

Nationwide Building Society

**Interim Results
For the period ended
30 September 2015**



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Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 5. Statutory profit before tax of £802 million has been adjusted for a number of items, consistent with prior years, to derive an underlying profit before tax of £801 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 periods. 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.

Forward looking statements

Certain 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, Nationwide 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.

Nationwide undertakes 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 2015

“This has been our best ever half year of mortgage lending along with a strong inflow of savings and the opening of over a quarter of a million new current accounts. Our first half performance reflects the growing strength and security of the Society with all of our core product areas delivering standout results.

“We have also continued to deliver better customer satisfaction than our high street peer group¹, achieved excellent financial results and further improved our capital position. All this has been achieved in the face of fierce competition and by continuing to invest in innovative services and long term good value products for new and existing members.

“This confirms that we are the genuine alternative to the banks for those customers looking for a broad range of good quality products and leading customer service. Mutuals, like Nationwide, are different from the banks. We serve a social purpose by providing a safe home for savings and finance for home ownership. Nationwide is evidence that you can be successful by doing the right thing.”

Graham Beale
Chief Executive

¹ Source: GfK Financial Research Survey (FRS) measure, as defined in the Glossary on page 100

KEY HIGHLIGHTS

- Record half year gross mortgage lending, up 14% at £14.9 billion
- Helped 25,700 first time buyers in to a home of their own, up 8%
- Strong savings performance: increased our member deposit balances by £2.6 billion
- Particularly strong ISA season: 33% of total market change in ISA balances
- Over a quarter of a million new current accounts openings, up 13%, and increased our market share to 6.9%
- First for customer service satisfaction amongst our high street peer group: lead of 4.1%²
- Ongoing delivery of innovation: roll-out of Nationwide Now, first wave of Apple Pay, delivery of Paym
- Statutory profit before tax up 34% at £802 million
- Common Equity Tier 1 ratio increased to 21.9% and leverage ratio to 4.2%

² Source: GfK Financial Research Survey (FRS) measure, as defined in the Glossary on page 100

FINANCIAL SUMMARY

	Half year to 30 September 2015		Half year to 30 September 2014 (note i)	
Financial performance	£m		£m	
Total underlying income	1,683		1,589	
Underlying profit before tax	801		632	
Statutory profit before tax	802		598	
Mortgage lending	£bn	%	£bn	%
Group residential – gross/gross market share	14.9	13.2	13.1	12.2
Group residential – net/net market share	4.1	21.2	3.6	24.8
	%		%	
Average loan to value of new residential lending (by value)	69		69	
Member deposits (note ii)	£bn	%	£bn	%
Balance movement/market share	2.6	8.5	3.5	13.8
Net receipts	2.1		3.0	
Key ratios	%		%	
Cost income ratio – underlying basis	51.0		49.3	
Cost income ratio – statutory basis	51.0		51.4	
Net interest margin	1.58		1.51	
	At 30 September 2015		At 4 April 2015	
Balance sheet	£bn		£bn	
Total assets	203.1		195.6	
Loans and advances to customers	174.1		170.6	
Member deposits (shares) (note ii)	135.0		132.4	
Asset quality	%		%	
Proportion of residential mortgage accounts 3 months+ in arrears	0.46		0.49	
Average indexed loan to value of residential mortgage book (by value)	55		56	
Total provision as % of impaired balances on residential mortgage lending	10.4		12.3	
Total provision as % of impaired balances on commercial real estate lending	45		53	
Key ratios	%		%	
<i>Capital - CRD IV</i>				
Common Equity Tier 1 ratio (note iii)	21.9		19.8	
Leverage ratio (note iii)	4.2		4.1	
<i>Other balance sheet ratios</i>				
Liquidity coverage ratio	130.0		119.3	
Wholesale funding ratio	25.1		23.3	
Loan to deposit ratio (note iv)	115.7		115.6	

Notes:

- Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains on derivatives and hedge accounting as described in note 2 to the consolidated interim financial statements.
- Member deposits include current account credit balances.
- Reported under CRD IV on an end point basis. The leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.
- The loan to deposit ratio represents loans and advances to customers divided by (shares + other deposits + amounts due to customers).

CHIEF EXECUTIVE'S REVIEW

First half characterised by record mortgage lending

During the first six months of this financial year Nationwide has continued to demonstrate that it is possible to offer a mutual alternative to the established banks. We delivered a record level of mortgage lending, up 14% on the same period last year at £14.9 billion, increased our savings balances by £2.6 billion and opened over a quarter of a million new personal current accounts.

We have done this without compromising our commitment to exceptional service and fairness for our members. We have remained first for customer satisfaction amongst our high street peer group³ and represent only 2.1%⁴ of industry complaints reported to the Financial Conduct Authority despite our size and share of market activity.

As part of our £500 million investment in our branch network we have opened the first of three brand new branches in our new design in London Victoria, with Tottenham Court Road and Stratford Westfield planned for early 2016 and Spring 2016 respectively. We have continued to expand Nationwide Now, our innovative service that connects members to mortgage, personal banking and financial consultants via a high definition video link in our branches, and we are on schedule to hit our target of 400 locations by the calendar year end.

In the past six months we became one of the first financial services providers in the UK to offer customers the facility to use Apple Pay, our customers are now able to access balance information on an Apple watch, and we also introduced Paym, which allows payments to be made using just a mobile number.

Underlying profit for the six months was up 27% to £801 million, and statutory profit was up 34% to £802 million. As a result of this and the high quality nature of our loan book, our Common Equity Tier 1 (CET1) capital ratio now stands at 21.9% (4 April 2015: 19.8%) and our leverage ratio has risen to 4.2% (4 April 2015: 4.1%).

Increased support for the housing market

We have reinforced our position as the UK's second largest mortgage lender by outperforming our natural par shares of lending and have been named as the Best Mortgage Lender 2015 in the Money Marketing Financial Services Awards. Our gross lending was the highest ever in a half year period, up 14% at £14.9 billion (H1 2014/15: £13.1 billion), and our net lending was also up 14% at £4.1 billion (H1 2014/15: £3.6 billion), representing market shares of 13.2% and 21.2% respectively (H1 2014/15: 12.2% and 24.8%).

We have continued our longstanding support for first time buyers, helping 25,700 people to take their first step onto the property ladder, an increase of 8% on the same period last year. To broaden our reach in this important segment we have recently launched a range of mortgages that require a deposit of only 5%. We have also continued to participate in the Government's Help to Buy shared equity scheme, for which we account for over a third of all cases. We will support the Government's Help to Buy ISA initiative, and will deliver a product when it comes into effect on 1 December.

We have continued to place emphasis on rewarding our existing mortgage members through our Loyalty Rate Mortgages initiative. This guarantees that for any mortgage member coming to the end of their existing deal, we will have a product for them that will be the best available on the high street compared with our peer group of lenders.

In addition to lending to owner occupiers, we are one of the leading providers of loans to the buy to let sector through our subsidiary The Mortgage Works (TMW). Over the first half of the year, TMW gross advances accounted for £2.9 billion of our total mortgage lending, up 32% and representing a 14.9% share of gross buy to let lending in the UK.

³ Source: GfK Financial Research Survey (FRS) measure, as defined in the Glossary on page 100

⁴ Financial Conduct Authority complaints data H1 2015

Chief Executive's Review (continued)

Supporting loyal savers

The savings market in the early part of the financial year was dominated by NS&I Pensioner Bonds, which continued to attract deposits that would otherwise have been placed with traditional savings providers, including Nationwide. However, since their withdrawal in May, we have recovered our position and over the half year our member deposit balances have increased by £2.6 billion.

We remain committed to rewarding member loyalty and have over 1.3 million members benefiting from our Loyalty Saver and Loyalty Bond products. We have had a particularly strong ISA season, accounting for 33% of the total market change in cash ISA balances over the first six months of the year. Our performance and commitment to delivering long term good value is reflected in Nationwide being named as the High Street Savings Provider of the Year in the Consumer Moneyfacts Awards 2015.

Strong momentum in growing current accounts, despite widespread market inertia

We have expanded our current account base, opening over a quarter of a million new accounts during the past six months, up 13% on the same period last year (H1 2014/15: 225,000).

We have been a net beneficiary of the seven day account switching service, accounting for around 9.8% of all switchers over the first half of the year. We now have nearly six million current accounts, our market share of main and standard packaged accounts has increased to 6.9% (4 April 2015: 6.8%) and our market share of all accounts is 8.1% (4 April 2015: 7.9%).

FlexOne, our current account aimed at the youth market, has enjoyed huge success and in the last six months has represented over 18% of all youth account openings.

The quality of our current accounts has been recognised by us being named as the 'Best Online Current Account Provider 2015' by Your Money, with our FlexPlus account awarded 'Best Packaged Current Account' for 2015 by Money.net.

The Competition and Markets Authority, in its review of the UK current account market, addressed four key themes aimed at improving competition in the retail banking current account market: barriers to accessing and assessing information on current accounts; barriers to switching current accounts; low levels of customer engagement; and, incumbency advantages. We endorse those themes, particularly the desire to increase greater levels of comparability based on price and service. The CMA identified that Nationwide offers one of the lowest cost products coupled with high satisfaction relative to other providers⁵, yet despite these qualities it continues to be difficult to make meaningful progress in growing our overall market share due to inertia amongst consumers and the entrenched position of the large, incumbent banks.

Customer satisfaction

Our service proposition continues to be better than that of our banking peers. We were ranked number one for customer satisfaction amongst our high street peer group and our lead over our nearest competitor now stands at 4.1% (March 2015: 4.5%)⁶. We were the only high street financial services provider in the top ten in the 2015 UK Customer Satisfaction Index⁷, which ranks 225 organisations. We also continue to account for only a fraction of total industry complaints (2.1%) despite our size, and 78% of all cases referred to the Financial Ombudsman Service are upheld in our favour, compared with industry average of 43%⁸.

⁵ CMA Retail Banking Investigation Provisional Findings and Notice of Possible Remedies Briefing October 2015, slide 10

⁶ Source: GfK Financial Research Survey (FRS) measure, as defined in the Glossary on page 100

⁷ Source: The Institute of Customer Service 'UK Customer Satisfaction Index July 2015'

⁸ Financial Ombudsman Service complaints data H1 2015

Chief Executive's Review (continued)

Financial strength and security

The Society's financial strategy is to deliver profitability in an "optimal range"; that is, sufficient to support our regulatory capital needs, invest for the future and provide a safe and secure home for our members' money. Our first half performance has delivered strongly against this objective with a record underlying profit up 27% to £801 million, and statutory profit up 34% at £802 million. As a result of this and the high quality nature of our loan book, our Common Equity Tier 1 (CET1) ratio now stands at 21.9% (4 April 2015: 19.8%) and our leverage ratio has risen to 4.2% (4 April 2015: 4.1%). Our underlying cost income ratio was 51.0% (H1 2014/15: 49.3%).

We are pleased that our credit ratings from each of the main ratings agencies were affirmed or improved during the first half of the year, including upgrades in our long term rating from Moody's from A2 to A1 and Standard & Poor's changing our outlook to stable.

Regulation and legislation

We are very disappointed that the Chancellor has decided to include Nationwide in the introduction of the tax surcharge on banking companies announced in the Budget. Nationwide is not a bank and serves a social purpose of facilitating home ownership and promoting a savings culture. The tax surcharge will have a disproportionate effect on building societies and we believe that it represents a missed opportunity to support diversity in UK financial services.

Outlook

After trending down through 2014, housing market activity has increased modestly over the course of 2015. Mortgage approvals have broadly tracked this trend, while remortgage approvals have risen more strongly, encouraged by the prospect of the potential for interest rates to increase. Whilst shifts in interest rate expectations may have some impact on the housing market, a strengthening labour market underpinning a continued economic recovery should support both activity and house prices, with the latter also receiving support from the chronic under-supply of houses for sale.

In recent months the annual growth of house prices in the UK has remained in a fairly narrow range between 3% and 4%. However, prices in London have continued to rise more rapidly, and in Q3 2015 were over 10% higher than at Q3 2014. While healthy employment growth and robust demand from investors – including buy to let – helps to explain this trend, such outperformance is unlikely to be sustained over the long term, given that key measures of affordability are already stretched.

Buy to let lending has remained robust in recent months. Although this is likely to continue, it remains too early to quantify the impact of recent tax changes and higher interest rates on long term future demand.

Competition in the lending markets has remained robust and, as a consequence, we expect to see some downward pressure on margins in the second half of the year and into 2016/17.

As a building society our aim is to optimise our profitability to allow us to grow and invest in the business while at the same time maintaining our capital strength. As a modern mutual it is important that we continue to invest in order to meet our members' current and future needs by providing good long term value products, services and security. Such investment comes at a cost, but we believe this is the right thing to do, particularly at a time when digital innovation and other initiatives are having a major impact on consumer behaviour and expectations of service and digital access.

Update on CEO succession

On 16 November 2015 the Board announced Joe Garner, the current CEO of Openreach, as my successor. Joe is committed to delivering exceptional service to customers across the financial services and retail sectors and this is a great appointment for Nationwide as we continue to focus on providing exceptional products and services to our members. We anticipate that Joe will take up his duties in Spring 2016.

FINANCIAL REVIEW

OVERALL GROUP PERFORMANCE

Our interim financial results demonstrate the benefits of being a low risk, safe and secure mutual focused on doing the right thing for our members. Statutory profit before tax for the period ended 30 September 2015 is up 34% at £802 million and is reflective of a strong trading performance, which has seen an 8% growth in net interest income and a £169 million reduction in impairment losses. Our increased profit is allowing us to improve our capital strength (with the CET1 ratio increasing by 2.1% to 21.9%), improve the competitiveness of our products, reward loyalty and increase investment into new services such as Apple Pay and Nationwide Now.

Total assets have grown 4% in the period to £203 billion reflecting a strong lending performance where Nationwide took more than 20% market share of the growth in residential net lending. In addition, we have strengthened our liquidity position, with the Liquidity Coverage Ratio (LCR) increasing by 10.7% to 130.0% at 30 September 2015.

INCOME STATEMENT OVERVIEW

Profit after tax on a statutory basis and a reconciliation to underlying profit are set out below. Underlying profit represents management's view of underlying performance and is presented to aid comparability across reporting periods; it equates to statutory profit before tax adjusted for charges in respect of the Financial Services Compensation Scheme (FSCS), transformation costs and gains from derivatives and hedge accounting.

Half year to 30 September 2015	Statutory profit	FSCS	Transformation costs	Gains from derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	1,557	-	-	-	1,557
Net other income	126	-	-	-	126
Gains from derivatives and hedge accounting	14	-	-	(14)	-
Total income	1,697	-	-	(14)	1,683
Administrative expenses	(866)	-	8	-	(858)
Impairment losses	-	-	-	-	-
Provisions for liabilities and charges	(29)	5	-	-	(24)
Profit before tax	802	5	8	(14)	801
Tax	(166)				
Profit after tax	636				

Half year to 30 September 2014*	Statutory profit	FSCS	Transformation costs	Gains from derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	1,446	-	-	-	1,446
Net other income	143	-	-	-	143
Gains from derivatives and hedge accounting	6	-	-	(6)	-
Total income	1,595	-	-	(6)	1,589
Administrative expenses	(820)	-	36	-	(784)
Impairment losses	(169)	-	-	-	(169)
Provisions for liabilities and charges	(8)	4	-	-	(4)
Profit before tax	598	4	36	(6)	632
Tax	(112)				
Profit after tax	486				

*Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains from derivatives and hedge accounting as described in note 2 to the consolidated interim financial statements.

Financial Review (continued)

Underlying profit for the six months was £801 million, up 27% compared to the same period last year (H1 2014/15: £632 million). The increase in profitability is primarily due to reduced impairment losses as a result of improved asset quality, and an increase in net interest income driven by lower retail funding costs. This has been in part offset by increased administrative costs and a small reduction in other income. Over the short to medium term, evidence of more sustained competition in the mortgage and savings market is likely to result in modest reductions in our net interest margin.

Net interest income	Half year to 30 September 2015 £m	Half year to 30 September 2014* £m
Net interest income	1,557	1,446
Weighted average total assets	200,112	194,066
	%	%
Net interest margin (NIM)	1.58	1.51

*Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains from derivatives and hedge accounting as described in note 2 to the consolidated interim financial statements.

The Group's margin continues to perform strongly with net interest income at £1,557 million, 8% higher than the same period last year. After taking account of growth in average assets of 3%, reflecting our 21% share of the net residential lending market during the period, this translates into an annualised increase in net interest margin (NIM) of 7 bps to 158 bps, predominantly due to lower funding costs.

The market cost of retail funding has fallen over the last 12 months driven by reduced demand for funding as natural retail deposit growth continues to exceed demand for lending in a constrained housing market, and the large banks in particular have sought to protect margins in the face of increasing competition for new lending. Nationwide has maintained a strong retail savings proposition in line with its mutual principles and has tended to lag the large banks in reducing the rates we offer. Notwithstanding this approach, however, it has been necessary to adjust our pricing progressively in line with wider market trends, resulting in a 20 bps overall reduction in our retail funding costs since 30 September 2014.

Competition in the mortgage market continues to intensify with gross margins on new business falling by approximately 25 bps over the last 12 months. This has had limited impact on NIM in the period to 30 September 2015 but, combined with increasing levels of customer switching from higher margin variable rate products as speculation rises over bank base rate, is expected to lead to pressure on margins during the second half of the financial year and into 2016/17.

Financial Review (continued)

Net other income	Half year to 30 September 2015 £m	Half year to 30 September 2014* £m
Current account and savings	38	50
Protection and investments	37	37
General insurance	37	39
Mortgage	4	6
Credit card	8	15
Commercial	7	8
Other	(5)	(12)
Total underlying net other income	126	143
Gains from derivatives and hedge accounting	14	6
Total statutory net other income	140	149

*Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains from derivatives and hedge accounting as described in note 2 to the consolidated interim financial statements.

Total underlying net other income for the period of £126 million is £17 million lower than the same period last year. The Group has seen reductions within current accounts and credit card product lines, reflecting the decision to remove unauthorised overdraft charges and the impact of lower interchange income as a result of caps on charges imposed at an industry level.

Although the Group only uses derivatives to hedge risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the Group's hedging strategy. Details of fair value gains relating to derivatives and hedge accounting are provided in note 5 of the consolidated interim financial statements.

Administrative expenses	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Employee costs	349	327
Other administrative expenses	354	316
Depreciation and amortisation	155	141
Total underlying administrative expenses	858	784
Transformation costs	8	36
Total statutory administrative expenses	866	820
	%	%
Cost income ratio – underlying basis*	51.0	49.3
Cost income ratio – statutory basis	51.0	51.4

*Comparatives have been restated for the transfer of foreign currency retranslation amounts from net interest income to gains from derivatives and hedge accounting as described in note 2 to the consolidated interim financial statements.

Total underlying administrative expenses have increased by 9% to £858 million, driven by continued investment in the business and increasing employee costs. At a statutory level administrative expenses have increased by 6% to £866 million.

Employment cost increases include the impact of annual pay awards averaging 3.0% and 2.5% in each of the last two years. In addition, employee numbers have increased by 1.9% compared to the same period last year as the Group continues to strengthen risk and control functions and build greater capacity to support our growing business.

Other administrative expenses have increased by £38 million. This reflects enhancements in digital capability, including Nationwide Now, Apple Pay and Paym, together with investment in IT resilience, regulatory change and brand development. The reported period on period increase is net of cost savings realised through a reduction in administration costs in relation to customer complaints.

Financial Review (continued)

Transformation costs in the period include investment to enable IT change to be delivered in a more efficient, flexible and resilient manner. Costs are significantly lower than the prior period reflecting the successful completion of the integration of the Dunfermline, Cheshire and Derbyshire brands.

The cost income ratio on an underlying basis has increased from 49.3% to 51.0% at 30 September 2015. Whilst we remain focused on improving the efficiency of the organisation, this trend is expected to continue in the short and medium term in line with our strategic aim of creating a modern mutual. Our focus will be on improving the service we deliver to members and will result in continued investment in our distribution capability including our branches, digital technology and Nationwide Now. In addition, we will invest in the automation of back office administration to improve the speed, reliability and efficiency of key processes, as well as improving the resilience and availability of our services. We will also make further investment in our brand to broaden our appeal and support business growth.

Impairment (reversals)/losses	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Residential lending	(7)	13
Consumer banking	33	49
Retail lending	26	62
Commercial lending	(27)	73
Other lending	1	21
Impairment losses on loans and advances to customers	-	156
Impairment losses on investment securities	-	13
Total	-	169

There was no overall net charge for impairment losses in the period, with improvements seen across all portfolios. The most significant improvement relates to the commercial portfolio, driven by the substantial levels of deleveraging which took place in the 2014/15 financial year and a sustained improvement in market conditions.

With prolonged low interest rates, falling unemployment and wage growth outstripping increases in the cost of living, secured arrears continue to improve as a result of both these positive economic conditions and the prudent nature of our mortgage lending. Combined with moderate house price growth in the period this has resulted in a net release of incurred loss provisions of £7 million.

Consumer banking impairments are 33% lower than for the same period last year. The fall in impairments has been driven by the improving economic environment, improved credit underwriting for personal loans and the removal of unauthorised overdraft fees on current accounts which has had the effect of reducing early arrears.

The first half of 2015/16 has seen continued improvement in market conditions for commercial real estate (CRE) assets. Liquidity for prime and good secondary assets has supported improving asset values which have driven lower provision requirements on impaired assets. The significant deleveraging activity undertaken during 2014/15 has materially reduced our CRE exposure resulting in very low levels of new provisions during the current period. The result of this improving picture is a net provision release of £27 million against a £73 million charge in the comparative period which reflected accelerated disposals as part of deleveraging activity.

The 'other lending' impairment charge relates to an individual treasury asset which is now fully impaired. The impairment charge for period to 30 September 2014 related mainly to a provision in respect of a €100 million loan to a Luxembourg special purpose entity.

Financial Review (continued)

Provisions for liabilities and charges	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Underlying provisions for liabilities and charges – customer redress	24	4
FSCS levy	5	4
Total provisions for liabilities and charges	29	8

The Group holds provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory matters. The £24 million charge in the period relates to updated assumptions for provisions previously recognised and includes management's best estimate of the impact relating to the FCA's announcements on 2 October 2015 in relation to the past sale of PPI products.

The charge for the FSCS levy represents an increase in interest for the 2015/16 scheme year, initially estimated and provided at 4 April 2015. The charge for the 2016/17 scheme year will be recognised in the second half of the financial year.

Further information is provided in note 8 to the consolidated interim financial statements.

Taxation

The statutory reported tax charge for the period of £166 million (H1 2014/15: £112 million) represents an effective tax rate of 20.7% (H1 2014/15: 18.7%), which is higher than the statutory rate in the UK of 20%. The higher effective rate is due principally to expenses not deductible for tax purposes. Further information is provided in note 9 to the consolidated interim financial statements.

Other matters

On 2 November 2015, Visa Inc. announced the proposed acquisition of Visa Europe Limited ('VE') to create a single global payments business under the VISA brand. The Group is a member and shareholder of VE and in exchange for its ordinary share (currently held at cost of €10) will receive up front consideration in the form of cash (approximately €92 million) and preferred stock (approximately €59 million). The preferred stock is convertible into Class A common stock of Visa Inc, at a future date, subject to conditions. In addition, the Group may receive deferred cash consideration in 2020 which is contingent on certain performance thresholds being met.

On completion of the transaction the Group expects to recognise a gain in the income statement based upon the upfront cash proceeds and a fair value amount in relation to the other consideration. The fair value amount will reflect a number of factors and uncertainties relating to the other consideration. Subject to regulatory approval, completion is currently expected to occur in the first half of our 2016/17 financial year.

Financial Review (continued)

BALANCE SHEET

The Group's aim of maintaining a low risk balance sheet remains central to our strategy. Total assets have grown by 4% to £203 billion reflecting growth in both residential mortgage assets and high grade liquidity.

Liquidity balances have grown due to proactive prefunding of wholesale maturities due in the second half of the financial year, resulting in a Liquidity Coverage Ratio (LCR) of 130.0% at 30 September 2015 (4 April 2015: 119.3%) and a corresponding increase in our wholesale funding ratio.

Strong retail funding flows, particularly in the second quarter of the financial year, have also underpinned our asset growth with an increase in member deposits totalling £2.6 billion primarily attributable to competitive ISA products, a successful Loyalty 2 Year Fixed Rate Bond and our strong current account proposition.

ASSETS

	30 September 2015		4 April 2015	
	£m	%	£m	%
Residential mortgages	157,015	90	152,885	89
Commercial lending	13,631	8	14,594	9
Consumer banking	3,833	2	3,791	2
Other lending	39	-	29	-
	174,518	100	171,299	100
Impairment provisions	(453)		(652)	
Loans and advances to customers	174,065		170,647	
Other financial assets	26,707		22,721	
Other non-financial assets	2,339		2,212	
Total assets	203,111		195,580	
Asset quality				
Residential mortgages:		%		%
Proportion of residential mortgage accounts 3 months+ in arrears	0.46		0.49	
Average indexed loan to value of residential mortgage book (by value)	55		56	
Total provision as % of impaired balances	10.4		12.3	
Commercial real estate (CRE) lending:		£m		£m
CRE gross balances	3,302		4,043	
Impaired CRE balances	287		608	
CRE provision as a % of impaired CRE balances	45%		53%	
Other key ratios		%		%
Loan to deposit ratio (note i)	115.7		115.6	
Liquidity coverage ratio	130.0		119.3	

Note:

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

Residential mortgages

Market levels of gross lending were 7% higher supported by an improving economy and increased competition which has had the impact of reducing new business mortgage rates. This increased competition together with speculation over the first bank base rate rise in seven years has seen greater levels of remortgage activity within the market. Our mortgage proposition has allowed us to compete strongly with gross mortgage lending up 14% in the period to £14.9 billion (H1 2014/15: £13.1 billion), representing a market share of 13.2% (H1 2014/15: 12.2%). The Group remains the second largest mortgage lender in the UK.

Financial Review (continued)

Mortgage balances grew by £4.1 billion, of which £2.7 billion was prime lending and £1.4 billion related to specialist lending, in total representing 21.2% of overall net mortgage market growth. The loan to value (LTV) profile of new lending in the period, weighted by value, remained stable at 69%. The rise in house prices has continued in the period, reducing the average LTV of the portfolio at 30 September 2015 to 55% (4 April 2015: 56%). Our residential mortgage arrears have reduced further to 0.46% at 30 September 2015 (4 April 2015: 0.49%) as we continue to benefit from low and falling unemployment and growth in household income. Our arrears levels continue to be significantly lower than the Council of Mortgage Lenders industry average of 1.17%⁹ demonstrating our low risk appetite and strong underwriting capability.

The improvement in residential mortgage asset quality has led to impaired balances falling by £72 million to £823 million (4 April 2015: £895 million). The lower impaired balances have also resulted in lower impairment provisions being held on the balance sheet.

Commercial lending

As a result of deleverage activity undertaken in recent years, our overall commercial portfolio is increasingly weighted towards registered social landlords of £7.7 billion (4 April 2015: £4.0 billion) and a Project Finance loan portfolio of £1.4 billion (4 April 2015: £1.4 billion). The portfolio also comprises our CRE lending of £3.3 billion (4 April 2015: £4.0 billion) and £1.2 billion of fair value adjustments relating to loans where we have hedged associated financial risks, typically interest rate risk.

The registered social landlord and Project Finance portfolios are fully performing and remain stable, reflecting their low risk nature. The Group's principal focus for registered social landlord lending is to reprice long-term facilities, where possible, through ongoing management of strong borrower relationships.

New CRE lending is focused on growing a low risk commercial loan portfolio diversified across geographic locations, property sectors and tenant profiles. The £0.7 billion reduction in CRE loans during the six months to 30 September 2015 reflects our continued strategy of reducing exposures which are outside of the Group's current risk appetite or do not align to our current lending strategy.

There has been a significant reduction in impaired balances within the CRE portfolio which have fallen by £321 million to £287 million (4 April 2015: £608 million). The level of impaired balances as a proportion of our total CRE exposure has fallen to 9% (4 April 2015: 15%) indicating resolution of impaired assets and improved asset quality.

We continue to reduce our exposure to non-core CRE lending through active management of individual cases, although the Group's exposure is now less than £1.2 billion having fallen by £625 million in the first half of the year. These balances are all regularly assessed for evidence of impairment with no significant net provisioning requirement in the year to date.

Consumer banking

Consumer banking comprises retail balances relating to personal loans of £1.9 billion (4 April 2015: £1.8 billion), credit cards of £1.8 billion (4 April 2015: £1.7 billion) and current account overdrafts of £0.2 billion (4 April 2015: £0.2 billion). Unsecured lending balances have remained broadly stable reflecting a very competitive market and a tightening of our lending criteria. Asset quality within the consumer banking portfolios has improved, reflecting the favourable economic conditions and improved credit policies.

Further details of our lending risk are provided in the Business and Risk Report.

⁹ Source: Council of Mortgage Lenders (CML) 'Arrears on mortgages, by number of months in arrears' (12 November 2015)

Financial Review (continued)

Other financial assets

Other financial assets total £26.7 billion (4 April 2015: £22.7 billion) and comprise liquidity and investment assets held by our Treasury Division amounting to £23.1 billion (4 April 2015: £18.8 billion), derivatives with positive fair values of £3.0 billion (4 April 2015: £3.3 billion) and fair value adjustments and other assets of £0.6 billion (4 April 2015: £0.6 billion). The increase in liquidity and investment assets reflects the prefunding of long term wholesale maturities due later in the financial year and has resulted in an increase in the LCR to 130.0% (4 April 2015: 119.3%).

Further details of our treasury portfolios are included in the 'Treasury assets' section of the Business and Risk Report.

LIABILITIES	30 September 2015 £m	4 April 2015 £m
Member deposits	134,955	132,373
Debt securities in issue	33,365	28,105
Other financial liabilities	23,081	23,767
Other liabilities	1,483	1,594
Total liabilities	192,884	185,839
Members' interests and equity	10,227	9,741
Total members' interests, equity and liabilities	203,111	195,580
Key ratio	%	%
Wholesale funding ratio (note i)	25.1	23.3

Note:

- i. The wholesale funding ratio calculation includes all balance sheet sources of funding (including securitisations) but excludes Funding for Lending Scheme (FLS) drawings.

Member deposits

Member deposits increased by £2.6 billion to £135.0 billion (4 April 2015: £132.4 billion) due to retail inflows and capitalised interest over the period. This demonstrates the success of our fixed term bonds, including our Loyalty Bond, and variable ISA products, which have resulted in the Group maintaining its market share of savings stock at 10.2% (4 April 2015: 10.2%). Of the balance growth, £1.3 billion is attributable to inflows into our current account products which had credit balances totalling £13.9 billion at 30 September 2015 (4 April 2015: £12.6 billion). Our market share of deposit balance growth for the period was 8.5% (H1 2014/15: 13.8%).

Debt securities in issue

Debt securities in issue of £33.4 billion (4 April 2015: £28.1 billion) are used to raise funding in wholesale markets to finance core activities. The increase in outstanding amounts at 30 September 2015 reflects increased issuance activity in the wholesale markets in the first half of the financial year partly to pre-fund forthcoming maturities of long term debt securities and other deposits.

The wholesale funding ratio has increased to 25.1% (4 April 2015: 23.3%), as a result of the wholesale issuance activity described above. Off-balance sheet FLS drawings totalling £8.5 billion are unchanged from the financial year end and are excluded from the calculation of the wholesale funding ratio.

Further details on wholesale funding mix and liquidity holdings are included in the 'Liquidity and funding risk' section of the Business and Risk Report.

Other financial liabilities

Other financial liabilities include customer and bank deposits of £17.2 billion (4 April 2015: £17.2 billion), permanent interest bearing shares (PIBS) of £0.4 billion (4 April 2015: £0.4 billion), subordinated debt of £1.8 billion (4 April 2015: £2.1 billion) and derivatives and fair value adjustments of £3.7 billion (4 April 2015: £4.0 billion). Derivatives and fair value adjustments largely comprise interest rate and other derivatives taken out to hedge financial risks inherent in our core lending and funding activities.

Financial Review (continued)

CAPITAL STRUCTURE

	30 September 2015 £m	4 April 2015 £m
Capital resources		
Common Equity Tier 1 (CET1) capital	7,802	7,279
Total Tier 1 capital	8,794	8,271
Total regulatory capital	10,400	9,950
Risk weighted assets (RWAs)	35,628	36,804
Leverage exposure	208,621	200,665
CRD IV capital ratios	%	%
CET1 ratio	21.9	19.8
Leverage ratio (note i)	4.2	4.1

Notes:

- The leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.
- Data in the table is reported under CRD IV on an end point basis.

CET1 capital resources have increased over the period by approximately £0.5 billion. This is the result of a strong trading performance, with £636 million of profit after tax for the period, partly offset by a reduction in the available for sale reserve and an increase in intangible assets.

Risk weighted assets (RWAs) reduced over the period by approximately £1.2 billion due to continued deleveraging in the commercial portfolio and lower residential lending RWAs as a result of house price inflation.

The movements described above have resulted in an increase in the CET1 ratio to 21.9% (4 April 2015: 19.8%). The leverage ratio has increased to 4.2% (4 April 2015: 4.1%) as growth in Tier 1 capital outweighs the increase in balance sheet exposure which has been driven by increases in mortgage balances, liquidity and investment assets held by Treasury.

The Group continues to monitor regulatory developments that could lead to an increase in capital requirements, including reviews of IRB modelling approaches, proposed revisions to the standardised approach for capital requirements, the capital floor framework, developments around leverage requirements and the Minimum Requirement for Eligible Liabilities (MREL). In assessing the appropriate level of capital, the Group considers such regulatory changes, as well as undertaking regular Group-wide stress tests (including participation in the PRA's annual concurrent stress test) to understand potential vulnerabilities. The Group considers its CET1 and leverage ratios to be well positioned to absorb future regulatory change and/or an economic downturn.

Further details of the capital position are included in the 'Solvency risk' section of the Business and Risk Report.

BUSINESS AND RISK REPORT

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Introduction

This Business and Risk Report explains the Group's business, the risks it is exposed to and how it manages those risks. Where there has been no change to the Group's approach to managing its risks, or there has been no material change to the relevant risk environment from that disclosed at the financial year end, then this information has not been repeated in the 2015/16 Interim Results and can be found in the Business and Risk Report in the Annual Report and Accounts 2015.

The Group is organised into three business operating segments: Retail, Commercial and Head office functions. The Group is predominantly a retail focused operation which trades almost exclusively within the UK. Wholesale funding is accessed by the Group from both UK and overseas markets.

The chart below shows the Group's business model and how these activities are reflected in its risk measures. The regulatory risk weighted assets (RWAs) below indicate the relative risks each area carries as at 30 September 2015. Please see the 'Solvency risk' section of this report for further details regarding the Group's capital position.

	Nationwide Building Society																				
Operating segment	Retail	Commercial	Head office functions																		
Business activities	<ul style="list-style-type: none">• Prime residential lending• Specialist residential lending• Consumer banking• Savings products• Insurance• Investments	<ul style="list-style-type: none">• Commercial real estate lending• Social housing lending• Project Finance lending	<ul style="list-style-type: none">• Treasury including funding, liquidity and market risk management• Central support functions																		
Regulatory risk weighted assets as at 30 September 2015*	<table><tr><td></td><td>£m</td></tr><tr><td>Credit risk</td><td>20,859</td></tr><tr><td>Operational risk</td><td>4,124</td></tr></table>		£m	Credit risk	20,859	Operational risk	4,124	<table><tr><td></td><td>£m</td></tr><tr><td>Credit risk</td><td>6,752</td></tr><tr><td>Operational risk</td><td>54</td></tr></table>		£m	Credit risk	6,752	Operational risk	54	<table><tr><td></td><td>£m</td></tr><tr><td>Credit risk</td><td>3,789</td></tr><tr><td>Operational risk</td><td>50</td></tr></table>		£m	Credit risk	3,789	Operational risk	50
	£m																				
Credit risk	20,859																				
Operational risk	4,124																				
	£m																				
Credit risk	6,752																				
Operational risk	54																				
	£m																				
Credit risk	3,789																				
Operational risk	50																				

*No amounts are shown for market risk RWAs as the Group has elected to set these to zero, as permitted by the Capital Requirements Regulation (CRR) where the exposure is below the threshold of 2% of own funds.

Principal risks

Whilst the Group accepts that all business activities involve risk, it seeks to protect members by actively managing the risks that arise from business activities. The principal risks inherent within the business are:

Risk category	Definition
Lending	The risk that a borrower or counterparty fails to pay interest or to repay principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk.
Financial	The risk of the Group having inadequate earnings, cash flow or capital to meet current or future requirements and expectations. It includes loss or damage to the earnings capacity, market value or liquidity of the Group, arising from mismatches between the Group's assets, funding and other commitments, which may be exposed by changes in market rates, market conditions or the Group's own credit profile.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Conduct and compliance	The risk that the Group exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, or an unfair outcome being created for customers.
Strategic	The risk of significant loss or damage arising from business decisions that impact the long-term interests of the membership, or from an inability to adapt to external developments.

In addition to these principal categories of risk, model risk, which the Group is exposed to, is managed under a separate framework across all risk categories and business areas where models are used.

Further details on lending risk, financial risk, operational risk and conduct and compliance risk are provided on the following pages. The Group's strategic risk and model risk environments have not changed significantly since the financial year end. Further information is available in the Business and Risk Report in the Annual Report and Accounts 2015.

Changes to the Enterprise Risk Management Framework

The Compliance Committee and the Customer Committee have been combined to form the Conduct and Compliance Committee, reporting to the Executive Risk Committee, in order to co-ordinate management of these risks. All other definitions and committees remain unchanged.

Top and emerging risks

Summary

The Group's emerging risks are identified through the process outlined in the 'Managing risk' section of the Annual Report and Accounts 2015 and are closely tracked within the Group's governance structure.

As outlined in the Annual Report and Accounts 2015, the Group's top and emerging risks relate to four key themes:

- macroeconomic and market uncertainty
- business resilience
- innovation
- conduct challenges

Developments during the period have brought increased focus on specific elements of two of these themes as set out below.

Macroeconomic and market uncertainty

Growing competition in the Group's core savings and mortgage markets is anticipated to generate downward pressure on future levels of net interest margin. In addition, the Group expects to see increasing levels of customer switching from higher margin variable rate products driven by the speculation over bank base rate increases.

While uncertainty continues as to when and by how quickly UK base rates will move, the Group keeps under review the impact of sustained low interest rates or interest rate rises. In particular, the Group regularly reviews its operational plans to understand how it might respond to the needs of customers dealing with rises in interest rates, which have been at a historic low since 2009.

The Group is also carefully monitoring the impact on the buy to let market of tax changes due to be phased in from 2017, and changes to the payment of housing benefits, to understand any effects on either the size of the market or credit performance.

Business resilience

Recent high profile cyber attacks have underlined the risk faced by banks and other organisations which hold sensitive customer information. The Group is committed to maintaining the security of customer data and, as a result, continues to invest in security and detection capabilities designed to ensure it can respond to security threats effectively.

Similarly, over the last six months there has continued to be well-publicised instances of failures in industry banking and payments infrastructures. The increased use of digital banking services renders such resilience issues more important and so the Group continues to invest in improving the operational resilience of its banking infrastructure to protect customer service experience.

Lending risk

Overview

The Group manages lending risk for each of the following portfolios. Further information on lending risk for each of these portfolios is included in the subsequent sections of this report.

Portfolio	Definition
Residential mortgages	Loans secured on residential property, split between prime and specialist lending
Consumer banking	Unsecured lending including current account overdrafts, personal loans and credit cards
Commercial lending	Commercial real estate, loans to registered social landlords and loans made under the Project Finance initiative
Other lending	Lending in respect of structured portfolios
Treasury	Treasury liquidity and discretionary portfolios

Lending risk largely arises from the Group's exposure to loans and advances to customers, which account for 86.9% (4 April 2015: 88.5%) of the Group's total lending portfolios. Within this, the Group's exposure relates primarily to residential mortgages which account for 90.0% (4 April 2015: 89.3%) of gross loans and advances to customers and which are comprised of high quality assets with low occurrences of arrears and possessions.

The table below summarises the Group's assets subject to lending risk.

Balances subject to lending risk	Gross balance	Less: Impairment provisions	Carrying value	% of total
	£m	£m	£m	%
30 September 2015				
Loans and advances to customers:				
Residential mortgages	157,015	(86)	156,929	78
Consumer banking	3,833	(234)	3,599	2
Commercial lending	13,631	(128)	13,503	7
Other lending	39	(5)	34	-
	174,518	(453)	174,065	87
Treasury assets:				
Cash	7,899	-	7,899	4
Loans and advances to banks	3,763	-	3,763	2
Available for sale investment securities	11,487	-	11,487	6
Investment in equity shares	26	-	26	-
Derivative financial instruments	2,988	-	2,988	1
	26,163	-	26,163	13
Total	200,681	(453)	200,228	100

Balances subject to lending risk	Gross balance	Less: Impairment provisions	Carrying value	% of total
	£m	£m	£m	%
4 April 2015				
Loans and advances to customers:				
Residential mortgages	152,885	(110)	152,775	79
Consumer banking	3,791	(216)	3,575	2
Commercial lending	14,594	(322)	14,272	8
Other lending	29	(4)	25	-
	171,299	(652)	170,647	89
Treasury assets:				
Cash	4,325	-	4,325	2
Loans and advances to banks	3,392	-	3,392	2
Available for sale investment securities	11,037	-	11,037	5
Investment in equity shares	26	-	26	-
Derivative financial instruments	3,337	-	3,337	2
	22,117	-	22,117	11
Total	193,416	(652)	192,764	100

Residential mortgages

Summary

The Group's residential mortgages comprise prime and specialist loans. Prime residential mortgages are mainly Nationwide branded advances made through the Group's branch network and intermediary channels; all new specialist lending is limited to buy to let mortgages originated through The Mortgage Works (UK) plc (TMW).

The mix between prime and specialist lending has remained stable over the period; within specialist lending the proportion of buy to let lending has increased to 87% (4 April 2015: 86%) as all other types of specialist lending are closed to new business.

Reflecting the continuing favourable economic environment, prime residential mortgage arrears have fallen slightly during the period. Arrears are expected to show a modest increase when interest rates start to rise even if, as the Group expects, they increase gradually, with the first rate increase expected in 2016. However, as a result of the robust credit assessment and affordability controls in place at the point of lending it is expected that members will be largely resilient to rising interest rates. An expectation for further declines in unemployment and steady increases in the pace of wage growth will also provide ongoing support for credit quality. Where members do start to feel the pressure of increased mortgage payments the Group will work with them, in line with its lending policies, to ensure the right outcome for the customer.

The private rental sector is an integral part of the housing market and now represents around 20% of UK housing stock. The Group's buy to let lending continues to benefit from enhanced controls around asset quality and interest cover ratios introduced from 2011 onwards. This has resulted in a *more than three months in arrears* percentage of 0.27%. There are a number of factors which will affect the buy to let market in the short to medium term, including expected movements in base rates, changes to taxation laws (from 2017) and the introduction of local property rental licensing standards. The Group will continue to carefully monitor these matters to understand the impact on the wider buy to let market.

At a national level, house prices have continued to rise on an annualised basis, though the pace of growth has been on a downward trend since the middle of 2014. Annual house price growth was 3.8% in September, down from almost 12% in mid-2014. There is still significant regional variation, with the strongest rates of annual house price growth occurring in the south of England, whilst Wales and Scotland saw small declines.

The table below summarises the Group's gross residential mortgage lending balances:

Residential mortgage lending	30 September 2015		4 April 2015	
	£m	%	£m	%
Prime	127,230	81	124,549	81
Specialist lending:				
Buy to let	26,020	16	24,370	16
Self-certified	2,493	2	2,634	2
Near prime	906	1	952	1
Sub prime	366	-	380	-
	29,785	19	28,336	19
Total residential mortgages	157,015	100	152,885	100

Note: New lending for self-certified, near prime and sub prime was discontinued in 2009.

Residential mortgages (continued)

New business

Distribution of new business by borrower type (by value)	Half year to 30 September 2015 %	Half year to 30 September 2014 %
Prime:		
Home movers	32	33
First time buyers	27	27
Remortgagers	20	22
Other	1	1
	80	83
Specialist:		
Buy to let (note i)	20	17
Total	100	100

Note:

- i. Includes buy to let remortgages.

In prime lending, lending to first time buyers remains stable as the Group continues to support this segment of the market. Affordability remains a key focus; in the six month period the proportion of new lending where the ratio of the loan to the borrower's income is greater than or equal to 4.5 is 5.3%. This is significantly below the limit of 15% set by the Financial Policy Committee. This reflects the Group's strategy of responsible lending which is supported by a robust affordability assessment and credit scoring process that ensures asset quality remains within the Group's risk appetite.

The proportion of remortgagers has reduced in value terms; however, on a volume basis the proportion has increased to 24% (H1 2014/15: 23%). The gradual reduction in mortgage rates in 2015, combined with growing speculation about a base rate increase has led to a rise in customers choosing new deals, as opposed to remaining on lenders' standard variable rates. This has also been reflected in higher levels of product switching for existing Group customers, which are not included in the new business figures above.

As a result of growth in the buy to let market, the proportion of the Group's new business lending to the buy to let sector has increased to 20% (H1 2014/15: 17%).

Residential mortgage lending risk

Residential mortgage lending in the Group continues to have a low risk profile as demonstrated by the low level of arrears compared to the industry average. The Group's residential mortgages portfolio comprises a large number of relatively small loans which are broadly homogenous, have low volatility of credit risk outcomes and are intrinsically highly diversified.

The Group monitors the following lead indicators and performance statistics for residential lending:

- loan to value (LTV) and lending risk concentration
- geographical concentration
- arrears
- impaired loans
- possession balances
- interest only mortgages
- negative equity loans
- renegotiated loans

There have been no significant changes to the number of possessions or value of negative equity loans disclosed in the Annual Report and Accounts 2015. Accordingly no update of these amounts has been provided in this report.

Residential mortgages (continued)

LTV and lending risk concentration

The Group calculates LTV by weighting the borrower level LTV by the individual loan balance to arrive at an average LTV as this approach most accurately reflects the exposure at risk to the Group.

LTV of loan stock	30 September 2015	4 April 2015
	%	%
Average loan to value of stock (indexed)	55	56

LTV of new business	Half year to 30 September 2015	Half year to 30 September 2014
	%	%
Average loan to value of new business	69	69

Note: The LTV of new business excludes further advances.

The average LTV on the overall stock has reduced by 1% to 55% (4 April 2015: 56%), primarily due to the modest growth in house prices. Average LTV for new business has remained stable over the period.

LTV distribution of new business	Half year to 30 September 2015	Half year to 30 September 2014
	%	%
0% to 60%	26	25
60% to 75%	43	43
75% to 80%	9	9
80% to 85%	11	9
85% to 90%	10	13
90% to 95%	1	1
Over 95%	-	-
Total	100	100

The proportions of new business lending across LTV segments is, in part, driven by increased lending in the buy to let sector, the vast majority of which is at LTVs of up to 75%.

Residential mortgages (continued)

Geographical concentration

The analysis of the Group's residential mortgage portfolio split between performing and non-performing loans and by geographical segment is set out below.

Residential mortgage balances by LTV and region	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales & Northern Ireland	Total	
30 September 2015	£m	£m	£m	£m	£m	£m	£m	£m	%
Performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	25,194	8,562	5,970	7,406	4,993	2,727	2,131	56,983	
50% to 60%	12,268	4,706	3,398	3,948	2,660	1,533	1,073	29,586	
60% to 70%	8,584	6,709	5,158	4,449	3,434	2,117	1,470	31,921	
70% to 80%	3,497	5,399	6,177	2,444	2,300	2,805	1,532	24,154	
80% to 90%	1,202	1,960	2,823	715	687	1,223	686	9,296	
90% to 100%	12	159	679	21	19	232	176	1,298	
	50,757	27,495	24,205	18,983	14,093	10,637	7,068	153,238	97.6
Not fully collateralised									
- Over 100% LTV (A)	7	7	72	2	3	32	292	415	0.3
- Collateral value on A	5	6	66	2	3	30	244	356	
- Negative equity on A	2	1	6	-	-	2	48	59	
Total performing loans	50,764	27,502	24,277	18,985	14,096	10,669	7,360	153,653	97.9
Non-performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	517	167	108	124	73	44	56	1,089	
50% to 60%	273	103	69	80	51	26	29	631	
60% to 70%	153	144	118	80	63	42	39	639	
70% to 80%	33	126	142	55	47	49	37	489	
80% to 90%	7	79	104	12	19	31	31	283	
90% to 100%	1	17	74	1	1	12	24	130	
	984	636	615	352	254	204	216	3,261	2.0
Not fully collateralised									
- Over 100% LTV (B)	1	4	24	2	1	3	66	101	0.1
- Collateral value on B	-	4	21	1	1	3	52	82	
- Negative equity on B	1	-	3	1	-	-	14	19	
Total non-performing loans	985	640	639	354	255	207	282	3,362	2.1
Total residential mortgages	51,749	28,142	24,916	19,339	14,351	10,876	7,642	157,015	100
Geographical concentrations	33%	18%	16%	12%	9%	7%	5%	100%	

Residential mortgages (continued)

Residential mortgage balances by LTV and region	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales & Northern Ireland	Total	
4 April 2015	£m	£m	£m	£m	£m	£m	£m	£m	%
Performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	21,388	8,168	5,778	6,752	4,528	2,716	1,924	51,254	
50% to 60%	11,785	4,345	3,164	3,479	2,283	1,481	900	27,437	
60% to 70%	9,490	6,470	4,864	4,594	3,191	2,102	1,211	31,922	
70% to 80%	4,582	5,535	6,079	2,788	2,592	2,688	1,595	25,859	
80% to 90%	1,476	2,148	3,000	821	952	1,192	912	10,501	
90% to 100%	42	228	860	41	76	249	323	1,819	
	48,763	26,894	23,745	18,475	13,622	10,428	6,865	148,792	97.3
Not fully collateralised									
- LTV more than 100% (A)	9	13	105	3	5	36	389	560	0.4
- Collateral value on A	7	11	97	3	4	34	322	478	
- Negative equity on A	2	2	8	-	1	2	67	82	
Total performing loans	48,772	26,907	23,850	18,478	13,627	10,464	7,254	149,352	97.7
Non-performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	441	156	111	115	68	44	52	987	
50% to 60%	287	98	69	70	44	26	25	619	
60% to 70%	210	141	115	90	66	43	33	698	
70% to 80%	78	138	148	69	56	53	37	579	
80% to 90%	12	93	116	24	35	32	35	347	
90% to 100%	1	26	91	1	4	14	31	168	
	1,029	652	650	369	273	212	213	3,398	2.2
Not fully collateralised									
- LTV more than 100% (B)	1	7	33	2	1	4	87	135	0.1
- Collateral value on B	1	6	29	2	1	3	67	109	
- Negative equity on B	-	1	4	-	-	1	20	26	
Total non-performing loans	1,030	659	683	371	274	216	300	3,533	2.3
Total residential mortgages	49,802	27,566	24,533	18,849	13,901	10,680	7,554	152,885	100
Geographical concentrations	33%	18%	16%	12%	9%	7%	5%	100%	

The geographical concentration of the portfolio has remained stable during the period.

The value of partially collateralised non-performing loans has reduced by 25% to £101 million (4 April 2015: £135 million), following the growth in house prices and a reduction in arrears cases.

Arrears

Number of cases more than 3 months in arrears as % of total book	30 September 2015 %	4 April 2015 %
Prime	0.35	0.36
Specialist	1.00	1.12
Group	0.46	0.49
CML industry average	1.17	1.30

Supported by favourable economic conditions and a continued low interest environment, the arrears performance of both the prime and specialist mortgage portfolios continues to improve. The Group's *more than three months in arrears* percentage of 0.46% compares favourably with the CML industry average of 1.17%¹⁰.

¹⁰ Source: Council of Mortgage Lenders (CML) 'Arrears on mortgages, by number of months in arrears' (12 November 2015).

Residential mortgages (continued)

Impaired loans

The table below summarises the portfolio by payment due status. Please refer to the Annual Report and Accounts 2015 for details of the Group's policies for classifying its loans.

Residential mortgages by payment due status

	Prime lending £m	30 September 2015 Specialist lending £m	Total £m	%
Performing:				
Neither past due nor impaired	125,158	28,495	153,653	97.9
Non-performing				
Past due up to 3 months	1,700	839	2,539	1.6
Impaired:				
Past due 3 to 6 months	178	194	372	0.2
Past due 6 to 12 months	120	123	243	0.2
Past due over 12 months	66	94	160	0.1
Possessions	8	40	48	0.0
Total impaired loans	372	451	823	0.5
Total residential mortgages	127,230	29,785	157,015	100.0
Impaired balances as a % of total residential mortgages	0.3%	1.5%	0.5%	
Impairment provisions (£m)	18	68	86	
Impairment provisions as a % of impaired balances	4.8%	15.1%	10.4%	

Residential mortgages by payment due status

	Prime lending £m	4 April 2015 Specialist lending £m	Total £m	%
Performing:				
Neither past due nor impaired	122,424	26,928	149,352	97.7
Non-performing				
Past due up to 3 months	1,729	909	2,638	1.7
Impaired:				
Past due 3 to 6 months	190	207	397	0.3
Past due 6 to 12 months	120	143	263	0.2
Past due over 12 months	72	97	169	0.1
Possessions	14	52	66	0.0
Total impaired loans	396	499	895	0.6
Total residential mortgages	124,549	28,336	152,885	100.0
Impaired balances as a % of total residential mortgages	0.3%	1.8%	0.6%	
Impairment provisions (£m)	22	88	110	
Impairment provisions as a % of impaired balances	5.6%	17.6%	12.3%	

The fall in arrears has meant that during the period the Group's proportion of impaired loans has fallen to 0.5% (4 April 2015: 0.6%).

Residential mortgages (continued)

Impairment (reversal)/loss for the period	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Prime	(1)	-
Specialist	(6)	13
Total	(7)	13

The impairment reversal for the period for prime and specialist residential loans primarily results from the improved arrears performance of the book driving lower impaired loans. Overall provision balances have reduced, in line with this improved arrears performance and a strong housing market.

Interest only mortgages

The Group does not offer any new advances for prime residential mortgages on an interest only basis. However, the Group has historical balances which were originally advanced as interest only mortgages or where the Group agreed a change in terms to an interest only basis (this option was withdrawn in 2012). The majority of buy to let lending is advanced on an interest only basis, as is standard practice for this type of lending.

The maturity profile of interest only loans is set out below. Please refer to the Annual Report and Accounts 2015 for further details of the Group's policies for managing maturities on interest only mortgages.

Interest only mortgages	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
30 September 2015	£m	£m	£m	£m	£m	£m	%
Prime	58	395	508	1,787	17,679	20,427	16.1
Specialist	96	144	240	967	24,852	26,299	88.3
Total	154	539	748	2,754	42,531	46,726	29.8

Interest only mortgages	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
4 April 2015	£m	£m	£m	£m	£m	£m	%
Prime	57	376	538	1,898	19,217	22,086	17.7
Specialist	95	122	220	953	23,520	24,910	87.9
Total	152	498	758	2,851	42,737	46,996	30.7

Note: The amounts above include the full loan balance where only a proportion of a loan is on an interest only basis.

Total interest only lending has fallen to 29.8% (4 April 2015: 30.7%) of total residential mortgage lending as a result of existing prime balances running off and no new prime interest only business being issued. Specialist balances continue to grow as buy to let lending increases, with interest only mortgages being standard practice for this type of lending.

Interest only loans which are 'term expired (still open)' are, to the extent they are not otherwise in arrears, considered to be performing. They are included within the 'Repair: Term extensions' category in the renegotiated loans tables on the following pages.

Residential mortgages (continued)

Renegotiated loans

Where residential mortgage customers face financial difficulty the Group seeks to find a solution to mitigate losses and, where possible, to support customers through a change in terms, forbearance or repair. Collectively, loans subject to these actions are classified as renegotiated. Please refer to the Annual Report and Accounts 2015 for details of the Group's policies for renegotiating loans.

The following table provides the value of loans still on the books at the period end which have been subject to renegotiation (change in terms, forbearance or repair) at any point since 2008:

Residential mortgage balances subject to renegotiation since January 2008 (note i)	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales & Northern Ireland	Total
30 September 2015	£m	£m	£m	£m	£m	£m	£m	£m
Change in terms:								
Payment holidays	947	732	667	487	308	247	255	3,643
Term extensions	2,037	1,294	1,126	901	644	440	451	6,893
Payment concessions	297	187	193	112	78	42	66	975
Interest only conversions	656	325	303	234	172	84	145	1,919
	3,937	2,538	2,289	1,734	1,202	813	917	13,430
Elimination of multiple events	(413)	(299)	(254)	(196)	(127)	(74)	(116)	(1,479)
Total change in terms	3,524	2,239	2,035	1,538	1,075	739	801	11,951
Forbearance:								
Temporary interest only concessions	367	349	361	190	121	99	119	1,606
Repair:								
Capitalisations	186	108	110	73	44	16	32	569
Term extensions	175	93	70	64	51	37	36	526
	361	201	180	137	95	53	68	1,095
Elimination of multiple events	(3)	(1)	-	-	(1)	-	-	(5)
Total repairs	358	200	180	137	94	53	68	1,090
Elimination of multiple events	(298)	(242)	(242)	(135)	(90)	(54)	(89)	(1,150)
Total renegotiated loans	3,951	2,546	2,334	1,730	1,200	837	899	13,497
Of which prime/specialist lending:								
Prime	3,306	2,206	1,982	1,498	1,028	779	772	11,571
Specialist	645	340	352	232	172	58	127	1,926
Total	3,951	2,546	2,334	1,730	1,200	837	899	13,497
Of which loans are still on special terms: (note ii)								
Prime	43	41	29	25	14	12	11	175
Specialist	7	7	6	2	1	-	2	25
Total	50	48	35	27	15	12	13	200
Impairment provisions on renegotiated loans:								
Individually assessed	-	1	1	-	-	-	1	3
Collectively assessed	-	2	5	1	1	1	5	15
Total impairment provisions	-	3	6	1	1	1	6	18

Residential mortgages (continued)

Residential mortgage balances subject to renegotiation since January 2008 (note i)	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales & Northern Ireland	Total
4 April 2015 (note iii)	£m	£m	£m	£m	£m	£m	£m	£m
Change in terms:								
Payment holidays	1,011	781	712	522	329	265	270	3,890
Term extensions	2,059	1,337	1,159	927	662	453	468	7,065
Payment concessions	302	191	194	114	79	41	68	989
Interest only conversions	693	339	315	253	186	89	152	2,027
	4,065	2,648	2,380	1,816	1,256	848	958	13,971
Elimination of multiple events	(438)	(316)	(267)	(208)	(134)	(78)	(122)	(1,563)
Total change in terms	3,627	2,332	2,113	1,608	1,122	770	836	12,408
Forbearance:								
Temporary interest only concessions	379	361	371	196	125	102	125	1,659
Repair:								
Capitalisations	188	110	113	74	46	17	32	580
Term extensions	172	91	68	63	48	34	35	511
	360	201	181	137	94	51	67	1,091
Elimination of multiple events	(3)	-	(1)	(1)	(1)	-	-	(6)
Total repairs	357	201	180	136	93	51	67	1,085
Elimination of multiple events	(303)	(251)	(246)	(139)	(91)	(56)	(92)	(1,178)
Total renegotiated loans	4,060	2,643	2,418	1,801	1,249	867	936	13,974
Of which prime/specialist lending:								
Prime	3,421	2,309	2,071	1,568	1,076	810	807	12,062
Specialist	641	334	347	232	173	57	128	1,912
Total	4,062	2,643	2,418	1,800	1,249	867	935	13,974
Of which loans are still on special terms: (note i)								
Prime	72	50	47	33	23	15	18	258
Specialist	13	13	14	7	4	1	6	58
Total	85	63	61	40	27	16	24	316
Impairment provisions on renegotiated loans:								
Individually assessed	-	1	1	-	-	-	2	4
Collectively assessed	-	2	5	1	1	1	6	16
Total impairment provisions	-	3	6	1	1	1	8	20

Notes:

- Renegotiated balances information for residential mortgages is reported since January 2008, reflecting the point in time from which this data was captured for reporting purposes.
- Special terms refer to loans which are actively subject to a payment holiday, a payment concession or a temporary interest only concession. They do not include term extensions, permanent interest only conversions or capitalisations.
- Comparatives have been restated to include data from the Dunfermline, Derbyshire and Cheshire mortgage portfolios which had not previously been included. Consequently the value of total renegotiated loans has increased by 2.7% to £13,974 million from the previously disclosed £13,613 million.

The total balance of loans that have been renegotiated since January 2008 has reduced to £13,497 million (4 April 2015: £13,974 million) as the number of new cases has fallen under the favourable economic conditions and older accounts continue to redeem. The value of loans that remain on special terms has also fallen to £200 million (4 April 2015: £316 million).

Consumer banking

Summary

The Group's consumer banking portfolio comprises unsecured balances for overdrawn current accounts, credit cards and personal loans. Total balances have grown by 1.1% during the period to £3,833 million (4 April 2015: £3,791 million) despite a highly competitive market, evidenced by the increasing duration of introductory offers for credit cards, switching incentives for current accounts and lower interest rates for personal loans.

The performance and risk profile of the portfolio have improved with non-performing balances (excluding charged off amounts) nearly 13% lower than at the financial year end, impairment losses down by 33% and stable levels of forbearance. Impairment provisions as a percentage of non-performing loans (including charged off balances) have increased from 67% at 4 April 2015 to 72% at 30 September 2015.

This improvement reflects the current favourable economic environment together with a number of operational initiatives implemented in 2014. These include improved credit policies, particularly personal loans underwriting.

The Group continues to actively monitor and manage emerging risks which may affect its exposure to lending risk. These include the potential effect on unsecured borrowers of interest rate rises and a reversal in current trends for UK unemployment. It is anticipated that enhancing pre-delinquency activities and appropriate use of forbearance options will moderate the impact of these events.

The regulatory environment for unsecured lending continues to evolve with the full findings of the Competition Market Authority review due for publication in April 2016 alongside the FCA market study of competitive practices, fees charged and assistance for vulnerable customers. The Group considers that its focus on responsible lending and its commitment to ensuring good outcomes for customers will be consistent with the direction of any regulatory changes.

The table below summarises the Group's consumer banking portfolio.

Consumer banking balances	30 September 2015		4 April 2015	
	£m	%	£m	%
Overdrawn current accounts	207	5	248	7
Personal loans	1,857	49	1,799	47
Credit cards	1,769	46	1,744	46
Total consumer banking	3,833	100	3,791	100

The difference in overdrawn current account balances between 4 April 2015 and 30 September 2015 is predominantly due to the position of the reporting date within the calendar month.

Consumer banking lending risk

The Group monitors the following lead indicators and performance statistics for consumer banking:

- impaired loans
- renegotiated loans

Consumer banking (continued)

Impaired lending

The table below summarises the portfolio by payment due status.

Consumer banking by payment due status

	30 September 2015			Total	
	Overdrawn current accounts £m	Personal loans £m	Credit cards £m	£m	%
Performing:					
Neither past due nor impaired	173	1,700	1,633	3,506	91
Non-performing:					
Past due up to 3 months	13	45	29	87	
Impaired:					
Past due 3 to 6 months	3	11	10	24	
Past due 6 to 12 months	2	15	3	20	
Past due over 12 months	3	15	-	18	
	21	86	42	149	4
Charged off (note i)	13	71	94	178	5
Total non-performing	34	157	136	327	
Total consumer banking lending	207	1,857	1,769	3,833	100
Non-performing loans as % of total (excluding charged off balances)	10%	5%	2%	4%	
Impairment provisions excluding charged off balances	10	33	27	70	
Impairment provisions on charged off balances	11	67	86	164	
Total impairment provisions	21	100	113	234	
Impairment provisions as % of non-performing loans (excluding charged off balances)	48%	38%	64%	47%	
Impairment provisions as % of non-performing loans (including charged off balances)	62%	64%	83%	72%	

Consumer banking (continued)

Consumer banking by payment due status

	Overdrawn current accounts £m	Personal loans £m	4 April 2015 Credit cards £m	Total £m	%
Performing:					
Neither past due nor impaired	198	1,646	1,623	3,467	91
Non-performing:					
Past due up to 3 months	16	53	30	99	
Impaired:					
Past due 3 to 6 months	4	14	12	30	
Past due 6 to 12 months	4	18	3	25	
Past due over 12 months	3	14	-	17	
	27	99	45	171	5
Charged off (note i)	23	54	76	153	4
Total non-performing	50	153	121	324	
Total	248	1,799	1,744	3,791	100
Non-performing loans as % of total (excluding charged off balances)	11%	6%	3%	5%	
Impairment provisions excluding charged off balances	11	37	29	77	
Impairment provisions on charged off balances	20	50	69	139	
Total impairment provisions	31	87	98	216	
Impairment provisions as % of non-performing loans (excluding charged off balances)	41%	37%	64%	45%	
Impairment provisions as % of non-performing loans (including charged off balances)	62%	57%	81%	67%	

Note:

- i. Charged off balances are balances on accounts which are closed to future transactions. These balances are held on the balance sheet for an extended period (between 24 and 36 months, depending on the product) whilst recovery procedures take place.

Non-performing balances excluding charged off balances have decreased to £149 million (4 April 2015: £171 million). This is largely due to improved quality of lending across the current account and personal loan portfolios following the implementation of enhanced pricing and risk policies.

Charged off balances for overdrawn current accounts have reduced as a result of amounts written off being only partly offset by new charge offs due to improving performance. Charged off balances have grown across the personal loan and credit card portfolios as accounts are typically held in charge off for longer, with only small amounts being written off during the period. These movements reflect the change in write off policy, as explained in the Annual Report and Accounts 2015.

Impairment losses for the period	Overdrawn current accounts £m	Personal loans £m	Credit cards £m	Total £m
Impairment losses for the half year to 30 September 2015	5	12	16	33
Impairment losses for the half year to 30 September 2014	9	19	21	49

Due to a combination of enhanced credit risk policies and the improved economic climate, the charge for impairment losses has reduced to £33 million (H1 2014/15: £49 million).

Consumer banking (continued)

Renegotiated loans

When a customer faces financial difficulty the Group seeks to provide support, finding a solution to mitigate losses through either a change in terms, forbearance or arrears management. Collectively, loans subject to these actions are classified as renegotiated. Please refer to the Annual Report and Accounts 2015 for details of the Group's processes for renegotiating loans.

The following table provides the value of loans still on the books at the period end which have been subject to renegotiation (change in terms, forbearance or repair) at any point since 2010:

Balances subject to renegotiation since March 2010 (note i)	Overdrawn current accounts £m	30 September 2015 Personal loans £m	Credit cards £m	Total £m
Change in terms	32	131	9	172
Forbearance	15	28	24	67
Repair	20	1	20	41
Elimination of multiple events	(34)	(18)	(10)	(62)
Total	33	142	43	218

Balances subject to renegotiation since March 2010 (note i)	Overdrawn current accounts £m	4 April 2015 Personal loans £m	Credit cards (note ii) £m	Total £m
Change in terms	31	131	11	173
Forbearance	15	27	24	66
Repair	18	1	20	39
Elimination of multiple events	(30)	(18)	(10)	(58)
Total	34	141	45	220

Notes:

- Renegotiated balances information for consumer banking is reported since March 2010, reflecting the point in time from which this data was captured for reporting purposes.
- Amounts have been restated (previous total £87 million) to exclude accounts which had been written off, which were previously included in this total.

Commercial lending

Summary

Over the period the commercial property market has seen a sustained recovery, with investor confidence holding up well, supported by continued economic improvement and availability of lending for commercial real estate.

The Group has continued its strategy of reducing exposures which are outside of its current risk appetite or do not align to its existing lending strategy and has taken a number of opportunities to exit some non-core, higher risk commercial loans.

The Group's commercial loan portfolio comprises the following:

Commercial lending balances	30 September 2015		4 April 2015	
	£m	%	£m	%
Commercial real estate (CRE)	3,302	27	4,043	31
Registered social landlords	7,722	62	7,786	59
Project Finance	1,361	11	1,383	10
Total commercial lending	12,385	100	13,212	100
Fair value adjustment for micro hedged risk	1,246		1,382	
Total	13,631		14,594	

CRE loans have reduced by £741 million, net of new lending, to £3,302 million (4 April 2015: £4,043 million). This reduction, which includes managed exit activity, scheduled repayments and redemptions, has resulted in an increase in the percentage of commercial lending represented by the registered social landlord and Project Finance portfolios to 73% (4 April 2015: 69%).

The registered social landlord and Project Finance portfolios are fully performing and remain stable, reflecting their long-term, low risk nature.

The registered social landlord portfolio is secured against portfolios of residential real estate owned and let by UK Housing Associations. Collateral is typically re-valued at least every five years based on standard social housing methodologies, which generally assume that the properties continue to be let. If the valuation were based upon normal residential use the valuation would be considerably higher. In view of this, meaningful loan to value comparisons across the CRE and registered social landlord portfolios cannot be made and hence the registered social landlord exposures are not included in the LTV and credit risk concentration analysis detailed later in this disclosure. However, in all cases, registered social landlord security is in excess of the loan balance.

The Project Finance portfolio is secured against contractual cash flows from projects procured under the UK Private Finance Initiative rather than physical assets. The majority of loans are secured on projects which are now operational and benefiting from secure long term cash flows, with only one case remaining in the construction phase.

Both the registered social landlord and Project Finance portfolios are risk rated using the Group's internal rating models. The risk rating profile for both portfolios has remained low even through the economic downturn.

There have been no losses incurred on either the registered social landlord or Project Finance portfolios, no amounts are in arrears and there are no instances of forbearance. Consequently these exposures do not feature in the remainder of this section which focuses exclusively on the CRE portfolio.

Commercial lending (continued)

Commercial lending risk

The Group monitors the following lead indicators and performance statistics, where appropriate, for commercial lending:

- LTV and credit risk concentration
- negative equity loans
- arrears
- impaired loans
- collateral
- forbearance

Information for each of these lead indicators and performance statistics is included within the following pages.

LTV and credit risk concentrations

CRE lending balances by LTV and region	London	South East	Rest of UK (note i)	Non-UK	Total	
	£m	£m	£m	£m	£m	%
30 September 2015						
Performing loans						
Fully collateralised						
LTV ratio (note ii)						
Less than 25%	126	17	61	-	204	
25% to 50%	993	189	404	-	1,586	
51% to 75%	377	134	431	-	942	
76% to 90%	81	14	117	-	212	
91% to 100%	6	1	8	-	15	
	1,583	355	1,021	-	2,959	90
Not fully collateralised						
- Over 100% LTV (A)	-	5	6	-	11	-
- Collateral value on A	-	3	5	-	8	
- Negative equity on A	-	2	1	-	3	
Total performing loans	1,583	360	1,027	-	2,970	90
Non-performing loans (note iii)						
Fully collateralised						
LTV ratio						
Less than 25%	-	-	2	-	2	
25% to 50%	6	3	18	-	27	
51% to 75%	5	3	21	-	29	
76% to 90%	-	4	32	-	36	
91% to 100%	1	8	10	-	19	
	12	18	83	-	113	3
Not fully collateralised						
- Over 100% LTV (B)	1	59	153	6	219	7
- Collateral value on B	-	41	85	5	131	
- Negative equity on B	1	18	68	1	88	
Total non-performing loans	13	77	236	6	332	10
Total CRE loans	1,596	437	1,263	6	3,302	100
Geographical concentration	49%	13%	38%	-	100%	

Commercial lending (continued)

CRE lending balances by LTV and region	London	South East	Rest of UK (note i)	Non-UK	Total	
	£m	£m	£m	£m	£m	%
4 April 2015						
Performing loans						
Fully collateralised						
LTV ratio (note ii)						
Less than 25%	255	19	47	-	321	
25% to 50%	877	189	351	-	1,417	
51% to 75%	510	249	449	-	1,208	
76% to 90%	117	25	220	-	362	
91% to 100%	-	6	17	-	23	
	1,759	488	1,084	-	3,331	82
Not fully collateralised						
- Over 100% LTV (A)	2	-	25	-	27	1
- Collateral value on A	1	-	24	-	25	
- Negative equity on A	1	-	1	-	2	
Total performing loans	1,761	488	1,109	-	3,358	83
Non-performing loans (note iii)						
Fully collateralised						
LTV ratio						
Less than 25%	-	-	1	-	1	
25% to 50%	18	14	20	-	52	
51% to 75%	14	16	15	-	45	
76% to 90%	5	6	39	-	50	
91% to 100%	3	2	26	-	31	
	40	38	101	-	179	4
Not fully collateralised						
- Over 100% LTV (B)	3	140	354	9	506	13
- Collateral value on B	2	92	162	9	265	
- Negative equity on B	1	48	192	-	241	
Total non-performing loans	43	178	455	9	685	17
Total CRE loans	1,804	666	1,564	9	4,043	100
Geographical concentration	45%	16%	39%	-	100%	

Notes:

- Includes lending to borrowers based in the Channel Islands.
- The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The Investment Property Databank (IPD) monthly index is used.
- Non-performing loans include impaired loans and loans with arrears of less than three months which are not impaired.

There have been no significant changes to geographic concentrations in the book and overall credit quality has improved over the period.

In particular, non-performing loans have reduced and now represent 10% of CRE balances (4 April 2015: 17%), whilst both the proportion of partially collateralised non-performing loans and the shortfall on collateral for non-performing loans have also reduced. These improvements reflect the impact of improving book performance and deleveraging activity in 2014/15 to reduce exposure to assets that are outside of the Group's current risk appetite or do not align to the Group's current lending strategy.

Commercial lending (continued)

CRE lending balances and impairment provisions by type and region 30 September 2015	London £m	South East £m	Rest of UK (note i) £m	Non-UK £m	Total £m
Retail	487	223	370	-	1,080
Office	218	52	294	6	570
Residential	620	91	269	-	980
Industrial and warehouse	39	42	193	-	274
Leisure and hotel	111	27	125	-	263
Other	121	2	12	-	135
Total CRE lending	1,596	437	1,263	6	3,302
Impairment provision					
Retail	2	8	23	-	33
Office	1	11	36	4	52
Residential	1	1	10	-	12
Industrial and warehouse	-	-	19	-	19
Leisure and hotel	-	1	10	-	11
Other	-	-	1	-	1
Total impairment provisions	4	21	99	4	128

CRE lending balances and impairment provisions by type and region 4 April 2015	London £m	South East £m	Rest of UK (note i) £m	Non-UK £m	Total £m
Retail	596	376	422	9	1,403
Office	223	105	339	-	667
Residential	613	103	309	-	1,025
Industrial and warehouse	55	46	331	-	432
Leisure and hotel	185	34	151	-	370
Other	132	2	12	-	146
Total CRE lending	1,804	666	1,564	9	4,043
Impairment provision					
Retail	2	41	39	4	86
Office	2	18	64	-	84
Residential	1	2	25	-	28
Industrial and warehouse	-	1	84	-	85
Leisure and hotel	1	1	36	-	38
Other	-	-	1	-	1
Total impairment provisions	6	63	249	4	322

Note:

- i. Includes lending to borrowers based in the Channel Islands.

Commercial lending (continued)

Arrears and impairment

The table below sets out the payment due status and impairment provisions for the CRE portfolio:

CRE lending balances by payment due status	30 September 2015		4 April 2015	
	£m	%	£m	%
Performing:				
Neither past due nor impaired	2,970	90	3,358	83
Non-performing:				
Past due up to 3 months	45	1	77	2
Impaired: (note i)				
Past due up to 3 months	185	5	413	10
Past due 3 to 6 months	21	1	59	1
Past due 6 to 12 months	22	1	56	1
Past due over 12 months	55	2	79	2
Possessions (note ii)	4	-	1	-
Total impaired balances	287	9	608	15
Total	3,302	100	4,043	100
Impairment provisions				
Individual	121	95	313	97
Collective	7	5	9	3
Total impairment provisions	128	100	322	100
Provision coverage ratios				
Individual provisions as % of impaired balances		42		51
Total provisions as % of impaired balances		45		53
Total provisions as % of total gross balances		4		8
Estimated collateral				
Against loans past due but not impaired	45	100	77	100
Against impaired loans	199	69	367	60
Total collateral	244	73	444	65
Impairment losses	Half year to 30 September 2015		Half year to 30 September 2014	
	£m		£m	
Impairment (reversals)/losses for the period	(27)		73	

Notes:

- Impaired loans include those balances which are more than three months in arrears, or against which a provision is held.
- Possession balances represent loans for which the Group has taken ownership of security pending sale. Assets in possession are realised to derive the maximum benefit for all interested parties. The Group does not occupy or otherwise use for any purposes the repossessed assets.

Total impaired loans, before provisions, have reduced by £321 million to £287 million, with a corresponding reduction of £194 million in total impairment provisions reflecting the deleveraging activity in 2014/15 and an improvement in market conditions. These loans now represent 9% of the total CRE exposure compared to 15% at 4 April 2015.

Improved CRE market conditions, including increased liquidity and capital values, have resulted in a net impairment reversal of £27 million. The £73 million charge in the prior period reflected accelerated disposals as part of the deleveraging activity.

Commercial lending (continued)

Forbearance

The table below provides details of lending balances that have been subject to forbearance at any point since September 2012.

CRE lending subject to forbearance since September 2012 (note i)	30 September 2015		4 April 2015	
	£m	%	£m	%
Covenant breach	135	20	180	18
Extension at maturity	79	12	87	9
Multiple forbearance events	408	61	639	63
Other	46	7	106	10
Total	668	100	1,012	100

Note:

- i. Forbearance information for commercial lending is reported since September 2012, reflecting the point in time from which this data was captured for reporting purposes.

CRE exposures subject to forbearance have decreased to £668 million, principally as a result of the controlled exit from non-core, higher risk loans, and now represent 20% of CRE loan balances (4 April 2015: 25%).

Other lending

Summary

The total other lending portfolio of £39 million (4 April 2015: £29 million) represents 0.02% (4 April 2015: 0.02%) of the Group's loans and advances. This exposure largely consists of lending in the form of margin calls to support repo and derivative transactions and a £17 million portfolio of secured loans relating to a European commercial loan facility held by one of the Group's subsidiaries, Cromarty CLO Ltd (Cromarty), which remains in run-off. The increase in exposure relates to the margin calls, details of which are provided in the 'Liquidity and funding risk' section of this Report. The table below summarises the Group's Other lending portfolio by payment due status.

Other lending balances by payment due status	30 September 2015		4 April 2015	
	£m	%	£m	%
Performing:				
Neither past due nor impaired	29	74	19	66
Non-performing:				
Past due but not impaired	-	-	-	-
Impaired (note i)	10	26	10	34
Total	39	100	29	100
Impairment provisions	5		4	
Provision coverage on non-performing loans		50		40

Note:

- i. Of impaired loans, £5 million (4 April 2015: £5 million) relates to balances past due by more than 12 months.

Impairment losses for the period	Half year to 30 September 2015	Half year to 30 September 2014
	£m	£m
Impairment losses for the period	1	21

Treasury assets

Summary

The Group's treasury portfolio is held primarily for liquidity management purposes and, in the case of derivatives, for market risk management. As at 30 September 2015 treasury assets represent 12.9% (4 April 2015: 11.3%) of Group assets.

Treasury asset balances	30 September 2015 £m	4 April 2015 £m
Cash	7,899	4,325
Loans and advances to banks	3,763	3,392
Investment securities	11,513	11,063
Treasury liquidity and investment portfolio	23,175	18,780
Derivative assets (note i)	2,988	3,337
Total treasury portfolio	26,163	22,117

Note:

- i. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. As at 30 September 2015 the Group had derivative liabilities of £3,661 million (4 April 2015: £4,048 million).

The risk profile of the portfolio continues to improve with the disposal and continued amortisation of legacy 'out of policy' assets; investment activity remains restricted to highly rated assets to support the Group's liquidity requirements.

Managing treasury credit risks

Credit risk within the Treasury division arises primarily from the instruments held by Treasury for operational, liquidity and investment purposes. The Treasury Credit Risk function manages all aspects of credit risk in accordance with the Group's risk governance framework, details of which are provided in the Annual Report and Accounts 2015.

Counterparty credit quality

The Group's liquidity and investment portfolio held on the balance sheet at 30 September 2015 of £23,175 million (4 April 2015: £18,780 million) is held in three separate portfolios: primary liquidity, other Central Bank eligible assets and other securities.

Primary liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks. The remaining two portfolios comprise available for sale investment securities, with movements reflecting legacy asset disposals, market prices and the Group's operational and strategic liquidity requirements.

Treasury assets (continued)

The following table provides an analysis of the on-balance sheet portfolios by credit rating and geographical location of the issuers.

Liquidity and investment portfolio by credit rating		AAA	AA	A	Other	UK	US	Europe	Other
30 September 2015		£m	%	%	%	%	%	%	%
Primary liquidity:									
Cash	7,899	100	-	-	-	100	-	-	-
Gilts	4,822	100	-	-	-	100	-	-	-
Non-domestic government bonds	1,540	15	85	-	-	-	44	56	-
Supranational bonds	603	92	8	-	-	-	-	-	100
Primary liquidity total	14,864	91	9	-	-	85	5	6	4
Other Central Bank eligible:									
Residential mortgage backed securities (RMBS)	1,465	88	8	3	1	53	-	47	-
Covered bonds	1,065	97	-	3	-	49	-	40	11
Other (secondary liquidity)	369	100	-	-	-	56	-	44	-
Other Central Bank eligible total	2,899	92	4	3	1	52	-	44	4
Other securities:									
Loans and advances	3,763	19	21	41	19	60	9	15	16
RMBS	770	22	8	61	9	85	-	13	2
Commercial mortgage backed securities (CMBS)	44	-	19	67	14	13	87	-	-
Collateralised loan obligations	530	82	15	3	-	74	26	-	-
Student loans	141	17	54	29	-	-	100	-	-
Other	164	6	31	18	45	39	18	43	-
Other securities total	5,412	25	20	39	16	62	13	13	12
Total	23,175	76	11	9	4	76	6	12	6

Liquidity and investment portfolio by credit rating		AAA	AA	A	Other	UK	US	Europe	Other
4 April 2015		£m	%	%	%	%	%	%	%
Primary liquidity:									
Cash	4,325	100	-	-	-	100	-	-	-
Gilts	5,031	100	-	-	-	100	-	-	-
Non-domestic government bonds	1,200	21	79	-	-	-	25	75	-
Supranational bonds	495	90	10	-	-	-	-	-	100
Primary liquidity total	11,051	91	9	-	-	85	3	8	4
Other Central Bank eligible:									
Residential mortgage backed securities (RMBS)	1,189	82	12	6	-	38	-	62	-
Covered bonds	993	96	-	-	4	44	-	48	8
Other (secondary liquidity)	239	90	-	-	10	35	-	65	-
Other Central Bank eligible total	2,421	88	6	3	3	40	-	57	3
Other securities:									
Loans and advances to banks	3,392	10	30	60	-	49	16	15	20
RMBS	876	35	7	53	5	86	-	11	3
Commercial mortgage backed securities (CMBS)	60	-	19	70	11	15	78	7	-
Collateralised loan obligations	556	75	21	4	-	59	41	-	-
Covered bonds	40	100	-	-	-	100	-	-	-
Student loans	163	-	64	36	-	-	100	-	-
Other	221	42	25	13	20	40	13	47	-
Other securities total	5,308	22	26	50	2	55	19	13	13
Total	18,780	71	13	15	1	70	7	16	7

Notes:

- Ratings used 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.
- The above analysis does not include off-balance sheet funding, including £8,510 million (4 April 2015: £8,510 million) of primary liquidity representing short dated UK Treasury bills held as a result of FLS drawings. These are included in the analysis of funding in the 'Financial risk' section of this report.

Treasury assets (continued)

Country exposures

The Group holds £289 million (4 April 2015: £315 million) of securities which are domiciled in the peripheral Eurozone countries. These assets remain outside of current credit policy and continue to be actively managed with opportunities to exit positions assessed against prevailing market conditions and the financial implications for the Group.

The following table summarises the Group's exposure to the peripheral Eurozone countries; the exposures are shown at their balance sheet carrying values. The Group has no sovereign exposure to peripheral Eurozone countries and does not hold any exposure to Greek or emerging markets debt.

Analysis of country exposures (peripheral Eurozone) 30 September 2015	Italy £m	Portugal £m	Spain £m	Total £m
Mortgage backed securities	41	24	192	257
Covered bonds	-	-	29	29
Other corporate	3	-	-	3
Total	44	24	221	289

Analysis of country exposures (peripheral Eurozone) 4 April 2015	Italy £m	Portugal £m	Spain £m	Total £m
Mortgage backed securities	45	32	206	283
Covered bonds	-	-	29	29
Other corporate	3	-	-	3
Total	48	32	235	315

Note: None of the Group's exposures to the peripheral Eurozone countries detailed in the table above are in default, and the Group has not incurred any impairment on these assets in the period.

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

Analysis of country exposures (other than peripheral Eurozone) 30 September 2015	Finland £m	France £m	Germany £m	Netherlands £m	USA £m	Rest of the world £m	Total £m
Government bonds	228	-	237	404	672	-	1,541
Mortgage backed securities	-	-	-	528	39	19	586
Covered bonds	20	97	19	26	-	353	515
Senior debt	-	-	-	-	-	603	603
Loans to banks	-	155	178	-	363	825	1,521
Other assets	-	83	151	-	310	-	544
Other corporate	-	7	-	3	-	-	10
Total	248	342	585	961	1,384	1,800	5,320

Analysis of country exposures (other than peripheral Eurozone) 4 April 2015	Finland £m	France £m	Germany £m	Netherlands £m	USA £m	Rest of the world £m	Total £m
Government bonds	231	-	253	411	305	-	1,200
Mortgage backed securities	-	4	-	551	49	27	631
Covered bonds	21	125	37	27	-	315	525
Senior debt	-	-	-	-	-	495	495
Loans to banks	-	146	229	-	527	823	1,725
Other assets	-	88	169	-	420	-	677
Other corporate	2	7	5	3	-	-	17
Total	254	370	693	992	1,301	1,660	5,270

The Group remains active in the above Eurozone jurisdictions and in the USA; the Rest of the World exposure is predominantly Canada, Sweden, Norway and Denmark.

Treasury assets (continued)

Derivatives and collateral

The Group does not use any derivatives for trading or speculative purposes. As part of the Group's risk management, derivatives are used to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement in a particular financial year. The fair value of derivative assets at 30 September 2015 was £2,988 million (4 April 2015: £3,337 million) and the fair value of derivative liabilities was £3,661 million (4 April 2015: £4,048 million).

The International Swaps and Derivatives Association (ISDA) Master Agreement is the Group's preferred agreement for documenting derivative transactions. A Credit Support Annex (CSA) is always executed in conjunction with the ISDA Master Agreement. Under a CSA, 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 Group's legal documentation for derivative transactions grants legal rights of set off for transactions with the same overall counterparty. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market values offset positive mark to market values in the calculation of credit risk within each netting agreement.

As a result of CSA netting agreements, outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event. To offset gross exposures of £2,988 million (4 April 2015 £3,337 million) under CSA arrangements, netting benefits of £1,829 million (4 April 2015: £1,901 million) are available and £1,148 million of collateral is held (4 April 2015: £1,385 million). Cash is the only collateral currently held.

The following table shows the exposure to derivative contracts after netting benefits and collateral.

Derivative exposure counterparty credit quality	30 September 2015			4 April 2015		
	AA £m	A £m	Total £m	AA £m	A £m	Total £m
Gross positive fair value of contracts	639	2,349	2,988	472	2,865	3,337
Netting benefits	(264)	(1,565)	(1,829)	(285)	(1,616)	(1,901)
Net current exposure	375	784	1,159	187	1,249	1,436
Collateral held	(375)	(773)	(1,148)	(184)	(1,201)	(1,385)
Net derivative exposure	-	11	11	3	48	51

Future developments

The risk profile of the portfolio continues to improve with new investment activity restricted to highly rated assets to support the Group's liquidity requirements; opportunities to exit legacy positions will continue to be assessed against prevailing market conditions.

Financial risk

Overview

The Group is exposed to financial risks as follows:

Risk category	Definition
Liquidity and funding	<p>Liquidity risk is the risk that the Group is unable to raise cash to settle its financial obligations as they fall due and maintain public and stakeholder confidence.</p> <p>Funding risk is the risk that the Group is unable to replace maturing funding or otherwise raise funds on reasonable terms and/or within reasonable timescales.</p>
Solvency	The risk that the Group fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators.
Market	The risk that the net value of, or net income arising from, the Group's assets and liabilities is impacted as a result of market price or rate changes.
Pension	The risk that the Fund's assets will be insufficient to meet the estimated liabilities of the Fund. Pension risk can adversely impact the Group's capital position and/or result in increased cash funding obligations to the Fund.
Earnings	The risk that a source of income or value is unable to continue to add the expected value, due to changes in market, regulatory or other environmental factors.

The Group's market and earnings risk environments have not changed significantly since the financial year end. Further information is available in the Business and Risk Report in the Annual Report and Accounts 2015.

Liquidity and funding risk

Summary

The Group's liquidity levels continue to be in excess of both current and future regulatory requirements as well as being within Board risk appetite.

The Group continues to monitor its position relative to the regulatory short-term liquidity stress metric, the Liquidity Coverage Ratio (LCR), which was implemented on 1 October 2015, and the longer-term funding metric, the Net Stable Funding Ratio (NSFR), which is due to be implemented in 2018.

The Group had a LCR at 30 September 2015 of 130.0% (4 April 2015: 119.3%) and, based on current interpretations of regulatory requirements and guidance, a NSFR of 124.8% (4 April 2015: 121.9%). The LCR represents a surplus to both European and UK regulatory minimum requirements of 60% and 80% respectively and reflects the Group's strategy of maintaining a LCR of at least 100%. The NSFR exceeds the 100% ratio requirement which is due to come into force in 2018.

The Group continues to monitor emerging European and UK regulatory resolution tools which aim to avoid bail-outs by introducing a requirement for banks and building societies to hold a minimum level of liabilities which can be 'bailed-in' to recapitalise a bank or building society in the event of failure. This may have an impact on the future cost of term unsecured wholesale funding.

Funding strategy

The Group's strategy is to remain predominantly retail funded; retail customer loans and advances are therefore largely funded by customer deposits. Non-retail lending including commercial customer loans, primary liquidity and other treasury assets is largely funded by wholesale debt and equity.

Funding profile

Assets	30 September 2015 £bn	4 April 2015 £bn	Liabilities	30 September 2015 £bn	4 April 2015 £bn
Retail mortgages	156.9	152.8	Retail funding	141.2	138.5
Treasury (including liquidity portfolio)	23.1	18.8	Wholesale funding	44.3	39.2
Other retail	3.6	3.6	Capital and reserves	12.4	12.3
Commercial/Other lending	13.5	14.2	Other liabilities	5.2	5.6
Other assets	6.0	6.2			
	203.1	195.6		203.1	195.6

The Group's loan to deposit ratio at 30 September 2015 was 115.7% (4 April 2015: 115.6%).

Liquidity and funding risk (continued)

Wholesale funding

On-balance sheet wholesale funding has increased by £5.1 billion to £44.3 billion, as set out in the table below, which reflects the pre-funding of upcoming maturities in the second half of the year. The wholesale funding portfolio is made up of a range of unsecured and secured instruments to ensure the Group has a diversified funding base across a range of currencies and maturities.

Wholesale funding – currency	30 September 2015					4 April 2015				
	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn
Repo and other secured agreements	-	0.1	-	-	0.1	-	-	-	-	-
Deposits (including PEB balances)	9.8	0.8	0.2	-	10.8	10.1	0.6	0.3	-	11.0
Certificates of deposit	3.9	-	0.1	-	4.0	2.9	0.1	0.1	-	3.1
Commercial paper	0.3	-	3.4	-	3.7	0.1	0.6	1.7	-	2.4
Covered bonds	2.6	9.5	-	0.1	12.2	1.8	9.4	-	0.1	11.3
Medium term notes	1.7	3.3	2.0	0.6	7.6	1.2	2.4	1.4	0.2	5.2
Securitisations	1.7	1.3	1.8	-	4.8	1.7	1.3	1.8	-	4.8
Other	0.2	0.8	0.1	-	1.1	0.3	1.0	0.1	-	1.4
Total	20.2	15.8	7.6	0.7	44.3	18.1	15.4	5.4	0.3	39.2

To mitigate cross-currency refinancing risk, the Group ensures it holds liquidity in each currency to cover at least the next ten business days of wholesale funding maturities.

Managing the maturity profile is crucial to maintaining the Group's ongoing liquidity position. The residual maturity of the wholesale funding book, on a contractual maturity basis, is set out below.

Wholesale funding – residual maturity	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	Subtotal less than one year	Over one year but not more than two years	Over two years	Total
30 September 2015	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repo and other secured agreements	0.1	-	-	-	0.1	-	-	0.1
Deposits (including PEB balances)	4.9	1.5	1.9	1.3	9.6	1.0	0.2	10.8
Certificates of deposit	1.1	1.8	0.9	0.2	4.0	-	-	4.0
Commercial paper	0.5	2.7	0.5	-	3.7	-	-	3.7
Covered bonds	-	1.5	-	-	1.5	1.9	8.8	12.2
Medium term notes	-	-	-	-	-	0.9	6.7	7.6
Securitisations	1.2	-	-	-	1.2	1.7	1.9	4.8
Other	-	-	-	-	-	-	1.1	1.1
Total	7.8	7.5	3.3	1.5	20.1	5.5	18.7	44.3
Of which secured	1.3	1.5	-	-	2.8	3.6	11.8	18.2
Of which unsecured	6.5	6.0	3.3	1.5	17.3	1.9	6.9	26.1
% of total	17.6	16.9	7.5	3.4	45.4	12.4	42.2	100.0

Liquidity and funding risk (continued)

Wholesale funding – residual maturity	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	Subtotal less than one year	Over one year but not more than two years	Over two years	Total
4 April 2015	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Deposits (including PEB balances)	3.8	1.8	1.3	2.1	9.0	1.2	0.8	11.0
Certificates of deposit	0.5	1.3	0.8	0.5	3.1	-	-	3.1
Commercial paper	1.1	1.2	0.1	-	2.4	-	-	2.4
Covered bonds	-	-	0.9	1.5	2.4	1.1	7.8	11.3
Medium term notes	-	-	0.2	-	0.2	-	5.0	5.2
Securitisations	-	-	-	1.2	1.2	1.3	2.3	4.8
Other	-	-	-	-	-	-	1.4	1.4
Total	5.4	4.3	3.3	5.3	18.3	3.6	17.3	39.2
Of which secured	-	-	0.9	2.7	3.6	2.4	10.1	16.1
Of which unsecured	5.4	4.3	2.4	2.6	14.7	1.2	7.2	23.1
% of total	13.8	11.0	8.4	13.5	46.7	9.2	44.1	100.0

Note: Classifications are made on a final contractual maturity point and based on the balance sheet amount.

The Group's wholesale funding ratio was 25.1% at 30 September 2015 (4 April 2015: 23.3%).

The proportion of on-balance sheet funding categorised as long-term (more than one year to maturity) is 54.6% (4 April 2015: 53.3%).

FLS drawings, which are held off-balance sheet, have a flexible and maximum maturity of four years. After including FLS drawings, the residual maturity profile of the Group's wholesale funding portfolio was 38 months (4 April 2015: 39 months) and the total proportion of funding that is categorised as long-term has increased to 61.9% (4 April 2015: 61.6%).

At 30 September 2015, the primary liquidity pool, including FLS, represented 116% (4 April 2015: 107%) of wholesale funding maturing in less than one year, assuming no rollovers.

Liquidity and funding risk (continued)

Liquidity risk

Total liquidity

The Group ensures it has sufficient resources to meet day-to-day cash flow needs and to meet internal and regulatory liquidity requirements which are calibrated to ensure the Group has sufficient liquidity, both in terms of amount and quality, in a range of stress scenarios across multiple time horizons.

The table below sets out the sterling equivalent fair value of the liquidity portfolio, categorised by issuing currency. Assets available for liquidity include off-balance sheet liquidity (FLS treasury bills).

Liquid assets	30 September 2015				4 April 2015			
	GBP £bn	EUR £bn	USD £bn	Total £bn	GBP £bn	EUR £bn	USD £bn	Total £bn
Primary liquidity (note i)	21.9	0.7	0.7	23.3	18.4	0.8	0.4	19.6
Other Central Bank eligible assets	1.4	1.4	0.1	2.9	0.7	1.5	0.1	2.3
Other securities	1.3	0.6	0.4	2.3	1.5	0.6	0.5	2.6
Whole mortgage loan pools pre-positioned at the BoE	11.5	-	-	11.5	13.5	-	-	13.5
Total	36.1	2.7	1.2	40.0	34.1	2.9	1.0	38.0

Note:

- i. Primary liquidity includes £8.5 billion of off-balance sheet items, primarily treasury bills held through FLS participation. The average month end balance for primary liquidity during the period was £21.7 billion (4 April 2015: £22.0 billion).

Liquidity and funding risk (continued)

Maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into maturity time periods based on the contractual maturity date. In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid faster.

The balance sheet structure is managed by the Group's Assets and Liabilities Committee (ALCO) and Weekly Trading Committee (WTC) and is referenced in designing new product propositions. For forecasting purposes, the Group uses judgement and past behavioural performance of each asset and liability class to anticipate likely cash flow requirements of the Group.

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and twelve months	Due between one and two years	Due between two and five years	Due after more than five years	Total
30 September 2015	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets:									
Cash	7,899	-	-	-	-	-	-	-	7,899
Loans and advances to banks	3,239	62	68	87	-	-	-	307	3,763
Available for sale investment securities	3	16	118	2	3	319	3,124	7,902	11,487
Loans and advances to customers	2,455	1,254	1,794	1,838	1,966	7,065	19,676	138,017	174,065
Derivative financial instruments	98	351	117	113	94	268	486	1,461	2,988
Other financial assets	-	22	17	22	32	149	92	236	570
Total financial assets	13,694	1,705	2,114	2,062	2,095	7,801	23,378	147,923	200,772
Financial liabilities:									
Shares	97,064	3,176	6,517	5,483	5,774	9,888	5,976	1,077	134,955
Deposits from banks	1,364	188	108	5	2	16	23	-	1,706
<i>Of which repo</i>	<i>90</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>90</i>
Other deposits	3,728	1,286	1,811	680	670	888	161	-	9,224
Due to customers	3,654	460	1,340	313	274	87	102	-	6,230
Secure funding – ABS and covered bonds	1,304	1,533	103	39	41	3,748	3,765	7,801	18,334
Senior unsecured funding	1,567	4,476	1,465	148	46	833	2,660	3,836	15,031
Derivative financial instruments	28	15	11	25	43	340	701	2,498	3,661
Other financial liabilities	-	4	5	5	-	(1)	(6)	-	7
Subordinated liabilities	-	-	-	-	-	-	733	1,111	1,844
Subscribed capital	-	-	-	-	-	-	-	409	409
Total financial liabilities	108,709	11,138	11,360	6,698	6,850	15,799	14,115	16,732	191,401
Off-balance sheet commitments	14,378	-	-	-	-	-	-	-	14,378
Net liquidity difference	(109,393)	(9,433)	(9,246)	(4,636)	(4,755)	(7,998)	9,263	131,191	(5,007)
Cumulative liquidity difference	(109,393)	(118,826)	(128,072)	(132,708)	(137,463)	(145,461)	(136,198)	(5,007)	

Liquidity and funding risk (continued)

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and twelve months	Due between one and two years	Due between two and five years	Due after more than five years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
4 April 2015									
Financial assets:									
Cash	4,325	-	-	-	-	-	-	-	4,325
Loans and advances to banks	2,923	2	-	61	-	87	-	319	3,392
Available for sale investment securities	5	14	19	1	122	219	1,830	8,827	11,037
Loans and advances to customers	2,450	1,198	1,713	1,893	1,739	7,272	19,361	135,021	170,647
Derivative financial instruments	42	115	153	322	110	452	573	1,570	3,337
Other financial assets	-	12	-	2	10	126	224	256	630
Total financial assets	9,745	1,341	1,885	2,279	1,981	8,156	21,988	145,993	193,368
Financial liabilities:									
Shares	97,712	1,464	5,837	5,380	6,353	8,353	6,326	948	132,373
Deposits from banks	1,479	391	10	64	6	-	24	-	1,974
Of which repo	-	-	-	-	-	-	-	-	-
Other deposits	2,582	1,458	1,565	923	584	1,205	759	-	9,076
Due to customers	3,727	441	1,318	254	224	42	113	-	6,119
Secure funding – ABS and covered bonds	4	15	944	2,810	22	2,514	3,153	8,071	17,533
Senior unsecured funding	1,640	2,467	1,005	339	235	746	2,676	1,464	10,572
Derivative financial instruments	64	31	13	27	25	345	791	2,752	4,048
Other financial liabilities	1	2	-	1	1	1	8	-	14
Subordinated liabilities (note ii)	-	-	266	-	-	-	122	1,733	2,121
Subscribed capital (note ii)	-	-	-	-	-	-	-	415	415
Total financial liabilities	107,209	6,269	10,958	9,798	7,450	13,206	13,972	15,383	184,245
Off-balance sheet commitments (note iii)	13,690	-	-	-	-	-	-	-	13,690
Net liquidity difference	(111,154)	(4,928)	(9,073)	(7,519)	(5,469)	(5,050)	8,016	130,610	(4,567)
Cumulative liquidity difference	(111,154)	(116,082)	(125,155)	(132,674)	(138,143)	(143,193)	(135,177)	(4,567)	

Notes:

- Due less than one month includes amounts repayable on demand.
- Comparatives have been restated for the reclassification of certain amounts based on contractual maturity date rather than call date for financial instruments callable at the Group's option. The principal amount for undated subscribed capital is included within the due more than five years column.
- Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments and customer overpayments on residential mortgages, where the borrower is able to drawdown the amount overpaid.
- Classifications are made on a final contractual maturity point and based on the balance sheet amount.
- The analysis above excludes certain non-financial assets, including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid, and non-financial liabilities including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations.

The net surplus of financial assets over financial liabilities increased by £248 million to £9,371 million, which is primarily attributable to retained profits for the period. Liquid assets include cash, loans and advances to banks, and available for sale investment securities, which in aggregate have increased by £4,395 million to £23,149 million over the period. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

Liquidity and funding risk (continued)

The tables below provide an analysis of gross contractual cash flows. The total differs from the analysis of residual maturity as it includes interest, accrued at current rates for the average period until maturity, on the balances outstanding at the balance sheet date.

Gross contractual cash flows	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and twelve months	Due between one and two years	Due between two and five years	Due after more than five years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
30 September 2015									
Shares	97,101	3,246	6,608	5,557	5,832	10,027	6,118	1,108	135,597
Deposits from banks	1,365	189	108	5	2	16	23	-	1,708
Other deposits	3,734	1,297	1,822	687	675	896	164	-	9,275
Due to customers	3,657	465	1,345	315	275	89	104	-	6,250
Secure funding – ABS and covered bonds	1,313	1,532	187	89	64	4,039	4,409	7,880	19,513
Senior unsecured funding	1,568	4,482	1,521	184	120	1,045	3,164	4,275	16,359
Derivative financial instruments	70	124	192	190	188	658	1,131	1,781	4,334
Subordinated liabilities	-	4	50	4	38	96	944	1,223	2,359
Subscribed capital	1	5	4	7	4	22	68	363	474
Total financial liabilities	108,809	11,344	11,837	7,038	7,198	16,888	16,125	16,630	195,869

Gross contractual cash flows	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and twelve months	Due between one and two years	Due between two and five years	Due after more than five years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
4 April 2015									
Shares	97,712	1,568	5,930	5,456	6,411	8,494	6,478	977	133,026
Deposits from banks	1,479	392	10	64	6	-	25	-	1,976
Other deposits	2,582	1,477	1,579	933	591	1,223	773	-	9,158
Due to customers	3,727	448	1,322	256	225	44	115	-	6,137
Secure funding – ABS and covered bonds	36	20	971	2,846	187	2,797	3,771	8,068	18,696
Senior unsecured funding	1,640	2,471	1,048	344	337	897	3,053	1,640	11,430
Derivative financial instruments	101	166	226	181	204	698	1,325	2,056	4,957
Subordinated liabilities (note ii)	-	4	315	4	50	96	390	1,811	2,670
Subscribed capital (note ii)	1	5	4	7	4	22	68	363	474
Total financial liabilities	107,278	6,551	11,405	10,091	8,015	14,271	15,998	14,915	188,524

Notes:

- Due less than one month includes amounts repayable on demand.
- Comparatives have been restated for the reclassification of certain amounts based on contractual maturity date rather than call date for financial instruments callable at the Group's option. The principal amount for undated subscribed capital is included within the due more than five years column.
- Amounts are allocated to the relevant maturity band based on the timing of individual contractual cash flows.

Liquidity and funding risk (continued)

Asset encumbrance

An analysis of the Group's encumbered and unencumbered on-balance sheet assets is set out below. The table does not include off-balance sheet assets received by the Group as part of its participation in the FLS, which the Group is permitted to re-use. This disclosure is not designed to identify assets that would be available in the event of a resolution or bankruptcy.

Asset encumbrance	Encumbered Pledged as collateral £m	Other £m	Unencumbered Available as collateral £m	Other £m	Total £m
30 September 2015					
Cash	-	2,638	5,029	232	7,899
Loans and advances to banks	2,277	314	-	1,172	3,763
Available for sale investment securities	171	-	11,192	124	11,487
Loans and advances to customers	44,467	-	82,562	47,036	174,065
Derivative financial instruments	-	-	-	2,988	2,988
Other financial assets	-	-	-	570	570
Non-financial assets	-	-	-	2,339	2,339
Total	46,915	2,952	98,783	54,461	203,111

Asset encumbrance	Encumbered Pledged as collateral £m	Other £m	Unencumbered Available as collateral £m	Other £m	Total £m
4 April 2015					
Cash	-	2,218	1,947	160	4,325
Loans and advances to banks	2,308	327	-	757	3,392
Available for sale investment securities	266	-	10,654	117	11,037
Loans and advances to customers	45,518	-	78,890	46,239	170,647
Derivative financial instruments	-	-	-	3,337	3,337
Other financial assets	-	-	-	632	632
Non-financial assets	-	-	-	2,210	2,210
Total	48,092	2,545	91,491	53,452	195,580

Please refer to the Annual Report and Accounts 2015 for further details of the Group's policies for asset encumbrance.

External credit ratings

The Group's short and long term credit ratings from the major rating agencies at 19 November 2015 are as detailed below. During the period all of the main ratings agencies reviewed the Group's credit ratings, resulting in the long term rating from Moody's being upgraded from A2 to A1 as a result of the introduction of Moody's new bank rating methodology and the outlook from Standard & Poor's being improved to stable.

Credit ratings	Long term	Short term	Subordinated	Date of last rating action
Standard & Poor's	A	A-1	BBB	July 2015
Moody's	A1	P-1	Baa1	June 2015
Fitch	A	F1	A-	June 2015

The outlook is stable for all rating agencies.

Solvency risk

Summary

Capital is held by the Group to protect its depositors, to cover its inherent risks, to provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, the Group considers its risk appetite in the context of the material risks to which it is exposed and the appropriate strategies required to manage those risks.

Capital position

The capital disclosures included in this report are reported on a CRD IV end point basis unless otherwise stated and do not include grandfathered Tier 1 PIBS and Tier 2 subordinated debt. In addition, the disclosures are on a Group (consolidated basis), including all subsidiary entities, unless otherwise stated.

The Common Equity Tier 1 (CET1) ratio has increased by 2.1% to 21.9% (4 April 2015: 19.8%) as a result of a strong trading performance and a reduction in commercial and retail risk weighted assets (RWAs). The table below reconciles the general reserves to total regulatory capital:

Total regulatory capital	30 September 2015 £m	4 April 2015 £m
General reserve (note i)	8,612	7,995
Core capital deferred shares (CCDS)	531	531
Revaluation reserve	68	68
Available for sale reserve	(8)	26
Regulatory adjustments and deductions:		
Foreseeable distributions (note ii)	(43)	(44)
Prudent valuation adjustment (note iii)	(3)	(1)
Own credit and debit valuation adjustments (note iv)	(4)	(11)
Intangible assets (note v)	(1,042)	(982)
Goodwill (note v)	(12)	(12)
Excess of regulatory expected losses over impairment provisions (note vi)	(297)	(291)
Total regulatory adjustments and deductions	(1,401)	(1,341)
Common Equity Tier 1 capital	7,802	7,279
Additional Tier 1 capital securities (AT1)	992	992
Total Tier 1 capital	8,794	8,271
Dated subordinated debt (note vii)	1,581	1,653
Excess of impairment provisions over regulatory expected loss (note vi)	3	-
Collectively assessed impairment allowances	22	26
Tier 2 capital	1,606	1,679
Total regulatory capital	10,400	9,950
Solvency ratios: (note viii)		
Common Equity Tier 1 ratio	21.9%	19.8%
Total Tier 1 capital ratio	24.7%	22.5%
Total regulatory capital ratio	29.2%	27.0%

Notes:

- The general reserve includes independently verified profits for the period to 30 September 2015.
- Foreseeable distributions represent the CCDS distribution expected to be paid in December 2015 and the accumulated AT1 dividend at 30 September 2015 which is also expected to be paid in December 2015.
- A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.
- Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in the Group's own credit standing and risk, in accordance with CRD IV rules.
- Intangible assets and goodwill do not qualify as capital for regulatory purposes.
- Under CRD IV the net regulatory capital expected loss in excess of accounting impairment provisions is deducted from CET1 capital, gross of tax and any provisions in excess of the expected loss are included in Tier 2 capital. This is calculated on an aggregated basis for performing and default portfolios.
- Subordinated debt includes 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 Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity. It does not include instruments that are subject to CRD IV grandfathering provisions, as this table is presented on an end point basis.
- Solvency ratios are reported on an end point basis. The Group's CET1 ratio on a transitional basis is in line with end point at 21.9% (4 April 2015: 19.8%). The total Tier 1 capital ratio and total regulatory capital ratio are 25.8% (4 April 2015: 23.6%) and 30.8% (4 April 2015: 28.6%) respectively on a transitional basis, as PIBS and some additional subordinated debt instruments qualify under grandfathering provisions under CRD IV.

Solvency risk (continued)

The CET1 ratio on an Individual (solo) consolidated basis at 30 September 2015 is 21.7% (4 April 2015: 19.6%). More detail on the Group's capital position measured on an Individual consolidated basis can be found in the Group's 2015 Pillar 3 disclosures at nationwide.co.uk

CET1 capital has increased by £523 million to £7,802 million (4 April 2015: £7,279 million) due to profits of £636 million in the six months, offset by a £60 million increase in intangible assets and a reduction in the available for sale (AFS) reserve of £34 million. Total capital has increased by £450 million reflecting this increase in CET1 resources, partly offset by a lower Tier 2 value for dated subordinated debt due to fair value and amortisation movements.

The key movements in the Group's capital position during the period are summarised in the table below:

Movements in regulatory capital

	£m
Common Equity Tier 1 capital at 5 April 2015	7,279
Profit for the period	636
Other movement in general reserves (note i)	(19)
Movement in foreseeable distributions	1
Movement in available for sale reserve	(34)
(Increase)/decrease in:	
Prudent valuation adjustment	(2)
Own credit risk adjustment	7
Intangible assets and goodwill	(60)
Excess of regulatory expected loss over impairment provisions	(6)
Common Equity Tier 1 capital at 30 September 2015	7,802
Additional Tier 1 capital at 4 April 2015 and 30 September 2015	992
Total Tier 1 capital at 30 September 2015	8,794
Tier 2 capital at 5 April 2015	1,679
Amortisation on dated subordinated debt	(42)
Fair value adjustments on dated subordinated debt	(30)
(Decrease)/increase in:	
Collectively assessed impairment allowances	(4)
Excess of impairment provisions over regulatory expected loss	3
Tier 2 capital at 30 September 2015	1,606
Total regulatory capital at 5 April 2015	9,950
Total regulatory capital at 30 September 2015	10,400

Note:

- i. Includes all movements in general reserves, other than profit for the period.

Nationwide's latest Pillar 2A Individual Capital Guidance (ICG) was received in September 2015 following an Individual Capital Adequacy Assessment Process (ICAAP) and a Supervisory Review and Evaluation Process (SREP). It equates to approximately £2.2 billion, of which at least £1.2 billion must be met by CET1 capital (previously approximately £1.9 billion, of which at least £1.1 billion must be met by CET1 capital). This amount is equivalent to 6.2% of RWAs as at 30 September 2015, reflecting the Group's low average risk weight, given that approximately 75% of the Group's exposure is in the form of secured residential mortgages. The ICG is a point in time estimate by the PRA (which may change over time) of the amount of capital required to be held to meet risks not fully covered by Pillar 1 such as credit concentration and operational risk, and those risks not included in Pillar 1 such as pensions and interest rate risk.

Solvency risk (continued)

Leverage

CRD IV requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The Group's leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure and is reported on an end point basis.

The leverage ratio increased by 0.1% to 4.2% (4 April 2015: 4.1%), with growth in Tier 1 capital outweighing the increase in exposures. The increase in the leverage exposure is mainly due to balance sheet growth of £7.5 billion from increases in mortgage balances and liquidity and investment assets held by Treasury.

The table below provides further detail on the components of the leverage ratio measure:

Leverage ratio	30 September 2015	4 April 2015
	£m	£m
On-balance sheet exposures (note i)	203,111	195,580
Adjustments for derivative exposures	(3,166)	(3,954)
Securities financing transaction (SFT) exposures (note ii)	4,081	3,646
Off-balance sheet exposures (note iii)	5,949	6,678
Adjustments for Tier 1 deductions	(1,354)	(1,285)
Total exposures	208,621	200,665
Tier 1 capital	8,794	8,271
Leverage ratio	4.2%	4.1%

Notes:

- Total assets as per the consolidated interim financial statements.
- SFT exposures relate to repurchase agreements and reverse repurchase agreements transacted by the Group.
- Off-balance sheet exposures are after the application of credit conversion factors, as allowed by the Delegated Act.

Risk weighted assets

The table below shows the breakdown of the Group's RWAs and the movements in credit risk RWAs over the period:

Credit risk RWA flow statement	RWAs at 5 April 2015	Growth/ (reduction) in book size	(Improvement)/ deterioration in book quality	RWAs at 30 September 2015
	£m	£m	£m	£m
Credit risk:				
Retail mortgages	14,372	462	(810)	14,024
Retail unsecured lending	7,023	57	(245)	6,835
Commercial loans	7,646	(592)	(302)	6,752
Treasury	1,375	273	(127)	1,521
Counterparty credit risk (note i)	826	(58)	194	962
Other (note ii)	1,334	(28)	-	1,306
Total credit risk	32,576	114	(1,290)	31,400
Operational risk	4,228			4,228
Market risk (note iii)	-			-
Total risk weighted assets	36,804			35,628

Notes:

- Counterparty credit risk relates to derivative financial instruments.
- Other relates to fixed and other assets held on the balance sheet.
- The Group has elected to set this to zero, as permitted by the CRR, as exposure was below the threshold of 2% of own funds.

RWAs reduced by £1.2 billion to £35.6 billion (4 April 2015: £36.8 billion) due to lower credit risk RWAs. This is driven by continued run-off of the non-core commercial book and improvements in the credit quality of remaining exposures which have reduced commercial RWAs. Credit risk RWAs have also been further reduced by an improvement in credit quality, notably in specialist mortgage assets, due to the continued increase in the house price index; this has more than offset the RWA increase from the portfolio growth.

Solvency risk (continued)

Regulatory capital for credit risk

The Pillar 1 credit RWA amounts used as the basis for capital requirements are calculated using:

- Retail Internal Ratings Based (IRB) modelling approaches for prime, buy to let and self-certified mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline building societies) and unsecured lending
- A Foundation IRB and specialised lending 'slotting' methodology for treasury and commercial portfolios respectively (other than sovereign exposures)
- A Standardised approach for all other credit risk exposures, including sovereigns and some other treasury and commercial exposures which are exempt from the IRB approach.

Pillar 1 capital requirements are calculated at 8% of the RWAs, so the Group's credit RWAs of £31,400 million becomes a Pillar 1 capital requirement of £2,512 million. The following table shows how the capital requirements for Pillar 1 credit risk are attributed to exposure classes (as defined by the regulator) by risk calculation approach at 30 September 2015.

Minimum Pillar 1 capital requirement for credit risks	30 September 2015 £m	4 April 2015 £m
Internal Ratings Based (IRB) exposure classes:		
Institutions	51	59
Corporates (commercial lending)	518	589
Retail mortgages	901	918
Qualifying revolving retail (credit card and Flex)	331	343
Other retail (unsecured personal loans)	216	218
Securitisation positions	49	33
Non-credit obligation assets (fixed assets and other)	91	90
Counterparty credit risk (derivatives)	77	66
Total IRB exposure classes	2,234	2,316
Standardised exposure classes:		
Central government and central banks (note i)	-	-
Regional governments and local authorities	1	1
Multilateral development banks (note i)	-	-
Corporates (non-commercial)	9	9
Retail mortgages (secured against residential property) (note ii)	201	210
Commercial lending (secured against property)	7	7
Commercial lending (other)	11	11
Past due	24	26
Other	25	26
Total standardised exposure classes	278	290
Total capital requirements for credit risk	2,512	2,606

Notes:

- Exposures within these asset classes are zero risk weighted.
- Also includes less than £1 million of capital requirement relating to other retail exposures.

The most material movement in the table above is the reduction in IRB commercial lending capital requirements due to continued run-off of the non-core book and the improving credit quality of remaining exposures.

Solvency risk (continued)

Regulatory developments

The Group continues to monitor regulatory developments that could lead to an increased level of capital requirements to ensure it is well positioned for any changes. These include the current reviews of IRB modelling approaches, the consultations on revisions to the standardised approach and capital floor framework and changes to the Pillar 2 framework set out in the July 2015 Policy Statement (the latter of which will take effect from January 2016).

The PRA published its approach to implementing the Financial Policy Committee's (FPC) direction and recommendation on a UK leverage ratio framework in July 2015. This introduced requirements of up to 4.95% from 2019 constituting a 3% minimum requirement in addition to a supplementary leverage ratio buffer and countercyclical leverage ratio buffer. The Group expects the FPC to consult on the level of the systemic risk buffer for each individual institution (which forms part or all of the supplementary leverage ratio buffer) by the end of 2015. The supplementary leverage ratio buffer will be no higher than 1.05%. The countercyclical leverage ratio buffer will likely be based upon the risk-based countercyclical buffer, which is currently set at 0% for UK exposures.

As part of the European Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, will be required to set a Minimum Requirement for Eligible Liabilities (MREL) for each firm, including Nationwide. The Bank of England is expected to consult on the calibration of MREL as it becomes a requirement under European regulation from January 2016. The Group is confident it has a strong foundation from which to meet future MREL requirements.

During the summer of 2015, the major UK banks and building societies, including Nationwide, took part in the second of the PRA's annual concurrent stress tests. The scenario described a global downturn, with a less severe impact on the UK housing market than the 2014 scenario. The results of the 2015 concurrent stress test are currently intended to be published by the PRA on 1 December 2015. In September the Bank of England published details of its approach to stress testing the UK banking system over the coming years, focusing in particular on the period to 2018. A key feature of the new guidance is a higher CET1 hurdle rate which includes Pillar 2A and systemic risk buffer requirements. The Group's robust approach to internal and industry stress testing exercises is well positioned to meet changing regulatory requirements.

Pension risk

Summary

The Group has a number of defined benefit pension schemes, the most significant of which is the Nationwide Pension Fund (the Fund), which is closed to new employees. The assets of the Fund are held in a legally separate trust from the Group's assets and are administered by a board of trustees (the Trustee).

Pension risk is defined as the risk that the value of the Fund's assets will be insufficient to meet the estimated liabilities of the Fund. Pension risk can adversely impact the Group's capital position and/or result in increased cash funding obligations to the Fund.

Significant events

In line with the Fund's current deficit recovery plan, a £49 million employer deficit contribution was paid in July 2015. Further annual deficit contributions of £49 million are payable over each of the next five years, although in certain circumstances the next annual contribution may not be paid.

The effective date of the Fund's next triennial funding valuation is 31 March 2016, following which a new deficit recovery plan will be agreed with the Trustee.

The retirement benefit obligation that appears within liabilities on the balance sheet has decreased from £286 million to £199 million, as set out below:

Changes in the value of the net retirement benefit obligation	£m
Deficit at 5 April 2015	(286)
Pension charge	(33)
Net interest cost	(4)
Actuarial remeasurement	46
Employer contributions (including deficit contributions noted above)	78
Deficit at 30 September 2015	(199)

The actuarial remeasurement quantifies the impact on the deficit from the updating of economic assumptions which value the pension fund assets and liability. An increase in long-term bond yields is partially offset by higher inflation expectations and negative asset performance resulting in a net positive impact on the Fund's deficit.

Future developments

As set out in the Annual Report and Accounts 2015, the Trustee's long-term objective is to significantly reduce the Fund's investment strategy risk; the Group actively engages with the Trustee to ensure broad alignment on strategic investment objectives and implementation.

This broad alignment is supported by permanent representation by the Group at the Trustee's investment committee, the sharing of management information and the recent establishment of a monthly investment working group (which includes representatives from the Trustee and Group) to consider specific risk management initiatives.

Potential risk management initiatives include, but are not limited to, adjusting the mix of asset types held (for example less equities and more bonds), increasing interest rate and inflation hedging and adjusting contribution levels.

Operational risk

Summary

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group's operational risk profile continues to be informed by risk assessments from the business and by review and challenge from internal teams and committees.

Environment

Over the last six months, the operational risk environment has seen a number of high profile cyber attacks and failures of payments infrastructures.

New payments technology, whilst increasing payment options for customers, is increasing the operational complexity of payments infrastructures across the industry. At the same time, the increased use of digital banking services means that the financial services sector is seeing increased expectations of an "always on" 24/7 service and lower tolerance of system unavailability combined with heightened concerns over the security of banking systems.

Operational risk profile and significant events

Consistent with the position at the financial year end, the majority of the Group's operational risk events continue to be recorded against two of the Basel II categories: '*External Fraud*' and '*Clients, Products and Business Practices*' and are categorised as having minor impact. No significant operational risk events have occurred during the period.

The Group is committed to protecting both the Society and its members from the threat of fraudulent attacks by increasingly sophisticated cyber criminals and continues to invest in security and detection capabilities, designed to ensure it can respond to security threats effectively.

In addition, the Group employs third parties to provide services to our members. It expects those third parties to adhere to the Group's security conduct standards to ensure that members are protected and that good customer outcomes and a superior customer service experience are delivered. To underpin this, the Group has made enhancements to the framework for managing third party suppliers, including revisions to policy, controls and training.

IT and business resilience (including the payments infrastructure) is acknowledged as a key component of the Group's strategic focus and an important commitment to members. The Group maintains a strong focus on transformation governance and programme management disciplines, and has a programme of activities and systems enhancements to improve resilience, ensuring the Group can reduce the likelihood of incidents arising, improve the time to resolve any incidents that do occur and minimise any potential impact on our customers.

In order to ensure that it can offer members a range of service options, the Group continues to make significant investment in transforming its products and delivery channels to embrace advances in digital technology, whilst still offering more traditional products and services that are important to many of the Group's members. The pace of change, together with the introduction of new systems, introduces operational complexity which could lead to disruption of the Group's operating environment and impact service experience.

The uncertainty around the timing of interest rate changes is continually under review. The Group regularly reviews its operational plans to understand how it might respond to the needs of customers dealing with rises in interest rates, which have been at a historic low since 2009.

Operational risk (continued)

Outlook

The operational risk outlook focuses on the environment in which the Group operates. The Group expects the key focus for the remainder of 2015/16 to be:

- effective management of increasingly sophisticated cyber security threats
- IT and business resilience, and
- the scale and pace of change in a digital environment.

Conduct and compliance risk

Summary

Conduct and compliance risk is defined as the risk that the Group exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, or an unfair outcome being created for customers.

The conduct risk management framework has not substantially changed in the period since the Annual Report and Accounts 2015. However, there is ongoing review and challenge of the framework to ensure it remains fit for purpose, with changes made where necessary.

In July 2015 the Board revised the Group's conduct risk appetite and approved a Group-wide set of conduct 'outcome' statements which are to be considered when making judgements in the execution of business activities. The statements are designed to ensure that fair customer outcomes are put at the heart of decision making. The five outcome statements are as follows:

- Protecting customers: We safeguard personal data. We do not exploit asymmetries. We do not disadvantage our customers or take advantage of customer vulnerability.
- Meeting customer needs and doing what we say: Our products and services meet customer needs and expectations and perform as represented.
- Creating and nurturing fair customer relationships: We build sustainable partnerships with our customers by providing the right information at the right time, and value for money products and services.
- Rebalancing unfair outcomes: We address customer detriment and/or dissatisfaction in a timely and fair manner.
- Protecting markets: We do not conduct or facilitate market abuse or financial crime. We do not distort competition.

In addition the explicit reference to customer experience risk has been removed from the risk definition to create a clearer delineation between 'fair' conduct outcomes and customer satisfaction.

These efforts have been supported by focused activity to embed best practice conduct risk management and awareness through enhanced policies and frameworks and revised training, including tailored face to face workshops for all key decision makers. These actions will further enhance the proactive consideration of risks to customers and markets stemming from the strategic, business model and operational judgements made daily across the Group.

Environment

As reported in the Annual Reports and Accounts 2015, the conduct and compliance environment remains challenging and the conduct risk regulatory landscape continues to evolve. The increasing regulatory expectations with respect to conduct standards increase the risk of future sanctions, fines or customer redress and it is possible that, in consideration of how past business was conducted, the Group may be judged as not having complied fully with law and regulation or be regarded as not having been fair or reasonable in the treatment of customers. In addition, unforeseen conduct issues may arise in existing products or from new processes being supported by legacy systems.

The Group is reviewing its compliance with various regulatory matters, including consumer credit legislation, and during the period has made a provision of £24 million in respect of potential customer redress to reflect its latest estimate of likely exposure.

Conduct and compliance risk (continued)

The total provision held at 30 September 2015 of £152 million continues to include amounts for the mis-selling of payment protection insurance (PPI). The Group continues to assess, on an ongoing basis, the level of complaints expected against those levels actually received and the appropriateness of the previous provisions, which reflect the redress and associated administration that will be payable in relation to claims it expects to uphold. Costs in relation to invalid claims are recognised in administrative expenses as incurred. The Group continues to monitor industry and regulatory developments, including the UK Supreme Court's decision in the case of *Plevin v Paragon Personal Finance Limited* and the FCA's statement in relation to PPI, and has taken these into account in estimating its provisions at 30 September 2015.

Significant events

The Strengthening Individual Accountability in Banking Regulations come into force on 7 March 2016 and introduce a tiered approach comprising three new Regimes – Senior Manager, Certification and Conduct Rules. These Regulations allow both the Regulator and the Group to hold individuals to account and are designed to restore public trust. The Group continues to work closely with the regulators and, as a result, is well positioned to be ready to embrace and operate in accordance with the new regulations. The Group has a history of making good decisions to protect members' interests and the new regulations resonate with the Group's fundamental values where doing the right thing for members is ingrained in everything Nationwide does.

The Group has made significant progress in its readiness for the implementation of the Mortgage Credit Directive (MCD) in March 2016, following successful implementation of the Mortgage Market Review in 2014. The Group welcomes the increased consumer protection that MCD brings to the mortgage market, particularly the inclusion of the new consumer buy to let requirements.

Changes to the way complaints are recognised and handled will come into force in 2016, including the requirement to report all complaints received irrespective of when they are resolved, an increase in the informal complaints handling period from one to three business days, and changes to telephone call charges for post-sale enquiries. The Group has replaced all fee-charging telephone numbers with free-to-customer alternatives and is investing in a new complaints handling system and staff training to enhance overall customer experience and to ensure that signs of customer dissatisfaction are tackled quickly and efficiently.

Future developments

The digitalisation of the Group's proposition has the potential to deliver better outcomes for customers. Realising that potential will require understanding how customers interact with digital channels to avoid technology negatively impacting a customer's ability to identify and access the products and services that suit them best. However, there are challenges in the delivery of this proposition where historic legislation and processes are carried forward into the digital age. The Group is continuing to design and implement appropriate controls and processes in order to continue to provide the services that its members value against the evolving regulatory backdrop.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT
(Unaudited)

	Notes	Half year to 30 September 2015 £m	Half year to 30 September 2014* £m
Interest receivable and similar income	3	2,613	2,684
Interest expense and similar charges	4	(1,056)	(1,238)
Net interest income		1,557	1,446
Fee and commission income		212	220
Fee and commission expense		(91)	(81)
Income from investments		2	2
Other operating income		3	2
Gains from derivatives and hedge accounting	5	14	6
Total income		1,697	1,595
Administrative expenses	6	(866)	(820)
Impairment losses on loans and advances to customers	7	-	(156)
Impairment losses on investment securities		-	(13)
Provisions for liabilities and charges	8	(29)	(8)
Profit before tax		802	598
Taxation	9	(166)	(112)
Profit after tax		636	486

*Comparatives have been restated as detailed in note 2.

The notes on pages 72 to 96 form an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Profit after tax	636	486
Other comprehensive income/(expense):		
Items that will not be reclassified to the income statement		
Remeasurements of retirement benefit obligations:		
Retirement benefit remeasurements before tax	46	(50)
Taxation	(9)	4
	37	(46)
Revaluation of property:		
Effect of tax rate change on the revaluation reserve	-	1
Other items through the general reserve, including effect of corporation tax rate change	-	(2)
	37	(47)
Items that may subsequently be reclassified to the income statement		
Cash flow hedge reserve:		
Fair value movements taken to members' interests and equity	(54)	-
Amount transferred to income statement	(67)	-
Taxation	24	-
	(97)	-
Available for sale reserve:		
Fair value movements taken to members' interests and equity	(54)	60
Amount transferred to income statement	6	27
Taxation	14	(19)
	(34)	68
Other comprehensive (expense)/income	(94)	21
Total comprehensive income	542	507

The notes on pages 72 to 96 form an integral part of these consolidated interim financial statements.

CONSOLIDATED BALANCE SHEET
(Unaudited)

	Notes	30 September 2015 £m	4 April 2015 £m
Assets			
Cash		7,899	4,325
Loans and advances to banks		3,763	3,392
Available for sale investment securities		11,487	11,037
Derivative financial instruments		2,988	3,337
Fair value adjustment for portfolio hedged risk		531	592
Loans and advances to customers	10	174,065	170,647
Investments in equity shares		26	26
Intangible assets		1,096	1,040
Property, plant and equipment		852	856
Investment properties		8	8
Accrued income and expenses prepaid		239	192
Deferred tax		30	38
Other assets		127	90
Total assets		203,111	195,580
Liabilities			
Shares		134,955	132,373
Deposits from banks		1,706	1,974
Other deposits		9,224	9,076
Due to customers		6,230	6,119
Fair value adjustment for portfolio hedged risk		7	14
Debt securities in issue		33,365	28,105
Derivative financial instruments		3,661	4,048
Other liabilities		622	475
Provisions for liabilities and charges	8	207	295
Accruals and deferred income		279	369
Subordinated liabilities	11	1,844	2,121
Subscribed capital	11	409	415
Deferred tax		25	53
Current tax liabilities		151	116
Retirement benefit obligations		199	286
Total liabilities		192,884	185,839
Members' interests and equity			
Core capital deferred shares	12	531	531
Other equity instruments	13	992	992
General reserve		8,612	7,995
Revaluation reserve		68	68
Cash flow hedge reserve		32	129
Available for sale reserve		(8)	26
Total members' interests and equity		10,227	9,741
Total members' interests, equity and liabilities		203,111	195,580

The notes on pages 72 to 96 form an integral part of these consolidated interim financial statements.

CONSOLIDATED STATEMENT OF MOVEMENTS IN MEMBERS' INTERESTS AND EQUITY
For the period ended 30 September 2015
(Unaudited)

	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Total £m
At 5 April 2015	531	992	7,995	68	129	26	9,741
Profit for the period	-	-	636	-	-	-	636
Net movement in available for sale reserve	-	-	-	-	-	(34)	(34)
Net movement in cash flow hedge reserve	-	-	-	-	(97)	-	(97)
Net remeasurements of retirement benefit obligations	-	-	37	-	-	-	37
Total comprehensive income	-	-	673	-	(97)	(34)	542
Distribution to the holders of core capital deferred shares	-	-	(28)	-	-	-	(28)
Distribution to the holders of Additional Tier 1 capital*	-	-	(28)	-	-	-	(28)
At 30 September 2015	531	992	8,612	68	32	(8)	10,227

	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Available for sale reserve £m	Total £m
At 5 April 2014	531	992	7,363	71	(51)	8,906
Profit for the period	-	-	486	-	-	486
Net movement in available for sale reserve	-	-	-	-	68	68
Effect of tax rate change on other items through reserves	-	-	(2)	1	-	(1)
Net remeasurements of retirement benefit obligations	-	-	(46)	-	-	(46)
Total comprehensive income	-	-	438	1	68	507
Distribution to the holders of core capital deferred shares	-	-	(30)	-	-	(30)
Distribution to the holders of Additional Tier 1 capital*	-	-	(15)	-	-	(15)
At 30 September 2014	531	992	7,756	72	17	9,368

*The distribution to the holders of Additional Tier 1 capital is shown net of an associated tax credit of £6 million (H1 2014/15: £4 million).

The notes on pages 72 to 96 form an integral part of these consolidated interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT
(Unaudited)

	Notes	Half year to 30 September 2015 £m	Half year to 30 September 2014* £m
Cash flows generated from/(used in) operating activities			
Profit before tax		802	598
Adjustments for:			
- Non-cash items included in profit before tax	14	(86)	(73)
- Changes in operating assets	14	(2,802)	(2,225)
- Changes in operating liabilities	14	2,069	5,070
- Interest paid on subordinated liabilities		(48)	(54)
- Interest paid on subscribed capital		(11)	(19)
Taxation		(115)	(56)
Net cash flows (used in)/generated from operating activities		(191)	3,241
Cash flows (used in)/generated from investing activities			
Purchase of investment securities		(2,443)	(2,213)
Sale and maturity of investment securities		1,893	1,425
Purchase of property, plant and equipment		(80)	(76)
Sale of property, plant and equipment		7	8
Purchase of intangible assets		(143)	(94)
Dividends received from non-Group entities		2	4
Net cash flows used in investing activities		(764)	(946)
Cash flows (used in)/generated from financing activities			
Distributions paid to the holders of core capital deferred shares		(28)	(30)
Distributions paid to the holders of additional tier 1 capital		(34)	(19)
Issue of debt securities		15,974	12,492
Redemption of debt securities in issue		(10,751)	(11,259)
Redemption of subordinated liabilities		(256)	-
Net cash flows generated from financing activities		4,905	1,184
Net increase in cash and cash equivalents		3,950	3,479
Cash and cash equivalents at start of period		7,250	6,989
Cash and cash equivalents at end of period	14	11,200	10,468

*Comparatives have been restated as detailed in note 2.

The notes on pages 72 to 96 form an integral part of these consolidated interim financial statements.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 General information and reporting period

Nationwide Building Society ('the Society') and its subsidiaries (together, 'the Group') provide financial services to retail and commercial customers within the United Kingdom.

Nationwide is a building society incorporated and domiciled in the United Kingdom. The address of its registered office is Nationwide House, Pipers Way, Swindon, Wiltshire SN38 1NW.

There were no material changes in the composition of the Group in the half year to 30 September 2015.

These condensed consolidated interim financial statements ("consolidated interim financial statements") have been prepared as at 30 September 2015 and show the financial performance for the period from, and including, 5 April 2015 to this date. They were approved for issue on 19 November 2015.

These consolidated interim financial statements have been reviewed, not audited.

2 Basis of preparation

The consolidated interim financial statements of Nationwide Building Society for the half year ended 30 September 2015 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). The consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 4 April 2015, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Terminology used in these consolidated interim financial statements is consistent with that used in the Annual Report and Accounts 2015, where a full glossary of terms can be found. Additional items relevant to this period are defined in the glossary section at the end of this document.

Standards and amendments applied during the half year to 30 September 2015

There were no new standards applied during the half year to 30 September 2015. The following amendments to IFRSs and IASs were effective for the first half of the financial year:

- Amendments to IAS 19 'Employee Benefits': The amendments clarify the requirements for attributing employee/third party contributions that are linked to service to the relevant accounting period. Applying the requirements of the amendments to IAS 19 has no impact for the Group.
- Annual improvements to IFRSs 2010-2012 and 2011-2013 cycles. Several small amendments were adopted with no significant impact for the Group.
- Amendments to IAS 16 'Property, Plant and Equipment' and IAS 38 'Intangible Assets': The amendments clarify that the use of revenue-based methods to calculate depreciation and amortisation are not appropriate. The Group does not use any revenue-based depreciation or amortisation methods and therefore these amendments have no impact.

Accounting policies

The accounting policies adopted by the Group in the preparation of the 30 September 2015 consolidated interim financial statements and those which the Group currently expects to adopt in the Annual Report and Accounts 2016 are consistent with those disclosed in the Annual Report and Accounts 2015, except for a voluntary change in accounting policy to reclassify gains and losses arising from the retranslation of foreign currency items, as described below. The accounting policies and disclosures adopted reflect the Group's current view of best practice. Copies of the Annual Report and Accounts 2015 are available on the Group's website at: nationwide.co.uk/about_nationwide/results_and_accounts/default.htm

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

2 Basis of preparation (continued)

Adjustments to comparative information

Foreign exchange retranslation

The Group holds monetary items denominated in foreign currencies which are retranslated to sterling at the reporting date. Any resulting foreign exchange gains and losses from the retranslation have previously been presented within 'interest expense and similar charges' in the income statement. The Group utilises derivatives to economically hedge this foreign exchange exposure with fair value gains and losses on these derivatives presented within 'gains from derivatives and hedge accounting' in the income statement. To provide a more meaningful presentation of the Group's residual economic foreign exchange exposure, amounts in relation to the retranslation of foreign currency monetary items have been reclassified from 'interest expense and similar charges' to 'gains from derivatives and hedge accounting' in the income statement to offset against the movement in derivative values.

Comparatives have been restated to reflect this reclassification as shown below:

	Notes	Previously published £m	Adjustment £m	Restated £m
Consolidated income statement extract for the period ended 30 September 2014				
Interest expense and similar charges	4	(1,264)	26	(1,238)
Gains from derivatives and hedge accounting	5	32	(26)	6
Profit before tax		598	-	598

This reclassification has no impact on the Group's net assets or members' interests and equity at 4 April 2015 and no impact on the Group's net cash flows generated from operating activities or cash and cash equivalents for the period ended 30 September 2014.

Cash flows from debt securities

Within the consolidated cash flow statement, the Group has reclassified certain cash flows to 'net cash flows generated from financing activities' in relation to debt securities in issue. Previously, these cash flows were presented incorrectly within 'net cash flows generated from operating activities'. This reclassification has no impact upon cash and cash equivalents for the Group.

Comparatives have been restated to reflect this reclassification as shown below:

	Previously published £m	Adjustment £m	Restated £m
Consolidated cash flow statement extract for the period ended 30 September 2014			
Net cash flows generated from operating activities	6,352	(3,111)	3,241
Net cash flows (used in)/generated from financing activities	(1,927)	3,111	1,184

Off balance sheet commitments

Off-balance sheet commitments at 4 April 2015, shown in the residual maturity table within the 'Liquidity and funding risk' section of the Business and Risk Report, have been restated from £7,162 million to £13,690 million. The original disclosure omitted commitments of £6,528 million which relate to customer overpayments on residential mortgages where the borrower is entitled to drawdown amounts overpaid.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

2 Basis of preparation (continued)

Future accounting developments

An overview of pronouncements that will be relevant to the Group in future periods was provided in the Annual Report and Accounts 2015.

During July 2015, the IASB confirmed the deferral of the effective date of IFRS 15 'Revenue from Contracts with Customers' from 1 January 2017 to 1 January 2018. In addition, on 30 July 2015 a further exposure draft was issued proposing targeted amendments to the standard.

Judgements in applying accounting policies and critical accounting estimates

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in these consolidated interim financial statements. In addition, estimates and assumptions are made that could affect the reported amounts of assets and liabilities within the following financial period.

There have been no changes to the areas of significant judgement and estimate from those disclosed in the Annual Report and Accounts 2015 which comprised:

- mortgage effective interest rate (EIR)
- impairment provisions on loans and advances
- provisions for customer redress
- retirement benefit obligations (pensions).

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 and Risk Report.

In the light of current and anticipated economic conditions, the directors have assessed 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 it is therefore appropriate to adopt the going concern basis in preparing these consolidated interim financial statements.

3 Interest receivable and similar income

	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
On residential mortgages	2,462	2,451
On other loans	412	470
On investment securities	173	175
On other liquid assets	10	17
Net expense on financial instruments hedging assets	(444)	(429)
Total	2,613	2,684

Included within interest receivable and similar income is interest of £14 million (H1 2014/15: £21 million) accrued on loans which are more than three months in arrears and the unwind of the discount on impairment provisions of £7 million (H1 2014/15: £29 million).

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

4 Interest expense and similar charges

	Half year to 30 September 2015 £m	Half year to 30 September 2014* £m
On shares held by individuals	762	947
On subscribed capital	13	21
On deposits and other borrowings:		
– Subordinated liabilities	51	57
– Other	240	65
On debt securities in issue	335	370
Net income on financial instruments hedging liabilities	(349)	(226)
Interest on net defined benefit pension liability	4	4
Total	1,056	1,238

*Comparatives have been restated as detailed in note 2.

Interest expense includes amounts in relation to the redemption and maturity of PEB deposits, which have returns linked to the performance of specified stock market indices. The deposits are held at fair value and are economically hedged using equity-linked derivatives. During the life of the PEB deposits, movements in their fair value are offset against the movements in the fair value of the corresponding derivatives within the gains on derivatives and hedge accounting line in the income statement. On maturity or redemption of PEBs, these movements are reclassified to interest expense and similar charges; the PEBs movements are reported in other interest expense on deposits and other borrowings with a corresponding offsetting amount included within net income on financial instruments hedging liabilities. An amount of £177 million (H1 2014/15: £6 million) has been reclassified in the period and is included in the figures above.

5 Gains from derivatives and hedge accounting

	Half year to 30 September 2015 £m	Half year to 30 September 2014* £m
Gains from fair value hedge accounting (note i)	40	4
Ineffectiveness from cash flow hedge accounting (note ii)	4	-
Net loss from mortgage pipeline (note iii)	(29)	(4)
Fair value (loss)/gain from other derivatives (note iv)	(26)	32
Foreign exchange differences	25	(26)
Total	14	6

*Comparatives have been restated as detailed in note 2.

Notes:

- i. Gains or losses from fair value hedges can arise where there is an IFRS hedge accounting relationship in place and either:
 - the relationship passed all the monthly effectiveness tests but the fair value movement of the derivative was not exactly offset by the change in fair value of the asset or liability being hedged (sometimes referred to as hedge ineffectiveness), or
 - the relationship failed a monthly effectiveness test which, for that month, disallows recognition of the change in fair value of the underlying asset or liability being hedged and in following months leads to the amortisation of existing balance sheet positions.
- ii. The Group commenced cash flow hedge accounting in the second half of the year ended 4 April 2015, deferring the effective portion of the fair value movement of designated derivatives to the cash flow hedge reserve. The fair value movement is subsequently recycled to the income statement when the underlying hedged asset or liability is recognised in the income statement. The ineffective portion of the fair value movement is recognised immediately in the income statement.
- iii. The Group elects to fair value a portion of its mortgage commitments in order to reduce the accounting mismatch caused when derivatives are used to hedge mortgage commitments.
- iv. Other derivatives are those used for economic hedging but which are not in an IAS 39 hedge accounting relationship because hedge accounting is not currently achievable.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

5 Gains from derivatives and hedge accounting (continued)

Although the Group only uses derivatives for the hedging of risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. This volatility is therefore largely attributable to accounting rules which do not fully reflect the economic reality of the Group's hedging strategy. The volatility will continue period on period but, on a cumulative basis, will broadly trend back to zero over time.

Included within the gain of £14 million (H1 2014/15: £6 million) was the impact of the following:

- Gains of £40 million (H1 2014/15: £4 million) from fair value hedge accounting ineffectiveness, £34 million (H1 2014/15: loss of £3 million) of which related to portfolio fair value hedges of interest rate risk and £6 million (H1 2014/15: £7 million) was from micro hedge relationships.
- A net loss of £29 million (H1 2014/15: £4 million) due to losses of £40 million (H1 2014/15: £19 million) from changes in the fair value of forward starting derivatives economically hedging the pipeline of new mortgage business offset by gains of £11 million (H1 2014/15: £15 million) from the movement in the fair value of mortgage commitments.
- Losses of £26 million (H1 2014/15: gains of £32 million) from valuation adjustments and volatility on other derivatives which are not currently in an IAS 39 hedge accounting relationship.
- Gains of £25 million (H1 2014/15: losses of £26 million) from the retranslation of foreign currency monetary items.

The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other market risks are continually managed.

6 Administrative expenses

	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Employee costs:		
– Wages, salaries and bonuses	269	261
– Social security costs	26	27
– Pension costs	54	42
	349	330
Other administrative expenses	362	346
	711	676
Depreciation and amortisation	155	144
Total	866	820

Other administrative expenses include £8 million (H1 2014/15: £36 million) of transformation costs. In the prior period, these costs were driven primarily by integration activity for the Derbyshire, Cheshire and Dunfermline brands which has now been completed.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

7 Impairment losses on loans and advances to customers

The following tables set out impairment losses and reversals during the period and the closing provision balances which are deducted from the appropriate asset values in the balance sheet:

	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Impairment (reversals)/losses for the period		
Prime residential	(1)	-
Specialist residential	(6)	13
Consumer banking	33	49
Commercial lending	(27)	73
Other lending	1	21
Total	-	156

	30 September 2015 £m	4 April 2015 £m
Impairment provision at the end of the period		
Prime residential	18	22
Specialist residential	68	88
Consumer banking	234	216
Commercial lending	128	322
Other lending	5	4
Total	453	652

The Group impairment provision of £453 million at 30 September 2015 (4 April 2015: £652 million) comprises individual provisions of £149 million (4 April 2015: £341 million) and collective provisions of £304 million (4 April 2015: £311 million).

The decrease in impairment provisions on prime and specialist residential loans arises from moderate house price growth in the period, together with the improved performance of the book driven by prolonged low interest rates, falling unemployment and wage growth inflation above the increase in the cost of living.

The decrease in impairment provisions held against commercial lending is driven by continued improvement in market conditions for commercial real estate, together with significant deleveraging activity undertaken during the prior year which has resulted in a reduction in the size of the commercial real estate book.

Further credit risk related information on loans and advances to customers is included in the Business and Risk Report.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8 Provisions for liabilities and charges

	Bank levy £m	FSCS £m	Customer redress £m	Other provisions £m	Total £m
At 5 April 2015	13	126	140	16	295
Provisions utilised	(13)	(88)	(12)	(4)	(117)
Charge for the period	-	5	32	1	38
Release for the period	-	-	(8)	(1)	(9)
Net income statement charge	-	5	24	-	29
At 30 September 2015	-	43	152	12	207
At 5 April 2014	6	142	124	38	310
Provisions utilised	(6)	(100)	(25)	(14)	(145)
Charge for the period	-	4	17	-	21
Release for the period	-	-	(13)	-	(13)
Net income statement charge	-	4	4	-	8
At 30 September 2014	-	46	103	24	173

The income statement charge for provisions for liabilities and charges of £29 million (H1 2014/15: £8 million) includes the FSCS charge of £5 million (H1 2014/15: £4 million) and the customer redress charge of £24 million (H1 2014/15: £4 million).

The net income statement charge for other provisions above is included within administrative expenses in the income statement.

Financial Services Compensation Scheme (FSCS)

The FSCS provision of £43 million represents the Group's interest levy in respect of the 2015/16 scheme year (4 April 2015: £126 million in respect of the 2015/16 and 2014/15 scheme years). The charge for the 2016/2017 scheme year will be recognised in the second half of this financial year.

Customer redress

The Group holds provisions of £152 million (4 April 2015: £140 million) in respect of the potential costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory matters. This includes amounts for past sales of PPI.

The income statement charge in the period relates to updated assumptions for provisions previously recognised and includes management's best estimate of the impacts of the FCA's announcement on 2 October 2015 in relation to past sales of PPI products.

Other provisions

Other provisions include amounts for severance costs and a number of property related matters.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

9 Taxation

	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Current tax:		
UK corporation tax	170	113
Corporation tax – adjustment in respect of prior periods	-	(14)
Total current tax	170	99
Deferred tax:		
Current period	(4)	20
Effect of corporation tax rate change	-	(7)
Total deferred tax	(4)	13
Tax charge	166	112

The actual tax charge differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

	Half year to 30 September 2015 £m	Half year to 30 September 2014 £m
Profit before tax	802	598
Tax calculated at a tax rate of 20% (2014: 21%)	160	126
Adjustments in respect of prior periods	-	(14)
Expenses not deductible for tax purposes	6	7
Effect of corporation tax rate change	-	(7)
Total	166	112

The following measures were announced as part of the Budget on 8 July 2015:

- a surcharge of 8% to be applied to profits of banking companies after 1 January 2016
- restriction on corporation tax relief in respect of certain compensation payments
- reductions in the main corporation tax rate from 20% to 18% over the period to 2020
- reductions in the rates for the bank levy from 1 January 2016.

As the legislation detailing these changes had not been substantively enacted at the balance sheet date the impacts are not included in these consolidated interim financial statements.

Had the legislation been enacted by the balance sheet date, the net impact on deferred tax assets and liabilities would have been less than £1 million.

The reductions in the bank levy would be recognised from the final quarter of 2015/16 and it is not possible at this point to quantify the effects of the rate change from 20% to 18%.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

10 Loans and advances to customers

Loans and advances to customers in the table below are shown net of impairment provisions held against them. The fair value adjustment for micro hedged risk relates to commercial lending.

	30 September 2015 £m	4 April 2015 £m
Prime residential mortgages	127,212	124,527
Specialist residential mortgages	29,717	28,248
Consumer banking	3,599	3,575
Commercial lending	12,257	12,890
Other lending	34	25
	172,819	169,265
Fair value adjustment for micro hedged risk	1,246	1,382
Total	174,065	170,647

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for the Bank of England's (BoE) Funding for Lending Scheme (FLS). The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding.

The Group established the Nationwide Covered Bond programme in November 2005. Mortgages pledged provide security for issues of covered bonds made by the Group. During the period ended 30 September 2015 €1.3 billion of notes matured (£0.9 billion sterling equivalent). The issuances in the period ended 30 September 2015 were €1.4 billion (£1.0 billion sterling equivalent) and £0.8 billion.

The Group established the Silverstone Master Trust securitisation programme in July 2008. Notes are issued under the programme and the issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Group. The remaining beneficial interest in the pledged mortgages of £8.05 billion (4 April 2015: £8.15 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the period ended 30 September 2015 no notes were redeemed early or matured and no new notes were issued.

The securitisation programme notes are issued by Silverstone Master Issuer plc which is fully consolidated by the Group.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

10 Loans and advances to customers (continued)

Mortgages pledged and the nominal values of the notes in issue are as follows:

30 September 2015	Mortgages pledged	Notes in issue			Total notes in issue
		Held by third parties	Held by the Group		
			Drawn	Undrawn	
	£m	£m	£m	£m	£m
Covered bond programme	18,737	12,170	-	-	12,170
Securitisation programme	13,658	4,804	-	1,839	6,643
Whole mortgage loan pools	12,072	-	11,938	134	12,072
Total	44,467	16,974	11,938	1,973	30,885

4 April 2015	Mortgages pledged	Notes in issue			Total notes in issue
		Held by third parties	Held by the Group		
			Drawn	Undrawn	
	£m	£m	£m	£m	£m
Covered bond programme	17,161	11,305	-	-	11,305
Securitisation programme	14,902	4,839	-	1,839	6,678
Whole mortgage loan pools	13,455	-	12,080	1,375	13,455
Total	45,518	16,144	12,080	3,214	31,438

Mortgages pledged include £10.1 billion (4 April 2015: £9.5 billion) in covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.

Mortgages pledged are not derecognised from the balance sheet as the Group has retained substantially all the risks and rewards of ownership. The Group continues to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes in issue, held by the Group and drawn are:

- debt securities issued by the programmes to the Society which have been used as collateral in sale and repurchase agreements with third parties, and
- whole mortgage loan pools securing amounts drawn under the FLS. At 30 September 2015 the Group had outstanding FLS drawings of £8.5 billion (4 April 2015: £8.5 billion).

Notes in issue, held by the Group and undrawn, are debt securities issued by the programmes to the Society and mortgage loan pools that have been pledged to the BoE FLS but not utilised. The majority of these are held to provide collateral for potential future use in repurchase agreements or central bank operations.

In accordance with accounting standards, notes in issue and held by the Group are not recognised by the Group in its balance sheet.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

11 Subordinated liabilities and subscribed capital

	30 September 2015 £m	4 April 2015 £m
Subordinated liabilities		
Subordinated notes	1,779	2,043
Fair value adjustment for micro hedged risk	75	89
Unamortised premiums and issue costs	(10)	(11)
Total	1,844	2,121
Subscribed capital		
Permanent interest bearing shares	362	362
Fair value adjustment for micro hedged risk	66	74
Unamortised premiums and issue costs	(19)	(21)
Total	409	415

The decrease in subordinated liabilities in the period is primarily as a result of the redemption of \$400 million (£256 million) of subordinated notes at par.

All of the Group's subordinated notes and permanent interest bearing shares (PIBS) are unsecured. The Group may, with the prior consent of the Prudential Regulation Authority (PRA), redeem the PIBS and the subordinated notes early.

The subordinated notes rank pari passu with each other and behind claims against the Group of all depositors, creditors and investing members, other than the holders of PIBS, Additional Tier 1 (AT1) capital and core capital deferred shares (CCDS).

The PIBS rank pari passu with each other and the AT1 instruments, behind claims against the Society of the subordinated noteholders, depositors, creditors and investing members but ahead of claims by the holders of CCDS.

12 Core capital deferred shares (CCDS)

	CCDS £m	Share premium £m	Total £m
At 30 September 2015	6	525	531
At 5 April 2015	6	525	531

In December 2013, the Society issued 5,500,000 of £1 CCDS at £100 per share. The gross proceeds of the issuance were £550 million (£531 million net of issuance costs).

CCDS are a form of Common Equity Tier 1 (CET1) capital which have been developed to enable the Group to raise capital from the capital markets. Previously issued Tier 1 capital instruments, PIBS, no longer meet the regulatory capital requirements of CRD IV and are being gradually phased out of the calculation of capital resources under transitional rules.

CCDS are perpetual instruments. They rank pari passu to each other and are junior to claims against the Society of all depositors, creditors and investing members. Each holder of CCDS has one vote, regardless of the number of CCDS held.

In the event of a winding up or dissolution of the Society and if there was surplus available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £100 per share.

There is a cap placed on the amount of distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £15.24 per CCDS and is adjusted annually in line with CPI.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

12 Core capital deferred shares (CCDS) (continued)

A final distribution of £28 million for the financial year ended 4 April 2015 was paid on 22 June 2015. This distribution has been recognised in the statement of movements in members' interests and equity.

The directors have declared a distribution of £5.125 per CCDS, amounting in aggregate to £28 million in respect of the period to 30 September 2015. The distribution will be paid on 21 December 2015 and will be recognised through the consolidated statement of movements in members' interests and equity by reference to the date at which it was approved.

13 Other equity instruments

	Total £m
At 30 September 2015	992
At 5 April 2015	992

In March 2014, the Society issued £1,000 million (£992 million net of issuance costs) of Additional Tier 1 (AT1) capital.

AT1 instruments rank pari passu to each other and to PIBS. They are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS.

AT1 instruments have no maturity date. They are repayable at the option of the Society on 20 June 2019 and on every fifth anniversary thereafter. AT1 instruments are only repayable with the consent of the PRA.

If the fully-loaded CET1 ratio for the Society, on either a consolidated or unconsolidated basis, falls below 7% the AT1 instruments convert to CCDS instruments at a rate of one CCDS for every £80 of AT1 holding.

AT1 instruments pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.875% per annum. The rate will reset on 20 June 2019 and every five years thereafter to the five-year mid swap rate plus 4.88%. Coupons are paid semi-annually in June and December.

An amount of £34 million, covering the period to 19 June 2015, was paid on 22 June 2015. This payment has been recognised in the statement of movements in members' interests and equity.

An amount of £34 million in respect of the period to 20 December 2015 is expected to be paid on 21 December 2015 and will be recognised through the consolidated statement of movements in members' interests and equity by reference to the date at which it was approved.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

14 Notes to the cash flow statement

	Half year to 30 September 2015 £m	Half year to 30 September 2014* £m
Non-cash items included in profit before tax		
Net decrease in impairment provisions	(199)	(165)
Net decrease in provisions for liabilities and charges	(88)	(137)
Impairment losses on investment securities	-	13
Depreciation and amortisation	155	144
Profit from sale of property plant and equipment	(1)	-
Interest on subordinated liabilities	50	57
Interest on subscribed capital	11	21
Gains from derivatives and hedge accounting	(14)	(6)
Total	(86)	(73)
Changes in operating assets		
Loans and advances to banks	5	3
Derivative financial instruments and fair value adjustment for portfolio hedged risk	424	(235)
Deferred tax assets	8	8
Loans and advances to customers	(3,219)	(1,841)
Other operating assets	(20)	(160)
Total	(2,802)	(2,225)
Changes in operating liabilities		
Shares	2,582	3,510
Deposits from banks, customers and others	(9)	1,355
Derivative financial instruments and fair value adjustment for portfolio hedged risk	(394)	377
Debt securities in issue	37	(284)
Deferred tax liabilities	(28)	1
Retirement benefit obligations	(87)	(37)
Other operating liabilities	(32)	148
Total	2,069	5,070
Cash and cash equivalents		
Cash	7,899	8,463
Loans and advances to banks repayable in 3 months or less	3,301	2,005
Total	11,200	10,468

*Comparatives have been restated as detailed in note 2.

The Group is required to maintain balances with the Bank of England which, at 30 September 2015, amounted to £307 million (30 September 2014: £311 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 CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

15 Contingent liabilities

During the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings, as well as regulatory reviews, challenges and investigations. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. Where it is concluded that it is probable that a payment will be made, a provision is recognised based on management's best estimate of the amount that will be payable. For other matters no provision is recognised but disclosure is made of items which are potentially material, either individually or in aggregate, except in cases where the likelihood of a liability crystallising is considered to be remote. Currently the Group does not expect the ultimate resolution of any such matters to have a material adverse impact on its financial position.

16 Operating segments

For management reporting purposes, the Group is organised into the following operating segments, 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 12 of the Annual Report and Accounts 2015.

Half year to 30 September 2015	Retail £m	Commercial £m	Head office functions £m	Total £m
Net income/(expense) from external customers	1,814	229	(486)	1,557
(Charge)/revenue from other segments	(296)	(174)	470	-
Net interest income	1,518	55	(16)	1,557
Net other income (note i)	126	7	(7)	126
Total revenue	1,644	62	(23)	1,683
Administrative expenses (note ii)	(807)	(19)	(32)	(858)
Impairment and other provisions (note iii)	(50)	28	(2)	(24)
Underlying profit/(loss) before tax	787	71	(57)	801
FSCS levies	(5)	-	-	(5)
Transformation costs	(2)	-	(6)	(8)
Gains from derivatives and hedge accounting	-	-	14	14
Profit/(loss) before tax	780	71	(49)	802
Taxation				(166)
Profit after tax				636
Total assets (note iv)	160,540	13,503	29,068	203,111
Total liabilities	140,886	2,373	49,625	192,884

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

16 Operating segments (continued)

Half year to 30 September 2014	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net income/(expense) from external customers (note v)	1,626	291	(471)	1,446
(Charge)/revenue from other segments	(142)	(229)	371	-
Net interest income (note v)	1,484	62	(100)	1,446
Net other income (note i)	144	8	(9)	143
Total revenue	1,628	70	(109)	1,589
Administrative expenses (note ii)	(738)	(23)	(23)	(784)
Impairment and other provisions (note iii)	(66)	(73)	(34)	(173)
Underlying profit/(loss) before tax	824	(26)	(166)	632
FSCS levies	(4)	-	-	(4)
Transformation costs	(19)	-	(17)	(36)
Gains from derivatives and hedge accounting (note v)	-	-	6	6
Profit/(loss) before tax	801	(26)	(177)	598
Taxation				(112)
Profit after tax				486
Total assets (note iv)	152,850	15,625	28,147	196,622
Total liabilities	139,220	1,198	46,836	187,254

Notes:

- Net other income excludes gains from derivatives and hedge accounting which are shown separately.
- Administrative expenses exclude transformation costs which are shown separately.
- 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.
- Retail assets include £12 million of goodwill arising on the acquisition of The Mortgage Works (UK) plc.
- Comparatives have been restated as detailed in note 2.

17 Fair value hierarchy of financial assets and liabilities held at fair value

Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify financial instruments held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

Level 1 – Valuation using quoted market prices

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 reflects 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.

Level 2 – Valuation technique using observable inputs

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 derivative 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. They also include investment securities valued using consensus pricing or other observable market prices.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

17 Fair value hierarchy of financial assets and liabilities held at fair value

Level 3 – Valuation technique using significant unobservable inputs

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 following tables show the Group's financial assets and liabilities that are held at fair value by fair value hierarchy, balance sheet classification and product type:

30 September 2015	Fair values based on			Total
	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
Financial assets				
Government and supranational investments	6,965	-	-	6,965
Other debt investment securities	-	4,522	-	4,522
Total available for sale investment securities	6,965	4,522	-	11,487
Investments in equity shares (note i)	-	-	25	25
Interest rate swaps	-	1,836	-	1,836
Cross currency interest rate swaps	-	425	-	425
Forward foreign exchange	-	135	-	135
Equity index swaps	-	-	592	592
Total derivative financial instruments	-	2,396	592	2,988
Other financial assets (note ii)	-	13	-	13
Total financial assets	6,965	6,931	617	14,513
Financial liabilities				
Interest rate swaps	-	(2,756)	-	(2,756)
Cross currency interest rate swaps	-	(884)	-	(884)
Forward foreign exchange	-	(4)	-	(4)
Swaptions	-	(8)	-	(8)
Index linked swaps	-	(8)	-	(8)
Equity index swaps	-	-	(1)	(1)
Total derivative financial instruments	-	(3,660)	(1)	(3,661)
Other deposits - PEBs (note iii)	-	-	(2,650)	(2,650)
Total financial liabilities	-	(3,660)	(2,651)	(6,311)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

17 Fair value hierarchy of financial assets and liabilities held at fair value (continued)

4 April 2015	Fair values based on			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets				
Government and supranational investments	6,726	-	-	6,726
Other debt investment securities	-	4,299	12	4,311
Total available for sale investment securities	6,726	4,299	12	11,037
Investments in equity shares (note i)	-	-	25	25
Interest rate swaps	-	2,022	-	2,022
Cross currency interest rate swaps	-	328	-	328
Forward foreign exchange	-	76	-	76
Equity index swaps	-	-	911	911
Total derivative financial instruments	-	2,426	911	3,337
Other financial assets (note ii)	-	12	-	12
Total financial assets	6,726	6,737	948	14,411
Financial liabilities				
Interest rate swaps	-	(3,044)	-	(3,044)
Cross currency interest rate swaps	-	(910)	-	(910)
Forward foreign exchange	-	(76)	-	(76)
Swaptions	-	(8)	-	(8)
Index linked swaps	-	(9)	-	(9)
Equity index swaps	-	-	(1)	(1)
Total derivative financial instruments	-	(4,047)	(1)	(4,048)
Other deposits – PEBs (note iii)	-	-	(3,332)	(3,332)
Total financial liabilities	-	(4,047)	(3,333)	(7,380)

Notes:

- Investments in equity shares comprise amounts held at fair value and exclude £1 million of investments in equity shares which are held at cost and which are included in note 19.
- Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made.
- Other deposits comprise PEBs which are held at fair value through the income statement. The remaining other deposits are held at amortised cost and are included in note 19.

The Group's Level 1 portfolio comprises highly rated government securities for which traded prices are readily available.

Asset valuations for Level 2 available for sale investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 available for sale assets are valued from models. Level 2 other financial assets and derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

Further detail on the Level 3 portfolio is provided in note 18.

Transfers between fair value hierarchies

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation. There were no significant transfers between Level 1 and Level 2 portfolios during the period.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

18 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio

The main constituents of the Level 3 portfolio are as follows:

Investments in equity shares

The Level 3 investments in equity shares of £25 million at 30 September 2015 consist primarily of an interest in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of the instrument.

Derivative financial instruments

The Level 3 assets and liabilities in this category are equity linked derivatives with external counterparties and predominantly they economically match the investment return payable by the Group to investors in the PEB product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party.

Other deposits – PEBs

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEBs liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been derived from the valuation of the associated equity linked derivative as valued by an external third party.

The tables below set out movements in the Level 3 portfolio, including transfers in and out of Level 3.

During the period ended 30 September 2015 one investment was transferred from Level 3 to Level 2 due to changes in the availability of observable market prices.

Movements in Level 3 portfolio	Available for sale investment securities £m	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits - PEBs £m
At 5 April 2015	12	25	910	(3,332)
Gains/(losses) recognised in the income statement:				
Net interest income/(expense)	-	-	136	(177)
(Losses)/gains from derivatives and hedge accounting	-	-	(319)	311
Settlements	-	-	(136)	548
Transfers out of Level 3 portfolio	(12)	-	-	-
At 30 September 2015	-	25	591	(2,650)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

18 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

	Available for sale investment securities £m	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits - PEBs £m
At 5 April 2014	71	28	669	(3,222)
(Losses)/gains recognised in the income statement:				
Net interest expense	-	-	(18)	-
Gains/(losses) from derivatives and hedge accounting	-	-	90	(99)
Loss recognised in other comprehensive income - fair value movement taken to members' interests and equity	(2)	-	-	-
Settlements	-	-	18	30
Transfers out of Level 3 portfolio	(12)	-	-	-
At 30 September 2014	57	28	759	(3,291)

Level 3 portfolio sensitivity analysis of valuations using unobservable inputs

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or using 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 (as set out in the table of significant unobservable inputs that follows) and the resultant impact of such changes in fair value on the income statement or members' interests and equity:

At 30 September 2015

	Fair value £m	Members' interests and equity	
		Favourable changes £m	Unfavourable changes £m
Investments in equity shares	25	2	(1)
Net derivative financial instruments (note i)	591	-	-
Other deposits – PEBs (note i)	(2,650)	-	-
Total	(2,034)	2	(1)

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

18 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

At 4 April 2015

	Fair value £m	Members' interests and equity	
		Favourable changes £m	Unfavourable changes £m
Available for sale investment securities:			
Collateralised debt obligations	12	1	(1)
Investments in equity shares	25	2	(1)
Net derivative financial instruments (note i)	910	-	-
Other deposits – PEBs (note i)	(3,332)	-	-
Total	(2,385)	3	(2)

Note:

- i. Changes in fair values of the equity index swaps included in net derivative financial instruments will be largely offset by the change in fair value of the PEBs deposits. Any resultant impact is deemed by the Group to be insignificant so these sensitivities have therefore been excluded from the table above.

The Level 3 portfolio at 30 September 2015 did not include any impaired assets (4 April 2015: £nil). The sensitivity analysis on fair values in the tables above therefore does not impact on the income statement.

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market. For available for sale investment securities, sensitivities on these assets where there are no alternative pricing sources, have been calculated by applying a range of probable scenarios against the Group's current valuation process, resulting in a range of possible prices. Scenarios for investments in equity shares reflect prices seen in these holdings in the preceding 12 months.

The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3 along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

At 30 September 2015	Total assets £m	Total liabilities £m	Valuation technique	Significant unobservable inputs (note iv)	Range		Weighted average (note i)	Units (note ii)
					Min	Max		
Investments in equity shares	25		Mark to market	Price	98.25	113.00	103.50	Points
Net derivative financial Instruments (note iii)	591							
Other deposits – PEBs (note iii)		(2,650)						

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

18 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

At 4 April 2015	Total assets £m	Total liabilities £m	Valuation technique	Significant unobservable inputs (note iv)	Range		Weighted average (note i)	Units (note ii)
					Min	Max		
Available for sale investment securities:								
Collateralised debt obligations	12		Mark to market	Price	66.00	75.00	69.00	Points
Investments in equity shares	25		Mark to market	Price	99.00	114.00	104.00	Points
Net derivative financial Instruments (note iii)	910							
Other deposits – PEBs (note iii)		(3,332)						

Notes:

- Weighted average represents the input values used in calculating the fair values for the above financial instruments.
- 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%.
- Changes in fair values of the equity index swaps included in net derivative financial instruments will be largely offset by the change in fair value of the PEBs deposits. Any resultant impact is deemed by the Group to be insignificant so these sensitivities have therefore been excluded from the table above.
- 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 CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

19 Fair value of financial assets and liabilities measured at amortised cost

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

30 September 2015	Carrying value £m	Fair values based on			Total fair value £m
		Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets					
Loans and advances to banks	3,763	3,763	-	-	3,763
Loans and advances to customers:					
Residential mortgages	156,929	-	-	155,057	155,057
Consumer banking	3,599	-	-	3,447	3,447
Commercial lending	13,503	-	-	13,051	13,051
Other lending	34	-	-	34	34
Investments in equity shares (note i)	1	-	-	1	1
Total	177,829	3,763	-	171,590	175,353
Financial liabilities					
Shares	134,955	-	135,104	-	135,104
Deposits from banks	1,706	-	1,707	-	1,707
Other deposits (note ii)	6,574	-	6,575	-	6,575
Due to customers	6,230	-	-	6,232	6,232
Debt securities in issue	33,365	-	33,768	-	33,768
Subordinated liabilities	1,844	-	2,013	-	2,013
Subscribed capital	409	-	388	-	388
Total	185,083	-	179,555	6,232	185,787
4 April 2015	Carrying value £m	Fair values based on			Total fair value £m
		Level 1 £m	Level 2 £m	Level 3 £m	
Financial assets					
Loans and advances to banks	3,392	3,392	-	-	3,392
Loans and advances to customers:					
Residential mortgages	152,775	-	-	149,778	149,778
Consumer banking	3,575	-	-	3,456	3,456
Commercial lending	14,272	-	-	13,145	13,145
Other lending	25	-	-	25	25
Investments in equity shares (note i)	1	-	-	1	1
Total	174,040	3,392	-	166,405	169,797
Financial liabilities					
Shares	132,373	-	132,505	-	132,505
Deposits from banks	1,974	-	1,976	-	1,976
Other deposits (note ii)	5,744	-	5,745	-	5,745
Due to customers	6,119	-	-	6,122	6,122
Debt securities in issue	28,105	-	28,733	-	28,733
Subordinated liabilities	2,121	-	2,295	-	2,295
Subscribed capital	415	-	387	-	387
Total	176,851	-	171,641	6,122	177,763

Notes:

- i. Investments in equity shares comprise amounts held at cost and exclude £25 million of investments in equity shares which are included in the balance sheet at fair value and which are included in note 17.
- ii. Other deposits exclude PEBs which are held at fair value through the income statement and which are included in note 17.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

19 Fair value of financial assets and liabilities measured at amortised cost (continued)

Loans and advances to customers

The Group estimates the fair value of loans and advances to customers using consistent modelling techniques across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans to reflect a hypothetical exit price valued on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR) which, for example, in the case of the residential BMR mortgage book generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR. For variable rate commercial loans, separate market interest rates are utilised to discount the Group's commercial real estate, registered social landlord and Project Finance lending portfolios.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

Shares, deposits and borrowings

The estimated fair value of shares and deposits with no stated maturity (including non-interest bearing deposits) is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market prices represents the discounted amount of estimated future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalisation. For these fixed rate items, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits. For variable rate deposits, estimated future cash flows are discounted using current market interest rates for new debt with similar remaining maturity.

Debt securities in issue

The estimated fair values of longer-dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

20 Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and which may be settled net. However the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to set off is not unconditional in all circumstances. 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.

In accordance with IFRS 7 Financial Instruments: Disclosures, the following table shows the impact on derivative financial instruments, total return swaps 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.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

20 Offsetting financial assets and financial liabilities (continued)

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 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.

At 30 September 2015	Gross and net amounts reported on the balance sheet £m	Master netting arrangements £m	Financial collateral £m	Net amounts after offsetting under IFRS 7 £m
Financial assets				
Derivative financial instruments	2,988	(1,829)	(1,148)	11
Total return swaps	332	-	(332)	-
Total assets	3,320	(1,829)	(1,480)	11
Financial liabilities				
Derivative financial liabilities	3,661	(1,829)	(1,788)	44
Repurchase agreements	90	-	(90)	-
Total liabilities	3,751	(1,829)	(1,878)	44

At 4 April 2015	Gross and net amounts reported on the balance sheet £m	Master netting arrangements £m	Financial collateral £m	Net amounts after offsetting under IFRS 7 £m
Financial assets				
Derivative financial instruments	3,337	(1,900)	(1,386)	51
Total return swaps	149	-	(149)	-
Total assets	3,486	(1,900)	(1,535)	51
Financial liabilities				
Derivative financial instruments	4,048	(1,900)	(2,129)	19
Total liabilities	4,048	(1,900)	(2,129)	19

The fair value of the financial collateral is the same as the values shown in the table above, except for the total return swaps collateral which has a fair value of £435 million (4 April 2015: £210 million) and the repurchase agreements collateral which has a fair value of £112 million (4 April 2015: £nil).

21 Related party transactions

There have been no significant related party transactions in the period ended 30 September 2015. Loans to key management personnel at 30 September 2015, undertaken on normal commercial terms, were £1.0 million (4 April 2015: £0.9 million).

Full details of the Group's related party transactions for the year to 4 April 2015 can be found in note 40 of the Annual Report and Accounts 2015.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

22 Post balance sheet event

On 2 November 2015, Visa Inc. announced the proposed acquisition of Visa Europe Limited (“VE”) to create a single global payments business under the VISA brand. The Group is a member and shareholder of VE and in exchange for its ordinary share (currently held at cost of €10) will receive upfront consideration in the form of cash (approximately €92 million) and preferred stock (approximately €59 million). The preferred stock is convertible into Class A common stock of Visa Inc, at a future date, subject to conditions. In addition, the Group may receive deferred cash consideration in 2020 which is contingent on certain performance thresholds being met.

On completion of the transaction, the Group expects to recognise a gain in the income statement based on the upfront cash proceeds and a fair value amount in relation to the other consideration. The fair value amount will reflect a number of factors and uncertainties relating to the other consideration. Subject to regulatory approval, completion is currently expected to occur in the first half of the 2016/17 financial year.

RESPONSIBILITY STATEMENT

The directors confirm that, to the best of their knowledge, the consolidated interim financial statements have been prepared in accordance with IAS 34, as adopted by the European Union. The consolidated interim financial statements 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 consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the Annual Report and Accounts 2015.

A full list of the board of directors can be found in the Annual Report and Accounts 2015, with the following updates in respect of changes that have occurred during the period to 30 September 2015:

- David Roberts, who was appointed as Non-Executive Director and Chairman-Elect on 1 September 2014, succeeded Geoffrey Howe as Chairman when he retired from Nationwide after the AGM on 23 July 2015.
- Michael Jary also retired from the Board on 23 July 2015.
- Tim Tookey and Mai Fyfield were both appointed to the Board as non-executive directors on 2 June 2015.

Signed on behalf of the Board by

Mark Rennison
Group Finance Director

19 November 2015

Independent review report to Nationwide Building Society ('the Society')

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Nationwide Building Society's consolidated interim financial statements (the "interim financial statements") in the interim results of Nationwide Building Society for the six month period ended 30 September 2015. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated balance sheet as at 30 September 2015;
- the consolidated income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated cash flow statement for the period then ended;
- the consolidated statement of movements in members' interests and equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim results, including the interim financial statements, 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 Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements 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 complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

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.

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 interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
19 November 2015

Notes:

- a) The maintenance and integrity of the Nationwide Building Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2015 has been extracted from the Annual Report and Accounts 2015. The Annual Report and Accounts 2015 have been filed with the Financial Conduct Authority, the Prudential Regulation Authority and the Registrar of Companies. The Auditors' Report on the Annual Report and Accounts 2015 was unqualified.

Nationwide has adopted the British Bankers' Association Code on Financial Reporting Disclosure ('the BBA code') in its Annual Report and Accounts 2015. The code sets out five disclosure principles together with supporting guidance. Full details of the principles are included in the Annual Reports and Accounts 2015. 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

Definitions used in the Interim Results for the period ended 30 September 2015 are in line with the glossary in the Annual Report and Accounts 2015. In addition, further items relevant to the Interim Results are defined below.

Customer satisfaction measure	Definition
"We have also continued ¹ to deliver better customer satisfaction than our high street peer group" (page 3)	Customer service satisfaction in all instances is measured as the proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings.
"First for customer service satisfaction amongst our high street peer group: lead of 4.1% ² " (page 4)	The high street peer group is defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander). Prior to April 2015, Lloyds Bank and TSB combined as Lloyds TSB Group (including Lloyds Bank, TSB and C&G).
"We have remained ¹ first for customer satisfaction amongst our high street peer group" (page 6)	¹ © GfK 2015 (FRS), Financial Research Survey (FRS), 3 months ending March 2015, September 2015, c15,000 adults interviewed per quarter.
"We were ranked number one for customer satisfaction amongst our high street peer group and our lead over our nearest competitor now stands at 4.1% ² (March 2015: 4.5% ³)." (page 7)	² © GfK 2015 (FRS), Financial Research Survey (FRS), 3 months ending September 2015. ³ © GfK 2015 (FRS), Financial Research Survey (FRS), 3 months ending March 2015.

Nationwide Building Society – Interim Results

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