 1.75%

¹ For the financial half year 2013. Source: GfK NOP's Financial Research Survey (FRS), 6 months of interviews conducted between April 2013 and September 2013, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. Our high street peer group is defined as Barclays, Halifax, HSBC, Lloyds TSB, NatWest and Santander.

FINANCIAL SUMMARY

	Half Year to 30 September 2013	Half Year to 30 September 2012*
Financial Performance	£m	£m
Total underlying income	1,387	1,113
Pre provision underlying profit	655	456
Underlying profit before tax	332	130
Statutory profit before tax	270	103
Lending and Product Volumes	£bn	%
Group residential – gross/gross market share	14.0	15.4%
Group residential – net/net market share	5.6	82.8%
Commercial – gross	0.4	0.3
Commercial – net	(0.7)	(0.6)
Personal banking product sales (000)	392	437
Retail Savings Volumes (1)	£bn	%
Retail savings balance movement/market share	5.4	27.5
Net receipts/(outflows)	4.3	(1.5)
Key Ratios	%	%
Cost income ratio – underlying basis	52.8	59.0
Cost income ratio – statutory basis	56.7	61.5
Net interest margin	1.13	0.91
	30 September 2013	4 April 2013
Balance Sheet	£m	£m
Total assets	193,332	190,718
Loans and advances to customers	163,863	159,587
Member savings balances	130,951	125,574
Total shares, deposits and loans (SDLs)	179,067	174,940
Total regulatory capital	8,214	8,496
Asset Quality	%	%
Proportion of residential mortgage accounts 3 months+ in arrears	0.70	0.72
Average indexed loan to value of residential mortgage book	49	51
Average loan to value of new residential lending	69	67
Commercial Property Finance		
Total provision as % of impaired balances	34	35
Key Ratios	%	%
<i>Capital - Basel II</i>		
Core Tier 1 ratio	14.2	12.3
Tier 1 ratio	16.1	15.5
Solvency ratio	20.0	19.1
<i>Capital - CRD IV(end point)</i>		
Common Equity Tier 1 ratio	11.0	9.1
Leverage ratio (2)	2.3	2.2
<i>Other balance sheet ratios</i>		
Wholesale funding ratio	21.6	22.5
Core liquidity ratio	11.1	11.1
Loan to deposit ratio (3)	113.8	115.4
Loan to deposit ratio (including long term wholesale funding) (4)	98.9	99.1

* Comparatives have been restated in accordance with IAS 19 (Revised). See note 2 of the interim financial statements for further details.

(1) Savings volumes include current account credit balances.

(2) Comparative restated for change in treatment of certain securitisations to be risk weighted as opposed to capital deducted. See the Capital Structure section in the Business Review for further Information.

(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).

CHIEF EXECUTIVE'S REVIEW

Strong trading performance

In the six months to the end of September, we have made tangible progress on our strategy by investing in our core franchise to enhance our products, services and processes for our members. As a result, we have driven real momentum across our business reflected in the strongly improving trends both in volumes and profitability.

Supporting the housing market

Over the six months to 30 September 2013, we have continued to play a leading role in the financing of the housing market, consistent with our role as the UK's largest building society. Our gross lending has increased by 37% to £14.0 billion (H1 2012/13: £10.2 billion), the highest six month lending period for five years, whilst our net lending rose by 75% to £5.6 billion (H1 2012/13: £3.2 billion). Our market shares of gross and net lending were 15.4% and 82.8% respectively (H1 2012/13: 14.4% and 81.8%).

In line with our core building society principles we have continued to support first time buyers. Over the past six months we have helped a further 30,400 borrowers take their first steps onto the housing ladder, up 52% on the same period last year, accounting for more than one in five of all first time buyer mortgages in the UK. During the six month period we accounted for 16% of all cases advanced under the first phase of the Government's Help to Buy Equity Loan Scheme.

The recent extension of the Help to Buy scheme is intended to make it easier for borrowers to access mortgages of up to 95% loan to value (LTV). We have been active in 95% LTV lending for first time buyers since November 2011, following the launch of our Save to Buy product in May 2011, and for our existing mortgage customers since 2008. We welcome the Government's initiatives in support of first time buyers and hope that more lenders will join us in supporting this segment of the market.

Over the past six months we have maintained our Base Mortgage Rate (BMR) at 2% above Bank of England (BoE) base rate. We estimate that the member benefit of our BMR pledge has been in the region of £400 million when compared with the standard variable rate charged by other major lenders.

Helping our savers

We have maintained a competitive stance in the savings market over the first half of the year, resulting in a strong growth in our savings balances of £5.4 billion (H1 2012/13: outflow of £0.5 billion), a market share of 27.5%. A large proportion of this growth is due to the continuing popularity of our Loyalty Saver product, in which balances grew by £3.5 billion to £11.5 billion. Loyalty Saver provides a perfect example of how we aim to deliver benefit to our existing members, with 533,000 having taken advantage of this exclusive product which pays higher rates of interest according to length of membership.

The past six months have seen interest rates paid on savings accounts declining across the whole market. We are concerned that savers in general are increasingly struggling to achieve a fair return on their deposits and, as such, we reiterate our call for the Government, as a minimum, to address a current anomaly and to increase the annual limit on funds that can be deposited into a cash ISA to £11,520.

Growing our share of current accounts

Our drive to offer a genuine alternative to the banks has stepped up a gear over the past six months, supported by the delivery last year of our new banking infrastructure and the addition of our new FlexDirect and FlexPlus accounts, both of which have proved popular and been well received; indeed, FlexPlus has been rated as the number one packaged account by Which Magazine². 214,000 customers opened a new current account during the period, an increase of 16% on the same period last year (H1 2012/13: 184,200), with a further 54,000 customers switching their main banking relationship to Nationwide. We now have 5.3 million current accounts, increasing our market share of main standard and packaged accounts by 0.8 percentage points to 6.0%.

We have continued to grow our personal loan book: over the first six months we issued 68,200 new loans, up 3% on the same period last year (H1 2012/13: 65,900). Our credit card business has grown more slowly in the face of fierce competition in the market, with 109,200 new accounts (H1 2012/13: 186,900) opened in the period.

² Which? Magazine November 2013

Strong financial performance

The first six months of 2013/14 have been marked by increased levels of profitability, continuing the momentum evident in our 2012/13 results. Strong business volumes, coupled with a strengthening in our net interest margin, have contributed to a 25% growth in total underlying income to £1,387 million (H1 2012/13: £1,113 million) and a 6.2 percentage point reduction in our cost income ratio to a record low of 52.8% (H1 2012/13: 59.0%).

Our financial performance is underpinned by our strong balance sheet which reflects our mutual status and focus on the provision of mortgages and savings to our members: 88% of our business assets are secured on UK residential property and 78% of our funding comes from retail savings balances. Our three month mortgage arrears ratio at 0.70% continues to be significantly below the industry average of 1.75%. We have made further managed divestments of our legacy commercial real estate and non-core treasury portfolios, which have reduced by 18% and 36% respectively over the last 18 months.

Our total charge for impairment losses and provisions for liabilities and charges has remained broadly flat at £323 million (H1 2012/13: £326 million). Within this, our retail secured and unsecured portfolios have performed strongly and, although our commercial impairment charge of £225 million is marginally up on the same period last year (H1 2012/13: £193 million), it is £75 million lower than the charge in the second half of 2012/13. Provisions for liabilities and charges have increased to £71 million (H1 2012/13: £45 million) reflecting ongoing costs of customer redress and compliance.

Our underlying profit has increased by 155% to £332 million (H1 2012/13: £130 million) and statutory profit is up 162% at £270 million (H1 2012/13: £103 million). Underlying profit includes a gain of £124 million as a result of our cash offer on five tranches of our Permanent Interest Bearing Shares (PIBS) securities. Our offer comprised premia to market values and was well received and supported by investors, with a take up of 68%.

Stronger capital ratios

We place significant emphasis on preserving the strength of our balance sheet through a conservative approach to lending and prudent management of our business. We believe that this is a key priority for a business focused on providing a secure home for our members' savings. As at 30 September 2013 our Common Equity Tier 1 (CET1) ratio (on an end point Basel III basis) was 11.0% (4 April 2013: 9.1%), one of the strongest ratios amongst major UK institutions. The increase is largely due to reductions in our commercial real estate and non-core treasury portfolios, coupled with strong profitability in the period, which together have reduced our risk weighted assets and improved our reserves. The equivalent leverage ratio as at 30 September 2013 was 2.3% (4 April 2013: 2.2%).

In June 2013, the Prudential Regulation Authority (PRA) announced targets for capital ratios for financial institutions, calculated on an adjusted basis. As a result of this exercise Nationwide agreed a plan with the PRA to meet an adjusted Common Equity Tier 1 (CET1) ratio of 7% by 31 December 2013 and an adjusted leverage ratio of 3% by the end of 2015. Our strong financial performance in the first half of 2013/14 gives us confidence that we are on track to meet that plan.

Our PRA adjusted CET1 capital ratio has risen by 1.3 percentage points to 8.1%³ (4 April 2013: 6.8%⁴) over the past six months. The improvement in our PRA adjusted leverage ratio is naturally expected to take longer, but it has risen by 10 basis points to 2.1%⁴ over the period and we are confident that the target of 3% will be achieved by the end of 2015.

We have previously indicated our intention to issue Core Capital Deferred Shares (CCDS). This new capital instrument is designed for mutual building societies and will enable us to raise common equity tier one capital to supplement retained earnings and to diversify our capital base. It remains our intention to establish and access this form of capital during the current or next financial year. Any such capital issuance remains at the discretion of the Nationwide Board and will have the effect of enhancing the ratios and timetable agreed with the PRA.

³ These ratios are after adjustments calculated by the PRA. They therefore differ from our ratios quoted in accordance with CRD IV which excludes such adjustments. For further details of the Group's capital position and ratios see 'Capital Structure' in the Business Review.

Stability of our long term strategy

There is no change to our long term strategy - our vision remains to be the first choice for financial services. Over the past six months, we have demonstrated yet again that we remain true to our core principles as a building society: helping people to save, helping them to buy their own homes and helping them to make the most of their money. We have grown our mortgage and savings balances, provided safety and security for our members and have played an active role in supporting the UK economic recovery.

Our people are integral to the delivery of our strategy and the vision to be the first choice for financial services. Our strong trading and financial performance has been achieved as a result of having a team of talented people who share a distinct culture with a strong belief in Nationwide and a firm commitment to our members. Our measure of employee engagement has bucked the trend of competitors, rising to 74%, well above the benchmarks for both the financial services sector and high performing companies.

As a building society we place a consistent focus on improving our customer service. We are proud both that we continue to be independently ranked number one for combined product service satisfaction amongst our high street peer group⁴ and that our internal surveys show a continued increase in satisfaction for our branch and telephone channels.

Despite our significant market shares in both mortgages and savings and the rapid growth of our current account portfolio, we account for only 2.2% of all industry complaints and deal with all legitimate cases in our usual fair and open manner. Our success in doing so is clearly demonstrated by the fact that of all cases referred to the Financial Ombudsman Service (FOS), only 11% of our decisions are overturned, compared with an industry average of 64%. For Payment Protection (PPI) referrals to FOS the position is even better, with only 7% of our decisions overturned compared with 75% for the industry as a whole. Although complaints about the past sales of Payment Protection Insurance continue to account for a significant proportion of our complaints, we do not believe that any further provision for PPI redress needs to be made at this point.

In recent weeks we have seen representations made to the Treasury Select Committee in its investigation into the Co-operative Banking Group, which stated that “it is going to be difficult going forwards for a mutual to be a really serious competitor in the retail banking market”. We strongly disagree. Nationwide, by example, is a successful building society with a robust business model and a clear focus on looking after its members. Unlike many of the banks we have remained profitable not just over the past 18 months, but throughout the financial crisis and for decades before. We are making tangible progress in growing our market shares and continue to demonstrate that we offer a real, consistent and viable alternative to the UK banks. In short, we are a “really serious competitor”.

Outlook

Over the past six months we have seen encouraging signs that the UK economic recovery is gathering pace. The UK economy grew by 0.8% in the third quarter of 2013, the fastest pace for three years and output was 1.5% higher than in Q3 2012. Recent strength in forward looking indicators gives reason for optimism that the upturn in activity will be maintained.

The housing market appears to have turned a corner, with transactions and prices both rising. Whilst the recovery has been particularly strong in London and the South East, the market improvement seems to be spreading to other areas of the UK and we expect these trends to continue for the rest of the year and into 2014. House prices in most UK regions are still below the levels seen in the years before the financial crisis, both in nominal terms and relative to earnings. Mortgage servicing costs as a share of household incomes are in line with long term averages, lending standards are more stringent than in the pre-crisis period and macro-prudential regulators remain vigilant, with a wide range of tools at their disposal if they believe that the risks are beginning to crystallise.

We remain confident in our business performance: our margin has continued to strengthen and we expect this to be maintained in the second half of the financial year. Whilst it is too early to predict any meaningful improvement in the short term, there are initial signs that the recovery in the economy will stabilise the outlook

⁴ For the financial half year 2013. Source: GfK NOP's Financial Research Survey (FRS), 6 months of interviews conducted between April 2013 and September 2013, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. Our high street peer group is defined as Barclays, Halifax, HSBC, Lloyds TSB, NatWest and Santander.

for the commercial real estate market. As such, we expect our levels of provisioning to remain elevated but stable, and to begin to improve in 2014/15.

Overall, our performance in the first half of 2013/14 has been very positive and we expect a strong performance for the rest of the financial year.

Graham Beale
Chief Executive
14 November 2013

BUSINESS REVIEW

INCOME STATEMENT OVERVIEW

Statutory profit before tax of £270 million has been adjusted for a charge of £11 million relating to the bank levy, restructuring costs of £35 million representing the cost of changes to the Group's operations, and losses from derivatives and hedge accounting of £16 million to derive an underlying profit before tax of £332 million as set out below.

Half Year to 30 September 2013	Statutory profit	FSCS and bank levy	Restructuring costs	Movements on derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	1,084	-	-	-	1,084
Other income	303	-	-	-	303
Movements on derivatives and hedge accounting	(16)	-	-	16	-
Total income	1,371	-	-	16	1,387
Administrative expenses	(645)	11	31	-	(603)
Depreciation and amortisation	(133)	-	4	-	(129)
Pre provision underlying profit					655
Impairment losses	(252)	-	-	-	(252)
Provisions for liabilities and charges	(71)	-	-	-	(71)
Profit before tax	270	11	35	16	332

Half Year to 30 September 2012*	Statutory profit	FSCS and bank levy	Restructuring costs	Movements on derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	890	-	-	-	890
Other income	223	-	-	-	223
Movements on derivatives and hedge accounting	(14)	-	-	14	-
Total income	1,099	-	-	14	1,113
Administrative expenses	(579)	8	11	-	(560)
Depreciation and amortisation	(97)	-	-	-	(97)
Pre provision underlying profit					456
Impairment losses	(281)	-	-	-	(281)
Provisions for liabilities and charges	(39)	(6)	-	-	(45)
Profit before tax	103	2	11	14	130

*Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 of the interim financial statements for further details.

For the purposes of management reporting, the Group is organised into three business streams: Retail, Commercial and Head office functions, which includes our treasury group operations, capital and other items classified as being non-attributable to our core business areas.

Nationwide is predominantly a retail focused operation which trades almost exclusively within the UK, with the exception of wholesale funding and liquidity management activities which are undertaken in both UK and overseas markets. The Group's operations incorporate a commercial property lending business and a treasury non-core portfolio which comprises approximately 26% of our treasury assets and includes loans to banks and asset backed securities. Both the commercial property loan portfolio and the treasury non-core portfolio include non-UK assets; the treasury non-core portfolio and a substantial part of the commercial loan portfolio are in managed run off and do not form part of the Group's future core strategy. This mix of activity is reflected in the business stream performance below.

Pre provision underlying profit has increased by 43% to £655 million (H1 2012/13: £456 million) driven by improvements in margin and the liability management gain arising from the buyback of certain tranches of PIBS.

Half Year to 30 September 2013	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net interest income/(expense)	1,200	61	(177)	1,084
Other income	170	9	124	303
Total income	1,370	70	(53)	1,387
Expenses	(683)	(27)	(22)	(732)
Pre provision underlying profit/(loss)	687	43	(75)	655
Impairment losses	(24)	(225)	(3)	(252)
Provisions for liabilities and charges	(71)	-	-	(71)
Underlying profit/(loss) before tax	592	(182)	(78)	332
Restructuring costs	-	-	(35)	(35)
Bank levy	-	-	(11)	(11)
Losses from derivatives and hedge accounting	-	-	(16)	(16)
Profit/(loss) before tax	592	(182)	(140)	270
Half Year to 30 September 2012*	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net interest income	773	26	91	890
Other income	205	10	8	223
Total income	978	36	99	1,113
Expenses	(618)	(24)	(15)	(657)
Pre provision underlying profit	360	12	84	456
Impairment losses	(64)	(193)	(24)	(281)
Provisions for liabilities and charges	(45)	-	-	(45)
Underlying profit/(loss) before tax	251	(181)	60	130
FSCS levies	6	-	-	6
Restructuring costs	(7)	-	(4)	(11)
Bank levy	-	-	(8)	(8)
Losses from derivatives and hedge accounting	-	-	(14)	(14)
Profit/(loss) before tax	250	(181)	34	103

*Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 of the interim financial statements for further details.

PERFORMANCE BY INCOME STATEMENT CATEGORY

Net interest income

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Net interest income	1,084	890
Weighted average total assets	192,771	195,652
	%	%
Net interest margin (NIM)	1.13	0.91

The Group has shown strong results in the six months to 30 September 2013 largely driven by a continued improvement in net interest margin. Net interest income has increased by 22% to £1,084 million.

Mortgage margins have remained stable throughout the period and net interest income continues to benefit from the re-pricing of existing assets onto current higher prevailing market rates. The cost of retail deposits has fallen during the 6 months to 30 September 2013 with new business rates significantly lower. This has had the effect of lowering the overall cost of retail funding by 18bps, relative to the position at 30 September 2012.

FLS utilisation at 30 September 2013 amounted to £2.5 billion. The direct interest cost saving, relative to the Group's average cost of funding, as a result of this utilisation amounted to an annual net interest reduction of £40 million, an impact of 2 basis points on our net interest margin at the half year for 2013/14.

The Group's net interest margin includes a net loss of £36 million arising from the sale of investment securities as part of the management of our liquidity portfolio (H1 2012/13: net gain of £69 million). The margin also includes £37 million net income (H1 2012/13: £22 million net income) from an update of our effective interest rate assumptions with respect to the recognition of mortgage and savings income and £nil (H1 2012/13: income of £48 million) from the release of excess credit fair value adjustments relating to the Regional Brands portfolios.

Margin recovery has been supported by the increase in the proportion of mortgages reverting onto the Standard Mortgage Rate (SMR) product rather than the BMR price promise for which balances peaked at £55 billion in May 2013. The BMR promise caps rates at 2 percentage points above the Bank of England base rate and whilst it represents a significant distribution of value to our members in line with our mutual principles, it constitutes a significant opportunity cost and constrains our ability to manage our margin. We estimate the opportunity cost to be approximately £400 million in the period by reference to standard variable rates available elsewhere in the market. All new business written since September 2009 will revert onto our SMR product.

Underlying other income

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Current account	58	59
Protection and investments	40	62
General insurance	50	55
Mortgage	12	20
Credit card	14	13
Commercial	9	10
Other income and charges	120	4
Total underlying other income	303	223
Movement on derivatives and hedge accounting	(16)	(14)
Total statutory other income	287	209

Underlying other income grew by £80 million relative to the first half of 2012/13 as a result of the buy-back of certain tranches of PIBS which generated a net gain of £124 million.

Protection and investment income fell £22 million to £40 million as a result of the operational impact of the Retail Distribution Review which came into force on 1 January 2013 and improved customer pricing on protection policies. General insurance income fell £5 million to £50 million as underwriting profit shares reduced. Mortgage income fell to £12 million due to lower mortgage payment protection income and the impact of the introduction of a new policy to carry out regular automated valuations across the residential mortgage portfolio, the cost of which is netted off against mortgage income.

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.

Even though the Group uses derivatives exclusively for risk management purposes, income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting is not achievable. Management believes that this volatility arises from application of the accounting rules, which do not reflect the economic reality, and consequently it is excluded from underlying performance.

The £16 million loss (H1 2012/13: £14 million loss) from derivatives and hedge accounting represents the net change in fair value of derivative instruments versus the change in fair value of the underlying asset or liability. The two main components of this half year's loss were:

- A loss of £47 million relating to ineffectiveness in micro hedge relationships caused by increasing sterling and euro interest rates coupled with bond maturities and disposals;
- A £26 million gain as a result of continued volatility in the currency markets, particularly relating to sterling:euro basis risk which is economically hedged but where hedge accounting treatment is not available.

The four main components of the loss for the period ended 30 September 2012 were a £74 million gain on micro hedge relationships following a large gilt disposal and an £11 million gain on the fair value of mortgage commitments, offset by a £66 million loss arising from the reversal of past ineffectiveness in respect of the maturity of fixed rate mortgages and a £35 million loss as a result of sterling:euro volatility.

Underlying expenses

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Employee costs:		
Wages and salaries	245	233
Social security costs	23	23
Pension costs	40	38
	308	294
Other administrative expenses	295	266
Administrative expenses (underlying)	603	560
Depreciation and amortisation	129	97
Total underlying expenses	732	657
Restructuring costs	35	11
Bank levy	11	8
Total statutory expenses	778	676

Total underlying expenses amounted to £732 million, an increase of 11% compared to 30 September 2012, but in line with the £731 million of underlying expenses in the second half of 2012/13. The growth was driven primarily by increased depreciation and running costs of enhancements to the Group's technology infrastructure which became operational in the second half of 2012/13.

A significant element of the incremental investment relates to the delivery of industry level regulatory programmes such as the Current Account Switching Service and the Mortgage Market Review Programme. Other key discretionary investment is focused on the broadening of the Group's product range and improved customer service such as the new banking platform, mortgage origination systems and the internet bank. The strategic investment has resulted primarily in increases in technology depreciation (approximately £32 million) and around £8 million of other administrative expenses.

The cost of processing invalid PPI claims amounted to approximately £20 million (H1 2012/13: £15 million) and is included in other administrative expenses. This has increased over the comparable period as a result of increased Financial Ombudsman Service (FOS) fees incurred as a backlog of complaints carried forward from prior periods was processed. Our decision has been upheld in 93% of cases where claims were referred to FOS. In total, 42% of all claims received have been in respect of customers to whom we have never sold a policy.

We have continued our progress towards achieving our medium term target of an underlying cost income ratio (CIR) of less than 50%. Our CIR for the period on an underlying basis was 52.8% (H1 2012/13: 59.0%).

Restructuring costs

These costs relate to the continuing restructuring of our business, largely in relation to the establishment of a more efficient and flexible sourcing model for the Group's technology and business change support and the Regional Brands integration programme.

The Regional Brands integration programme will migrate customer balances, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single branded Nationwide organisation. The total cost of this restructuring is expected to be £77 million, of which a transformation charge of approximately £22 million is included within these results relating to the implementation of the programme, write down of assets, and provisions for onerous leases and severance. The programme will ensure the smooth transition of approximately one million account holders and disposal of redundant infrastructure assets to deliver ongoing cost savings of circa £30 million per annum from 2015/16.

Bank levy

The £11 million charge in the half year ended 30 September 2013, which is included within administrative expenses, is half of the cost which the Group estimates will arise in respect of chargeable equity and liabilities as at 4 April 2014.

Impairment losses

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Prime residential	(2)	6
Specialist residential	10	20
Residential lending	8	26
Consumer banking	16	38
Retail lending	24	64
Commercial lending	225	193
Other lending	4	1
Impairment losses on loans and advances to customers	253	258
Impairment (gains)/losses on investment securities	(1)	23
Total	252	281

Retail impairments have fallen by 63% to £24 million (H1 2012/13: £64 million), driven by a reduction in residential impairments of £18 million and consumer banking of £22 million.

Nationwide has maintained a consistent philosophy to retail lending which focuses on prudent underwriting criteria. We ensure high LTV loans are advanced to customers with high credit scores and strong affordability assessments, and a track record of payments or saving. This allows us to offer 95% lending through our Save to Buy scheme and to existing mortgage customers, whilst continuing to manage the overall residential LTV profile of new secured lending.

The low residential impairment charge during the period reflects an observed gradual rise in house prices in the six months to 30 September 2013, a low interest rate environment and relatively stable unemployment trends, all of which are offsetting the pressure on household budgets. This is reflected in the arrears performance of our mortgage book which has remained stable over the period and continues to outperform industry averages by a significant margin.

The lower consumer banking impairment charge includes a reduction in provisions of £27 million reflecting updated recovery assumptions in respect of defaulted unsecured lending balances in line with recent experience.

Commercial loan impairments of £225 million are £32 million (17%) higher than the corresponding first half of 2012/13 but £75 million lower than the charge for the second half of 2012/13 (H2 2012/13: £300 million). After adjusting for a management overlay of £50 million recognised in the second half of last year, the charge for the current period is moderately lower than the previous six months reflecting relatively consistent market conditions and portfolio performance over the last year. This stabilisation in performance is welcome but represents only a first step towards a recovery in valuations over the medium term.

The UK economy has now had three consecutive quarters of positive growth and there are some signs of increased liquidity and investor appetite for CRE assets. In addition there is anecdotal evidence of recovery

sentiment spreading beyond London and the South East to regional markets. Performance is, however, variable and the established trend of more resilient London and prime property markets performing more strongly than secondary properties in regional locations continues to be a dominant feature of the market.

Our strategy remains one of optimising value recovery from the portfolio over the medium term. We expect to make substantial progress towards divestment of underperforming assets and loans which are outside current risk appetite over a 3-5 year timeframe; the reduction in gross balance sheet exposure over the last 18 months of 18% indicates that this is a realistic target.

Impairments continue to be driven by a range of factors including weak tenant demand, tenant failure or maturity, withdrawal of equity sponsor support on weaker cases and property obsolescence necessitating capital investment prior to re-letting. Impairment losses in the period are attributable to both new provisions on maturing facilities typically originated in the 2005-2008 period, together with some additional provisions on restructured cases where asset management strategies have proved unsuccessful or collateral values have been eroded further for other reasons. To the extent that property prices have now stabilised we expect to be less exposed to the requirement for additional provisions on impaired cases. We have previously indicated that we expect impairment losses on our CRE portfolio to continue to accrue at levels broadly consistent with our experience in our 2012/13 financial year for a period of 1-2 years before improving thereafter. Our experience in the first half of 2013/14 has been consistent with this expectation.

The charge for the period includes a release in the collective provision against unidentified impairment of £10 million driven by a reduction in the management overlay, reflecting our view that the inherent uncertainty relating to market conditions has moderated slightly.

The other lending charge of £4 million (H1 2012/13: £1 million) relates to the impairment charge arising on a European commercial loan portfolio.

Impairment writebacks on investment securities of £0.7 million (H1 2012/13: £23 million charge) comprise a loss of £1.5 million mainly on a single US collateralised debt obligation security, offset by impairment write backs of £2.2 million in relation to two assets sold in the period.

Underlying provisions for liabilities and charges

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Underlying provisions for liabilities and charges - customer redress FSCS	71 -	45 (6)
Statutory provisions for liabilities and charges	71	39

In light of a review of compliance with consumer credit legislation being undertaken across the industry, we are undertaking a comprehensive review of our own documentation and processes. A number of areas which require further enquiry have been identified and whilst our investigations are still at a relatively early stage, we have recognised a charge in the current period of £71 million in respect of potential costs in relation to matters which may require remediation. Our findings to date have not revealed any customer detriment.

The charge for the half year to 30 September 2012 was in respect of PPI, further details of which are provided in note 9. Based on latest experience in relation to PPI claims volumes and the average level of settlements, the Group is satisfied that no further provision for losses is required at 30 September 2013.

Nationwide pays levies to the FSCS based upon its share of protected deposits. There has been no charge raised for FSCS in the period to 30 September 2013 as the levy is applied to firms who are members of the scheme on 31 December in respect of the year commencing on the following 1 April. A charge for the 2014/15 scheme year will therefore be recognised in the second half of our current financial year.

The Group also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses has yet to be determined and hence no provision has been recognised. Further information is provided in note 9.

Taxation

The tax charge in the period to 30 September 2013 is £36 million on profits of £270 million (H1 2012/13: credit of £17 million in respect of profits of £103 million), giving a tax rate of 13%. This is below the statutory rate of 23% for two main reasons. Firstly, progress was made during the year on an outstanding tax matter relating to prior periods, resulting in a release of excess provisions of £13 million at the half year. Secondly, following a change in the corporation tax rate which has been substantially enacted, from 23% to 21%, from 1 April 2014, the Group has restated its deferred tax balances to 21%. This has resulted in a credit to the income statement of £14 million. Excluding the effects of these two items, the Group's tax rate is 24%, compared to a statutory rate of 23%.

BALANCE SHEET

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 86.0% of our total loans and advances to customers (2012/13: 85.0%).

Loans and advances to customers	30 September 2013		4 April 2013	
	£bn	%	£bn	%
Prime residential mortgages	115.7	70.4	110.6	69.4
Specialist residential mortgages	25.6	15.6	25.0	15.6
Total residential mortgages	141.3	86.0	135.6	85.0
Commercial lending	19.1	11.6	19.9	12.5
Other lending	0.2	0.1	0.4	0.3
Consumer banking	3.7	2.3	3.5	2.2
Gross balances	164.3	100.0	159.4	100.0
Impairment provisions	(1.4)		(1.2)	
Fair value adjustments for micro hedged risk	1.0		1.4	
Total	163.9		159.6	

Residential

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels.

Specialist residential mortgages are made up of £23.0 billion of advances made through our specialist lending brands, TMW and UCB Home Loans Corporation Limited (UCB), and £2.6 billion arising from the acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios in prior years. Buy to let mortgages make up 82% of total specialist lending, 12% relates to self-certification mortgages, 4% relates to near prime and just 2%, amounting to £0.4 billion, relates to sub prime. New specialist lending is restricted to buy to let mortgages.

Arrears as a percentage of the total book have continued to reduce on both Prime and Specialist mortgages as a result of continued reducing arrears volumes and strong book growth. Group arrears performance remains very favourable relative to the Council of Mortgage Lenders (CML) industry average, and specialist lending arrears are below the overall industry measure as seen in the table below.

Cases more than 3 months in arrears as % of total book	30 September		4 April	
	2013	%	2013	%
Prime	0.51		0.53	
Specialist	1.73		1.75	
Group	0.70		0.72	
CML Industry Average	1.75		1.89	

Total residential balance sheet provisions have reduced to £136 million, compared with £165 million at 4 April 2013, driven primarily by increasing house prices and improving arrears. This combined with a 4% book growth

has reduced the coverage ratio against total balances to 0.10% (2012/13: 0.12%) and against balances more than three months in arrears to 10.9% (2012/13: 12.8%).

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 monthly payment due. Further information regarding change in terms and forbearance is provided within the retail section of the Risk Management Report.

Strong property sales and a continued reduction in the intake of possessions have led to the number of properties in possession continuing to fall significantly to 444 at 30 September 2013 (4 April 2013: 600). This represents 0.03% of our book, which compares well with the industry measure of 0.09%. The table below shows possessions as a percentage of book.

Possessions as % of total book (number of properties)	30 September 2013	4 April 2013
	Number of properties	%
Prime	186	0.02
Specialist	258	0.11
Group	444	0.03
Industry statistics		0.09*
		0.10

* Based on quarterly data as at 30 September 2013

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 comparing the number of properties we have taken into possession with the total for the industry. During the period to 30 September 2013 the properties we have taken into possession has reduced to 518 representing 3.5% (2012/13: 4.6%) of properties taken in by the industry as a whole, against our market share of all residential mortgages of 13.2% (2012/13: 12.8%).

Commercial

Our commercial lending portfolio of £19.1 billion (4 April 2013: £19.9 billion) comprises £9.5 billion secured on commercial property (Property Finance) (4 April 2013: £10.2 billion), £8.1 billion advanced to registered social landlords (RSL) (4 April 2013: £8.2 billion) and £1.5 billion advanced under Project Finance, principally via the Private Finance Initiative (PFI) (4 April 2013: £1.5 billion).

Our Property Finance portfolio is diverse both in terms of sectors and geographic spread. The non-UK element of our commercial property portfolio (excluding secured lending to a European commercial loan portfolio classified as Other lending below) amounted to £0.9 billion (4 April 2013: £1.0 billion) and is principally in Germany with only a single exposure to Ireland.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with the Group's forbearance policies or other circumstances indicating the likelihood of a material change in cashflow expectations. Further information on the Group's forbearance policies is provided within the commercial section of the Risk Management Report.

Our exposure to Property Finance is 30% lower than its £13.7 billion peak in 2009, with an 18% reduction in our exposure over the last 18 months. This reflects both scheduled repayments and our active management of our Property Finance loans. Nationwide uses a range of options to reduce its exposure including equity injections from sponsors, restructures with increased amortisation, and full redemption where possible for maturing loans. Refinancing and longer term asset management plans are used where necessary and appropriate, for example where loans are supported by better quality properties.

The proportion of our Property Finance balances classified as impaired and the provision coverage against these balances are shown below:

Property Finance Portfolio	30 September 2013 £m	4 April 2013 £m
Gross balances	9,536	10,192
Impaired balances	3,210	2,715
Impaired balances as % of gross balances	34%	27%
Commercial provisions		
Individual	965	810
Collective	138	148
Total provisions	1,103	958
Provision coverage ratios		
Individual provisions as % of impaired balances	30%	30%
Total provisions as % of impaired balances	34%	35%
Total provisions as % of total gross balances	12%	9%

Impaired balances at 30 September 2013 amounted to £3,210 million (4 April 2013: £2,715 million). All provisions are reassessed at least once every six months and will incorporate any change to our exit strategy or expected cashflow, for example from updated valuations, withdrawal of equity sponsor support or tenant maturities/.failures. This reassessment process, together with the impairment drivers referred to in the impairment losses section of the Business Review, has driven this increase in impaired balances.

Provisions held against the portfolio amounted to £1,103 million (4 April 2013: £958 million) representing a coverage ratio of 34% (4 April 2013: 35%). The stable coverage ratio reflects, in part, the recent stabilisation of commercial property values. In addition, estimated (indexed) collateral values for impaired balances amounted to £2,296 million (72% of impaired balances) at 30 September 2013 and £1,743 million (64% of impaired balances) at 4 April 2013. This further improves the relative strength of our total coverage (collateral and provision) from 99% at 4 April 2013 to 106% at 30 September 2013.

Nationwide's strategy is to continue to rebalance its commercial property exposure by exiting non-performing loans and to maintain a lower proportion of the Group's balance sheet in this asset class. Against the backdrop of stabilised market conditions and satisfactory returns available on new assets, we will carry out measured new lending in line with our reduced risk appetite.

Our strategic objective to undergo a managed divestment of the book is being achieved by using a variety of approaches including asset sales, refinances and loan sales to take advantage of increased liquidity and any sustained improvement in market sentiment. Since the period end we have seen further repayments and disposals of Property Finance exposures amounting in total to £442 million at prices in line with their carrying values as recorded at 30 September 2013. This has reduced the gross exposure on the Property Finance book at the date of this report to approximately £9.1 billion. This includes the disposal of approximately £200 million of loans classified as weak or in default. We expect to see further significant progress in asset disposals over the remainder of the financial year.

Other lending

Other lending includes £209 million (4 April 2013: £219 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio. These investments were acquired by the Treasury Division and are therefore held within the head office functions business segment.

The Group's unsecured lending in relation to a student loan portfolio was sold on 24 April 2013 (4 April 2013: £217 million).

Consumer banking

During the period to the 30 September 2013, the provisioning assumptions for unsecured products have been updated to reflect expected recoveries on delinquent balances based on recent past experience. As a consequence of this change, the point of full write off of the loan is also being deferred, resulting in higher reported delinquent balances without any deterioration in the quality of the book.

	30 September 2013 Delinquent balances	30 September 2013 Balances before provisions	30 September 2013 Delinquent to total*	4 April 2013 Delinquent to total
	£m	£m	%	%
FlexAccount (overdraft balances)	35	206	17	10
Personal loans	78	1,916	4	3
Credit cards	75	1,520	5	3

* Without the change referred to above, delinquent balances as a proportion of total balances would have been reported as 13%, 3% and 3% respectively for current accounts, personal loans and credit cards.

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 PRA, and from 1 January 2008 the Group has also complied with the rules which implement the EU Capital Requirements Directive (Basel II). Since 4 April 2009 the Group has predominantly calculated its capital requirement on an Internal Ratings Based (IRB) approach.

The table below details the capital position as at 30 September 2013:

	30 September 2013 Basel II £m	4 April 2013 Basel II £m
General reserve	6,842	6,765
Regulatory adjustments and deductions (Note 1):		
• Defined benefit pension fund adjustment (Note 2)	416	263
• Intangible assets (Note 3)	(904)	(878)
• Goodwill (Note 3)	(12)	(16)
• Excess of regulatory expected losses over impairment (Note 4)	(381)	(429)
• Securitisation positions (50%)	(110)	(245)
• Other (50%)	-	(6)
	(991)	(1,311)
Core Tier 1 capital	5,851	5,454
Permanent interest bearing shares (Note 5)	631	1,304
Tax in respect of expected loss excess over impairment	114	136
Total Tier 1 capital	6,596	6,894
Dated subordinated debt (Note 5)	2,125	2,281
Revaluation reserve	68	67
Collectively assessed impairment allowances	29	70
Deductions:		
• Excess of regulatory expected losses over impairment	(494)	(565)
• Securitisation positions (50%)	(110)	(245)
• Other (50%)	-	(6)
	(604)	(816)
Tier 2 capital	1,618	1,602
Total regulatory capital	8,214	8,496
Risk weighted assets (Note 6):	£m	£m
Credit risk:		
• Retail mortgages	15,571	16,953
• Retail unsecured lending	6,659	6,485
• Commercial loans	12,132	13,643
• Treasury	1,976	2,526
• Counterparty credit risk	252	276
• Other	1,101	1,107
Total credit risk	37,691	40,990
Operational risk	3,398	3,398
Market risk	7	52
Total risk weighted assets	41,096	44,440

	30 September 2013 Basel II	4 April 2013 Basel II
Key capital ratios (Note 7):	%	%
Core Tier 1	14.2	12.3
Tier 1	16.1	15.5
Total capital	20.0	19.1

Notes

- (1) Certain deductions from capital are required to be allocated to Tier 1 and 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 PRA guidance.
- (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 five years, less associated deferred tax.
- (3) Intangible assets and goodwill do not qualify as capital for regulatory purposes.
- (4) For capital purposes a deduction is made for future expected losses in addition to incurred losses, calculated using IRB guidelines.
- (5) 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.
- (6) The Basel II Pillar 1 capital requirements (risk weights) are calculated using the Retail IRB approach for mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline societies) and unsecured lending, Foundation IRB for treasury and commercial portfolios (other than sovereign exposures), and the Standardised approach for all other credit risk exposures, including some mortgages and treasury and commercial exposures that are exempt from using the IRB approach.
- (7) Solvency ratios are calculated as relevant capital divided by risk weighted assets.

The table below shows movements in capital since 5 April 2013:

	£m
Core Tier 1 capital at 5 April 2013	5,454
Profit for the period	234
Other comprehensive expenses recognised directly in the general reserve	(157)
Pension deficit adjustment	153
Intangible assets and goodwill	(22)
Excess of expected loss over impairment	48
Securitisation and other positions	141
Core Tier 1 capital at 30 September 2013	5,851
Other Tier 1 capital at 5 April 2013	1,440
Buy back of permanent interest bearing shares	(485)
Fair value adjustments	(188)
Tax on excess of expected loss over impairment	(22)
Other Tier 1 capital at 30 September 2013	745
Total Tier 1 capital at 30 September 2013	6,596
Tier 2 capital at 5 April 2013	1,602
Amortisation	(53)
Fair value adjustments	(103)
Revaluation reserve	1
Collectively assessed impairment allowances	(41)
Excess of regulatory expected loss over impairment	71
Securitisation and other positions	141
Tier 2 capital at 30 September 2013	1,618
Total regulatory capital at 30 September 2013	8,214

The growth in Core Tier 1 capital is due to an increase in profits of £234 million and a decrease in capital deductions. Capital deductions have decreased as a result of the sale of securitisation assets, and increased commercial provisions which have reduced the level of expected loss over impairment deduction. The movement in the general reserve primarily relates to an actuarial reassessment of the defined benefit pension fund which is offset in capital terms by the pension deficit adjustment.

Total capital decreased by £0.3 billion to £8.2 billion (4 April 2013: £8.5 billion) reflecting the buy back of £485 million of Permanent Interest Bearing Shares in September 2013 which contributes to the decrease in the fair value adjustments of £188 million.

Nationwide uses the IRB approach to calculate its capital requirements for most of its exposure classes and the standardised approach for some other classes. The following table shows the Pillar 1 capital requirement for credit risk at 30 September 2013:

	30 September 2013 £m	4 April 2013 £m
Internal Ratings Based (IRB) exposure classes		
Institutions	42	52
Corporates (commercial lending)	937	1,064
Retail mortgages (Note 1)	963	464
Qualifying revolving retail	311	310
Other retail (unsecured loans)	222	208
Securitisation positions	78	112
Non-credit obligation assets (fixed assets and other)	88	89
Counterparty credit risk (derivatives)	20	22
	2,661	2,321
Standardised exposure classes		
Central governments & central banks (Note 2)	-	-
Regional governments & local authorities	1	1
Multilateral development banks (Note 2)	-	-
Corporates (Non Commercial)	11	14
Retail mortgages (secured against residential property) (Note 1)	253	830
Other retail (Note 3)	-	-
Commercial lending (secured against property)	16	13
Commercial lending (other)	16	12
Past due	48	81
Other	9	7
	354	958
Total	3,015	3,279

Notes

- (1) During the period the Specialist residential mortgage portfolio was moved from a Standardised basis to IRB; this has resulted in a switch from Standardised risk weightings to IRB risk weightings as shown above.
- (2) Nationwide's exposures to central banks and governments and multilateral development banks are zero risk weighted.
- (3) The capital requirement for 'Other' retail is immaterial.

The table below shows movements in credit risk Risk Weighted Assets (RWAs) since 5 April 2013.

Credit risk RWA flow statement

	Residential Mortgages	Unsecured lending	Commercial	Treasury	Other (Note 1)	Counterparty credit risk (Note 2)	Total
	£m	£m	£m	£m	£m	£m	£m
RWAs at 5 April 2013	16,953	6,485	13,643	2,526	1,107	276	40,990
Book size growth/(reduction)	794	64	(541)	(464)	(6)	(2)	(155)
Book quality (improvement)/deterioration	(577)	110	(970)	(86)	-	(22)	(1,545)
Model updates	(1,599)	-	-	-	-	-	(1,599)
RWAs at 30 September 2013	15,571	6,659	12,132	1,976	1,101	252	37,691

Notes

(1) 'Other' relates to fixed and other assets held on the balance sheet
 (2) 'Counterparty credit risk' relates to derivative financial instruments

Credit risk RWAs have decreased to £37.7 billion (4 April 2013: £41.0 billion). Nationwide's mortgage and unsecured lending has continued to grow, resulting in increased book sizes. In addition Nationwide's house price index has increased since 4 April 2013, improving 'loan to value' ratios and consequently the quality of the mortgage book.

The model update adjustment reflects the fact that since August 2013 the capital requirements for 'Buy to Let' and 'Self Certified' mortgages generated by Nationwide's specialist lending subsidiaries have been calculated using the IRB approach. They were previously measured under the Standardised approach; this has resulted in an overall decrease in RWAs for mortgages. Under the IRB approach there is an offsetting adjustment to capital resources for expected losses.

Continued management of the Commercial portfolio has resulted in a reduction of the book size; the movement in book quality is driven by assets moving into default due to the challenging conditions in the commercial property markets which results in a switch from risk weighted assets to expected loss deductions.

Active Treasury portfolio management, through the sale and run off of securitisation assets, has resulted in a reduction of RWAs to £2.0 billion (4 April 2013: £2.5 billion).

Capital position on a CRD IV basis

The final text of the Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) (known together as 'CRD IV') was published on 27 June 2013, for implementation from 1 January 2014. The European Banking Authority (EBA) is in the process of releasing a number of technical standards to provide further detail on specific parts of CRD IV. In addition, the PRA published a consultation paper on 2 August 2013 outlining their intended approach to implementing CRD IV in the UK.

The most significant changes under CRD IV are:

- Additional deductions will apply to capital resources
- Most existing Tier 1 and Tier 2 instruments will no longer be eligible as own funds. Their eligibility will be reduced over a phased implementation period
- Firms will need to hold a higher quantity of Common Equity Tier 1 (CET1) capital than under the existing regulations.

In the UK, the PRA is proposing to:

- Accelerate the implementation of CET1 deductions to apply in full from 1 January 2014
- Potentially increase firms' CET1 requirements above the levels in CRD IV, with additional requirements phased in during the period 2014-2018.

The table below sets out estimated CRD IV ratios as at 30 September 2013, based on our current understanding of the regulation and reconciles the accounting capital to both transitional and full impact capital positions as if 2013/14 is 'year 1' of the transitional period. Accounting capital consists of the general reserve, revaluation reserve and available for sale reserve as shown on the balance sheet. The table shows how these items are represented for regulatory purposes. The transitional measure is based on the PRA consultation paper CP5/13 which states that there will be no transitional provisions for the deductions from capital. Therefore this column is not directly comparable with Table 3 in our 2013 Pillar 3 disclosure which assumed there would be a transitional approach to these items. Our actual ratios under CRD IV may differ as further technical standards and policy statements clarify the detailed requirements.

Nationwide's CET1 capital ratio has increased from 9.1% on 4 April 2013 to 11.0% on 30 September 2013. This is due to:

- An increase in CET1 resources, due to increased reserves from profitability in the period and a reduction in the deduction for expected losses
- Reduced RWAs, primarily in the specialist lending, commercial and treasury portfolios due to a combination of model changes, asset disposals and the migration of commercial assets moving into the default slotting grade, resulting in a switch from risk weighted assets to expected loss deductions.
- These were partially offset by a change in the capital treatment of securitised assets rated lower than BB-, where from 1 January 2014 Nationwide intends to risk weight these assets at 1250% as opposed to deducting them from capital resources. This change is applied in the transitional and fully-loaded CET1 capital ratios in the CRD IV table.

	Current rules 30 Sept 2013 £m	Transitional 30 Sept 2013 £m	Full impact 30 Sept 2013 £m	Full impact 4 April 2013 £m
Common Equity Tier 1 (CET1)				
General reserve	6,842	6,842	6,842	6,765
Revaluation reserve	-	-	68	67
Available for sale reserve	-	(163)	(163)	(252)
Regulatory adjustments:				
Prudential Valuation Adjustment	-	(9)	(9)	(13)
Defined benefit pension fund adjustment	416	-	-	-
CET1 deductions:				
Intangible assets and goodwill	(916)	(869)	(869)	(837)
Securitisation positions	(110)	-	-	-*
Excess of expected losses over impairments	(381)	(988)	(988)	(1,130)
Other	-	-	-	(12)
Total Common Equity Tier 1 capital	5,851	4,813	4,881	4,588
Additional Tier 1 (AT1)				
Permanent interest bearing shares	631	631	-	-
Tax in respect of expected losses over impairments	114	-	-	-
Total Tier 1 capital	6,596	5,444	4,881	4,588
Tier 2				
Revaluation reserves	68	-	-	-
Collectively assessed impairment allowances	29	36	36	92
Dated subordinated debt	2,125	2,125	1,924	1,972
Tier 2 deductions:				
Securitisation deductions	(110)	-	-	-
Excess of expected losses over impairments	(494)	-	-	-
Total Tier 2 capital	1,618	2,161	1,960	2,064
Total capital	8,214	7,605	6,841	6,652
Current RWAs	41,096	41,096	41,096	44,440
Additional CRD IV RWAs		3,135	3,135	5,845
Total RWAs under CRD IV		44,231	44,231	50,285
Total exposure for Leverage Ratio	212,013	211,449	211,449	207,668
CET 1 Ratio	14.2%	10.9%	11.0%	9.1%
Leverage Ratio	3.1%	2.6%	2.3%	2.2%*
Leverage Ratio with PIBS included		2.6%	2.6%	2.8%

*From 1 January 2014, Nationwide intends to change the treatment of securitisation assets rated lower than BB-, which will be risk-weighted as opposed to deducted from capital. This change is applied in the transitional and fully-loaded CET1 capital ratios above and results in a restatement of the leverage ratio to 2.2% from 2.0% as at 4 April 2013.

A reconciliation of total assets as disclosed in the balance sheet to the leverage ratio exposure is given in the table below:

	Current rules 30 Sept 2013 £m	Transitional 30 Sept 2013 £m	Full impact 30 Sept 2013 £m	Full impact 4 April 2013 £m
Total Assets (Balance sheet)	193,332	193,332	193,332	190,718
Mortgage pipeline	5,740	5,740	5,740	4,735
Other committed facilities (Note 1)	12,641	12,641	12,641	12,807
Repurchase agreements (Note 2)	2,397	2,397	2,397	2,941
Netted derivative adjustment	(804)	(804)	(804)	(1,554)
Common Equity and Tier 1 deductions	(1,293)	(1,857)	(1,857)	(1,979)
Leverage ratio exposure	212,013	211,449	211,449	207,668

Notes

(1) Other committed facilities relates to mortgage overpayments and unsecured, commercial and treasury undrawn lending.
(2) Repurchase agreements includes exposure in relation to the Bank of England's 'Funding for Lending Scheme'.

PRA 'adjusted' ratios

As part of its assessment of capital adequacy of major banks and building societies (performed at the request of the FPC, with results announced on 20 June 2013) the PRA introduced certain adjustments to the measurement of CET1 and leverage ratios. This was for the purposes of measuring firms' positions against a CET1 ratio target of 7% and a leverage ratio target of 3%.

For Nationwide the adjustments were:

- A reduction in capital resources of £0.4 billion in respect of estimated future losses on specific loan assets
- The imposition of a risk weight floor of 15% for residential mortgages resulting in an increase in Nationwide's total RWA's by £10.6 billion as at 31 December 2012.

As a result of this exercise Nationwide agreed a plan with the PRA to meet an adjusted leverage ratio of 3% by the end of 2015. As at 30 September 2013 the Group's PRA adjusted CET1 ratio was 8.1%, well in excess of the 7.0% target and our performance in the first half of the financial year means that we remain confident that we will also meet the adjusted leverage target of 3% by the end of 2015.

The 30 September 2013 position is shown in the table below:

PRA adjustments	CRD IV 30 September 2013 £m
Common Equity Tier 1 capital	4,881
PRA adjustment	(427)
Adjusted Common Equity Tier 1 capital	4,454
Risk weighted assets	44,231
PRA adjustment	10,602
Total risk weighted assets	54,833
PRA adjusted CET1 ratio	8.1%
PRA adjusted Leverage ratio	2.1%

In calculating the PRA adjusted ratios above, Nationwide has treated the adjustments communicated in the announcement of 20 June 2013 as fixed. Application of the risk weight floor of 15% to the Group's residential mortgage book as at 30 September 2013 would increase the PRA adjustment in respect of risk weight assets, leading to a reduction in the PRA adjusted CET1 ratio to 7.9%.

Nationwide is on track to meet the capital expectations that the PRA has set. As at 30 September 2013, Nationwide's adjusted CET1 capital ratio is 8.1%, compared with the PRA's 7% target. The adjusted CET1 leverage ratio is 2.1%. Nationwide's capital plan is founded on organic growth, consistent with the Society's current business model and strategy.

On 2 August 2013, the PRA published consultation paper CP5/13 which consults on the changes required to implement CRD IV, including the new capital buffer framework, changes to Pillar 2 requirements, and the decision to not allow transitional provisions for the new deductions from capital required by CRD IV. The changes will be clarified and implemented via a Policy Statement in December 2013. Based on our current understanding and a prudent assessment of the impact of CP5/13, Nationwide will continue to meet all regulatory requirements and maintain a robust capital position.

Funding and Liquidity

Funding Strategy

The Group has a strong and well diversified funding base, and continues to be predominantly funded by retail savings. We have continued to manage our balance sheet actively during the period by accessing a variety of funding sources in response to conditions in both the retail and wholesale markets.

The Group aims to align the sources and uses of funding. As such, retail customer loans and advances are largely funded by customer deposits. Other assets including commercial customer loans, core liquidity and other treasury assets are funded by long term wholesale debt and equity.

These funding relationships are summarised below as at the balance sheet date:

Liabilities				Assets		
	30 Sept 2013 £bn	4 April 2013 £bn	4 April 2012 £bn	30 Sept 2013 £bn	4 April 2013 £bn	4 April 2012 £bn
Retail funding	136	132	132	Retail lending	141	137
Wholesale funding	42	43	49	Other lending	23	23
Capital & reserves	10	10	10	Core liquidity	17	17
Other	5	6	5	Non-core treasury portfolio	6	7
				Other	6	8
Total	193	191	196		193	191
						196

We continue to maintain a high quality liquid asset portfolio consisting primarily of deposits at central banks and government bonds. The PRA notified firms of a relaxation to their stance on the definition of assets that count towards the Liquid Asset Buffer (LAB), which now allows a proportion of a firm's regulatory liquidity requirements to be met by collateral pledged with the Bank of England (BoE).

In April 2013 the Bank of England extended availability of the Funding for Lending Scheme (FLS) until January 2015 to boost lending to the economy. Nationwide has both supported and participated in the FLS although in terms of volumes has made relatively limited use of the scheme, having drawn £2.5 billion as at 30 September 2013 (4 April 2013: £2.5 billion.) Subsequent to the period end a further £2.0 billion was drawn down in line with our continued support of the UK housing market. This brings the total amount of the FLS facility used to £4.5 billion as at the date of this report.

The core liquidity ratio at 30 September 2013 was 11.1% (4 April 2013: 11.1%).

Liquidity

Liquidity represents a significant area of risk for financial institutions and, as such, it is a main area of focus for regulatory authorities. The Group continues to enhance and strengthen its liquidity management systems and approach.

In December 2010, the Basel Committee on Banking Supervision (BCBS) announced proposals to introduce two new liquidity metrics as part of the implementation of Basel III. These are a short term liquidity stress metric, the Liquidity Coverage Ratio (LCR), and a longer term funding metric, the Net Stable Funding Ratio (NSFR). In January 2013, the BCBS announced revised guidelines in respect of the LCR and confirmed that work continues on the NSFR. On 27 June 2013, the CRR / CRD IV package, which includes requirements for the LCR, was published in the Official Journal of the European Union. The LCR will become a European standard from January 2015 with firms required to have a ratio in excess of 60%, with progressive increases thereafter to 100% by 1 January 2018.

The implementation of the LCR in the UK is likely to include a higher requirement following the FPC recommendation in June 2013 to the PRA that the LCR is introduced in the UK with a minimum requirement of 80% until 2015, rising thereafter to a minimum ratio of 100% by January 2018. The NSFR is expected to be implemented from January 2018. These measures are subject to ongoing development so there remains uncertainty as to their final form. In particular, the European Banking Authority (EBA) is still to opine on a number of areas of the LCR calculation and the PRA is to consult on transition arrangements from the current regulatory regime. Nationwide continues to monitor its position relative to the anticipated requirement of both the LCR and NSFR. Based on current interpretations of the requirements, Nationwide holds sufficient high quality liquid assets and stable funding to meet the new requirements.

Nationwide ensures sufficient resources are available for day-to-day cash flow needs whilst enabling the Group to meet internal and regulatory liquidity requirements. These requirements are calibrated to ensure the Group has sufficient liquidity resources, both as to amount and quality, to meet financial obligations as they fall due, even in the event of unexpected outflows that could be seen across a range of stress scenarios. Liquid assets are managed centrally by the Treasury Division. All liquidity is held centrally to meet cash outflows seen in any entity across the Group with the exception of a small portfolio of assets held in our Irish branch, Nationwide UK (Ireland) (NUKI). These assets (£143 million sterling equivalent, 4 April 2013: £131 million) are held at NUKI to ensure compliance with local liquidity regulations.

The stock of liquid assets managed by Nationwide's Treasury Division falls into the categories listed below.

Core Liquidity

The Group maintains a high quality core liquidity portfolio through continued investment in highly liquid securities in line with the Liquid Asset Buffer (LAB) as defined by the PRA in BIPRU 12 which comprises:

- reserves held at central banks; and
- highly rated debt securities of varying maturities issued by a restricted range of governments, central banks and multilateral development banks.

The amount is net of any core liquidity holdings that are encumbered (through repurchase arrangements or other transactions) but includes assets held under reverse repurchase arrangements. It also excludes contingent liquidity capacity available through central bank funding schemes.

Other Central Bank Eligible Assets

In addition to the core liquidity portfolio, the Group holds a stock of unencumbered third party securities that are eligible for use in the funding operations of those central banks that we have access to. 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 assets (such as fixed rate investments) that are not eligible for central bank operations but may be capable of financing through third party repurchase agreements.

Self Issued RMBS and Covered Bonds

The Group holds undrawn AAA notes issued under the Group's asset backed funding programmes. These self-issued securities represent eligible collateral for use in repurchase agreements with third parties or in central bank operations.

Whole mortgage loan pools pledged with the BoE

Nationwide holds a number of unencumbered whole mortgage loan pools at the BoE for use as collateral for contingent funding.

The table below sets out the fair value of each of the above liquidity types as at 30 September 2013. The table is not a representation of the accounting balance sheet position as it includes off balance sheet liquidity (including self issued RMBS and covered bonds) but excludes any encumbered assets. The carrying value of the liquidity portfolio as per the accounting balance sheet is shown at the end of this Business Review.

	30 September 2013 £bn	4 April 2013 £bn
Core liquidity*	19.8	19.2
Other central bank eligible assets	1.2	1.4
Other securities	2.3	2.7
Self issued RMBS and covered bonds	14.0	14.0
Whole mortgage loan pools pledged with the BoE	1.2	1.4
Total	38.5	38.7

The table below sets out the sterling equivalent of the liquidity portfolio categorised by issuing currency.

At 30 September 2013	GBP £bn	EUR £bn	USD £bn	Total £bn
Core liquidity*	17.7	1.4	0.7	19.8
Other central bank eligible assets	-	1.2	-	1.2
Other securities	0.5	0.5	1.3	2.3
Self issued RMBS and covered bonds	14.0	-	-	14.0
Whole mortgage loan pools pledged with the BoE	1.2	-	-	1.2
Total	33.4	3.1	2.0	38.5

At 4 April 2013	GBP £bn	EUR £bn	USD £bn	Total £bn
Core liquidity*	16.8	1.6	0.8	19.2
Other central bank eligible assets	0.1	1.3	-	1.4
Other securities	0.6	0.6	1.5	2.7
Self issued RMBS and covered bonds	14.0	-	-	14.0
Whole mortgage loan pools pledged with the BoE	1.4	-	-	1.4
Total	32.9	3.5	2.3	38.7

*Core liquidity includes off balance sheet items, primarily treasury bills held through FLS participation.
The average month end balance for core liquidity during the 6 months to 30 September 2013 was £20.0 billion.

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 2013 £bn	30 September 2013 %	4 April 2013 £bn	4 April 2013 %
Repo and other secured arrangements	1.0	2.4	1.2	2.8
Deposits, including PEB balances	9.4	22.2	8.7	20.0
Certificates of deposit	3.3	7.8	3.8	8.8
Commercial paper	4.0	9.5	4.0	9.2
Covered bonds	11.3	26.8	11.4	26.3
Medium term notes	4.3	10.2	4.7	10.8
Securitisations	7.3	17.3	7.6	17.5
Other	1.6	3.8	2.0	4.6
Total	42.2	100.0	43.4	100.0

The table below sets out an analysis of the currency composition of the Group's wholesale funding:

30 September 2013	USD £bn	EUR £bn	GBP £bn	Other £bn	Total £bn
Repo and other secured arrangements	-	-	1.0	-	1.0
Deposits	0.3	1.1	8.0	-	9.4
Certificate of deposit	0.3	0.2	2.8	-	3.3
Commercial paper	3.5	0.5	-	-	4.0
Covered bonds	-	9.4	1.7	0.2	11.3
Medium term notes	1.0	2.1	1.0	0.2	4.3
Securitisations	3.8	0.9	2.6	-	7.3
Other	0.1	0.8	0.7	-	1.6
Total	9.0	15.0	17.8	0.4	42.2

4 April 2013	USD £bn	EUR £bn	GBP £bn	Other £bn	Total £bn
Repo and other secured arrangements	-	0.2	1.0	-	1.2
Deposits	0.2	1.1	7.4	-	8.7
Certificate of deposit	0.2	0.1	3.5	-	3.8
Commercial paper	3.4	0.4	0.2	-	4.0
Covered bonds	-	9.4	1.7	0.3	11.4
Medium term notes	1.0	2.3	1.2	0.2	4.7
Securitisations	4.1	0.9	2.6	-	7.6
Other	0.1	1.1	0.8	-	2.0
Total	9.0	15.5	18.4	0.5	43.4

During the first half of 2013/14 a combination of strong retail performance, low long term maturities and a reduced liquidity requirement has resulted in a minimal long term funding requirement. As a result we have not been active in the long term markets. Additionally, we did not increase our drawings from the FLS scheme during the period. Subsequent to the period end a further £2.0 billion was drawn down in line with our continued support of the UK housing market. This brings the total amount of the FLS facility used to £4.5 billion.

Nationwide tendered £715 million of PIBS in September 2013 as part of the Group's capital optimisation strategy. This resulted in the Group redeeming £485 million of PIBS with the consent of the PRA. The 68% participation rate contributed £124 million to profit in the period with the majority of this attributable to the unwinding of the associated swaps.

Short term funding instruments in issue have decreased to £11.3 billion (4 April 2013: £11.5 billion). The average initial term of outstanding short term balances as at 30 September 2013 was 143 days (4 April 2013: 162 days).

The residual maturity profile of the Group's wholesale funding portfolio has shown a modest decline from 35 months to 32 months and the proportion of funding that is categorised as long term (>1 year to maturity) has decreased slightly to 60.7% (4 April 2013: 62.2%).

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

Wholesale funding residual maturity	30 September 2013		4 April 2013	
	£bn	%	£bn	%
Less than one year	16.6	39.3	16.4	37.8
One to two years	8.3	19.7	7.3	16.8
Two to five years	10.1	23.9	11.8	27.2
More than five years	7.2	17.1	7.9	18.2
Total	42.2	100.0	43.4	100.0

The table below sets out a more detailed breakdown of the residual maturity on the wholesale funding book:

At 30 September 2013

	Maturity of wholesale funding								Total
	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Sub-total less than one year	Over one year but not more than two years	Over two years		
£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repo and other secured arrangements	-	-	-	-	-	1.0	-	1.0	1.0
Deposits, including PEB balances	3.6	1.4	0.9	0.4	6.3	0.6	2.5	9.4	
Certificates of deposit	0.6	1.7	1.0	-	3.3	-	-	3.3	
Commercial paper	0.7	2.3	1.0	-	4.0	-	-	4.0	
Covered bonds	-	1.7	-	0.1	1.8	1.7	7.8	11.3	
Medium term notes	-	0.1	0.1	0.2	0.4	1.6	2.3	4.3	
Securitisations	0.3	-	-	-	0.3	3.3	3.7	7.3	
Other	0.5	-	-	-	0.5	0.1	1.0	1.6	
Total	5.7	7.2	3.0	0.7	16.6	8.3	17.3	42.2	
Of which secured	0.3	1.7	-	0.1	2.1	6.0	11.5	19.6	
Of which unsecured	5.4	5.5	3.0	0.6	14.5	2.3	5.8	22.6	

At 4 April 2013

	Maturity of wholesale funding								Total
	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Sub-total less than one year	Over one year but not more than two years	Over two years		
£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repo and other secured arrangements	-	-	0.2	-	0.2	1.0	-	1.2	
Deposits, including PEB balances	3.1	1.3	0.9	0.5	5.8	0.1	2.8	8.7	
Certificates of deposit	0.8	1.0	1.6	0.4	3.8	-	-	3.8	
Commercial paper	1.0	2.0	1.0	-	4.0	-	-	4.0	
Covered bonds	-	-	-	1.7	1.7	0.8	8.9	11.4	
Medium term notes	-	0.1	-	0.2	0.3	1.6	2.8	4.7	
Securitisations	-	-	-	0.4	0.4	3.4	3.8	7.6	
Other	0.2	-	-	-	0.2	0.4	1.4	2.0	
Total	5.1	4.4	3.7	3.2	16.4	7.3	19.7	43.4	
Of which secured	0.2	-	-	2.1	2.3	5.5	14.1	21.9	
Of which unsecured	4.9	4.4	3.7	1.1	14.1	1.8	5.6	21.5	

External Credit Ratings

Our short and long term credit ratings from the major rating agencies as at 14 November 2013 are as follows:

	Long Term	Short Term	Subordinated	Date of last rating action/confirmation*
Standard & Poor's	A	A-1	BBB	August 2013
Moody's	A2	P-1	Baa1	October 2013
Fitch	A	F1	A-	September 2013

* The outlook for Moody's and Fitch is Stable; the outlook for Standard & Poor's is Negative.

Treasury asset quality

Group treasury assets at 30 September 2013 were £23.5 billion (4 April 2013: £23.8 billion) and are held in two separate portfolios: the core liquidity portfolio and the non-core portfolio. At 30 September 2013, the core liquidity portfolio totalled £17.4 billion (4 April 2013: £16.9 billion), with the non-core portfolio totalling £6.1 billion (4 April 2013: £6.9 billion).

The quality and liquidity of treasury assets has been maintained with over 74% of the total portfolio held in core liquidity exposures (4 April 2013: 71%). 98% of the total portfolio is rated A or better, with 86% rated AA or above (4 April 2013: 97% rated A or better, 85% rated AA or above).

We retain £0.8 billion of securities within the non-core portfolio domiciled in the “peripheral” Eurozone countries. Of the £0.8 billion, 40% is rated AA or above and 66% is rated A or above. This exposure has reduced by 27% in the 6 months to 30 September 2013 (including the impact of exchange rate movements). Further details can be found in the ‘Country exposures’ section in the Risk Management Report.

A monthly review is undertaken of 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 the accounting policy on impairment of AFS assets described on page 145 of the 2013 Annual Report and Accounts, assets are impaired where there is objective evidence that current events and/or performance will result in a loss.

Additional information on the treasury asset portfolio is disclosed in the Risk Management Report.

Available for sale reserve

Out of a total of £23.5 billion of assets held in the core liquidity and non-core portfolios, £11.2 billion are held as available for sale (AFS). Under IFRS they are marked to market through other comprehensive income and fair value movements are accumulated in reserves unless impaired, in which case the impairment is charged through the income statement. The non-AFS assets are loans and advances to banks or deposits with the BoE. Of the £11.2 billion of AFS assets, only £81 million are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7.

Impairment write backs on investment securities of £0.7 million (H1 2012/13: £23 million charge) comprise an impairment loss of £1.5 million mainly on a single US collateralised debt obligation security offset by £2.2 million of impairment write back in connection with asset disposals during the period. The fair value movement of AFS assets that are not impaired currently has no effect on the Group’s profit or its regulatory capital.

As at 30 September 2013, the balance on the AFS reserve had improved to £163 million negative, net of tax (4 April 2013: £252 million negative). The improvement in the AFS reserve reflects general market movements and the disposals of non-core portfolio assets resulting in losses which are recognised in the Group’s net interest income as shown in the table below.

The table below sets out the carrying value of the core liquidity and non-core portfolios and, where applicable, the associated cumulative AFS reserve.

	30 September 2013		4 April 2013	
	Carrying value on balance sheet	Cumulative AFS reserve	Carrying value on balance sheet	Cumulative AFS reserve
	£bn	£bn	£bn	£bn
Cash	9.7	-	7.9	-
Gilts	4.9	(0.3)	5.6	(0.7)
Non-domestic government bonds	1.9	-	2.3	(0.1)
Supranational bonds	0.8	-	1.0	(0.1)
US Medium term notes	0.1	-	0.1	-
Core liquidity portfolio total	17.4	(0.3)	16.9	(0.9)
Loans and advances to banks	2.5	-	2.5	-
Residential mortgage backed securities (RMBS)	1.3	0.1	1.6	0.3
Commercial mortgage backed securities (CMBS)	0.3	0.1	0.4	0.1
Covered bonds	0.5	-	0.6	-
Collateralised loan obligations (CLO)	0.6	-	0.7	-
Financial institutions bonds	0.2	-	0.3	-
US student loan	0.4	-	0.5	-
Other investments	0.3	-	0.3	-
Non-core portfolio total	6.1	0.2	6.9	0.4
Positive AFS reserve before hedge accounting and taxation	-	(0.1)	-	(0.5)
Hedge accounting adjustment for interest rate risk	-	0.4	-	0.9
Taxation	-	(0.1)	-	(0.1)
Total	23.5	0.2	23.8	0.3

Risk Management Report

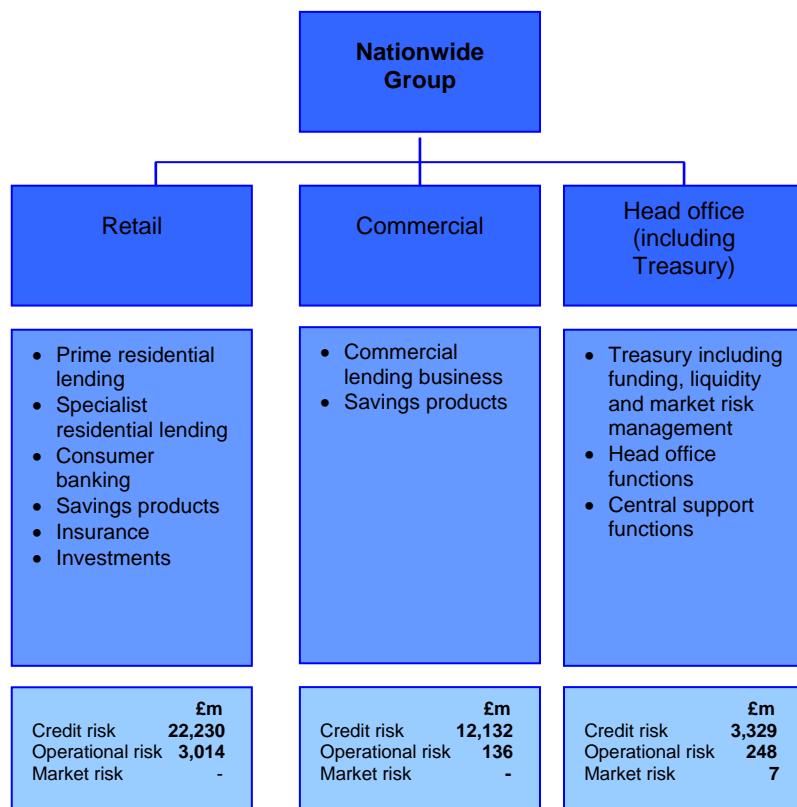
Contents

	Pages
Risk overview	35
Enterprise risk management framework	36
Risk culture	36
Risk categorisation	37
Top and emerging risks	37
Lending risk	39
Financial risk	63
Operational risk	71
Customer and compliance risk	72

Risk overview

Robust management of the risks inherent in running our business is at the heart of safeguarding our members' interests and delivering a sustainable business model. Our day to day business activities, whether they are offering a range of product choices, making sound lending decisions or managing our balance sheet effectively all require effective management of risk.

The chart below is designed to provide a high-level guide about how the Group's business activities are reflected in our risk measures. The regulatory capital risk weightings below indicate the relative risks each area carries.



Whilst the Group accepts that all of our business activities involve risk, we seek to protect our membership by managing the risks that arise from our activities appropriately. The principal risks inherent within the business are:

- financial risk (liquidity and funding, solvency, market, pension risks)
- lending risk (retail, commercial, treasury)
- operational risk (including transformation risk)
- customer and compliance risk, and,
- strategic risk.

Enterprise risk management framework

The Group manages risks within an enterprise risk management framework (ERMF) and has continued to strengthen its risk management frameworks and controls during the half year. ERMF applies to the Group including all trading divisions and subsidiaries. For further details regarding our ERMF structure please see the Risk Management Report in the 2013 Annual Report and Accounts.

In September 2013, the Group appointed Julia Dunn as Chief Compliance Officer (CCO) with responsibility for compliance and oversight of the customer and compliance risks for the Group. The Chief Risk Officer (CRO) has responsibility to oversee all risks for the Group. Both the CCO and CRO report to the Chief Executive Officer.

As part of the annual ERMF governance review completed in March 2013, a number of changes to the risk committee structure were agreed and implemented at the start of the current financial year:

- The creation of a first line Operational Risk Committee under the chairmanship of the Chief Operating Officer. This committee replaced the previous Operational Risk Oversight Committee.
- The Group Risk Oversight Committee has been renamed the Group Risk and Compliance Committee (GRCC) with enhanced focus on compliance matters. The GRCC continues to be chaired by the CRO, with the CCO as deputy chair and the Group Risk Director and Director of Compliance Oversight as committee members.
- The composition and chairmanship of the existing risk committees has been revisited.

For further details regarding the Group's risk governance structure please see of the Risk Management Report in the 2013 Annual Report and Accounts.

A "risk roadmap" has been developed setting out developments to ERMF for the current financial year and through to 2015/16. The risk roadmap explains the Group's vision for the future of risk management covering key areas of focus and explaining why risk management is a key component of the Group's Corporate Plan.

Further development work in customer and compliance risk has resulted in a re-grouping of risk categories. These are detailed in the Customer and Compliance Risk section.

Risk culture

Within the Group, risk culture continues to be defined as "the values, beliefs, knowledge and understanding about risk and the management of risk, advocated by the Board, shared and adopted by employees within the organisation". This risk-focused 'tone from the top' is supported by appropriate levels of resource with the necessary skills.

The risk culture therefore sets out:

- our approach to maintaining a strong risk culture for the Group
- the risk culture statements to which all directors and staff are committed
- required ('do') and prohibited ('don't') behaviours at enterprise level.

The risk culture statements are grouped under four headings:

- shared understanding and attitude
- clear communication
- effective risk teams, and
- highest standards.

Through the understanding of these statements, the aim is to ensure that all staff are risk aware, communicate effectively about risk, and work together to recognise, manage and mitigate risk. In the final quarter of the year, a survey is undertaken to assess the effectiveness of the risk culture in the Group, the results of which feed both the Board Risk Committee and the objectives for the Risk Management Division for the next financial year.

Training in risk control self-assessment has been rolled out to Risk Governance and Control departments over recent months and a comprehensive, more detailed re-assessment of risk controls is underway for the remainder of the financial year.

Risk categorisation

As set out in the 2013 Annual Report and Accounts the Group has five principle risk categories namely: Lending; Financial; Operational; Customer and Compliance and Strategic risk. Our updated assessment of these and our top and emerging risks are set out below. It should be noted that there have been no material changes to the Group's strategic risks since year end. As a result, no further discussion of the strategic risks faced by the Group is included below. For further information regarding the Group's strategic risks, please see the Risk Management Report in the 2013 Annual Report and Accounts.

In addition to these principal categories of risk, model risk (the risk of an adverse outcome as a direct result of weaknesses or failures in the design or use of a model) is managed under a separate framework. This is applied across all risk categories and business areas where models are used and overseen by a dedicated department. The model risk framework ensures effective governance and oversight of models, and that standards are consistently applied.

Top and emerging risks

The identification, monitoring and management of top and emerging risks that could affect delivery of the Corporate Plan are integral to the Group's strategy for risk management.

The Group's top and emerging risks are identified through its risk measurement process and closely tracked throughout the governance structure, both of which were described in full in the Risk Management Report in the 2013 Annual Report and Accounts. A suite of specific metrics is defined to track each of the top and emerging risks and these are reported to the Board and Board Risk Committee.

In the 2013 Annual Report and Accounts, the Group considered its top and emerging risks to be:

- Slow growth in the UK economy
- Eurozone uncertainty
- Regulatory developments, and
- Business transformation.

These remain our current top and emerging risks and, in addition, a further item has been added in relation to acceleration in UK House Price Growth. These risks are monitored closely as they have the potential to significantly impact the Group's Corporate Plan. An updated assessment of these risks as at 30 September 2013 is set out below.

Slow growth in the UK economy

The pace of the UK economic recovery is expected to remain subdued by historic standards, with interest rates expected to match this outlook. There are risks that the pace of economic growth could slow further or stall, adversely impacting the hitherto resilient UK labour market and resulting in interest rates remaining lower for longer. Forward guidance from the Bank of England on interest rates has not removed uncertainty about when a rise in base rate may occur. Our assessment is that the potential impact remains in line with the April 2013 view, namely:

- If interest rates remain low for longer, margin pressure may be more protracted, putting pressure on Group profitability and retained earnings.
- Worsening economic conditions could lead to increased retail loan losses in the medium term due to increased unemployment and falling house prices, as well as commercial loan losses due to increasing tenant failures and falling commercial property values.
- Worsening economic conditions could result in a prolonged closure of some or all wholesale markets, limiting our funding options and exerting pressure on liquidity positions.

Eurozone uncertainty

The risk of a Eurozone debt crisis is abating although some residual risk remains of a full breakup or unilateral exit, and there is a non-negligible risk of a hard default happening over the next few years. Such a development could still have significant knock-on effects on other Eurozone member states and hence the value of treasury assets. Our assessment is that the potential impact remains in line with the April 2013 view, namely:

- While the Group's direct exposure to the peripheral Eurozone countries is limited, a break-up could result in significant treasury losses through redenomination of assets and could impact the cost and availability of wholesale funding. Such an event would be significantly more severe in the event of contagion spreading throughout the Eurozone.

Regulatory developments

The Regulators' expectations and the requirements they set for financial services providers are continually increasing, particularly in the areas of customer conduct, capital requirements and liquidity management. The regulatory developments during the period are largely in line with those outlined in the Risk Management Report in the 2013 Annual Report and Accounts. Whilst we fully expect to be able to meet these developments, the potential impact on the Group is as follows:

- The plans agreed with the regulator for capital and leverage have the potential to adversely impact our business model, constraining growth or forcing retrenchment. The development of a capital instrument for building societies goes some way to alleviating this concern; however, ultimately our capacity to issue new capital remains at the discretion of investors.
- Increasing demands to manage two regulators, the potential for overlap or differing requirements as the new bodies continue to establish themselves and increased demands on scarce resources whilst working to adopt new reporting standards.

Business transformation

As set out previously, we have made significant investment in transforming our products and delivery channels through the implementation of new systems and organisational structures. Whilst this will enable us to provide improved services, the operational complexity of these activities, especially during transition periods increases the risk of system failures or process errors. For example:

- The Group has worked with the Payments Council to create a new current account switching service to make switching easier, faster and more secure for customers. The Current Account Switch Service is an industry-wide scheme which launched on 16 September 2013; the Group was able to meet the scheme's launch deadline.
- The Back Book Migration programme is migrating established customers' current accounts to the new banking system which was launched in 2012. This programme of work will help reduce the operational risks of running concurrent banking platforms. The process of migrating established customers' current accounts was still ongoing as at 30 September 2013.

Our assessment is that the potential impact remains in line with the April 2013 view, namely:

- The implementation of new systems and management structures could result in degraded systems or control effectiveness. Failure of critical systems could restrict the Group's ability to provide services to customers.
- Transformation projects with mandatory deadlines imposed by regulators may expose the Group to unavoidable investment costs and the potential for regulatory sanctions that are not entirely within our control.

Acceleration in UK house price growth

While at a national level UK house prices remain below their pre-crisis peaks, the pace of house price growth has picked up significantly in recent quarters while wage growth has remained subdued. Given the tendency of asset prices to overshoot, there is a risk that house prices could become detached from fundamental economic

Top and emerging risks (continued)

factors, leaving them vulnerable to a subsequent correction. Our assessment is that the potential impact is as follows:

- A rise in house prices would improve LTV and to that extent improve the outlook on retail loan losses. However, there is a risk that house price growth will continue to accelerate whilst incomes stagnate stretching affordability metrics. This would leave households more vulnerable to shocks such as unexpectedly early increases in interest rates which could ultimately lead to higher retail loan losses.

Lending risk

Lending risk is considered by reference to three sub-categories as follows:

Risk category	Definition
Retail (secured and unsecured)	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the prime mortgage, specialist lending or personal loan, credit card and banking portfolios.
Commercial	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the commercial lending portfolio.
Treasury	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the treasury liquidity and non-core portfolios.

Lending risk includes all aspects of credit risk including concentration risk and extension risk.

There have been no material changes to our policies and practices for the management of credit risk as described in the 2013 Annual Report and Accounts.

Maximum exposure to credit risk

The following tables present the Group's maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments before taking into account any collateral held or other credit enhancements and after allowance for impairment where appropriate. The maximum exposure to loss for off balance sheet financial instruments is considered to be their contractual nominal amounts.

**30 September 2013
(Unaudited)**

	Carrying value £m	Commitments £m	Maximum credit risk exposure £m
Cash	9,737	-	9,737
Loans and advances to banks	2,537	412	2,949
Investment securities – AFS	11,225	-	11,225
Derivative financial instruments	3,439	-	3,439
FV adjustment for portfolio hedged risk	366	-	366
Loans and advances to customers	163,863	7,582	171,445
Investment in equity shares	28	-	28
	191,195	7,994	199,189

Maximum exposure to credit risk (continued)

4 April 2013
(Audited)

	Carrying value	Commitments	Maximum credit risk exposure
	£m	£m	£m
Cash	7,886	-	7,886
Loans and advances to banks	2,522	423	2,945
Investment securities – AFS	13,421	-	13,421
Derivative financial instruments	4,212	-	4,212
FV adjustment for portfolio hedged risk	872	-	872
Loans and advances to customers	159,587	6,736	166,323
Investment in equity shares	28	-	28
	188,528	7,159	195,687

In addition to the figures shown above, the Group has, as part of its retail operations, commitments of £7,223 million (4 April 2013: £7,169 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

Retail (secured and unsecured) credit risks

Significant events/environment

The strategy for the Group has been to expand in the mortgage market, based on its well-established risk assessment and control processes for retail secured lending. This includes credit policy, arrears management and underwriting, using both scorecards and an affordability assessment. The success of these controls is demonstrated by the continuing low arrears and impairment performance of the secured portfolios. The Group has been able to expand its lending in a controlled way which can be seen in its support of the first time buyer market and in maintaining its presence in the expanding buy to let market through The Mortgage Works (UK) plc (TMW).

Initiatives to support the first time buyer market have included our Save to Buy product enabling customers to access products up to 95% LTV where they have demonstrated a track record of saving prior to applying for the mortgage. The availability of the deposit and being able to demonstrate that the mortgage is affordable are critical factors in the mortgage application. The Group has strongly supported the Government's Help to Buy (shared equity) scheme, offering our full range of mortgage products to this segment. Lending to 30 September 2013 under this scheme has been £137 million, with an approximate market share of 18%.

The continued low base rates and Government support through the Funding for Lending Scheme have supported competitive interest rates for secured lending.

More recently, UK house prices have increased in the 12 months to 30 September 2013 by 5.0%, with strong growth being observed in southern regions of England, especially London, and with demand being fuelled by policy measures (such as Funding for Lending and Help to Buy schemes). This increase in property values will have a positive impact on the indexed LTV of the existing mortgage portfolios but may create risks on affordability (please see pages 38 and 39 for further details regarding the risks to the Group in respect of an acceleration in UK house price growth). The resulting impact on the affordability profile of new lending will be monitored closely.

Retail (secured and unsecured) credit risks (continued)

Retail credit risk profile

The Group's loans and advances to customers continue to have a low risk profile when compared to industry benchmarks. By their nature, the Group's retail lending books comprise a large number of smaller loans which are broadly homogenous and have low volatility of credit risk outcomes.

Group loans and advances to customers, gross of impairment provisions can be analysed as follows:

Loans and advances to customers	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Prime residential mortgages	115,689	70	110,619	69
Specialist residential mortgages	25,603	16	24,939	16
Total residential mortgages	141,292	86	135,558	85
Consumer banking	3,642	2	3,488	2
Retail loan portfolio	144,934	88	139,046	87
Commercial lending	19,136	12	19,916	13
Other lending operations	209	-	436	-
Total gross balance	164,279	100	159,398	100

Geographical concentration

Residential mortgages are only secured against UK properties. The geographical split has remained consistent with the position on 4 April 2013:

Analysis calculated on a volume basis	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
		%		%
Greater London		22		22
Central England		22		22
Northern England		20		20
South East England (excluding London)		11		11
South West England		9		9
Scotland		9		9
Wales and Northern Ireland		7		7
Total		100		100

Specialist loans

The Group's residential mortgages include both prime and specialist loans. All new specialist lending is originated through TMW, exclusively in the buy to let market. Self certified lending was originated historically by both TMW and UCB (the Group's centralised lending subsidiary) but this type of lending was discontinued in 2009. The majority of near prime and sub prime balances were acquired from the Derbyshire and Cheshire building societies.

Retail (secured and unsecured) credit risks (continued)

The make up of specialist lending is as follows:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Buy to let	20,973	82	20,081	80
Self-certified	3,133	12	3,297	13
Near prime	1,103	4	1,162	5
Sub prime	394	2	399	2
Specialist lending	25,603	100	24,939	100

Loan to value

The quality of all new residential mortgage lending remains strong as focus remains on affordability and LTV ratios. The Group has specifically targeted the 85% to 95% LTV band of the market because it had previously been an area of weakness (having only opened up our proposition towards the end of 2011/12) and because it is a key area for the Group in terms of supporting first time buyers. New residential lending in the six months to 30 September 2013 is analysed by original LTV band in the table below:

	30 September 2013 (Unaudited)	4 April 2013 (Unaudited)
New residential lending – distribution of accounts by original LTV band:	%	%
Loan to value analysis:		
0% - 60%	26	28
60% - 75%	34	38
75% - 80%	10	10
80% - 85%	13	15
85% - 90%	15	8
90% - 95%	2	1
>95%	-	-
	100	100

Retail (secured and unsecured) credit risks (continued)

The value of residential property is updated on a monthly basis to reflect changes in the Nationwide House Price Index (HPI). The average indexed LTV for the book has reduced from 51% to 49% as a result of rising house prices. The total mortgage book as at 30 September 2013 is analysed by LTV band in the table below, along with an analysis of gross new residential mortgage lending during the period by borrower type:

	30 September 2013 (Unaudited)	4 April 2013 (Audited)
Whole book analysis calculated on a volume (i.e. number of cases) basis:	%	%
Loan to value analysis:		
<50%	48	47
50% - 60%	11	10
60% - 70%	14	12
70% - 80%	16	15
80% - 90%	8	11
90% - 100%	2	4
>100%	1	1
	100	100
Average loan to value of stock (indexed)	49	51
Average loan to value of new business	69	67

	30 September 2013 (Unaudited)	4 April 2013 (Audited)
New business profile:	%	%
First time buyers		
First time buyers	30	27
Home movers	28	29
Remortgagors	26	23
Buy to let	16	21
	100	100

	30 September 2013 (Unaudited)	4 April 2013 (Audited)
Whole book analysis calculated on a value basis:	%	%
Loan to value analysis:		
<50%	30	28
50% - 60%	14	12
60% - 70%	19	17
70% - 80%	21	21
80% - 90%	12	15
90% - 100%	3	5
>100%	1	2
	100	100
Average loan to value of stock (indexed)	60	62
Average loan to value of new business	73	71

	30 September 2013 (Unaudited)	4 April 2013 (Audited)
New business profile:	%	%
First time buyers		
First time buyers	31	26
Home movers	34	36
Remortgagors	23	22
Buy to let	12	16
	100	100

Retail (secured and unsecured) credit risks (continued)

The new business profile and average loan to value of new business above exclude further advances.

Performance of the mortgage books has remained strong with the number of residential mortgages three or more months in arrears as a proportion of total mortgages reducing to 0.70% at 30 September 2013 (4 April 2013: 0.72%). This compares favourably with the CML industry average of 1.75% (4 April 2013: 1.89%). The number of properties in possession of 444 (4 April 2013: 600) represents 0.03% of the total portfolio, which also compares well with the industry measure of 0.09%.

Identifying impaired and non-performing loans

Impaired and non-performing loans are identified by arrears status. Impaired accounts are those defined as greater than or equal to three months in arrears, and also include accounts subject to possession, litigation and bankruptcy where arrears are greater than or equal to one month. Non-performing accounts represent those which are past due but not yet impaired.

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

	30 September 2013 (Unaudited)				
	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%
Not impaired:					
Neither past due nor impaired	113,305	23,807	3,454	140,566	97
Past due up to 3 months but not impaired	1,836	1,100	59	2,995	2
Impaired	548	696	129	1,373	1
	115,689	25,603	3,642	144,934	100

	4 April 2013 (Audited)				
	Prime lending £m	Specialist lending £m	Consumer banking £m	Total £m	%
Not impaired:					
Neither past due nor impaired	108,223	23,059	3,363	134,645	97
Past due up to 3 months but not impaired	1,832	1,154	60	3,046	2
Impaired	564	726	65	1,355	1
	110,619	24,939	3,488	139,046	100

To align with recent recoveries experience, provisioning assumptions for consumer banking have been updated and the point of full write off of the impaired loans has been deferred. This results in the higher reported impaired balances as shown above at 30 September 2013. Specific provisions held against these impaired balances are £88 million (4 April 2013: £49 million).

The status past due up to three months but not impaired includes any asset where a payment due is received late or missed. The amount represents 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.

Collective provisions are assigned to performing accounts and accounts in arrears, up to possession. Accounts in possession are assigned individual provisions.

Retail (secured and unsecured) credit risks (continued)

Impaired retail assets are further analysed as follows:

	30 September 2013 (Unaudited)				
	Prime lending	Specialist lending	Consumer banking	Total	
	£m	£m	£m	£m	%
Impaired status:					
Past due 3 to 6 months	242	290	84	616	45
Past due 6 to 12 months	186	206	45	437	32
Past due over 12 months	103	143	-	246	18
Possessions	17	57	-	74	5
	548	696	129	1,373	100

	4 April 2013 (Audited)				
	Prime lending	Specialist lending	Consumer banking	Total	
	£m	£m	£m	£m	%
Impaired status:					
Past due 3 to 6 months	260	297	41	598	44
Past due 6 to 12 months	190	208	24	422	31
Past due over 12 months	96	134	-	230	17
Possessions	18	87	-	105	8
	564	726	65	1,355	100

Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Possession is only enforced once all other recovery options have been exhausted and this, together with the quality of our portfolio, is reflected in the Group's possession rate which is approximately one third of the market average.

For performing accounts a behavioural scorecard is used to assign default probabilities. This takes into consideration internal and external performance in addition to historic default probability positions. The default probabilities are adjusted to reflect performance of accounts which are currently or have recently experienced forbearance activity.

The Group offers a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the period ended 30 September 2013 to ensure alignment to good practice as defined by the PRA and FCA. The options offered may be classified into three categories:

- Change in terms
- Forbearance, and
- Repair.

Retail (secured and unsecured) credit risks (continued)

Change in terms

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The options available include:

- Payment holidays
- Interest only conversions, and,
- Term extensions.

Payment holidays

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason). As at 30 September 2013, 1,149 accounts (4 April 2013: 1,306 accounts) were subject to a payment holiday. The performance of customers who have taken a payment holiday is reflected within the Group's provisioning methodology.

Interest only conversions

Interest only conversions allow performing customers meeting required criteria to apply for an interest only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy in relation to interest only conversions in 2011/12, the facility was completely withdrawn in March 2012. The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Term extensions

The Group allows performing customers to apply to extend the term of their mortgage. During the six months to 30 September 2013, 9,962 accounts (six months to 30 September 2012: 8,019 accounts) extended their term. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Forbearance

The only forbearance option which the Group offers customers in financial distress is an interest only concession. Interest only concessions are offered to customers on a temporary basis with formal periodic review subject to an affordability assessment. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase, and will remain as at the beginning of the concession.

As at 30 September 2013, 1,673 accounts (4 April 2013: 1,913 accounts) representing 0.13% (4 April 2013: 0.16%) of total prime mortgage balances were on this concession. The Group's provisioning methodology reflects the latest performance on these accounts.

Repair

When a customer emerges from financial difficulty, the Group offers the ability to capitalise arrears, resulting in the account being repaired. 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 if they are able to overpay such that six months' payments are made in a four month period. During the six months to 30 September 2013, 26 accounts (six months to 30 September 2012: 117 accounts) had an arrears capitalisation.

Retail (secured and unsecured) credit risks (continued)

Once capitalised the loans are categorised as not impaired as long as contractual repayments are maintained. Capitalised accounts have a higher than average propensity to roll into arrears and this is recognised within the Group's provisioning methodology.

For those customers who are unable to repay their capital at term expiry, they may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible whilst ensuring the monthly payment remains manageable to the customer. During the six months to 30 September 2013, 964 accounts (six months to 30 September 2012: 960 accounts) had an extension following term expiry. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile. The options outlined above apply predominantly to the prime originated portfolio.

The table below shows the stock of prime loans still on the books as at 30 September 2013 that have been subject to a concession at some point.

	30 September 2013 (Unaudited)		4 April 2013 (Unaudited)	
	£m	% of total prime loans and advances	£m	% of total prime loans and advances
Change in terms	19,494	17	19,830	18
Forbearance	1,548	1	1,536	1
Repair	466	-	519	-

Please note that the above three categories are not mutually exclusive.

As described above the Group's residential mortgages include both prime and specialist loans. The table below shows the stock of specialist loans still on the books of our TMW and UCB subsidiaries as at 30 September 2013 that have been subject to a concession at some point.

	30 September 2013 (Unaudited)		4 April 2013 (Unaudited)	
	£m	% of total specialist loans and advances	£m	% of total specialist loans and advances
Change in terms	545	2	548	2
Forbearance	623	2	651	3
Repair	247	1	246	1

The option to take a payment holiday is not available for specialist loans. Interest only concessions are offered to customers on a temporary basis with a formal periodic review subject to an affordability assessment. During the six months to 30 September 2013, 239 accounts were granted an interest only concession. The Group allows performing customers to apply to extend the term of their mortgage. During the six months to 30 September 2013, 14 accounts extended their term (six months to 30 September 2012: 92 accounts).

Retail (secured and unsecured) credit risks (continued)

Retail collateral

Collateral held against past due or impaired retail residential mortgages is as follows:

	30 September 2013 (Unaudited)			
	Prime lending		Specialist Lending	
	£m	%	£m	%
Past due but not impaired	1,833	100	1,090	99
Impaired	528	99	620	97
Possessions	16	97	46	80
	2,377	100	1,756	98

	4 April 2013 (Audited)			
	Prime lending		Specialist Lending	
	£m	%	£m	%
Past due but not impaired	1,827	100	1,141	99
Impaired	541	99	618	97
Possessions	17	94	72	83
	2,385	100	1,831	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 value of the asset.

Negative equity on retail residential mortgages is shown below:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	Prime lending £m	Specialist lending £m	Prime lending £m	Specialist lending £m
Past due but not impaired	3	10	5	13
Impaired	3	19	5	21
Possessions	1	11	1	15
	7	40	11	49

Retail (secured and unsecured) credit risks (continued)

Consumer banking

During the period to 30 September 2013, the provisioning assumptions and point of full write off for unsecured products have been updated to reflect expected recoveries on balances based on recent past experience. This update combined with underlying book growth across the three products results in an increase in delinquent balances.

At 30 September 2013 (Unaudited)	Delinquent balances £m	Balances before provisions £m	Delinquent to Total* %
FlexAccount (overdraft balances)	35	206	17
Personal loans	78	1,916	4
Credit cards	75	1,520	5

*We estimate that on the original basis of write-off the delinquent percentages for FlexAccount, personal loans and credit cards would have been 13%, 3% and 3% respectively.

At 4 April 2013 (Unaudited)	Delinquent balances £m	Balances before provisions £m	Delinquent to total %
FlexAccount (overdraft balances)	23	238	10
Personal loans	52	1,784	3
Credit cards	47	1,466	3

Unsecured customers have limited forbearance options. Credit card customers experiencing financial distress may agree a payment plan, which is typically less than the minimum payment. Additionally balances for credit card and personal loan customers who have maintained the required payment performance over a sustained period may be re-aged. The volume of payment plans and re-aging is not material and therefore no specific treatment is made within the Group's provisioning methodology.

Outlook for Retail (secured and unsecured) credit risks

The Mortgage Market Review (MMR) published by the FCA requires all mortgage lenders to enhance responsible lending controls for mortgages by 26 April 2014 to ensure that the mortgages are affordable and to minimise the risk of detrimental outcomes for customers. While responsible lending is already central to the Group's lending policy, MMR will none the less require the Group to make changes to its systems and processes ahead of the regulatory deadline including the introduction of a more comprehensive and customer specific affordability assessment for both new mortgages and for significant changes to existing mortgage contracts. The current non-advised sales process will also be withdrawn and all mediated sales i.e. face to face and telephone, will be subject to increased regulation.

Commercial credit risks

The strategy for the commercial lending portfolio reflects the challenging commercial real estate (CRE) environment. The assets presenting the greatest credit risks are administered by a specialist team focused on re-structuring troubled facilities and minimising credit losses. Resources have been expanded and targeted to maintain a regime of close and continuous scrutiny over the highest value/risk cases.

As part of this control, a greater focus on assessing loans as they approach maturity is in place, in order to highlight potential issues as early as possible and to initiate appropriate management activity in advance of the maturity date.

Commercial credit risks (continued)

Watchlist procedures, alongside regular portfolio review meetings, are used to identify high risk cases and those that are a potential cause for concern in order that risk mitigating action may be initiated at the earliest opportunity. Renewals and review frequencies are more intense for those borrowers perceived to be of higher risk. In managing the portfolio we seek to reduce higher risk exposures whilst avoiding excessive losses which would be caused by making asset disposals into a depressed market. Portfolio analysis ensures that we identify and recognise the inherent risks and exposures within the portfolio.

Significant events/environment

Whilst there have been some tentative signs of stabilisation over the six months to 30 September 2013, the CRE market remains subdued with investor demand for secondary assets, outside the South East and off the major arterial connections, being particularly weak. Recovery is expected to be gradual and most likely limited to prime assets in the near term.

The financial sector has been undertaking a divestment of its commercial property investments for over three years, depressing prices for secondary assets in a market with limited demand for this asset type. Lenders show little sign of returning to fund new investment in secondary markets and alternative funding sources of sufficient scale to fuel a recovery in this segment remains scarce.

The secondary retail commercial property market has been particularly affected by structural changes brought about by factors such as increased internet shopping and the decline of many high streets and, across all commercial property, there continues to be a trend for shorter lease profiles and of tenants exercising breaks, which reduces the certainty around cash flows and further exacerbates shifts in collateral values and difficulties in refinancing.

Impairments and provisions have increased during the period, with the provision coverage now 11.6% (4 April 2013: 9.4%) of the Property Finance portfolio.

Commercial lending: risk concentrations

The Group's commercial loan portfolio on a gross basis comprises of the following:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Property Finance	9,536	50	10,192	51
Registered social landlords	8,128	42	8,217	41
Project Finance	1,472	8	1,507	8
	19,136	100	19,916	100

Loans to registered social landlords are secured on residential property and loans advanced in relation to Project Finance are secured on cash flows from government backed contracts. The Group has never suffered losses on lending in these markets and there are currently no arrears of three months or more on these portfolios.

The Group's Property Finance portfolio is diversified by industry type, location and by borrower, with only low levels of exposure to development finance of £49 million (4 April 2013: £51 million). Within the Property Finance portfolio is a non UK element of £0.9 billion (4 April 2013: £1.0 billion) which is almost entirely exposed to the German real estate market.

The proportion of Property Finance cases three months or more in arrears as at 30 September 2013 was 5.06%, and equates to 338 cases (4 April 2013: 4.50%, 325 cases).

Commercial credit risks (continued)

An analysis of Property Finance sector concentrations is provided below:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Retail	3,189	34	3,151	31
Office	2,119	22	2,321	23
Residential	1,550	16	1,707	17
Industrial and warehouse	1,531	16	1,683	16
Leisure and hotel	1,036	11	1,162	11
Other	111	1	168	2
	9,536	100	10,192	100

An analysis of Property Finance regional concentrations is provided below:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
London	3,018	32	3,208	31
South East	1,530	16	1,491	15
Rest of UK	4,077	43	4,467	44
Non UK	911	9	1,026	10
	9,536	100	10,192	100

In terms of counterparty concentration, the largest single commercial customer, including undrawn commitments, represents only 1.6% (4 April 2013: 1.5%) of the total book.

Commercial lending: credit performance

The Group adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise from the portfolio. All commercial credit facilities are reviewed annually as a minimum and the Group has detailed processes to identify customers exhibiting, or who may be vulnerable to, financial distress and which prompt more frequent review, where appropriate.

Where such customers are identified, they are typically transferred at an early stage to the Commercial Specialised Support Unit to ensure that early warning signs are acted upon, appropriate action is taken and, where possible, the Group works with the customer to try to resolve the issues and to restore the loan to a financially viable position. These dedicated teams, supported by daily arrears monitoring and watchlists, maintain a focus on early intervention to minimise credit losses.

Non performing loans are defined as those with early stage arrears (less than three months), whilst impaired loans are those that:

- are three or more months in arrears, or
- have a provision applied when a loss event has been identified.

The Group will seek to support customers and restructure non-performing or impaired loans, but only where the Group's assessment of future cash flows provides sufficient evidence to suggest that such approach will serve to enhance prospects for full debt recovery.

The Group will when necessary refinance existing facilities at maturity but will classify the loan as follows:

- **Restructures:** These loans will be extended on current market terms.
- **Distressed restructures:** The terms for these loans may not fully meet current market terms and as a result will typically be classed as forbearance.

Commercial credit risks (continued)

Forbearance

The forbearance requests the Group receives are principally attributable to:

- Customers suffering temporary cash flow problems that impact the ability to service payments under existing terms. Such problems may be due to loss of tenants, void costs or the costs of securing new tenants such as refurbishments or the provision of rent free incentives.
- Breaches of documented LTV, interest cover ratio or debt service cover ratio covenants caused by a fall in property values, the loss of income or increased repayments due to interest rate rises or scheduled increases in capital repayments.
- Inability to fulfil the obligation to fully repay at contractual maturity.

The standard policy and approach to considering forbearance requests is contained in the Group's Concessions and Forbearance Policy. Implementation is controlled through the governance and control framework, which includes early warning and watchlist procedures for managing and monitoring the performance of these customers.

All forbearance requests are assessed and approved by the independent credit team in the Risk Management Division. Forbearance to address short term cash flow difficulties will typically be through the provision of a temporary amendment to the payment profile to align repayments with the secure income stream. In such cases there would be no element of debt or interest forgiveness and the Group would have to be satisfied with the ability to maintain payments and fully repay over time.

Forbearance to address covenant breaches would normally entail either a temporary or permanent waiver or amendment of the affected covenant. Each case would be considered on its own merits and the Group's response will depend upon the risk profile of the transaction.

The provision of extended facilities on maturity does not always represent forbearance. However, despite the exit position faced often looking far less attractive than that originally envisaged, the Group will still seek to support customers by providing refinancing over extended terms where the customer's ability to continue to service the debt and improve the risk profile over time can be evidenced.

The permanent waiver of interest, capital or debt for equity swaps will only be considered in the most exceptional circumstances and always in relation to cases which have been reclassified as impaired.

The table below provides details of lending subject to forbearance at the reporting date:

	30 September 2013 (Unaudited)		4 April 2013 (Unaudited)	
	£m	%	£m	%
Covenant breach	384	13	292	15
Extension at maturity	225	8	332	17
Revised repayment profile	83	3	48	3
Multiple forbearance events	1,685	60	800	41
Other	445	16	463	24
	2,822	100	1,935	100

The increase in lending subject to forbearance is driven primarily by cases which reached loan maturity in the six months to 30 September 2013 and where the borrower has been unable to secure refinancing or repay the facility due principally to the lack of liquidity in the banking market. In those circumstances the Group may have allowed a further period of time to try and reach a mutually acceptable outcome. In many cases up to date valuations obtained as part of the extension will have resulted in a breach of the underlying LTV covenant and hence these cases are now be reported as showing multiple forbearance events. The maturity pipeline remains extensive and the Group therefore expects a further increase in lending subject to forbearance which will only abate once lending becomes more readily available for the CRE sector.

Commercial credit risks (continued)

Those loans restructured at maturity and subject to forbearance will typically include a contractual capital amortisation profile or a full cash sweep of surplus rental income to pay down the debt after permitted deductions for asset management fees and irrecoverable property costs. As long as the new contractual terms are maintained these cases are, if applicable, no longer impaired and will not retain a forbearance classification. Lending subject to forbearance carries a credit impairment provision of £739 million.

Performance

The table below provides further information on the commercial lending operations by payment due status:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Not impaired:				
Neither past due nor impaired	15,655	82	16,557	83
Past due up to 3 months but not impaired	271	1	644	3
Impaired	3,210	17	2,715	14
	19,136	100	19,916	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 are not impaired have collective impairment allowances set aside to cover credit losses. The commercial mortgage assets acquired through the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies are assessed for impairment requirements on the same basis as the originated book.

Impaired commercial assets are further analysed as follows:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Impaired status:				
Past due 0 to 3 months	1,899	59	1,581	58
Past due 3 to 6 months	361	11	218	8
Past due 6 to 12 months	235	8	295	11
Past due over 12 months	712	22	620	23
Possessions	3	-	1	-
	3,210	100	2,715	100

Commercial assets totalling £3,097 million (4 April 2013: £2,629 million) have individual provisions against them.

Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Assets over which possession has been taken are realised in an orderly manner via open market or auction sales to derive the maximum benefit for all interested parties, and any surplus proceeds distributed in accordance with the relevant insolvency regulations. The Group does not occupy repossessed properties for its business use or use assets obtained in its operations.

Commercial credit risks (continued)

Commercial lending: collateral

Although collateral can be an important mitigant of credit risk, it is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than rely on the value of the security offered. In the event of default the firm may use the collateral as a source of repayment.

Primary collateral is a fixed charge over freehold or long leasehold properties but may be supported by other liens, floating charges over company assets, and occasionally unsupported guarantees. The collateral will have a significant effect in mitigating our exposure to credit risk.

The table below quantifies the value of fixed charges held against non-performing or impaired assets.

Collateral held against past due or impaired commercial lending	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Past due but not impaired	268	99	623	97
Impaired	2,296	72	1,743	64
	2,564	74	2,366	70

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 gross loan amount.

The Group's Valuation Policy stipulates the maximum period between formal valuations, relative to the risk profile of the lending. Particular attention is paid to the status of the facilities, for instance whether it is, or is likely to require an impairment review where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

Indexed valuations of the collateral are based on the most recent formal valuation. The Index used is the Investment Property Databank (IPD) monthly index for the relevant property sector.

A borrower level analysis by loan to value ratio of the Group's Property Finance portfolio is provided below. Housing, Project Finance and one commercial loan secured on floating charges are excluded from this analysis.

The LTV ratio is calculated using the gross amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The IPD Monthly Index is used.

LTV Band	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
<75%	3,872	41	4,506	44
75% - 90%	1,397	15	936	9
90% - 100%	661	7	907	9
100% - 125%	1,767	18	1,823	18
>125%	1,839	19	2,020	20
	9,536	100	10,192	100

Commercial credit risks (continued)

The level of negative equity based upon the indexation of property values for the non-performing and impaired assets is detailed below:

Negative equity on commercial lending	30 September 2013 (Unaudited) £m	4 April 2013 (Audited) £m
Past due but not impaired	3	21
Impaired	911	972
Possessions	4	1
	918	994

Outlook for commercial credit risks

Due to the continuing market conditions, the outlook for commercial credit is expected to remain stable for the remainder of the year. There are tentative signs of improvement in the market; however, the recovery is likely to be gradual and limited to prime assets in the near term.

As a consequence of the performance of the CRE market and regulatory expectations, the high level of capital consumption across the industry is limiting the funds available to act as a stimulus to drive asset values up, particularly for secondary assets. As a result the distribution between prime and secondary assets is likely to remain at current levels.

In the half year ahead £1.4 billion of Property Finance facilities are due to mature. Of these, £1.0 billion is under watch and has been assessed with individual provisions held against these loans of £218 million. Of the remaining £0.4 billion almost all have an interest cover ratio of >130%.

Other Lending

Other lending: performance

The Group's other lending portfolio investments are held by the Treasury Division within the head office functions business segment. Similar to the commercial loan portfolio, the Group adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise from its other lending portfolio. As with other categories of loans, the Group will work with the customer to try to resolve any issues and to restore the loan to a financially viable position.

The table below provides further information on the other lending operations by payment due status:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Not impaired:				
Neither past due nor impaired	183	87	397	91
Past due up to 3 months but not impaired	8	4	6	1
Impaired	18	9	33	8
	209	100	436	100

Impaired balances in other operations includes £18 million (4 April 2013: £27 million) relating to a European commercial loan portfolio and £nil (4 April 2013: £6 million) relating to the unsecured student loan portfolio, which was sold on 24 April 2013.

Other Lending (continued)

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.

Impaired other operations assets are further analysed as follows:

	30 September 2013 (Unaudited)		4 April 2013 (Audited)	
	£m	%	£m	%
Impaired status:				
Past due 0 to 3 months	-	-	-	-
Past due 3 to 6 months	-	-	1	3
Past due 6 to 12 months	2	11	2	6
Past due over 12 months	16	89	30	91
Possessions	-	-	-	-
	18	100	33	100

Other lending: credit risk profile

Other lending operations relates to £209 million (4 April 2013: £219 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio. The Group's unsecured lending in relation to a student loan portfolio (4 April 2013: £217 million) was sold on 24 April 2013. This company was previously consolidated within the Group and was deconsolidated from the date of the disposal.

Other lending: forbearance

One of the Group's subsidiaries, Cromarty CLO Ltd (Cromarty), holds a portfolio of syndicated leveraged loans. The loans are the obligations of European sub-investment grade companies (Cromarty's borrowers). The syndicates comprise a number of lenders including Cromarty. Although the terms of the interest payments of the Group's loan to Cromarty are aggregated so that the Group does not have a forbearance position, Cromarty and other lenders in the syndicates have the power of consent for the modification of repayment terms. For Cromarty's borrowers this is within the definition of forbearance.

Forbearance requests made by Cromarty's borrowers that cannot demonstrate they have robust business models, material market shares and adequate cash flows tend to take the form of balance sheet restructures. Balance sheet restructures are often led by those lenders with the largest positions in the syndicates. The terms attempt to balance the need to relieve Cromarty's borrowers of unsustainable debt burdens and to maximise returns for all the lenders in the syndicates. Restructures often result in principal reductions in debt outstanding, reduced margins on cash-paying debt or the amendment of cash-paying debt to payment-in-kind (PIK) debt.

As at 30 September 2013 15 borrowers in the Cromarty loan portfolio would be classed as forborne because at some point the borrowers have gone through a balance sheet restructure, or other types of forbearance such as an amend and extend request, payment default or a covenant breach. Of the £46 million of loans to these borrowers, £37 million has gone through, or is going through a balance sheet restructure and £9 million has completed an amend and extend request. Impairment provisions totalling £8 million are held against these loans.

In addition, loans and advances to customers include a revolving loan facility of £83 million which has been re-categorised as under forbearance following management review and the decision to extend the loan facility. The loan has been assessed for impairment and as there has been no deterioration in the underlying securities, then no impairment provision is required as at 30 September 2013.

Movements in impaired loans by credit risk segment

The table below reconciles the movements throughout the half year of all loans classified as impaired. The balance shown represents the entire financial asset rather than just the overdue elements.

	Prime £m	Specialist £m	Unsecured £m	Commercial £m	Other* £m	Total £m
At 5 April 2013	564	726	65	2,715	33	4,103
Classified as impaired during the half year	238	306	79	707	2	1,332
Transferred from impaired to unimpaired	(229)	(268)	(12)	(19)	(11)	(539)
Amounts written off	(21)	(69)	-	(65)	-	(155)
Net Repayments	(4)	1	(3)	(128)	(6)	(140)
At 30 September 2013	548	696	129	3,210	18	4,601

* Net repayments in 'Other' relate to the disposal of the Group's student loan portfolio during the period.

Loans that were classified as impaired at any point during the year and loans that have transferred into or out of the impaired classification are based on the relevant status at each month end, when compared to the previous month end. Amounts written off reflect where the loan has been removed from the books; for example a residential property repossessed and sold. Net repayments reflect payments made by the customer, reducing the outstanding balance.

There were no acquisitions during the half year ended 30 September 2013, but all prior acquisitions are categorised in the same way as originated loans in the analysis above.

Due to the update in provision assumptions and write off process to align with recent recoveries experience for unsecured products, there have been minimal accounts written-off during the period on the unsecured products, and a resultant increase of £59 million in impaired balances. Further information is given in the consumer banking section on the update of provisioning assumptions for unsecured products.

The continuing high volume of commercial loans classified as impaired during the period reflects the continued recessionary market conditions which have been summarised in the Commercial Credit Risks section.

Treasury credit risks

Significant events/environment

There are some positive signs emerging from the Eurozone. The supportive stance taken by the European authorities has helped to stabilise market sentiment and progress has been made on both sovereign and trade deficit reduction in the past six months. Also, Ireland has successfully returned to the capital markets. However, the periphery remains weighed down by excessive sovereign debt, high unemployment, weak domestic demand and large financial sector liabilities. Economic conditions are more positive than at the beginning of the year with positive growth expected in 2014. All of the Group's peripheral Eurozone exposures are secured and in all cases are senior positions in securitisations or covered bonds that benefit from structural protection.

The risk of a Eurozone break-up appears diminished although cannot yet be completely discounted. Credit markets remain heavily fragmented and the periphery is constrained by high borrowing costs and poor competitiveness. The full impact of any break-up scenario is difficult to predict. In the event that any country in which the Group holds assets leaves the Eurozone and introduces a new currency, the Group may be exposed to risks associated with re-denomination. The Group continues to consider ways in which re-denomination risk can be mitigated.

Ratings agencies are continuing to review their securitisation rating methodologies, which has had a negative effect on the rating profile of the non-core portfolio. Fitch and Moody's have both implemented stricter European

Treasury credit risks (continued)

Retail Mortgage Backed Securities criteria and Standard & Poor's has implemented a harsher rating methodology for Commercial Mortgage Backed Securities.

Impairments over the past financial half year have been within management expectations, despite continuing difficult economic conditions. The available for sale reserve has improved over the last 6 months due to continued exposure run-off and through positive price movements in non-core portfolios as concerns over the Eurozone have receded and the outlook for the global economy has improved.

Further impairments or losses could result from economic, financial system or sector weaknesses.

Credit risk within the Treasury Division arises primarily from the instruments held by Treasury for liquidity and investment purposes. This aspect of credit risk is managed by the Treasury Credit Risk function which underwrites all new facilities and monitors existing exposures. It also sets and monitors compliance with policy and limits, reporting to the Lending Committee. In addition, counterparty credit risk arises from the use of derivatives where market values are positive. Derivatives are only traded with highly-rated organisations and the vast majority include collateral agreements which are either active or have contingent rating triggers.

The Treasury Credit Risk function monitors exposure concentrations against a variety of criteria including industry sector, asset class, individual counterparty and country of risk. Treasury exposure is diversified across both industry sectors and jurisdictions. Nationwide has no exposure to emerging markets, hedge funds or credit default swaps and the majority of exposure has an investment grade rating.

The Group's non-core exposures have reduced materially in recent years, with the reduction caused through maturity, amortisation and through selective disposals. Peripheral Eurozone exposures are now around half the levels seen at 4 April 2011. The Group's exposure to investments from Eurozone countries has been detailed further below.

Treasury assets

Treasury assets include cash, loans and advances to banks and investment securities available for sale. Treasury assets are categorised between core liquidity and non-core portfolios to better reflect the management of the portfolios and bring the analysis broadly in line with PRA definitions in BIPRU 12.

Core liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks.

The non-core portfolio includes available for sale assets held for investment purposes, plus balances in clearing accounts. Analysis of each of these portfolios by credit rating and geographical location of the issuers is set out in the table below.

Treasury credit risks (continued)

	30 September 2013 £bn (Unaudited)	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Cash	9.7	100	-	-	-	100	-	-	-
Gilts	4.9	100	-	-	-	100	-	-	-
Non-domestic government bonds	1.9	72	28	-	-	-	28	72	-
Supranational bonds	0.8	100	-	-	-	-	-	84	16
Domestic government bonds	0.1	100	-	-	-	100	-	-	-
Core liquidity portfolio total	17.4	97	3	-	-	84	3	12	1
Loans and advances to banks	2.5	18	11	71	-	61	17	16	6
Residential mortgage backed securities (RMBS)	1.3	23	21	43	13	39	4	52	5
Commercial mortgage backed securities (CMBS)	0.3	-	33	38	29	39	25	36	-
Covered bonds	0.5	12	30	25	33	-	6	91	3
Collateralised loan obligations	0.6	31	63	4	2	40	60	-	-
Financial institution bonds	0.2	-	-	51	49	39	8	35	18
US student loans	0.4	25	55	17	3	-	100	-	-
Other	0.3	32	19	14	35	25	24	47	4
Non-core portfolio total	6.1	20	24	46	10	42	24	30	4
Total	23.5	77	9	12	2	73	9	16	2

	4 April 2013 £bn (Audited)	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Cash	7.9	100	-	-	-	100	-	-	-
Gilts	5.6	100	-	-	-	100	-	-	-
Non-domestic government bonds	2.3	71	29	-	-	-	29	71	-
Supranational bonds	1.0	100	-	-	-	-	5	93	2
Domestic government bonds	0.1	100	-	-	-	100	-	-	-
Core liquidity portfolio total	16.9	96	4	-	-	81	4	15	-
Loans and advances to banks	2.5	13	23	64	-	46	18	22	14
Residential mortgage backed securities (RMBS)	1.6	25	23	31	21	35	5	56	4
Commercial mortgage backed securities (CMBS)	0.4	-	29	39	32	42	19	39	-
Covered bonds	0.6	11	28	34	27	-	5	92	3
Collateralised loan obligations	0.7	17	79	4	-	31	69	-	-
Financial institution bonds	0.3	-	-	58	42	30	16	43	11
US student loans	0.5	22	52	14	12	-	100	-	-
Other	0.3	19	24	16	41	24	29	42	5
Non-core portfolio total	6.9	16	31	40	13	33	26	35	6
Total	23.8	73	12	12	3	66	11	21	2

All assets shown above, other than cash and loans and advances to banks, are classified as available for sale investment securities. Ratings are obtained from Standard & Poor's in the majority of cases, from Moody's if there is no Standard & Poor's rating available, and internal ratings are used if neither is available. Further details on Treasury asset quality can be found in the Business Review.

Treasury credit risks (continued)

In assessing impairment, the Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. A net impairment write back of £0.7 million (H1 2012/13: £23 million charge) has been recognised in the income statement in respect of the non-core portfolios. The net impairment write back of £0.7 million consists of an impairment charge of £1.5 million mainly on a single US collateralised debt obligation security and an impairment write back of £2.2m in relation to two assets sold in the period.

Collateral held as security for treasury assets is determined by the nature of the instrument. Core liquidity and non-core portfolios are generally unsecured with the exception of reverse repos, asset backed securities and similar instruments, which are secured by pools of financial assets. Within loans and advances to banks is a reverse repo of £0.1 billion (4 April 2013: £0.1 billion) which is secured by gilts, and cash pledged of £1.2 billion (4 April 2013: £1.6 billion) to Credit Support Annex (CSA) counterparties in relation to derivative liabilities to mitigate their credit exposure to the Group.

Derivative financial instruments

The fair value of derivative assets at 30 September 2013 was £3.4 billion (4 April 2013: £4.2 billion). The International Swaps and Derivatives Association (ISDA) Master Agreement is the Group's preferred agreement for documenting derivative activity. Under a CSA, cash and securities collateral is passed between parties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral is paid or received on a regular basis (typically daily) to mitigate the mark to market exposures on derivatives.

The Society's CSAs are two way agreements where both parties post collateral dependent on the exposure of the derivative. The only exception is within the Nationwide Covered Bond LLP where one way agreements have been entered into in favour of the Nationwide Covered Bond LLP. These CSAs are also subject to contingent rating triggers.

Where cash collateral is received to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks. Where cash collateral is given to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks. Where securities collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

Netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Group's legal documentation for derivative transactions grants legal rights of set off for those transactions. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market values on derivatives will offset positive mark to market values on derivatives in the calculation of credit risk.

The following table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral:

	30 September 2013 (Unaudited)			4 April 2013 (Audited)		
	AA £bn	A £bn	Total £bn	AA £bn	A £bn	Total £bn
Gross positive fair value of contracts	0.4	3.0	3.4	0.5	3.7	4.2
Netting benefits	(0.3)	(1.2)	(1.5)	(0.3)	(1.9)	(2.2)
Net current credit exposure	0.1	1.8	1.9	0.2	1.8	2.0
Collateral held	(0.1)	(1.5)	(1.6)	(0.1)	(1.5)	(1.6)
Net derivative credit exposure	-	0.3	0.3	0.1	0.3	0.4

Collateral held consists primarily of cash with £0.1 billion held in non-domestic government securities.

Treasury credit risks (continued)

Collateral on certain derivative assets with a fair value of £0.3 billion (4 April 2013: £0.4 billion) is only triggered when the counterparty rating falls to a specified rating level. At 30 September 2013 the trigger event has not occurred and these assets are uncollateralised as a consequence. Our exposure to such counterparties is to A rated banks.

A credit and debit valuation adjustment policy is applied to derivative exposures. As a consequence of the netting and collateral benefits no credit valuation adjustment has been made on collateralised derivative assets nor has any debit valuation adjustment to reflect own credit risk been taken in our collateralised derivative liabilities.

However, a credit and debit valuation adjustment is applied to uncollateralised derivative exposures. A credit valuation adjustment (CVA) reflects counterparty credit and a debit valuation adjustment (DVA) reflects Nationwide's own credit quality on the derivative fair value. With the exception of a small number of legacy positions, all derivative counterparty positions are subject to CSA agreements.

Outlook for Treasury credit risks

The Eurozone debt crisis is being monitored closely. The lack of economic growth and slow pace of structural reform are concerns because they could delay progress in the reduction of very high sovereign debt burdens. This may result in the need for further bail-outs or debt restructurings.

Country exposures

The following tables summarise the Group's direct exposure to institutions, corporates and other issued securities domiciled in the peripheral Eurozone countries. We have no direct sovereign exposure to these countries. The exposures are shown at their balance sheet carrying values.

30 September 2013 (Unaudited)	Ireland £m	Italy £m	Portugal £m	Spain £m	Total £m
Mortgage backed securities	13	82	47	308	450
Covered bonds	40	-	22	279	341
Senior debt	-	-	-	-	-
Other assets	-	2	-	-	2
Other corporate	8	3	-	1	12
Total	61	87	69	588	805

4 April 2013 (Unaudited)	Ireland £m	Italy £m	Portugal £m	Spain £m	Total £m
Mortgage backed securities	144	90	50	335	619
Covered bonds	71	-	22	326	419
Senior debt	-	25	-	17	42
Other assets	-	3	-	2	5
Other corporate	11	3	-	-	14
Total	226	121	72	680	1,099

There is no exposure to Greece either at 30 September 2013 or at the year ended 4 April 2013. Movements in our exposure to peripheral Eurozone countries since 4 April 2013 relate to disposals, maturities and fair value movements, and there has been no new investment in the year. Other corporate exposures include £8 million to Ireland on commercial loans.

Nationwide has further indirect exposure to peripheral Eurozone countries as a result of a €100 million loan to a Luxembourg SPV, which has first loss exposure to a €1.6 billion portfolio of senior ranking European ABS assets. The sterling equivalent is £83.7 million (4 April 2013: £84.7 million). The geographical breakdown of this portfolio is as follows: UK 56%, Spain 14%, Germany 10%, Italy 7%, Netherlands 7%, Greece 4% and Portugal 2%. (4 April 2013: UK 53%, Spain 13%, Germany 16%, Italy 7%, Netherlands 6%, Greece 3% and Portugal 2%).

Treasury credit risks (continued)

None of our exposures to the peripheral Eurozone countries are in default, and we have not incurred any impairment on these assets in the six months to 30 September 2013. We continue to monitor closely the exposures to these countries.

In addition, the Group's exposure in respect of other Eurozone and rest of the world countries is shown below at their balance sheet carrying value.

30 September 2013 (Unaudited)	Finland £m	France £m	Germany £m	Netherlands £m	Other Eurozone £m	Total other Eurozone £m	USA £m	Rest of the World £m	Total £m
Government bonds	169	-	476	758	-	1,403	532	-	1,935
Mortgage backed securities	-	25	61	198	-	284	118	72	474
Covered bonds	-	-	86	18	-	104	27	15	146
Senior debt	21	-	-	49	9	79	18	39	136
Loans to banks	-	111	97	-	-	208	420	357	985
Other assets	-	103	43	-	-	146	876	775	1,797
Other corporate	10	33	752	38	-	833	-	3	836
Total	200	272	1,515	1,061	9	3,057	1,991	1,261	6,309

4 April 2013 (Unaudited)	Finland £m	France £m	Germany £m	Netherlands £m	Other Eurozone £m	Total other Eurozone £m	USA £m	Rest of the World £m	Total £m
Government bonds	133	-	505	1,039	-	1,677	672	-	2,349
Mortgage Backed securities	-	28	116	273	-	417	147	86	650
Covered bonds	21	-	89	18	-	128	29	21	178
Senior debt	21	33	-	50	9	113	57	42	212
Loans to banks	-	164	130	-	-	294	460	620	1,374
Other assets	-	109	-	-	-	109	1,085	1,001	2,195
Other corporate	10	44	840	16	-	910	-	-	910
Total	185	378	1,680	1,396	9	3,648	2,450	1,770	7,868

The 'Other Eurozone' column represents exposures to Luxembourg. The 'Rest of the World' column represents exposures to the following countries: Australia £90 million (4 April 2013: £96 million), Canada £208 million (4 April 2013: £404 million), Denmark £1 million (4 April 2013: £4 million), Sweden £3 million (4 April 2013: £nil), Switzerland £197 million (4 April 2013: £278 million) and Supranationals £762 million (4 April 2013: £988 million). Exposures to Denmark and Sweden are included in the 'Rest of the World' column as these are non-Eurozone, European Union countries.

Financial risk

Financial risk is split into four sub-categories as follows:

Risk category	Definition
Liquidity and funding risk	<p>Liquidity risk is the risk that the Group is unable to maintain all of the following capabilities:</p> <ul style="list-style-type: none"> • to meet its financial obligations as they fall due (including any unexpected adverse cash flow) • to smooth out the effect of maturity mismatches, or • to maintain public confidence. <p>Funding risk is the risk associated with the impact on the Group's cash flow from higher funding costs or the inability to access funding markets.</p>
Solvency risk (previously known as Capital Management)	<p>The risk that:</p> <ul style="list-style-type: none"> • The Group has, or expects in the future to have, insufficient capital to meet Board risk appetite, regulatory requirements or other stakeholder expectations. • The Group's capital requirements do not adequately reflect the risk inherent in the business. • Capital is employed in a way that fails to optimise the Group's risk and reward trade off.
Market risk	<p>The risk that the value of, or net income arising from, the Group's assets and liabilities changes as a result of changes to interest rates, exchange rates or equity prices.</p>
Pension risk	<p>The risk that the Group's funding obligations for a number of defined benefit pension schemes expose the Group to longevity risk and various market risks including interest rate risk, inflation risk and equity risk within those schemes.</p>

There have been no significant events or material changes to the management approach for pension or market risk since publication of the 2013 Annual Report and Accounts.

Financial risk is managed within a framework of approved assets, currencies and capital instruments supported by detailed limits set by either the Board or Assets and Liabilities Committee (ALCO) under its delegated mandate. The Board retains responsibility for approval of derivative classes that may be used for market risk management purposes, restrictions over the use of such derivative classes (within the limitations imposed under the Building Societies Act, Section 9a) and for asset classes that may be classified as liquidity.

Liquidity and funding risk

The Group's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable it to meet financial obligations as they fall due, even during episodes of stress. This is achieved through maintaining a prudent level of high quality liquid assets, management and stress testing of business cash flows and management of funding facilities. The Group's approach to liquidity and funding risk is managed by ALCO and is approved by the Board as part of the annual review of the Individual Liquidity Adequacy Assessment (ILAA) document.

The Group primarily generates funding and liquidity through its retail deposit base and wholesale funding. Due to a strong franchise, the wholesale market can be accessed for both unsecured and secured funding, thereby enabling an appropriate maturity profile to be maintained. Together with a strong market share of retail funding, the Group has flexibility to access stable funding from the most cost-effective sources. Through the wholesale markets, the Group has direct active relationships with counterparties across a range of sectors, including banks, other financial institutions, corporates and investment funds.

Liquidity and funding risk (continued)

To mitigate liquidity and funding risk, the Group holds a portfolio of liquid assets as detailed in the Business Review. Liquid assets are categorised according to their liquidity characteristics. The most liquid category of assets predominantly comprises holdings of unencumbered high quality sovereign issued securities and reserves with central banks and is aligned to the Liquid Asset Buffer (LAB) defined in BIPRU 12. Assets may be acquired through direct purchase, repurchase agreements or collateral swaps.

Significant events/environment

Central bank liquidity support to the banking system has continued over the last six months. The Funding for Lending Scheme (FLS) remains open as an incentive to banks and building societies to boost lending to UK households and non-financial companies. In April 2013, the BoE announced that the scheme would be extended for a further year with an emphasis placed on lending to small and medium sized enterprises (SMEs).

In August 2013, following a speech by BoE Governor Mark Carney, the PRA announced that it would be more flexible in its approach to liquidity for major UK banks and building societies which either meet or have plans that will enable them to meet the 7% CET1. In order to deliver this outcome, the PRA announced they would allow firms that meet the capital threshold to satisfy up to 40% of liquidity requirements with either assets pre-positioned at the BoE or certain other assets, which the PRA are yet to specify.

The Group received a one-notch long term ratings downgrade from Standard and Poor's in August and Fitch in September. These changes aligned Nationwide's long term ratings with industry peers and did not have any impact on the Group's funding franchise.

Asset Encumbrance

Group assets can be used to support funding or collateral requirements for secured funding, central bank operations or third party repurchase transactions. Assets that have been utilised for such purposes are classified as encumbered and pledged assets and cannot be utilised for other purposes. This includes excess collateral and collateral held in respect of undrawn self issued notes in secured funding vehicles and cash collateral posted.

Other encumbered assets are assets that cannot be utilised for secured funding due to legal or other reasons. This includes cash reserves supporting asset back funding structures.

All other assets are defined as unencumbered assets. These comprise assets that are readily available to secure funding or meet collateral requirements and other unencumbered assets that are not subject to any restrictions but are not readily available for use.

Loans and advances to customers are only classified as available as collateral if they are already in such form that they can be used to raise funding without further management actions. All other loans and advances are conservatively classified as unencumbered, although a proportion would be suitable for use in asset backed funding transactions.

Liquidity and funding risk (continued)

An analysis of the Group's encumbered and unencumbered on balance sheet assets as at 30 September 2013 is set out below:

At 30 September 2013 (Unaudited)	Encumbered		Unencumbered		
	Pledged as collateral £m	Other £m	Available as Collateral £m	Other £m	Total £m
Cash	-	4,723	4,832	182	9,737
Loans and advances to banks	1,232	-	-	1,305	2,537
Investment securities – available for sale	293	-	10,801	131	11,225
Loans and advances to customers	51,507	-	60,099	52,257	163,863
Derivatives financial instruments	-	-	-	3,439	3,439
Other financial assets	-	-	-	396	396
Non financial assets	-	-	-	2,135	2,135
	53,032	4,723	75,732	59,845	193,332

At 4 April 2013 (Unaudited)	Encumbered		Unencumbered		
	Pledged as collateral £m	Other £m	Available as Collateral £m	Other £m	Total £m
Cash	-	3,788	3,848	250	7,886
Loans and advances to banks	1,588	-	-	934	2,522
Investment securities – available for sale	231	-	13,076	114	13,421
Loans and advances to customers	51,741	-	54,323	53,523	159,587
Derivatives financial instruments	-	-	-	4,212	4,212
Other financial assets	-	-	-	900	900
Non financial assets	-	-	-	2,190	2,190
	53,560	3,788	71,247	62,123	190,718

In addition to the above, the Group holds other third party liquid assets and self issued notes off balance sheet that may be capable of financing through third party sale and repurchase agreements.

Maturity of liquidity risk assets and liabilities

The tables below segment the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. In practice, customer deposits are repaid later than on the earliest date on which repayment can be required. Likewise, in practice, customer assets may be repaid ahead of their contractual maturity. Therefore, for forecasting purposes, Nationwide uses expert judgement and past performance of each asset and liability class to anticipate the likely cash flow requirements of the Group.

Liquidity and funding risk (continued)

At 30 September 2013 (Unaudited) Residual maturity	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash	9,737	-	-	-	-	9,737
Loans and advances to banks	2,013	72	-	148	304	2,537
Investment securities – available for sale	-	54	309	1,862	9,000	11,225
Loans and advances to customers	769	3,584	5,710	27,152	126,648	163,863
Derivative financial instruments	-	396	78	1,537	1,428	3,439
Other financial assets	-	15	12	206	163	396
Total financial assets	12,519	4,121	6,109	30,905	137,543	191,197
Liabilities						
Shares	83,719	7,399	19,742	16,851	3,240	130,951
Deposits from banks	1,752	440	52	1,021	-	3,265
<i>Of which repo</i>	-	5	-	1,000	-	1,005
Other deposits	541	2,407	1,133	3,056	-	7,137
Due to customers	3,572	582	1,755	44	-	5,953
Secured funding – ABS and covered bonds	-	2,346	130	11,627	5,679	19,782
Senior unsecured	-	5,491	2,118	2,609	1,761	11,979
Derivative financial instruments	-	257	88	849	1,587	2,781
Other financial liabilities	-	8	32	44	-	84
Subordinated liabilities	-	3	280	1,481	674	2,438
Subscribed capital	-	3	-	342	286	631
Total financial liabilities	89,584	18,936	25,330	37,924	13,227	185,001
Net maturity gap	(77,065)	(14,815)	(19,221)	(7,019)	124,316	6,196

Liquidity and funding risk (continued)

At 4 April 2013 (Audited) Residual maturity	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash	7,886	-	-	-	-	7,886
Loans and advances to banks	2,097	92	-	148	185	2,522
Investment securities – available for sale	-	30	455	2,533	10,403	13,421
Loans and advances to customers	697	3,334	5,721	26,671	123,164	159,587
Derivative financial instruments	-	169	491	1,585	1,967	4,212
Other financial assets	-	20	59	537	292	908
Total financial assets	10,680	3,645	6,726	31,474	136,011	188,536
Liabilities						
Shares	77,103	8,765	20,246	17,877	1,583	125,574
Deposits from banks	1,688	248	250	1,001	43	3,230
<i>Of which repo</i>	-	17	190	1,000	-	1,207
Other deposits	362	2,050	1,345	2,990	-	6,747
Due to customers	3,812	846	1,183	119	-	5,960
Secured funding – ABS and covered bonds	-	153	2,118	12,424	6,177	20,872
Senior unsecured	-	4,943	3,217	2,722	1,675	12,557
Derivative financial instruments	-	57	144	1,124	2,560	3,885
Other financial liabilities	-	4	21	125	-	150
Subordinated liabilities	-	130	169	1,536	705	2,540
Subscribed capital	-	3	-	352	949	1,304
Total financial liabilities	82,965	17,199	28,693	40,270	13,692	182,819
Net maturity gap	(72,285)	(13,554)	(21,967)	(8,796)	122,319	5,717

Liquid assets include cash, loans and advances to banks and available for sale investment securities. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

The analysis above excludes certain other assets, including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and certain other liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

Liquidity and funding risk (continued)

Gross undiscounted contractual cash flows payable under financial liabilities are analysed below:

At 30 September 2013 (Unaudited) Gross contractual cash flows	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Shares	83,719	7,579	20,101	17,454	3,356	132,209
Deposits from banks	1,752	447	68	1,062	-	3,329
Other deposits	541	2,434	1,187	3,178	-	7,340
Due to customers	3,572	593	1,769	46	-	5,980
Secured funding – ABS and covered bonds	-	2,249	1,175	12,154	6,371	21,949
Senior unsecured	-	5,444	2,298	3,033	1,856	12,631
Derivative financial instruments		262	706	2,183	960	4,111
Other financial liabilities	-	8	33	46	-	87
Subordinated liabilities	-	4	273	2,014	713	3,004
Subscribed capital	-	27	33	431	351	842
Total financial liabilities	89,584	19,047	27,643	41,601	13,607	191,482
Off balance sheet commitments	-	5,928	344	1,095	627	7,994
At 4 April 2013 (Audited) Gross contractual cash flows	Repayable on demand	Up to 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Shares	77,103	8,981	20,672	18,603	1,647	127,006
Deposits from banks	1,688	255	268	1,045	45	3,301
Other deposits	362	2,077	1,400	3,110	-	6,949
Due to customers	3,812	855	1,194	124	-	5,985
Secured funding – ABS and covered bonds	-	62	2,631	13,302	6,745	22,740
Senior unsecured	-	4,929	3,408	3,238	1,949	13,524
Derivative financial instruments	-	257	675	2,038	704	3,674
Other financial liabilities	-	5	23	130	-	158
Subordinated liabilities	-	4	273	2,075	764	3,116
Subscribed capital	-	10	60	563	1,106	1,739
Total financial liabilities	82,965	17,435	30,604	44,228	12,960	188,192
Off balance sheet commitments	-	4,842	351	1,227	739	7,159

Liquidity and funding risk (continued)

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the balance sheet date.

Liquidity Stress Testing

To ensure resilience, liquidity stress testing is carried out against a number of scenarios, including those prescribed by the regulator. These scenarios consider a range of liquidity and economic factors and the consequent impact on the Group over multiple time horizons. Liquidity risk is managed against limits using a number of these scenarios including an idiosyncratic stress which incorporates the impact of potential rating agency downgrades, a market-wide stress and a combination of the two. Assumptions used in internal liquidity stress tests are reviewed regularly with changes proposed to ALCO for approval on a quarterly basis.

The primary period over which internal liquidity stress testing is performed is 30 business days (circa six weeks). Beyond this, additional actions detailed in the Contingency Funding Plan (CFP) would be utilised if required. The Group aims to maintain liquidity resources of at least 100% of the outflows seen under each of the internal stress tests. As at 30 September 2013, potential outflows under the most severe stress test (the combined idiosyncratic and market-wide stress scenario) were modelled at £23.7 billion.

Included within the liquidity stress tests are the impacts of a number of potential events that could lead to the Group experiencing unexpected cash outflows. The table below details the key assumptions used in modelling, which are consistent with those assumptions outlined in the 2013 Annual Report and Accounts.

Liquidity Risk Driver	Modelling assumptions used
Retail Funding	Significant unexpected outflows are experienced and no new deposits received.
Wholesale Funding	Substantial outflows are seen at contractual maturity as Nationwide is assumed to become a greater credit risk. This behaviour is driven by credit rating downgrade assumptions (wholesale funding comprises 21.6% of total funding).
Off Balance Sheet	Contractual outflows in relation to asset-backed funding as a result of credit rating downgrades. Outflows are experienced as a result of other off-balance sheet commitments such as the mortgage pipeline.
Intra-Group	Subsidiaries recall funding provided to the parent to meet their stress cash flow requirements.
Marketable Assets	Reduced asset values are assumed in recognition of the stressed conditions assumed.

Within the Contingency Funding Plan a range of actions are detailed that the Group would be able to take in the event of a funding stress. These include the utilisation of assets eligible for central bank funding schemes or repurchase agreements with third party banks, thereby allowing adequate liquidity resources to be maintained.

Liquidity and funding risk (continued)

Outlook

The ongoing availability of funding through central bank schemes means that the current benign funding environment for solvent UK banks and building societies is likely to continue. A material deterioration in the Eurozone could threaten this outlook, but the risk of this scenario occurring has reduced somewhat in the six months to 30 September 2013. Whilst significant uncertainties remain on the definition and implementation of new regulatory liquidity measures, greater clarity is likely to be provided over the coming months. The Group will continue to monitor and respond to unfolding events and the implementation of these metrics in the UK.

Solvency risk

In order to ensure that the Group continues to meet its capital requirements, whilst supporting growth within risk appetite (defined in part by the maintenance of capital self-sufficiency through the cycle), capital is managed above regulatory minima, to meet expectations of other key external stakeholders and to be amongst the best in market compared to peers. The Group's strategy is therefore to optimise capital requirements and to support this through stable earnings.

In terms of capital requirements, a number of the Group's portfolios use the Internal Ratings Based (IRB) modelling approach. The Group will continue to develop its IRB models in accordance with the roll out plan included within its IRB Waiver approval from the regulator. On an annual basis, the Group conducts an Internal Capital Adequacy Assessment Process to assess its capital adequacy and determine the levels of capital required going forward to support the current and future risks of the business.

Significant events/environment

The implementation of CRD IV is to commence on 1 January 2014. There are a number of areas, particularly with respect to the transitional arrangements, over which the PRA has discretion. The PRA has consulted on how they should exercise this discretion, and we expect the PRA to confirm their approach in December 2013. The EBA will also publish a number of technical standards relating to CRD IV over the coming months.

As part of the Group's preparation for CRD IV, a Liability Management Exercise was undertaken to buy back selected Permanent Interest Bearing Shares (PIBS) in September 2013. PIBS currently form the Group's Additional Tier 1 capital. Their eligibility as capital resources will be phased out under CRD IV.

At the FPC's meeting on 19 March 2013, it was recommended that the PRA took steps to ensure major UK banks and building societies hold Common Equity Tier 1 (CET1) resources (on an end-point CRD IV basis) equal to 7% of risk-weighted assets, after adjustments for expected future losses, future conduct redress and a more prudent calculation of risk weights.

The PRA assessed our balance sheet strength as part of their review of all major UK banks. In doing so, deductions of £0.4bn were made to CET1 resources and additional prime residential risk weighted assets of £10.6bn were allocated to reflect the PRA's view of the risk profile of the organisation and in particular its asset quality. In the process, they also redefined our key capital targets in terms of "end point" measures which remove the CRD IV transitional adjustments we had been applying to our Common Equity Tier 1 capital.

A Capital Plan was agreed with the PRA in which a target date of December 2015 was set for the achievement of a 3% adjusted leverage ratio and it was confirmed that our adjusted CET 1 ratio would remain above 7%. Nationwide is on track to meet the capital expectations that the PRA has set

The Group continues to monitor progress in the implementation of CRD IV and other regulatory changes both in the UK and Europe. The Group's capital management plan is based on the current understanding of regulatory change. The Group has a strong track record of robust capital ratios and is confident that it is well positioned to maintain its overall capital strength.

Solvency risk (continued)

Outlook

The Group has worked with the regulator to create a Common Equity Tier 1 instrument that can be issued by building societies, termed Core Capital Deferred Shares (CCDS). This will provide Nationwide with access to external capital to support the Group's capital position and the achievement of its strategic objectives.

The Group's capital plan remains on target to meet the PRA's expectations and is founded on organic growth, consistent with the Group's current business model and strategy.

Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. A summary of the principle risk categories and control policy areas is provided in the Risk Management Report in the 2013 Annual Report and Accounts.

Significant events/environment

The Group continues to invest in new products and services for a growing customer base. The Group's operations are well-controlled, which has resulted in the Group maintaining a market leading high level of customer service delivery.

Acknowledging the scale of regulatory change and the current macro-economic environment, management of operational risk remains a priority and continued investment in, and development of, our frameworks and control environments is key. A plan of activity is in place that covers policy, control, risk system and framework enhancements. This activity is being managed with direction provided by a first line Operational Risk Committee under the chairmanship of the Chief Operating Officer.

The Group undertakes a programme of regular risk and control assessment activity which is supported by assessments of more extreme but plausible events that could occur. External events in regulatory developments are considered in order to ensure the Group remains resilient and proactive in our responses.

Outlook/Emerging risks

A programme of continuous control improvements has been adopted to respond to the main risks and threats that the Group faces. Key areas of investment and focus include:

- **Fraud:** as a retail organisation, external fraud remains the highest Basel category of incident frequency and loss; however, for Nationwide, this remains within appetite. Financial criminals and fraudsters continue to innovate and develop new strategies to exploit weaknesses in financial firms' processes and consumer behaviour. This is especially prevalent in the context of cyber-crime. The Group's Strategic Fraud Initiative (SFI) responds to new financial crime opportunities created by globalisation, open borders and global payments solutions, whilst maintaining the focus on traditional forms of fraud such as theft of card data.
- **Financial reporting and information management:** increased regulatory requirements for data mean that a robust control environment is essential and investment has been prioritised to ensure this is strengthened to enable timely and accurate data for decision making for our business and to respond to the heightened regulatory reporting demands.
- **Information security:** this remains an area of investment to ensure we remain industry leaders in information security and cyber-crime controls during adverse economic conditions and a heightened external threat environment.

Operational risk (continued)

- **Information technology:** IT transformation is continuing at pace as Nationwide continues to invest in its applications, infrastructure and network; these changes are reviewed and scheduled so as to minimise potential customer impacts. IT operates an established set of processes and controls which successfully manage deployments to new and existing services.
- **People:** we continue to invest in succession planning, talent development, leadership development and training of all staff. Rewards and incentives are aligned with corporate strategy and focus upon customer outcomes and experience. In addition, benchmarking of salary and benefits packages at all levels will continue.
- **Third party management:** a programme of work is in place to further strengthen the control environment in this area and to mature our third party risk management capability.
- **Transformation:** programmes are governed by the Nationwide Change Framework, which ensures robust internal controls such as risk assessment of planned changes and rigorous testing of planned updates to systems. It also ensures that regular reviews of programmes take place, considering operational risks along with risks to delivery.

Customer and compliance risk

Customer and compliance risk is split into the following six sub-categories. In the last six months, these sub-categories have been restructured and enhanced to enable the Group to focus more effectively on retail conduct risks, distinct from those arising from its wholesale business.

Risk category	Definition
Customer experience	The risk that our customers do not have a positive experience.
Firm and culture	The risk that we fail to design and implement operational arrangements, systems and controls that achieve legal and regulatory compliance, and embed a corporate culture where fair customer outcomes and the achievement of a positive experience is central to our values and behaviour.
Retail conduct	The risk of failing to deliver fair outcomes for the Group's customers.
Prudential standards	The risk that the design and operation of our systems and controls fails to maintain compliance with prudential requirements.
Wholesale conduct	The risk that our financial markets activity is inappropriate and/or does not comply with regulatory requirements.
Financial crime	The risk that we fail to establish and maintain effective systems and controls to prevent the risk that we might be used to further financial crime*.

* 'Financial crime' in the context of the customer and compliance risk framework includes money laundering, counter-terrorism financing, sanctions, and bribery and corruption.

The customer and compliance risk framework complements the operational risk framework to ensure the identification, management and control of customer and compliance risks are undertaken consistently with other operational risk categories.

Customer and compliance risk (continued)

On a day-to-day basis, customer and compliance risks are managed and controlled by business management. They are supported in this by Key Control Functions (KCFs) whose advice and guidance includes identifying all relevant legal and regulatory requirements, extending to related voluntary codes and standards affecting the Group, and determination (in collaboration with business management) of how best to implement such requirements.

Significant events/environment

The Group's continuing investment in new products, services and technology, within the new dual regulatory landscape of the FCA and the PRA, has sustained the ever increasing need to demonstrate appropriate customer outcomes.

The roll out and embedding of the customer and compliance risk framework and supporting policies and strategies, alongside a suite of enhanced product, sales and service control frameworks, provides demonstrable evidence of fair outcomes for our customers. This is particularly important against the recent backdrop of regulatory focus on technical conduct breaches and other matters, together with increased levels of customer restitution throughout the industry.

The focus on senior individual responsibility for regulatory compliance by the FCA reflects the recommendations of the Parliamentary Commission on Banking Standards report published in June 2013. The Group has responded proactively to this change of focus by re-developing the current Approved Persons framework, ensuring senior persons across the Group have the appropriate capacity and capability to meet the regulators' and our customers' expectations.

The Group has appointed Julia Dunn, former Acting Director of Retail Banking – Supervision Division at the FCA, as Chief Compliance Officer and Group Director of an enhanced Compliance Division.

Outlook

The Group continues to track the FCA's and PRA's increased regulatory and supervisory approach to further develop and enhance the risk and control frameworks that support the identification, management and mitigation of customer and compliance risk.

Following successful delivery of the Retail Distribution Review requirements, a significant programme of work is in place to deliver the Mortgage Market Review requirements within regulatory timescales. The implementation of CRD IV by January 2014 is another key focus of Nationwide's regulatory change programme. These developments are covered in detail in the Business Review section of this document.

The FCA's forward looking, more judgement based approach to regulation shows a direction of travel that is more proactive and thematic in nature, where firms are expected to have customers at the heart of everything that they do. This approach echoes the Group's long term philosophy of putting its members at the heart of its business model and ensuring positive and fair outcomes for our customers, in keeping with the emerging regulatory style.

Interim financial information

Contents

	Pages
Income statement	75
Statement of comprehensive income	76
Balance sheet	77
Statement of movements in members' interests	78
Cash flow statement	79
Notes to the financial information	80

CONDENSED CONSOLIDATED INCOME STATEMENT (Unaudited)

	Notes	Half year to 30 September 2013 £m	Half year to 30 September 2012* £m
Interest receivable and similar income	3	2,581	2,684
Interest expense and similar charges	4	(1,497)	(1,794)
Net interest income		1,084	890
Fee and commission income		236	268
Fee and commission expense		(61)	(54)
Income from investments		2	9
Other operating income	5	126	-
Losses from derivatives and hedge accounting	6	(16)	(14)
Total income		1,371	1,099
Administrative expenses	7	(645)	(579)
Depreciation and amortisation		(133)	(97)
Impairment losses on loans and advances to customers	8	(253)	(258)
Impairment gains/(losses) on investment securities		1	(23)
Provisions for liabilities and charges	9	(71)	(39)
Profit before tax		270	103
Taxation	10	(36)	17
Profit after tax		234	120

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

	Half year to 30 September 2013 £m	Half year to 30 September 2012* £m
Profit after tax	234	120
Other comprehensive income/(expense):		
Items that will not be reclassified to the income statement		
Actuarial remeasurements of retirement benefit obligations:		
Actuarial remeasurements before tax	(175)	(150)
Taxation	20	36
	(155)	(114)
Revaluation of property:		
Effect of tax rate change on the revaluation reserve	1	-
Effect of tax rate change on other items through the general reserve	(2)	(12)
Items that may subsequently be reclassified to the income statement		
Available for sale investments:		
Fair value movements taken to equity	69	99
Amount transferred to the income statement	50	(35)
Taxation	(30)	(21)
	89	43
Other comprehensive expense	(67)	(83)
Total comprehensive income	167	37

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2013 (Unaudited) £m	4 April 2013 (Audited) £m
Assets			
Cash		9,737	7,886
Loans and advances to banks		2,537	2,522
Investment securities – available for sale		11,225	13,421
Derivative financial instruments		3,439	4,212
Fair value adjustment for portfolio hedged risk		366	872
Loans and advances to customers	11	163,863	159,587
Investments in equity shares		28	28
Intangible assets		916	894
Property, plant and equipment		880	886
Investment properties		8	8
Accrued income and expenses prepaid		172	147
Deferred tax assets		136	154
Current tax assets		-	15
Other assets		25	86
Total assets		193,332	190,718
Liabilities			
Shares		130,951	125,574
Deposits from banks		3,265	3,230
Other deposits		7,137	6,747
Due to customers		5,953	5,960
Fair value adjustment for portfolio hedged risk		77	150
Debt securities in issue		31,761	33,429
Derivative financial instruments		2,781	3,885
Other liabilities		484	251
Provisions for liabilities and charges	9	245	318
Accruals and deferred income		294	366
Subordinated liabilities	12	2,438	2,540
Subscribed capital	12	631	1,304
Deferred tax liabilities		28	30
Retirement benefit obligations		540	354
Total liabilities		186,585	184,138
General reserve		6,842	6,765
Revaluation reserve		68	67
Available for sale reserve		(163)	(252)
Total reserves and liabilities		193,332	190,718

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS (Unaudited)
For the half year ended 30 September 2013

	General reserve £m	Revaluation reserve £m	AFS reserve £m	Total £m
At 5 April 2013	6,765	67	(252)	6,580
Profit for the half year	234	-	-	234
Net movement in available for sale reserve	-	-	89	89
Effect of tax rate change on the revaluation reserve	-	1	-	1
Effect of tax rate change on other items through the general reserve	(2)	-	-	(2)
Net actuarial remeasurement of retirement benefit obligations	(155)	-	-	(155)
Total comprehensive income	77	1	89	167
At 30 September 2013	6,842	68	(163)	6,747

For the half year ended 30 September 2012

	General reserve* £m	Revaluation reserve £m	AFS reserve £m	Total* £m
At 5 April 2012	6,450	65	(356)	6,159
Profit for the half year	120	-	-	120
Net movement in available for sale reserve	-	-	43	43
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(12)	-	-	(12)
Net actuarial remeasurement of retirement benefit obligations	(114)	-	-	(114)
Total comprehensive (expense)/income	(5)	(1)	43	37
At 30 September 2012	6,445	64	(313)	6,196

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

	Notes	Half year to 30 September 2013 £m	Half year to 30 September 2012* £m
Cash flows generated from operating activities			
Profit before tax		270	103
Adjustments for:			
- Non-cash items included in profit before tax	15	324	418
- Changes in operating assets	15	(2,581)	(3,292)
- Changes in operating liabilities	15	2,938	(2,923)
- Interest paid on subordinated liabilities		(59)	(57)
- Interest paid on subscribed capital		(40)	(45)
- Gain on redemption of subscribed capital		(124)	-
Taxation		(17)	(18)
Net cash flows generated from operating activities		711	(5,814)
Cash flows generated from investing activities			
Purchase of investment securities		(931)	(2,399)
Sale and maturity of investment securities		2,491	9,159
Purchase of property, plant and equipment		(88)	(63)
Sale of property, plant and equipment		8	4
Purchase of intangible assets		(91)	(103)
Sale of investment		9	-
Dividends received from non-Group entities		2	2
Net cash flows generated from investing activities		1,400	6,600
Net cash flows used in financing activities			
Redemption of subscribed capital		(364)	-
Net increase in cash		1,747	786
<u>Cash and cash equivalents at start of period</u>		10,075	10,700
Cash and cash equivalents at end of period	15	11,822	11,486

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

The notes on pages 80 to 102 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 2013 and show the financial performance for the period from and including 5 April 2013 to this date.

2 Basis of preparation

This condensed consolidated interim financial information for the half year ended 30 September 2013 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct 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 2013, which have been prepared in accordance with IFRSs as adopted by the EU.

Accounting policies

The accounting policies adopted by the Group in the preparation of its September 2013 interim financial information and those which the Group currently expects to adopt in its 2014 Annual Report and Accounts are consistent with those disclosed in the 2013 Annual Report and Accounts except for amendments adopted in the first half of this financial year as described below. The accounting policies and disclosures adopted reflect the Group's current view of best practice. Copies of the 2013 Annual Report and Accounts are available at: nationwide.co.uk/about_nationwide/results_and_accounts/default.htm.

In the first half of the financial year the Group adopted the following IFRS pronouncements:

IAS 19 (Revised) Employee Benefits

The Group adopted IAS 19 (Revised) with effect from 5 April 2013. The revised standard replaces the interest cost and expected return on plan assets with a single interest amount calculated by applying the discount rate to the net defined asset or liability. The changes have been applied retrospectively and comparatives restated accordingly. A summary of the line item restatements for the half year to 30 September 2012 is provided below.

Half year to 30 September 2012

	Notes	Previously published £m	Adjustment £m	Restated £m
Interest receivable and similar income	3	2,777	(93)	2,684
Interest expense and similar charges	4	(1,868)	74	(1,794)
Net interest income		909	(19)	890
Administrative expenses	7	(577)	(2)	(579)
Profit before tax		124	(21)	103
Taxation	10	12	5	17
Profit after tax		136	(16)	120
Other comprehensive income/(expense)				
Actuarial remeasurements of retirement benefit obligations:				
- Actuarial remeasurements before tax		(171)	21	(150)
- Taxation		41	(5)	36
		(130)	16	(114)

There has been no impact on the Group's total assets, net assets or reserves at 30 September 2012 as a result of the restatement.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

2 Basis of preparation (continued)

In addition, notes 15 (Notes to the cash flow statement) and 16 (Operating segments) have been impacted by the restatement.

IFRS 13 Fair Value Measurement

IFRS 13 has replaced guidance on fair value measurement in previous IFRS accounting publications with a single standard. The standard provides guidance on the calculation of the fair value of financial and non-financial assets and liabilities, and additionally requires enhanced disclosures including information on valuation techniques, inputs used in measuring fair value and significant detail on the fair value hierarchy. The IFRS 13 disclosures required by IAS 34 are given in note 13.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments require disclosure of the effect or potential effects of netting arrangements on an entity's financial position, including financial instruments that are subject to an enforceable master netting arrangement or similar agreement. This disclosure is given in note 14.

Future accounting developments

An overview of pronouncements that will be relevant to the Group in future periods is provided on pages 138 and 139 of the 2013 Annual Report and Accounts. The IASB has issued further pronouncements; however, the Group does not expect adoption of any of the new guidance to have a significant impact on its results with the exception of IFRS 9.

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 2014 Annual Report and Accounts may, therefore, be prepared in accordance with different accounting policies from those used in this document.

The following new guidance should be noted:

- IFRIC 21 Levies – this interpretation provides guidance on accounting for the liability to pay a government imposed levy. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, subject to endorsement by the EU. The impact on the Group is currently being assessed, but could result in a change to the timing of recognition of the bank levy.
- IFRS 9 Financial Instruments is the new standard to replace IAS 39. It will change the classification and measurement of some financial assets, the recognition and the financial impact of impairment and hedge accounting. The proposals are yet to be finalised and therefore, it is not possible to estimate the financial effects, although it is expected that IFRS 9 will have a significant impact for the Group, in line with the wider industry. In July 2013, the IASB tentatively decided that the effective date of IFRS 9 will be deferred from 1 January 2015 to an unspecified date pending the finalisation of the standard.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

2 Basis of preparation (continued)

Critical accounting estimates

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 page 147 of the 2013 Annual Report and Accounts.

In addition, further information on certain critical accounting estimates are disclosed in the following notes:

Area of significant judgement and estimate	Notes
Impairment provisions on loans and advances	8
Provisions for customer redress	9

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 and the Risk Management 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	Half year to 30 September
	2013 £m	2012* £m
On residential mortgages	2,377	2,397
On other loans	519	566
On investment securities	200	940
On other liquid assets	22	26
Net expense on financial instruments hedging assets	(537)	(1,245)
	2,581	2,684

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

Interest receivable on residential mortgages includes adjustments to reflect the changes in the Group's effective interest rate assumptions, including a charge of £17 million (H1 2012/13: £16 million) in respect of an update to the amount and recognition profile of early redemption charges and a credit of £21 million (H1 2012/13: £nil) which resulted from an update in the assumptions applicable to the recognition of mortgage fee income.

Interest receivable on residential mortgages in the six months ended 30 September 2012 included a £48 million release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and core parts of the Dunfermline Building Society.

The higher amounts recorded in H1 2012/13 for interest receivable on investment securities and net expense on financial instruments hedging assets are primarily driven by a significant number of disposals of investment securities during the period. These disposals generated a net loss in H1 2013/14 of £36 million (H1 2012/13: net gain of £69 million), which included a gain relating to the sale of gilts of £6 million (H1 2012/13: gain of £68 million).

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

4 Interest expense and similar charges

	Half year to 30 September 2013 £m	Half year to 30 September 2012* £m
On shares held by individuals	1,181	1,389
On subscribed capital	36	47
On deposits and other borrowings		
• Subordinated liabilities	65	46
• Other	84	113
On debt securities in issue	417	504
Foreign exchange differences	17	17
Net income on financial instruments hedging liabilities	(311)	(334)
Interest on net defined benefit pension liability	8	12
	1,497	1,794

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

Interest expense for the half year ended 30 September 2013 is net of a £33 million credit (H1 2012/13: £38 million credit) which resulted from an update of the Group's effective interest rate assumptions in relation to the interest on savings accounts which offer an initial bonus.

5 Other operating income

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Gain on redemption of subscribed capital	124	-
Rental income	2	2
Loss from sale of property, plant and equipment	-	(2)
	126	-

The £124 million gain on redemption of subscribed capital for the half year ended 30 September 2013 represents the net gain from the redemption of subscribed capital, redemption related fees and associated swap breakage income.

6 Losses from derivatives and hedge accounting

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
(Losses)/gains from fair value hedges	(49)	8
Fair value gains/(losses) from other derivatives	33	(22)
	(16)	(14)

Although the Group uses derivatives exclusively to hedge risk exposures in interest rates, exchange rates or market indices, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. Management recognise that this arises from the application of the accounting rules which do not reflect the economic reality of the business and as such this volatility will continue period on period as new derivative transactions replace those which mature.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

6 Losses from derivatives and hedge accounting (continued)

The £16 million loss (H1 2012/13: £14 million loss) from derivatives and hedge accounting represents the net change in fair value of derivative instruments versus the change in fair value of the underlying asset or liability. The two main components of this half year's loss were:

- A loss of £47 million relating to ineffectiveness in micro hedge relationships caused by increasing sterling and euro interest rates coupled with bond maturities and disposals;
- A £26 million gain as a result of continued volatility in the currency markets, particularly relating to sterling:euro basis risk which is economically hedged but where hedge accounting is not available.

The four main components of the loss for the period ended 30 September 2012 were a £74 million gain on micro hedge relationships following a large gilt disposal and an £11 million gain on the fair value of mortgage commitments offset by a £66 million loss arising from the reversal of past ineffectiveness in respect of the maturity of fixed rate mortgages and a £35 million loss as a result of sterling:euro volatility.

7 Administrative expenses

	Half year to 30 September 2013 £m	Half year to 30 September 2012* £m
Employee costs:		
• Wages, salaries and bonuses	245	233
• Social security costs	23	23
• Pension costs	40	38
	308	294
Other administrative expenses	326	277
Bank levy	11	8
	645	579

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

Administrative expenses include £31 million (H1 2012/13: £11 million) of restructuring costs. These costs relate to the continuing restructuring of our business, largely in relation to the establishment of a more efficient and flexible sourcing model for the Group's technology and business change support and the Regional Brands integration programme.

Further information on the bank levy is included in note 9.

8 Impairment losses on loans and advances to customers

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Impairment (credit)/charge for the period		
Prime residential	(2)	6
Specialist residential	10	20
Consumer banking	16	38
Commercial lending	225	193
Other lending	4	1
	253	258

The decrease in the consumer banking impairment charge is primarily a result of reflecting updated assumptions in respect of expected recoveries on the unsecured portfolios, which accounted for £27 million of the reduction.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

8 Impairment losses on loans and advances to customers (continued)

Loans and advances to customers on the balance sheet are stated net of the following impairment provisions:

	30 September 2013 (Unaudited) £m	4 April 2013 (Audited) £m
Impairment provision at the end of the period		
Prime residential	25	32
Specialist residential	111	133
Consumer banking	123	87
Commercial lending	1,103	958
Other lending	8	14
	1,370	1,224

Critical accounting estimates and judgements

In accordance with the accounting policy described in the 2013 Annual Report and Accounts, impairment is measured as the difference between an asset's carrying amount and the present value of management's estimate of discounted future cash flows.

In calculating the provisions for commercial loans, estimates of discounted future cash flows are made on the basis of the planned strategy for each loan. These estimates include assumptions for underlying property values and future expected cash flows for rental income and any maintenance, redevelopment or refurbishment expenditure on the properties. Commercial property values are driven by estimates of current and expected future rental incomes and by property yields, which are updated based upon industry wide data available for different property sectors.

9 Provisions for liabilities and charges

	Bank levy £m	FSCS £m	Customer redress £m	Other provisions £m	Total £m
At 5 April 2013	8	133	142	35	318
Provisions utilised	(8)	(96)	(55)	(6)	(165)
Charge for the period	11	-	71	16	98
Release for the period	-	-	-	(6)	(6)
Net income statement charge	11	-	71	10	92
At 30 September 2013	11	37	158	39	245
At 5 April 2012	5	111	105	74	295
Provisions utilised	(5)	(47)	(19)	(18)	(89)
Charge for the period	8	-	45	7	60
Release for the period	-	(6)	-	(9)	(15)
Net income statement charge/(release)	8	(6)	45	(2)	45
At 30 September 2012	8	58	131	54	251

The net income statement charge in relation to FSCS and customer redress is recognised within the provisions for liabilities and charges within the income statement. The net income statement charge for all other items is recognised within administrative expenses.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

9 Provisions for liabilities and charges (continued)

Bank levy

The £11 million bank levy charge in the half year ended 30 September 2013 (H1 2012/13: £8 million), included within administrative expenses, is half of the cost which the Group estimates will arise in respect of chargeable equity and liabilities as at 4 April 2014.

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 approximately £18 billion of loans received from HM Treasury. The FSCS recovers the interest cost on these loans, together with ongoing management expenses, by way of annual levies on member firms. Whilst the majority of the borrowings are expected to be recovered from the defaulted deposit takers, the Group also has to provide for its share of an expected shortfall advised by the FSCS.

The FSCS provision of £37 million is in respect of the annual levy for the 2013/14 scheme year (30 September 2012: £58 million in respect of the 2012/13 scheme year). The Group estimates that a further provision of between £90 million and £100 million will be required during the second half of this financial year in respect of the FSCS annual levy for the 2014/15 scheme year, including £42 million in respect of the shortfall described above.

Further information regarding the FSCS provision is contained in note 27 of the 2013 Annual Report and Accounts.

Customer redress

The Group holds a provision for customer redress which reflects management's best estimate of the cost of complaints related to past sales of financial products, including PPI.

The Group has continued to experience a significant but declining volume of reactive PPI complaints during the first six months of the financial year, a substantial proportion of which relate to cases where there has been either no sale or no evidence of mis-selling. The increase in provision utilisation year on year reflects a proactive mailing that is nearing conclusion. The Group continues to re-assess the ultimate level of complaints expected and the appropriateness of the provision, which reflects the redress and associated administration that will be payable in relation to claims we expect to uphold. Further costs in relation to invalid claims are recognised in administrative expenses as incurred.

In light of a review of compliance with consumer credit legislation across the industry, the Group is undertaking a comprehensive review of its own documentation and processes and has identified a small number of areas which require further enquiry. The provision charge of £71 million during the period relates to potential costs to remediate these issues should further investigation identify the need to do so.

Other provisions

Other provisions include provisions for severance costs and a number of property related provisions. Provisions are made for the expected severance costs in relation to the Group's restructuring activities where there is present obligation and it is probable that the expenditure will be made.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

9 Provisions for liabilities and charges (continued)

Critical accounting estimates and judgements

Customer redress provision

The customer redress provision of £158 million at 30 September 2013 includes balances related to past sales of financial products, including PPI, together with an estimate of the potential costs of customer restitution in respect of a number of issues which are still under enquiry.

The amount of the provision related to past sales of PPI is calculated based upon management's best estimate of complaint volumes, referral rates to the Financial Ombudsman Service (FOS), uphold rates internally and with the FOS, response rates from customer contact activity relating to our previous sales, average redress payments and complaint handling costs. The main sensitivity to the estimate is the proactive mailing response rate, with each 1% increase in the expected level of complaints increasing the required provision by approximately £2 million. A 1% change in either the uphold rates or the average redress paid would also change the provision by approximately £1 million.

Other amounts that are provided as an estimate of the potential costs of remediation are subject to ongoing review of the consumer credit regulations to determine whether any remediation is necessary.

10 Taxation

	Half year to 30 September 2013 £m	Half year to 30 September 2012 £m
Current tax:		
UK corporation tax	32	29
Deferred tax:		
Current year	32	-
Adjustment in respect of prior years	(14)	(40)
Effect of corporation tax rate change	(14)	(6)
	4	(46)
Tax charge/(credit)	36	(17)

During the half year, progress was made on an outstanding tax matter relating to prior periods, resulting in a release of excess provision. This release accounts for £13 million of the total prior year credit of £14 million (H1 2012/13: £40 million).

11 Loans and advances to customers

	30 September 2013 (Unaudited) £m	4 April 2013 (Audited) £m
Prime residential mortgages	115,664	110,587
Specialist residential mortgages	25,492	24,806
Consumer banking	3,519	3,401
Commercial lending	18,033	18,958
Other loans	201	422
	162,909	158,174
Fair value adjustment for micro hedged risk	954	1,413
	163,863	159,587

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

11 Loans and advances to customers (continued)

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes. The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding. The mortgages pledged and the values of the notes in issue are as follows:

	Mortgages pledged	30 September 2013 (Unaudited)				Total	
		Notes in issue		Held by third parties	Held by the Group		
		Drawn £m	Undrawn £m				
Covered bond programme	21,809	11,271	-	4,500	15,771		
Securitisation programme	25,120	7,348	1,250	12,291	20,889		
Whole mortgage loan pools	4,578	-	3,426	1,152	4,578		
	51,507	18,619	4,676	17,943	41,238		

	Mortgages pledged	4 April 2013 (Audited)				Total	
		Notes in issue		Held by third parties	Held by the Group		
		Drawn £m	Undrawn £m				
Covered bond programme	21,856	11,376	-	4,500	15,876		
Securitisation programme	24,994	7,606	1,250	12,291	21,147		
Whole mortgage loan pools	4,891	-	3,490	1,401	4,891		
	51,741	18,982	4,740	18,192	41,914		

Mortgages pledged include £3.9 billion (4 April 2013: £3.6 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue and which therefore provide capacity for further potential issuances.

There were no issuances under the Nationwide Covered Bond programme or the Silverstone Master Trust securitisation programme during the half year ended 30 September 2013 or during the year ended 4 April 2013. Also, there were no maturities of covered bond programme notes held by third parties during the half year (30 September 2012 £1.9 billion sterling equivalent of notes held by third parties matured).

The Society holds cash deposited by the covered bond programme of £1.6 billion (4 April 2013: £1.4 billion) and by the Silverstone programme of £3.0 billion (4 April 2013: £1.2 billion).

Details of the programmes and the accounting methodology are contained in note 17 of the 2013 Annual Report and Accounts.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

12 Subordinated liabilities and subscribed capital

	30 September 2013 (Unaudited) £m	4 April 2013 (Audited) £m
Subordinated liabilities		
Subordinated notes	2,381	2,426
Fair value adjustment for micro hedged risk	71	130
Unamortised premiums and issue costs	(14)	(16)
	2,438	2,540
Subscribed capital		
Permanent interest bearing shares	582	1,068
Fair value adjustment for micro hedged risk	76	270
Unamortised premiums and issue costs	(27)	(34)
	631	1,304

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

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.

In September 2013, the Group, with the consent of the PRA, redeemed £485 million of PIBS. This resulted in a net gain of £124 million in other operating income.

13 Financial instruments – classification & measurement

This section should be read in conjunction with note 34 "Classification and Measurement" of the 2013 Annual Report and Accounts, which provides more detail about the accounting policy adopted, valuation methodologies used in calculating fair value and the valuation control framework which governs the oversight of valuations. Valuation methodologies have remained consistent with those applied in 2013 Annual Report and Accounts, except for in relation to loans and advances to customers as set out below.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

Comparison of carrying amounts & fair values

The following table summarises the fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet.

	30 September 2013 (unaudited)		4 April 2013 (audited)	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial Assets				
Loans and advances to banks	2,537	2,537	2,522	2,522
Loans and advances to customers:				
Residential mortgages	141,156	136,335	135,393	130,871
Consumer banking	3,519	3,604	3,401	3,413
Commercial lending	18,987	17,162	20,371	20,752
Other lending	201	201	422	422
Financial Liabilities				
Shares	130,951	131,073	125,574	125,832
Deposits from banks	3,265	3,268	3,230	3,232
Other deposits (i)	7,137	7,559	6,747	7,130
Due to customers	5,953	5,903	5,960	5,962
Debt securities in issue	31,761	32,481	33,429	34,003
Subordinated liabilities	2,438	2,529	2,540	2,566
Subscribed capital	631	631	1,304	1,012

Note

(i) Other deposits include PEBS of £3,057 million (4 April 2013: £2,985 million) which are carried at fair value on the balance sheet.

Loans and advances to customers

In adopting the requirements of IFRS 13, Nationwide has reviewed and modified its approach to the fair value disclosures for financial assets and liabilities measured at amortised cost on the balance sheet in line with the guidance in the standard to reflect an exit price, valued on an asset by asset basis.

The change in relationship between carrying value and fair value of commercial lending solely reflects the change in valuation methodology as a result of the IFRS 13 guidance. IFRS 13 is not retrospective in application and we have not restated our position at 4 April 2013. Whilst we do not have all the data to restate prior periods on this basis, we have established that had this methodology been applied at 4 April 2013 the reported fair value would have been lower than reported and broadly consistent with the relationship between carrying value and fair value at 30 September 2013.

The estimated fair value of loans and advances to customers represents management's best estimate of an exit price, calculated by reference to discounted future cash flows. In estimating future cash flows under IFRS 13 we have taken into account the impact of incurred losses and in addition have included an element of future lifetime expected credit losses modelled on historic trends.

For commercial lending fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to that book. For retail loans, estimated future cash flows are discounted at the currently available market standard variable interest rate.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

Fair value hierarchy

IFRS 13 Fair Value Measurement requires an entity to classify its financial instruments held at fair value according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

This category includes liquid government bonds actively traded through an exchange or clearing house, actively traded listed equities and actively exchange-traded derivatives.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

This category can include most investment grade and liquid high yield bonds, asset backed securities, US agency securities, government bonds, less actively traded listed equities, bank, corporate and municipal obligations, OTC derivatives, convertible bonds, certificates of deposit, commercial paper, collateralised loan obligations (CLOs), most commodities based derivatives, credit derivatives, credit default swaps (CDSs), most fund units, loans, foreign exchange spot and forward transactions and issued notes.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques. The Level 3 category includes certain corporate debt securities, distressed debt, private equity investments, commercial real estate loans, certain OTC derivatives (requiring complex and unobservable inputs such as correlations and long dated volatilities), certain convertible bonds, certain CDSs, derivative exposures to monoline insurers, certain fund units, certain asset backed securities, certain issued notes, certain CDOs (synthetic and some cash underlyings), certain CLOs and certain loans.

Transfers between fair value hierarchies

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or the observability of significant inputs to valuation. Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (i.e. it uses unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

There were no significant transfers between Levels 1 and 2 during the period.

During the period there were transfers from Level 2 to Level 3 in respect of investments where market prices were no longer available and derivatives where the valuation comprised significant unobservable inputs.

Fair value measurement

The following table shows the Group's financial assets and liabilities that are held at fair value disaggregated by fair value hierarchy and balance sheet classification.

	Valuations based on				Total £m
	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m		
30 September 2013 (Unaudited)					
Financial assets					
Investment securities – AFS	7,637	3,507	81		11,225
Investments in equity shares	-	-	28		28
Derivative financial instruments	-	2,963	476		3,439
Other financial assets	-	2	-		2
	7,637	6,472	585		14,694
Financial liabilities					
Derivative financial instruments	-	(2,781)	-		(2,781)
Other deposits – PEBs	-	-	(3,057)		(3,057)
Other financial liabilities	-	(7)	-		(7)
	-	(2,788)	(3,057)		(5,845)

	Valuations based on				Total £m
	Quoted market prices (Level 1) £m	Observable inputs (Level 2) £m	Significant unobservable inputs (Level 3) £m		
4 April 2013 (Audited)					
Financial assets					
Investment securities - AFS	8,641	4,720	60		13,421
Investments in equity shares	-	-	28		28
Derivative financial instruments	-	3,828	384		4,212
Other financial assets	-	8	-		8
	8,641	8,556	472		17,669
Financial liabilities					
Derivative financial instruments	-	(3,875)	(10)		(3,885)
Other deposits - PEBs	-	-	(2,985)		(2,985)
	-	(3,875)	(2,995)		(6,870)

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

Detail of product types within fair value hierarchies

The following tables show the Group's financial assets and liabilities that are held at fair value disaggregated by fair value hierarchy and product type:

	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
30 September 2013 (Unaudited)				
	£m	£m	£m	£m
Financial assets				
Government & supranational investment securities	7,637	-	-	7,637
Listed private sector investment securities	-	3,507	81	3,588
Interest rate swaps	-	1,391	-	1,391
Cross currency interest rate swaps	-	1,011	-	1,011
Caps, collars & floors	-	1	-	1
Interest rate & equity index swaps	-	560	476	1,036
Investments in equity shares	-	-	28	28
Other	-	2	-	2
Total	7,637	6,472	585	14,694

	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
30 September 2013 (Unaudited)				
	£m	£m	£m	£m
Financial liabilities				
Interest rate swaps	-	(2,245)	-	(2,245)
Cross currency interest rate swaps	-	(231)	-	(231)
Forward foreign exchange	-	(260)	-	(260)
Swaptions	-	(14)	-	(14)
Other	-	(7)	-	(7)
Interest rate & equity index swaps	-	(31)	-	(31)
Other deposits - PEBs	-	-	(3,057)	(3,057)
Total	-	(2,788)	(3,057)	(5,845)

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

4 April 2013 (Unaudited)	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£m	£m	£m	£m
Financial assets				
Government & supranational investment securities	8,641	343	-	8,984
Listed private sector investment securities	-	4,377	60	4,437
Interest rate swaps	-	1,792	-	1,792
Cross currency interest rate swaps	-	1,150	-	1,150
Forward foreign exchange	-	152	-	152
Swaptions	-	2	-	2
Other	-	8	-	8
Interest rate & equity index swaps	-	732	384	1,116
Investments in equity shares	-	-	28	28
Total	8,641	8,556	472	17,669

4 April 2013 (Unaudited)	Quoted market prices (Level 1)	Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£m	£m	£m	£m
Financial liabilities				
Interest rate swaps	-	(3,680)	-	(3,680)
Cross currency interest rate swaps	-	(90)	-	(90)
Caps, collars & floors	-	(1)	-	(1)
Forward foreign exchange	-	(22)	-	(22)
Swaptions	-	(27)	-	(27)
Interest rate & equity index swaps	-	(55)	(10)	(65)
Other deposits - PEBs	-	-	(2,985)	(2,985)
Total	-	(3,875)	(2,995)	(6,870)

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

Movements in level 3 portfolio

(Unaudited)	Investment securities - AFS £m	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits – PEBs £m
At 5 April 2013	60	28	374	(2,985)
(Losses)/gains recognised in the income statement:				
Net interest expense	-	-	(17)	(4)
Gains/(losses) from derivatives and hedge accounting	-	-	101	(102)
Gain recognised in other comprehensive income – fair value movement taken to equity	2	-	-	-
Settlements	(3)	-	18	34
Transfers into level 3 portfolio	23	-	-	-
Transfers out of level 3 portfolio	(1)	-	-	-
At 30 September 2013	81	28	476	(3,057)

(Unaudited)	Investment securities - AFS £m	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits – PEBs £m
At 5 April 2012	76	20	197	(2,890)
(Losses)/gains recognised in the income statement:				
Net interest expense	-	-	(29)	-
Gains/(losses) from derivatives and hedge accounting	-	-	59	(62)
Impairment losses on investment securities	(23)	-	-	-
Gain recognised in other comprehensive income – fair value movement taken to equity	9	2	-	-
Settlements	-	-	31	35
Transfers into level 3 portfolio	17	-	-	-
At 30 September 2012	79	22	258	(2,917)

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

Sensitivity analysis of valuations using unobservable inputs

As discussed above, the fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not in an active market or significant unobservable market inputs.

Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of these fair values to reasonable alternative assumptions:

At 30 September 2013 (Unaudited)	Fair value	Favourable changes to assumptions	Unfavourable changes to assumptions
	£m	£m	£m
Investment securities – AFS:			
Collateralised debt obligations	69	13	(16)
Other investment securities	12	-	-
Investments in equity shares	28	2	(3)
Derivative financial instruments	476	-	-
	585	15	(19)
Increases/(decreases) in fair value would be recognised in:			
Income statement		5	(3)
Statement of other comprehensive income (accumulated in AFS reserve)		10	(16)
		15	(19)
At 4 April 2013 (Audited)	Fair value	Favourable changes to assumptions	Unfavourable changes to assumptions
	£m	£m	£m
Investment securities – AFS:			
Collateralised debt obligations	60	15	(11)
Investments in equity shares	28	-	(7)
Derivative financial instruments	384	-	-
	472	15	(18)
Increases/(decreases) in fair value would be recognised in:			
Income statement		5	(2)
Statement of other comprehensive income (accumulated in AFS reserve)		10	(16)
Total		15	(18)

Note:

(i) Any changes in fair values of the PEB deposits would be offset by an equal and opposite change in the fair values of the associated PEB derivative financial instruments; hence PEB deposits are excluded from the above tables.

The scenarios applied are considered for each product and varied according to the quality of the data and variability of the underlying market.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

Investment securities – AFS

Collateralised debt obligations

Sensitivities on these assets, where there are no alternative pricing sources, have been calculated by applying a range of probable scenarios against our current valuation process, resulting in a range of possible prices.

Other investment securities

Scenarios reflect prices seen in these holdings in the preceding six months.

Investments in equity shares

Scenarios reflect prices seen in these holdings in the preceding six months.

Significant unobservable inputs

The following table discloses the valuation techniques and significant unobservable inputs for assets and liabilities recognised at fair value and classified as level 3 along with the range of values for those significant unobservable inputs.

At 30 September 2013 (Unaudited)	Total assets £m	Total liabilities £m	Valuation techniques	Significant unobservable inputs	Range Min	Range Max	Weighted average Note (iv)	Units Note (i)
Derivative financial instruments								
Other derivatives, interest rate & equity index swaps	476	-		Note (ii)				
	476	-						
Non derivative financial instruments								
Investments in securities – AFS	58	-	Discounted cash flows	Conditional prepayment rate	9.84	29.51	19.67	%
				Loss given default	25.98	77.95	51.97	%
				Probability of default	8.07	23.82	16.14	%
				Credit spread	125	375	250	Bps
	23	-	Mark to market	Price	78.93	88.46	83.84	Points
	81	-						
Investments in equities	28	-	Mark to market	Price	83.00	105.0	97.0	Points
Other deposits – PEBs	-	(3,057)		Note (iii)				

Notes

(i) The units used to disclose ranges for significant unobservable inputs are percentages, points and basis points (bps). Points are a percentage of par; for example 100 points equals 100% of par. One basis point (bps) equals 0.01% for example, 125 basis points (bps) equals 1.25%.

(ii) Any change in fair values of the interest rate & equity index swaps derivative financial instrument will be offset by the change in fair value of the PEB deposit. Any resultant impact is deemed by the Group to be insignificant so these items have therefore been excluded from the table above.

(iii) Any change in fair values of the PEB deposit will be offset by the change in fair value of the interest rate & equity index swaps derivative instruments.

(iv) The 'Weighted Average' figure provided represents the input values used in calculating the fair values for the above financial instruments.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

13 Financial instruments – classification & measurement (continued)

The significant unobservable inputs identified in the table above are described in the following section, which also details the sensitivity of fair value measurement of the instruments categorised as level 3 assets or liabilities to increases in significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

Conditional prepayment rate

For asset backed securities where the borrower is able to prepay all or part of a loan before the contractual repayment date, the conditional prepayment rate will affect the fair value by altering the timing of future projected cash flows.

The effect of a significant increase in conditional prepayment rate on fair value could be favourable or unfavourable, depending on the specific terms of the instrument. Conditional prepayment rates are typically inversely correlated to credit spread. For example, securities with high borrower credit spread typically experience lower prepayment rates, and also tend to experience higher default rates.

Loss given default

Loss given default represents the expected loss upon liquidation of the collateral as a percentage of the balance outstanding. In general, lower recovery and lower projected cash flows will translate to a significant increase in the loss given default, resulting in a reduction in fair value that is unfavourable for the holder of the securitised product.

Probability of default

The probability of default represents an annualised rate of default of the loan principal by the borrower. A significant increase in a probability of default in isolation will typically result in a movement in fair value that is unfavourable.

Probability of default and conditional prepayment rates are typically inversely correlated; lower defaults on loans typically will mean higher credit quality and therefore more prepayments.

Credit spread

The more perceived credit risk there is, the higher the yield will be demanded for the instrument. This is reflected in the credit spread which typically represents the difference in yield between an instrument and a benchmark security or reference rate. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a cash instrument.

For a derivative instrument, a significant increase in credit spread in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Price

Prices for securities that are marked to market, where the market is illiquid and supporting price information is scarce are typically subject to significant uncertainty. An increase in the price will directly cause an increase in fair value and vice versa.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

14 Offsetting financial assets & financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, but for which there is no intention to settle on a net basis or to realise the asset and liabilities simultaneously (the offset criteria). Therefore, in accordance with IAS 32 Financial Instruments: Presentation, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet. All financial assets and liabilities are presented on a gross basis on the balance sheet.

In accordance with IFRS 7 Financial Instruments: Presentation, the following table shows the impact on derivative financial instruments, total return swaps, reverse repurchase agreements and repurchase agreements relating to transactions where:

- There is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied, and
- Financial collateral is paid and received.

Master netting arrangements consist of agreements such as an ISDA Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash and securities settled, typically daily or weekly, to mitigate the mark to market exposures. Financial collateral on total return swaps, repurchase agreements and reverse repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The 'Net amounts after offsetting under IFRS 7' presented below show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements. These credit mitigation strategies are discussed further in the Treasury Credit Risk section of the Risk Management Report.

At 30 September 2013 (Unaudited)	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts
				£m
Financial assets				
Derivative financial instruments	3,439	(1,462)	(1,629)	348
Total return swaps	149	-	(149)	-
Total assets	3,588	(1462)	(1,778)	348
Financial liabilities				
Derivative financial liabilities	2,781	(1,462)	(1,225)	94
Repurchase agreements	1,005	-	(1,005)	-
Total liabilities	3,786	(1,462)	(2,230)	94
4 April 2013 (Unaudited)				
Amounts reported on the balance sheet		Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
		£m	£m	£m
Financial assets				
Derivative financial instruments	4,212	(2,208)	(1,631)	373
Total return swaps	149	-	(149)	-
Total assets	4,361	(2,208)	(1,780)	373
Financial liabilities				
Derivative financial liabilities	3,885	(2,208)	(1,559)	118
Repurchase agreements	1,207	-	(1,207)	-
Total liabilities	5,092	(2,208)	(2,766)	118

NOTES TO THE INTERIM FINANCIAL INFORMATION continued**15 Notes to the cash flow statement**

	Half year to 30 September 2013 (Unaudited) £m	Half year to 30 September 2012* (Unaudited) £m
Non-cash items included in profit before tax		
Net increase in impairment provisions	146	242
Net decrease in provisions for liabilities and charges	(73)	(44)
Impairment losses on investment securities	1	23
Depreciation and amortisation	133	97
Interest on subordinated liabilities	65	46
Interest on subscribed capital	36	47
Profit on the sale of investments	-	(7)
Losses from derivatives and hedge accounting	16	14
	324	418
Changes in operating assets		
Loans and advances to banks	(119)	3
Investment securities	636	(426)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	1,266	377
Deferred tax assets	18	(29)
Loans and advances to customers	(4,422)	(3,239)
Other operating assets	40	22
	(2,581)	(3,292)
Changes in operating liabilities		
Shares	5,377	(510)
Deposits from banks, customers and others	418	1,214
Derivative financial liabilities and fair value adjustment for portfolio hedged risk	(1,177)	278
Debt securities in issue	(1,668)	(4,224)
Deferred tax liabilities	(2)	(3)
Retirement benefit obligations	186	163
Other operating liabilities	(196)	159
	2,938	(2,923)
Cash and cash equivalents		
Cash	9,737	8,505
Loans and advances to banks repayable in 3 months or less	2,085	2,981
	11,822	11,486

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

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 2013, amounted to £304 million (30 September 2012: £189 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.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

16 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
- Head office functions.

Details of the operating segments and the funds transfer pricing methodology are contained in note 13 of the 2013 Annual Report and Accounts. The comparative results for the half year to 30 September 2012 have been restated in order to align presentation with the current period updating the funding costs to reflect a change in capital allocation methodology. In addition, the comparative results are restated for the impact of IAS 19 (Revised) as explained in note 2 above.

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.

Half year to 30 September 2013 (Unaudited)	Notes	Retail	Commercial	Head office functions	Total
		£m	£m	£m	£m
Net interest income/(expense) from external customers		1,315	348	(579)	1,084
(Charge)/revenue from other segments		(115)	(287)	402	-
Net interest income		1,200	61	(177)	1,084
Other income	(i)	170	9	124	303
Total revenue		1,370	70	(53)	1,387
Expenses	(ii)	(683)	(27)	(22)	(732)
Impairment and other provisions	(iii)	(95)	(225)	(3)	(323)
Underlying profit/(loss) before tax		592	(182)	(78)	332
Restructuring costs		-	-	(35)	(35)
Bank levy		-	-	(11)	(11)
Losses from derivatives and hedge accounting		-	-	(16)	(16)
Profit/(loss) before tax		592	(182)	(140)	270
Taxation					(36)
Profit after tax					234

30 September 2013 (Unaudited)	Notes	Retail	Commercial	Head office functions	Total
		£m	£m	£m	£m
Total assets	(iv)	144,687	18,987	29,658	193,332
Total liabilities		136,406	817	49,362	186,585

Notes

- (i) Other income excludes losses from derivatives and hedge accounting.
- (ii) Expenses exclude restructuring costs and bank levy which are shown separately. The restructuring costs of £35 million comprise £31 million included in administrative expenses together with £4 million included in the depreciation and amortisation charge in the income statement.
- (iii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.
- (iv) Retail assets include goodwill arising on the acquisition of The Mortgage Works (UK) plc and the Derbyshire Building Society.

NOTES TO THE INTERIM FINANCIAL INFORMATION continued

16 Operating segments (continued)

Half year to 30 September 2012 (Unaudited)	Notes	Retail	Commercial	Head office functions	Total*
		£m	£m	£m	£m
Net interest income/(expense) from external customers		1,077	408	(595)	890
(Charge)/revenue from other segments		(304)	(382)	686	-
Net interest income		773	26	91	890
Other income	(i)	205	10	8	223
Total revenue		978	36	99	1,113
Expenses	(ii)	(618)	(24)	(15)	(657)
Impairment and other provisions	(iii)	(109)	(193)	(24)	(326)
Underlying profit/(loss) before tax		251	(181)	60	130
FSCS levies		6	-	-	6
Restructuring costs		(7)	-	(4)	(11)
Bank levy		-	-	(8)	(8)
Losses from derivatives and hedge accounting		-	-	(14)	(14)
Profit/(loss) before tax		250	(181)	34	103
Taxation					17
Profit after tax					120

* Comparatives have been restated in accordance with IAS 19 (Revised). Refer to note 2 for further details.

4 April 2013 (Audited)	Notes	Retail	Commercial	Head office functions	Total
		£m	£m	£m	£m
Total assets	(iv)	138,810	20,371	31,537	190,718
Total liabilities		131,184	526	52,428	184,138

17 Related party transactions

Full details of the Group's related party transactions for the year to 4 April 2013 can be found in note 35 of the 2013 Annual Report and Accounts. There have been no significant related party transactions in the six months to 30 September 2013. Loans to key management personnel, undertaken on normal commercial terms, were £0.8 million (4 April 2013: £0.8 million).

RESPONSIBILITY STATEMENT

The directors confirm that, to the best of their knowledge, the condensed consolidated interim financial information has 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 2013 Annual Report and Accounts.

A full list of the Board of Directors can be found in the 2013 Annual Report and Accounts. There have been no appointments or retirements from the Board during the six months to 30 September 2013.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director
14 November 2013

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 2013, 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. 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 Conduct 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 Conduct 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 2013 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 Conduct Authority.

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 2013 has been extracted from the 2013 Annual Report and Accounts. The 2013 Annual Report and Accounts have been filed with the Financial Conduct Authority, the Prudential Regulation Authority and the Registrar of Companies. The Auditors' Report on the 2013 Annual Report and Accounts was unqualified.

Nationwide has adopted the British Bankers' Association Code on Financial Reporting Disclosure ('the BBA code') in its 2013 Annual Report and Accounts. The code sets out five disclosure principles together with supporting guidance. Full details of the principles are included in the 2013 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 201 to 207 of the 2013 Annual Report and Accounts.

CONTACTS

Alan Oliver
020 7261 6201
07850 810745
alanm.oliver@nationwide.co.uk

Stuart Williamson
020 7261 6215
07545 740195
Stuart.williamson@nationwide.co.uk

Eden Black
020 7261 6217
07793 596317
Eden.black@nationwide.co.uk

Anthony Hua
020 7261 6218
07793 308339
Anthony.hua@nationwide.co.uk

These materials are not 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.