Interim Results

for the period ended

30 September 2022

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Introduction

Unless otherwise stated, the income statement analysis compares the period from 5 April 2022 to 30 September 2022 to the corresponding six months of 2021 and balance sheet analysis compares the position at 30 September 2022 to the position at 4 April 2022.

Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 8. 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, the policies and actions of regulatory authorities and the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. The economic outlook remains unusually uncertain and, 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 management as well as financial statements.

Chief Executive's review

Nationwide's mutual model delivers a strong financial performance, enabling support for members through uncertain times

Debbie Crosbie, Chief Executive, Nationwide Building Society, said:

"Nationwide's focus is on supporting members, today and for the long term.

"We continue to deliver competitive products, high-quality services and great customer experience. Nationwide has remained number 1 for customer satisfaction in our peer group for more than ten years[1].

"Our half year performance means we can invest more in new ways to support members; we have increased the current account switcher incentive and extended our support for members facing increases in the cost of living, including practical support provided in our branches, a dedicated telephone hotline and an online support hub.

"Nationwide is not immune to the current economic challenges and it's important to maintain financial strength. Our strategy is focused on growing the membership base, increasing value to members, and becoming simpler and more efficient in the way we operate. This will ensure the Society's future strength and ability to continue to support members and wider society."

Business and trading highlights

- Total gross mortgage lending grew by £1.5bn to £19.7bn (H1 2021: £18.2bn), with net lending of £5.4bn (H1 2021: £3.2bn). Market share of balances was maintained at 4 April 2022 level of 12.4% in a highly competitive market
- First for customer satisfaction among our peer group for over ten years, with a current lead of 3.4%pts[1]. Ranked 37th (January 2022: Joint 22nd)[2] in the all-sector UK Customer Satisfaction Index
- Supported our members through the launch of Member Online Bond and Start to Save products, and extended our Branch Promise to 2024
- Helped over 27,500 first time buyers into a home of their own (H1 2021: 30,000)
- Committed members have continued to grow to 3.64m[3] (4 April 2022: 3.62m)
- Deposit market share was 9.3% (4 April 2022: 9.4%)
- Continued growth in current accounts, maintaining market share of accounts at 10.3%[4] (February 2022: 10.3%)
- Proud to continue to commit 1% of pre-tax profits to good causes each year, which for 2022/23 includes £4m for our Community Grants programme and £1m cost of living support for charities. During the period we donated £817k to Shelter.
- Remain committed to achieving net zero by 2050.

Financial highlights

- Underlying profit increased to £980m (H1 2021: £850m) and statutory profit increased to £969m (H1 2021: £853m) due to income growth
- Rising interest rates supported growth in total underlying income to £2,190m (H1 2021: £1,894m)
- Net interest margin improved to 1.48% (H1 2021: 1.24%)
- Credit impairment charges are higher at £108m (H1 2021: release of £34m). We have not yet seen a significant increase in arrears; however, higher interest rates, rising inflation and the uncertain economic outlook remain key risks
- Total costs have increased to £1,083m (H1 2021: £1,025m) reflecting inflation and the cost of providing support to members and colleagues
- Our balance sheet remains strong, with Tier 1 capital resources increasing by £0.5bn, a leverage ratio of 5.8% and CET1 ratio of 25.5% (4 April 2022: 5.4% and 24.1%)
- Member financial benefit for H1 has increased to £320m (H1 2021: £145m), supported by our competitive mortgage and savings products; we passed a greater proportion of interest rate rises to savers than the market average

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[1] Lead at September 2022: 3.4%pts, March 2022: 4.6%pts. © Ipsos 2022, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to 12 months ending 30 September 2022. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 51,000 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 3.3% of the main current account market as of April 2022 – 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.
[2] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at July 2022 and January 2022.
[3] The 3.64 million refers to 'committed members' who have their main personal current account with us or a mortgage of at least £5,000, or at least £1,000 in savings accounts, plus at least one other product.
[4] CACI's Current Account and Savings Database, Stock (August 2022 and February 2022).

Chief Executive's review (continued)

Strategy update

- We want Nationwide to be considered the number one choice for personal financial services, with customer experience that's amongst the best in any sector.
- Following our strategic review, we will deliver a distinctive experience for our members today and in the future, shaped by our mutual model.
- We will use our strength as the world's largest building society to increase the value that our products provide to members, to excel in the services we provide, and to become more flexible and efficient as an organisation. We will commit our mutual purpose to the benefit of society as well as our members.
- We will increase member value and reward those who do more with us through tailored and competitive mortgage, savings and current account products. First time buyers will continue to trust us to help them into a home.
- Our value will be beyond rates and products, with services that stand out for ease, accessibility, security and trust: We will enhance our mobile-first experience, twinned with modern branches that offer personal support when members need it the most.
- Service excellence will be delivered through operational excellence: Simple, streamlined and flexible processes that respond when circumstances change and always grounded in resilient controls that protect our members and their money.
- The singular focus on members that only a mutual has, combined with the strength that comes from Nationwide's scale, provides the best opportunity to make a lasting impact in the lives of our members and on society for today and for the future.

Outlook

- The economic outlook remains highly uncertain, with increases in the cost of living and higher interest rates for borrowers putting further pressure on household finances and reducing consumer confidence. This is expected to lead to lower mortgage market activity in the second half of the year. These factors are fully reflected in the economic scenarios used within our credit loss provisions.
- Overall, our borrowers are relatively well placed to withstand these challenges in the short to medium term, 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. However, the transition to higher interest payments is a challenge for households as they adjust their expenditure priorities. We will continue to support those borrowers who face payment difficulties.
- Nationwide remains well positioned to use its financial strength to continue to support its members through the challenges ahead.

Debbie Crosbie
Chief Executive

Performance summary

Financial performance	Half year to 30 September 2022 £m	Half year to 30 September 2021 £m
Total underlying income	**2,190**	1,894
Administrative expenses	**1,083**	1,025
Underlying profit before tax (note i)	**980**	850
Statutory profit before tax	**969**	853
Member financial benefit (note ii)	**320**	145

Mortgage Lending	**£bn**	**%**	£bn	%
Group residential – gross/*market share*	**19.7**	***11.8***	18.2	*11.4*
Group residential – net/*market share*	**5.4**	***11.9***	3.2	*5.8*
Average loan to value of new residential lending (by value)		**69**		70

Deposit balances	**£bn**	**%**	£bn	%
Member deposits balance movement/*market share* (note iii)	**3.2**	***4.6***	7.1	*13.4*

Key ratios	**%**	%
Underlying cost income ratio (note iv)	**49.5**	54.1
Statutory cost income ratio	**49.7**	54.0
Net interest margin	**1.48**	1.24
Other key performance indicators	**30 September 2022**	**Full year Target**
Core products satisfaction lead (%pts)	**3.4%pts[5]**	**4%pts**
UK Customer Satisfaction Index (rank)	**37th[6]**	**5th**
Committed members (m) (note v)	**3.64**	**3.75**

Balance sheet	**30 September 2022 £bn**	**%**	4 April 2022 £bn	%
Total assets	**279.9**		272.4	
Loans and advances to customers	**213.4**		208.1	
Mortgage balances/*market share* (note vi)	**203.6**	***12.4***	198.1	*12.4*
Member deposits/*market share* (note iii)	**181.2**	***9.3***	178.0	*9.4*

Asset quality	**%**	%
Residential mortgages		
Proportion of residential mortgage accounts 3 months+ in arrears	**0.32**	0.34
Average indexed loan to value (by value)	**51**	52
Consumer banking		
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.28**	1.13

Key ratios	**%**	%
Capital		
Common Equity Tier 1 ratio	**25.5**	24.1
Leverage ratio (note vii)	**5.8**	5.4
Other balance sheet ratios		
Liquidity Coverage Ratio (note viii)	**179**	183
Wholesale funding ratio (note ix)	**28.7**	28.8

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 in the consolidated income statement.

ii. We aim to provide at least £400 million of member financial benefit each year, through better incentives and pricing than the market average. For more information on member financial benefit see page 8.

iii. Member deposits include current account credit balances.

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

v. Committed members have their main personal current account with us or a mortgage of at least £5,000, or at least £1,000 in savings accounts, plus at least one other product.

vi. Mortgage balances are presented gross of credit provisions.

vii. We aim to have a minimum leverage ratio of at least 4.5%.

viii. The Liquidity Coverage Ratio represents a simple average of the ratios for the last 12 month ends.

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

[5] ©Ipsos 2022, Financial Research Survey (FRS), for the 12 months ending 30 September 2022. For more information, see footnote 1 on page 4.

[6] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at July 2022.

Financial review

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

“The sustained strength of our finances will allow us to support our members through a highly uncertain period and significant cost of living increases.

“We have continued to support our members’ borrowing and savings needs during the period, and as a result have delivered growth in our mortgage and deposit balances.

“Due to the highly uncertain economic outlook, it is important that we maintain our financial strength and continue to focus on efficiency. This will mean we can face the future with confidence and continue to support our members.”

Financial highlights

- Underlying profit for the half year to 30 September 2022 increased to £980 million (H1 2021/22: £850 million) and statutory profit increased to £969 million (H1 2021/22: £853 million). This reflects income growth, partially offset by higher costs and charges for credit impairments, in contrast to provision releases in H1 2021/22.

- Total income increased by £296 million due to rising interest rates, with H1 2022/23 net interest margin (NIM) increasing to 1.48% (H1 2021/22: 1.24%).

- Member financial benefit has increased to £320 million (H1 2021/22: £145 million), supported by the strength of our mortgage and savings rates relative to the market average.

- Mortgage balances increased to £203.6 billion (4 April 2022: £198.1 billion) in line with market growth. Member deposit balances increased by £3.2 billion to £181.2 billion (4 April 2022: £178.0 billion) although market share of deposits reduced slightly to 9.3% (4 April 2022: 9.4%).

- Total administrative expenses increased by £58 million to £1,083 million (H1 2021/22: £1,025 million), reflecting higher inflation and additional support provided to members and colleagues, including £15 million relating to cost of living support to employees earning less than £35k.

- The credit impairment charge of £108 million for the half year to 30 September 2022 (H1 2021/22: release of £34 million) reflects a deterioration in the economic outlook during the period. The credit quality of our lending portfolios remains very strong with low levels of arrears; however, some future increases are expected due to affordability pressures.

- CET1 and leverage ratios increased to 25.5% and 5.8% (4 April 2022: 24.1% and 5.4%) respectively.

Underlying profit:
£980m
(H1 2021/22: £850m)

Statutory profit:
£969m
(H1 2021/22: £853m)

Leverage ratio:
5.8%
(4 April 2022: 5.4%)

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

Income statement

Underlying and statutory results	Half year to 30 September 2022 £m	Half year to 30 September 2021 £m
Net interest income	**2,055**	1,706
Net other income	**135**	188
Total underlying income	**2,190**	1,894
Administrative expenses	**(1,083)**	(1,025)
Impairment (charge)/release	**(108)**	34
Provisions for liabilities and charges	**(19)**	(53)
Underlying profit before tax (note i)	**980**	850
(Losses)/gains from derivatives and hedge accounting (note ii)	**(11)**	3
Statutory profit before tax	**969**	853
Taxation	**(241)**	(168)
Profit after tax	**728**	685

Net interest margin:
1.48%
(H1 2021/22: 1.24%)

Underlying cost income ratio (note iii):
49.5%
(H1 2021/22: 54.1%)

Statutory cost income ratio:
49.7%
(H1 2021/22: 54.0%)

Notes:

i. Underlying profit represents management's view of underlying performance. Gains or losses from derivatives and hedge accounting (presented separately within total income in the Consolidated income statement) 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 £349 million to £2,055 million (H1 2021/22: £1,706 million), with the net interest margin increasing to 1.48% (H1 2021/22: 1.24%). Increases in the bank base rate during the period have led to an increase in net interest income, reflecting the timing and the level of pass through of interest rate changes to savings products, partially offset by a decline in mortgage net interest income. Member financial benefit has increased in the period, reflecting the fact that Nationwide has passed a greater proportion of interest rate rises to savers than the market average.

Net other income has reduced by £53 million to £135 million (H1 2021/22: £188 million), with £25 million gains from investments in H1 2021/22 not repeated in the period, whilst in H1 2022/23 we have observed higher costs of providing travel insurance to packaged current account holders.

Member financial benefit

As a building society, we seek to maintain Nationwide's financial strength whilst providing value to our members through pricing, products and service. Through 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 2022.

For the half year ended 30 September 2022, this measure shows we provided our members with a financial benefit of £320 million (H1 2021/22: £145 million). This increase is due to our strong mortgage and savings products which seek to provide good value to members. As interest rates have risen, we have passed through a higher proportion of the increase to savers than the market average. We expect to exceed our member financial benefit target of £400 million for this financial year.

Administrative expenses

Administrative expenses increased by £58 million to £1,083 million in the period (H1 2021/22: £1,025 million). Business-as-usual costs increased by £48 million, predominantly due to inflation, including cost of living support to colleagues earning less than £35k which amounted to £15 million. Investment in financial crime controls and the future resilience of payment systems increased expenses by £24 million and impairment charges relating to property estate restructure were £16 million (H1 2021/22: £nil). These increases were partly offset by a £14 million reduction in depreciation and other asset impairment charges.

Impairment charge/(release)

Impairment charge/(release) (note i)	Half year to 30 September 2022	Half year to 30 September 2021
	£m	£m
Residential lending	**69**	(44)
Consumer banking	**41**	18
Retail lending	**110**	(26)
Commercial	**(2)**	(8)
Impairment charge/(release)	**108**	(34)

Note:

i. Impairment charge/(release) represents the net amount recognised in the income statement, rather than amounts written off during the period.

The net impairment charge in the period of £108 million (H1 2021/22: release of £34 million) is primarily due to a deterioration in the economic outlook, which is reflected in the economic scenarios and associated weightings used to model expected credit losses. Overall arrears performance of the lending portfolios was broadly stable during the period, although an increase in arrears from current levels is expected due to affordability pressures. More information regarding 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

Provisions are held 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 £19 million (H1 2021/22: £53 million) includes a £16 million (H1 2021/22: £29 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 £241 million (H1 2021/22: £168 million) represents an effective tax rate of 24.9% (H1 2021/22: 19.7%) which is higher than the statutory UK corporation tax rate of 19% (H1 2021/22: 19%). The effective tax rate is higher primarily due to the banking surcharge of £54 million (H1 2021/22: £38 million). The effective tax rate in H1 2021/22 was also reduced by the impact of £22 million of non-recurring tax adjustments in respect of prior years. Further information is provided in note 9 to the consolidated interim financial statements.

Balance sheet

Total assets have increased by 2.8% to £279.9 billion at 30 September 2022 (4 April 2022: £272.4 billion). This increase is predominantly due to mortgage growth and higher holdings of cash and liquid assets.

Mortgage lending has been robust during the period, with residential mortgage balances increasing to £203.6 billion (4 April 2022: £198.1 billion) in line with market growth. Member deposit balances have increased by £3.2 billion to £181.2 billion (4 April 2022: £178.0 billion) as a result of new current accounts opened and increases in balances on savings following the launch of competitive new products.

Assets	30 September 2022		4 April 2022	
	£m	%	£m	%
Cash	**32,890**		30,221	
Residential mortgages (note i)	**203,633**	**95**	198,120	95
Consumer banking	**4,640**	**2**	4,638	2
Commercial	**5,940**	**3**	6,054	3
	214,213	**100**	208,812	*100*
Impairment provisions	**(814)**		(746)	
Loans and advances to customers	**213,399**		208,066	
Other financial assets	**30,450**		30,816	
Other non-financial assets	**3,195**		3,251	
Total assets	**279,934**		272,354	

Liquidity Coverage Ratio (note ii):

179%

(4 April 2022: 183%)

Asset quality	%		%	
Residential mortgages (note i):				
Proportion of residential mortgage accounts more than 3 months in arrears	**0.32**		0.34	
Average indexed loan to value (by value)	**51**		52	
Consumer banking:				
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.28**		1.13	

Notes:
i. Residential mortgages include prime, buy to let and legacy lending.
ii. This represents a simple average of the Liquidity Coverage Ratio (LCR) for the last 12 month ends. The LCR ensures that sufficient high-quality liquid assets are held to survive a short-term severe but plausible liquidity stress.

Cash

Cash is liquidity held by our Treasury function amounting to £32.9 billion (4 April 2022: £30.2 billion). The £2.7 billion increase is driven by a combination of long-term wholesale funding issuance during the period and an increase in member deposits, which have been partially offset by mortgage lending.

The average Liquidity Coverage Ratio of 179% (4 April 2022: 183%) 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

Total gross mortgage lending was higher than the prior period at £19.7 billion (H1 2021/22: £18.2 billion) and the market share of gross advances increased to 11.8% (H1 2021/22: 11.4%). Lending in the period was supported by our continued focus on first time buyers and growth in the remortgage market. Prime mortgage balances increased to £159.2 billion (4 April 2022: £154.4 billion) and buy to let and legacy mortgage balances increased to £44.4 billion (4 April 2022: £43.7 billion).

Arrears performance has improved slightly during the period, with cases more than three months in arrears representing 0.32% (4 April 2022: 0.34%) of the total portfolio. However, an increase in arrears from current levels is expected, due to rising inflation and increasing interest rates negatively impacting household finances. Impairment provision balances increased to £256 million (4 April 2022: £187 million) due to deterioration in the economic scenarios used to model expected credit losses, including an increase in provisions for the impact of increasing interest rates on mortgage affordability.

Consumer banking

Consumer banking balances remained stable at £4.6 billion (4 April 2022: £4.6 billion). Consumer banking comprises personal loan balances of £2.8 billion (4 April 2022: £2.9 billion), credit card balances of £1.5 billion (4 April 2022: £1.5 billion) and overdrawn current account balances of £0.3 billion (4 April 2022: £0.3 billion).

Arrears performance has deteriorated slightly during the period, with balances more than three months in arrears (excluding charged off accounts) representing 1.28% of the total portfolio (4 April 2022: 1.13%). Provision balances were £530 million (4 April 2022: £529 million) with underlying performance remaining stable. The provisions raised during the prior year to reflect concerns about the continued ability of some borrowers to repay in challenging economic circumstances have been maintained.

Commercial lending

During the period, commercial lending balances decreased to £5.9 billion (4 April 2022: £6.1 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 £4.4 billion (4 April 2022: £4.3 billion), and project finance balances of £0.6 billion (4 April 2022: £0.6 billion). With a smaller book, and fewer active borrowers requiring further lending, commercial real estate balances have decreased to £0.5 billion (4 April 2022: £0.6 billion).

Impairment provision balances decreased to £28 million (4 April 2022: £30 million) due to an improvement in the expected outcome of a small number of individual loans.

Other financial assets

Other financial assets of £30.5 billion (4 April 2022: £30.8 billion) comprise investment assets held by Nationwide's Treasury function amounting to £25.1 billion (4 April 2022: £25.5 billion), loans and advances to banks and similar institutions of £4.0 billion (4 April 2022: £3.0 billion), derivatives with positive fair values of £11.0 billion (4 April 2022: £4.7 billion) and fair value adjustments and other assets of £(9.7) billion (4 April 2022: £(2.4) billion). Derivatives largely comprise interest rate and foreign exchange contracts which economically hedge financial risks inherent in Nationwide's lending and funding activities.

Members' interests, equity and liabilities		
	30 September 2022	4 April 2022
	£m	£m
Member deposits	**181,177**	177,967
Debt securities in issue	**30,691**	25,629
Other financial liabilities	**50,502**	51,509
Other liabilities	**1,276**	1,550
Total liabilities	**263,646**	256,655
Members' interests and equity	**16,288**	15,699
Total members' interests, equity and liabilities	**279,934**	272,354

Wholesale funding ratio:

28.7%

(4 April 2022: 28.8%)

Member deposits

Member deposit balances grew by £3.2 billion (H1 2021/22: £7.1 billion) to £181.2 billion (4 April 2022: £178.0 billion). This increase is due to growth in current account credit balances of £1.9 billion (H1 2021/22: £2.9 billion) and retail savings balances of £1.3 billion (H1 2021/22: £4.2 billion). Current account balance growth was driven by strong new account openings as a result of switching incentives and increasing the credit interest rate payable on the Flex Direct current account to 5% on balances up to £1,500. Operating in a dynamic savings market, balance growth has been supported by competitive fixed rate products and our Triple Access Online Saver. Nationwide's market share of deposit balances reduced to 9.3% (4 April 2022: 9.4%).

Debt securities in issue and other financial liabilities

Debt securities in issue relate to wholesale funding but exclude subordinated debt which is included within other financial liabilities. Balances increased to £30.7 billion (4 April 2022: £25.6 billion) reflecting secured and unsecured wholesale funding issuances during the period. Other financial liabilities decreased to £50.5 billion (4 April 2022: £51.5 billion) primarily due to a reduction in repurchase agreement balances, partially offset by the receipt of derivative collateral. Nationwide's wholesale funding ratio remained stable at 28.7% (4 April 2022: 28.8%). 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 £16.3 billion (4 April 2022: £15.7 billion) largely as a result of retained profits.

Statement of comprehensive income

Statement of comprehensive income (note i)	**Half year to 30 September 2022 £m**	Half year to 30 September 2021 £m
Profit after tax	**728**	685
Net remeasurement of pension obligations	**(2)**	195
Net movement in revaluation reserve	**1**	-
Net movement in cash flow hedge reserve	**83**	6
Net movement in other hedging reserve	**(9)**	2
Net movement in fair value through other comprehensive income reserve	**(119)**	(7)
Total comprehensive income	**682**	881

Note:

i. Movements are shown net of related taxation. Gross movements are set out in the consolidated interim financial statements on page 65.

Capital structure

Nationwide's capital position remains strong, with both the Common Equity Tier 1 (CET1) ratio and leverage ratio comfortably above regulatory capital requirements of 11.1% and 3.6% respectively. The CET1 ratio increased to 25.5% (4 April 2022: 24.1%) and the leverage ratio increased to 5.8% (4 April 2022: 5.4%). The capital disclosures included in this report are in line with UK Capital Requirements Directive V (UK CRD V) with IFRS 9 transitional arrangements included.

Capital structure		
	30 September 2022	4 April 2022
	£m	£m
Capital resources		
CET1 capital	**12,957**	12,471
Tier 1 capital	**14,293**	13,807
Total regulatory capital	**16,349**	16,466
Capital requirements		
Risk weighted assets (RWAs)	**50,791**	51,823
Leverage exposure	**248,187**	255,407
UK CRD V capital ratios	**%**	%
CET1 ratio	**25.5**	24.1
Leverage ratio	**5.8**	5.4

The CET1 ratio increased to 25.5% (4 April 2022: 24.1%) as a result of an increase in CET1 capital of £0.5 billion, in conjunction with a reduction in RWAs of £1.0 billion. The CET1 capital resources increase was driven by £0.7 billion profit after tax, partially offset by £0.1 billion of capital distributions and a £0.1 billion reduction in the fair value through other comprehensive income reserve. RWAs reduced, with an increase in retail lending being more than offset by a reduction in the fair value accounting adjustment for portfolio hedged risk, driven by recent changes in the interest rate outlook.

The leverage ratio was 5.8% (4 April 2022: 5.4%), with Tier 1 capital increasing by £0.5 billion as a result of the CET1 capital movements referenced above. In addition, there was a decrease in leverage exposure of £7.2 billion, driven by the same movements as described above for RWAs. Leverage requirements continue to be Nationwide's binding Tier 1 capital constraint, as the combination of minimum and regulatory buffer requirements are in excess of the risk-based equivalent.

Further details of the capital position, the risk weighted asset movements and future regulatory developments are described in the Capital risk section of the Risk report.

Risk report

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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 2022. 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 these Interim results.

Top and emerging risks

Nationwide's top and emerging risks are managed through the process outlined in the Risk overview section of the Annual Report and Accounts 2022 and remain broadly unchanged from those reported there. The external environment continues to present the most significant threats to the delivery of the Group's strategy, reflecting the volatile geopolitical and economic environment, with the key developments in the risk profile since 4 April 2022 described below.

Material developments in the geopolitical and macro-economic environment	Internal or External	Change
Nationwide's performance is naturally aligned to the UK's economic conditions, in particular household income and the corresponding impact on the housing market. Overall economic conditions have deteriorated in the period, with high inflation, increasing interest rates and heightened volatility, driven by challenging global economic conditions combined with UK-specific economic factors, impacting both the Group and our members. It is expected that the bank base rate will continue to rise in the short to medium term, increasing the interest rates members will pay on their mortgages as well as potentially impacting both the housing market and mortgage trading volumes. This will exacerbate existing pressure on members' finances from heightened living costs, driven by rising energy and food prices. As a result, whilst credit performance remains strong, credit provisions have increased to reflect the increased risk of default, and additional controls have been implemented, including adjusting affordability criteria used in credit decisions and enhanced monitoring of credit portfolios for signs of stress. Given the increasing pressure on Nationwide's members as a result of increases in the cost of living, the fair treatment of customers in vulnerable circumstances remains a key area of focus. We have therefore increased our capacity to support members who are struggling with the cost of living, with particular emphasis given to proactively identifying and supporting members who are most affected by sudden, significant increases in mortgage repayments. Market volatility, driven by the macro-economic environment, also has the potential to affect the cost and availability of wholesale funding for UK-based institutions. A prudent approach continues to be taken in managing the Group's liquidity and funding position, maintaining financial resources in excess of regulatory limits. Further information is included in the Liquidity and funding risk section of the Risk report. Since 30 September 2022 action has also been taken to support the Nationwide Pension Fund to manage its ongoing liquidity requirements effectively during this period of volatility. Further information is included in the Pension risk section of the Risk report.	External	Increased level of risk

The following internal and external risks, which were highlighted in the Annual Report and Accounts 2022, have not materially changed:

- Competitive environment
- Climate change
- Data
- Regulation
- Resilience
- People risk

Principal risks and uncertainties

Nationwide operates an Enterprise Risk Management Framework (ERMF), which ensures it remains safe and secure for its members. The principal risks set out below are the key risks relevant to Nationwide's business model and achievement of its strategic objectives.

The principal risk categories remain unchanged from those set out in the Risk report in the Annual Report and Accounts 2022 and 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 are included within this report, except for business risk. Business risk is the risk that achievable volumes or margins decline relative to the cost base, affecting the sustainability of the business and delivery of its strategy. This risk is impacted by the geopolitical and macro-economic environment, and material developments to this are set out in Top and emerging risks on page 15.

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 lending	Loans to registered social landlords, project finance loans made under the Private Finance Initiative and commercial real estate lending
Treasury	Treasury liquidity, derivatives and discretionary investment portfolios

Further detail on how Nationwide manages credit risk and what credit risk encompasses, together with information on the calculation of impairment provisions based on expected credit losses (ECLs), is included within the Annual Report and Accounts 2022.

Performance overview

During the period, the UK has experienced continued economic uncertainty, with rising energy prices driving an increase in the cost of living and contributing to a high inflationary environment. This has increased pressure on household affordability. In addition to this, increases in bank base rate have led to higher institutional borrowing costs and in turn higher interest rates for consumers. We therefore continue to hold a model adjustment to reflect the impact of rising inflation on those borrowers most impacted by the cost of living challenge. A further £16 million provision has been recognised at 30 September 2022, relating to the affordability risk associated with prime mortgage borrowers whose mortgage payments are expected to increase as their current fixed rate mortgage deal expires.

The housing market has retained a degree of momentum, with the latest Nationwide House Price Index showing year on year growth of 9.5%. However, with the continued squeeze on household finances and falling levels of consumer confidence, there is an increased sentiment that the challenges around affordability may begin to be reflected in the UK housing market as it begins to show signs of demand starting to cool.

Observed credit quality and performance remained broadly stable during the period, with arrears and forbearance for both residential and consumer banking remaining low and below pre-pandemic levels. However, arrears levels are expected to increase as cost of living pressures take effect, but to remain low relative to the industry.

Outlook

Continued uncertainty is expected within the UK economy, with interest rates continuing to rise in an effort to curb rising inflation. There is likely to be more pressure on household budgets, causing a deterioration in credit performance. The potential impact of this is captured by the economic scenarios used within the calculation of credit provisions.

Nationwide continues to support its members through the cost of living challenges with concessions granted based on consideration of their individual circumstances, to ensure that they have the help they need to meet their financial obligations.

Support options available to members also include a dedicated team of experts available through the Cost of Living freephone hotline.

Credit risk – Overview (continued)

Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk has increased to £290 billion (4 April 2022: £284 billion), principally reflecting higher residential mortgages and cash balances.

Credit risk largely arises from loans and advances to customers, which account for 78% (4 April 2022: 78%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 95% (4 April 2022: 95%) 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 2022	**Gross balances**	**Impairment provisions**	**Carrying value**	**Commitments (note i)**	**Maximum credit risk exposure**	**% of total credit risk exposure**
	£m	**£m**	**£m**	**£m**	**£m**	**%**
Loans and advances to customers - amortised cost:						
Residential mortgages	**203,579**	**(256)**	**203,323**	**11,839**	**215,162**	**74**
Consumer banking	**4,640**	**(530)**	**4,110**	**29**	**4,139**	**2**
Commercial lending	**5,372**	**(28)**	**5,344**	**1,378**	**6,722**	**2**
Fair value adjustment for micro hedged risk (note ii)	**515**	**-**	**515**	**-**	**515**	**-**
	214,106	**(814)**	**213,292**	**13,246**	**226,538**	**78**
Loans and advances to customers - fair value through profit or loss (FVTPL):						
Residential mortgages (note iii)	**54**	**-**	**54**	**-**	**54**	**-**
Commercial	**53**	**-**	**53**	**-**	**53**	**-**
	107	**-**	**107**	**-**	**107**	**-**
Other items:						
Cash	**32,890**	**-**	**32,890**	**-**	**32,890**	**11**
Loans and advances to banks and similar institutions	**4,029**	**-**	**4,029**	**-**	**4,029**	**1**
Investment securities – fair value through other comprehensive income (FVOCI)	**25,033**	**-**	**25,033**	**-**	**25,033**	**9**
Investment securities – amortised cost	**57**	**-**	**57**	**-**	**57**	**-**
Investment securities – FVTPL	**17**	**-**	**17**	**-**	**17**	**-**
Derivative financial instruments	**10,995**	**-**	**10,995**	**-**	**10,995**	**4**
Fair value adjustment for portfolio hedged risk (note ii)	**(9,681)**	**-**	**(9,681)**	**-**	**(9,681)**	**(3)**
	63,340	**-**	**63,340**	**-**	**63,340**	**22**
Total	**277,553**	**(814)**	**276,739**	**13,246**	**289,985**	**100**

Credit risk – Overview (continued)

Maximum exposure to credit risk 4 April 2022	Gross balances	Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
	£m	£m	£m	£m	£m	%
Loans and advances to customers – amortised cost:						
Residential mortgages	198,056	(187)	197,869	13,807	211,676	74
Consumer banking	4,638	(529)	4,109	35	4,144	2
Commercial lending	5,453	(30)	5,423	1,415	6,838	2
Fair value adjustment for micro hedged risk (note ii)	549	-	549	-	549	-
	208,696	(746)	207,950	15,257	223,207	78
Loans and advances to customers - FVTPL:						
Residential mortgages (note iii)	64	-	64	-	64	-
Commercial	52	-	52	-	52	-
	116	-	116	-	116	-
Other items:						
Cash	30,221	-	30,221	-	30,221	11
Loans and advances to banks and similar institutions	3,052	-	3,052	-	3,052	1
Investment securities – FVOCI	25,349	-	25,349	-	25,349	9
Investment securities – amortised cost	118	-	118	-	118	-
Investment securities – FVTPL	17	-	17	1	18	-
Derivative financial instruments	4,723	-	4,723	-	4,723	2
Fair value adjustment for portfolio hedged risk (note ii)	(2,443)	-	(2,443)	-	(2,443)	(1)
	61,037	-	61,037	1	61,038	22
Total	269,849	(746)	269,103	15,258	284,361	100

Notes:

i. In addition to the amounts shown above, Nationwide has revocable commitments of £10,487 million (4 April 2022: £10,622 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.

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 £0.3 million (4 April 2022: £0.4 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 intermediary channels and the branch network. Since 2008 buy to let mortgages have only originated under The Mortgage Works (UK) plc (TMW) brand. Legacy mortgages are smaller portfolios in run-off.

Arrears rates on the residential mortgage portfolios remain low. However, higher inflation and rising interest rates are placing greater pressure on household finances, increasing the potential for future defaults.

The housing market remained strong over the period, with continued house price growth reducing the average LTV of the residential portfolios. There are, however, some signs of a slowdown in activity and this is expected to continue as the inflationary pressure on household budgets intensifies.

Residential mortgage gross balances				
	30 September 2022		4 April 2022	
	£m	**%**	£m	%
Prime	**159,170**	**78**	154,363	78
Buy to let and legacy:				
Buy to let (note i)	**42,868**	**21**	42,014	21
Legacy (note ii)	**1,541**	**1**	1,679	1
	44,409	**22**	43,693	22
Amortised cost loans and advances to customers	**203,579**	**100**	198,056	100
FVTPL loans and advances to customers	**54**		64	
Total residential mortgages	**203,633**		198,120	

Notes:
i. Buy to let mortgages include £41,854 million (4 April 2022: £40,879 million) originated under the TMW brand, with other brands now closed to new originations.
ii. Legacy includes self-certified, near-prime and sub-prime lending, all of which were discontinued in 2009.

Credit risk – Residential mortgages (continued)

Impairment charge/(release) and write-offs for the period		
	Half year to 30 September 2022	Half year to 30 September 2021
	£m	£m
Prime	**18**	(19)
Buy to let and legacy	**51**	(25)
Total impairment charge/(release)	**69**	(44)
	%	%
Impairment charge/(release) as a % of average gross balance	**0.03**	(0.02)
	£m	£m
Gross write-offs	**2**	2

The impairment charge for the period includes the impact of updating macro-economic assumptions and scenario weightings to reflect the deterioration in economic outlook since 4 April 2022; further details are included in note 8 to the consolidated interim financial statements. Closing provisions have increased to £256 million (4 April 2022: £187 million). The prior period impairment releases reflected a decrease in provisions during a period where the economic outlook had improved.

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.

Residential mortgages staging analysis								
30 September 2022	**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	**152,264**	**6,254**	**5,395**	**632**	**227**	**652**	**-**	**159,170**
Buy to let and legacy	**31,600**	**12,260**	**11,849**	**279**	**132**	**421**	**128**	**44,409**
Total	**183,864**	**18,514**	**17,244**	**911**	**359**	**1,073**	**128**	**203,579**
Provisions								
Prime	**20**	**47**	**28**	**11**	**8**	**24**	**-**	**91**
Buy to let and legacy	**28**	**100**	**85**	**9**	**6**	**38**	**(1)**	**165**
Total	**48**	**147**	**113**	**20**	**14**	**62**	**(1)**	**256**
Provisions as a % of total balance	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Prime	**0.01**	**0.75**	**0.51**	**1.77**	**3.61**	**3.59**	**-**	**0.06**
Buy to let and legacy	**0.09**	**0.82**	**0.72**	**3.33**	**4.70**	**9.12**	**-**	**0.37**
Total	**0.03**	**0.80**	**0.65**	**2.25**	**4.01**	**5.76**	**-**	**0.13**

Credit risk – Residential mortgages (continued)

Residential mortgages staging analysis								
4 April 2022	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	146,786	6,782	6,057	535	190	795	-	154,363
Buy to let and legacy	33,462	9,667	9,333	229	105	429	135	43,693
Total	180,248	16,449	15,390	764	295	1,224	135	198,056
Provisions								
Prime	6	41	20	12	9	26	-	73
Buy to let and legacy	16	64	51	6	7	36	(2)	114
Total	22	105	71	18	16	62	(2)	187
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Prime	-	0.61	0.34	2.33	4.49	3.29	-	0.05
Buy to let and legacy	0.05	0.67	0.55	2.67	6.96	8.42	-	0.26
Total	0.01	0.64	0.46	2.43	5.37	5.09	-	0.09

Notes:

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

ii. 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 2022: £5 million).

Total residential mortgage provisions have increased to £256 million (4 April 2022: £187 million), with £51 million of this increase relating to buy to let and legacy mortgages. This provision increase is largely the result of a deterioration in the economic outlook, including an update to the severe downside scenario to reflect an increasing interest rate environment. Further information regarding economic scenarios used in ECL modelling and associated weightings is provided in note 8 to the consolidated interim financial statements. The main driver of the prime mortgage provision increase to £91 million (4 April 2022: £73 million) is a new £16 million provision for the affordability risk associated with borrowers whose mortgage payments are expected to increase as their current fixed rate mortgage deal expires.

Stage 2 loans have increased in the period to £18,514 million (4 April 2022: £16,449 million), with this increase relating to buy to let mortgages. The increase is largely due to the impact of updating the economic scenarios to reflect expected increases in interest rates, with the buy to let portfolio stage allocation being sensitive to interest rate changes.

Credit performance continues to be strong. Stage 3 loans in the residential mortgage portfolio equate to 0.5% (4 April 2022: 0.6%) of the total residential mortgage exposure. Of the total £1,073 million (4 April 2022: £1,224 million) stage 3 loans, £537 million (4 April 2022: £552 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; £200 million (4 April 2022: £346 million) of the stage 3 balances in forbearance are in this probation period.

Credit risk – Residential mortgages (continued)

The table below summarises the movements between stages in the Group's 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 2022	180,248	22	16,449	105	1,359	60	198,056	187
Stage transfers:								
Transfers from Stage 1 to Stage 2	**(14,694)**	**(4)**	**14,694**	**4**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(107)**	**-**	**(329)**	**(21)**	**436**	**21**	**-**	**-**
Transfers from Stage 2 to Stage 1	**11,411**	**41**	**(11,411)**	**(41)**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**191**	**1**	**228**	**8**	**(419)**	**(9)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(33)**		**71**		**(10)**		**28**
Net movement arising from transfer of stage	**(3,199)**	**5**	**3,182**	**21**	**17**	**2**	**-**	**28**
New assets originated or purchased	**19,469**	**1**	**-**	**-**	**-**	**-**	**19,469**	**1**
Net impact of further lending and repayments	**(3,628)**	**(1)**	**(225)**	**(1)**	**(20)**	**-**	**(3,873)**	**(2)**
Changes in risk parameters in relation to credit quality	**-**	**22**	**-**	**30**	**-**	**8**	**-**	**60**
Other items impacting income statement charge/(release) (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Redemptions	**(9,026)**	**(1)**	**(892)**	**(8)**	**(146)**	**(7)**	**(10,064)**	**(16)**
Income statement charge for the period								**69**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(9)**	**(2)**	**(9)**	**(2)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
30 September 2022	**183,864**	**48**	**18,514**	**147**	**1,201**	**61**	**203,579**	**256**
Net carrying amount		**183,816**		**18,367**		**1,140**		**203,323**

Note:

i. Gross balances of credit-impaired loans include £128 million (4 April 2022: £135 million) of POCI loans, which are presented net of lifetime ECL impairment provisions of £5 million (4 April 2022: £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 2022	**Prime**			**Buy to let and legacy**			**Total**		
	Gross balances	**Provisions**	**Provisions as a % of balance**	**Gross balances**	**Provisions**	**Provisions as a % of balance**	**Gross balances**	**Provisions**	**Provisions as a % of balance**
	£m	**£m**	**%**	**£m**	**£m**	**%**	**£m**	**£m**	**%**
Quantitative criteria:									
Payment status (greater than 30 DPD)	**227**	**8**	**3.61**	**132**	**6**	**4.70**	**359**	**14**	**4.01**
Increase in PD since origination (less than 30 DPD)	**5,844**	**39**	**0.66**	**10,502**	**66**	**0.63**	**16,346**	**105**	**0.64**
Qualitative criteria:									
Forbearance (less than 30 DPD)	**143**	**-**	**0.02**	**4**	**-**	**0.14**	**147**	**-**	**0.04**
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**-**	**-**		**1,615**	**28**	**1.75**	**1,615**	**28**	**1.75**
Other qualitative criteria	**40**	**-**	**0.07**	**7**	**-**	**1.69**	**47**	**-**	**0.30**
Total Stage 2 gross balances	**6,254**	**47**	**0.75**	**12,260**	**100**	**0.82**	**18,514**	**147**	**0.80**

Reason for residential mortgages being included in stage 2 (note i)									
4 April 2022	Prime			Buy to let and legacy			Total		
	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance
	£m	£m	%	£m	£m	%	£m	£m	%
Quantitative criteria:									
Payment status (greater than 30 DPD)	190	9	4.49	105	7	6.96	295	16	5.37
Increase in PD since origination (less than 30 DPD)	6,398	32	0.51	7,623	27	0.35	14,021	59	0.42
Qualitative criteria:									
Forbearance (less than 30 DPD)	151	-	0.01	5	-	0.05	156	-	0.05
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-		1,926	30	1.58	1,926	30	1.58
Other qualitative criteria	43	-	0.40	8	-	0.44	51	-	0.11
Total Stage 2 gross balances	6,782	41	0.61	9,667	64	0.67	16,449	105	0.64

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 2022 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 – Residential mortgages (continued)

The value of loans reported in stage 2 as a result of being in arrears by 30 days or more has increased to £359 million, 0.18% of total gross balances (4 April 2022: £295 million, 0.15% of total gross balances). The majority of these loans are reported within stage 2 as a result of the probability of default (PD) having increased since origination. This category includes £4.5 billion (4 April 2022: £4.6 billion) of loans where the modelled PD has been uplifted to recognise the judgement that the improvements in borrower credit quality observed since the start of the Covid-19 pandemic are temporary, and also to reflect an increase in affordability risk as a result of inflationary pressures. In both instances the uplift has resulted in the loans breaching existing quantitative PD thresholds.

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 PD range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

Loan balance and provisions by PD 30 September 2022	**Gross balances (note i)**				**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%	**138,469**	**1,560**	**62**	**140,091**	**13**	**13**	**-**	**26**	**0.02**
0.15 to < 0.25%	**24,631**	**4,171**	**25**	**28,827**	**17**	**10**	**-**	**27**	**0.09**
0.25 to < 0.50%	**12,052**	**3,422**	**31**	**15,505**	**8**	**14**	**-**	**22**	**0.14**
0.50 to < 0.75%	**3,265**	**1,663**	**23**	**4,951**	**2**	**10**	**-**	**12**	**0.25**
0.75 to < 2.50%	**5,105**	**3,063**	**66**	**8,234**	**6**	**27**	**-**	**33**	**0.40**
2.50 to < 10.00%	**328**	**2,817**	**105**	**3,250**	**1**	**30**	**1**	**32**	**0.99**
10.00 to < 100%	**14**	**1,818**	**121**	**1,953**	**1**	**43**	**4**	**48**	**2.42**
100% (default)	**-**	**-**	**768**	**768**	**-**	**-**	**56**	**56**	**7.23**
Total	**183,864**	**18,514**	**1,201**	**203,579**	**48**	**147**	**61**	**256**	**0.13**

Loan balance and provisions by PD 4 April 2022	Gross balances (note i)				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%	150,439	4,594	124	155,157	11	11	-	22	0.01
0.15 to < 0.25%	13,639	1,863	35	15,537	3	4	-	7	0.05
0.25 to < 0.50%	9,507	2,381	52	11,940	3	9	-	12	0.10
0.50 to < 0.75%	2,852	743	31	3,626	1	4	-	5	0.15
0.75 to < 2.50%	3,637	2,292	89	6,018	3	16	-	19	0.32
2.50 to < 10.00%	173	2,097	108	2,378	1	18	1	20	0.84
10.00 to < 100%	1	2,479	125	2,605	-	43	3	46	1.74
100% (default)	-	-	795	795	-	-	56	56	7.04
Total	180,248	16,449	1,359	198,056	22	105	60	187	0.09

Note:

i. Includes POCI loans of £128 million (4 April 2022: £135 million).

At 30 September 2022, 97% (4 April 2022: 97%) of the portfolio had a PD of less than 2.5%, reflecting the high quality of the residential mortgage portfolios.

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 2022 %	Half year to 30 September 2021 %
Prime:		
First time buyers	**28**	29
Home movers	**30**	34
Remortgages	**24**	15
Other	**1**	1
Total prime	**83**	79
Buy to let:		
New purchases	**7**	10
Remortgages	**10**	11
Total buy to let	**17**	21
Total new business	**100**	100

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

The proportion of prime new lending from remortgages has increased to 24% (H1 2021/22: 15%), with activity likely to have been brought forward due to the expected future path of interest rates. Buy to let lending reduced as a proportion of all new business to 17% (H1 2021/22: 21%) as the volume of house purchases in the buy to let market reduced.

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 2022	Half year to 30 September 2021
	%	%
0% to 60%	27	26
60% to 75%	36	35
75% to 80%	10	12
80% to 85%	13	15
85% to 90%	11	11
90% to 95%	3	1
Over 95%	-	-
Total	**100**	100

Average LTV of new business (by value) (note i)	Half year to 30 September 2022	Half year to 30 September 2021
	%	%
Prime	70	71
Buy to let	67	67
Group	**69**	70

Average LTV of loan stock (by value) (note ii)	30 September 2022	4 April 2022
	%	%
Prime	50	51
Buy to let and legacy	54	54
Group	**51**	52

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.

The average LTV for all new lending has reduced slightly to 69% (H1 2021/22: 70%), with the proportion of new lending at or above 80% LTV remaining stable at 27% (H1 2021/22: 27%).

The Nationwide House Price Index has increased by 9.5% over the past 12 months. This has caused the Group average stock LTV to reduce to 51% (4 April 2022: 52%).

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 2022	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%	**28,445**	**17,023**	**12,943**	**11,099**	**9,309**	**4,742**	**3,014**	**1,256**	**87,831**	**0.03**
50% to 60%	**12,772**	**8,146**	**6,901**	**5,088**	**4,302**	**2,474**	**1,508**	**484**	**41,675**	**0.09**
60% to 70%	**14,319**	**8,190**	**7,272**	**5,591**	**4,159**	**2,762**	**1,229**	**535**	**44,057**	**0.13**
70% to 80%	**9,258**	**3,530**	**3,564**	**2,163**	**1,515**	**1,235**	**584**	**280**	**22,129**	**0.21**
80% to 90%	**1,871**	**1,097**	**1,210**	**712**	**422**	**428**	**222**	**128**	**6,090**	**0.25**
90% to 100%	**118**	**88**	**135**	**52**	**32**	**66**	**18**	**33**	**542**	**1.14**
	66,783	**38,074**	**32,025**	**24,705**	**19,739**	**11,707**	**6,575**	**2,716**	**202,324**	**0.09**
Not fully collateralised										
Over 100% LTV	**5**	**2**	**7**	**1**	**3**	**17**	**-**	**19**	**54**	**12.55**
Collateral value	**4**	**2**	**6**	**1**	**2**	**15**	**-**	**18**	**48**	
Negative equity	**1**	**-**	**1**	**-**	**1**	**2**	**-**	**1**	**6**	
Total stage 1 and 2 loans	**66,788**	**38,076**	**32,032**	**24,706**	**19,742**	**11,724**	**6,575**	**2,735**	**202,378**	**0.10**
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	**257**	**117**	**91**	**71**	**53**	**27**	**21**	**12**	**649**	**1.65**
50% to 60%	**75**	**50**	**53**	**25**	**25**	**16**	**11**	**5**	**260**	**3.38**
60% to 70%	**46**	**31**	**45**	**19**	**13**	**13**	**5**	**3**	**175**	**6.66**
70% to 80%	**26**	**8**	**22**	**5**	**1**	**8**	**1**	**4**	**75**	**14.78**
80% to 90%	**4**	**1**	**10**	**1**	**1**	**3**	**-**	**3**	**23**	**28.01**
90% to 100%	**1**	**-**	**2**	**-**	**-**	**1**	**-**	**4**	**8**	**35.14**
	409	**207**	**223**	**121**	**93**	**68**	**38**	**31**	**1,190**	**4.33**
Not fully collateralised										
Over 100% LTV	**1**	**-**	**4**	**-**	**-**	**1**	**-**	**5**	**11**	**88.38**
Collateral value	**1**	**-**	**3**	**-**	**-**	**1**	**-**	**4**	**9**	
Negative equity	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**1**	**2**	
Total stage 3 and POCI loans	**410**	**207**	**227**	**121**	**93**	**69**	**38**	**36**	**1,201**	**4.99**
Total residential mortgages	**67,198**	**38,283**	**32,259**	**24,827**	**19,835**	**11,793**	**6,613**	**2,771**	**203,579**	**0.13**
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 2022	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%	28,062	15,543	12,035	10,334	8,257	4,483	2,682	1,136	82,532	0.02
50% to 60%	12,499	7,740	6,631	4,887	4,074	2,417	1,430	449	40,127	0.06
60% to 70%	12,739	7,959	7,272	5,246	4,230	2,756	1,373	518	42,093	0.08
70% to 80%	10,195	4,627	3,841	2,972	2,167	1,546	634	379	26,361	0.11
80% to 90%	1,534	952	1,029	546	419	339	200	163	5,182	0.20
90% to 100%	44	54	67	25	24	52	18	43	327	1.39
	65,073	36,875	30,875	24,010	19,171	11,593	6,337	2,688	196,622	0.06
Not fully collateralised										
Over 100% LTV	5	3	9	1	3	13	-	41	75	9.27
Collateral value	4	2	8	1	2	12	-	38	67	
Negative equity	1	1	1	-	1	1	-	3	8	
Total stage 1 and 2 loans	65,078	36,878	30,884	24,011	19,174	11,606	6,337	2,729	196,697	0.06
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	286	118	95	81	54	27	22	12	695	1.32
50% to 60%	88	54	55	32	28	19	11	4	291	2.89
60% to 70%	49	42	53	23	20	16	8	6	217	5.10
70% to 80%	38	15	27	10	6	9	2	4	111	9.80
80% to 90%	3	1	10	1	1	4	-	4	24	26.61
90% to 100%	-	-	2	-	-	2	-	3	7	50.19
	464	230	242	147	109	77	43	33	1,345	3.71
Not fully collateralised										
Over 100% LTV	1	-	3	1	-	1	-	8	14	84.71
Collateral value	1	-	2	1	-	1	-	7	12	
Negative equity	-	-	1	-	-	-	-	1	2	
Total stage 3 and POCI loans	465	230	245	148	109	78	43	41	1,359	4.45
Total residential mortgages	65,543	37,108	31,129	24,159	19,283	11,684	6,380	2,770	198,056	0.09
Total geographical concentrations	33%	19%	16%	12%	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 stable at 30% and 46% (4 April 2022: 30% and 46%) respectively.

In addition to balances held at amortised cost shown in the table above, £54 million (4 April 2022: £64 million) of residential mortgages are held at FVTPL. These have an average LTV of 33% (4 April 2022: 33%). The largest geographical concentration within the FVTPL balances is also in Greater London, at 59% (4 April 2022: 57%) of total FVTPL balances.

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 2022	4 April 2022
	%	%
Prime	**0.28**	0.30
Buy to let and legacy	**0.43**	0.50
Total	**0.32**	0.34
UK Finance industry average	**0.72**	0.77

Note:

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

The proportion of cases more than 3 months in arrears has decreased during the period to 0.32% (4 April 2022: 0.34%). Arrears levels are expected to increase as a result of the rising cost of living, including higher mortgage payments, 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 2022				4 April 2022			
	Prime	**Buy to let and legacy**	**Total**		Prime	Buy to let and legacy	Total	
	£m	**£m**	**£m**	**%**	£m	£m	£m	%
Not past due	**157,616**	**43,644**	**201,260**	**98.8**	152,932	43,000	195,932	98.9
Past due 0 to 1 month	**1,006**	**368**	**1,374**	**0.7**	920	305	1,225	0.6
Past due 1 to 3 months	**267**	**158**	**425**	**0.2**	240	127	367	0.2
Past due 3 to 6 months	**134**	**87**	**221**	**0.1**	122	78	200	0.1
Past due 6 to 12 months	**103**	**64**	**167**	**0.1**	99	74	173	0.1
Past due over 12 months	**88**	**69**	**157**	**0.1**	109	95	204	0.1
Possessions	**10**	**19**	**29**	**-**	5	14	19	-
Total residential mortgages	**159,224**	**44,409**	**203,633**	**100**	154,427	43,693	198,120	100

The balance of cases past due by more than 3 months has reduced to £574 million (4 April 2022: £596 million). There has been an increase in possessions to £29 million (4 April 2022: £19 million) as activity which was put on hold early in the pandemic has since recommenced. The possession of a borrower's property is only undertaken where all reasonable attempts to resolve the situation have been unsuccessful.

Interest only mortgages

At 30 September 2022, interest only balances of £7,375 million (4 April 2022: £7,824 million) account for 5% (4 April 2022: 5%) of prime residential mortgages. Nationwide re-entered the prime market for interest only lending under a newly established credit policy in April 2020; however, over 85% of current interest only mortgage balances relate to historical accounts 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, with regular engagement with borrowers to ensure the loan is redeemed or to agree a strategy for repayment.

Of the buy to let and legacy portfolio, £40,279 million (4 April 2022: £39,591 million) relates to interest only balances, representing 91% (4 April 2022: 91%) of balances. Buy to let remains open to new interest only lending under standard terms.

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. 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 consider LTV and affordability assessments. The impact of recognising this risk is to increase provisions by £47 million (4 April 2022: £46 million).

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 2022 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 granted forbearance are transferred to either stage 2 or stage 3. 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.

Gross balances subject to forbearance (note i)						
	30 September 2022			4 April 2022		
	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)	**112**	**153**	**265**	113	141	254
Interest only concessions	**626**	**30**	**656**	639	32	671
Capitalisation	**86**	**25**	**111**	88	30	118
Capitalisation – notification of death of borrower	**78**	**107**	**185**	81	93	174
Term extensions (within term)	**36**	**16**	**52**	32	16	48
Permanent interest only conversions	**1**	**28**	**29**	2	32	34
Total forbearance	**939**	**359**	**1,298**	955	344	1,299
Of which stage 2	**257**	**80**	**337**	204	73	277
Of which stage 3	**418**	**252**	**670**	565	240	805
	%	**%**	**%**	%	%	%
Total forbearance as a % of total gross balances	**0.6**	**0.8**	**0.6**	0.6	0.8	0.7
	£m	**£m**	**£m**	£m	£m	£m
Impairment provisions on forborne loans	**11**	**21**	**32**	12	18	30

Notes:

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

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.

The average LTV for forborne accounts is 44% (4 April 2022: 46%). In addition to the amortised cost balances above, there are £54 million FVTPL balances (4 April 2022: £64 million), of which £5 million (4 April 2022: £4 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 remained stable at £4,640 million (4 April 2022: £4,638 million).

Arrears levels have increased slightly during the period but remain low. High levels of inflation and rising interest rates will put pressure on household budgets, stretching affordability for some borrowers. As a result, arrears levels are expected to increase over the short to medium term.

Consumer banking gross balances				
	30 September 2022		4 April 2022	
	£m	**%**	£m	%
Overdrawn current accounts	**250**	**6**	286	6
Personal loans	**2,843**	**61**	2,864	62
Credit cards	**1,547**	**33**	1,488	32
Total consumer banking	**4,640**	**100**	4,638	100

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

Impairment charge and write-offs for the period		
	Half year to 30 September 2022	Half year to 30 September 2021
	£m	£m
Overdrawn current accounts	**10**	4
Personal loans	**29**	8
Credit cards	**2**	6
Total impairment charge	**41**	18
	%	%
Impairment charge as a % of average gross balance	**0.87**	0.41
	£m	£m
Gross write-offs	**42**	39

The total impairment charge is higher than that in the prior period, which reflected an improving economic outlook.

Credit risk – Consumer banking (continued)

The following table shows consumer banking balances by stage, with the corresponding impairment provisions and resulting provision coverage ratios:

Consumer banking product and staging analysis	30 September 2022				4 April 2022			
	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	**99**	**116**	**35**	**250**	121	131	34	286
Personal loans	**1,543**	**1,158**	**142**	**2,843**	1,735	989	140	2,864
Credit cards	**867**	**588**	**92**	**1,547**	790	600	98	1,488
Total	**2,509**	**1,862**	**269**	**4,640**	2,646	1,720	272	4,638
Provisions								
Overdrawn current accounts	**5**	**36**	**33**	**74**	4	36	31	71
Personal loans	**11**	**70**	**126**	**207**	11	60	124	195
Credit cards	**9**	**158**	**82**	**249**	10	165	88	263
Total	**25**	**264**	**241**	**530**	25	261	243	529
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Overdrawn current accounts	**5.21**	**31.04**	**91.75**	**29.36**	3.34	27.33	90.86	24.63
Personal loans	**0.69**	**6.04**	**89.36**	**7.29**	0.62	6.09	88.50	6.80
Credit cards	**1.03**	**26.84**	**89.72**	**16.12**	1.33	27.51	89.78	17.69
Total	**0.99**	**14.16**	**89.80**	**11.43**	0.95	15.18	89.25	11.40

During the period, provisions have remained broadly stable at £530 million (4 April 2022: £529 million). The additional provision recognised at 4 April 2022 to reflect higher affordability risks has been maintained at 30 September 2022.

Credit performance continues to be strong, with the proportion of total balances in stage 3 remaining unchanged at 6% (4 April 2022: 6%). 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 7.5% (4 April 2022: 7.6%) of gross balances.

Credit risk – Consumer banking (continued)

The table below summarises the movements in the Group's 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 £m	Provisions £m	Gross balances £m	Provisions £m	Gross balances £m	Provisions £m	Gross balances £m	Provisions £m
At 5 April 2022	2,646	25	1,720	261	272	243	4,638	529
Stage transfers:								
Transfers from Stage 1 to Stage 2	**(1,584)**	**(21)**	**1,584**	**21**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(3)**	**-**	**(71)**	**(43)**	**74**	**43**	**-**	**-**
Transfers from Stage 2 to Stage 1	**1,199**	**110**	**(1,199)**	**(110)**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**1**	**1**	**23**	**9**	**(24)**	**(10)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(98)**		**114**		**3**		**19**
Net movement arising from transfer of stage	**(387)**	**(8)**	**337**	**(9)**	**50**	**36**	**-**	**19**
New assets originated or purchased	**834**	**23**	**-**	**-**	**-**	**-**	**834**	**23**
Net impact of further lending and repayments	**(387)**	**(14)**	**(68)**	**(16)**	**(10)**	**(7)**	**(465)**	**(37)**
Changes in risk parameters in relation to credit quality	**-**	**(1)**	**-**	**31**	**-**	**12**	**-**	**42**
Other items impacting income statement (release)/charge (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Redemptions	**(197)**	**-**	**(127)**	**(3)**	**(1)**	**(1)**	**(325)**	**(4)**
Income statement charge for the period								**41**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(42)**	**(42)**	**(42)**	**(42)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
30 September 2022	**2,509**	**25**	**1,862**	**264**	**269**	**241**	**4,640**	**530**
Net carrying amount		**2,484**		**1,598**		**28**		**4,110**

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 2022	**Overdrawn current accounts**			**Personal loans**			**Credit cards**			**Total**		
	Gross balances	**Provisions**	**Provisions as a % of balance**	**Gross balances**	**Provisions**	**Provisions as a % of balance**	**Gross balances**	**Provisions**	**Provisions as a % of balance**	**Gross balances**	**Provisions**	**Provisions as a % of balance**
	£m	**£m**	**%**	**£m**	**£m**	**%**	**£m**	**£m**	**%**	**£m**	**£m**	**%**
Quantitative criteria:												
Payment status (greater than 30 DPD) (note i)	**4**	**3**	**89**	**12**	**7**	**56**	**5**	**4**	**74**	**21**	**14**	**67**
Increase in PD since origination (less than 30 DPD)	**104**	**32**	**30**	**1,145**	**63**	**6**	**574**	**152**	**27**	**1,823**	**247**	**14**
Qualitative criteria:												
Forbearance (less than 30 DPD) (note ii)	**-**	**-**	**22**	**-**	**-**	**10**	**-**	**-**	**27**	**-**	**-**	**16**
Other qualitative criteria (less than 30 DPD)	**8**	**1**	**13**	**1**	**-**	**3**	**9**	**2**	**18**	**18**	**3**	**15**
Total Stage 2 gross balances	**116**	**36**	**31**	**1,158**	**70**	**6**	**588**	**158**	**27**	**1,862**	**264**	**14**

Reason for consumer banking balances being included in stage 2												
4 April 2022	Overdrawn current accounts			Personal loans			Credit cards			Total		
	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance
	£m	£m	%	£m	£m	%	£m	£m	%	£m	£m	%
Quantitative criteria:												
Payment status (greater than 30 DPD) (note i)	3	2	78	7	5	69	4	4	84	14	11	76
Increase in PD since origination (less than 30 DPD)	120	33	27	978	55	6	582	159	27	1,680	247	15
Qualitative criteria:												
Forbearance (less than 30 DPD) (note ii)	-	-	19	1	-	11	-	-	27	1	-	15
Other qualitative criteria (less than 30 DPD)	8	1	11	3	-	3	14	2	17	25	3	13
Total Stage 2 gross balances	131	36	27	989	60	6	600	165	28	1,720	261	15

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 represent loans which have experienced a significant increase in credit risk since origination. The significant increase is determined through both quantitative and qualitative indicators. Of the £1,862 million stage 2 balances (4 April 2022: £1,720 million), only 1% (4 April 2022: 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. This category includes £698 million (4 April 2022: £700 million) of loans where the modelled PD has been uplifted to recognise the judgement that the improvements in borrower credit quality observed since the start of the pandemic are temporary, and also to reflect an increase in affordability risk as a result of inflationary pressures. The cumulative impact of these uplifts in PD has resulted in these loans breaching existing quantitative PD thresholds.

The Annual Report and Accounts 2022 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 2022	**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%	**763**	**8**	**-**	**771**	**2**	**-**	**-**	**2**	**0.22**
0.15 to < 0.25%	**326**	**36**	**-**	**362**	**1**	**1**	**-**	**2**	**0.38**
0.25 to < 0.50%	**430**	**179**	**-**	**609**	**2**	**2**	**-**	**4**	**0.66**
0.50 to < 0.75%	**218**	**161**	**-**	**379**	**1**	**3**	**-**	**4**	**1.10**
0.75 to < 2.50%	**474**	**536**	**-**	**1,010**	**6**	**21**	**-**	**27**	**2.69**
2.50 to < 10.00%	**265**	**547**	**1**	**813**	**10**	**74**	**-**	**84**	**10.31**
10.00 to < 100%	**33**	**395**	**3**	**431**	**3**	**163**	**2**	**168**	**38.97**
100% (default)	**-**	**-**	**265**	**265**	**-**	**-**	**239**	**239**	**90.54**
Total	**2,509**	**1,862**	**269**	**4,640**	**25**	**264**	**241**	**530**	**11.43**

Consumer banking gross balances and provisions by PD									
4 April 2022	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%	747	7	-	754	2	-	-	2	0.25
0.15 to < 0.25%	386	36	-	422	1	1	-	2	0.44
0.25 to < 0.50%	546	136	-	682	2	3	-	5	0.75
0.50 to < 0.75%	255	164	-	419	2	4	-	6	1.33
0.75 to < 2.50%	450	507	1	958	6	24	-	30	3.19
2.50 to < 10.00%	238	537	2	777	9	80	-	89	11.50
10.00 to < 100%	24	333	6	363	3	149	2	154	42.66
100% (default)	-	-	263	263	-	-	241	241	91.29
Total	2,646	1,720	272	4,638	25	261	243	529	11.40

The credit quality of the consumer banking portfolio has remained strong. 85% (4 April 2022: 87%) of the portfolio has a PD of less than 10%. Despite an increase in stage 2 balances, overall provisions against stage 2 balances have not increased significantly due to the change in mix of products within the consumer banking portfolio, as shown in the table on page 36.

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 2022					4 April 2022				
	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	**199**	**2,646**	**1,439**	**4,284**	**92.3**	240	2,681	1,377	4,298	92.7
Past due 0 to 1 month	**13**	**39**	**16**	**68**	**1.5**	11	35	14	60	1.3
Past due 1 to 3 months	**5**	**14**	**9**	**28**	**0.6**	4	11	8	23	0.5
Past due 3 to 6 months	**5**	**16**	**5**	**26**	**0.6**	4	16	6	26	0.6
Past due 6 to 12 months	**3**	**12**	**1**	**16**	**0.3**	3	8	1	12	0.2
Past due over 12 months	**3**	**12**	**-**	**15**	**0.3**	3	9	-	12	0.2
Charged off (note i)	**22**	**104**	**77**	**203**	**4.4**	21	104	82	207	4.5
Total	**250**	**2,843**	**1,547**	**4,640**	**100.0**	286	2,864	1,488	4,638	100.0

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.

Of total balances excluding charged off balances, £153 million (4 April 2022: £133 million) are subject to arrears, representing 3.4% (4 April 2022: 3.0%) of these balances. The level of arrears remains below pre-pandemic levels; however, arrears levels are expected to increase due to the affordability pressures which borrowers may face, due to high inflation and increasing interest rates.

Forbearance

Nationwide is committed to supporting customers facing financial difficulty 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 2022 sets out further details of concession events included in forbearance.

Credit risk – Consumer banking (continued)

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

Gross balances subject to forbearance (note i)	**30 September 2022**				4 April 2022			
	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	**4**	**-**	**1**	**5**	4	-	1	5
Interest suppressed payment concession	**3**	**34**	**10**	**47**	4	36	11	51
Balance re-aged/re-written	**-**	**2**	**2**	**4**	-	2	2	4
Total forbearance (note ii)	**7**	**36**	**13**	**56**	8	38	14	60
Of which stage 2	**3**	**3**	**3**	**9**	3	6	4	13
Of which stage 3	**4**	**32**	**9**	**45**	5	30	10	45
	%	**%**	**%**	**%**	%	%	%	%
Total forbearance as a % of total gross balances	**2.8**	**1.3**	**0.8**	**1.2**	2.8	1.3	0.9	1.3
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Impairment provisions on forborne loans	**6**	**29**	**8**	**43**	6	28	9	43

Notes:

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

ii. 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.

Credit risk – Commercial

Summary

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, project finance initiatives and commercial real estate investors. The project finance and commercial real estate portfolios are closed to new business and are in run-off, and total balances have therefore continued to reduce. Overall credit quality has remained stable.

Commercial gross balances	30 September 2022 £m	4 April 2022 £m
Registered social landlords (note i)	**4,357**	4,329
Project finance (note ii)	**580**	611
Commercial real estate (CRE)	**435**	513
Commercial balances at amortised cost	**5,372**	5,453
Fair value adjustment for micro hedged risk (note iii)	**515**	549
Commercial balances – FVTPL	**53**	52
Total	**5,940**	6,054

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.

Impairment releases and write-offs for the period	Half year to 30 September 2022 £m	Half year to 30 September 2021 £m
Total impairment releases	**(2)**	(8)
Gross write-offs	**-**	-

Impairment releases relate to re-assessment of a limited number of individual cases.

Credit risk – Commercial (continued)

The following table shows commercial balances carried at amortised cost on the balance sheet, with the stage allocation of the exposures, impairment provisions and resulting provision coverage.

Commercial product and staging analysis	30 September 2022				4 April 2022			
	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	**4,320**	**37**	**-**	**4,357**	4,292	37	-	4,329
Project finance	**521**	**54**	**5**	**580**	552	54	5	611
CRE	**345**	**37**	**53**	**435**	393	65	55	513
Total	**5,186**	**128**	**58**	**5,372**	5,237	156	60	5,453
Provisions								
Registered social landlords	**1**	**-**	**-**	**1**	1	-	-	1
Project finance	**-**	**8**	**2**	**10**	-	13	2	15
CRE	**-**	**1**	**16**	**17**	-	1	13	14
Total	**1**	**9**	**18**	**28**	1	14	15	30
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Registered social landlords	**0.01**	**0.16**	**-**	**0.01**	0.01	0.16	-	0.01
Project finance	**0.02**	**15.28**	**42.14**	**1.82**	0.02	23.40	46.69	2.46
CRE	**0.15**	**1.70**	**29.88**	**3.91**	0.15	1.22	23.41	2.80
Total	**0.02**	**7.04**	**30.94**	**0.52**	0.02	8.62	25.35	0.55

Over the period, the performance of the commercial portfolio has remained stable, with 97% (4 April 2022: 96%) of balances in stage 1. Of the £128 million (4 April 2022: £156 million) stage 2 loans, which represent 2.4% (4 April 2022: 2.9%) of total balances, £7 million (4 April 2022: £7 million) were in arrears by 30 days or more.

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. The stage 2 provision relates to a specific distressed project.

Repayment of loans has resulted in the reduction in stage 2 CRE loan balances. A reduction in asset values for impaired loans has resulted in an increase to CRE stage 3 provisions to £16 million (4 April 2022: £13 million).

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 2022					4 April 2022				
	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	**215**	**7**	**-**	**222**	**0.0**	258	5	-	263	0.0
Good	**115**	**3**	**-**	**118**	**0.2**	107	18	-	125	0.2
Satisfactory	**15**	**4**	**-**	**19**	**1.2**	26	16	-	42	0.8
Weak	**-**	**23**	**-**	**23**	**2.4**	2	26	1	29	2.6
Impaired	**-**	**-**	**53**	**53**	**29.9**	-	-	54	54	23.7
Total	**345**	**37**	**53**	**435**	**3.9**	393	65	55	513	2.8

The risk grades in the table above are based upon the IRB supervisory slotting approach for specialised lending exposures. Exposures are classified into categories depending on the underlying credit risk, with the assessment based upon financial strength, property characteristics, strength of sponsor and any other forms of security. The credit quality of the CRE portfolio has remained stable with 83% (4 April 2022: 84%) of the portfolio balances rated as strong, good or satisfactory.

Risk grades for the project finance portfolio use the same slotting approach as for CRE lending, with 90% (4 April 2022: 90%) 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 0.03% (4 April 2022: 0.03%) across the portfolio.

In addition to the above, £53 million (4 April 2022: £52 million) of commercial lending balances are classified as FVTPL, comprising CRE balances of £51 million (4 April 2022: £50 million) and registered social landlord balances of £2 million (4 April 2022: £2 million).

CRE balances by LTV

The LTV distribution of CRE balances has remained stable with 90% (4 April 2022: 91%) of the portfolio having an LTV of 75% or less, and 58% (4 April 2022: 61%) of the portfolio having an LTV of 50% or less.

Credit risk – Commercial (continued)

Credit risk concentration by industry sector

Credit risk exposure continues 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 the CRE portfolio the largest exposure is to the residential sector, which represents 46% (4 April 2022: 44%) of total CRE balances. The exposure to retail assets has reduced to £89 million (4 April 2022: £99 million), with a weighted average LTV of 51% (4 April 2022: 51%).

CRE balances by payment due status

Of the £486 million (4 April 2022: £563 million) CRE exposure, including FVTPL balances, £63 million (4 April 2022: £44 million) relates to balances with arrears. Of these, £28 million (4 April 2022: £24 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 Annual Report and Accounts 2022 sets out further details of concession events included within forbearance.

The table below provides details of commercial loans that are currently subject to forbearance by concession event.

Gross balances subject to forbearance (note i)		
	30 September 2022	4 April 2022
	£m	£m
Modifications:		
Payment concession	**96**	125
Extension at maturity	**32**	37
Breach of covenant	**23**	14
Security amendment	**-**	2
Refinance	**-**	7
Total	**151**	185
Total impairment provision on forborne loans	**27**	27

Note:

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

Total forborne balances (excluding FVTPL) have reduced to £151 million (4 April 2022: £185 million), comprising CRE of £81 million (4 April 2022: £116 million) and project finance of £70 million (4 April 2022: £69 million), driven by loan repayments over the period.

In addition, there are £36 million (4 April 2022: £36 million) of FVTPL commercial lending balances which are forborne that relate to a single exposure.

Credit risk – Treasury assets

Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 30 September 2022 treasury assets represented 26.0% (4 April 2022: 23.3%) 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 2022	4 April 2022
	Classification	**£m**	£m
Cash	Amortised cost	**32,890**	30,221
Loans and advances to banks and similar institutions	Amortised cost	**4,029**	3,052
Investment securities (note i)	FVOCI	**25,033**	25,349
Investment securities (note i)	FVTPL	**17**	17
Investment securities	Amortised cost	**57**	118
Liquidity and investment portfolio		**62,026**	58,757
Derivative instruments (note ii)	FVTPL	**10,995**	4,723
Treasury assets		**73,021**	63,480

Notes:

i. Investment securities at FVOCI include £32 million (4 April 2022: £46 million) and investment securities at FVTPL include £17 million (4 April 2022: £17 million) which relate 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 strategic purposes.

ii. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. As at 30 September 2022, derivative liabilities were £2,583 million (4 April 2022: £1,428 million).

Investment activity remains focused on high-quality liquid assets, including assets eligible for central bank operations. 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 framework, details of which are provided in the Annual Report and Accounts 2022. A monthly review is undertaken of the current and expected performance of treasury assets to determine expected credit loss (ECL) provision requirements. There were no impairment losses for the period ended 30 September 2022 (4 April 2022: £nil). For financial assets held at amortised cost or at FVOCI, all exposures within the table below are classified as stage 1, reflecting the strong and stable credit quality of treasury assets.

Impairment provisions on treasury assets				
	30 September 2022		4 April 2022	
	Gross balances	**Provisions**	Gross balances	Provisions
	£m	**£m**	£m	£m
Loans and advances to banks and similar institutions	**4,029**	**-**	3,052	-
Investment securities – FVOCI	**25,033**	**-**	25,349	-
Investment securities – amortised cost	**57**	**-**	118	-

Credit risk – Treasury assets (continued)

Liquidity and investment portfolio

The liquidity and investment portfolio of £62,026 million (4 April 2022: £58,757 million) comprises liquid assets and other securities as set out below.

Liquidity and investment portfolio by credit rating (note i)										
30 September 2022		**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Japan**	**Other**
	£m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Liquid assets:										
Cash and reserves at central banks	**32,890**	**-**	**100**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
Government bonds (note ii)	**18,595**	**36**	**47**	**17**	**-**	**29**	**29**	**15**	**14**	**13**
Supranational bonds	**1,885**	**52**	**48**	**-**	**-**	**-**	**-**	**-**	**-**	**100**
Covered bonds	**2,721**	**100**	**-**	**-**	**-**	**48**	**-**	**17**	**-**	**35**
Residential mortgage-backed securities (RMBS)	**624**	**100**	**-**	**-**	**-**	**68**	**-**	**32**	**-**	**-**
Other asset backed securities	**248**	**100**	**-**	**-**	**-**	**91**	**-**	**9**	**-**	**-**
Liquid assets total	**56,963**	**20**	**74**	**6**	**-**	**71**	**9**	**6**	**5**	**9**
Other securities (note iii):										
RMBS FVOCI	**915**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
RMBS amortised cost	**57**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
Other investments (note iv)	**62**	**-**	**20**	**-**	**80**	**80**	**-**	**20**	**-**	**-**
Other securities total	**1,034**	**94**	**1**	**-**	**5**	**99**	**-**	**1**	**-**	**-**
Loans and advances to banks and similar institutions	**4,029**	**-**	**72**	**24**	**4**	**87**	**5**	**7**	**-**	**1**
Total	**62,026**	**20**	**73**	**7**	**-**	**72**	**9**	**6**	**4**	**9**
4 April 2022	£m	%	%	%	%	%	%	%	%	%
Liquid assets:										
Cash and reserves at central banks	30,221	-	99	1	-	100	-	-	-	-
Government bonds (note ii)	19,579	30	55	15	-	33	23	22	13	9
Supranational bonds	1,318	58	42	-	-	-	-	-	-	100
Covered bonds	2,630	99	1	-	-	48	-	19	-	33
Residential mortgage-backed securities (RMBS)	584	100	-	-	-	71	-	29	-	-
Other asset backed securities	289	100	-	-	-	89	-	11	-	-
Liquid assets total	54,621	18	76	6	-	71	8	9	5	7
Other securities (note iii):										
RMBS FVOCI	889	100	-	-	-	100	-	-	-	-
RMBS amortised cost	118	100	-	-	-	100	-	-	-	-
Other investments (note iv)	77	-	18	-	82	82	-	18	-	-
Other securities total	1,084	93	1	-	6	99	-	1	-	-
Loans and advances to banks and similar institutions	3,052	-	77	21	2	83	11	5	-	1
Total	58,757	19	75	6	-	72	8	9	4	7

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 guaranteed, agency and government sponsored 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 £17 million (4 April 2022: £17 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 2022	Government Bonds £m	Mortgage-backed securities £m	Covered bonds £m	Supranational bonds £m	Loans and advances to banks and similar institutions £m	Other assets £m	Total £m
Austria	324	-	-	-	-	-	324
Belgium	296	-	-	-	-	-	296
Denmark	170	-	9	-	-	-	179
Finland	344	-	23	-	-	-	367
France	896	-	139	-	230	12	1,277
Germany	322	-	57	-	76	22	477
Ireland	68	-	-	-	-	-	68
Netherlands	334	197	-	-	-	-	531
Norway	-	-	127	-	-	-	127
Sweden	-	-	107	-	-	-	107
Spain	-	-	-	-	6	-	6
Total Europe	2,754	197	462	-	312	34	3,759
Australia	-	-	139	-	8	-	147
Canada	2,391	-	737	-	15	-	3,143
Japan	2,593	-	-	-	-	-	2,593
Singapore	-	-	74	-	-	-	74
USA	5,452	-	-	-	194	-	5,646
Supranational entities (note i)	-	-	-	1,885	-	-	1,885
Total	13,190	197	1,412	1,885	529	34	17,247

Credit risk – Treasury assets (continued)

Country exposures							
4 April 2022	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	373	-	-	-	-	-	373
Belgium	571	-	-	-	-	-	571
Denmark	115	-	10	-	-	-	125
Finland	535	-	23	-	-	-	558
France	1,533	-	143	-	23	14	1,713
Germany	656	-	57	-	129	33	875
Ireland	130	-	-	-	-	-	130
Netherlands	440	170	-	-	-	-	610
Norway	-	-	150	-	-	-	150
Sweden	-	-	108	-	-	-	108
Spain	-	-	-	-	-	-	-
Total Europe	4,353	170	491	-	152	47	5,213
Australia	-	-	133	-	18	-	151
Canada	1,830	-	656	-	18	-	2,504
Japan	2,501	-	-	-	-	-	2,501
Singapore	-	-	70	-	-	-	70
USA	4,389	-	-	-	326	-	4,715
Supranational entities (note i)	-	-	-	1,318	-	-	1,318
Total	13,073	170	1,350	1,318	514	47	16,472

Note:
i. Exposures to Supranational entities are made up of bonds issued by highly rated multilateral development banks (MDBs) and international organisations (IOs).

Nationwide has no exposure to credit risk arising from Russian or Ukrainian assets as it does not invest in liquid assets or other securities issued by Russian or Ukrainian entities.

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. The fair value of derivative assets as at 30 September 2022 was £11.0 billion (4 April 2022: £4.7 billion) and the fair value of derivative liabilities was £2.6 billion (4 April 2022: £1.4 billion). Higher derivative balances reflect increases in interest rates in the period.

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. CSAs are two-way agreements where both parties post collateral dependent on the exposure of the derivative. Collateral is paid or received on a regular basis (typically daily) to mitigate the mark-to-market exposures. 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 can be 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 £2.1 billion (4 April 2022: £1.3 billion) were available and £8.7 billion (4 April 2022: £3.5 billion) of collateral was held.

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

Derivative credit exposure

Counterparty credit quality	**30 September 2022**				4 April 2022			
	AA	**A**	**BBB**	**Total**	AA	A	BBB	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Derivative assets	**1,029**	**9,958**	**8**	**10,995**	541	4,177	5	4,723
Netting benefits	**(422)**	**(1,712)**	**(6)**	**(2,140)**	(212)	(1,050)	(1)	(1,263)
Net current credit exposure	**607**	**8,246**	**2**	**8,855**	329	3,127	4	3,460
Collateral (cash)	**(525)**	**(8,213)**	**(2)**	**(8,740)**	(329)	(3,127)	(4)	(3,460)
Collateral (securities)	**-**	**-**	**-**	**-**	-	-	-	-
Net derivative credit exposure	**82**	**33**	**-**	**115**	-	-	-	-

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 risk are included within the Annual Report and Accounts 2022.

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 179% over the 12 months ended 30 September 2022 (4 April 2022: 183%). Nationwide continues to manage its liquidity 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. Nationwide's average NSFR for the four quarters ended 30 September 2022 was 146% (4 April 2022: 146%), well in excess of the 100% minimum requirement.

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 2022 £bn**	4 April 2022 £bn	**Liabilities**	**30 September 2022 £bn**	4 April 2022 £bn
Retail mortgages	**203.4**	197.9	Retail funding	**181.2**	178.0
Treasury assets (including liquidity portfolio)	**62.0**	58.8	Wholesale funding	**71.0**	67.3
Commercial lending	**5.9**	6.0	Other liabilities	**3.8**	3.0
Consumer lending	**4.1**	4.1	Capital and reserves (note ii)	**23.9**	24.1
Other assets	**4.5**	5.6			
Total	**279.9**	272.4	**Total**	**279.9**	272.4

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

At 30 September 2022, Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 113.6% (4 April 2022: 113.6%).

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 that enough contingent funding capacity is retained in the event of a stress.

Wholesale funding has increased by £3.7 billion to £71.0 billion during the period driven by higher deposits arising from the receipt of derivative collateral, and issuance of covered bonds and medium term notes. This increase was partially offset by a reduction in repurchase (repo) agreements. The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) at 30 September 2022 was 28.7% (4 April 2022: 28.8%).

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

Wholesale funding by currency	**30 September 2022**						4 April 2022					
	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	**1.3**	**0.6**	**0.8**	**0.2**	**2.9**	**4**	4.2	2.9	4.0	-	11.1	16
Deposits	**15.4**	**0.2**	**-**	**-**	**15.6**	**22**	8.8	0.1	-	-	8.9	13
Certificates of deposit	**2.2**	**-**	**-**	**-**	**2.2**	**3**	-	-	-	-	-	-
Covered bonds	**5.9**	**7.3**	**0.9**	**0.8**	**14.9**	**21**	5.4	6.4	0.7	0.4	12.9	19
Medium term notes	**1.6**	**4.9**	**5.3**	**1.1**	**12.9**	**18**	1.8	3.8	3.8	0.6	10.0	15
Securitisations	**2.2**	**-**	**0.2**	**-**	**2.4**	**3**	2.6	-	0.4	-	3.0	4
Term Funding Scheme with additional incentives for SMEs (TFSME)	**21.8**	**-**	**-**	**-**	**21.8**	**31**	21.7	-	-	-	21.7	33
Other (note i)	**-**	**(1.3)**	**(0.3)**	**(0.1)**	**(1.7)**	**(2)**	-	(0.2)	(0.1)	-	(0.3)	-
Total	**50.4**	**11.7**	**6.9**	**2.0**	**71.0**	**100**	44.5	13.0	8.8	1.0	67.3	100

Note:
i. Other consists of balances which relate to (gains)/losses on the hedging of debt securities.

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 2022**	**Not more than one month**	**Over one month but not more than three months**	**Over three months but not more than six months**	**Over six months but not more than one year**	**Subtotal less than one year**	**Over one year but not more than two years**	**Over two years**	**Total**
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Repos	**2.9**	**-**	**-**	**-**	**2.9**	**-**	**-**	**2.9**
Deposits	**12.6**	**1.3**	**1.7**	**-**	**15.6**	**-**	**-**	**15.6**
Certificates of deposit	**2.2**	**-**	**-**	**-**	**2.2**	**-**	**-**	**2.2**
Covered bonds	**0.9**	**-**	**1.0**	**0.8**	**2.7**	**2.1**	**10.1**	**14.9**
Medium term notes	**-**	**-**	**1.5**	**0.7**	**2.2**	**1.5**	**9.2**	**12.9**
Securitisations	**0.2**	**-**	**0.2**	**1.1**	**1.5**	**0.4**	**0.5**	**2.4**
TFSME	**0.1**	**-**	**-**	**-**	**0.1**	**6.2**	**15.5**	**21.8**
Other (note i)	**-**	**-**	**-**	**-**	**-**	**(0.1)**	**(1.6)**	**(1.7)**
Total	**18.9**	**1.3**	**4.4**	**2.6**	**27.2**	**10.1**	**33.7**	**71.0**
Of which secured	**4.1**	**-**	**1.2**	**1.9**	**7.2**	**8.7**	**25.1**	**41.0**
Of which unsecured	**14.8**	**1.3**	**3.2**	**0.7**	**20.0**	**1.4**	**8.6**	**30.0**
% of total	**26.6**	**1.8**	**6.2**	**3.7**	**38.3**	**14.2**	**47.5**	**100.0**

Wholesale funding – residual maturity 4 April 2022	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Subtotal less than one year	Over one year but not more than two years	Over two years	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repos	11.1	-	-	-	11.1	-	-	11.1
Deposits	5.8	1.1	2.0	-	8.9	-	-	8.9
Certificates of deposit	-	-	-	-	-	-	-	-
Covered bonds	-	-	1.0	1.7	2.7	2.3	7.9	12.9
Medium term notes	0.2	0.6	-	1.3	2.1	1.9	6.0	10.0
Securitisations	0.4	-	0.2	0.5	1.1	1.3	0.6	3.0
TFSME	-	-	-	-	-	-	21.7	21.7
Other (note i)	-	-	-	-	-	-	(0.3)	(0.3)
Total	17.5	1.7	3.2	3.5	25.9	5.5	35.9	67.3
Of which secured	11.5	-	1.2	2.2	14.9	3.6	30.1	48.6
Of which unsecured	6.0	1.7	2.0	1.3	11.0	1.9	5.8	18.7
% of total	26.0	2.5	4.8	5.2	38.5	8.2	53.3	100.0

Note:
i. Other consists of balances which relate to (gains)/losses on the hedging of debt securities.

At 30 September 2022, cash, government bonds and supranational bonds included in the liquid asset buffer represented 181% of wholesale funding maturing in less than one year, assuming no rollovers (4 April 2022: 153%).

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 repo agreements, and excludes securities encumbered through repo agreements and for other purposes.

Liquid assets	30 September 2022						4 April 2022					
	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	**32.9**	**-**	**-**	**-**	**-**	**32.9**	30.0	0.2	-	-	-	30.2
Government bonds (note ii)	**3.9**	**2.8**	**5.5**	**1.3**	**1.1**	**14.6**	2.2	2.0	0.9	2.0	0.9	8.0
Supranational bonds	**-**	**1.4**	**0.3**	**-**	**0.1**	**1.8**	0.1	0.8	0.4	-	-	1.3
Covered bonds	**0.8**	**1.6**	**0.1**	**-**	**-**	**2.5**	0.9	1.6	0.1	-	-	2.6
Residential mortgage backed securities (RMBS) (note iii)	**0.2**	**0.2**	**-**	**-**	**-**	**0.4**	0.1	0.1	-	-	-	0.2
Asset-backed securities and other securities	**0.2**		**-**	**-**	**-**	**0.2**	0.2	-	-	-	-	0.2
Total	**38.0**	**6.0**	**5.9**	**1.3**	**1.2**	**52.4**	33.5	4.7	1.4	2.0	0.9	42.5

Notes:

i. Other currencies primarily consist of Canadian dollars.

ii. Balances classified as government bonds include government guaranteed, agency and government sponsored bonds.

iii. Balances include all RMBS held by the Society which can be monetised through sale or repo.

The table above primarily comprises LCR-eligible high-quality liquid assets which averaged £51.6 billion for the 12 months ended 30 September 2022 (4 April 2022: £52.8 billion). Further details can be found in the Group's interim Pillar 3 disclosure 2022-23 at **nationwide.co.uk**

Nationwide continues to work towards its investment target for Environmental, Social and Governance (ESG) assets. Having reached its target of £1.0 billion of ESG assets at 4 April 2022, Nationwide is on track to meet its target of holding £1.5 billion by 4 April 2023. The Group's investment criteria for ESG assets are currently restricted to bonds issued by multilateral development banks and green issuances from selected government issuers. ESG investment criteria are subject to ongoing internal 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 2022	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	32,890	-	-	-	-	-	-	-	32,890
Loans and advances to banks and similar institutions	2,981	-	-	-	-	-	-	1,048	4,029
Investment securities	70	40	203	154	42	795	6,898	16,905	25,107
Derivative financial instruments	237	2	447	123	149	603	5,931	3,503	10,995
Fair value adjustment for portfolio hedged risk	(11)	6	(642)	(873)	(440)	(2,215)	(4,717)	(789)	(9,681)
Loans and advances to customers	2,834	1,524	2,167	2,188	2,230	8,469	24,548	169,439	213,399
Total financial assets	39,001	1,572	2,175	1,592	1,981	7,652	32,660	190,106	276,739
Financial liabilities									
Shares	161,232	968	2,175	2,484	5,178	7,543	634	963	181,177
Deposits from banks and similar institutions	11,927	13	3	-	-	6,220	15,480	-	33,643
Of which repo	2,934	-	-	-	-	-	-	-	2,934
Of which TFSME	87	-	-	-	-	6,220	15,480	-	21,787
Other deposits	3,555	1,272	1,693	77	53	29	6	-	6,685
Fair value adjustment for portfolio hedged risk	1	-	1	1	1	2	-	-	6
Secured funding – ABS and covered bonds	1,152	11	1,231	1,551	269	2,415	4,539	5,142	16,310
Senior unsecured funding	2,218	41	1,439	666	4	1,483	6,057	2,473	14,381
Derivative financial instruments	131	3	17	5	3	105	499	1,820	2,583
Subordinated liabilities	11	5	28	-	3	1,778	1,864	3,731	7,420
Subscribed capital (note iii)	1	-	1	-	-	-	-	163	165
Total financial liabilities	180,228	2,313	6,588	4,784	5,511	19,575	29,079	14,292	262,370
Off-balance sheet commitments (note iv)	13,246	-	-	-	-	-	-	-	13,246
Net liquidity difference	(154,473)	(741)	(4,413)	(3,192)	(3,530)	(11,923)	3,581	175,814	1,123
Cumulative liquidity difference	(154,473)	(155,214)	(159,627)	(162,819)	(166,349)	(178,272)	(174,691)	1,123	-

Liquidity and funding risk (continued)

Residual maturity (note i) 4 April 2022	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	30,221	-	-	-	-	-	-	-	30,221
Loans and advances to banks and similar institutions	2,031	-	-	-	-	-	-	1,021	3,052
Investment securities	61	17	68	50	279	784	7,419	16,806	25,484
Derivative financial instruments	90	119	5	118	43	255	2,609	1,484	4,723
Fair value adjustment for portfolio hedged risk	4	8	(134)	(108)	(93)	(824)	(1,140)	(156)	(2,443)
Loans and advances to customers	2,808	1,532	2,183	2,188	2,140	8,489	24,163	164,563	208,066
Total financial assets	35,215	1,676	2,122	2,248	2,369	8,704	33,051	183,718	269,103
Financial liabilities									
Shares	157,455	2,395	7,238	1,725	1,880	5,272	1,015	987	177,967
Deposits from banks and similar institutions	14,712	2	-	11	-	-	21,700	-	36,425
Of which repo	*11,064*	-	-	-	-	-	-	-	*11,064*
Of which TFSME	-	*1*	-	-	-	-	*21,700*	-	*21,701*
Other deposits	2,111	1,096	1,923	29	28	17	4	-	5,208
Fair value adjustment for portfolio hedged risk	1	3	2	-	1	3	1	-	11
Secured funding – ABS and covered bonds	387	26	1,247	1,079	1,061	3,607	3,225	5,201	15,833
Senior unsecured funding	239	555	21	40	1,262	1,885	4,257	1,537	9,796
Derivative financial instruments	52	5	23	1	15	35	367	930	1,428
Subordinated liabilities	792	-	31	3	-	765	2,637	4,022	8,250
Subscribed capital (note iii)	1	-	1	-	-	-	-	185	187
Total financial liabilities	175,750	4,082	10,486	2,888	4,247	11,584	33,206	12,862	255,105
Off-balance sheet commitments (note iv)	15,258	-	-	-	-	-	-	-	15,258
Net liquidity difference	(155,793)	(2,406)	(8,364)	(640)	(1,878)	(2,880)	(155)	170,856	(1,260)
Cumulative liquidity difference	(155,793)	(158,199)	(166,563)	(167,203)	(169,081)	(171,961)	(172,116)	(1,260)	-

Notes:

i. The analysis excludes certain non-financial assets (including property, plant and equipment, intangible assets, other assets, current tax 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, deferred 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.

In the six months to 30 September 2022, a reduction in deposits from banks and similar institutions is primarily due to a reduction in deposits via repo agreements. However, this has been partially offset by an increase in derivative collateral received following changes in market rates.

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 and from participation in the Bank of England's TFSME. Further information is included in the Annual Report and Accounts 2022.

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. 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 2022, Nationwide had £39,694 million (4 April 2022: £44,812 million) of externally encumbered assets with counterparties other than central banks. In addition, £75,616 million (4 April 2022: £74,047 million) of prepositioned and encumbered assets were held at central banks and £157,821 million (4 April 2022: £145,468 million) of assets 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 and decrease in repo balances.

External credit ratings

The Group'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**	**August 2022**	**Stable**
Moody's	**A1**	**P-1**	**A3**	**Baa1**	**October 2022**	**Stable**
Fitch	**A+**	**F1**	**A**	**BBB+**	**September 2022**	**Stable**

In August 2022, S&P affirmed all ratings, and in September 2022 Fitch affirmed all ratings.

In October 2022, Moody's affirmed the Group's long term and senior preferred rating and confirmed the stable outlook. At the same time the Group's senior non-preferred, tier 2 and additional tier 1 ratings were all upgraded by one notch.

Capital risk

Capital risk is the risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators. 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 and requirements		
	30 September 2022	4 April 2022
Capital ratios	**%**	%
CET1 ratio	**25.5**	24.1
Tier 1 ratio	**28.1**	26.6
Total regulatory capital ratio	**32.2**	31.8
Leverage ratio	**5.8**	5.4
Capital requirements	**£m**	£m
Risk weighted assets (RWAs)	**50,791**	51,823
Leverage exposure	**248,187**	255,407

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio at 25.5% (4 April 2022: 24.1%), above Nationwide's CET1 capital requirement of 11.1%. The CET1 capital requirement includes a 7.6% minimum Pillar 1 and Pillar 2 requirement and the UK CRD V combined buffer requirements of 3.5% of RWAs.

The CET1 ratio increased to 25.5% (4 April 2022: 24.1%) as a result of an increase in CET1 capital of £0.5 billion, in conjunction with a reduction in RWAs of £1.0 billion. The CET1 capital resources increase was driven by £0.7 billion profit after tax, partially offset by £0.1 billion of capital distributions and a £0.1 billion reduction in the FVOCI reserve. RWAs reduced, with an increase in retail lending being more than offset by a reduction in the fair value accounting adjustment for portfolio hedged risk, driven by recent changes in the interest rate outlook.

UK CRD V requires firms to calculate a leverage ratio, which is non-risked based, to supplement risk-based capital requirements. Nationwide's leverage ratio is 5.8% (4 April 2022: 5.4%), with Tier 1 capital increasing by £0.5 billion as a result of the CET1 capital movements outlined above. In addition, there was a decrease in leverage exposure of £7.2 billion driven by the same movements as described above for RWAs.

The leverage ratio 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 requirements reflect a 0% UK countercyclical leverage ratio buffer announced on 11 March 2020 as part of the Bank of England's response to the impacts of Covid-19, although this will increase to 0.4% in December 2022 and 0.7% in July 2023.

Leverage requirements continue to be Nationwide's binding Tier 1 capital constraint, as the combination of minimum and regulatory buffer requirements are in excess of the risk-based equivalent. 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 2022-23 at **nationwide.co.uk**

Capital risk (continued)

The table below shows how the components of members' interest and equity contribute to total regulatory capital and does not include non-qualifying instruments.

Total regulatory capital		
	30 September 2022	4 April 2022
	£m	£m
General reserve	**13,391**	12,753
Core capital deferred shares (CCDS)	**1,334**	1,334
Revaluation reserve	**42**	46
Fair value through other comprehensive income (FVOCI) reserve	**(30)**	89
Cash flow hedge and other hedging reserves	**215**	142
Regulatory adjustments and deductions:		
FVOCI reserve temporary relief (note i)	**3**	(21)
Cash flow hedge and other hedging reserves (note ii)	**(215)**	(142)
Foreseeable distributions (note iii)	**(70)**	(71)
Prudent valuation adjustment (note iv)	**(162)**	(80)
Own credit and debit valuation adjustments (note v)	**(20)**	(12)
Intangible assets (note vi)	**(872)**	(884)
Goodwill (note vi)	**(12)**	(12)
Defined benefit pension fund asset (note vi)	**(661)**	(654)
Excess of regulatory expected losses over impairment provisions (note vii)	**(1)**	(48)
IFRS 9 transitional arrangements (note viii)	**15**	31
Total regulatory adjustments and deductions	**(1,995)**	(1,893)
CET1 capital	**12,957**	12,471
Other equity instruments (Additional Tier 1)	**1,336**	1,336
Tier 1 capital	**14,293**	13,807
Dated subordinated debt (note ix)	**2,018**	2,643
Excess of impairment provisions over regulatory expected losses (note vii)	**48**	37
IFRS 9 transitional arrangements (note viii)	**(10)**	(21)
Tier 2 capital	**2,056**	2,659
Total regulatory capital	**16,349**	16,466

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 do 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 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 IFRS 9 transitional adjustments to capital resources apply scaled relief until 4 April 2023 due to the impact of the introduction of IFRS 9; the period for these adjustments was extended by the PRA for a further two years due to anticipated increases in expected credit losses as a result of the Covid-19 pandemic. Further detail is provided in the Group's interim Pillar 3 disclosure 2022-2023 at **nationwide.co.uk**
ix. Subordinated debt includes fair value adjustments relating 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)

In June 2022, Nationwide repurchased £0.7 billion of dated subordinated debt as part of a liability management exercise. This was the primary driver of the £0.6 billion reduction in Tier 2 capital as shown in the regulatory capital table above.

As part of the Bank Recovery and Resolution Directive, 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 and end-state MREL. From 1 January 2022, Nationwide's end-state requirement is to hold twice the minimum capital requirements (amounting to 6.5% of leverage exposure), plus the applicable capital requirement buffers, which amount to 0.35% of leverage exposure. This equals a total loss-absorbing requirement of 6.85%.

At 30 September 2022, total MREL resources were 8.8% (4 April 2022: 8.4%) of leverage exposure, in excess of the 2022 loss-absorbing requirement of 6.85% described above. This requirement will increase to approximately 7.55% in July 2023 due to the upcoming increase in the UK countercyclical leverage ratio buffer.

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 CRR, as the exposure is below the threshold of 2% of own funds.

Risk weighted assets	30 September 2022			4 April 2022		
	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	34,340	3,054	37,394	34,935	3,054	37,989
Retail unsecured lending	4,971	1,045	6,016	4,694	1,045	5,739
Commercial loans	1,935	98	2,033	2,272	98	2,370
Treasury	1,541	409	1,950	1,865	409	2,274
Counterparty credit risk (note iii)	1,143	-	1,143	1,052	-	1,052
Other (note iv)	1,654	601	2,255	1,798	601	2,399
Total	**45,584**	**5,207**	**50,791**	46,616	5,207	51,823

Notes:
i. Includes credit risk exposures, securitisations, counterparty credit risk exposures and exposures below the thresholds for deduction which 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 and other assets.

RWAs reduced by £1.0 billion primarily due to a £0.6 billion reduction in retail mortgage RWAs. This was driven by a reduction in the fair value accounting adjustment for portfolio hedged risk, which is netted against the underlying loans when computing retail mortgage RWAs. This has more than offset the impact of the increase in net mortgage lending. In addition, commercial loan RWAs reduced primarily due to a reduction in the commercial loan portfolio size.

In line with 4 April 2022, a model adjustment continues to be included within RWAs to ensure outcomes consistent with revised IRB regulations in force from 1 January 2022. The impact of this is a £21.2 billion increase in risk weighted assets. In line with other industry participants, Nationwide continues to engage with the PRA regarding approval and implementation timings.

More detailed analysis of RWAs is included in the Group's interim Pillar 3 Disclosure 2022-23 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.

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 implementation of the reforms is expected to be from 2025 with a transitional period ending in 2030. The changes may lead to an increase in Nationwide's RWAs relative to the current position, mainly due to the application of standardised floors for mortgages. Based on the Basel text, the reported CET1 ratio will reduce to approximately 20%, compared to the 25.5% reported at 30 September 2022. However, final impacts are uncertain as they are subject to future balance sheet size and mix, and because of possible divergence by the Bank of England from the original Basel text. The Bank of England has confirmed its intention to consult on the implementation of the Basel 3.1 rules in the fourth quarter of 2022. The consultation is expected to include the proposal to implement these changes from January 2025, providing enough time to firms to implement the final policies.

On 12 October 2022 the FPC confirmed its intention to increase the UK countercyclical capital buffer (CCyB) rate to 1% from 13 December 2022 and to 2% from 5 July 2023. This will lead to an increase in Nationwide's risk-based capital requirements. Nationwide's leverage requirements will also increase as the countercyclical leverage ratio buffer is calculated as approximately 35% of the risk-based CCyB rate. Capital surpluses will reduce as a result of these changes; however, they will remain comfortably above Board risk appetite based on current forecasts.

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, primarily 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.

The UK economic environment has changed markedly since the Annual Report and Accounts 2022 as a result of higher inflation embedding within the economy. In response, the Bank of England Monetary Policy Committee voted to raise bank base rate on four consecutive occasions since April 2022 to a rate of 2.25% at 30 September 2022, with the aim of returning inflation to the 2% target in the medium term. It has also recently purchased long-dated UK government bonds to address the financial instability observed following the UK government's recent fiscal policy announcements, which led to sterling falling by 15% against the dollar and the 10-year gilt rate rising by 2.44% in the six-month period leading up to 30 September 2022. Since the period end the bank base rate has increased further to 3.0%.

Sterling has weakened considerably against the dollar over the course of the first half of the year; however, this movement has had negligible impact on the Group as it hedges exposure in foreign currencies.

Whilst economic conditions within the UK have an impact on the Group, market risk is closely managed to ensure it remains within risk appetite. Nationwide's market risk appetite, risk management and reporting measures, described in the Annual Report and Accounts 2022, are unchanged.

Net Interest Income sensitivity (NII)

The sensitivities presented below measure the extent to which Nationwide's pre-tax earnings are exposed to changes in interest rates over a one-year period based on instantaneous parallel rises and falls in interest rates, with the shifts applied to the prevailing interest rates at the reporting date.

Market risk (continued)

The purpose of these sensitivities is to assess Nationwide's exposure to interest rate risk and therefore the sensitivities should not be considered as a guide to future earnings performance, with actual future earnings influenced by the extent to which changes in interest rates are passed through to product pricing, the timing of maturing assets and liabilities and changes to the balance sheet mix. In practice, earnings changes from actual interest rate movements will differ from those calculated in the sensitivity analysis because interest rate changes may not be passed through in full to those assets and liabilities that do not have a contractual link to base rate.

The sensitivities shown below are prepared based on a static balance sheet, with all assets and liabilities maturing within the year replaced with like for like products, and changes in interest rates being fully passed through to variable rate retail products, unless a 0% floor is reached when rates fall. No management actions are included in the sensitivities.

Potential favourable/(adverse) impact on annual pre-tax future earnings		
	30 September 2022 £m	4 April 2022 £m
+100 basis point shift	**(35)**	(note i)
+50 basis point shift	**(14)**	10
+25 basis point shift	**(7)**	5
-25 basis point shift	**(4)**	(76)
-50 basis point shift	**(69)**	(220)
-100 basis point shift	**(309)**	(note i)

Note:
i. The +/-100 basis point shifts were not calculated at 4 April 2022 but have been presented at 30 September 2022 to reflect increased volatility in the interest rate environment.

The low levels of NII sensitivity reflect Nationwide's prudent management of interest rate risk. Minimal NII sensitivity continues to arise in the +25 and +50 basis point shifts given that rate changes are assumed to be fully passed through in these scenarios, with product margins held static.

The adverse impacts of positive basis point shifts at 30 September 2022 reflect the balance sheet composition, in particular the relative value of non-interest bearing assets to liabilities, with assets having increased significantly since 4 April 2022.

The reduced sensitivity to a -25 basis point shift at 30 September 2022 compared to 4 April 2022 is primarily due to an increase in interest rates on variable rate savings products, meaning that reductions in interest rates would apply to a greater proportion of balances as the 0% floor is not reached.

Pension risk

Nationwide 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. The Fund has approximately 29,000 participants (Fund members), the majority of whom are deferred members (former and current employee members, not yet retired). The Fund closed to new entrants in 2007 and closed to future accrual on 31 March 2021. Further information is set out in the Annual Report and Accounts 2022.

The Fund's net defined benefit pension surplus, which is shown within assets on the balance sheet, has increased from £1,008 million to £1,017 million since 4 April 2022. This was driven by a large reduction in pension liabilities, primarily due to an increase in the discount rate assumption as a result of increasing gilt yields and widening credit spreads. This was partly offset by a decrease in asset values, specifically liability-matching assets such as government bonds. Further information is included in note 15 to the consolidated interim financial statements.

On 14 October 2022, the Society provided two uncollateralised loans totalling £400 million to the Fund. This temporary support will allow the Fund to manage its ongoing liquidity requirements during a period of high market volatility. The loans are repayable on demand and accrue interest at market rates.

Pension risk (continued)

The latest Triennial Valuation of the Fund, which has an effective date of 31 March 2022 is currently underway. Over the long term, the Trustee intends to reduce further the level of risk within the Fund, and Nationwide actively engages with the Trustee to ensure broad alignment on investment objectives and implementation. Potential risk management initiatives include, but are not limited to, adjusting the asset allocation (for example reducing the allocation to equities and increasing the allocation to bonds), longevity hedging and implementing derivative and other hedging strategies.

Model risk

Nationwide relies on models to support a broad range of business and risk management activities. Key examples include the use of model outputs in the credit approval process, capital and liquidity assessments, stress testing, loss provisioning, financial planning and pricing strategies. Nationwide also uses models which apply advanced machine learning techniques to other risk types such as climate change and economic crime. Further information on model risk can be found in the Risk report section of the Annual Report and Accounts 2022.

The intensifying inflationary pressures, interest rate rises, cost of living crisis and market volatility experienced during 2022 have impacted the performance of some models. These changing economic conditions mean that the historical data on which some models were built have become less representative of the prevailing environment, increasing the need for model adjustments. As the economic uncertainty continues, model adjustments will remain a key area of focus within the Group's model risk management process. An enhanced framework for model adjustments has been implemented to ensure they are robustly governed, applied and monitored, with a particular focus on segments and exposures that are more susceptible to interest rates and inflation.

In June 2022, the Prudential Regulatory Authority (PRA) published a consultation paper (CP6/22) and draft supervisory statement on model risk management. The proposals contain five principles and expectations which the PRA considers key to establishing an effective model risk management framework. Nationwide welcomes the consultation and the explicit regulatory framework for model risk. Work is underway to respond to the resulting Supervisory Statement which is expected to be published in early 2023 with an implementation date of 12 months later.

Changes in regulation have also continued to drive model development, validation and risk management activity during 2022. Development of the retail capital models to meet new IRB Roadmap regulatory requirements has progressed well and Nationwide continues to engage with the PRA regarding approval and implementation timings.

Operational and conduct risk

Nationwide's overall operational and conduct risk profile has remained broadly stable since 4 April 2022. The main risks continue to relate to IT and operational resilience, and cyber security. There remains a focus on being safe and secure in order to ensure both service availability and the protection of customer data. Operational structures and processes continue to be reviewed and enhanced, with particular attention on both the adequacy and effectiveness of controls relating to our main operational and conduct risk exposures, and controls in processes supporting products and services provided to our customers. Nationwide monitors the risk status and implementation of improvements in any areas identified for control enhancement. In addition, specific investment is being made to improve capabilities to meet existing and future financial crime laws and regulation.

Key developments during the period impacting other aspects of Nationwide's operational and conduct risk profile are set out below.

Cost of living and members in financial difficulty

The increased cost of living and more volatile interest rate environment pose challenges for Nationwide's management of conduct risk as more members are expected to face financial difficulty. Nationwide remains committed to ensuring that good customer outcomes are achieved and to meeting the expectations of regulators in relation to the fair treatment of customers, with a particular focus on customers in vulnerable circumstances. Consideration of the additional needs of these customers is embedded in Nationwide's culture and is the responsibility of all colleagues whose work impacts member products and services. To support members facing cost of living challenges, a dedicated freephone cost of living hotline has been launched to offer support for those who need it.

Operational and conduct risk (continued)

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 its regulators.

On 27 July 2022, the Financial Conduct Authority (FCA) finalised a new Consumer Duty, comprising rules and guidance which set out a higher standard of consumer care and will require firms to be more proactive in the delivery of fair outcomes. Nationwide has mobilised a programme of work to deliver compliance with the Consumer Duty. The Group remains committed to ensuring that good customer outcomes are achieved and will continue to provide a safe and secure variety of products and services which meet the needs of members and customers.

The Group remains actively engaged in the ongoing development of the UK's Future Regulatory Framework, which will determine how regulatory rulemaking powers will be distributed following the UK's exit from the European Union, and the mechanisms for improving accountability and scrutiny of those exercising those powers.

People

Our people are fundamental to the success of Nationwide and attracting and retaining people with in-demand skills and capabilities continues to be a key area of focus. A highly competitive external labour market, upward pressure on pay in light of significant increases in inflation, and the rise of flexible working across the industry, present both opportunities and risks to the attraction and retention of diverse talent.

Nationwide recognises that the cost of living crisis impacts not only members, but also colleagues, and is committed to supporting them, with a wide range of resources put in place to help with colleague financial and emotional wellbeing. Nationwide continues to monitor the situation closely to ensure colleagues remain supported through these challenging times.

Consolidated interim financial statements

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Consolidated income statement

(Unaudited)

	Notes	**Half year to 30 September 2022 £m**	Half year to 30 September 2021 £m
Interest receivable and similar income/(expense):			
Calculated using the effective interest rate method	3	**3,233**	2,114
Other	3	**18**	6
Total interest receivable and similar income	3	**3,251**	2,120
Interest expense and similar charges	4	**(1,196)**	(414)
Net interest income		**2,055**	1,706
Fee and commission income		**209**	227
Fee and commission expense		**(125)**	(108)
Other operating income	5	**51**	69
(Losses)/gains from derivatives and hedge accounting	6	**(11)**	3
Total income		**2,179**	1,897
Administrative expenses	7	**(1,083)**	(1,025)
Impairment (charge)/release on loans and advances to customers	8	**(108)**	34
Provisions for liabilities and charges	13	**(19)**	(53)
Profit before tax		**969**	853
Taxation	9	**(241)**	(168)
Profit after tax		**728**	685

The notes on pages 69 to 90 form part of these consolidated interim financial statements.

Consolidated statement of comprehensive income

(Unaudited)

	Notes	**Half year to 30 September 2022 £m**	Half year to 30 September 2021 £m
Profit after tax		**728**	685
Other comprehensive (expense)/income			
Items that will not be reclassified to the income statement			
Remeasurements of retirement benefit obligations:			
Retirement benefit remeasurements	15	**(2)**	300
Taxation		**-**	(105)
		(2)	195
Revaluation reserve:			
Revaluation of property		**2**	1
Taxation		**(1)**	(1)
		1	-
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)**	15
Taxation		**4**	(4)
		(11)	11
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve			
Fair value movements taken to members' interests and equity		**136**	27
Amount transferred to income statement		**(21)**	(18)
Taxation		**(32)**	(3)
		83	6
Other hedging reserve			
Fair value movements taken to members' interests and equity		**2**	1
Amount transferred to income statement		**(14)**	(3)
Taxation		**3**	4
		(9)	2
Fair value through other comprehensive income reserve:			
Fair value movements taken to members' interests and equity		**(88)**	27
Amount transferred to income statement		**(62)**	(41)
Taxation		**42**	(4)
		(108)	(18)
Other comprehensive (expense)/income		**(46)**	196
Total comprehensive income		**682**	881

The notes on pages 69 to 90 form part of these consolidated interim financial statements.

Consolidated balance sheet

(Unaudited)

	Notes	30 September 2022 £m	4 April 2022 £m
Assets			
Cash		**32,890**	30,221
Loans and advances to banks and similar institutions		**4,029**	3,052
Investment securities		**25,107**	25,484
Derivative financial instruments		**10,995**	4,723
Fair value adjustment for portfolio hedged risk		**(9,681)**	(2,443)
Loans and advances to customers	10	**213,399**	208,066
Intangible assets		**899**	913
Property, plant and equipment		**796**	880
Accrued income and prepaid expenses		**231**	252
Deferred tax		**63**	59
Current tax assets		**46**	33
Other assets		**143**	106
Retirement benefit asset	15	**1,017**	1,008
Total assets		**279,934**	272,354
Liabilities			
Shares		**181,177**	177,967
Deposits from banks and similar institutions		**33,643**	36,425
Other deposits		**6,685**	5,208
Fair value adjustment for portfolio hedged risk		**6**	11
Debt securities in issue		**30,691**	25,629
Derivative financial instruments		**2,583**	1,428
Other liabilities		**470**	668
Provisions for liabilities and charges	13	**139**	153
Accruals and deferred income		**225**	299
Subordinated liabilities		**7,420**	8,250
Subscribed capital		**165**	187
Deferred tax		**442**	430
Total liabilities		**263,646**	**256,655**
Members' interests and equity			
Core capital deferred shares		**1,334**	1,334
Other equity instruments		**1,336**	1,336
General reserve		**13,391**	12,753
Revaluation reserve		**42**	46
Cash flow hedge reserve		**267**	184
Other hedging reserve		**(52)**	(43)
Fair value through other comprehensive income reserve		**(30)**	89
Total members' interests and equity		**16,288**	15,699
Total members' interests, equity and liabilities		**279,934**	272,354

The notes on pages 69 to 90 form part of these consolidated interim financial statements.

Consolidated statement of movements in members' interests and equity

(Unaudited)

For the period ended 30 September 2022	**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 2022	1,334	1,336	12,753	46	184	(43)	89	15,699
Profit for the period	**-**	**-**	**728**	**-**	**-**	**-**	**-**	**728**
Net remeasurements of retirement benefit obligations	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**	**(2)**
Net revaluation of property	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Net movement in cash flow hedge reserve	**-**	**-**	**-**	**-**	**83**	**-**	**-**	**83**
Net movement in other hedging reserve	**-**	**-**	**-**	**-**	**-**	**(9)**	**-**	**(9)**
Net movement in FVOCI reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(119)**	**(119)**
Total comprehensive income	**-**	**-**	**726**	**1**	**83**	**(9)**	**(119)**	**682**
Reserve transfer	**-**	**-**	**5**	**(5)**	**-**	**-**	**-**	**-**
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 2022	**1,334**	**1,336**	**13,391**	**42**	**267**	**(52)**	**(30)**	**16,288**

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 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

The notes on pages 69 to 90 form part of these consolidated interim financial statements.

Consolidated cash flow statement

(Unaudited)

	Notes	**Half year to 30 September 2022 £m**	Half year to 30 September 2021 £m
Cash flows generated from operating activities			
Profit before tax		**969**	853
Adjustments for:			
Non-cash items included in profit before tax	17	**438**	196
Changes in operating assets and liabilities	17	**3,590**	27,364
Taxation		**(230)**	(150)
Net cash flows generated from operating activities		**4,767**	28,263
Cash flows (used in)/generated from investing activities			
Purchase of investment securities		**(6,892)**	(3,841)
Sale and maturity of investment securities		**6,741**	5,804
Purchase of property, plant and equipment		**(23)**	(33)
Sale of property, plant and equipment		**12**	6
Purchase of intangible assets		**(136)**	(97)
Net cash flows (used in)/generated from investing activities		**(298)**	1,839
Cash flows 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)**	(39)
Redemption of subordinated liabilities		**(1,468)**	-
Interest paid on subordinated liabilities		**(92)**	(64)
Redemption of subscribed capital		**-**	(5)
Interest paid on subscribed capital		**(2)**	(2)
Repayment of lease liabilities		**(16)**	(13)
Net cash flows used in financing activities		**(1,671)**	(177)
Effect of exchange rate changes on cash and cash equivalents		**38**	22
Net increase in cash and cash equivalents		**2,836**	29,947
Cash and cash equivalents at start of period		**30,824**	17,705
Cash and cash equivalents at end of period	17	**33,660**	47,652

The notes on pages 69 to 90 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 2022.

These condensed consolidated interim financial statements ('consolidated interim financial statements') have been prepared as at 30 September 2022 and show the financial performance for the period from, and including, 5 April 2022 to this date. They were approved for issue on 17 November 2022.

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 2022 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 2022, 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 by the European Union.

Terminology used in these consolidated interim financial statements is consistent with that used in the Annual Report and Accounts 2022. Copies of the Annual Report and Accounts 2022 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 2023 are consistent with those disclosed in the Annual Report and Accounts 2022.

Judgements in applying accounting policies and critical accounting estimates

Judgements are 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 relevant to the Group, including any changes from those disclosed in the Annual Report and Accounts 2022, are disclosed in the relevant notes as follows:

- impairment provisions on loans and advances to customers (note 8);
- provisions for customer redress (note 13); and
- retirement benefit obligations (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. 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 from the date of approval of these consolidated interim financial statements and that it is therefore appropriate to adopt the going concern basis.

3. Interest receivable and similar income

	Half year to 30 September 2022 £m	Half year to 30 September 2021 £m
On financial assets measured at amortised cost:		
Residential mortgages	**2,230**	2,100
Other loans	**278**	260
Other liquid assets	**253**	29
Investment securities	**1**	5
On investment securities measured at FVOCI	**114**	62
Net income/(expense) on financial instruments hedging assets in a qualifying relationship	**357**	(342)
Total interest receivable and similar income calculated using the effective interest rate method	**3,233**	2,114
Interest on net defined benefit pension surplus	**13**	2
Other interest and similar income (note i)	**5**	4
Total	**3,251**	2,120

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 2022 £m	Half year to 30 September 2021 £m
On shares held by individuals	**469**	218
On subscribed capital	**5**	7
On deposits and other borrowings:		
Subordinated liabilities	**129**	124
Other	**273**	29
On debt securities in issue	**294**	221
Net expense/(income) on financial instruments hedging liabilities	**26**	(185)
Total	**1,196**	414

5. Other operating income

	Half year to 30 September 2022	Half year to 30 September 2021
	£m	£m
(Losses)/gains on financial assets measured at FVTPL	**(4)**	27
Gains on disposal of FVOCI investment securities	**62**	41
Other (expense)/income	**(7)**	1
Total	**51**	69

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

There were no gains or losses on disposal of financial assets measured at amortised cost in the period ended 30 September 2022 (H1 2021/22: £nil).

6. Losses/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 2022	Half year to 30 September 2021
	£m	£m
Gains/(losses) from fair value hedge accounting	**8**	(5)
Gains from cash flow hedge accounting	**2**	1
Fair value (losses)/gains from other derivatives (note i)	**(33)**	5
Foreign exchange retranslation (note ii)	**12**	2
Total	**(11)**	3

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.

Losses of £33 million (H1 2021/22: gains of £5 million) from other derivatives include losses of £78 million (H1 2021/22: gains of £6 million) caused by a widening of bid-offer spreads as a result of the more volatile financial markets observed at the end of the reporting period. These losses were offset by gains of £35 million (H1 2021/22: £5 million) from derivatives that are economically hedging investment securities but where hedge accounting is not possible, and gains of £9 million (H1 2021/22: losses of £1 million) on swaps economically hedging the pipeline of new fixed rate mortgage business.

7. Administrative expenses

	Half year to 30 September 2022	Half year to 30 September 2021
	£m	£m
Employee costs:		
Wages, salaries and bonuses	**299**	292
Social security costs	**41**	33
Pension costs	**76**	70
	416	395
Other administrative expenses	**413**	378
	829	773
Depreciation, amortisation and impairment	**254**	252
Total	**1,083**	1,025

8. Impairment charge/release and provisions on loans and advances to customers

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

Impairment charge/(release)	**Half year to 30 September 2022**	Half year to 30 September 2021
	£m	£m
Prime residential	**18**	(19)
Buy to let and legacy residential	**51**	(25)
Consumer banking	**41**	18
Commercial lending	**(2)**	(8)
Total	**108**	(34)

Impairment provisions	**30 September 2022**	4 April 2022
	£m	£m
Prime residential	**91**	73
Buy to let and legacy residential	**165**	114
Consumer banking	**530**	529
Commercial lending	**28**	30
Total	**814**	746

8. Impairment charge/release 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, outputs from statistical models are used, and judgements incorporated to determine the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD) for each loan. Provisions represent a probability weighted average of these calculations under multiple economic scenarios. Adjustments are made in modelling provisions, applying further judgements to reflect model limitations, or to deal with instances where insufficient data exists to fully reflect credit risks in the models.

The most significant areas of judgement are:

- the approach to identifying significant increases in credit risk;
- the approach to identifying credit-impaired loans.

The most significant areas of estimation uncertainty are:

- the use of forward-looking economic information using multiple economic scenarios;
- the additional judgements made in modelling expected credit losses (ECL) – these currently include the temporary nature of improvements in credit performance observed over the past two years, increased affordability risks due to rising inflation and interest rates reducing household disposable incomes, and property valuation risk arising from fire safety issues.

Identifying significant increases in credit risk (stage 2)

Loans are allocated to stage 1 or stage 2 according to whether there has been a significant increase in credit risk. Judgement has been used to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place. These criteria are detailed within the Credit risk section of the Annual Report and Accounts 2022. The primary quantitative indicators are the outputs of internal credit risk assessments. While different approaches are used within each portfolio, the intention is to combine current and historical data relating to the exposure with forward-looking economic information to determine the probability of default (PD) at each reporting date. For residential mortgage and consumer banking lending, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination;
- the residual lifetime PD is at least 75 basis points more than, and at least double, the original lifetime PD.

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk.

Identifying credit-impaired loans (stage 3)

The identification of credit-impaired loans is an important judgement within the staging approach. A loan is credit-impaired if it has an arrears status of more than 90 days past due, or is considered to be in default, or if it is considered unlikely that the borrower will repay the outstanding balance in full, without recourse to actions such as realising security.

8. Impairment charge/release 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 estimating future economic conditions which are incorporated into provisions through modelling of multiple 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. The Group continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes. The base case scenario is aligned to the Society's financial planning process. The upside and downside scenarios are reasonably likely favourable and adverse alternatives to the base case, and the severe downside scenario is aligned with the Society's internal stress testing. The impact of applying multiple economic scenarios (MES) is to increase provisions at 30 September 2022 by £125 million (4 April 2022: £98 million), compared with provisions based on the base case economic scenario.

Probability weightings for each scenario are reviewed quarterly and updated to reflect economic conditions as they evolve. The changes in scenario weightings during the period primarily reflect a deterioration in the economic outlook. The base case and downside scenario weightings increased (and upside scenario weighting decreased) during the period, to reflect increased risks associated with rising inflation, increases in bank base rate and the ongoing levels of economic uncertainty as a result of Russia's invasion of Ukraine. The probability weightings applied to the scenarios are shown in the table below.

Scenario probability weighting (%)	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario
30 September 2022	**10**	**45**	**30**	**15**
4 April 2022	20	40	25	15

In the base case scenario at 30 September 2022, a modest recession is forecast, with a fall in GDP of almost 1% expected over the next 12 months. This contraction in the economy is expected to result in an increase in the forecast peak unemployment rate to 5.0% (4 April 2022: 4.2%) in this scenario. The peak unemployment in both the downside scenario (7.0%) and severe downside scenario (10.0%) is unchanged from 4 April 2022, with these scenarios continuing to reflect a significant economic downturn.

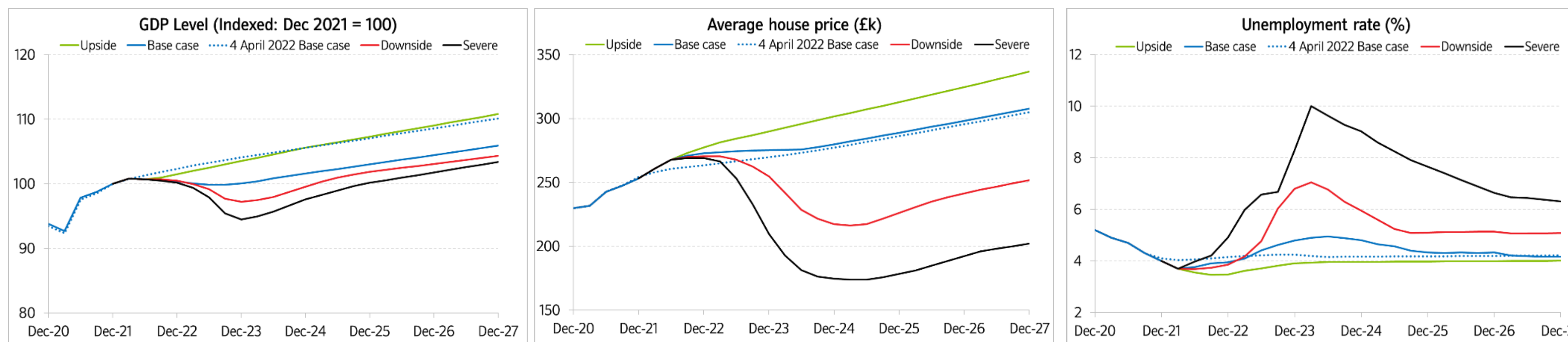
House price growth is expected to be limited in the short term in the base case scenario. This is the result of ongoing affordability pressures due to increasing borrowing costs and inflation. The downside scenario assumes that house prices fall from early 2023, driven by a deterioration in economic conditions including an increase in unemployment, whilst the severe downside scenario reflects a severe long-lasting impact on the UK economy. As a result, the weighted average of all scenarios represents a fall in house prices by 8% between June 2022 and December 2024.

The bank base rate is forecast to increase to 4% by early 2023 in the base case scenario, reflecting tighter fiscal policy to mitigate inflation. Inflation in the base case scenario is expected to reach 13.5% by the end of 2022; this increases to 17% in the severe downside scenario.

8. Impairment charge/release 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 current economic scenarios, as well as the previous base case economic scenario:



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

Economic variables	Rate/annual growth rate at December 2021-2026						5-year average (note i)	Dec-21 to peak (notes ii and iii)	Dec-21 to trough (notes ii and iii)
	Actual	Forecast							
	2021	2022	2023	2024	2025	2026			
30 September 2022	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	6.6	1.5	2.0	2.0	1.6	1.6	1.7	9.0	0.7
Base case scenario	6.6	0.4	(0.3)	1.5	1.4	1.4	0.9	4.5	(0.1)
Downside scenario	6.6	0.5	(3.3)	2.4	2.3	1.2	0.6	3.1	(2.8)
Severe downside scenario	6.6	0.2	(5.7)	3.3	2.6	1.6	0.3	1.8	(5.5)
HPI growth									
Upside scenario	10.1	9.5	4.6	4.0	3.8	3.8	5.1	28.2	3.0
Base case scenario	10.1	7.8	0.8	1.7	3.2	3.2	3.3	17.8	3.0
Downside scenario	10.1	6.9	(5.9)	(14.6)	4.0	6.8	(0.9)	6.9	(14.6)
Severe downside scenario	10.1	6.3	(22.1)	(16.7)	2.2	7.7	(5.4)	6.3	(31.4)
Unemployment									
Upside scenario	4.0	3.5	3.9	4.0	4.0	4.0	3.8	4.0	3.5
Base case scenario	4.0	4.0	4.8	4.8	4.3	4.3	4.4	5.0	3.7
Downside scenario	4.0	3.9	6.8	6.0	5.1	5.1	5.2	7.0	3.7
Severe downside scenario	4.0	4.9	8.3	9.0	7.7	6.6	7.1	10.0	3.7
Consumer price inflation									
Upside scenario	5.4	8.0	1.2	1.8	2.0	2.0	3.4	11.0	1.2
Base case scenario	5.4	13.5	3.0	2.0	2.0	2.0	4.9	13.5	2.0
Downside scenario	5.4	15.0	1.0	0.3	0.3	1.2	4.0	15.0	0.3
Severe downside scenario	5.4	17.0	6.0	2.5	2.0	2.0	6.2	17.0	2.0

8. Impairment charge/release and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Economic variables									
	Rate/annual growth rate at December 2021-2026						5-year average (note i)	Dec-21 to peak (notes ii and iii)	Dec-21 to trough (notes ii and iii)
	Actual	Forecast							
	2021	2022	2023	2024	2025	2026			
4 April 2022	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	8.3	4.2	2.5	2.0	2.0	2.0	2.5	13.4	1.5
Base case scenario	8.3	2.3	1.7	1.5	1.4	1.4	1.7	8.6	0.7
Downside scenario	8.3	2.5	(3.9)	1.7	2.2	2.2	0.9	4.6	(1.5)
Severe downside scenario	8.3	(4.5)	2.6	2.0	1.9	1.6	0.7	3.6	(4.5)
HPI growth									
Upside scenario	10.6	6.1	3.7	4.0	3.8	3.8	4.3	23.2	2.0
Base case scenario	10.6	3.5	2.4	2.8	3.2	3.2	3.1	16.2	1.5
Downside scenario	10.6	1.5	(10.6)	(8.4)	5.6	5.0	(1.6)	2.0	(16.9)
Severe downside scenario	10.6	(1.8)	(23.6)	(5.5)	3.7	7.7	(4.6)	1.2	(29.2)
Unemployment									
Upside scenario	4.1	3.5	3.6	3.9	3.9	3.9	3.8	3.9	3.5
Base case scenario	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.0
Downside scenario	4.1	4.7	6.9	5.3	5.0	4.9	5.3	7.0	3.6
Severe downside scenario	4.1	9.4	8.2	6.2	5.5	5.3	6.7	10.0	4.1
Consumer price inflation (CPI)									
Upside scenario	5.4	5.0	1.6	1.9	2.0	2.0	2.9	7.5	1.3
Base case scenario	5.4	5.0	1.8	1.7	2.0	2.0	2.9	7.5	1.6
Downside scenario	5.4	10.0	1.0	0.3	0.3	1.2	3.1	10.0	0.3
Severe downside scenario	5.4	3.0	(0.2)	0.0	0.0	0.1	1.2	7.0	(0.4)

Notes:

i. The average rate for GDP and HPI is based on the cumulative annual growth rate over the forecast period. Average unemployment and CPI is calculated using a simple average using quarterly points.

ii. GDP growth and HPI are shown as the largest cumulative growth/fall from 31 December over the forecast period.

iii. The unemployment rate and CPI is shown as the highest/lowest rate over the forecast period from 31 December.

8. Impairment charge/release 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:

Expected credit losses under 100% weighted scenarios	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported provision
30 September 2022	**£m**	**£m**	**£m**	**£m**	**£m**
Residential mortgages	**141**	**149**	**192**	**828**	**256**
Consumer banking	**497**	**512**	**540**	**587**	**530**
Commercial lending	**28**	**28**	**29**	**29**	**28**
Total	**666**	**689**	**761**	**1,444**	**814**
4 April 2022	£m	£m	£m	£m	£m
Residential mortgages	134	131	184	465	187
Consumer banking	476	487	525	740	529
Commercial lending	29	30	30	31	30
Total	639	648	739	1,236	746

Proportion of balances in stage 2 under 100% weighted scenarios	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported
30 September 2022	**%**	**%**	**%**	**%**	**%**
Residential mortgages	**9.9**	**7.9**	**7.6**	**33.3**	**9.1**
Consumer banking	**36.0**	**38.4**	**40.8**	**45.7**	**40.1**
Commercial lending	**2.4**	**2.4**	**2.4**	**2.5**	**2.4**
4 April 2022	%	%	%	%	%
Residential mortgages	8.9	8.0	8.8	23.9	8.3
Consumer banking	34.4	36.2	42.4	58.7	37.1
Commercial lending	2.9	2.9	2.9	2.9	2.9

The ECL in the severe downside scenario has increased over the period reflecting increased losses in the mortgage portfolios. This primarily reflects the change in the bank base rate forecast, with a peak of 6% forecast (4 April 2022: peak 0.75%).

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 2022 to movements in scenario probability weightings.

Sensitivity to changes in scenario probability weightings	Increase in provision
	£m
10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%)	**10**
5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%)	**34**

8. Impairment charge/release and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The table below shows key adjustments made in modelling provisions in relation to the significant areas of estimation uncertainty for the retail portfolios (residential mortgages and consumer banking), with further details on each provided below. There are no significant areas of estimation uncertainty for the commercial portfolio.

Significant adjustments made in modelling provisions	30 September 2022			4 April 2022		
	Residential Mortgages	**Consumer Banking**	**Total**	Residential Mortgages	Consumer Banking	Total
	£m	**£m**	**£m**	£m	£m	£m
PD uplift in models for:						
Impact of affordability pressures on future credit performance	**32**	**92**	**124**	11	98	109
Temporary improvement in credit performance	**6**	**45**	**51**	2	48	50
Property valuation risk arising from fire safety issues	**26**	**-**	**26**	25	-	25
Total	**64**	**137**	**201**	38	146	184
Of which:						
Stage 1	**16**	**10**	**26**	8	15	23
Stage 2	**43**	**127**	**170**	26	131	157
Stage 3	**5**	**-**	**5**	4	-	4

Impact of affordability pressures on future credit performance

Household disposable income is forecast to decrease in each of the four economic scenarios as a result of inflationary increases in the cost of living. Further to this, there has been a significant increase in interest rates since 4 April 2022. This increases the risk that borrowers will not be able to meet their contractual repayments, resulting in an increase in default rates. The data used in developing the provisioning models did not include a period of high inflation or a significant increase in interest rates, and therefore an adjustment is required in modelling provisions.

In consideration of the forecast inflation and interest rates, this adjustment assumes a 10% reduction in real wages for consumer banking and variable rate mortgage borrowers. This adjustment assumes a relationship between reduced disposable monthly income and default rates, particularly for borrowers with estimated negative disposable income. The impact of both reduced disposable monthly income and the relationship it has with default rates is to increase the PD at a borrower level. As at 30 September 2022 this has increased provisions by £108 million (4 April 2022: £109 million). When combined with the adjustment for the temporary improvement in credit performance, this results in approximately £4.5 billion of residential mortgages and £698 million of consumer banking balances moving from stage 1 to stage 2.

During the period, a £16 million provision has been introduced for the affordability risk associated with prime mortgage borrowers whose mortgage payments are expected to increase as their current fixed rate mortgage deal expires. This provision has been calculated by reducing the monthly disposable income used in provision modelling for those borrowers whose current fixed rate mortgage deal expires during the next two years. The staging of balances has not been adjusted, but the calculated provision has been applied across stage 1 and stage 2 (£12 million and £4 million respectively), in line with the current stage allocation of affected loans.

8. Impairment charge/release and provisions on loans and advances to customers (continued)

Temporary improvement in credit performance

Since the start of the Covid-19 pandemic arrears balances have reduced across all products, resulting in a reduction in modelled provisions. As at 30 September 2022, management judged this improvement in observed performance to be temporary and an adjustment was made to recognise the underlying risk, leading to additional provisions of £51 million (4 April 2022: £50 million) being held, primarily in relation to consumer banking balances.

Property valuation risk arising from fire safety issues

An adjustment is made to reflect the property valuation risk associated with flats subject to fire safety issues such as unsuitable cladding. Due to limited data available to identify affected properties individually, it is assumed that a proportion of the flats securing loans in the residential mortgage portfolios is affected, in line with UK market exposure estimates. Assumptions relating to property values have been applied based upon the height of the buildings and are unchanged from those used at 4 April 2022, increasing provisions by £26 million (4 April 2022: £25 million).

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 2022**	Half year to 30 September 2021
	£m	£m
Profit before tax:	**969**	853
Tax calculated at a tax rate of 19%	**184**	162
Adjustments in respect of prior years	**-**	(22)
Tax credit on distribution to the holders of Additional Tier 1 capital	**(6)**	(8)
Banking surcharge	**54**	38
Expenses not deductible for tax purposes	**3**	1
Effect of deferred tax provided at different tax rates	**6**	2
Temporary differences not previously recognised	**-**	(5)
Tax charge	**241**	168

It was announced in the Budget on 3 March 2021 that the main rate of corporation tax of 19% would increase to 25% with effect from 1 April 2023. This legislative change was enacted on 10 June 2021. On 27 October 2021 it was announced that the banking surcharge would decrease from 8% to 3% also from 1 April 2023. This legislative change was enacted on 24 February 2022. The impact of these changes on deferred tax balances was recognised in the financial statements for the year ended 4 April 2022. Given that no further announced changes have been enacted at 30 September 2022, the closing deferred tax balances have been recognised with reference to these rates.

10. Loans and advances to customers

	30 September 2022						4 April 2022					
	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	**159,170**	**(91)**	**-**	**159,079**	**54**	**159,133**	154,363	(73)	-	154,290	64	154,354
Buy to let and legacy residential mortgages	**44,409**	**(165)**	**-**	**44,244**	**-**	**44,244**	43,693	(114)	-	43,579	-	43,579
Consumer banking	**4,640**	**(530)**	**-**	**4,110**	**-**	**4,110**	4,638	(529)	-	4,109	-	4,109
Commercial lending	**5,372**	**(28)**	**515**	**5,859**	**53**	**5,912**	5,453	(30)	549	5,972	52	6,024
Total	**213,591**	**(814)**	**515**	**213,292**	**107**	**213,399**	208,147	(746)	549	207,950	116	208,066

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. Tables summarising these movements for the Group's residential mortgages and consumer banking portfolios respectively are presented in the Credit risk sections 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 2022	188,130	48	18,326	380	1,691	318	208,147	746
Stage transfers:								
Transfers from stage 1 to stage 2	**(16,296)**	**(25)**	**16,296**	**25**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(110)**	**-**	**(410)**	**(64)**	**520**	**64**	**-**	**-**
Transfers from stage 2 to stage 1	**12,622**	**151**	**(12,622)**	**(151)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**193**	**2**	**253**	**17**	**(446)**	**(19)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(132)**		**185**		**(7)**		**46**
Net movement arising from transfer of stage (note ii)	**(3,591)**	**(4)**	**3,517**	**12**	**74**	**38**	**-**	**46**
New assets originated or purchased (note iii)	**20,500**	**25**	**-**	**-**	**-**	**-**	**20,500**	**25**
Net impact of further lending and repayments (note iv)	**(4,016)**	**(15)**	**(295)**	**(18)**	**(31)**	**(7)**	**(4,342)**	**(40)**
Changes in risk parameters in relation to credit quality (note v)	**-**	**22**	**-**	**57**	**-**	**23**	**-**	**102**
Other items impacting income statement charge/(reversal) including recoveries	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**
Redemptions (note vi)	**(9,464)**	**(2)**	**(1,044)**	**(11)**	**(155)**	**(8)**	**(10,663)**	**(21)**
Income statement charge for the period								**108**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(51)**	**(44)**	**(51)**	**(44)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
At 30 September 2022	**191,559**	**74**	**20,504**	**420**	**1,528**	**320**	**213,591**	**814**
Net carrying amount		**191,485**		**20,084**		**1,208**		**212,777**

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 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

Notes:

i. Gross balances of credit-impaired loans include £128 million (4 April 2022: £135 million) of purchased or originated credit-impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £5 million (4 April 2022: £5 million).

ii. 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. 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. 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.

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 2022.

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 held at fair value by fair value hierarchy, balance sheet classification and product type:

	30 September 2022				4 April 2022			
	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	**20,480**	**-**	**-**	**20,480**	20,897	-	-	20,897
Other debt investment securities	**2,721**	**1,800**	**6**	**4,527**	2,630	1,776	5	4,411
Investments in equity shares	**-**	**-**	**43**	**43**	-	-	58	58
Total investment securities (note i)	**23,201**	**1,800**	**49**	**25,050**	23,527	1,776	63	25,366
Interest rate swaps	**-**	**6,535**	**-**	**6,535**	-	2,683	-	2,683
Cross currency interest rate swaps	**-**	**3,542**	**-**	**3,542**	-	1,695	-	1,695
Foreign exchange swaps	**-**	**11**	**-**	**11**	-	15	-	15
Inflation swaps	**-**	**483**	**319**	**802**	-	-	260	260
Bond forwards and futures	**-**	**105**	**-**	**105**	-	70	-	70
Total derivative financial instruments	**-**	**10,676**	**319**	**10,995**	-	4,463	260	4,723
Loans and advances to customers	**-**	**-**	**107**	**107**	-	-	116	116
Total financial assets	**23,201**	**12,476**	**475**	**36,152**	23,527	6,239	439	30,205
Financial liabilities								
Interest rate swaps	**-**	**(932)**	**-**	**(932)**	-	(492)	-	(492)
Cross currency interest rate swaps	**-**	**(1,510)**	**-**	**(1,510)**	-	(743)	-	(743)
Foreign exchange swaps	**-**	**(26)**	**-**	**(26)**	-	(12)	-	(12)
Inflation swaps	**-**	**(102)**	**(4)**	**(106)**	-	-	(176)	(176)
Bond forwards and futures	**-**	**(1)**	**-**	**(1)**	-	(5)	-	(5)
Swaptions		**-**	**(8)**	**(8)**	-	-	-	-
Total derivative financial instruments	**-**	**(2,571)**	**(12)**	**(2,583)**	-	(1,252)	(176)	(1,428)
Total financial liabilities	**-**	**(2,571)**	**(12)**	**(2,583)**	-	(1,252)	(176)	(1,428)

Note:

i. Investment securities shown here exclude £57 million (4 April 2022: £118 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. Transfers are recognised at the date of the relevant event or change in circumstances. 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 primarily 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, including investments made in Fintech companies; and
- inflation swaps and swaptions.

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 2022**				Half year to 30 September 2021			
	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	**63**	**260**	**(176)**	**116**	32	112	(52)	120
Gains/(losses) recognised in the income statement, within:								
Net interest income	**-**	**(172)**	**(15)**	**2**	-	23	(73)	1
Gains/(losses) from derivatives and hedge accounting (note i)	**-**	**718**	**72**	**-**	-	(2)	12	-
Other operating income/(expense)	**1**	**-**	**(9)**	**(7)**	25	3	(13)	1
(Losses)/gains recognised in other comprehensive income, within:								
Fair value through other comprehensive income reserve	**(15)**	**-**	**-**	**-**	16	-	-	-
Additions	**1**	**-**	**-**	**-**	20	-	-	-
Disposals	**(1)**	**-**	**9**	**-**	-	(2)	12	-
Settlements/repayments	**-**	**(4)**	**5**	**(4)**	-	(19)	4	(6)
Transfers out of Level 3 portfolio (note ii)	**-**	**(483)**	**102**	**-**	-	-	-	-
At 30 September	**49**	**319**	**(12)**	**107**	93	115	(110)	116
Unrealised gains/(losses) recognised in the income statement attributable to assets and liabilities held at the end of the period	**-**	**424**	**6**	**(7)**	-	(2)	12	-

Notes:

i. Includes foreign exchange revaluation gains/(losses).

ii. The proportional impact of seasonality on the value of GBP-denominated inflation swaps reduced during the period, resulting in these instruments no longer being categorised within Level 3 of the fair value hierarchy.

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 2022					4 April 2022				
		Income statement		Other comprehensive income			Income statement		Other comprehensive income	
	Fair value	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Fair value	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Investment securities	49	7	(4)	5	(4)	63	6	(4)	4	(4)
Net derivative financial instruments	307	39	(39)	-	-	84	75	(75)	-	-
Loans and advances to customers	107	2	(2)	-	-	116	2	(2)	-	-
Total	463	48	(45)	5	(4)	263	83	(81)	4	(4)

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 2022							4 April 2022						
	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	49	-	Internal assessment	Various (note ii)	-	-	£	63	-	Internal assessment	Various (note ii)	-	-	£
Derivative financial instruments	319	(12)	Discounted cash flows	Seasonality	0.01	0.89	%	260	(176)	Discounted cash flows	Seasonality	0.01	0.77	%
Loans and advances to customers	107	-	Discounted cash flows	Discount rate	3.31	9.75	%	116	-	Discounted cash flows	Discount rate	1.34	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 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 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 2022.

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 2022		4 April 2022	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Loans and advances to banks and similar institutions	**4,029**	**4,029**	3,052	3,052
Investment securities	**57**	**57**	118	119
Loans and advances to customers:				
Residential mortgages	**203,323**	**188,035**	197,869	195,637
Consumer banking	**4,110**	**3,922**	4,109	4,014
Commercial lending	**5,859**	**4,777**	5,972	5,683
Total	**217,378**	**200,820**	211,120	208,505
Financial liabilities				
Shares	**181,177**	**180,551**	177,967	177,818
Deposits from banks and similar institutions	**33,643**	**33,643**	36,425	36,425
Other deposits	**6,685**	**6,683**	5,208	5,208
Debt securities in issue	**30,691**	**30,891**	25,629	26,150
Subordinated liabilities	**7,420**	**7,313**	8,250	8,347
Subscribed capital	**165**	**186**	187	194
Total	**259,781**	**259,267**	253,666	254,142

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 2022	127	26	153
Provisions utilised	**(33)**	**(8)**	**(41)**
Charge for the period	**21**	**13**	**34**
Release for the period	**(1)**	**(6)**	**(7)**
Net income statement charge (note i)	**20**	**7**	**27**
At 30 September 2022	**114**	**25**	**139**

Note:

i. The net income statement charge relating to customer redress is included in provisions for liabilities and charges, with the exception of £1 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 currently possible to quantify a probable payment; this will include circumstances where the facts are unclear or further time is required to reasonably quantify the expected payment.

At 30 September 2022, the Group held provisions of £114 million (4 April 2022: £127 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 are based on detailed reviews of specific areas of concern and represent the Group's best estimate of the liabilities. As further work is undertaken, it is possible that the ultimate liabilities may be higher or lower than the amounts provided at 30 September 2022.

Other provisions

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

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.

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.

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 2022.

Defined benefit pension schemes

Retirement benefit obligations on the balance sheet		
	30 September 2022 £m	4 April 2022 £m
Fair value of fund assets	**5,463**	7,411
Present value of funded obligations	**(4,439)**	(6,396)
Present value of unfunded obligations	**(7)**	(7)
Surplus	**1,017**	1,008

The principal actuarial assumptions used are as follows:

Financial assumptions		
	30 September 2022 %	4 April 2022 %
Discount rate	**4.95**	2.55
Future pension increases (maximum 5%)	**3.35**	3.25
Retail price index (RPI) inflation	**3.55**	3.45
Consumer price index (CPI) inflation	**2.95**	2.80

Assumptions for inflation within the table above reflect the long-term average across the remaining duration of the scheme.

Mortality rates used in calculating pension liabilities 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 2022	Half year to 30 September 2021
	£m	£m
Surplus at 5 April	1,008	172
Interest on net defined benefit asset	**13**	2
Return on assets (less than)/greater than discount rate (note i)	**(1,947)**	390
Contributions by employer	**-**	1
Administrative expenses	**(2)**	(3)
Actuarial gains on defined benefit obligations (note i)	**1,945**	(90)
Surplus at 30 September	**1,017**	472

Note:

i. The net impact before tax on the surplus of actuarial gains and return on assets is a decrease of £2 million (H1 2021/22: £300 million increase) in other comprehensive income.

The £1,947 million loss (H1 2021/22: £390 million gain) relating to the return on assets (less than)/greater than the discount rate is primarily driven by decreases in the value of UK government bonds.

Following the closure of the Fund to future accrual on 31 March 2021, no employer contributions have been made in respect of future benefit accrual (H1 2021/22: £nil). There have also been no employer deficit contributions required into the Fund following the completion of the 31 March 2019 valuation (H1 2021/22: £nil). Deficit contributions have been made in respect of the Group's defined benefit scheme relating to its Nationwide (Isle of Man) Limited subsidiary. For the period to 30 September 2022 these contributions were less than £1 million.

The £1,945 million actuarial gain (H1 2021/22: loss of £90 million) on defined benefit obligations is primarily driven by a 2.40% increase in the discount rate.

On 14 October 2022, the Society provided two uncollateralised loans totalling £400 million to the Fund. This temporary support will allow the Fund to manage its ongoing liquidity requirements during a period of high market volatility. The loans are repayable on demand and accrue interest at market rates.

16. Related party transactions

There were no related party transactions during the period ended 30 September 2022 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 2022 can be found in note 35 of the Annual Report and Accounts 2022.

17. Notes to the consolidated cash flow statement

	Half year to 30 September 2022 £m	Half year to 30 September 2021 £m
Non-cash items included in profit before tax		
Net increase/(decrease) in impairment provisions	**68**	(68)
Net (decrease)/increase in provisions for liabilities and charges	**(14)**	31
Amortisation and losses/(gains) on investment securities	**24**	(82)
Write down of inventory	**1**	-
Depreciation, amortisation and impairment	**254**	252
Profit on sale of property, plant and equipment	**(1)**	(2)
Loss on the revaluation of property, plant and equipment	**2**	-
Net (gain)/charge in respect of retirement benefit obligations	**(11)**	1
Interest on subordinated liabilities	**102**	65
Interest on subscribed capital	**2**	2
Losses/(gains) from derivatives and hedge accounting	**11**	(3)
Total	**438**	196
Changes in operating assets and liabilities		
Loans and advances to banks and similar institutions	**(794)**	474
Net derivative financial instruments	**5,010**	506
Loans and advances to customers	**(5,435)**	(3,159)
Other operating assets	**(30)**	94
Shares	**3,210**	7,118
Deposits from banks and similar institutions, customers and others	**(2,238)**	12,653
Debt securities in issue	**4,135**	9,849
Contributions to defined benefit pension scheme	**-**	(1)
Other operating liabilities	**(268)**	(170)
Total	**3,590**	27,364
Cash and cash equivalents		
Cash	**32,890**	46,498
Loans and advances to banks and similar institutions repayable in 3 months or less	**770**	1,154
Total	**33,660**	47,652

The Group is required to maintain balances with the Bank of England which, at 30 September 2022, amounted to £2,306 million (30 September 2021: £1,621 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 2022.

Signed on behalf of the Board by

Chris Rhodes
Chief Financial Officer

17 November 2022

Board of directors

Chairman
Kevin Parry

Executive directors
Debbie Crosbie
Chris Rhodes

Non-executive directors
Mai Fyfield
Tracey Graham
Albert Hitchcock
Alan Keir
Debbie Klein
Tamara Rajah
Gillian Riley
Phil Rivett
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 2022, which comprise the consolidated balance sheet as at 30 September 2022 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 2022 are not prepared, in all material respects, in accordance with UK-adopted International Accounting Standard 34 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) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. 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 are 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 International Accounting Standard 34, “Interim Financial Reporting”.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with the ISRE; however, future events or conditions may cause the entity to cease to continue as a going concern.

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.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group’s and Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

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 Interim Results. Our conclusion, including our Conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

Independent review report to Nationwide Building Society (continued)

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) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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
17 November 2022

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 2022 has been extracted from the Annual Report and Accounts 2022. The Annual Report and Accounts 2022 has been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The independent auditor's report on the Annual Report and Accounts 2022 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 2022. 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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