Interim Results

for the period ended

30 September 2021

Nationwide

Building Society

Contents

Introduction

Unless otherwise stated, the income statement analysis compares the period from 5 April 2021 to 30 September 2021 to the corresponding six months of 2020 and balance sheet analysis compares the position at 30 September 2021 to the position at 4 April 2021.

Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 10. The purpose of the underlying profit 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, risks relating to sustainability and climate change, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. The economic outlook also remains unusually uncertain due to the impacts of the Covid-19 pandemic and the UK's exit from the EU. 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 Nationwide and will contain detailed information about Nationwide and its management as well as financial statements.

Nationwide's mutual model delivers leading service and strong financial performance, enabling continued investment in its membership and wider society

Headlines

- Decisions we made early in the pandemic to protect long-term financial strength and to continue lending enabled us to deliver a very strong half year performance
- Continuing strong demand for mortgages, savings and current accounts
- Total mortgage lending higher on a gross and net basis
- Grew total market share of deposits
- First for customer satisfaction among our peer group for over nine years[1]
- Supported members with prize draw, scam checker service and Helping Hand mortgage
- Committed to achieving net zero by 2050[2] and continued to develop green propositions

Numbers at a glance

Financial highlights

- Underlying profit increased to £850m (H1 2020: £305m) and statutory profit increased to £853m (H1 2020: £361m), benefiting from:
  - Growth in net interest income to £1,706m (H1 2020: £1,448m), with higher margins on mortgages as we continued to lend in the early stages of the pandemic
  - Net release of £34m of credit provisions (H1 2020: charge of £139m) as the economic outlook improved, while retaining provisions to reflect current uncertainty
  - £133m increase in other income, reflecting higher income from banking products and supported by gains from investments
- Net interest margin improved to 1.24% (H1 2020: 1.15%) and is broadly stable against H2 2020; this is expected to moderate in future
- Strong focus on efficiency kept costs flat, even as we invested in, and grew, the business
- Strengthened capital ratios: UK leverage ratio of 5.5% and CET1 ratio of 37.7% (4 April 2021: 5.4% and 36.4%)
- Member financial benefit broadly stable at £145m (H1 2020: £140m), but tracking below our annual target

Trading highlights

- Gross mortgage lending grew by £5.5bn to £18.2bn (H1 2020: £12.7bn); our market share was 11.4% (H1 2020: 12.0%) in a buoyant and highly competitive market
- Lent over £5bn to first time buyers, supported by our new Helping Hand mortgage and return to 95% loan to value lending
- Deposit market share rose to 9.6% (4 April 2021: 9.4%) following strong deposit growth, supported by competitive products such as our Member Exclusive Fixed Rate ISA and Triple Access Online Saver, and growth in current account balances
- Switching incentives helped grow current accounts to 8.7m (4 April 2021: 8.5m), increasing our market share to 10.3% (February 2021: 10.2%)[3]

Joe Garner, Chief Executive, Nationwide Building Society, said:

"Early in the pandemic we made decisions to stand by our members and to protect our financial strength. This year we continued to support our members and have delivered a very strong half year performance, with capital reaching an all-time high. As a mutual, profits are retained to invest in the Society for the benefit of its members and wider society over the long term.

"Over the last six months we have focused on providing highly competitive products for our mortgage and savings members. These have been very popular, resulting in a successful ISA season, increased deposits, higher mortgage lending, and a larger share of the current account market. We continue to focus on providing the high-quality personal and digital service our members expect of us, and have led our peer group on satisfaction for over nine years[1]. We have delivered value to members through our member prize draw, the restarting of our current account switching incentive and the launch of a scam checker service.

"Our success is a testament to the strength of our mutual business model, to the hard work of our colleagues, and to the value we provide to our members. Given the level of uncertainty about the future, the strength of our finances gives us freedom to make choices, and confidence in continuing to support our members, colleagues and communities."

Chris Rhodes, Chief Financial Officer, Nationwide Building Society, said:

"During the last six months, the Society has delivered strong performance across our three main product areas of mortgages, savings and current accounts. During the pandemic, strong demand for mortgages, coupled with macro-economic uncertainty, led to higher margins on mortgage lending. This resulted in significantly higher income, and a very strong overall financial performance. Net interest margin improved, but is unlikely to be sustained at this level in future due to intense competition in the mortgage market.

"We have continued to focus on efficiency and our costs remain flat despite further investment and growth of our business. While the improving economic outlook led us to release some of the credit provisions taken during the pandemic, there still remains significant economic uncertainty. Our balance sheet strength, as evidenced by our very strong CET1 and UK leverage ratios, means we are well positioned for what remains an uncertain period ahead."

[1] ©Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 30 September 2021. For more information, see footnote 7 on page 7.

[2] We recognise that Nationwide alone cannot improve the energy efficiency of UK homes and we are working with Government and industry to achieve this.

[3] CACI's Current account and savings database stock volume (August 2021 and February 2021).

Performance summary

Financial performance	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Total underlying income	**1,894**	1,503
Administrative expenses	**1,025**	1,033
Underlying profit before tax (note i)	**850**	305
Statutory profit before tax	**853**	361

Mortgage Lending	**£bn**	**%**	£bn	%
Group residential – gross/*market share*	**18.2**	***11.4***	12.7	*12.0*
Group residential – net/*market share*	**3.2**	***5.8***	1.6	*5.2*
Average loan to value of new residential lending (by value)		**70**		70

Deposit balances	**£bn**	**%**	£bn	%
Member deposits balance movement/*market share* (note ii)	**7.1**	***13.4***	1.3	*0.9*

Key ratios	**%**	%
Underlying cost income ratio (note iii)	**54.1**	68.7
Statutory cost income ratio (note iii)	**54.0**	66.3
Net interest margin	**1.24**	1.15

Balance sheet	**30 September 2021 £bn**	**%**	4 April 2021 £bn	%
Total assets	**285.4**		254.9	
Loans and advances to customers	**204.7**		201.5	
Mortgage balances/*market share*	**194.3**	***12.4***	191.0	*12.5*
Member deposits/*market share* (note ii)	**177.4**	***9.6***	170.3	*9.4*

Asset quality	**%**	%
Residential mortgages		
Proportion of residential mortgage accounts 3 months+ in arrears	**0.37**	0.43
Average indexed loan to value (by value)	**53**	56
Consumer banking		
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.12**	1.33

Key ratios	**%**	%
Capital		
Common Equity Tier 1 ratio	**37.7**	36.4
UK leverage ratio	**5.5**	5.4
Other balance sheet ratios		
Liquidity coverage ratio (note iv)	**173**	159
Wholesale funding ratio (note v)	**31.7**	26.7

Notes:

i. Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:
   - FSCS costs and refunds arising from institutional failures, which are included within provisions for liabilities and charges.
   - Gains or losses from derivatives and hedge accounting, which are presented separately within total income.

ii. Member deposits include current account credit balances.

iii. The underlying cost income ratio represents management's view of underlying performance. Gains or losses from derivatives and hedge accounting and FSCS costs and refunds from institutional failures are excluded from the statutory cost income ratio to arrive at the underlying cost income ratio.

iv. The liquidity coverage ratio represents a simple average of the ratios reported for the prior 12 month-ends.

v. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations).

Chief Executive's review

Building thriving membership – innovating to meet members' changing financial needs

As a mutual, Nationwide is owned by, and run for, our 16.3 million members. We continue to build a thriving membership by helping our millions of members manage and make more of their money, and at the period end had 3.6 million 'committed' members who have two or more products with us[4], in line with our target.

The housing market was both incredibly buoyant and highly competitive during the last six months, due to pent-up demand and the stamp duty holiday. Our total gross mortgage lending rose strongly, by £5.5 billion, to £18.2 billion (H1 2020: £12.7 billion). Net lending was £3.2 billion (H1 2020: £1.6 billion). Our gross mortgage lending market share was 11.4% (H1 2020: 12.0%) in a larger market. We supported over 30,000 (H1 2020: 21,000) first time buyers, offering high loan to value (LTV) mortgages and introducing our Helping Hand mortgage, to help more people onto the housing ladder. We became the largest mortgage provider to reintroduce 95% LTV lending without government support, and in October we were the first major lender to sign up to Deposit Unlock, a proposition to help buyers with small deposits access higher LTV mortgages on new build homes.

Our buy to let subsidiary, The Mortgage Works, saw strong demand from landlords. We have been designing an online platform to improve rental standards by helping landlords manage their properties better, which we launched as The Landlord Works in October.

Many people accumulated savings during lockdown and Nationwide's deposits grew by £7.1 billion (H1 2020: £1.3 billion) during the half year, lifting our market stock share of deposits to 9.6% (4 April 2021: 9.4%). This growth reflected a very strong ISA season in which we took almost 30% of all ISA account openings among our peer group[5] due to our market-leading Member Exclusive Fixed Rate ISA, and competitive rates on accounts such as the Triple Access Online Saver. Our Start to Save account continues to encourage people to start building a nest egg. As people had less opportunity to spend during lockdown, higher current account balances also contributed to growth in deposits.

Last year, we paused our current account switching incentive so we could focus on supporting our existing members during the pandemic. Since reintroducing a switching incentive in August, we have seen significant growth in new current accounts, with total current accounts reaching 8.7 million. We continue to be a net gainer from the Current Account Switching Service, demonstrating the satisfaction of our existing members and our continued appeal to new joiners[6].

[4] Committed members have at least two products with us including one of: their main personal current account, a mortgage of at least £5,000 or a savings account balance of at least £1,000.

Our members enjoy a range of benefits including automatic entry into our members-only monthly prize draw. For a year from September 2021, members will have a chance of winning a share of a £1 million prize fund each month.

Built to last – financially safe and secure for the long term

The strength of our trading over the last six months, along with decisions we made at the emergence of the pandemic to protect our financial strength, delivered a very strong financial performance for the Society. Underlying profit was higher at £850 million (H1 2020: £305 million) and statutory profit increased to £853 million (H1 2020: £361 million), while our capital and liquidity improved further.

Our profitability improved for several reasons. Net interest income increased significantly, driven by higher volumes in mortgages, deposits, and current accounts, and by mortgages taken out in 2020 with higher margins due to macro-economic uncertainty. Net interest margin improved compared to the same period last year, and is broadly stable compared with H2 2020/21; this is expected to moderate in future. Profitability also benefited from the improving economic outlook, leading to the release of £34 million in credit provisions, and from an increase in other income.

Cost efficiency remains an important area of focus, and our costs remained flat even as we continued to invest in and grow our business.

Member financial benefit – the value we offer members as a member-owned mutual through better incentives and pricing than the market average – remained broadly stable at £145 million for the half year, although tracking below our annual target of £400 million. Over the last five years, we have rewarded members with around £2.9 billion in additional value, demonstrating our commitment to delivering real, long-term financial value to members as a result of our mutuality. In the last six months, we have introduced new benefits for members such as the monthly prize draw.

Capital and liquidity improved, from an already strong base. Our UK leverage ratio improved to 5.5% (4 April 2021: 5.4%) and our Common Equity Tier 1 ratio improved to 37.7% (4 April 2021: 36.4%). The strength of our balance sheet means we are well-positioned for what remains an uncertain period ahead.

[5] Volume of new ISA account openings from CACI's Current Account and Savings Database for the period April 2021 to August 2021. Peer group is defined as members of CACI's Current Account and Savings Database for 2021, comprising over 30 brands.
[6] Pay.UK quarterly CASS data, 3 months to June 2021.

Chief Executive's review (continued)

Building legendary service – when and where members want it

We know that our members value high quality service and care, which is why we are pleased to have remained no. 1 for customer satisfaction among our peer group for over nine years[7]. Our latest customer satisfaction lead of 3.3%pts is significantly above our 2%pt target. We also track our performance in the all-sector UK Customer Satisfaction Index[8]. Our ranking (joint 19th) is below our target of being in the top five but our satisfaction score of 82.4, is 5pts ahead of the all-sector average.

Members value both face-to-face interactions and the convenience of digital technologies and we are investing in both. We have now completed the upgrade of 245 branches over the last four years, introducing new technology, self-service options, and formal and informal meeting spaces. Our Branch Promise means that, while we may need to close a branch occasionally, we will remain in every town or city we are in today, until at least 2023. We are also introducing new ways of working, to make our network sustainable for the future. These include reduced branch opening hours and multi-skilled roles where branch staff can help members over the phone and online as well as in person. We hope this will help branches continue to play a key role in serving our members in the future.

Our digital services continue to grow in popularity. Over 3.9 million current account members use our mobile banking app, up from 3.7 million in April 2021, and we are always working to make it easier and more convenient to use. We have attached clearer names and logos to card transactions so members can see more easily where they've spent their money and we have incorporated Apple Pay into the app. We have enhanced security for digital payments and launched a scam checker service to protect members from fraud and give them peace of mind when making payments. We have introduced instant account opening with digital identification and signature capabilities, which is speeding up account opening and reducing the amount of paperwork our members need to deal with.

Building PRIDE – helping colleagues thrive at work

The future of work looks very different post-pandemic. We have learnt how much can be achieved when people have more choice over where, how, and when they work – and also some of the limitations of remote working. We also need to develop new capabilities to serve our members better, as the take-up of digital technologies accelerates. We are therefore reimagining how we use our workspaces, our working day and the skills we need for the future.

Through our Future of Work programme, we are embracing the flexible working practices that have proved so successful during the pandemic, helping colleagues achieve a better work-life balance. We are widening our recruitment talent pool by moving away from fixed location working for most of our non-branch roles. For colleagues who want or need to work in an office, social distancing measures enable them to do so safely. We are also helping colleagues develop the capabilities we need to serve our members better on-and-offline. We are retraining and redeploying colleagues and introducing multi-skilled roles in branches.

We have put in place mental health and wellbeing support to help our colleagues through the massive change we have seen over the last 18 months. We are pleased that eight out of 10 colleagues say they feel supported at work, and to have received the Mind Workplace Wellbeing Gold Award for the first time.

Inclusion and diversity are key areas of focus. We are challenging ourselves to achieve ambitious measures of gender, ethnicity, disability and LGBTQ+ diversity by 2028. We are embedding inclusion and diversity in everything we do; we have sponsorship and mentoring programmes in place, are supporting colleague-led networks which champion diversity, and are introducing diverse interview panels for recruitment. We are encouraged to see improvements in some areas. However, there is more to do, particularly on gender and ethnic diversity at senior levels. We believe that the policies and practices we are putting in place now will deliver a more inclusive and diverse Society in time, and are actively tracking our progress towards our 2028 measures.

[7] © Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 30 September 2021. Results based on a sample of around 46,000 adults (aged 16+). The survey contacts around 53,000 adults (aged 16+) a year in total across Great Britain. Interviews were face to face, over the phone and online, taking into account (and weighted to) the overall profile of the adult population. The results reflect the percentage of extremely satisfied and very satisfied customers minus the percentage of customers who were extremely or very or fairly dissatisfied across those customers with a main current account, mortgage or savings. Those in our peer group are providers with more than 3.5% of the main current account market as of April 2021 - Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB. Prior to April 2017, those in our peer group were providers with more than 6% of the main current account market – Barclays, Halifax, HSBC, Lloyds Bank (Lloyds TSB prior to April 2015), NatWest and Santander.

[8] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at July 2021.

Chief Executive's review (continued)

Building a national treasure – working for the mutual good of society

The building society movement was founded to help 'everyday people' own a decent home of their own. This aim, to ensure everyone has a place fit to call home, remains important to us, not just in our business activities, but in our broader contribution to society.

We remain committed to giving at least 1% of pre-tax profits to charity annually, which is largely spent on housing initiatives. We are in the fourth year of our Community Boards programme where members decide on local housing projects to receive grants of up to £50,000 each. We have received 375 grant applications for this financial year and will be awarding £4 million to the successful applicants later this year, taking the total grants awarded since the programme was founded to almost £18 million.

A large part of our donation goes to The Nationwide Foundation, an independent charity funded by Nationwide, which campaigns and supports initiatives for systemic changes to increase the availability of decent, affordable homes for people in housing need. An example of this is We Can Make, a community project in Bristol, which has successfully developed a new way to unlock publicly-owned land for the development of genuinely affordable homes.

We have made good progress with the Oakfield development we are funding in Swindon, which aims to create a blueprint for a better way of developing high-quality, sustainable homes. We are targeting an EPC A rating for all 239 homes, the first of which will be ready for occupation in early 2022. The development has recently been awarded the prestigious *Building for a Healthy Life* Housing Design Award.

We have committed to achieving net zero by 2050, recognising the need for Government and industry to work together to achieve this, and have joined the Net Zero Banking Alliance and the Glasgow Financial Alliance for Net Zero. Having already met net zero emissions for our internal operations, we are also mindful of the impact on the environment of housing on which we lend. Housing accounts for around 20% of UK emissions[9], and we are actively supporting the greening of UK homes; we are offering green lending incentives, as well as working on a range of green propositions. For example, in October, we began to trial a retrofit initiative to simplify the installation of solar panels on homes. We have also worked with other industry leaders, including E.on, Federation of Master Builders, Igloo Regeneration, TrustMark, Switchd, Energiesprong UK and the Green Homes Action Group, to set out principles for a national retrofitting strategy.

Beyond home and savings, we stand up for the core values of mutuality, including respect. Our partnerships with the Diana Trust and the FA champion the importance of mutual respect and nurture those values in young people. In addition, our Together Against Hate campaign has focused on protecting frontline workers across all industries from unacceptable behaviour, including campaigning for tougher sentencing guidelines for abuse of frontline colleagues.

Outlook

The UK economy has proved remarkably resilient in the face of the pandemic, thanks in large part to its inherent flexibility and to government support.

Unemployment has trended down in recent months and wages are growing faster than they were before Covid. Combined with record low mortgage rates, this has contributed to a buoyant mortgage market, despite the phased withdrawal of stamp duty relief since June. Pandemic-related shifts in housing preferences have continued to spur people to move home, creating strong demand. Meanwhile, the limited supply of homes coming onto the market has meant house price growth has been robust, with prices rising at an annual rate of 9.9% in October following five months of double-digit increases.

The outlook remains uncertain. It is unclear how the economy will respond to the winding down of government support, and how long it will take for bottlenecks in global supply chains and domestic capacity constraints to ease. If the jobs market weakens post-furlough, it is likely to have a knock-on effect on the housing market, especially as inflation is likely to remain high in the coming quarters, eating into households' disposable income.

If the recovery remains resilient, higher interest rates are likely to exert a moderating influence on the housing market, as well as dampening price pressures across the economy more generally. Households appear well-placed to withstand an increase in interest rates, given the significant proportion of borrowing on fixed rates, and the relatively low number of borrowers who spend a high proportion of their income on debt repayments.

While the outlook remains challenging, and net interest margins are unlikely to be sustained at current levels, the Society continues to demonstrate its resilience. Nationwide's financial strength and strong social purpose mean we can continue to support members, colleagues and communities.

[9] 2020 UK greenhouse gas emissions, provisional figures (publishing.service.gov.uk).

Financial review

The results below are prepared in accordance with International Financial Reporting Standards (IFRSs). Underlying results are shown on page 10, together with a reconciliation to the statutory results.

In summary

Decisions we made early in the pandemic to protect Nationwide's financial strength enabled us to stand by our members and to deliver a very strong half year performance.

Underlying profit for the half year to 30 September 2021 has increased to £850 million (H1 2020/21: £305 million). This reflects income growth, together with a release of credit impairment provisions as the macroeconomic outlook improved.

Total income increased by £391 million, as net interest margin increased to 1.24% (H1 2020/21: 1.15%). Mortgage income was higher as a result of stronger new business margins across the market during 2020, alongside robust levels of lending during the period. H1 2021/22 net interest margin is broadly stable compared with H2 2020/21; this is expected to moderate going forward.

In a continued low interest rate environment, it is challenging to provide member financial benefit at our target level of at least £400 million per annum. Member financial benefit has remained broadly stable at £145 million for the half-year (H1 2020/21: £140 million). However, we have continued to offer competitive products such as our Member Exclusive Fixed Rate ISA and Triple Access Online Saver which, along with growth in current account balances, has led to net deposit growth of £7.1 billion (H1 2020/21: £1.3 billion). Our deposit stock market share has increased to 9.6% (4 April 2021: 9.4%).

An increase in other income to £188 million (H1 2020/21: £55 million) reflects the higher income across banking products and gains from investments, and the prior period loss on the buyback of covered bond funding.

Over the past two financial years, we have recognised an elevated credit impairment charge compared to pre-pandemic levels, reflecting the period of economic uncertainty, although arrears rates have remained low. Recent improvements in the macroeconomic outlook have led to a net credit impairment release of £34 million for the half year to 30 September 2021 (H1 2020/21: charge of £139 million).

Total administrative expenses have remained broadly flat at £1,025 million (H1 2020/21: £1,033 million), despite higher investment and business growth, as we continued to drive efficiencies in business-as-usual costs.

CET1 and UK leverage ratios increased to 37.7% and 5.5% (4 April 2021: 36.4% and 5.4%) respectively, although this includes the impact of a regulatory change in the treatment of intangible assets which the PRA is proposing to reverse. Excluding this benefit, CET1 and UK leverage ratios were 36.9% and 5.3% (4 April 2021: 35.4% and 5.2%) respectively.

Nationwide's financial strength helps us to face the future with confidence, as we continue to support members through a highly uncertain period.

Underlying profit:
£850m
(H1 2020/21: £305m)

Statutory profit:
£853m
(H1 2020/21: £361m)

UK leverage ratio:
5.5%
(4 April 2021: 5.4%)

Income statement

Underlying and statutory results	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Net interest income	**1,706**	1,448
Net other income	**188**	55
Total underlying income	**1,894**	1,503
Administrative expenses	**(1,025)**	(1,033)
Impairment reversals/(losses)	**34**	(139)
Provisions for liabilities and charges	**(53)**	(26)
Underlying profit before tax (note i)	**850**	305
Gains from derivatives and hedge accounting (note ii)	**3**	56
Statutory profit before tax	**853**	361
Taxation	**(168)**	(80)
Profit after tax	**685**	281

Net interest margin:
1.24%
(H1 2020/21: 1.15%)

Underlying cost income ratio (note iii):
54.1%
(H1 2020/21: 68.7%)

Statutory cost income ratio:
54.0%
(H1 2020/21: 66.3%)

Notes:

i. Underlying profit represents management's view of underlying performance. Gains or losses from derivatives and hedge accounting (presented separately within total income) and FSCS costs and refunds from institutional failures (included within provisions for liabilities and charges) are excluded from statutory profit to arrive at underlying profit.

ii. Although we only use derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.

iii. The underlying cost income ratio represents management's view of underlying performance. Gains or losses from derivatives and hedge accounting and FSCS costs and refunds from institutional failures are excluded from the statutory cost income ratio to arrive at the underlying cost income ratio.

Total income and net interest margin (NIM)

Net interest income increased by £258 million to £1,706 million (H1 2020/21: £1,448 million) and net interest margin increased to 1.24% (H1 2020/21: 1.15%). This is primarily driven by strong demand for mortgages coupled with macroeconomic uncertainty during much of 2020, leading to elevated mortgage new business margins. Lending was higher during the past six months, with £14.5 billion of prime mortgage gross lending (H1 2020/21: £9.6 billion) and £3.7 billion of buy to let gross lending (H1 2020/21: £3.1 billion).

Net other income has increased by £133 million to £188 million (H1 2020/21: £55 million), primarily due to higher income across our banking products during the period, gains from investments and the £35 million loss in H1 2020/21 arising from a buyback of covered bond funding.

Member financial benefit

As a building society, we seek to maintain our financial strength whilst providing value to our members through pricing, propositions and service. Through our member financial benefit, we measure the additional financial value for members from the competitive mortgage, savings and banking products that we offer compared to the market average. Member financial benefit is calculated by comparing, in aggregate, Nationwide's average interest rates and incentives to the market, predominantly using market data provided by the Bank of England and CACI, alongside internal calculations. The value for individual members will depend on their circumstances and product choices.

More information on how we calculate member financial benefit can be found in our Annual Report and Accounts 2021. The components of member financial benefit have been updated since the Annual Report and Accounts 2021 to include the recently launched member prize draw, which contributed £1 million to member financial benefit in the period.

For the half year ended 30 September 2021, this measure shows we have provided our members with a financial benefit of £145 million (H1 2020/21: £140 million) which is broadly consistent with the value delivered in H1 2020/21. It remains low compared to historic periods primarily due to continued low interest rates on savings accounts. This period of exceptionally low interest rates means it is unlikely that we will meet our member financial benefit target of £400 million for this financial year.

Administrative expenses

Administrative expenses reduced by £8 million to £1,025 million (H1 2020/21: £1,033 million). The decrease is attributable to a £20 million reduction in business-as-usual costs, despite growth of our business, together with a £33 million decrease in restructuring costs. These have been largely offset by a £21 million net increase in investment spend and depreciation, and a £23 million charge relating to historic fraud cases.

Impairment (reversals)/losses on loans and advances to customers

Impairment (reversals)/losses (note i)	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Residential lending	(44)	53
Consumer banking	18	84
Retail lending	(26)	137
Commercial	(8)	2
Impairment (reversals)/losses on loans and advances	(34)	139

Note:
i. Impairment (reversals)/losses represent the net amount (credited)/charged through the income statement, rather than amounts written off during the period.

The net impairment release in the period of £34 million (H1 2020/21: charge of £139 million) is primarily due to house price growth and improvements in the economic outlook, which are reflected in the economic scenarios and associated weightings used to model expected credit losses. The underlying arrears performance of our portfolios has improved during the period, although this may be temporary, having benefited from government support schemes. More information regarding the critical accounting judgements, and the forward-looking economic information used in impairment calculations, is included in note 8 to the consolidated interim financial statements.

Provisions for liabilities and charges

We hold provisions to cover the costs of remediation and redress in relation to historical quality control procedures, past sales and administration of customer accounts, and other regulatory matters. The customer redress charge of £53 million (H1 2020/21: £26 million) includes a £29 million (H1 2020/21: £15 million) charge relating to historical quality control procedures. More information is included in note 13 to the consolidated interim financial statements.

Taxation

The tax charge for the period of £168 million (H1 2020/21: £80 million) represents an effective tax rate of 19.7% (H1 2020/21: 22.2%) which is higher than the statutory UK corporation tax rate of 19% (H1 2020/21: 19%). The effective tax rate is higher primarily due to the 8% banking surcharge of £38 million (H1 2020/21: £14 million). This is largely offset by adjustments in respect of prior years of £22m (H1 2020/21: £nil), the tax credit on the distribution to the holders of Additional Tier 1 capital instruments of £8 million (H1 2020/21: £9 million), and the reinstatement of deferred tax assets previously written off of £5 million (H1 2020/21: £nil). Further information is provided in note 9 to the consolidated interim financial statements.

In its March 2021 Budget, the UK Government announced that the UK rate of corporation tax will increase from 19% to 25% from 1 April 2023. This legislative change was enacted on 10 June 2021. Closing deferred tax assets and liabilities have therefore been recalculated taking into account this change of rate and the applicable period the deferred tax assets and liabilities are expected to crystalise. The impact of this change on deferred tax balances was an increase in the net deferred tax liability of £6 million, which was recognised in other comprehensive income.

It was further announced in the Budget on 27 October 2021 that the banking surcharge of 8% will decrease to 3% and the surcharge allowance will increase from £25 million to £100 million with effect from 1 April 2023. As this change was not substantively enacted prior to 30 September 2021, the impact has not been reflected in these interim financial statements. Upon enactment, this will require a further remeasurement of deferred tax assets and liabilities which is expected to substantially reverse the £6 million impact recognised above.

Balance sheet

Total assets have increased by 12% to reach £285.4 billion at 30 September 2021 (4 April 2021: £254.9 billion). This growth is predominantly due to higher holdings of cash and liquid assets, driven largely by an increase in short-term funding, an increase in member deposits and the drawdown of funds from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

Mortgage lending has been robust during the period, in part due to the temporary changes to stamp duty, with residential mortgage balances increasing to £194.3 billion (4 April 2021: £191.0 billion). Member deposit balances have increased by £7.1 billion to £177.4 billion (4 April 2021: £170.3 billion) as a result of strong inflows on savings, predominantly driven by competitive products such as the Member Exclusive Fixed Rate ISA and Triple Access Online Saver, and current account balance growth.

Assets				
	30 September 2021		4 April 2021	
	£m	**%**	£m	%
Cash	**46,498**		16,693	
Residential mortgages (note i)	**194,282**	***95***	191,023	*95*
Commercial	**6,556**	***3***	6,972	*3*
Consumer banking	**4,660**	***2***	4,404	*2*
	205,498	***100***	202,399	*100*
Impairment provisions	**(784)**		(852)	
Loans and advances to customers	**204,714**		201,547	
Other financial assets	**31,362**		33,888	
Other non-financial assets	**2,869**		2,786	
Total assets	**285,443**		254,914	

Asset quality	**%**		%	
Residential mortgages (note i):				
Proportion of residential mortgage accounts more than 3 months in arrears	**0.37**		0.43	
Average indexed loan to value (by value)	**53**		56	
Consumer banking:				
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.12**		1.33	

Liquidity coverage ratio (note ii):
173%
(2020/21: 159%)

Notes:
i. Residential mortgages include prime, buy to let and legacy lending.
ii. This represents a simple average of the liquidity coverage ratio reported for the prior 12 month-ends.

Cash

Cash comprises liquidity held by our Treasury function amounting to £46.5 billion (4 April 2021: £16.7 billion). The £29.8 billion increase in cash is driven by higher levels of short-term funding, an increase in member deposits, the drawdown of funds from the Bank of England's TFSME, and increased repurchase agreement balances.

The average Liquidity Coverage Ratio of 173% (4 April 2021: 159%) remains well above regulatory requirements. Liquidity continues to be managed against internal risk appetite, which is more prudent than regulatory requirements. Further details are included in the Liquidity and funding risk section of the Risk report.

Residential mortgages

The lending market was substantially different from the prior period as a result of the changing pandemic restrictions and the effects of the stamp duty holiday that concluded in September 2021. Total gross mortgage lending in the period was higher at £18.2 billion (H1 2020/21: £12.7 billion), although market share of gross advances was slightly lower than the prior period at 11.4% (H1 2020/21: 12.0%). Lending continues to be supported by our focus on first time buyers; earlier this year we re-entered 95% LTV lending and we are also seeing balance growth of our Helping Hand product that supports affordability for first time buyers up to 90% LTV. Prime mortgage balances have increased to £151.6 billion (4 April 2021: £149.8 billion) and buy to let mortgage balances have increased to £42.7 billion (4 April 2021: £41.2 billion).

Arrears performance has improved during the period, with cases more than three months in arrears at 0.37% of the total portfolio (4 April 2021: 0.43%). This improvement is expected to be temporary, with levels likely to have been suppressed by government support measures. An increase in arrears from current levels is expected over the medium term. Impairment provision balances have decreased to £273 million (4 April 2021: £317 million) due to an improvement in the economic outlook reflected in the economic scenarios and changes to weightings used to model expected credit losses.

Commercial lending

During the period, commercial lending balances have decreased to £6.6 billion (4 April 2021: £7.0 billion). Continuing the deleveraging activity in previous financial periods, the overall portfolio remains weighted towards public sector lending. This includes registered social landlords, with balances of £4.6 billion (4 April 2021: £4.8 billion), and project finance balances of £0.6 billion (4 April 2021: £0.7 billion). With a smaller book, and fewer active borrowers requiring further lending, our commercial real estate balances decreased during the year to £0.7 billion (4 April 2021: £0.8 billion).

Impairment provision balances have decreased to £25 million (4 April 2021: £33 million) due to an improvement in the expected outcome of a small number of individual loans.

Consumer banking

Consumer banking balances have increased to £4.7 billion (4 April 2021: £4.4 billion). Consumer banking comprises personal loan balances of £3.0 billion (4 April 2021: £2.8 billion), credit card balances of £1.5 billion (4 April 2021: £1.4 billion) and overdrawn current account balances of £0.2 billion (4 April 2021: £0.2 billion). The increase in balances has been driven by the gradual lifting of pandemic restrictions across the period increasing the market demand for consumer credit.

Provision balances have decreased to £486 million (4 April 2021: £502 million) primarily due to an improved economic outlook, reflected in the economic scenarios and weightings used to model expected credit losses, with underlying performance remaining broadly stable.

Other financial assets

Other financial assets total £31.4 billion (4 April 2021: £33.9 billion) and comprise assets held by our Treasury function amounting to £27.2 billion (4 April 2021: £29.1 billion), derivatives with positive fair values of £4.1 billion (4 April 2021: £3.8 billion) and fair value adjustments and other assets of £0.1 billion (4 April 2021: £1.0 billion). Derivatives largely comprise interest rate and foreign exchange contracts which economically hedge financial risks inherent in core lending and funding activities.

Members' interests, equity and liabilities	30 September 2021 £m	4 April 2021 £m
Member deposits	177,431	170,313
Debt securities in issue	38,031	27,923
Other financial liabilities	53,558	41,009
Other liabilities	1,522	1,556
Total liabilities	270,542	240,801
Members' interests and equity	14,901	14,113
Total members' interests, equity and liabilities	285,443	254,914

Wholesale funding ratio:
31.7%
(4 April 2021: 26.7%)

Member deposits

Member deposit balance growth of £7.1 billion (H1 2020/21: £1.3 billion) to £177.4 billion (4 April 2021: £170.3 billion) represents growth in retail savings balances of £4.2 billion and current account credit balances of £2.9 billion. Balance growth has been supported by competitive products such as the Member Exclusive Fixed Rate ISA and Triple Access Online Saver and forced saving balances built up during the start of the period before pandemic related restrictions were eased. This has contributed to a strengthening of our deposit stock market share to 9.6% (4 April 2021: 9.4%).

Debt securities in issue and other financial liabilities

Debt securities in issue primarily comprise wholesale funding, excluding subordinated debt which is included within other financial liabilities. Balances have increased to £38.0 billion (4 April 2021: £27.9 billion) reflecting an increase in the short-term funding book, with Nationwide's wholesale funding ratio also increasing to 31.7% (4 April 2021: 26.7%) as a result. Other financial liabilities have increased to £53.6 billion (4 April 2021: £41.0 billion) primarily due to a drawdown of funds from the Bank of England's TFSME and increased repurchase agreement balances. Further details are included in the Liquidity and funding risk section of the Risk report.

Members' interests and equity

Members' interests and equity have increased to £14.9 billion (4 April 2021: £14.1 billion) largely as a result of retained profits.

Statement of comprehensive income

Statement of comprehensive income (note i)	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Profit after tax	685	281
Net remeasurement of pension obligations	195	(35)
Net movement in revaluation reserve	-	(5)
Net movement in cash flow hedge reserve	6	(45)
Net movement in other hedging reserve	2	(1)
Net movement in fair value through other comprehensive income reserve	(7)	67
Total comprehensive income	881	262

Note:
i. Movements are shown net of related taxation. Gross movements are set out in the consolidated interim financial statements on page 66.

Capital structure

Nationwide's capital position remains strong, with both the Common Equity Tier 1 (CET1) ratio and UK leverage ratio comfortably above regulatory capital requirements of 12.7% and 3.6% respectively. The CET1 ratio increased to 37.7% (4 April 2021: 36.4%) and the UK leverage ratio increased to 5.5% (4 April 2021: 5.4%). The capital disclosures included in this report are in line with UK Capital Requirements Directive V (UK CRD V) and on an end point basis with IFRS 9 transitional arrangements applied.

Capital structure		
	30 September 2021	4 April 2021
	£m	£m
Capital resources		
Common Equity Tier 1 (CET1) capital	**12,428**	12,007
Total Tier 1 capital	**13,764**	13,343
Total regulatory capital	**16,642**	16,176
Capital requirements		
Risk weighted assets (RWAs)	**32,982**	32,970
UK leverage exposure	**251,197**	248,402
CRR leverage exposure	**297,821**	265,079
UK CRD V capital ratios	**%**	%
CET1 ratio	**37.7**	36.4
UK leverage ratio (note i)	**5.5**	5.4
CRR leverage ratio (note i)	**4.6**	5.0

Note:

i. The UK leverage ratio differs from the Capital Requirements Regulation (CRR) leverage ratio, as it excludes eligible central bank claims per the PRA Rulebook. During the period, eligible central bank reserves increased by £30 billion, thereby reducing the CRR leverage ratio whilst having no impact on the UK leverage ratio.

The CET1 ratio increased to 37.7% (4 April 2021: 36.4%) as a result of an increase in CET1 capital of £0.4 billion with RWAs remaining relatively stable. The CET1 capital increase was driven by £0.6 billion profit after tax, net of distributions, partially offset by a £0.2 billion movement in deductible intangible assets, IFRS 9 transitional arrangements and prudent valuation adjustments. RWAs remained stable with a reduction in retail and commercial RWAs offset by growth in liquid assets.

On 23 December 2020, EU Regulation 2020/2176 came into force, removing the deduction of certain intangible assets from CET1 resources. The PRA indicated in CP5/21 'Implementation of Basel standards' that they found no credible evidence that software assets would absorb losses effectively in a stress. Subsequently, as part of PS17/21, they have confirmed the reversal of this amendment from 1 January 2022. If the revised rules had not been applied, Nationwide's CET1 ratio and UK leverage ratio at 30 September 2021 would have been 36.9% and 5.3% respectively.

Whilst the future economic impact of Covid-19 continues to be unclear, it could lead to some RWA inflation and therefore a lower CET1 ratio in the medium term. The government job retention scheme ended on 30 September 2021; in the coming months we will better understand how individual borrowers have been affected and the resulting impact on risk-based ratios. However, the current capital position and the published stress testing results show that Nationwide is well-capitalised and positioned to meet periods of financial stress.

The UK leverage ratio increased to 5.5% (4 April 2021: 5.4%), with Tier 1 capital increasing by £0.4 billion as a result of the CET1 capital movements referenced above. Partially offsetting the impact of this, there was an increase in UK leverage exposure of £2.8 billion primarily as a result of net retail lending in the period.

The CRR leverage ratio decreased to 4.6% (4 April 2021: 5.0%) due to an increase in central bank reserves. On 8 October 2021, as part of its policy statement PS21/21, the PRA confirmed its intention to simplify the leverage framework by applying a single Leverage Exposure Measure (LEM) for all purposes, from 1 January 2022. This measure would align to the current UK leverage exposure definition, which excludes central bank claims.

Further details of the capital position and future regulatory developments, including the result of policy statements in-force from 1 January 2022 which impact RWAs, are described in the Capital risk section of the Risk report.

Risk report

Contents

Introduction

This report provides information on developments during the period in relation to the risks Nationwide's business is exposed to, and how those risks are managed. This information supports, and should be read in conjunction with, the material found in the Risk report in the Annual Report and Accounts 2021. Where there has been no change to the approach to managing risks, or there has been no material change to the relevant risk environment from that disclosed at year end, this information has not been repeated in the 2021/22 Interim results.

Top and emerging risks

The top and emerging risks are managed through the process outlined in the 'Risk overview' section of the Annual Report and Accounts 2021 and remain broadly unchanged from those reported there. The external environment continues to present the most significant threats to the delivery of the Society's strategy in light of the Covid-19 pandemic, the UK's exit from the European Union and the resultant geopolitical and macroeconomic environment shifts. A description of material developments to the top and emerging risks in the period is provided below:

Risks	Internal or External	Trend
Geopolitical and macroeconomic environment – As a UK-focused building society, Nationwide's performance is naturally aligned to the UK's economic conditions, in particular household income and the corresponding impact on the housing market. Whilst overall economic conditions have improved over the first half of the year, the outlook remains uncertain following the withdrawal of a number of Covid-19 related government support packages, the ongoing economic adjustment from both the Covid-19 pandemic and the UK's exit from the European Union (with consequential supply chain issues across the economy) and forecast inflationary pressures. Nationwide continues to maintain strong capital and liquidity levels and regularly undertakes robust internal and regulatory stress tests to ensure these are sufficient under a range of severe scenarios. We remain ready to support a potential increase in members facing financial difficulty.	External	➔
Competitive environment – Competition in lending markets is intensifying further, fuelled by the growth in volumes of customer deposits and increasing consumer confidence. This competition is expected to feed through into mortgage margins, impacting profitability. We have also seen increasing activity from new entrants, competing primarily via digital channels, driven by shifting customer behaviours and continued innovation.	External	➚
Financial crime / cyber security – The threat to our members from financial crime, and in particular Authorised Push Payment (APP) scams remains heightened. We continue to develop our internal processes, systems, and structures to protect our members from these threats. We are also evolving our approach to helping members protect themselves from APP scams, and refunding victims.	Internal	➔

The following internal and external risks, which were highlighted in the Annual Report and Accounts 2021, have not materially changed:

- Regulatory change
- Climate change
- Libor transition
- Resilience
- People risk
- Third parties
- Data
- Model risk

Key (change in level of risk to Nationwide in year)

➚ Increased level of risk ➔ Stable level of risk ➘ Decreased level of risk

Principal risks and uncertainties

The Society operates an Enterprise Risk Management Framework (ERMF), which ensures Nationwide remains safe and secure for our members. The principal risk categories set out below have been defined to ensure the Society understands and manages its risks in a comprehensive and consistent way.

The principal risk categories remain unchanged from those set out in the Risk report in the Annual Report and Accounts 2021. During the first half of this year, the previous Solvency risk category has been renamed Capital risk, to align with wider financial services sector terminology. The principal risks are as follows:

- Credit risk
- Liquidity and funding risk
- Capital risk
- Market risk
- Pension risk
- Model risk
- Business risk
- Operational and conduct risk

Information on key developments in relation to the principal risks above is included within this report, except for business risk where there have been no significant developments which have altered the Society's outlook or approach during the period.

Credit risk – Overview

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk encompasses borrower/counterparty risk, security/collateral risk, concentration risk and refinance risk.

Nationwide manages credit risk for the following portfolios:

Portfolio	Definition
Residential mortgages	Loans secured on residential property
Consumer banking	Unsecured lending comprising current account overdrafts, personal loans and credit cards
Commercial and other lending	Loans to registered social landlords, project finance loans made under the Private Finance Initiative, commercial real estate lending and other balances due from counterparties not covered by other categories
Treasury	Treasury liquidity, derivatives and discretionary investment portfolios

Further detail on how Nationwide manages credit risk and what credit risk encompasses is included within the Annual Report and Accounts 2021. Information on the calculation of impairment provisions based on expected credit losses (ECLs) is also included in the Annual Report and Accounts 2021.

Performance overview

Following staged easing of national lockdown restrictions from March 2021, the UK economy has seen a period of recovery as social distancing controls relaxed, and businesses reopened.

A number of schemes available to support borrowers facing financial difficulty during the pandemic, including payment deferrals and furlough, have now come to an end. Residential mortgage and consumer banking payment deferrals, offered to affected borrowers to temporarily suspend their contractual payments in accordance with regulatory guidance, were closed to new applications in March 2021, with all payment deferrals ending in July 2021. At 30 September 2021 there were therefore no outstanding balances subject to a payment deferral (4 April 2021: £1,385 million), with 94% of borrowers with expired payment deferrals having resumed full payments. The 6% who have entered arrears or alternative forbearance arrangements include some borrowers who were in financial difficulty prior to the pandemic.

Help and support for members who remain impacted in these challenging times continue to be offered, with concessions granted based on consideration of their individual circumstance.

Observed credit quality and performance have remained broadly stable over the period, with residential mortgage and consumer banking arrears remaining at a relatively low level. It remains our judgement that arrears performance has benefited from the government measures, combined with the low bank base rate environment and reduced discretionary spending. It is expected that arrears levels will rise given the end of the furlough scheme and recent increases in consumer spending, with these anticipated arrears reflected in provisions at the period end.

The housing market has seen strong activity over the last 12 months supported by the stamp duty holiday, with the Nationwide House Price Index recording a 10% increase in house prices. Nationwide has continued to support borrowers looking to take out a mortgage throughout the period, with greater availability of products at higher loan to value. These products have been designed to support first time buyers, while taking careful consideration of risk.

Credit risk – Overview (continued)

Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk has increased to £296 billion (4 April 2021: £265 billion), principally reflecting higher cash balances.

Credit risk largely arises from loans and advances to customers, which account for 74% (4 April 2021: 81%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 95% (4 April 2021: 94%) of total loans and advances to customers and comprise high quality assets with historically low occurrences of arrears and possessions.

In addition to loans and advances to customers, Nationwide is exposed to credit risk on all other financial assets. For all financial assets recognised on the balance sheet, the maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment, plus off-balance sheet commitments. For off-balance sheet commitments, the maximum exposure is the maximum amount that Nationwide would have to pay if the commitments were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

Maximum exposure to credit risk						
30 September 2021	**Gross balances**	**Impairment provisions**	**Carrying value**	**Commitments (note i)**	**Maximum credit risk exposure**	**% of total credit risk exposure**
	£m	**£m**	**£m**	**£m**	**£m**	**%**
Amortised cost loans and advances to customers:						
Residential mortgages	**194,218**	**(273)**	**193,945**	**11,982**	**205,927**	**70**
Consumer banking	**4,660**	**(486)**	**4,174**	**38**	**4,212**	**2**
Commercial and other lending	**5,911**	**(25)**	**5,886**	**1,213**	**7,099**	**2**
Fair value adjustment for micro hedged risk (note ii)	**593**	**-**	**593**	**-**	**593**	**-**
	205,382	**(784)**	**204,598**	**13,233**	**217,831**	**74**
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	**64**	**-**	**64**	**-**	**64**	**-**
Commercial	**52**	**-**	**52**	**-**	**52**	**-**
	116	**-**	**116**	**-**	**116**	**-**
Other items:						
Cash	**46,498**	**-**	**46,498**	**-**	**46,498**	**16**
Loans and advances to banks and similar institutions	**3,275**	**-**	**3,275**	**-**	**3,275**	**1**
Investment securities – FVOCI	**22,933**	**-**	**22,933**	**-**	**22,933**	**8**
Investment securities – Amortised cost	**913**	**-**	**913**	**-**	**913**	**-**
Investment securities – FVTPL	**37**	**-**	**37**	**1**	**38**	**-**
Derivative financial instruments	**4,111**	**-**	**4,111**	**-**	**4,111**	**1**
Fair value adjustment for portfolio hedged risk (note ii)	**93**	**-**	**93**	**-**	**93**	**-**
	77,860	**-**	**77,860**	**1**	**77,861**	**26**
Total	**283,358**	**(784)**	**282,574**	**13,234**	**295,808**	**100**

Credit risk – Overview (continued)

Maximum exposure to credit risk 4 April 2021	Gross balances £m	Impairment provisions £m	Carrying value £m	Commitments (note i) £m	Maximum credit risk exposure £m	% of total credit risk exposure %
Amortised cost loans and advances to customers:						
Residential mortgages	190,955	(317)	190,638	12,039	202,677	76
Consumer banking	4,404	(502)	3,902	43	3,945	2
Commercial and other lending	6,267	(33)	6,234	1,176	7,410	3
Fair value adjustment for micro hedged risk (note ii)	653	-	653	-	653	-
	202,279	(852)	201,427	13,258	214,685	81
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	68	-	68	-	68	-
Commercial	52	-	52	-	52	-
	120	-	120	-	120	-
Other items:						
Cash	16,693	-	16,693	-	16,693	6
Loans and advances to banks and similar institutions	3,660	-	3,660	-	3,660	1
Investment securities – FVOCI	24,218	-	24,218	-	24,218	9
Investment securities – Amortised cost	1,243	-	1,243	-	1,243	1
Investment securities – FVTPL	12	-	12	1	13	-
Derivative financial instruments	3,809	-	3,809	-	3,809	2
Fair value adjustment for portfolio hedged risk (note ii)	946	-	946	-	946	-
	50,581	-	50,581	1	50,582	19
Total	252,980	(852)	252,128	13,259	265,387	100

Notes:

i. In addition to the amounts shown above, Nationwide has revocable commitments of £10,563 million (4 April 2021: £10,624 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by Nationwide, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

ii. The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (which relates to the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to credit risk through the relationship with the underlying loans covered by Nationwide's hedging programmes.

iii. FVTPL residential mortgages include equity release and shared equity loans.

Commitments

Irrevocable undrawn commitments to lend are within the scope of provision requirements. The commitments in the table above consist of overpayment reserves and separately identifiable irrevocable commitments for the pipeline of residential mortgages, personal loans, commercial loans and investment securities. These commitments are not recognised on the balance sheet; the associated provision of £0.4 million (4 April 2021: £0.5 million) is included within provisions for liabilities and charges.

Revocable commitments relating to overdrafts and credit cards are included in the calculation of impairment provisions, with the allowance for future drawdowns included in the estimate of the exposure at default.

Credit risk – Residential mortgages

Summary

Nationwide's residential mortgages comprise prime, buy to let and legacy loans. Prime residential mortgages are mainly Nationwide branded advances made through the branch network and intermediary channels. Buy to let mortgages are now only originated under The Mortgage Works (UK) plc (TMW) brand. Legacy mortgages are smaller portfolios in run-off.

As highlighted in the Credit risk overview section of this report the Covid-19 pandemic has had a significant impact on the residential mortgage market and, whilst house prices have increased and the economic outlook has improved, the impact of Covid-19 on future credit performance remains uncertain.

To date arrears remain low and credit quality continues to be strong; however, the performance over the period has been supported by government intervention, payment deferrals and the low bank base rate environment.

Residential mortgage gross balances				
	30 September 2021		4 April 2021	
	£m	**%**	£m	%
Prime	**151,560**	**78**	149,706	78
Buy to let and legacy:				
Buy to let (note i)	**40,856**	**21**	39,312	21
Legacy (note ii)	**1,802**	**1**	1,937	1
	42,658	**22**	41,249	22
Amortised cost loans and advances to customers	**194,218**	**100**	190,955	100
FVTPL loans and advances to customers	**64**		68	
Total residential mortgages	**194,282**		191,023	

Notes:
i. Buy to let mortgages include £39,664 million (4 April 2021: £37,983 million) originated under the TMW brand.
ii. Legacy includes self-certified, near prime and sub-prime lending, all of which were discontinued in 2009.

Total balances across the residential mortgage portfolios have grown by 2% during the period to £194 billion (4 April 2021: £191 billion), in particular within the buy to let portfolio which saw 4% growth during the period.

Credit risk – Residential mortgages (continued)

Impairment (reversals)/losses and write-offs for the period		
	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Prime	**(19)**	23
Buy to let and legacy	**(25)**	30
Total impairment (reversals)/losses	**(44)**	53
	%	%
Impairment (reversals)/losses as a % of average gross balance	**(0.02)**	0.03
	£m	£m
Gross write-offs	**2**	4

Impairment reversals for the period include the impact of updating macroeconomic assumptions and scenario weightings to reflect the improvement in economic outlook since 4 April 2021; further details are included in note 8 to the consolidated interim financial statements. Closing provisions have reduced to £273 million (4 April 2021: £317 million). The prior period impairment losses reflected an increase in provisions during a period of significant economic uncertainty.

The following table shows residential mortgage lending balances carried at amortised cost, the stage allocation of the loans, impairment provisions and the resulting provision coverage ratios. Details of stages and the approach to the allocation of loans to stages are included in the Annual Report and Accounts 2021.

Residential mortgages staging analysis 30 September 2021	**Stage 1**	**Stage 2 total**	**Stage 2 Up to date (note i)**	**Stage 2 1 – 30 DPD (note i)**	**Stage 2 >30 DPD (note i)**	**Stage 3**	**POCI (note ii)**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross balances								
Prime	**146,797**	**3,873**	**3,185**	**499**	**189**	**890**	**-**	**151,560**
Buy to let and legacy	**37,071**	**4,991**	**4,681**	**194**	**116**	**456**	**140**	**42,658**
Total	**183,868**	**8,864**	**7,866**	**693**	**305**	**1,346**	**140**	**194,218**
Provisions								
Prime	**14**	**26**	**21**	**3**	**2**	**34**	**-**	**74**
Buy to let and legacy	**45**	**115**	**100**	**8**	**7**	**39**	**-**	**199**
Total	**59**	**141**	**121**	**11**	**9**	**73**	**-**	**273**
Provisions as a % of total balance	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Prime	**0.01**	**0.68**	**0.67**	**0.54**	**1.16**	**3.84**	**-**	**0.05**
Buy to let and legacy	**0.12**	**2.31**	**2.15**	**3.94**	**6.06**	**8.46**	**-**	**0.47**
Total	**0.03**	**1.59**	**1.55**	**1.49**	**3.02**	**5.40**	**-**	**0.14**

Credit risk – Residential mortgages (continued)

Residential mortgages staging analysis								
4 April 2021	Stage 1	Stage 2 total	Stage 2 Up to date (note i)	Stage 2 1 – 30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	POCI (note ii)	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Gross balances								
Prime	143,500	5,313	4,606	505	202	893	-	149,706
Buy to let and legacy	35,247	5,346	5,009	201	136	508	148	41,249
Total	178,747	10,659	9,615	706	338	1,401	148	190,955
Provisions								
Prime	17	39	33	3	3	37	-	93
Buy to let and legacy	49	137	118	9	10	38	-	224
Total	66	176	151	12	13	75	-	317
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Prime	0.01	0.74	0.73	0.59	1.39	4.10	-	0.06
Buy to let and legacy	0.14	2.58	2.38	4.28	7.18	7.46	-	0.54
Total	0.04	1.66	1.59	1.64	3.72	5.32	-	0.17

Notes:

i. Days past due (DPD) is a measure of arrears status.

ii. Purchased or originated credit impaired (POCI) loans are those which were credit impaired on purchase or acquisition. The POCI loans shown in the table above were recognised on the balance sheet when the Derbyshire Building Society was acquired in December 2008. These balances, which are mainly interest only, were 90 days or more in arrears when they were acquired and so have been classified as credit impaired on acquisition. The gross balance for POCI is shown net of the lifetime ECL of £5 million (4 April 2021: £5 million).

At 30 September 2021, 95% (4 April 2021: 94%) of the residential mortgage portfolio is in stage 1, reflecting the portfolio's underlying strong credit quality. During the period there has been a decrease in stage 2 balances to £8,864 million (4 April 2021: £10,659 million). This reduction is largely the result of updating macroeconomic assumptions and scenario weightings to reflect the improvement in economic outlook since 4 April 2021. This improvement, combined with the house price growth experienced during the period, has reduced residential mortgage provisions to £273 million (4 April 2021: £317 million). Further information regarding economic scenarios and associated weightings is provided in note 8 to the consolidated interim financial statements.

Stage 3 loans in the residential mortgage portfolio equate to 0.7% (4 April 2021: 0.7%) of the total residential mortgage exposure. Of the total £1,346 million (4 April 2021: £1,401 million) stage 3 loans, £604 million (4 April 2021: £690 million) is in respect of loans which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeliness to pay such as forbearance or the bankruptcy of the borrower.

For loans subject to forbearance, accounts are transferred from stage 3 to stages 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months; £398 million (4 April 2021: £242 million) of the stage 3 balances in forbearance are in this probation period.

Credit risk – Residential mortgages (continued)

The table below summarises the movements, including between stages, of residential mortgages held at amortised cost. The movements within the table are an aggregation of monthly movements over the period.

Reconciliation of movements in gross residential mortgage balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2021	178,747	66	10,659	176	1,549	75	190,955	317
Stage transfers:								
Transfers from Stage 1 to Stage 2	**(5,637)**	**(6)**	**5,637**	**6**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(131)**	**-**	**(333)**	**(8)**	**464**	**8**	**-**	**-**
Transfers from Stage 2 to Stage 1	**6,598**	**41**	**(6,598)**	**(41)**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**115**	**1**	**210**	**9**	**(325)**	**(10)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(32)**		**30**		**2**		**-**
Net movement arising from transfer of stage	**945**	**4**	**(1,084)**	**(4)**	**139**	**-**	**-**	**-**
New assets originated or purchased	**17,805**	**3**	**-**	**-**	**-**	**-**	**17,805**	**3**
Net impact of further lending and repayments	**(3,490)**	**(1)**	**(128)**	**(1)**	**(26)**	**-**	**(3,644)**	**(2)**
Changes in risk parameters in relation to credit quality	**-**	**(10)**	**-**	**(24)**	**-**	**7**	**-**	**(27)**
Other items impacting income statement charge/(reversal) (including recoveries)	**-**	**-**	**-**	**-**	**1**	**(2)**	**1**	**(2)**
Redemptions	**(10,139)**	**(3)**	**(583)**	**(6)**	**(170)**	**(7)**	**(10,892)**	**(16)**
Income statement reversal for the period								**(44)**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(7)**	**(2)**	**(7)**	**(2)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
30 September 2021	**183,868**	**59**	**8,864**	**141**	**1,486**	**73**	**194,218**	**273**
Net carrying amount		**183,809**		**8,723**		**1,413**		**193,945**

Note:

i. Gross balances of credit impaired loans include £140 million (4 April 2021: £148 million) of POCI loans, which are presented net of lifetime ECL impairment provisions of £5 million (4 April 2021: £5 million).

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 10 to the consolidated interim financial statements.

Credit risk – Residential mortgages (continued)

Reason for residential mortgages being included in stage 2 (note i) **30 September 2021**	**Prime**		**Buy to let and legacy**		**Total**	
	Gross balances	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Quantitative criteria:						
Payment status (greater than 30 DPD)	**189**	**2**	**116**	**7**	**305**	**9**
Increase in PD since origination (less than 30 DPD)	**3,502**	**24**	**3,134**	**68**	**6,636**	**92**
Qualitative criteria:						
Forbearance and other concessions (less than 30 DPD)	**137**	**-**	**4**	**-**	**141**	**-**
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**-**	**-**	**1,728**	**40**	**1,728**	**40**
Other qualitative criteria	**45**	**-**	**9**	**-**	**54**	**-**
Total Stage 2 gross balances	**3,873**	**26**	**4,991**	**115**	**8,864**	**141**

Reason for residential mortgages being included in stage 2 (note i) 4 April 2021	Prime		Buy to let and legacy		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m
Quantitative criteria:						
Payment status (greater than 30 DPD)	202	3	136	10	338	13
Increase in PD since origination (less than 30 DPD)	5,067	36	3,288	70	8,355	106
Qualitative criteria:						
Forbearance and other concessions (less than 30 DPD)	6	-	3	-	9	-
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	1,914	57	1,914	57
Other qualitative criteria	38	-	5	-	43	-
Total Stage 2 gross balances	5,313	39	5,346	137	10,659	176

Note:

i. Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.

Loans which are reported within stage 2 are those which have experienced a significant increase in credit risk since origination. The Annual Report and Accounts 2021 sets out the main criteria used to determine whether a significant increase in credit risk has occurred since origination. There have been no changes to the criteria during the period.

The value of loans reported within stage 2 as a result of being in arrears by 30 days or more has reduced to £305 million (4 April 2021: £338 million). Management has judged this to be a temporary position due to the availability of government support schemes and an adjustment to provisions has been made to recognise the underlying risk.

Stage 2 loans include all loans greater than 30 days past due (DPD), including those where the original reason for being classified as stage 2 was other than arrears over 30 DPD. The total value of loans in stage 2 due solely to payment status is <0.1% (4 April 2021: <0.1%) of total stage 2 balances.

The significant stage 2 movements during the period are detailed beneath the residential mortgages staging analysis table on page 23.

Credit risk – Residential mortgages (continued)

Credit quality

The residential mortgages portfolio comprises many small loans which are broadly homogenous, have low volatility of credit risk outcomes and are geographically diversified. The table below shows the loan balances and provisions for residential mortgages held at amortised cost, by probability of default (PD) range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

Loan balance and provisions by PD (note i)									
30 September 2021	**Gross balances**				**Provisions**				
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**	**Provision coverage**
PD range	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
0.00 to < 0.15%	**163,935**	**2,118**	**43**	**166,096**	**31**	**20**	**-**	**51**	**0.03**
0.15 to < 0.25%	**9,796**	**904**	**84**	**10,784**	**7**	**10**	**-**	**17**	**0.16**
0.25 to < 0.50%	**6,174**	**980**	**38**	**7,192**	**7**	**13**	**-**	**20**	**0.27**
0.50 to < 0.75%	**1,938**	**553**	**36**	**2,527**	**3**	**8**	**-**	**11**	**0.41**
0.75 to < 2.50%	**1,844**	**957**	**70**	**2,871**	**6**	**17**	**-**	**23**	**0.79**
2.50 to < 10.00%	**112**	**729**	**101**	**942**	**1**	**13**	**1**	**15**	**1.61**
10.00 to < 100%	**69**	**2,623**	**238**	**2,930**	**4**	**60**	**6**	**70**	**2.39**
100% (default)	**-**	**-**	**876**	**876**	**-**	**-**	**66**	**66**	**7.58**
Total	**183,868**	**8,864**	**1,486**	**194,218**	**59**	**141**	**73**	**273**	**0.14**

Loan balance and provisions by PD (note i)									
4 April 2021	Gross balances				Provisions				
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	Provision coverage
PD range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to < 0.15%	156,099	2,573	52	158,724	34	28	-	62	0.04
0.15 to < 0.25%	10,402	1,369	44	11,815	7	13	-	20	0.17
0.25 to < 0.50%	7,334	1,298	29	8,661	9	19	-	28	0.31
0.50 to < 0.75%	2,326	636	22	2,984	3	10	-	13	0.44
0.75 to < 2.50%	2,442	1,085	60	3,587	10	19	-	29	0.82
2.50 to < 10.00%	143	823	70	1,036	3	16	-	19	1.81
10.00 to < 100%	1	2,875	324	3,200	-	71	8	79	2.48
100% (default)	-	-	948	948	-	-	67	67	7.07
Total	178,747	10,659	1,549	190,955	66	176	75	317	0.17

Note:

i. Includes POCI loans of £140 million (4 April 2021: £148 million).

At 30 September 2021, 98% (4 April 2021: 97%) of the portfolio had a PD of less than 2.5%, reflecting the high quality of the residential mortgage portfolios. The provisions allocated to the lowest PD range primarily reflect the fact that the majority of loans are in this range. The reduction in the stage 2 balances within the 0.00% to 0.50% bands is primarily the result of the improvement in economic outlook, where up to date accounts no longer breach the quantitative stage 2 criteria.

Credit risk – Residential mortgages (continued)

Distribution of new business by borrower type (by value)

Distribution of new business by borrower type (by value) (note i)	Half year to 30 September 2021 %	Half year to 30 September 2020 %
Prime:		
First time buyers	**29**	27
Home movers	**34**	21
Remortgages	**15**	27
Other	**1**	1
Total prime	**79**	76
Buy to let:		
Buy to let new purchases	**10**	6
Buy to let remortgages	**11**	18
Total buy to let	**21**	24
Total new business	**100**	100

Note:
i. All new business measures exclude further advances and product switches.

The proportion of lending by borrower type during the half year to September 2020 was impacted by the pandemic, with the house purchase market virtually closed during the initial lockdown. Since then, demand for mortgages has been boosted by the stamp duty holiday, and the proportion of prime home movers and first time buyers increased to 63% (30 September 2020: 48%). The proportion of new purchases within the buy to let portfolio has also increased.

Credit risk – Residential mortgages (continued)

LTV and credit risk concentration

Loan to value (LTV) is calculated by weighting the borrower level LTV by the individual loan balance to arrive at an average LTV. This approach is considered to reflect most appropriately the exposure at risk.

LTV distribution of new business (by value) (note i)		
	Half year to 30 September 2021	Half year to 30 September 2020
	%	%
0% to 60%	**26**	27
60% to 75%	**35**	36
75% to 80%	**12**	6
80% to 85%	**15**	13
85% to 90%	**11**	15
90% to 95%	**1**	3
Over 95%	**-**	-
Total	**100**	100

Average LTV of new business (by value) (note i)		
	Half year to 30 September 2021	Half year to 30 September 2020
	%	%
Prime	**71**	71
Buy to let	**67**	66
Group	**70**	70

Average LTV of loan stock (by value) (note ii)		
	30 September 2021	4 April 2021
	%	%
Prime	**53**	55
Buy to let and legacy	**56**	57
Group	**53**	56

Notes:
i. The LTV of new business excludes further advances and product switches.
ii. The average LTV of loan stock includes both amortised cost and FVTPL balances. There have been no new FVTPL advances during the period.

Nationwide withdrew from 95% LTV lending in the wake of the pandemic whilst tighter controls were also employed at 85% to 90% LTV due to uncertainty regarding the immediate economic outlook, particularly house prices and levels of unemployment. This reduced the proportion of lending at 85% LTV and above to 12% (30 September 2020: 18%). However, the average has remained stable due to a higher concentration of lending at 75% to 85% LTV which increased to 27% (30 September 2020: 19%).

The housing market has been strong over the period with the Nationwide House Price Index showing a 10% increase in house prices year on year supported by the stamp duty holiday. Although this holiday has now ended demand continues to exceed supply, driving up prices and causing the Group average LTV to reduce to 53% (4 April 2021: 56%). To support first time buyers Nationwide re-entered the 95% LTV purchase market in May 2021, supported by controls to help mitigate the uncertainty regarding future credit performance.

Credit risk – Residential mortgages (continued)

Residential mortgage balances by LTV and region

Geographical concentration by stage

The following table shows residential mortgages, excluding FVTPL balances, by LTV and region across stages 1 and 2 (non-credit impaired) and stage 3 (credit impaired).

Residential mortgage gross balances by LTV and region 30 September 2021	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	Provision coverage
	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	**26,110**	**14,032**	**10,592**	**9,520**	**7,582**	**4,142**	**2,400**	**1,130**	**75,508**	**0.05**
50% to 60%	**11,315**	**7,057**	**6,123**	**4,434**	**3,766**	**2,313**	**1,365**	**443**	**36,816**	**0.10**
60% to 70%	**11,978**	**7,363**	**6,654**	**4,671**	**3,868**	**2,614**	**1,371**	**483**	**39,002**	**0.12**
70% to 80%	**12,238**	**6,305**	**5,438**	**4,340**	**3,142**	**2,065**	**853**	**442**	**34,823**	**0.13**
80% to 90%	**2,267**	**1,195**	**1,125**	**584**	**419**	**305**	**148**	**128**	**6,171**	**0.24**
90% to 100%	**68**	**48**	**73**	**25**	**21**	**36**	**10**	**37**	**318**	**2.23**
	63,976	**36,000**	**30,005**	**23,574**	**18,798**	**11,475**	**6,147**	**2,663**	**192,638**	**0.10**
Not fully collateralised										
Over 100% LTV	**7**	**3**	**14**	**2**	**1**	**15**	**-**	**52**	**94**	**13.66**
Collateral value	**6**	**3**	**12**	**2**	**1**	**14**	**-**	**47**	**85**	
Negative equity	**1**	**-**	**2**	**-**	**-**	**1**	**-**	**5**	**9**	
Total stage 1 and 2 loans	**63,983**	**36,003**	**30,019**	**23,576**	**18,799**	**11,490**	**6,147**	**2,715**	**192,732**	**0.10**
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	**277**	**111**	**91**	**79**	**56**	**28**	**19**	**14**	**675**	**1.65**
50% to 60%	**103**	**58**	**50**	**32**	**33**	**18**	**10**	**6**	**310**	**3.22**
60% to 70%	**61**	**54**	**58**	**24**	**22**	**18**	**14**	**7**	**258**	**5.60**
70% to 80%	**48**	**26**	**39**	**16**	**12**	**12**	**5**	**3**	**161**	**8.32**
80% to 90%	**14**	**5**	**15**	**5**	**-**	**5**	**-**	**4**	**48**	**19.59**
90% to 100%	**1**	**-**	**7**	**-**	**-**	**2**	**-**	**4**	**14**	**32.93**
	504	**254**	**260**	**156**	**123**	**83**	**48**	**38**	**1,466**	**4.33**
Not fully collateralised										
Over 100% LTV	**1**	**-**	**4**	**1**	**1**	**1**	**-**	**12**	**20**	**54.13**
Collateral value	**1**	**-**	**3**	**1**	**1**	**1**	**-**	**10**	**17**	
Negative equity	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**2**	**3**	
Total stage 3 and POCI loans	**505**	**254**	**264**	**157**	**124**	**84**	**48**	**50**	**1,486**	**4.87**
Total residential mortgages	**64,488**	**36,257**	**30,283**	**23,733**	**18,923**	**11,574**	**6,195**	**2,765**	**194,218**	**0.14**
Total geographical concentrations	**33%**	**19%**	**16%**	**12%**	**10%**	**6%**	**3%**	**1%**	**100%**	

Credit risk – Residential mortgages (continued)

Residential mortgage gross balances by LTV and region										
4 April 2021	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	Provision coverage
	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	24,487	12,484	9,340	8,930	6,454	3,526	1,944	995	68,160	0.06
50% to 60%	10,968	6,432	5,630	4,137	3,263	2,103	1,245	391	34,169	0.10
60% to 70%	11,326	7,119	6,351	4,653	3,653	2,427	1,311	446	37,286	0.13
70% to 80%	9,537	6,147	5,826	4,262	3,276	2,354	1,109	469	32,980	0.18
80% to 90%	6,129	2,828	1,914	2,132	1,741	974	359	237	16,314	0.20
90% to 100%	118	53	50	14	33	32	3	49	352	2.82
	62,565	35,063	29,111	24,128	18,420	11,416	5,971	2,587	189,261	0.12
Not fully collateralised										
Over 100% LTV	8	4	28	1	2	18	1	83	145	15.07
Collateral value	7	3	25	1	2	16	1	73	128	
Negative equity	1	1	3	-	-	2	-	10	17	
Total stage 1 and 2 loans	62,573	35,067	29,139	24,129	18,422	11,434	5,972	2,670	189,406	0.13
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	264	100	86	77	44	24	16	13	624	1.72
50% to 60%	110	60	51	31	31	16	9	5	313	2.90
60% to 70%	67	61	58	28	30	17	12	6	279	4.60
70% to 80%	36	37	51	22	14	15	9	6	190	8.15
80% to 90%	32	11	25	10	7	8	3	5	101	12.49
90% to 100%	2	1	10	-	-	2	-	3	18	26.42
	511	270	281	168	126	82	49	38	1,525	4.31
Not fully collateralised										
Over 100% LTV	1	1	5	1	-	2	-	14	24	41.07
Collateral value	1	1	4	1	-	2	-	12	21	
Negative equity	-	-	1	-	-	-	-	2	3	
Total stage 3 and POCI loans	512	271	286	169	126	84	49	52	1,549	4.80
Total residential mortgages	63,085	35,338	29,425	24,298	18,548	11,518	6,021	2,722	190,955	0.17
Total geographical concentrations	33%	19%	15%	13%	10%	6%	3%	1%	100%	

Credit risk – Residential mortgages (continued)

Over the period, the geographical distribution of residential mortgages across the UK has remained stable. The highest concentration for both prime and buy to let portfolios is in Greater London, with proportions of 30% and 46% (4 April 2021: 30% and 46%) respectively.

In addition to balances held at amortised cost shown in the table above, there are £64 million (4 April 2021: £68 million) of residential mortgages held at FVTPL which have an average LTV of 35% (4 April 2021: 38%). The largest geographical concentration within the FVTPL balances is also in Greater London, at 56% (4 April 2021: 54%).

Arrears

Residential mortgage lending continues to have a low risk profile as demonstrated by the low level of arrears compared to the industry average:

Number of cases more than 3 months in arrears as % of total book (note i)		
	30 September 2021	4 April 2021
	%	%
Prime	**0.32**	0.35
Buy to let and legacy	**0.57**	0.72
Total	**0.37**	0.43
UK Finance (UKF) industry average	**0.78**	0.85

Note:

i. The methodology for calculating mortgage arrears is based on the UKF definition of arrears, where months in arrears is determined by dividing the arrears balance outstanding by the latest monthly contractual payment.

In accordance with regulatory guidance payment deferrals ended in July 2021. Despite this the proportion of cases more than 3 months in arrears has decreased over the period to 0.37% (4 April 2021: 0.43%). When legacy portfolios are excluded, the proportion of buy to let cases which are more than 3 months in arrears has decreased to 0.19% (4 April 2021: 0.27%). Arrears levels are anticipated to increase following the end of the furlough scheme but to remain low relative to the industry average.

Credit risk – Residential mortgages (continued)

Residential mortgages by payment status

The following table shows the payment status of all residential mortgages.

Residential mortgages gross balances by payment status	30 September 2021				4 April 2021			
	Prime	Buy to let and legacy	Total		Prime	Buy to let and legacy	Total	
	£m	£m	£m	%	£m	£m	£m	%
Not past due	150,140	41,960	192,100	98.9	148,285	40,460	188,745	98.8
Past due 0 to 1 month	885	267	1,152	0.6	842	278	1,120	0.6
Past due 1 to 3 months	241	142	383	0.2	259	159	418	0.2
Past due 3 to 6 months	128	87	215	0.1	149	121	270	0.2
Past due 6 to 12 months	107	77	184	0.1	113	108	221	0.1
Past due over 12 months	118	110	228	0.1	123	113	236	0.1
Possessions	5	15	20	-	3	10	13	-
Total residential mortgages	151,624	42,658	194,282	100	149,774	41,249	191,023	100

The balance of cases past due by more than 3 months has reduced to £647 million (4 April 2021: £740 million). There was a relatively small increase in possessions to £20 million (4 April 2021: £13 million) as activity put on hold following the introduction of the home support package recommenced.

Interest only mortgages

Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a subsequent change in terms to an interest only basis was agreed. Maturities on interest only mortgages are managed closely, engaging regularly with borrowers to ensure the loan is redeemed or to agree a strategy for repayment.

Of the buy to let and legacy portfolio, £38,491 million (4 April 2021: £37,107 million) relate to interest only balances, representing 90% (4 April 2021: 90%) of balances, and buy to let remains open to new interest only lending under standard terms. Nationwide also re-entered the prime market for interest only lending under a newly established credit policy in April 2020. At 30 September 2021 interest only balances of £8,205 million (4 April 2021: £8,747 million) accounted for 5.4% (4 April 2021: 5.8%) of prime residential mortgages.

Interest only loans that are term expired (still open) are not considered to be past due where contractual interest payments continue to be met, pending renegotiation of the facility. These loans are, however, treated as credit impaired and categorised as stage 3 balances from three months after the maturity date.

Credit risk – Residential mortgages (continued)

Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance.

The Group applies the European Banking Authority (EBA) definition of forbearance in these disclosures. The Annual Report and Accounts 2021 sets out further details of concession events included within forbearance.

The table below provides details of residential mortgages held at amortised cost subject to forbearance. Accounts that are currently subject to forbearance are assessed as in either stage 2 or stage 3.

Gross balances subject to forbearance (note i)						
	30 September 2021			4 April 2021		
	Prime	**Buy to let and legacy**	**Total**	Prime	Buy to let and legacy	Total
	£m	**£m**	**£m**	£m	£m	£m
Past term interest only (note ii)	**116**	**142**	**258**	126	123	249
Interest only concessions	**694**	**36**	**730**	725	41	766
Capitalisation	**80**	**32**	**112**	71	37	108
Capitalisation – notification of death of borrower	**86**	**81**	**167**	103	91	194
Term extensions (within term)	**29**	**13**	**42**	35	15	50
Permanent interest only conversions	**2**	**36**	**38**	2	41	43
Total forbearance	**1,007**	**340**	**1,347**	1,062	348	1,410
Of which stage 2	**182**	**65**	**247**	200	66	266
Of which stage 3	**650**	**250**	**900**	635	258	893
Impairment provisions on forborne loans	**16**	**20**	**36**	19	18	37

Notes:

i. Where more than one concession event has occurred, balances are reported under the latest event. For loans subject to concession events, accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months

ii. Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.

During the period, total balances subject to forbearance have decreased to £1,347 million (4 April 2021: £1,410 million), which equates to 0.7% of the total residential mortgage exposure (4 April 2021: 0.7%).

The average LTV for forborne accounts is 48% (4 April 2021: 50%).

In addition to the amortised cost balances above, there are £64 million FVTPL balances (4 April 2021: £68 million), of which £5 million (4 April 2021: £8 million) are forborne.

Credit risk – Consumer banking

Summary

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. Over the period, total balances across these portfolios have increased by 6% to £4,660 million (4 April 2021: £4,404 million) as the easing of Covid-19 restrictions drove higher demand for personal loans and increased spending on credit cards.

To date arrears remain low and credit quality is stable; however, this performance continues to benefit from the impact of government support schemes and payment deferrals, and reduced discretionary spending earlier in the pandemic.

Consumer banking gross balances				
	30 September 2021		4 April 2021	
	£m	**%**	£m	%
Overdrawn current accounts	**229**	**5**	233	5
Personal loans	**2,917**	**63**	2,797	64
Credit cards	**1,514**	**32**	1,374	31
Total consumer banking	**4,660**	**100**	4,404	100

All consumer banking loans are classified and measured at amortised cost.

Impairment losses and write-offs for the period		
	Half year to 30 September 2021	Half year to 30 September 2020
	£m	£m
Overdrawn current accounts	**4**	9
Personal loans	**8**	59
Credit cards	**6**	16
Total impairment losses	**18**	84
	%	%
Impairment losses as a % of average gross balance	**0.41**	1.77
	£m	£m
Gross write-offs	**39**	49

The reduced impairment charge for the period is the result of stable credit quality, combined with a reduction in provisions from updating macroeconomic assumptions and weightings to reflect the improvement in economic outlook since 4 April 2021; further details are included in note 8 to the consolidated interim financial statements. Closing provisions have reduced to £486 million (4 April 2021: £502 million). The prior period impairment losses reflected an increase in provisions during a period of significant economic uncertainty.

Credit risk – Consumer banking (continued)

The table below shows consumer banking balances by stage, with the corresponding impairment provisions and resulting provision coverage ratios. Details of stages and the approach to the allocation of loans to stages are included in the Annual Report and Accounts 2021.

Consumer banking product and staging analysis

	30 September 2021				4 April 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross balances								
Overdrawn current accounts	**105**	**89**	**35**	**229**	121	78	34	233
Personal loans	**2,398**	**378**	**141**	**2,917**	2,144	521	132	2,797
Credit cards	**999**	**414**	**101**	**1,514**	876	391	107	1,374
Total	**3,502**	**881**	**277**	**4,660**	3,141	990	273	4,404
Provisions								
Overdrawn current accounts	**4**	**21**	**33**	**58**	5	23	32	60
Personal loans	**23**	**66**	**125**	**214**	25	77	118	220
Credit cards	**19**	**103**	**92**	**214**	18	108	96	222
Total	**46**	**190**	**250**	**486**	48	208	246	502
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Overdrawn current accounts	**3.95**	**23.91**	**92.77**	**25.33**	3.89	29.38	93.36	25.64
Personal loans	**0.98**	**17.36**	**88.72**	**7.34**	1.18	14.81	89.06	7.87
Credit cards	**1.89**	**24.99**	**90.65**	**14.14**	2.00	27.68	89.99	16.13
Total	**1.33**	**21.61**	**89.94**	**10.44**	1.51	21.04	89.97	11.39

At 30 September 2021, 75% (4 April 2021: 71%) of the consumer banking portfolio is in stage 1. This increase has been driven by high quality lending during the period combined with the movement of up to date accounts from stage 2 to stage 1. The reduction in stage 2 balances to £881 million (4 April 2021: £990 million) is largely the result of updating macroeconomic assumptions and scenario weightings to reflect the improvement in economic outlook since 4 April 2021. This improvement has reduced provisions to £486 million (4 April 2021: £502 million). Further information regarding economic scenarios and associated weightings is provided in note 8 to the consolidated interim financial statements.

The proportion of total balances in stage 3 is unchanged at 6% (4 April 2021: 6%), reflecting broadly stable underlying credit performance. Consumer banking stage 3 gross balances and provisions include charged off balances. These are accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months) whilst recovery activities take place. Excluding these charged off balances and related provisions, provisions amount to 6.3% (4 April 2021: 7.2%) of gross balances.

Credit risk – Consumer banking (continued)

The table below summarises the movements, including between stages, of consumer banking balances held at amortised cost. The movements within the table are an aggregation of monthly movements over the period.

Reconciliation of movements in gross consumer banking balances and impairment provisions								
	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2021	3,141	48	990	208	273	246	4,404	502
Stage transfers:								
Transfers from Stage 1 to Stage 2	**(867)**	**(18)**	**867**	**18**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(9)**	**(2)**	**(55)**	**(44)**	**64**	**46**	**-**	**-**
Transfers from Stage 2 to Stage 1	**903**	**92**	**(903)**	**(92)**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**2**	**1**	**6**	**4**	**(8)**	**(5)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(72)**		**95**		**(6)**		**17**
Net movement arising from transfer of stage	**29**	**1**	**(85)**	**(19)**	**56**	**35**	**-**	**17**
New assets originated or purchased	**980**	**19**	**-**	**-**	**-**	**-**	**980**	**19**
Net impact of further lending and repayments	**(347)**	**(17)**	**16**	**(14)**	**(12)**	**(10)**	**(343)**	**(41)**
Changes in risk parameters in relation to credit quality	**-**	**(5)**	**-**	**18**	**-**	**18**	**-**	**31**
Other items impacting income statement charge/(reversal) (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(5)**	**-**	**(5)**
Redemptions	**(301)**	**-**	**(40)**	**(3)**	**(1)**	**-**	**(342)**	**(3)**
Income statement charge for the period								**18**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(39)**	**(39)**	**(39)**	**(39)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**5**
30 September 2021	**3,502**	**46**	**881**	**190**	**277**	**250**	**4,660**	**486**
Net carrying amount		**3,456**		**691**		**27**		**4,174**

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 10 to the consolidated interim financial statements.

Credit risk – Consumer banking (continued)

Reason for consumer banking balances being included in stage 2								
30 September 2021	**Overdrawn current accounts**		**Personal loans**		**Credit cards**		**Total**	
	Gross balances	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Quantitative criteria:								
Payment status (greater than 30 DPD) (note i)	**3**	**2**	**7**	**7**	**4**	**4**	**14**	**13**
Increase in PD since origination (less than 30 DPD)	**76**	**18**	**364**	**58**	**386**	**95**	**826**	**171**
Qualitative criteria:								
Forbearance (less than 30 DPD) (note ii)	**1**	**-**	**-**	**-**	**-**	**-**	**1**	**-**
Other qualitative criteria (less than 30 DPD)	**9**	**1**	**7**	**1**	**24**	**4**	**40**	**6**
Total Stage 2 gross balances	**89**	**21**	**378**	**66**	**414**	**103**	**881**	**190**

Reason for consumer banking balances being included in stage 2								
4 April 2021	Overdrawn current accounts		Personal loans		Credit cards		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
Quantitative criteria:								
Payment status (greater than 30 DPD) (note i)	3	2	6	5	4	3	13	10
Increase in PD since origination (less than 30 DPD)	66	20	510	72	364	101	940	193
Qualitative criteria:								
Forbearance (less than 30 DPD) (note ii)	1	-	-	-	-	-	1	-
Other qualitative criteria (less than 30 DPD)	8	1	5	-	23	4	36	5
Total Stage 2 gross balances	78	23	521	77	391	108	990	208

Notes:

i. This category includes all loans greater than 30 DPD, including those whose original reason for being classified as stage 2 was not arrears over 30 DPD.

ii. Stage 2 forbearance relates to cases where full repayment of principal and interest is still anticipated.

Balances reported within stage 2 are those which have experienced a significant increase in credit risk since origination. The significant increase is determined through both quantitative and qualitative indicators. Of the £881 million stage 2 balances (4 April 2021: £990 million), only 2% (4 April 2021: 1%) are in arrears by 30 days or more, with the majority of balances in stage 2 due to an increase in PD since origination. The decrease in personal loans stage 2 balances is largely the result of updating macroeconomic assumptions and scenario weightings to reflect the improvement in economic outlook since 4 April 2021, which has resulted in up to date accounts no longer meeting the stage 2 quantitative PD criteria.

The Annual Report and Accounts 2021 sets out the main criteria used to determine whether a significant increase in credit risk has occurred since origination. There have been no changes to the criteria during the period.

Credit risk – Consumer banking (continued)

Credit quality

Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising from the portfolio.

The following table shows gross balances and provisions for consumer banking balances held at amortised cost, by PD range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

Consumer banking gross balances and provisions by PD									
30 September 2021	**Gross balances**				**Provisions**				**Provision**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**coverage**
PD range	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
0.00 to <0.15%	**1,153**	**10**	**-**	**1,163**	**10**	**-**	**-**	**10**	**0.90**
0.15 to < 0.25%	**508**	**31**	**-**	**539**	**4**	**1**	**-**	**5**	**0.96**
0.25 to < 0.50%	**678**	**106**	**-**	**784**	**7**	**3**	**-**	**10**	**1.28**
0.50 to < 0.75%	**328**	**70**	**-**	**398**	**4**	**4**	**-**	**8**	**1.94**
0.75 to < 2.50%	**637**	**235**	**4**	**876**	**12**	**23**	**-**	**35**	**4.08**
2.50 to < 10.00%	**190**	**255**	**10**	**455**	**8**	**50**	**2**	**60**	**13.24**
10.00 to < 100%	**8**	**174**	**13**	**195**	**1**	**109**	**6**	**116**	**59.05**
100% (default)	**-**	**-**	**250**	**250**	**-**	**-**	**242**	**242**	**96.71**
Total	**3,502**	**881**	**277**	**4,660**	**46**	**190**	**250**	**486**	**10.44**

Consumer banking gross balances and provisions by PD									
4 April 2021	Gross balances				Provisions				Provision
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	coverage
PD range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to <0.15%	913	3	-	916	9	-	-	9	1.01
0.15 to < 0.25%	361	21	-	382	4	1	-	5	1.30
0.25 to < 0.50%	614	79	-	693	6	6	-	12	1.73
0.50 to < 0.75%	303	84	-	387	4	6	-	10	2.66
0.75 to < 2.50%	682	297	1	980	13	31	-	44	4.53
2.50 to < 10.00%	261	302	3	566	11	54	-	65	11.54
10.00 to < 100%	7	204	12	223	1	110	5	116	51.57
100% (default)	-	-	257	257	-	-	241	241	93.57
Total	3,141	990	273	4,404	48	208	246	502	11.39

The credit quality of the consumer banking portfolio has remained strong with 90% of the portfolio (4 April 2021: 89%) considered good quality, with a PD of less than 10%.

Credit risk – Consumer banking (continued)

Consumer banking balances by payment due status

Credit risk in the consumer banking portfolios is primarily monitored and reported based on arrears status which is set out below.

Consumer banking gross balances by payment due status	30 September 2021					4 April 2021				
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**		Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
Not past due	**181**	**2,737**	**1,400**	**4,318**	**92.7**	189	2,616	1,259	4,064	92.3
Past due 0 to 1 month	**11**	**33**	**14**	**58**	**1.2**	9	34	11	54	1.2
Past due 1 to 3 months	**4**	**11**	**9**	**24**	**0.5**	3	10	8	21	0.5
Past due 3 to 6 months	**4**	**15**	**6**	**25**	**0.5**	3	16	7	26	0.6
Past due 6 to 12 months	**2**	**9**	**1**	**12**	**0.3**	2	11	2	15	0.3
Past due over 12 months	**3**	**10**	**-**	**13**	**0.3**	3	12	-	15	0.3
Charged off (note i)	**24**	**102**	**84**	**210**	**4.5**	24	98	87	209	4.8
Total	**229**	**2,917**	**1,514**	**4,660**	**100**	233	2,797	1,374	4,404	100

Note:

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

Total balances subject to arrears, excluding charged off balances, have remained stable at £132 million (4 April 2021: £131 million), representing 3.0% (4 April 2021: 3.1%) of the total balance excluding charged off balances. The arrears performance has benefited from Covid-19 government support schemes and payment deferrals, as well as reduced spending on current account and credit cards through the pandemic, although spending on credit cards and demand for personal loans have increased during the reporting period.

Forbearance

Nationwide is committed to supporting customers facing financial difficulty, including those impacted by Covid-19, by working with them to find a solution through proactive arrears management and forbearance.

The Group applies the European Banking Authority definition of forbearance. The Annual Report and Accounts 2021 sets out further details of concession events included in forbearance.

The table below provides details of consumer banking balances subject to forbearance. Accounts that are currently subject to a concession are all assessed as either stage 2, or stage 3 where full repayment of principal and interest is no longer anticipated.

Credit risk – Consumer banking (continued)

Gross balances subject to forbearance (note i)	30 September 2021				4 April 2021			
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**	Overdrawn current accounts	Personal loans	Credit cards	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Payment concession	**5**	**-**	**1**	**6**	7	-	1	8
Interest suppressed payment concession	**6**	**39**	**12**	**57**	6	42	13	61
Balance re-aged/re-written	**-**	**1**	**2**	**3**	-	1	2	3
Total forbearance	**11**	**40**	**15**	**66**	13	43	16	72
Of which stage 2	**4**	**2**	**4**	**10**	5	2	4	11
Of which stage 3	**7**	**37**	**11**	**55**	7	41	12	60
Impairment provisions on forborne loans	**7**	**34**	**15**	**56**	8	31	11	50

Note:
i. Where more than one concession event has occurred, balances are reported under the latest event.

Over the period, total balances subject to forbearance have reduced to £66 million (4 April 2021: £72 million), with forborne balances as a percentage of the total consumer lending improving to 1.4% (4 April 2021: 1.6%).

Credit risk – Commercial

Summary

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, commercial real estate investors and project finance initiatives. The commercial real estate and project finance portfolios are closed to new business and remain in managed run-off. The credit quality of the portfolio remains stable.

Commercial gross balances		
	30 September 2021	4 April 2021
	£m	£m
Registered social landlords (note i)	**4,588**	4,828
Commercial real estate (CRE)	**686**	769
Project finance (note ii)	**637**	670
Commercial balances at amortised cost	**5,911**	6,267
Fair value adjustment for micro hedged risk (note iii)	**593**	653
Commercial balances – FVTPL	**52**	52
Total	**6,556**	6,972

Notes:
i. Loans to registered social landlords are secured on residential property.
ii. Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts under the Private Finance Initiative.
iii. Micro hedged risk relates to loans hedged on an individual basis.

Over the period, total balances across the commercial portfolios continued to reduce. In the registered social landlords portfolio, loan amortisation and repayments exceeded drawdowns on new lending to this sector. Commercial real estate and project finance portfolios are closed to new business and are in run off. The balance reduction is driven by amortisation and redemptions.

Impairment (reversals)/losses and write-offs for the period		
	Half year to 30 September 2021	Half year to 30 September 2020
	£m	£m
Total impairment (reversals)/losses	**(8)**	2
Gross write-offs	**-**	2

The reduction in impairment is driven by improvements to the collateral value or anticipated cash flows for a small number of individually assessed exposures.

Credit risk – Commercial (continued)

The table below shows commercial balances carried at amortised cost on the balance sheet, with the stage allocation of the exposures, impairment provisions and resulting provision coverage ratios. Details of stages and the approach to the allocation of loans to stages are included in the Annual Report and Accounts 2021.

Commercial product and staging analysis

	30 September 2021				4 April 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross balances								
Registered social landlords	**4,542**	**46**	**-**	**4,588**	4,782	46	-	4,828
CRE	**494**	**105**	**87**	**686**	574	120	75	769
Project finance	**577**	**53**	**7**	**637**	595	53	22	670
Total	**5,613**	**204**	**94**	**5,911**	5,951	219	97	6,267
Provisions								
Registered social landlords	**-**	**-**	**-**	**-**	1	-	-	1
CRE	**1**	**1**	**17**	**19**	1	2	23	26
Project finance	**-**	**2**	**4**	**6**	-	2	4	6
Total	**1**	**3**	**21**	**25**	2	4	27	33
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Registered social landlords	**0.01**	**0.08**	**-**	**0.01**	0.01	0.13	-	0.01
CRE	**0.16**	**1.03**	**19.61**	**2.76**	0.19	1.89	29.81	3.34
Project finance	**0.02**	**3.06**	**61.45**	**0.90**	0.02	2.97	21.86	0.97
Total	**0.03**	**1.34**	**22.50**	**0.43**	0.03	1.78	28.01	0.52

Over the period, the performance of the commercial portfolio has remained stable, with 95% (4 April 2021: 95%) of balances remaining in stage 1. Of the £204 million (4 April 2021: £219 million) stage 2 loans, which represent 3.5% (4 April 2021: 3.5%) of total balances, £0.5 million (4 April 2021: £6 million) were in arrears by 30 days or more, with the remainder in stage 2 due to a deterioration in risk profile.

A number of loans have been impacted by disruption to rental income as a result of Covid-19; some of this disruption was considered temporary in nature and short-term concessions were applied. A small number of loans which are considered to have been adversely impacted in the longer term have contributed to an increase in stage 3 (credit impaired) CRE loans to £87 million (4 April 2021: £75 million), equating to 13% (4 April 2021: 10%) of the total CRE exposure. The increase in provision associated with this increase in stage 3 balances has been more than offset by a decrease in provision in respect of a single exposure, resulting from an updated valuation of collateral where a sale is anticipated. Overall, the CRE Stage 3 provisions reduced to £17 million (April 2021 £23 million).

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (4 April 2021: 1%) of the portfolio is in stage 2.

Loans in the project finance portfolio benefit from long-term cash flows, which typically emanate from the provision of assets such as schools, hospitals, police stations, government buildings and roads, procured under the Private Finance Initiative. 99% of these balances are in respect of fully developed assets. During the period, the project finance stage 3 balances have reduced to £7 million (4 April 2021: £22 million) following debt restructure of a single case.

Credit risk – Commercial (continued)

Credit quality

Nationwide applies robust credit management policies and processes to identify and manage the risks arising from the portfolio.

The following table shows the CRE portfolio by risk grade and the provision coverage for each category. The table includes balances held at amortised cost only.

CRE gross balances by risk grade and provision coverage	30 September 2021					4 April 2021				
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Provision coverage**	Stage 1	Stage 2	Stage 3	Total	Provision coverage
	£m	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
Strong	**296**	**9**	**-**	**305**	**0.1**	343	4	-	347	0.1
Good	**156**	**28**	**-**	**184**	**0.2**	192	37	-	229	0.2
Satisfactory	**42**	**38**	**-**	**80**	**0.8**	39	24	-	63	1.4
Weak	**-**	**30**	**1**	**31**	**2.7**	-	55	-	55	3.1
Impaired	**-**	**-**	**86**	**86**	**19.8**	-	-	75	75	31.1
Total	**494**	**105**	**87**	**686**	**2.8**	574	120	75	769	3.3

The risk grades in the table above are based on the IRB supervisory slotting approach for specialised lending exposures, under which exposures are classified into categories according to the underlying credit risk, with the assessment determined by financial strength, asset characteristics, strength of the sponsor and the security. The credit quality of the CRE portfolio has remained stable with 83% (4 April 2021: 83%) of the portfolio rated as satisfactory or better.

Risk grades for the project finance portfolio are also based upon the supervisory slotting approach for specialised lending, with 92% of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model with the major drivers being financial strength, evaluations of the borrower's oversight and management, and their type and size. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults in the portfolio, the credit quality remains high, with an average 12-month PD of 0.04% across the portfolio.

In addition to the above, £52 million (4 April 2021: £52 million) of commercial lending balances are classified as FVTPL.

CRE balances by LTV and region

The regional distribution of the portfolio remains unchanged with 55% (4 April 2021: 55%) of the CRE exposure being secured against assets located in London. The LTV distribution of CRE balances has remained stable with 87% (4 April 2021: 87%) of the portfolio having an LTV of 75% or less, and 55% (4 April 2021: 57%) of the portfolio having an LTV of 50% or less.

Credit risk concentration by industry sector

Credit risk exposure by industry sector is broadly unchanged from the year end, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 42% (4 April 2021: 43%) of the total CRE portfolio balance. The exposure to retail assets has reduced to £146 million (4 April 2021: £166 million), with a weighted average LTV of 57% (4 April 2021: 63%). Exposure to the leisure and hotel sector has remained stable at £66 million (4 April 2021: £66 million), with a weighted average LTV of 50% (4 April 2021: 55%).

Credit risk – Commercial (continued)

In addition to the CRE amortised cost balances, there are £49 million (4 April 2021: £49 million) of FVTPL CRE commercial lending balances, of which £36 million (4 April 2021: £36 million) relates to the office sector and £13 million (4 April 2021: £13 million) relates to the retail sector.

CRE balances by payment due status

Of the £735 million (4 April 2021: £818 million) CRE exposure, including FVTPL balances, £66 million (4 April 2021: £61 million) relates to balances with arrears. Of these, £57 million (4 April 2021: £32 million) have arrears greater than 3 months. The increase in arrears balances is driven principally by a small number of loans that are being actively managed.

Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance.

Forbearance is recorded and reported at borrower level and applies to all commercial lending, including impaired exposures and borrowers subject to enforcement and recovery action. The Group applies the European Banking Authority definition of forbearance.

The table below provides details of commercial loans that are currently subject to forbearance by concession event. The Annual Report and Accounts 2021 sets out further details of concession events included within forbearance.

Gross balances subject to forbearance (note i)		
	30 September 2021	4 April 2021
	£m	£m
Refinance	**8**	8
Modifications:		
Payment concession	**142**	100
Security amendment	**10**	6
Extension at maturity	**19**	7
Breach of covenant	**49**	123
Total	**228**	244
Total impairment provision on forborne loans	**23**	29

Note:
i. Loans where more than one concession event has occurred are reported under the latest event.

Nationwide continues to support commercial borrowers where income has been disrupted through the impacts of Covid-19.

Commercial balances subject to Covid-19 temporary concessions have reduced to £24 million (4 April 2021: £179 million), with exposures subject to forbearance included in the above table. The reduction is driven by borrowers returning to agreed repayment schedules and no further specific Covid-19 related maturity extensions being granted.

Total forborne balances have remained broadly stable, with migration between modification type.

The decrease in the total impairment provision on forborne loans to £23 million (4 April 2021: £29 million) reflects an improved asset valuation for an impaired loan, prior to anticipated sale.

In addition to the amortised cost balances included in the table above, there are £52 million (4 April 2021: £52 million) of FVTPL commercial lending balances, £36 million (4 April 2021: £nil) of which are forborne.

Credit risk - Treasury assets

Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. At 30 September 2021 treasury assets represented 27.3% (4 April 2021: 19.5%) of total assets. There are no exposures to emerging markets, hedge funds or credit default swaps. The table below shows the classification of treasury asset balances.

Treasury asset balances			
		30 September 2021	4 April 2021
	Classification	**£m**	£m
Cash	Amortised cost	**46,498**	16,693
Loans and advances to banks and similar institutions	Amortised cost	**3,275**	3,660
Investment securities (note i)	FVOCI	**22,933**	24,218
Investment securities (note i)	FVTPL	**37**	12
Investment securities	Amortised cost	**913**	1,243
Liquidity and investment portfolio		**73,656**	45,826
Derivative instruments (note ii)	FVTPL	**4,111**	3,809
Treasury assets		**77,767**	49,635

Notes:

i. Investment securities at FVOCI include £56 million (4 April 2021: £20 million) and investment securities at FVTPL include £37 million (4 April 2021: £12 million) relating to investments not included within the Group's liquidity portfolio. These investments primarily relate to investments made in Fintech companies which are being held for long-term strategic purposes.

ii. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 30 September 2021, derivative liabilities were £1,338 million (4 April 2021: £1,622 million).

Investment activity remains focused on high quality liquid assets, including assets eligible for central bank operations. Cash held in the treasury portfolio has increased to £46.5 billion (4 April 2021: £16.7 billion). The £29.8 billion increase was driven by growth in member deposit and current account balances, higher levels of short-term funding, drawdown of funds from the Bank of England's TFSME, and increased repurchase agreement balances to manage the composition of the liquidity portfolio. Derivatives are used to economically hedge financial risks inherent in core lending and funding activities and are not used for trading or speculative purposes.

Managing treasury credit risks

Credit risk within the treasury portfolio is managed and controlled by the Treasury Credit Risk function in accordance with Nationwide's risk governance frameworks, details of which are provided in the Annual Report and Accounts 2021. No changes in policy or risk appetite have been made or are proposed as a result of Covid-19.

A monthly review is undertaken of the current and expected future performance of treasury assets that determines expected credit loss (ECL) provision requirements. There were no impairment losses for the period ended 30 September 2021 (H1 2020/21: £nil). For financial assets held at amortised cost or at FVOCI, all exposures within the table below continue to be classified as stage 1, reflecting the strong and stable credit quality of treasury assets.

Impairment provisions on treasury assets				
	30 September 2021		4 April 2021	
	Gross balances	**Provisions**	Gross balances	Provisions
	£m	**£m**	£m	£m
Loans and advances to banks and similar institutions	**3,275**	**-**	3,660	-
Investment securities – FVOCI	**22,933**	**-**	24,218	-
Investment securities – amortised cost	**913**	**-**	1,243	-

Credit risk - Treasury assets (continued)

Liquidity and investment portfolio

The liquidity and investment portfolio of £73,656 million (4 April 2021: £45,826 million) comprises liquid assets and other securities. An analysis of the on-balance sheet portfolios is set out below.

Liquidity and investment portfolio by credit rating (note i)										
30 September 2021		**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Japan**	**Other**
	£m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Liquid assets:										
Cash and reserves at central banks	**46,498**	**-**	**100**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
Government bonds (note ii)	**18,443**	**27**	**58**	**15**	**-**	**34**	**20**	**25**	**13**	**8**
Supranational bonds	**1,213**	**70**	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**100**
Covered bonds	**1,960**	**99**	**1**	**-**	**-**	**53**	**-**	**26**	**-**	**21**
Residential mortgage backed securities (RMBS)	**524**	**100**	**-**	**-**	**-**	**77**	**-**	**23**	**-**	**-**
Asset backed securities (other)	**302**	**100**	**-**	**-**	**-**	**84**	**-**	**16**	**-**	**-**
Liquid assets total	**68,940**	**13**	**83**	**4**	**-**	**79**	**5**	**8**	**4**	**4**
Other securities (note iii):										
RMBS FVOCI	**418**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
RMBS amortised cost	**913**	**82**	**14**	**4**	**-**	**100**	**-**	**-**	**-**	**-**
Other investments (note iv)	**110**	**-**	**15**	**-**	**85**	**85**	**-**	**15**	**-**	**-**
Other securities total	**1,441**	**81**	**10**	**3**	**6**	**99**	**-**	**1**	**-**	**-**
Loans and advances to banks and similar institutions	**3,275**	**-**	**66**	**25**	**9**	**90**	**3**	**6**	**-**	**1**
Total	**73,656**	**13**	**81**	**5**	**1**	**80**	**5**	**8**	**3**	**4**
4 April 2021	£m	%	%	%	%	%	%	%	%	%
Liquid assets:										
Cash and reserves at central banks	16,693	-	100	-	-	100	-	-	-	-
Government bonds (note ii)	20,310	28	60	12	-	39	18	26	10	7
Supranational bonds	1,053	75	25	-	-	-	-	-	-	100
Covered bonds	1,748	100	-	-	-	62	-	25	-	13
Residential mortgage backed securities (RMBS)	474	100	-	-	-	72	-	28	-	-
Asset backed securities (other)	301	100	-	-	-	75	-	25	-	-
Liquid assets total	40,579	22	72	6	-	65	9	14	5	7
Other securities (note iii):										
RMBS FVOCI	291	100	-	-	-	100	-	-	-	-
RMBS amortised cost	1,243	83	14	3	-	100	-	-	-	-
Other investments (note iv)	53	-	38	-	62	62	-	38	-	-
Other securities total	1,587	83	12	3	2	99	-	1	-	-
Loans and advances to banks and similar institutions	3,660	-	65	34	1	89	2	8	-	1
Total	45,826	22	70	8	-	68	8	13	5	6

Notes:

i. Ratings used are obtained from Standard & Poor's (S&P), Moody's or Fitch. For loans and advances to banks and similar institutions, internal ratings are used.

ii. Balances classified as government bonds include government related entities and agency bonds.

iii. Includes RMBS (UK buy to let and UK non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).

iv. Includes investment securities held at FVTPL of £37 million (4 April 2021: £12 million).

Credit risk - Treasury assets (continued)

Country exposures

This table summarises the exposure (shown at the balance sheet carrying value) to institutions outside the UK.

Country exposures							
30 September 2021	**Government bonds**	**Mortgage backed securities**	**Covered bonds**	**Supranational bonds**	**Loans and advances to banks and similar institutions**	**Other assets**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Austria	**420**	**-**	**-**	**-**	**-**	**-**	**420**
Belgium	**530**	**-**	**-**	**-**	**-**	**-**	**530**
Finland	**580**	**-**	**24**	**-**	**-**	**-**	**604**
France	**1,611**	**-**	**154**	**-**	**53**	**17**	**1,835**
Germany	**739**	**-**	**44**	**-**	**137**	**50**	**970**
Ireland	**85**	**-**	**-**	**-**	**-**	**-**	**85**
Netherlands	**476**	**123**	**-**	**-**	**-**	**-**	**599**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Eurozone	**4,441**	**123**	**222**	**-**	**190**	**67**	**5,043**
USA	**3,720**	**-**	**-**	**-**	**114**	**-**	**3,834**
Japan	**2,473**	**-**	**-**	**-**	**-**	**-**	**2,473**
Rest of world (note i)	**1,517**	**-**	**709**	**1,213**	**32**	**-**	**3,471**
Total	**12,151**	**123**	**931**	**1,213**	**336**	**67**	**14,821**
4 April 2021	£m	£m	£m	£m	£m	£m	£m
Austria	545	-	-	-	-	-	545
Belgium	645	-	-	-	-	-	645
Finland	606	-	24	-	-	-	630
France	1,505	-	108	-	147	20	1,780
Germany	1,069	-	44	-	151	76	1,340
Ireland	154	-	-		-	-	154
Netherlands	503	133	-	-	-	-	636
Spain	-	-	-	-	-	-	-
Total Eurozone	5,027	133	176	-	298	96	5,730
USA	3,722	-	-	-	80	-	3,802
Japan	2,116	-	-	-	-	-	2,116
Rest of world (note i)	1,510	-	494	1,053	28	-	3,085
Total	12,375	133	670	1,053	406	96	14,733

Note:
i. Rest of world exposure is to Australia, Canada, Denmark, Norway and Sweden.

Credit risk - Treasury assets (continued)

Derivative financial instruments

Derivatives are used to manage exposure to market risks, and not for trading or speculative purposes, although the application of accounting rules can create volatility in the income statement in a given financial period. The fair value of derivative assets at 30 September 2021 was £4.1 billion (4 April 2021: £3.8 billion) and the fair value of derivative liabilities was £1.3 billion (4 April 2021: £1.6 billion).

Nationwide, as a direct member of a central counterparty (CCP), has central clearing capability which it uses to clear standardised derivatives. Where derivatives are not cleared at a CCP they are transacted under the International Swaps and Derivatives Association (ISDA) Master Agreement. A Credit Support Annex (CSA) is always executed in conjunction with the ISDA Master Agreement. Under the terms of a CSA, collateral is passed between parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions. Market standard CSA collateral allows GBP, EUR and USD cash, and in some cases, extends to high grade sovereign debt securities; both cash and securities are currently held as collateral by the Society.

Nationwide's CSA legal documentation for derivatives grants legal rights of set-off for transactions with the same counterparty. Accordingly, the credit risk associated with such positions 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.

Under the terms of CSA netting agreements, outstanding transactions with the same counterparty can be offset and settled on a net basis following a default, or another predetermined event. Under these arrangements, netting benefits of £1.2 billion (4 April 2021: £1.4 billion) were available and £2.8 billion of collateral (4 April 2021: £2.4 billion) was held.

This table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral.

Derivative credit exposure								
	30 September 2021				4 April 2021			
	AA	**A**	**BBB**	**Total**	AA	A	BBB	Total
Counterparty credit quality	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross positive fair value of contracts as reported on the balance sheet	**712**	**3,386**	**13**	**4,111**	742	3,052	15	3,809
Netting benefits	**(207)**	**(1,021)**	**(4)**	**(1,232)**	(249)	(1,187)	(4)	(1,440)
Net current credit exposure	**505**	**2,365**	**9**	**2,879**	493	1,865	11	2,369
Collateral (cash)	**(486)**	**(2,225)**	**(9)**	**(2,720)**	(489)	(1,775)	(11)	(2,275)
Collateral (securities)	**-**	**(88)**	**-**	**(88)**	-	(84)	-	(84)
Net derivative credit exposure	**19**	**52**	**-**	**71**	4	6	-	10

Liquidity and funding risk

Summary

Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and external stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage excessive concentrations of funding types.

Liquidity and funding risks are managed within a comprehensive risk framework which includes policies, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that Nationwide maintains stable and diverse funding sources and a sufficient holding of high quality liquid assets such that there is no significant risk that liabilities cannot be met as they fall due. Further details on how Nationwide manages liquidity and funding risks are included within the Annual Report and Accounts 2021.

Nationwide's Liquidity Coverage Ratio (LCR), which ensures that sufficient high quality liquid assets are held to survive a short-term severe but plausible liquidity stress, averaged 173% for the 12 months ending 30 September 2021 (12 months average ending 4 April 2021: 159%). Liquidity continues to be managed against internal risk appetite, which is more prudent than regulatory requirements.

The position against the longer-term funding metric, the Net Stable Funding Ratio (NSFR) is also monitored. Based on current interpretations of future regulatory requirements and guidance, Nationwide's average NSFR for the four quarters ending 30 September 2021 was 143% (four quarters ending 4 April 2021: 137%).

Funding risk

Funding strategy

Nationwide's funding strategy is to remain predominantly retail funded, as set out below.

Funding profile					
Assets (note i)	**30 September 2021**	4 April 2021	**Liabilities**	**30 September 2021**	4 April 2021
	£bn	£bn		**£bn**	£bn
Retail mortgages	**194.0**	190.7	Retail funding	**177.4**	170.3
Treasury assets (including liquidity portfolio)	**73.7**	45.8	Wholesale funding	**82.3**	59.5
Commercial lending	**6.5**	6.9	Other liabilities	**2.9**	3.2
Consumer lending	**4.2**	3.9	Capital and reserves (note ii)	**22.8**	21.9
Other assets	**7.0**	7.6			
Total	**285.4**	254.9	**Total**	**285.4**	254.9

Notes:
i. Figures in the table are stated net of impairment provisions where applicable.
ii. Includes all subordinated liabilities and subscribed capital.

At 30 September 2021 Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 110.5% (4 April 2021: 115.3%).

Liquidity and funding risk (continued)

Wholesale funding

The wholesale funding portfolio comprises a range of secured and unsecured instruments to ensure that a stable and diversified funding base is maintained across a range of instruments, currencies, maturities and investor types. Part of Nationwide's wholesale funding strategy is to remain active in core markets and currencies. A funding risk limit framework also ensures that a prudent funding mix and maturity concentration profile is maintained and limits the level of encumbrance to ensure enough contingent funding capacity is retained in the event of a stress.

Wholesale funding has increased by £22.8 billion to £82.3 billion during the period. The increase is primarily driven by increased short-dated wholesale funding, additional drawings from the Term Funding Scheme with additional incentives for SMEs (TFSME) and increased repo activity. The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) was 31.7% at 30 September 2021 (4 April 2021: 26.7%).

The table below sets out Nationwide's wholesale funding by currency.

Wholesale funding by currency	30 September 2021						4 April 2021					
	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total
Repos	4.5	3.0	3.9	0.5	11.9	15	4.2	0.8	2.9	0.2	8.1	14
Deposits	10.0	0.6	-	-	10.6	13	6.4	0.6	-	-	7.0	12
Certificates of deposit	2.4	-	1.0	-	3.4	4	0.1	-	-	-	0.1	-
Commercial paper	-	-	6.8	-	6.8	8	-	-	-	-	-	-
Covered bonds	5.5	9.0	0.7	0.4	15.6	19	5.4	8.5	0.7	0.4	15.0	25
Medium term notes	1.8	3.9	3.0	0.6	9.3	11	2.0	3.2	3.4	0.6	9.2	15
Securitisations	2.0	-	0.4	-	2.4	3	2.0	0.5	0.4	-	2.9	5
Term Funding Scheme with additional incentives for SMEs (TFSME)	21.7	-	-	-	21.7	26	16.4	-	-	-	16.4	28
Other	0.1	0.4	0.1	-	0.6	1	0.2	0.5	0.1	-	0.8	1
Total	**48.0**	**16.9**	**15.9**	**1.5**	**82.3**	**100**	36.7	14.1	7.5	1.2	59.5	100

Liquidity and funding risk (continued)

The table below sets out Nationwide's residual maturity of wholesale funding, on a contractual maturity basis.

Wholesale funding – residual maturity 30 September 2021	**Not more than one month £bn**	**Over one month but not more than three months £bn**	**Over three months but not more than six months £bn**	**Over six months but not more than one year £bn**	**Subtotal less than one year £bn**	**Over one year but not more than two years £bn**	**Over two years £bn**	**Total £bn**
Repos	**11.8**	**0.1**	**-**	**-**	**11.9**	**-**	**-**	**11.9**
Deposits	**7.4**	**1.0**	**2.1**	**0.1**	**10.6**	**-**	**-**	**10.6**
Certificates of deposit	**3.4**	**-**	**-**	**-**	**3.4**	**-**	**-**	**3.4**
Commercial paper	**6.7**	**0.1**	**-**	**-**	**6.8**	**-**	**-**	**6.8**
Covered bonds	**0.8**	**-**	**1.8**	**0.9**	**3.5**	**2.5**	**9.6**	**15.6**
Medium term notes	**-**	**-**	**-**	**0.9**	**0.9**	**1.9**	**6.5**	**9.3**
Securitisations	**0.1**	**-**	**-**	**0.6**	**0.7**	**1.5**	**0.2**	**2.4**
TFSME	**-**	**-**	**-**	**-**	**-**	**-**	**21.7**	**21.7**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**0.6**	**0.6**
Total	**30.2**	**1.2**	**3.9**	**2.5**	**37.8**	**5.9**	**38.6**	**82.3**
Of which secured	**12.7**	**0.1**	**1.8**	**1.5**	**16.1**	**4.0**	**32.0**	**52.1**
Of which unsecured	**17.5**	**1.1**	**2.1**	**1.0**	**21.7**	**1.9**	**6.6**	**30.2**
% of total	**36.7**	**1.5**	**4.7**	**3.0**	**45.9**	**7.2**	**46.9**	**100.0**

Wholesale funding – residual maturity 4 April 2021	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than one year £bn	Subtotal less than one year £bn	Over one year but not more than two years £bn	Over two years £bn	Total £bn
Repos	7.9	0.2	-	-	8.1	-	-	8.1
Deposits	4.6	0.7	1.6	0.1	7.0	-	-	7.0
Certificates of deposit	0.1	-	-	-	0.1	-	-	0.1
Commercial paper	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	2.5	2.5	2.6	9.9	15.0
Medium term notes	0.2	-	0.6	-	0.8	2.0	6.4	9.2
Securitisations	0.5	-	-	0.1	0.6	1.1	1.2	2.9
TFSME	-	-	-	-	-	-	16.4	16.4
Other	-	-	-	0.1	0.1	0.1	0.6	0.8
Total	13.3	0.9	2.2	2.8	19.2	5.8	34.5	59.5
Of which secured	8.4	0.2	-	2.7	11.3	3.8	28.0	43.1
Of which unsecured	4.9	0.7	2.2	0.1	7.9	2.0	6.5	16.4
% of total	22.4	1.5	3.7	4.7	32.3	9.7	58.0	100.0

At 30 September 2021, cash, government bonds and supranational bonds included in the liquid asset buffer represented 143% of wholesale funding maturing in less than one year, assuming no rollovers (4 April 2021: 157%).

Liquidity and funding risk (continued)

Liquidity risk

Liquid assets

The table below sets out the sterling equivalent fair value of the liquidity portfolio, by issuing currency. It includes off-balance sheet liquidity, such as securities received through reverse repurchase (repo) agreements, and excludes securities encumbered through repo agreements and for other purposes.

Liquid assets	30 September 2021						4 April 2021					
	GBP	**EUR**	**USD**	**JPY**	**Other (note i)**	**Total**	GBP	EUR	USD	JPY	Other (note i)	Total
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	£bn	£bn	£bn	£bn	£bn	£bn
Cash and reserves at central banks	**46.4**	**0.1**	**-**	**-**	**-**	**46.5**	16.7	-	-	-	-	16.7
Government bonds (note ii)	**1.7**	**2.2**	**0.4**	**1.8**	**0.7**	**6.8**	4.2	4.5	1.2	2.1	0.7	12.7
Supranational bonds	**0.1**	**0.5**	**-**	**-**	**-**	**0.6**	-	0.5	0.4	-	-	0.9
Covered bonds	**0.5**	**1.4**	**0.1**	**-**	**-**	**2.0**	0.5	1.1	0.1	-	-	1.7
Residential mortgage backed securities (RMBS) (note iii)	**0.4**	**0.1**	**-**	**-**	**-**	**0.5**	0.8	0.1	-	-	-	0.9
Asset-backed securities and other securities	**0.3**	**-**	**-**	**-**	**-**	**0.3**	0.3	0.1	-	-	-	0.4
Total	**49.4**	**4.3**	**0.5**	**1.8**	**0.7**	**56.7**	22.5	6.3	1.7	2.1	0.7	33.3

Notes:
i. Other currencies primarily consist of Canadian dollars.
ii. Balances classified as government bonds include government guaranteed and agency bonds.
iii. Balances include all RMBS held by Nationwide which can be monetised through sale or repo.

Nationwide continues to work towards its investment target for Environmental, Social and Governance (ESG) assets and is currently on track to meet its 2021/22 year-end target of £1 billion. Nationwide's criteria for ESG assets are currently restricted to bonds issued by multilateral development banks and green issuances from selected government issuers. Our ESG investment criteria are subject to ongoing review.

Liquidity and funding risk (continued)

Residual maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the final contractual maturity date (residual maturity).

Residual maturity (note i) 30 September 2021	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	46,498	-	-	-	-	-	-	-	46,498
Loans and advances to banks and similar institutions	2,393	-	-	-	-	-	-	882	3,275
Investment securities	-	35	79	77	67	653	6,760	16,212	23,883
Derivative financial instruments	319	5	483	144	4	196	1,468	1,492	4,111
Fair value adjustment for portfolio hedged risk	-	7	9	2	6	-	37	32	93
Loans and advances to customers	2,781	1,585	2,186	2,209	2,118	8,605	23,690	161,540	204,714
Total financial assets	51,991	1,632	2,757	2,432	2,195	9,454	31,955	180,158	282,574
Financial liabilities									
Shares	154,554	1,325	2,075	3,838	5,341	6,889	2,400	1,009	177,431
Deposits from banks and similar institutions	14,634	101	-	-	-	-	21,700	-	36,435
Of which repo	11,825	91	-	-	-	-	-	-	11,916
Of which TFSME	5	-	-	-	-	-	21,700	-	21,705
Other deposits	4,571	1,022	2,088	82	39	16	5	-	7,823
Fair value adjustment for portfolio hedged risk	-	-	1	7	4	6	2	-	20
Secured funding – ABS and covered bonds	915	9	1,834	369	1,241	3,898	4,192	6,031	18,489
Senior unsecured funding	10,070	76	52	798	3	1,941	4,963	1,639	19,542
Derivative financial instruments	30	-	4	28	14	66	325	871	1,338
Subordinated liabilities	32	3	23	-	2	749	3,388	3,513	7,710
Subscribed capital (note iii)	1	1	1	-	-	-	-	229	232
Total financial liabilities	184,807	2,537	6,078	5,122	6,644	13,565	36,975	13,292	269,020
Off-balance sheet commitments (note iv)	13,234	-	-	-	-	-	-	-	13,234
Net liquidity difference	(146,050)	(905)	(3,321)	(2,690)	(4,449)	(4,111)	(5,020)	166,866	320
Cumulative liquidity difference	(146,050)	(146,955)	(150,276)	(152,966)	(157,415)	(161,526)	(166,546)	320	-

Liquidity and funding risk (continued)

Residual maturity (note i) 4 April 2021	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	16,693	-	-	-	-	-	-	-	16,693
Loans and advances to banks and similar institutions	2,815	-	-	-	-	-	-	845	3,660
Investment securities	39	136	197	47	137	938	8,101	15,878	25,473
Derivative financial instruments	119	26	39	62	475	331	1,183	1,574	3,809
Fair value adjustment for portfolio hedged risk	4	23	62	59	83	295	322	98	946
Loans and advances to customers	2,616	1,515	2,188	2,204	2,128	8,462	23,359	159,075	201,547
Total financial assets	22,286	1,700	2,486	2,372	2,823	10,026	32,965	177,470	252,128
Financial liabilities									
Shares	149,985	1,976	2,501	2,085	2,312	6,864	3,495	1,095	170,313
Deposits from banks and similar institutions	10,417	166	-	9	-	-	16,430	-	27,022
Of which repo	*7,984*	*165*	-	-	-	-	-	-	*8,149*
Of which TFSME	-	-	-	-	-	-	*16,430*	-	*16,430*
Other deposits	2,234	642	1,568	34	24	15	5	-	4,522
Fair value adjustment for portfolio hedged risk	1	6	3	-	1	9	5	-	25
Secured funding – ABS and covered bonds	467	23	29	892	1,780	3,715	5,816	5,783	18,505
Senior unsecured funding	202	48	561	-	5	2,053	5,072	1,477	9,418
Derivative financial instruments	50	3	16	10	10	144	443	946	1,622
Subordinated liabilities	29	-	29	3	-	-	3,114	4,400	7,575
Subscribed capital (note iii)	1	1	1	-	-	-	-	240	243
Total financial liabilities	163,386	2,865	4,708	3,033	4,132	12,800	34,380	13,941	239,245
Off-balance sheet commitments (note iv)	13,259	-	-	-	-	-	-	-	13,259
Net liquidity difference	(154,359)	(1,165)	(2,222)	(661)	(1,309)	(2,774)	(1,415)	163,529	(376)
Cumulative liquidity difference	(154,359)	(155,524)	(157,746)	(158,407)	(159,716)	(162,490)	(163,905)	(376)	-

Notes:

i. The analysis excludes certain non-financial assets (including property, plant and equipment, intangible assets, other assets, deferred tax assets and accrued income and prepaid expenses) and non-financial liabilities (including provisions for liabilities and charges, accruals and deferred income, current tax liabilities and other liabilities). The retirement benefit surplus and lease liabilities have also been excluded.

ii. Due less than one month includes amounts repayable on demand.

iii. The principal amount for undated subscribed capital is included within the due after more than five years column.

iv. Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower can draw down the amount overpaid, and commitments to acquire financial assets.

In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid earlier. This gives rise to funding mismatches on the balance sheet. The balance sheet structure and risks are managed and monitored by Nationwide's Assets and Liabilities Committee (ALCO). Judgement and past behavioural performance of each asset and liability class are used to forecast likely cash flow requirements.

Liquidity and funding risk (continued)

Asset encumbrance

Encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise the Covered Bond and securitisation programmes (further information is set out in note 14 to the financial statements of the Annual Report and Accounts 2021) and from participation in the Bank of England's TFSME.

Certain unencumbered assets are readily available to secure funding or meet collateral requirements. These include prime mortgages and cash and securities held in the liquid asset buffer with prime mortgage loan pools prepositioned (available to be pledged) at the Bank of England. Other unencumbered assets, such as non-prime mortgages, are capable of being encumbered with a degree of further management action. Assets which do not fall into either of these categories are classified as not being capable of being encumbered.

At 30 September 2021, Nationwide had £46,896 million (4 April 2021: £47,778 million) of externally encumbered assets with counterparties other than central banks. In addition, £80,287 million (4 April 2021: £70,697 million) of prepositioned and encumbered assets were held at central banks and £148,230 million (4 April 2021: £126,475 million) of assets that were neither encumbered nor prepositioned but capable of being encumbered. The increase in assets prepositioned and encumbered at central banks provides Nationwide with future funding flexibility and ensures sufficient contingent funding capacity is retained in the event of a stress. The increase in assets that were neither encumbered nor prepositioned but capable of being encumbered reflects the increase in total assets. Further detail on asset encumbrance is set out in the Annual Report and Accounts 2021.

External credit ratings

Nationwide's long-term and short-term credit ratings are shown in the table below. The long-term rating for both Standard & Poor's (S&P) and Moody's is the senior preferred rating. The long-term rating for Fitch is the senior non-preferred rating.

Credit ratings

	Senior preferred	Short-term	Senior non-preferred	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	A+	A-1	BBB+	BBB	October 2021	Stable
Moody's	A1	P-1	Baa1	Baa2	July 2021	Stable
Fitch	A+	F1	A	BBB+	July 2021	Stable

In October 2021, S&P upgraded Nationwide's long term issuer credit rating and senior preferred rating to A+ and changed the outlook to stable; all other ratings were unchanged. This followed a change to a positive outlook in June 2021. S&P stated that the upgrade was due to Nationwide's performance in the last 12 months in reducing costs, writing profitable new business and maintaining strong asset quality.

In July 2021, Moody's upgraded Nationwide's senior non-preferred debt rating to Baa1 from Baa2 following the introduction of Moody's revised Advanced Loss Given Failure framework. All other ratings were affirmed.

In July 2021, Fitch revised the outlook on Nationwide to stable from negative and affirmed all ratings. The revision of the outlook primarily reflected the revision of Fitch's outlook on the UK's AA- rating to stable.

Capital risk

This section was titled Solvency risk in Nationwide's Annual Report and Accounts 2021. The risk has been renamed Capital risk within Nationwide's Enterprise Risk Management Framework (ERMF) to align with wider financial services sector terminology.

Capital risk is the risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and to maintain the confidence of current and prospective investors, members, the Board and regulators. Capital is held to protect members, cover inherent risks, provide a buffer for stress events and support the business strategy. In assessing the adequacy of capital resources, risk appetite is considered in the context of the material risks to which Nationwide is exposed and the appropriate strategies required to manage those risks.

Capital position

The capital disclosures included in this report are in line with UK Capital Requirements Directive V (UK CRD V) and on an end point basis with IFRS 9 transitional arrangements applied. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

Capital ratios	**30 September 2021**	4 April 2021
Risk Based	**%**	%
Common Equity Tier 1 (CET1) ratio	**37.7**	36.4
Total Tier 1 ratio	**41.7**	40.5
Total regulatory capital ratio	**50.5**	49.1
Leverage	**£m**	£m
UK leverage exposure	**251,197**	248,402
CRR leverage exposure	**297,821**	265,079
Tier 1 capital	**13,764**	13,343
	%	%
UK leverage ratio	**5.5**	5.4
CRR leverage ratio	**4.6**	5.0

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio of 37.7% (4 April 2021: 36.4%) above Nationwide's CET1 capital requirement of 12.7%. This includes a minimum CET1 capital requirement of 9.2% (Pillar 1 and Pillar 2A) and the CRD V combined buffer requirements of 3.5% of risk weighted assets (RWAs).

The increase in the CET1 ratio results from an increase in CET1 capital of £0.4 billion, with RWAs remaining relatively stable. The CET1 capital increase was driven by £0.6 billion profit after tax, net of distributions, partially offset by a £0.2 billion movement in deductible intangible assets, IFRS 9 transitional arrangements and prudent valuation adjustments. RWAs remained stable with a reduction in retail and commercial RWAs offset by growth in liquid assets.

Capital risk (continued)

On 23 December 2020, EU Regulation 2020/2176 came into force, removing the deduction of intangible assets from CET1 items for 'prudently valued software assets, the value of which is not negatively affected by resolution, insolvency or liquidation of the institution', and instead attributing a risk weighted asset value of 100% to those assets not deducted. The PRA indicated in CP5/21 'Implementation of Basel standards' that they found no credible evidence that software assets would absorb losses effectively in a stress. Subsequently, as part of PS17/21, they have confirmed the reversal of this amendment from 1 January 2022. If the revised rules had not been applied, Nationwide's CET1 ratio and UK leverage ratio at 30 September 2021 would have been 36.9% and 5.3% respectively.

UK CRD V requires firms to calculate a leverage ratio, which is non-risked based, to supplement risk-based capital requirements. The UK leverage ratio increased to 5.5% (4 April 2021: 5.4%), with Tier 1 capital increasing by £0.4 billion as a result of the CET1 capital movements outlined above. Partially offsetting the impact of this, there was an increase in UK leverage exposure of £2.8 billion, primarily as a result of net retail lending in the period. This position remains in excess of Nationwide's leverage capital requirement of 3.6%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.35%. The buffer requirement reflects a 0% countercyclical leverage ratio buffer announced on 11 March 2020 as part of the Bank of England responses to the impacts of Covid-19.

The CRR leverage ratio reduced to 4.6% (4 April 2021: 5.0%). The difference between the Capital Requirements Regulation (CRR) leverage ratio and the UK leverage ratio is driven by the exclusion of qualifying central bank claims from the UK leverage exposure measure as per the PRA Rulebook. The reduction in the ratio was due to an increase in central bank reserves.

On 8 October 2021, as part of its policy statement PS21/21, the PRA confirmed its intention to simplify the leverage framework by applying a single Leverage Exposure Measure (LEM) for all purposes from 1 January 2022. This measure would align to the current UK leverage exposure definition, which excludes central bank claims.

UK leverage requirements continue to be Nationwide's binding capital constraint, as they are in excess of risk-based requirements, and it is expected that this will continue despite the impact of IRB mortgage model changes and Basel III reforms on risk-based capital requirements in 2023 (see the 'regulatory developments' section below). Nationwide's internal assessment, however, is still subject to PRA IRB mortgage model approval and the forthcoming PRA consultation on the Basel III reforms. The expected impact of the reforms on Nationwide's UK leverage ratio is negligible. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

Further details on the leverage exposure can be found in the Group's Interim Pillar 3 Disclosure September 2021 at **nationwide.co.uk**

Capital risk (continued)

The table below shows how the components of members interest and equity contribute to total regulatory capital calculated on an end-point basis and so does not include non-qualifying instruments.

Total regulatory capital		
	30 September 2021	4 April 2021
	£m	£m
General reserve	**11,928**	11,140
Core capital deferred shares (CCDS)	**1,334**	1,334
Revaluation reserve	**43**	44
Fair value through other comprehensive income (FVOCI) reserve	**103**	110
Cash flow hedge and other hedging reserves	**157**	149
Regulatory adjustments and deductions:		
FVOCI reserve temporary relief (note i)	**(32)**	(41)
Cash flow hedge and other hedging reserves (note ii)	**(157)**	(149)
Foreseeable distributions (note iii)	**(70)**	(71)
Prudent valuation adjustment (note iv)	**(74)**	(39)
Own credit and debit valuation adjustments (note v)	**(3)**	(3)
Intangible assets (note vi)	**(614)**	(525)
Goodwill (note vi)	**(12)**	(12)
Defined-benefit pension fund asset (note vi)	**(307)**	(112)
Excess of regulatory expected losses over impairment provisions (note vii)	**(2)**	(1)
IFRS 9 transitional arrangements (note viii)	**134**	183
Total regulatory adjustments and deductions	**(1,137)**	(770)
Common Equity Tier 1 capital	**12,428**	12,007
Other equity instruments (Additional Tier 1)	**1,336**	1,336
Total Tier 1 capital	**13,764**	13,343
Dated subordinated debt (note ix)	**2,863**	2,833
Excess of impairment provisions over regulatory expected losses (note vii)	**144**	144
IFRS 9 transitional arrangements (note viii)	**(129)**	(144)
Tier 2 capital	**2,878**	2,833
Total regulatory capital	**16,642**	16,176

Notes:

i. Includes a temporary adjustment to mitigate the impact of volatility in central government debt on capital ratios, in line with the Covid-19 banking package.

ii. In accordance with CRR article 33, institutions shall not include the fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value.

iii. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under UK CRD V.

iv. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.

v. 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 own credit standing and risk, as per UK CRD V rules.

vi. Intangible, goodwill and defined-benefit pension fund assets (excluding applicable software assets) are deducted from capital resources after netting associated deferred tax liabilities.

vii. Where capital expected loss exceeds accounting provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where provisions exceed capital expected loss, the excess amount is added to Tier 2 capital, gross of tax. This calculation is not performed for equity exposures, in line with Article 159 of CRR. The expected loss amounts for equity exposures are deducted from CET1 capital, gross of tax.

viii. The transitional adjustments to capital resources apply scaled relief due to the impact of the introduction of IFRS 9 and increases in expected credit losses due to the Covid-19 pandemic. Further detail regarding these adjustments is provided in the Group's Interim Pillar 3 Disclosure September 2021 at **nationwide.co.uk**

ix. 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 fewer than five years to maturity.

Capital risk (continued)

As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and eligible liabilities (MREL) and provided firms with interim MREL. From 1 January 2020, Nationwide is required to hold twice the minimum capital requirements (6.5% of UK leverage exposure), plus the applicable capital requirement buffers, which amount to 0.35% of UK leverage exposure.

At 30 September 2021, total MREL resources were equal to 8.6% (4 April 2021: 8.5%) of UK leverage ratio exposure, in excess of the 2021 loss-absorbing requirement of 6.85% described above.

Risk weighted assets

The table below shows the breakdown of risk weighted assets (RWAs) by risk type and business activity. Market risk has been set to zero as permitted by the UK CRR, as the exposure is below the threshold of 2% of own funds.

Risk weighted assets	**30 September 2021**			4 April 2021		
	Credit Risk (note i)	**Operational Risk (note ii)**	**Total Risk Weighted Assets**	Credit Risk (note i)	Operational Risk (note ii)	Total Risk Weighted Assets
	£m	**£m**	**£m**	£m	£m	£m
Retail mortgages	**14,444**	**2,966**	**17,410**	14,523	2,966	17,489
Retail unsecured lending	**5,498**	**965**	**6,463**	5,503	965	6,468
Commercial loans	**2,428**	**116**	**2,544**	2,671	116	2,787
Treasury	**1,992**	**327**	**2,319**	1,588	327	1,915
Counterparty credit risk (note iii)	**1,504**	**-**	**1,504**	1,491	-	1,491
Other (note iv)	**2,287**	**455**	**2,742**	2,365	455	2,820
Total	**28,153**	**4,829**	**32,982**	28,141	4,829	32,970

Notes:

i. This column includes credit risk exposures, securitisations, counterparty credit risk exposures and exposures below the thresholds for deduction that are subject to a 250% risk weight.

ii. RWAs have been allocated according to the business lines within the standardised approach to operational risk, as per article 317 of CRR.

iii. Counterparty credit risk relates to derivative financial instruments, securities financing transactions (repurchase agreements) and exposures to central counterparties.

iv. Other relates to equity, fixed, intangible software and other assets.

RWAs remained relatively stable in the period. An increase in Treasury liquid assets not risk weighted at 0% was partially offset by a reduction in commercial loan RWAs due to decreasing total loan size, but also improving risk characteristics. In conjunction with this, there was a reduction in risk weights of modelled buy to let loans.

More detailed analysis of RWAs is included in the Group's Interim Pillar 3 Disclosure September 2021 at **nationwide.co.uk**

Capital risk (continued)

Regulatory developments

Key areas of regulatory change are set out below. Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any resulting change.

From 1 January 2022 multiple policy statements impacting IRB risk weighted assets will come into effect. These include PS11/20 'Probability of Default and Loss given default estimation', PS13/17 'Residential mortgage risk weights', PS16/21 'Internal Ratings Based UK mortgage risk weights' and PS23/21 'The identification of the nature, severity, and duration of an economic downturn for the purposes of IRB models'. These changes are expected to increase risk weighted assets, resulting in the reported CET1 ratio reducing to the low- to mid- 20% range.

On 12 February 2021, the PRA published CP5/21 'Implementation of Basel standards'. The purpose of these rules is to implement the remaining Basel international standards. The consultation paper included a revised standardised approach to counterparty credit risk (SA-CCR) and the revised Basel framework for exposures to central counterparties (CCPs) amongst other changes. On 22 July 2021, the PRA published PS17/21 confirming the changes set out in CP5/21, which will also take effect on 1 January 2022. The changes will not materially impact capital requirements.

The Basel Committee published their final reforms to the Basel III framework in December 2017, now denoted by the PRA as Basel 3.1. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a lengthy revised transitional period, advised by the Basel Committee to run between 2023 and 2028, and will lead to a significant increase in Nationwide's RWAs relative to both the current position and that expected under the new mortgage IRB models, mainly due to the application of standardised floors for mortgages. Following the IRB model implementation and Basel 3.1 reforms, the total estimated impact on the reported CET1 ratio will be a reduction of approximately a half relative to the position at 30 September 2021. This impact is before organic earnings in the period to 2028 which will partly mitigate the reduction in the CET1 ratio. The Basel III reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources held or the risk profile of assets. Final impacts are uncertain as they are subject to future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA's discretion. Following the equivalent European Commission consultation published on 27 October 2021, we are expecting the PRA to consult on the UK implementation of Basel 3.1 during the second half of 2022.

Market risk

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates, currency rates or equity prices. Nationwide has limited appetite for market risk and does not have a trading book. Market risk is closely monitored and managed to ensure the level of risk remains within appetite. Market risks are not taken unless they are essential to core business activities and they provide stability of earnings, minimise costs or enable operational efficiency.

The principal market risks linked to Nationwide's balance sheet assets and liabilities include interest rate risk, basis risk, swap spread risk, currency risk and product option risk. Nationwide's market risk appetite, risk management and reporting measures, described in the Annual Report and Accounts 2021, are unchanged.

Libor transition

Nationwide continues to deliver on its transition plan across each of the three key areas of focus: retail mortgages, commercial lending and treasury instruments. The Society remains on target to meet the 31 December 2021 Libor cessation date. Additional information on Nationwide's approach to Libor transition is set out in the Market risk section and note 15 to the financial statements within the Annual Report and Accounts 2021.

Net Interest Income sensitivity (NII)

Earnings sensitivity assessments measure the risk that income is adversely affected by changes in interest rates. The sensitivity of earnings to changes in interest rates is measured monthly using a forecasting model and potential interest rate scenarios.

Market risk (continued)

The table below sets out the sensitivity of pre-tax future earnings over a one-year period to instantaneous parallel rises and falls in interest rates.

Potential favourable/(adverse) impact on annual earnings		
	30 September 2021	4 April 2021
	£m	£m
+50 basis point shift	**47**	(note i)
+25 basis point shift	**26**	8
-25 basis point shift	**(118)**	(100)

Note:
i. The +50 basis point shift was not reported at 4 April 2021 but has been presented at 30 September 2021 to better reflect the prevailing interest rate environment.

The following key judgements should be noted in respect of the table above:

- The interest rate sensitivities are illustrative only and are based on a static balance sheet; all assets and liabilities maturing within the year are assumed to reinvest in like for like products;
- The model assumes that changes in interest rates are fully passed through to managed rate variable products, unless a 0% floor is reached;
- The shifts are applied to the prevailing interest rates at the reporting date;
- The reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, product pricing, market conditions, and strategic changes to the balance sheet mix, and should not therefore be considered a guide to future performance;
- The sensitivity analysis includes all financial assets and liabilities held;
- The sensitivities do not take account of any management actions; and
- The values above are reported on a pre-tax basis.

Pension risk

Nationwide Building Society has funding obligations to a number of defined benefit pension schemes, the largest of which is the Nationwide Pension Fund (the Fund) which represents over 99% of the Society's pension obligations. Further information is set out in the Annual Report and Accounts 2021.

The Fund's net defined benefit pension surplus, which appears within assets on the balance sheet, has increased from £172 million to £472 million since 4 April 2021. This was primarily driven by increases in the value of UK government bonds, listed equities and illiquid assets. This was partially offset by a rise in liabilities driven by an increase in the future inflation assumption. Further information is included in note 15 to the consolidated interim financial statements.

Over the long term, the Trustee intends to further reduce the Fund's risk. Nationwide actively engages with the Trustee to ensure broad alignment on risk management and investment objectives and their implementation.

The next Triennial Valuation has an effective date of 31 March 2022.

Model risk

The Society relies on models to support a broad range of business and risk management activities. Examples include the use of model outputs in the credit approval process, capital and liquidity assessments, stress testing, financial planning and loss provisioning. Further details on Model risk can be found in the Risk report section of the Annual Report and Accounts 2021.

During 2021, Nationwide's model estate has expanded, increasing the exposure to model risk. Nationwide participated in the Bank of England's Climate Biennial Exploratory Scenario (CBES) exercise which tests the resilience of the UK financial system to climate-related physical and transition risks across three possible paths to net zero carbon emissions. To support the exercise we developed and validated a new suite of physical and transition risk models to forecast provisions and risk weighted assets under each scenario.

Nationwide received regulatory approval to use its Internal Rating Based (IRB) models for the current account portfolio and implementation will be completed by December 2021. Changes in regulation have continued to drive model development activity during the year. Development of the retail capital models to meet new IRB Roadmap regulatory requirements is well progressed. However, in line with the broader industry, it is not expected that model changes will be approved and implemented by the date the new regulation takes effect. We are engaging closely with the PRA regarding approval and implementation timings. In addition, models impacted by the cessation of the Libor and transition to Sonia in 2022 have been redeveloped.

Operational and conduct risk

Nationwide's overall operational and conduct risk profile has remained relatively stable since 4 April 2021 and continues to be impacted by the adaptations we make to our ways of working and operational processes as a result of Covid-19. The main risks relate to IT operational resilience and cyber security. In line with other financial services organisations, we are seeing high volumes of attempted fraud and cyber activity (in particular phishing emails). Nationwide continues to meet the high standards expected by members in the management of these risks. There is a focus on being safe and secure in order to ensure both service availability and customer data are protected.

We continue to streamline and simplify our more complex processes to improve operational control and customer experience.

External fraud

As highlighted in the Annual Report and Accounts 2021 we are continually improving our approach to helping members protect themselves from Authorised Push Payment (APP) scams and have launched a scam checker service which allows our members to check a payment they are worried about in branch or by calling a 24/7 freephone number.

Covid 19

We continue to adapt the way we work and regularly assess our ways of working as guidance changes. We monitor and closely manage the impact on our people as we deliver the products, services and experience members want, to ensure the required levels of skill, knowledge and engagement are maintained.

While many of the restrictions imposed following the onset of Covid-19 have now been eased, we see an ongoing impact on the financial wellbeing of our members. We expect this to continue as support from government and regulatory schemes is reduced and removed. In this context, the fair treatment of members in financial difficulty remains a key focus.

Regulatory change

There continues to be a high volume of complex regulatory change impacting the financial services industry, and Nationwide will respond to these changes while actively engaging with our regulators. Through its proposed Consumer Duty, the Financial Conduct Authority (FCA) has recently set out proposals for a higher standard of consumer care beyond the current set of Principles and Rules, which would require firms to be more proactive in the delivery of fair outcomes. Regardless of the outcome of these proposals, Nationwide is committed to ensuring the right customer outcomes are achieved in all circumstances and will continue to provide a safe and secure variety of products and services which are designed to meet the needs of members and customers.

Consolidated interim financial statements

Contents

Consolidated income statement

(Unaudited)

	Notes	**Half year to 30 September 2021 £m**	Half year to 30 September 2020 £m
Interest receivable and similar income/(expense):			
Calculated using the effective interest rate method	3	**2,114**	2,010
Other	3	**6**	(4)
Total interest receivable and similar income	3	**2,120**	2,006
Interest expense and similar charges	4	**(414)**	(558)
Net interest income		**1,706**	1,448
Fee and commission income		**227**	180
Fee and commission expense		**(108)**	(113)
Other operating income/(expense)	5	**69**	(12)
Gains from derivatives and hedge accounting	6	**3**	56
Total income		**1,897**	1,559
Administrative expenses	7	**(1,025)**	(1,033)
Impairment reversals/(losses) on loans and advances to customers	8	**34**	(139)
Provisions for liabilities and charges	13	**(53)**	(26)
Profit before tax		**853**	361
Taxation	9	**(168)**	(80)
Profit after tax		**685**	281

The notes on pages 70 to 91 form part of these consolidated interim financial statements.

Consolidated statement of comprehensive income

(Unaudited)

	Notes	**Half year to 30 September 2021 £m**	Half year to 30 September 2020 £m
Profit after tax		**685**	281
Other comprehensive income/(expense)			
Items that will not be reclassified to the income statement			
Remeasurements of retirement benefit obligations:			
Retirement benefit remeasurements before tax	15	**300**	(55)
Taxation		**(105)**	20
		195	(35)
Revaluation of property:			
Revaluation before tax		**1**	(10)
Taxation		**(1)**	5
		-	(5)
Movements in fair value of equity shares held at fair value through other comprehensive income:			
Fair value movements taken to members' interests and equity		**15**	-
Taxation		**(4)**	-
		11	-
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve:			
Fair value movements taken to members' interests and equity		**27**	(29)
Amount transferred to income statement		**(18)**	(32)
Taxation		**(3)**	16
		6	(45)
Other hedging reserve:			
Fair value movements taken to members' interests and equity		**1**	(1)
Amounts transferred to income statement		**(3)**	-
Taxation		**4**	-
		2	(1)
Fair value through other comprehensive income reserve:			
Fair value movements taken to members' interests and equity		**27**	132
Amount transferred to income statement		**(41)**	(40)
Taxation		**(4)**	(25)
		(18)	67
Other comprehensive income/(expense)		**196**	(19)
Total comprehensive income		**881**	262

The notes on pages 70 to 91 form part of these consolidated interim financial statements.

Consolidated balance sheet

(Unaudited)

	Notes	30 September 2021 £m	4 April 2021 £m
Assets			
Cash		**46,498**	16,693
Loans and advances to banks and similar institutions		**3,275**	3,660
Investment securities		**23,883**	25,473
Derivative financial instruments		**4,111**	3,809
Fair value adjustment for portfolio hedged risk		**93**	946
Loans and advances to customers	10	**204,714**	201,547
Intangible assets		**1,041**	1,101
Property, plant and equipment		**954**	1,018
Accrued income and prepaid expenses		**241**	213
Deferred tax		**57**	72
Other assets		**104**	210
Retirement benefit asset	15	**472**	172
Total assets		**285,443**	254,914
Liabilities			
Shares		**177,431**	170,313
Deposits from banks and similar institutions		**36,435**	27,022
Other deposits		**7,823**	4,522
Fair value adjustment for portfolio hedged risk		**20**	25
Debt securities in issue		**38,031**	27,923
Derivative financial instruments		**1,338**	1,622
Other liabilities		**826**	933
Provisions for liabilities and charges	13	**190**	159
Accruals and deferred income		**234**	307
Subordinated liabilities		**7,710**	7,575
Subscribed capital		**232**	243
Deferred tax		**251**	150
Current tax liabilities		**21**	7
Total liabilities		**270,542**	240,801
Members' interests and equity			
Core capital deferred shares		**1,334**	1,334
Other equity instruments		**1,336**	1,336
General reserve		**11,928**	11,140
Revaluation reserve		**43**	44
Cash flow hedge reserve		**201**	195
Other hedging reserve		**(44)**	(46)
Fair value through other comprehensive income reserve		**103**	110
Total members' interests and equity		**14,901**	14,113
Total members' interests, equity and liabilities		**285,443**	254,914

The notes on pages 70 to 91 form part of these consolidated interim financial statements.

Consolidated statement of movements in members' interests and equity

(Unaudited)

For the period ended 30 September 2021	**Core capital deferred shares**	**Other equity instruments**	**General reserve**	**Revaluation reserve**	**Cash flow hedge reserve**	**Other hedging reserve**	**FVOCI reserve**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 5 April 2021	1,334	1,336	11,140	44	195	(46)	110	14,113
Profit for the period	**-**	**-**	**685**	**-**	**-**	**-**	**-**	**685**
Net remeasurements of retirement benefit obligations	**-**	**-**	**195**	**-**	**-**	**-**	**-**	**195**
Net revaluation of property	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net movement in cash flow hedge reserve	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**6**
Net movement in other hedging reserve	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
Net movement in FVOCI reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**
Total comprehensive income	**-**	**-**	**880**	**-**	**6**	**2**	**(7)**	**881**
Reserve transfer	**-**	**-**	**1**	**(1)**	**-**	**-**	**-**	**-**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(54)**	**-**	**-**	**-**	**-**	**(54)**
Distribution to the holders of Additional Tier 1 capital	**-**	**-**	**(39)**	**-**	**-**	**-**	**-**	**(39)**
At 30 September 2021	**1,334**	**1,336**	**11,928**	**43**	**201**	**(44)**	**103**	**14,901**

For the period ended 30 September 2020	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020	1,325	593	10,749	48	306	(42)	(17)	12,962
Profit for the period	-	-	281	-	-	-	-	281
Net remeasurements of retirement benefit obligations	-	-	(35)	-	-	-	-	(35)
Net revaluation of property	-	-	-	(5)	-	-	-	(5)
Net movement in cash flow hedge reserve	-	-	-	-	(45)	-	-	(45)
Net movement in other hedging reserve	-	-	-	-	-	(1)	-	(1)
Net movement in FVOCI reserve	-	-	-	-	-	-	67	67
Total comprehensive income	-	-	246	(5)	(45)	(1)	67	262
Reserve transfer	-	-	13	(7)	-	-	(6)	-
Issuance of core capital deferred shares	4	-	-	-	-	-	-	4
Issuance of Additional Tier 1 capital	-	743	-	-	-	-	-	743
Distribution to the holders of core capital deferred shares	-	-	(54)	-	-	-	-	(54)
Distribution to the holders of Additional Tier 1 capital	-	-	(18)	-	-	-	-	(18)
At 30 September 2020	1,329	1,336	10,936	36	261	(43)	44	13,899

The notes on pages 70 to 91 form part of these consolidated interim financial statements.

Consolidated cash flow statement

(Unaudited)

	Notes	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Cash flows generated from/(used in) operating activities			
Profit before tax		**853**	361
Adjustments for:			
Non-cash items included in profit before tax (note i)	17	**196**	477
Changes in operating assets and liabilities (note i)	17	**27,364**	10,627
Taxation		**(150)**	(11)
Net cash flows generated from operating activities		**28,263**	11,454
Cash flows generated from/(used in) investing activities			
Purchase of investment securities		**(3,841)**	(8,665)
Sale and maturity of investment securities		**5,804**	4,697
Purchase of property, plant and equipment		**(33)**	(68)
Sale of property, plant and equipment		**6**	10
Purchase of intangible assets		**(97)**	(104)
Net cash flows generated from/(used in) investing activities		**1,839**	(4,130)
Cash flows generated from/(used in) financing activities			
Distributions paid to the holders of core capital deferred shares		**(54)**	(54)
Distributions paid to the holders of Additional Tier 1 capital		**(39)**	(18)
Issue of Additional Tier 1 capital		**-**	743
Issue of core capital deferred shares		**-**	4
Redemption of subordinated liabilities		**-**	(683)
Interest paid on subordinated liabilities		**(64)**	(96)
Redemption of subscribed capital		**(5)**	-
Interest paid on subscribed capital		**(2)**	(3)
Repayment of lease liabilities		**(13)**	(14)
Net cash flows used in financing activities		**(177)**	(121)
Effect of exchange rate changes on cash and cash equivalents		**22**	(8)
Net increase in cash and cash equivalents		**29,947**	7,195
Cash and cash equivalents at start of period		**17,705**	14,474
Cash and cash equivalents at end of period	17	**47,652**	21,669

Note:

i. Comparatives have been restated to reflect the change in presentation of the bank levy as detailed in note 17.

The notes on pages 70 to 91 form 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 Building Society, Nationwide House, Pipers Way, Swindon, SN38 1NW.

There were no material changes in the composition of the Group in the half year to 30 September 2021.

These condensed consolidated interim financial statements ('consolidated interim financial statements') have been prepared as at 30 September 2021 and show the financial performance for the period from, and including, 5 April 2021 to this date. They were approved for issue on 18 November 2021.

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

2. Basis of preparation

The consolidated interim financial statements of the Group for the half year ended 30 September 2021 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and UK adopted International Accounting Standard (IAS) 34 'Interim Financial Reporting'. The consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 4 April 2021, which were prepared in accordance with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) that are applicable, UK adopted international accounting standards and International Financial Reporting Standards (IFRSs) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

Terminology used in these consolidated interim financial statements is consistent with that used in the Annual Report and Accounts 2021. Copies of the Annual Report and Accounts 2021 and Glossary are available on the Group's website at **nationwide.co.uk**

Accounting policies

The accounting policies adopted by the Group in the preparation of these consolidated interim financial statements and those which the Group currently expects to adopt in the Annual Report and Accounts 2022 are consistent with those disclosed in the Annual Report and Accounts 2021.

Judgements in applying accounting policies and critical accounting estimates

Judgements have to be made in applying the Group's 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, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates.

Details of the significant judgements and estimates which are relevant to the Group, including any changes from those disclosed in the Annual Report and Accounts 2021, are disclosed in the relevant notes as follows:

- impairment provisions on loans and advances to customers (note 8)
- provisions for customer redress (note 13)
- retirement benefit obligations (pensions) (note 15).

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 set out in the Financial review and the Risk report.

The directors have assessed the Group's ability to continue as a going concern, with reference to current and anticipated market conditions including the ongoing impacts of Covid-19. The directors confirm they are satisfied that the Group has adequate resources to continue in business for a period of not less than 12 months 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 2021 £m	Half year to 30 September 2020 £m
On financial assets measured at amortised cost:		
Residential mortgages	**2,100**	2,080
Other loans	**260**	278
Other liquid assets	**29**	16
Investment securities	**5**	9
On investment securities measured at FVOCI	**62**	70
On financial instruments hedging assets in a qualifying hedge accounting relationship	**(342)**	(443)
Total interest receivable and similar income calculated using the effective interest rate method	**2,114**	2,010
Interest on net defined benefit pension surplus	**2**	3
Other interest and similar income/(expense) (note i)	**4**	(7)
Total	**2,120**	2,006

Note:

i. Includes interest on financial instruments hedging assets that are not in a qualifying hedge accounting relationship.

4. Interest expense and similar charges

	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
On shares held by individuals	**218**	301
On subscribed capital	**7**	7
On deposits and other borrowings:		
Subordinated liabilities	**124**	149
Other	**29**	27
On debt securities in issue	**221**	279
Net income on financial instruments hedging liabilities	**(185)**	(205)
Total	**414**	558

5. Other operating income/expense

	Half year to 30 September 2021	Half year to 30 September 2020
	£m	£m
Gains/(losses) on financial assets measured at FVTPL	**27**	(1)
Gains on disposal of FVOCI investment securities	**41**	38
Other income/(expense)	**1**	(49)
Total	**69**	(12)

Gains/(losses) on financial assets measured at FVTPL includes an unrealised gain of £25 million on an equity investment in the period to 30 September 2021.

Other income/(expense) in the period to 30 September 2020 includes losses of £35 million realised from the repurchase of £2.0 billion of covered bonds issued under the Nationwide Covered Bond programme. Other income/(expense) also includes fair value movements on balances relating to previous investment disposals, the net amounts of rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialised buildings which are not recognised in other comprehensive income.

There were no gains or losses on disposal of financial assets measured at amortised cost in the period ended 30 September 2021 (H1 2020/21: £nil).

6. Gains from derivatives and hedge accounting

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. More information on the management of market risk can be found in the Risk report. Hedge accounting is employed by the Group to minimise the accounting volatility associated with the change in fair value of derivative financial instruments. This volatility does not reflect the economic reality of the Group's hedging strategy. Derivatives are only used for the hedging of risks; however, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not currently achievable. 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.

	Half year to 30 September 2021	Half year to 30 September 2020
	£m	£m
(Losses)/gains from fair value hedge accounting	**(5)**	6
Gains from cash flow hedge accounting	**1**	-
Fair value gains from other derivatives (note i)	**5**	50
Foreign exchange retranslation (note ii)	**2**	-
Total	**3**	56

Notes:

i. Gains or losses arise from derivatives used for economic hedging purposes, but which are not currently in a hedge accounting relationship, and include valuation adjustments applied at a portfolio level and not allocated to individual hedge accounting relationships.

ii. Gains or losses arise from the retranslation of foreign currency monetary items not subject to effective hedge accounting.

7. Administrative expenses

	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Employee costs:		
Wages, salaries and bonuses	**292**	300
Social security costs	**33**	35
Pension costs	**70**	86
	395	421
Other administrative expenses	**378**	336
	773	757
Depreciation, amortisation and impairment	**252**	276
Total	**1,025**	1,033

8. Impairment reversals/losses and provisions on loans and advances to customers

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

Impairment (reversals)/losses	**Half year to 30 September 2021 £m**	Half year to 30 September 2020 £m
Prime residential	**(19)**	23
Buy to let and legacy residential	**(25)**	30
Consumer banking	**18**	84
Commercial lending	**(8)**	2
Total	**(34)**	139

Impairment provisions	**30 September 2021 £m**	4 April 2021 £m
Prime residential	**74**	93
Buy to let and legacy residential	**199**	224
Consumer banking	**486**	502
Commercial lending	**25**	33
Total	**784**	852

8. Impairment reversals/losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the Group uses outputs from statistical models, incorporating a number of estimates and judgements to determine the probability of default (PD), the exposure at default, and the loss given default (LGD) for each loan.

The most significant areas of estimation uncertainty are:

- the impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)
- the performance of interest only mortgages at maturity
- the level of future recoveries for retail lending
- the use of forward-looking economic information using multiple economic scenarios

The most significant area of judgement is:

- the approach to identifying significant increases in credit risk and impairment. There have been no changes to the approach disclosed in the Annual Report and Accounts 2021.

The table below shows the amounts included in provisions in relation to the significant areas of estimation uncertainty for the retail portfolios (residential mortgages and consumer banking), with further details provided on the following pages. There are no material impacts on impairment provisions for the commercial portfolio.

Significant areas of estimation uncertainty	**30 September 2021**			4 April 2021		
	Residential Mortgages	**Consumer Banking**	**Total**	Residential Mortgages	Consumer Banking	Total
	£m	**£m**	**£m**	£m	£m	£m
Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)	**53**	**60**	**113**	57	99	156
Performance of interest only mortgages at maturity	**48**	**-**	**48**	69	-	69
Level of future recoveries for retail lending	**59**	**22**	**81**	56	22	78
Impact of applying multiple economic scenarios (note i)	**76**	**46**	**122**	105	53	158

Note:

i. The total impact of applying multiple economic scenarios is to increase provisions by £122 million (4 April 2021: £158 million), compared with provisions based on the central economic scenario. £22 million (4 April 2021: £41 million) of this total impact is also included in the values disclosed for the other areas of estimation uncertainty in the table, as these are calculated based on multiple economic scenarios.

8. Impairment reversals/losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)

Suppressed credit risk associated with payment deferrals

Payment deferrals or other similar concessions were offered on all retail products as a result of Covid-19. Although these payment deferrals ended on 31 July 2021, it is recognised that in some cases borrowers will experience longer-term financial difficulty as a result of the pandemic, and additional ECLs have therefore been recognised in respect of some borrowing where payment deferrals were granted. Unlike other concessions granted to borrowers in financial difficulty, these payment deferrals have not been subject to detailed affordability assessments, and therefore the degree of financial difficulty experienced by the members and customers who apply for them requires estimation.

A proportion of loans which were granted payment deferrals are judged to carry an increased risk which has not yet emerged due to payment deferrals and other government support schemes suppressing arrears. The PD applied to a higher risk proportion of these loans has been increased where appropriate. During the period, as economic conditions have improved and lending has been repaid, the total provision for this risk across all lending portfolios has reduced to £57 million (4 April 2021: £74 million). Of this provision, £24 million (4 April 2021: £36 million) relates to residential mortgages and £33 million (4 April 2021: £38 million) relates to consumer banking. The proportion of payment deferrals to which the adjustment was applied varied between 9% and 23% (4 April 2021: between 10% and 27%), depending on the portfolio; an increase in this proportion by 5 percentage points would have increased provisions by £23 million.

At 30 September 2021, £2 billion (4 April 2021: £2 billion) of residential mortgages are reported in stage 2 as a result of this increased risk.

Temporary reduction in arrears

Arrears balances across all products have reduced since the start of the Covid-19 pandemic, leading to a reduction in modelled provisions. Management has judged this to be a temporary position due to the availability of government support schemes and an adjustment of £73 million (4 April 2021: £57 million) has been made to provisions to recognise the underlying risk. Of this, £29 million (4 April 2021: £21 million) relates to residential mortgages and £44 million (4 April 2021: £36 million) relates to consumer banking.

This adjustment is expected to reduce as arrears start to return to the levels associated with prevailing economic conditions. This adjustment has been allocated to stage 2 loans.

Relationship between GDP and expected defaults

The impacts of Covid-19 and related support measures have changed the relationships between economic variables such as GDP and unemployment, and the subsequent expected defaults. GDP is an input into the consumer banking ECL models. A change has therefore been made to model inputs since 30 September 2020 to delay and smooth the impacts of the fluctuations in GDP over the past 18 months, in order to maintain provision levels consistent with a more comprehensive consideration of economic conditions. Had this change not been made, the ECL on consumer banking portfolios would have been higher at 30 September 2021 by £17 million (4 April 2021: lower by £25 million).

8. Impairment reversals/losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Performance of interest only mortgages at maturity

There is a risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Buy to let mortgages are typically advanced on an interest only basis. Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis has been agreed. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2. The ability of a borrower to refinance is calculated using current lending criteria which considers LTV and affordability assessments. The impact of recognising the risk of inability to refinance or repay at maturity is to increase ECLs by £48 million (4 April 2021: £69 million). If the interest rate used within the affordability assessment was increased by 1%, provisions would increase by £6 million.

Level of future recoveries for retail lending

Residential mortgages: collateral values

For residential mortgages, the estimate of future collateral values is a key source of estimation uncertainty, with two adjustments required to recognise the impact of risks which are not reflected in the modelled outputs.

Firstly, an adjustment is made to reflect the property valuation risk associated with flats subject to fire safety risks such as unsuitable cladding. Due to limited data availability to identify affected properties individually, it is assumed that a proportion of the flats securing loans in the residential mortgage portfolios are affected, in line with UK market exposure estimates. Assumptions relating to property values have been applied based upon the height of the affected buildings. The ECL adjustment is £29 million (4 April 2021: £23 million), of which £14 million relates to buildings with six or more storeys.

Secondly, an adjustment is made to reflect the idiosyncratic risk relating to recovery values for repossessed properties over the next few years. It is considered that proceeds from disposal of repossessed properties in the future are more uncertain than observed historically and may not reflect the HPI recovery assumed for the wider market. This adjustment has been applied by reducing modelled property valuations, and also by increasing the expected variance in valuations achieved across the portfolio. This adjustment totals £30 million (4 April 2021: £33 million), which equates to a 2% increase in the stage 3 provision coverage ratio.

Consumer banking: future recoveries

For consumer banking, the estimate of future recoveries is a key source of estimation uncertainty. The Group uses a combination of both historical data and management judgement in estimating the level and timing of future recoveries. It is management's judgement that the recovery experience over recent years is not sustainable in the future, and therefore additional provisions totalling £22 million (4 April 2021: £22 million) are held on charged off assets to reflect a future reduction in recovery rates. This represents 11% of total charged off balances.

8. Impairment reversals/losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Use of forward-looking economic information

Management exercises judgement in the selection of economic assumptions to be used in the modelling of multiple economic scenarios. The economic scenarios are reviewed and updated on a quarterly basis. The provision recognised is the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and associated probability weights are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions. The Group continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes. The impact of applying multiple economic scenarios (MES) is to increase provisions at 30 September 2021 by £122 million (4 April 2021: £159 million), compared with provisions based on the central economic scenario.

At 30 September 2021, the probability weightings for each scenario were reviewed and the probabilities allocated to the upside and downside scenarios were updated. The changes in scenario weightings during the period reflect the improvement in economic outlook since 4 April 2021. The downside scenario, which features an 8% peak in unemployment and a 14.3% fall in house prices from December 2020 levels, is judged to be less likely, whilst the probability of upside (30%) versus downside/severe downside (together 30%) scenarios are judged to be more evenly balanced. The probability weightings applied to the scenarios are shown in the table below:

Scenario probability weighting (%)	Upside scenario	Central scenario	Downside scenario	Severe downside scenario
30 September 2021	**30**	**40**	**20**	**10**
4 April 2021	10	40	40	10

All four economic scenarios reflect the removal of Covid-19 restrictions during the summer of 2021. The upside and central economic scenarios assume that these restrictions are not reintroduced, while both downside scenarios are consistent with restrictions being reintroduced towards the end of 2021. The downside scenarios are therefore consistent with vaccines proving to be less effective in preventing illness than anticipated. There also remains uncertainty over the extent to which government support schemes will have avoided or merely delayed the adverse credit consequences of the pandemic.

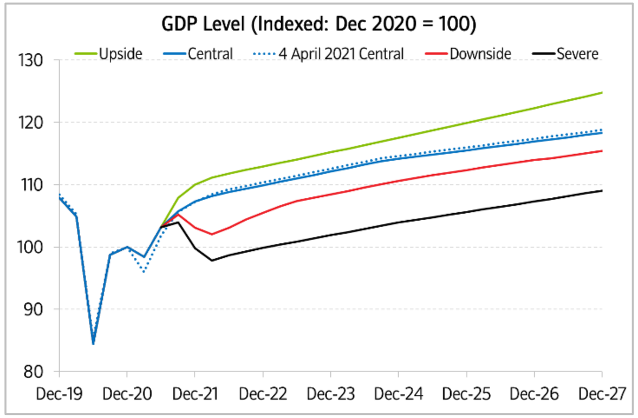
In the central scenario at 30 September 2021, GDP recovers in line with the assumptions used in the central scenario at 4 April 2021. The end of the government support schemes is expected to result in an increase in the unemployment rate; however, the resilience of the labour market to date has resulted in the forecast peak unemployment rate reducing to 6.0% in this scenario (4 April 2021: 8.0%). A reduction to the peak unemployment rate has been made in each of the economic scenarios, with this peak being delayed due to the extension of the furlough scheme until 30 September 2021. House price growth has been driven by both shifts in household preferences since the pandemic and by policy support, including the stamp duty holiday. The upside scenario assumes that this growth is sustained, whilst the central and downside scenarios assume that house prices fall from Q4 2021, driven by the stamp duty holiday ending and the labour market conditions beginning to deteriorate. The central scenario house prices are more favourable than those forecast at 4 April 2021 due to the more favourable labour market forecast. The bank base rate is forecast to remain at 0.1% across all scenarios between 2021 and 2025, with the exception of the upside scenario, where an increase to 1.25% is forecast by the end of 2025. The severe downside scenario continues to be aligned with internal stress testing and reflects a severe long-lasting impact on the UK economy.

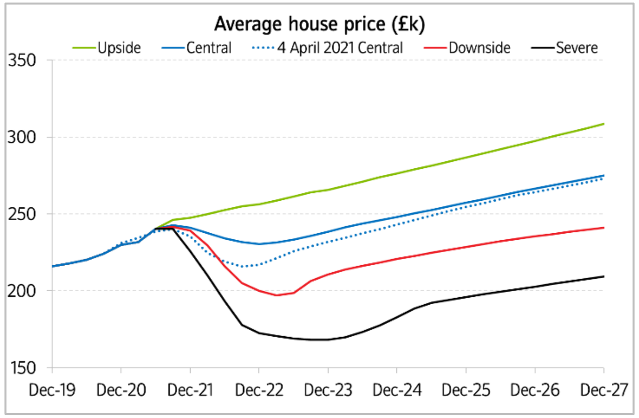
Due to the severity of the severe downside scenario, it is management's judgement that the modelled outputs would not reflect the non-linear impacts that would arise in this scenario. A separate calculation is therefore performed using information from internal and external stress testing exercises, to derive adjustments to probability of default and loss given default at a portfolio level. This adjustment to reflect the weighted impact of the severe downside scenario increases provisions by £94 million (4 April 2021: £102 million).

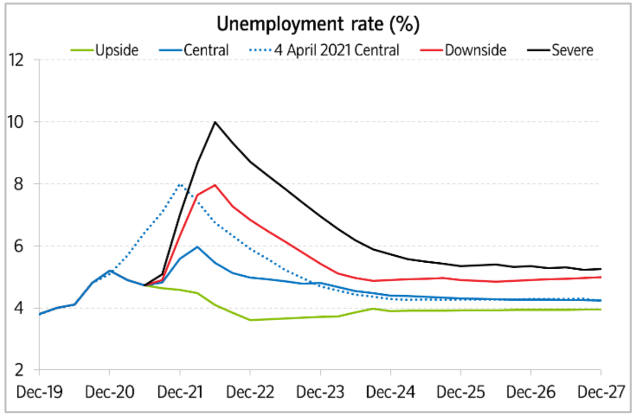
8. Impairment reversals/losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The graphs below show the historical and forecasted GDP level, average house price and unemployment rate for the Group's economic scenarios, including the previous central economic scenario.







The tables below provide a summary of the values of the key UK economic variables used in the economic scenarios over the first five years of the scenario:

Economic variables									
	Rate/annual growth rate at December 2020-2025						**5-year average (note ii)**	**Dec-20 to peak (notes iii and iv)**	**Dec-20 to trough (notes iii and iv)**
	Actual (note i)	**Forecast**							
30 September 2021	**2020 %**	**2021 %**	**2022 %**	**2023 %**	**2024 %**	**2025 %**	**%**	**%**	**%**
GDP growth									
Upside scenario	(7.3)	10.0	2.6	2.0	2.0	2.0	3.7	19.9	(1.6)
Central scenario	(7.3)	7.3	2.4	2.0	1.8	1.2	2.9	15.5	(1.6)
Downside scenario	(7.3)	3.1	2.3	2.8	2.0	1.6	2.4	12.4	(1.6)
Severe downside scenario	(7.3)	(0.2)	0.1	2.0	2.0	1.6	1.1	5.6	(2.2)
HPI growth									
Upside scenario	6.4	7.7	3.5	3.7	4.0	3.8	4.5	24.7	0.8
Central scenario	6.4	4.9	(4.4)	3.4	4.1	3.7	2.3	11.9	0.3
Downside scenario	6.4	4.1	(16.4)	5.3	4.8	3.5	(0.1)	5.2	(14.3)
Severe downside scenario	6.4	(1.7)	(23.6)	(2.5)	8.8	7.2	(3.1)	4.5	(26.8)
Unemployment									
Upside scenario	5.2	4.6	3.6	3.7	3.9	3.9	4.0	4.9	3.6
Central scenario	5.2	5.6	5.0	4.8	4.4	4.3	4.8	6.0	4.3
Downside scenario	5.2	6.3	6.8	5.4	4.9	4.9	5.7	8.0	4.7
Severe downside scenario	5.2	7.0	8.7	7.0	5.7	5.4	6.8	10.0	4.7

8. Impairment reversals/losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Economic variables	Rate/annual growth rate at December 2020-2025						5-year average (note ii)	Dec-20 to peak (notes iii and iv)	Dec-20 to trough (notes iii and iv)
	Actual (note i)	Forecast							
4 April 2021	2020 %	2021 %	2022 %	2023 %	2024 %	2025 %	%	%	%
GDP growth									
Upside scenario	(7.8)	10.6	2.6	2.0	2.0	1.6	3.7	20.0	(3.2)
Central scenario	(7.8)	7.2	2.9	2.0	1.8	1.2	3.0	16.0	(4.0)
Downside scenario	(7.8)	2.0	4.6	2.8	2.0	1.6	2.6	13.6	(6.2)
Severe downside scenario	(7.8)	(3.2)	3.9	2.0	2.0	1.6	1.2	6.3	(8.5)
HPI growth									
Upside scenario	7.0	7.5	3.0	3.9	3.5	3.5	4.3	23.4	2.0
Central scenario	7.0	1.9	(7.8)	6.9	4.9	4.7	2.0	10.2	(6.6)
Downside scenario	7.0	(2.2)	(14.7)	8.0	4.7	3.5	(0.5)	1.9	(16.9)
Severe downside scenario	7.0	(5.9)	(22.8)	(3.5)	8.8	7.2	(4.0)	0.8	(29.9)
Unemployment									
Upside scenario	5.1	5.3	4.3	3.9	3.9	3.9	4.4	5.7	3.9
Central scenario	5.1	8.0	5.9	4.7	4.3	4.3	5.4	8.0	4.3
Downside scenario	5.1	9.5	7.4	5.8	5.1	5.0	6.5	9.5	5.0
Severe downside scenario	5.1	12.0	10.0	8.6	7.0	5.7	8.5	12.0	5.7

Notes:

i. The 2020 actual data as presented in the Annual Report and Accounts 2021 has been updated to reflect the most recent published economic data.
ii. The average rate for GDP and HPI is based on the cumulative annual growth rate over the forecast period. Average unemployment is calculated using a simple average using quarterly points.
iii. GDP growth and HPI are shown as the largest cumulative growth/fall from 31 December over the forecast period.
iv. The unemployment rate is shown as the highest/lowest rate over the forecast period from 31 December.

8. Impairment reversals/losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

To give an indication of the sensitivity of ECLs to different economic scenarios, the table below shows the ECL if 100% weighting is applied to each scenario:

Sensitivity analysis impact of multiple economic scenarios					
	Upside scenario	**Central scenario**	**Downside scenario**	**Severe downside scenario**	**Reported provision**
30 September 2021	**£m**	**£m**	**£m**	**£m**	**£m**
Residential mortgages	**174**	**197**	**267**	**935**	**273**
Consumer banking	**429**	**440**	**457**	**911**	**486**
Commercial lending	**24**	**25**	**27**	**29**	**25**
Total	**627**	**662**	**751**	**1,875**	**784**
4 April 2021	£m	£m	£m	£m	£m
Residential mortgages	158	212	261	998	317
Consumer banking	428	449	458	916	502
Commercial lending	29	32	34	38	33
Total	615	693	753	1,952	852

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation; this is based on a weighted average PD which takes into account the economic scenarios. A probability weighted 12 month or lifetime ECL (which takes into account the economic scenarios) is then calculated based on the stage allocation.

The table below shows the sensitivity at 30 September 2021 to some of the key assumptions used within the ECL calculation:

Sensitivity to key forward-looking information assumptions	
	Increase in provision
2021	**£m**
Sensitivity to changes in scenario probability weightings	
10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%)	**12**
5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%)	**56**

9. Taxation

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

Reconciliation of tax charge	Half year to 30 September 2021	Half year to 30 September 2020
	£m	£m
Profit before tax:	**853**	361
Tax calculated at a tax rate of 19%	**162**	69
Adjustments in respect of prior years	**(22)**	-
Tax credit on distribution to the holders of Additional Tier 1 capital	**(8)**	(9)
Banking surcharge	**38**	14
Expenses not deductible for tax purposes	**1**	8
Effect of deferred tax provided at different tax rates	**2**	(2)
Temporary differences not previously recognised	**(5)**	-
Tax charge	**168**	80

It was announced in the Budget on 3 March 2021 that the main rate of corporation tax of 19% would be increased to 25% with effect from 1 April 2023. This legislative change was enacted on 10 June 2021. The impact of this change on deferred tax balances is an increase in the Group's net deferred tax liability of £6 million, all of which was recognised in other comprehensive income. On 27 October 2021 it was announced in the Budget that the banking surcharge would decrease from 8% to 3% and the surcharge allowance would increase from £25 million to £100 million, also from 1 April 2023. As this change was not substantively enacted at 30 September 2021, the impact has not been reflected in these consolidated interim financial statements. Upon enactment, this will require a further remeasurement of the Group's deferred tax assets and liabilities and is expected to substantially reverse the £6 million impact recognised in the period ended 30 September 2021.

10. Loans and advances to customers

	30 September 2021						4 April 2021					
	Loans held at amortised cost				**Loans held at FVTPL**	**Total**	Loans held at amortised cost				Loans held at FVTPL	Total
	Gross	**Provisions**	**Other (note i)**	**Total**			Gross	Provisions	Other (note i)	Total		
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Prime residential mortgages	**151,560**	**(74)**	**-**	**151,486**	**64**	**151,550**	149,706	(93)	-	149,613	68	149,681
Buy to let and legacy residential mortgages	**42,658**	**(199)**	**-**	**42,459**	**-**	**42,459**	41,249	(224)	-	41,025	-	41,025
Consumer banking	**4,660**	**(486)**	**-**	**4,174**	**-**	**4,174**	4,404	(502)	-	3,902	-	3,902
Commercial lending	**5,911**	**(25)**	**593**	**6,479**	**52**	**6,531**	6,267	(33)	653	6,887	52	6,939
Total	**204,789**	**(784)**	**593**	**204,598**	**116**	**204,714**	201,626	(852)	653	201,427	120	201,547

Note:
i. 'Other' represents a fair value adjustment for micro hedged risk for commercial loans that were previously hedged on an individual basis.

10. Loans and advances to customers (continued)

The tables below summarise the movements in, and stage allocations of, gross loans and advances to customers held at amortised cost, including the impact of ECL impairment provisions and excluding the fair value adjustment for micro hedged risk. The lines within the tables are an aggregation of monthly movements over the period. Residential mortgages represent the majority of the Group's loans and advances to customers. Additional tables summarising the movements for the Group's residential mortgages and consumer banking are presented in the Credit risk section of the Risk report.

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				**Credit impaired (note i)**			
	Subject to 12 month ECL		**Subject to lifetime ECL**		**Subject to lifetime ECL**		**Total**	
	Stage 1		**Stage 2**		**Stage 3 and POCI**			
	Gross balances	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 5 April 2021	187,839	116	11,868	388	1,919	348	201,626	852
Stage transfers:								
Transfers from stage 1 to stage 2	**(6,565)**	**(25)**	**6,565**	**25**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(139)**	**(2)**	**(401)**	**(53)**	**540**	**55**	**-**	**-**
Transfers from stage 2 to stage 1	**7,544**	**133**	**(7,544)**	**(133)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**117**	**2**	**217**	**14**	**(334)**	**(16)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(105)**		**125**		**(4)**		**16**
Net movement arising from transfer of stage (note ii)	**957**	**3**	**(1,163)**	**(22)**	**206**	**35**	**-**	**16**
New assets originated or purchased (note iii)	**19,293**	**22**	**-**	**-**	**-**	**-**	**19,293**	**22**
Net impact of further lending and repayments (note iv)	**(4,018)**	**(18)**	**(120)**	**(16)**	**(51)**	**(10)**	**(4,189)**	**(44)**
Changes in risk parameters in relation to credit quality (note v)	**-**	**(14)**	**-**	**(7)**	**-**	**20**	**-**	**(1)**
Other items impacting income statement charge/(reversal) including recoveries	**-**	**-**	**-**	**-**	**-**	**(7)**	**-**	**(7)**
Redemptions (note vi)	**(11,088)**	**(3)**	**(636)**	**(9)**	**(171)**	**(8)**	**(11,895)**	**(20)**
Income statement reversal for the period								**(34)**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(46)**	**(41)**	**(46)**	**(41)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**7**	**-**	**7**
At 30 September 2021	**192,983**	**106**	**9,949**	**334**	**1,857**	**344**	**204,789**	**784**
Net carrying amount		**192,877**		**9,615**		**1,513**		**204,005**

10. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020 (note vii)	188,403	75	10,690	269	1,802	341	200,895	786
Stage transfers:								
Transfers from Stage 1 to Stage 2	(7,717)	(30)	7,717	30	-	-	-	-
Transfers to Stage 3	(121)	-	(374)	(60)	495	60	-	-
Transfers from Stage 2 to Stage 1	9,031	148	(9,031)	(148)	-	-	-	-
Transfers from Stage 3	118	-	258	15	(376)	(15)	-	-
Net remeasurement of ECL arising from transfer of stage		(114)		184		-		70
Net movement arising from transfer of stage (note ii)	1,311	4	(1,430)	21	119	45	-	70
New assets originated or purchased (note iii)	14,217	25	-	-	-	-	14,217	25
Net impact of further lending and repayments (note iv)	(4,040)	(26)	(43)	(14)	(16)	(9)	(4,099)	(49)
Changes in risk parameters in relation to credit quality (note v)	-	40	-	89	-	32	-	161
Other items impacting income statement charge/(reversal) including recoveries	-	-	-	-	-	(5)	-	(5)
Redemptions (note vi)	(8,445)	(2)	(380)	(5)	(119)	(2)	(8,944)	(9)
Reversal of additional Covid-19 provision (note vii)								(101)
Additional management adjustment (note viii)								47
Income statement charge for the period								139
Decrease due to write-offs	-	-	-	-	(59)	(55)	(59)	(55)
Other provision movements	-	-	-	-	-	5	-	5
At 30 September 2020 (note viii)	191,446	116	8,837	360	1,727	352	202,010	875
Net carrying amount (note viii)		191,330		8,477		1,375		201,135

Notes:

i. Gross balances of credit impaired loans include £140 million (4 April 2021: £148 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £5 million (4 April 2021: £5 million).

ii. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.

iii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in stage 1.

iv. This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.

v. This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.

vi. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

vii. At 4 April 2020, an additional provision for credit losses of £101 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans nor was it attributed to stages. This provision was allocated to underlying loans and is reflected in the movements within the table and the 30 September 2020 position.

viii. At 30 September 2020, an additional provision adjustment of £47 million was recognised to reflect challenges in estimating ECLs during the Covid-19 pandemic. At 30 September 2020, this additional provision was not allocated to underlying loans nor was it attributable to stages. This provision has subsequently been allocated to underlying loans.

11. Fair value hierarchy of financial assets and liabilities held at fair value

IFRS 13 requires an entity to classify assets and liabilities 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 in note 1 of the Annual Report and Accounts 2021.

Details of those financial assets and liabilities not measured at fair value are included in note 12.

The following table shows 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 2021				4 April 2021			
	Fair values based on				Fair values based on			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial assets								
Government, government related entities and supranational investments	**19,656**	**-**	**-**	**19,656**	21,363	-	-	21,363
Other debt investment securities	**1,960**	**1,261**	**5**	**3,226**	1,748	1,087	5	2,840
Investments in equity shares	**-**	**-**	**88**	**88**	-	-	27	27
Total investment securities (note i)	**21,616**	**1,261**	**93**	**22,970**	23,111	1,087	32	24,230
Interest rate swaps	**-**	**1,855**	**-**	**1,855**	-	1,569	-	1,569
Cross currency interest rate swaps	**-**	**1,876**	**-**	**1,876**	-	2,055	-	2,055
Foreign exchange swaps	**-**	**255**	**-**	**255**	-	20	-	20
Inflation swaps	**-**	**-**	**115**	**115**	-	-	112	112
Bond forwards and futures	**-**	**10**	**-**	**10**	-	53	-	53
Total derivative financial instruments	**-**	**3,996**	**115**	**4,111**	-	3,697	112	3,809
Loans and advances to customers	**-**	**-**	**116**	**116**	-	-	120	120
Total financial assets	**21,616**	**5,257**	**324**	**27,197**	23,111	4,784	264	28,159
Financial liabilities								
Interest rate swaps	**-**	**(611)**	**-**	**(611)**	-	(737)	-	(737)
Cross currency interest rate swaps	**-**	**(612)**	**-**	**(612)**	-	(819)	-	(819)
Foreign exchange swaps	**-**	**(5)**	**-**	**(5)**	-	(12)	-	(12)
Inflation swaps	**-**	**-**	**(110)**	**(110)**	-	-	(52)	(52)
Bond forwards and futures	**-**	**-**	**-**	**-**	-	(2)	-	(2)
Total derivative financial instruments	**-**	**(1,228)**	**(110)**	**(1,338)**	-	(1,570)	(52)	(1,622)
Total financial liabilities	**-**	**(1,228)**	**(110)**	**(1,338)**	-	(1,570)	(52)	(1,622)

Note:

i. Investment securities shown here exclude £913 million (4 April 2021: £1,243 million) of investment securities held at amortised cost.

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

Transfers between fair value hierarchies

Instruments may move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to their valuation, and are recognised at the date of the event or change in circumstances which caused the transfer. There were no significant transfers between Level 1 and Level 2 during the period.

Level 1 and Level 2 portfolios

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

Asset valuations for Level 2 investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 investment securities are valued from models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs.

Level 3 portfolio

The Group's Level 3 portfolio consists of:

- certain loans and advances to customers, including a closed portfolio of residential mortgages and a small number of commercial loans;
- certain investment securities, comprising primarily investments made in Fintech companies; and
- inflation swaps.

The table below sets out movements in the Level 3 portfolio, including transfers in and out of Level 3:

Movements in Level 3 portfolio	**Half year to 30 September 2021**				Half year to 30 September 2020			
	Investment securities	**Derivative financial assets**	**Derivative financial liabilities**	**Loans and advances to customers**	Investment securities	Derivative financial assets	Derivative financial liabilities	Loans and advances to customers
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
At 5 April	32	112	(52)	120	18	-	-	128
Gains/(losses) recognised in the income statement, within:								
Net interest income	**-**	**23**	**(73)**	**1**	-	-	-	2
(Losses)/gains from derivatives and hedge accounting (note i)	**-**	**(2)**	**12**	**-**	-	-	-	-
Other operating income/(expense)	**25**	**3**	**(13)**	**1**	-	-	-	(1)
Gains recognised in other comprehensive income, within:								
Fair value through other comprehensive income reserve	**16**	**-**	**-**	**-**	-	-	-	-
Additions	**20**	**-**	**-**	**-**	9	-	-	-
Disposals	**-**	**(2)**	**12**	**-**	-	-	-	-
Settlements/repayments	**-**	**(19)**	**4**	**(6)**	-	-	-	(3)
Transfers into Level 3 portfolio	**-**	**-**	**-**	**-**	-	51	(116)	-
At 30 September	**93**	**115**	**(110)**	**116**	27	51	(116)	126

Note:
i. Includes foreign exchange revaluation gains/losses.

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

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 are significant unobservable market inputs. Reasonable alternative assumptions can be applied for the purposes of 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 the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or members' interests and equity:

Sensitivity of Level 3 fair values

	30 September 2021					4 April 2021		
		Income statement		Other comprehensive income			Income statement	
	Fair value	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Fair value	Favourable changes	Unfavourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Investment securities	93	3	(4)	3	(2)	32	13	(6)
Derivative financial instruments - assets	115	11	(11)	-	-	112	21	(21)
Derivative financial instruments - liabilities	(110)	51	(51)	-	-	(52)	28	(28)
Loans and advances to customers	116	2	(2)	-	-	120	2	(3)
Total	214	67	(68)	3	(2)	212	64	(58)

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market. 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. Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below:

Significant unobservable inputs

	30 September 2021							4 April 2021						
	Total assets	Total liabilities	Valuation technique	Significant unobservable inputs	Range (note i)		Units	Total assets	Total liabilities	Valuation technique	Significant unobservable inputs	Range (note i)		Units
	£m	£m						£m	£m					
Investment securities	93	-	Internal assessment	Various (note ii)	-	-	£	32	-	Discounted cash flows	Discount rate	10.00	15.00	%
										Discounted cash flows	Cash flow projections	95.00	105.00	%
Derivative financial instruments	115	(110)	Discounted cash flows	Seasonality	0.00	0.85	%	112	(52)	Discounted cash flows	Seasonality	0.00	0.81	%
Loans and advances to customers	116	-	Discounted cash flows	Discount rate	2.08	9.75	%	120	-	Discounted cash flows	Discount rate	2.09	9.75	%

Notes:

i. The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the table of sensitivities above.

ii. Given the wide range of investments and variety of inputs to modelled values, which may include inputs such as observed market prices, discount rates, revenue multiples or probability weightings of expected outcomes, the Group does not disclose ranges as they are not meaningful without reference to individual underlying investments, which would be impracticable. Changes have been made to the valuation approach during the period to reference recent market transactions where available and to incorporate additional inputs.

12. Fair value of financial assets and liabilities measured at amortised cost

Valuation methodologies employed in calculating the fair value of financial assets and liabilities measured at amortised cost are consistent with those disclosed in the Annual Report and Accounts 2021.

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:

Fair value of financial assets and liabilities measured at amortised cost (note i)				
	30 September 2021		4 April 2021	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Loans and advances to banks and similar institutions	**3,275**	**3,275**	3,660	3,660
Investment securities	**913**	**915**	1,243	1,245
Loans and advances to customers:				
Residential mortgages	**193,945**	**195,887**	190,638	193,645
Consumer banking	**4,174**	**4,127**	3,902	3,866
Commercial lending	**6,479**	**6,406**	6,887	6,638
Total	**208,786**	**210,610**	206,330	209,054
Financial liabilities				
Shares	**177,431**	**177,446**	170,313	170,415
Deposits from banks and similar institutions	**36,435**	**36,435**	27,022	27,022
Other deposits	**7,823**	**7,823**	4,522	4,522
Debt securities in issue	**38,031**	**38,737**	27,923	28,633
Subordinated liabilities	**7,710**	**7,974**	7,575	7,833
Subscribed capital	**232**	**232**	243	233
Total	**267,662**	**268,647**	237,598	238,658

Note:
i. The table above excludes cash for which fair value approximates carrying value.

13. Provisions for liabilities and charges

	Customer redress	Other provisions	Total
	£m	£m	£m
At 5 April 2021	124	35	159
Provisions utilised	**(36)**	**(15)**	**(51)**
Charge for the period	**78**	**8**	**86**
Release for the period	**(2)**	**(2)**	**(4)**
Net income statement charge (note i)	**76**	**6**	**82**
At 30 September 2021	**164**	**26**	**190**

Note:

i. The net income statement charge relating to customer redress is included in provisions for liabilities and charges, with the exception of £23 million which is included in administrative expenses. The net income statement charge relating to other provisions is included in administrative expenses.

Customer redress

During the course of its business, the Group receives complaints from customers in relation to past sales or ongoing administration. The Group is also subject to enquiries from and discussions with its regulators and governmental and other public bodies, including the Financial Ombudsman Service (FOS), on a range of matters. Consideration of such customer redress matters may result in a provision, a contingent liability or both, depending upon relevant facts and circumstances. No provision is made where it is concluded that it is not probable that a quantifiable payment will be made; this will include circumstances where the facts are unclear or further time is required to reasonably quantify the expected payment.

At 30 September 2021, the Group held provisions of £164 million (4 April 2021: £124 million) in respect of the potential costs of remediation and redress relating to issues with historical quality control procedures, past sales and administration of customer accounts, and other regulatory matters.

Provisions for customer redress relating to historical quality control procedures and past administration of customer accounts have been based on detailed reviews completed to date into specific areas of concern and represent the Group's best estimate of the liabilities. As further work is undertaken on these areas, it is possible that the ultimate liabilities may be higher or lower than the amounts provided at 30 September 2021. An estimate of the potential impact of any contingent liabilities associated with the ongoing investigations has not been provided as it is not practicable to do so.

Critical accounting estimates and judgements

There is significant estimation uncertainty in determining the probability, timing and amount of any cash outflows associated with customer redress provisions.

Provisions are recognised for matters relating to customer redress where an outflow is probable and can be estimated reliably. Amounts provided are based on management's best estimate of the number of customers impacted and anticipated remediation. As any new matters emerge, an estimate is made of the outcome, although in some cases uncertainties remain as to the eventual costs given the inherent difficulties in determining the number of impacted customers and the amount of any redress applicable.

Other provisions

Other provisions primarily include amounts for severance costs, a number of property-related provisions and expected credit losses on irrevocable personal loan and mortgage lending commitments.

14. Contingent liabilities

During the ordinary course of business, the Group may be subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. Any such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote. The Group also does not disclose an estimate of the potential financial impact or effect on the Group of contingent liabilities where it is not currently practicable to do so. The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position.

Contingent liabilities associated with redress provisions are discussed further in note 13.

15. Retirement benefit obligations

The Group continues to operate two defined contribution schemes and a number of defined benefit pension arrangements, the most significant being the Nationwide Pension Fund (the Fund); further details are set out in note 30 of the Annual Report and Accounts 2021.

Defined benefit pension schemes

Retirement benefit obligations on the balance sheet	30 September 2021 £m	4 April 2021 £m
Fair value of fund assets	**7,401**	7,033
Present value of funded obligations	**(6,921)**	(6,853)
Present value of unfunded obligations	**(8)**	(8)
Surplus	**472**	172

The principal actuarial assumptions used are as follows:

Principal actuarial assumptions	30 September 2021 %	4 April 2021 %
Discount rate	**2.05**	2.00
Future pension increases (maximum 5%)	**3.10**	3.00
Retail price index (RPI) inflation	**3.25**	3.10
Consumer price index (CPI) inflation	**2.60**	2.40

Assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancies and are adapted to represent the Fund's membership.

15. Retirement benefit obligations (continued)

Changes in the present value of the net defined benefit asset (including unfunded obligations) are as follows:

Movements in net defined benefit asset	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Surplus at 5 April	172	294
Current service cost	-	(37)
Past service cost	-	(2)
Interest on net defined benefit asset	**2**	3
Return on assets greater than discount rate (note i)	**390**	652
Contributions by employer	**1**	33
Administrative expenses	**(3)**	(3)
Actuarial losses on defined benefit obligations (note i)	**(90)**	(707)
Surplus at 30 September	**472**	233

Note:

i. The net impact before tax on the surplus of actuarial losses and return on assets is an increase of £300 million (H1 2020/21: £55 million decrease) in other comprehensive income.

The £390 million gain relating to the return on assets greater than the discount rate (H1 2020/21: £652 million) is primarily driven by increases in the value of UK government bonds, listed equities, private equity, infrastructure and property investments.

Following the closure of the Fund to future accrual on 31 March 2021, there were no employer contributions made in respect of future benefit accrual (H1 2020/21: £33 million). There have also been no employer deficit contributions required into the Fund following the completion of the 31 March 2019 valuation (H1 2020/21: £nil). Employer deficit contributions of £1 million were made in respect of the Group's defined benefit scheme in its Nationwide (Isle of Man) Limited subsidiary.

The £90 million actuarial loss on defined benefit obligations (H1 2020/21: loss of £707 million) is primarily driven by a 0.15% increase in assumed RPI inflation which was partially offset by a 0.05% increase in the discount rate.

16. Related party transactions

There were no related party transactions during the period ended 30 September 2021 which were significant to the Group's financial position or performance. Full details of the Group's related party transactions for the year ended 4 April 2021 can be found in note 35 of the Annual Report and Accounts 2021.

17. Notes to the consolidated cash flow statement

	Half year to 30 September 2021 £m	Half year to 30 September 2020 £m
Non-cash items included in profit before tax		
Net (decrease)/increase in impairment provisions	**(68)**	89
Net increase in provisions for liabilities and charges (note i)	**31**	10
Amortisation and (gains)/losses on investment securities	**(82)**	23
Depreciation, amortisation and impairment	**252**	276
Profit on sale of property, plant and equipment	**(2)**	(1)
Loss on the revaluation of property, plant and equipment	**-**	8
Net charge in respect of retirement benefit obligations	**1**	39
Interest on subordinated liabilities	**65**	87
Interest on subscribed capital	**2**	2
Gains from derivatives and hedge accounting	**(3)**	(56)
Total	**196**	477
Changes in operating assets and liabilities		
Loans and advances to banks and similar institutions	**474**	(11)
Net derivative financial instruments	**506**	(72)
Loans and advances to customers	**(3,159)**	(1,113)
Other operating assets	**94**	25
Shares	**7,118**	1,262
Deposits from banks and similar institutions, customers and others	**12,653**	9,689
Debt securities in issue	**9,849**	1,224
Contributions to defined benefit pension scheme	**(1)**	(33)
Other operating liabilities (note i)	**(170)**	(344)
Total	**27,364**	10,627
Cash and cash equivalents		
Cash	**46,498**	21,045
Loans and advances to banks and similar institutions repayable in 3 months or less	**1,154**	624
Total	**47,652**	21,669

Note:

i. Comparatives have been restated to better reflect the nature of liabilities associated with the UK Bank Levy, as further detailed in note 1 to the Annual Report and Accounts 2021. As a result, £29 million has been reclassified from 'Net (decrease)/increase in provisions for liabilities and charges' to 'Other operating liabilities'.

The Group is required to maintain balances with the Bank of England which, at 30 September 2021, amounted to £1,621 million (30 September 2020: £1,401 million). These balances are included within loans and advances to banks and similar institutions 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.

Responsibility statement

The directors listed below (being all the directors of Nationwide Building Society) confirm that, to the best of their knowledge:

- the consolidated interim financial statements have been prepared in accordance with UK-adopted International Accounting Standard 34, 'Interim Financial Reporting',
- the Interim Results include a fair review of the information required by Disclosure Guidance and Transparency Rules 4.2.7R and 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 2021.

Signed on behalf of the Board by

Chris Rhodes
Chief Financial Officer

18 November 2021

Board of directors

Chairman
David Roberts

Executive directors
Joe Garner
Chris Rhodes

Non-executive directors
Mai Fyfield
Albert Hitchcock
Debbie Klein
Kevin Parry
Tamara Rajah
Phil Rivett
Tim Tookey
Gunn Waersted

Independent review report to Nationwide Building Society

Conclusion

We have been engaged by Nationwide Building Society ('the Society') and its subsidiaries (together, 'the Group') to review the consolidated interim financial statements in the Interim Results for the period ended 30 September 2021 which comprise the consolidated balance sheet as at 30 September 2021 and the related income statement, statement of comprehensive income, statement of changes in members' interests and equity and cash flow statement for the period then ended and explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the consolidated interim financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements in the Interim Results for the period ended 30 September 2021 are not prepared, in all material respects, in accordance with UK-adopted International Accounting Standard (IAS) 34, "Interim Financial Reporting" and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. 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 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.

As disclosed in note 2, the annual financial statements of the Group will be prepared in accordance with UK adopted international accounting standards. The consolidated interim financial statements included in the Interim Results have been prepared in accordance with UK-adopted IAS 34.

Responsibilities of the directors

The directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Auditor's responsibilities for the review of the financial information

In reviewing the Interim Results, we are responsible for expressing to the Group a conclusion on the consolidated interim financial statements in the Interim Results. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the basis for conclusion paragraph of this report.

Use of our report

This report is made solely to the Group in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
18 November 2021

Other information

The Interim Results are unaudited and do not constitute accounts within the meaning of Section 73 of the Building Societies Act 1986.

The financial information for the year ended 4 April 2021 has been extracted from the Annual Report and Accounts 2021. The Annual Report and Accounts 2021 has been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Independent Auditors' Report on the Annual Report and Accounts 2021 was unqualified.

Nationwide has continued to adopt the Code for Financial Reporting Disclosure ('the code') published by the British Bankers' Association and subsequently adopted by UK Finance in its Annual Report and Accounts 2021. The code sets out five disclosure principles together with supporting guidance. These principles have been applied, as appropriate, in the context of the 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.

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