nationwide

Interim Results

for the period ended 30 September 2023

Contents

Introduction

Unless otherwise stated, the income statement analysis compares the period from 5 April 2023 to 30 September 2023 to the corresponding six months of 2022 and balance sheet analysis compares the position at 30 September 2023 to the position at 4 April 2023.

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 the Group. Although the expectations reflected in these forward-looking statements are considered reasonable, the Group 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 the Group including, amongst other things, UK domestic and global economic and business conditions, market-related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, risks relating to sustainability and climate change, the policies and actions of regulatory authorities and the impact of tax or other legislation and other regulations in the jurisdictions in which the Group operates. The economic outlook remains uncertain and, as a result, the Group'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, the Group cautions readers not to place undue reliance on such forward-looking statements.

The Group 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 the Group and its management, as well as its financial statements.

Chief Executive's review

Nationwide delivers highest ever member value and strong financial performance

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

"We provide customers with great value products, choice in the way they bank with us, and the best possible service. As a result, we have grown our deposit and mortgage balances, and our financial strength means we can invest in even better products and services, and increase value for our members.

"Nationwide delivered a total of £1,229m in value to our members this half year. This included our inaugural Nationwide Fairer Share Payment of £344m and our highest ever half year member financial benefit of £885m from pricing and incentives that were better than the market average.

"We remain first among our peer group for customer satisfaction, and we provide choice in how customers bank with us, including through our digital channels, on the phone, or in our network of branches. We passed a greater proportion of interest rate rises to savers than the market average and are investing to grow our customer base through service improvements and our current account switching incentive, which we relaunched in September 2023.

"Nationwide is performing strongly, and our strategy is to safeguard the future strength of the Society and provide a good way to bank for customers. We are the main challenger to shareholder-owned banks and use our mutual status to make a meaningful impact on communities and improve society. Our rebrand in October 2023 was the most significant in 36 years and will help us to build stronger relationships with our customers, now and in the future."

Business and trading highlights

- Extended our Branch Promise, to not leave any town or city in which we are based until at least 2026. We now have the largest single-brand branch network in the UK, and 23% of our savings accounts were opened in branches this half year.
- Remained first for customer satisfaction among our peer group for over 11 years, with a current lead of 5.2%pts[1] (March 2023: lead of 3.8%pts).
- Continued growth in current account volumes and maintained our market share at 10.4%[2] (February 2023: 10.4%).
- Maintained deposit market share at 9.6% (4 April 2023: 9.6%), with £4.2bn (H1 2022/23: £3.2bn) of balance growth in the period.
- Mortgage balances increased to £202.3bn (4 April 2023: £201.7bn). Market share of balances remained robust at 12.2% (4 April 2023: 12.2%) in a competitive market.
- Delivered changes in line with the Government's Mortgage Charter; we contacted 1.3m mortgage customers to explain the support available, and we enabled customers to benefit from the changes via our online Mortgage Manager.
- Helped over 31,000 (H1 2022/23: over 40,000) first time buyers[3] into a home of their own.
- Continued to commit 1% of pre-tax profits to good causes each year[4], which for 2023/24 includes over £5.1m to our Community Grants programme.

Financial highlights

- In total, Nationwide delivered £1,229m in value to its members. This included the distribution of the £100 Nationwide Fairer Share Payment to over 3.4m members in June 2023, totalling £344m, as well as our member financial benefit, which increased to £885m (H1 2022/23: £320m). Member financial benefit was supported by the strength of our savings and mortgage propositions; we passed a greater proportion of interest rate rises to savers than the market average.
- Underlying profit increased to £1,262m (H1 2022/23: £980m) and statutory profit increased to £989m[5] (H1 2022/23: £969m) due to income growth.
- Rising interest rates supported growth in total underlying income to £2,449m (H1 2022/23: £2,190m). Net interest margin improved to 1.66% (H1 2022/23: 1.48%).
- Credit impairment charges were lower at £54m (H1 2022/23: £108m). Arrears levels have increased slightly but remain low; however higher interest rates, continued inflationary pressures and the uncertain economic outlook remain key risks.
- Total costs increased to £1,115m (H1 2022/23: £1,083m), below the rate of inflation.
- Our balance sheet remains strong, with Tier 1 capital resources increasing by £0.6bn, leading to a leverage ratio of 6.4% (above our target of at least 4.5%) and a CET1 ratio of 27.4% (4 April 2023: 6.0% and 26.5% respectively).

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[1] Lead at September 2023: 5.2%pts, March 2023: 3.8%pts. © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to 12 months ending 30 September 2023. 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 3.2% of the main current account market as of April 2023 – 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] CACI's Current Account and Savings Database, Stock (August 2023 and February 2023).
[3] The prior year comparative has been restated to be on a consistent basis with the current year metric and that reported at the 2023 year end.
[4] The 1% is calculated based on average pre-tax profits over the previous three years.
[5] The Nationwide Fairer Share Payment of £344m accounted for the majority of the difference between underlying and statutory profit in H1 2023. For more information, see the Financial Review on page 8.

Chief Executive's review (continued)

Strategy update

- **More rewarding relationships:** *We will create deeper, lifelong relationships with our customers, that provide the best value in banking*. As well as distributing £344 million to our members through the Nationwide Fairer Share Payment in June 2023, we delivered our highest ever level of member financial benefit of £885 million, from better pricing and incentives than the market average. We also provided £22 million cashback to current account customers on their supermarket shopping in April 2023, and relaunched our current account switching incentive in September 2023, alongside our Flex Regular Saver exclusive to current account holders, with an interest rate of 8%.

- **Simply brilliant service:** *We will provide value beyond rates, with distinctive, personalised service our customers can trust, at every touchpoint*. We renewed our Branch Promise until at least 2026; we now have the largest single-brand branch network in the UK, and so far this year, our branch colleagues have prevented our customers from losing £3.5 million to scams. We increased our branch colleague resource to support face-to-face account openings across 51 branches, and continued to have colleagues in branches serving more of our customers in different ways, including by phone and through online chat. We also extended our phone line operating hours to increase convenience for our customers and continued to provide our dedicated cost of living helpline.

- **Beacon for mutual good:** *We want to have a meaningful impact on our customers, colleagues, communities and society, by driving fairer banking practices and positive change*. We remain committed to building a supportive and inclusive environment for our colleagues, and our colleague index, an aggregated measure of colleague engagement, increased to 79.7% (4 April 2023: 77.1%). We continued to support the UK's 10,000 Black Interns initiative, hosting 71 (H1 2022/23: 30) new colleagues on 8-week internships. We also launched our 0% Green Additional Borrowing product, as we aim to support the UK in achieving its ambition to be net-zero by 2050.

- **Continuous improvement:** *We will be focused, fit and fast, and simplify our processes and ways of working to deliver for the benefit of our customers, while retaining resilient controls that protect our customers and their money*. In line with our continued commitment to our own branch network, we announced that we will leave Cash Access UK, as our strategy does not require us to rely on banking hubs. We are also streamlining our operations to drive greater efficiency, and we announced the proposed transfer of our financial planning service to our longstanding partner, Aegon UK, which will give our customers access to a broader proposition.

Outlook

- While the economic outlook remains uncertain and cost of living challenges persist, as the UK's largest building society, Nationwide is well positioned to continue to use its financial strength to support its customers.

- Encouragingly, economic activity, while still weak by historical standards, has held up better than expected, and there are signs that cost of living pressures are starting to ease. However, conditions for households are likely to remain challenging in the near term, as the effect of previous interest rate increases feeds through and labour market conditions soften.

- Bank rate is at or close to its peak, though there are significant risks in both directions driven by the ongoing uncertainty surrounding demand prospects and the supply capacity of the economy.

- The housing market has slowed and house prices have edged lower as a result of the higher interest rate environment. While activity is anticipated to remain subdued in the short term, income growth and lower fixed rate mortgage rates should help to improve housing affordability over time.

- Household deposit growth has also slowed, mirroring the decline in mortgage lending. However, there has been significant movement within the deposits market, stimulated by the higher rates available, with customers transferring money from current accounts and instant access savings into fixed rate savings.

- Despite the uncertain economic outlook, the credit quality of our lending portfolios is strong and our capital resources are robust. As more households adjust their expenditure priorities in the higher interest rate environment, we will continue to support those borrowers who face payment difficulties.

Debbie Crosbie
Chief Executive

Performance summary

Financial performance	Half year to 30 September 2023 £m		Half year to 30 September 2022 £m	
Total underlying income	**2,449**		2,190	
Administrative expenses	**1,115**		1,083	
Underlying profit before tax (note i)	**1,262**		980	
Statutory profit before tax	**989**		969	
Mortgage Lending	**£bn**	**%**	£bn	%
Group residential – gross/*market share*	**12.1**	***10.5***	19.7	*11.8*
Group residential – net	**0.5**		5.4	
Average loan to value of new residential mortgages (by value)		**71**		69
Deposit balances	**£bn**	**%**	£bn	%
Member deposits balance movement/*market share* (note ii)	**4.2**	***7.8***	3.2	*4.6*
Key ratios		**%**		%
Underlying cost income ratio (note iii)		**45.5**		49.5
Statutory cost income ratio		**44.2**		49.7
Net interest margin		**1.66**		1.48

Balance sheet	30 September 2023 £bn	%	4 April 2023 £bn	%
Total assets	**274.5**		271.9	
Loans and advances to customers	**211.3**		210.8	
Mortgage balances/*market share* (note iv)	**202.3**	***12.2***	201.7	*12.2*
Member deposits/*market share* (note ii)	**191.3**	***9.6***	187.1	*9.6*
Asset quality		**%**		%
Residential mortgages				
Proportion of residential mortgage accounts 3 months+ in arrears		**0.38**		0.32
Average indexed loan to value (by value)		**55**		55
Consumer banking				
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)		**1.14**		1.21
Key ratios		**%**		%
Capital				
Common Equity Tier 1 ratio		**27.4**		26.5
Leverage ratio		**6.4**		6.0
Other balance sheet ratios				
Liquidity Coverage Ratio (note v)		**191**		180
Wholesale funding ratio (note vi)		**23.5**		25.0

Notes:

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

ii. Member deposits include current account credit balances.

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

iv. Mortgage balances are presented gross of credit provisions.

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

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

Financial review

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

“We continue to deliver a robust financial performance in an uncertain economic environment, with underlying profit increasing by 29% to £1,262 million. During the period we have continued to provide member value, delivering a combined £1,229 million of value to members, comprising £885 million member financial benefit through better pricing and incentives than the market average and the inaugural Nationwide Fairer Share payment of £344 million to eligible members. In addition, we delivered £22 million of cashback to current account customers on their supermarket shopping.

“We have continued to support our customers’ banking, savings and borrowing needs during the period. Our good value savings and mortgage products have supported growth in our deposit and mortgage balances.”

Financial highlights

- Underlying profit for the half year to 30 September 2023 increased to £1,262 million (H1 2022/23: £980 million), reflecting income growth and a reduction in charges for credit impairments, partially offset by higher costs. Statutory profit was £989 million (H1 2022/23: £969 million), after reflecting the inaugural Nationwide Fairer Share Payment.

- Total underlying income increased by £259 million due to rising interest rates, with a H1 2023/24 net interest margin of 1.66% (H1 2022/23: 1.48%).

- A combined £1,229 million of value has been delivered to members, comprising member financial benefit which increased to £885 million (H1 2022/23: £320 million) supported by the strength of our savings rates relative to the market average, and the inaugural Nationwide Fairer Share payment to eligible members in June 2023 of £344 million. In addition, £22 million was recognised in April 2023 relating to cashback to current account customers on their supermarket shopping.

- Member deposit balances increased by £4.2 billion to £191.3 billion (4 April 2023: £187.1 billion); our market share of balances remained stable at 9.6% (4 April 2023: 9.6%).

- Mortgage balances increased to £202.3 billion (4 April 2023: £201.7 billion), with stock market share remaining at 12.2% (4 April 2023: 12.2%).

- Total administrative expenses increased by 3.0% (£32 million), below the rate of inflation, to £1,115 million (H1 2022/23: £1,083 million).

- Credit impairment charges were lower at £54 million (H1 2022/23: £108 million), reflecting the resilience of our lending, whilst retaining provisions for the continued economic uncertainty and affordability pressures on borrowers. Mortgage arrears are increasing but remain low.

- CET1 and leverage ratios increased to 27.4% and 6.4% (4 April 2023: 26.5% and 6.0%) respectively.

Underlying profit:
£1,262m
(H1 2022/23: £980m)

Statutory profit:
£989m
(H1 2022/23: £969m)

Leverage ratio:
6.4%
(4 April 2023: 6.0%)

Financial review (continued)

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 2023 £m	Half year to 30 September 2022 £m
Net interest income	**2,337**	2,055
Net other income	**112**	135
Total underlying income	**2,449**	2,190
Administrative expenses	**(1,115)**	(1,083)
Impairment charge on loans and advances to customers	**(54)**	(108)
Provisions for liabilities and charges	**(18)**	(19)
Underlying profit before tax (note i)	**1,262**	980
Gains/(losses) from derivatives and hedge accounting (note ii)	**71**	(11)
Member reward payments (note iii)	**(344)**	-
Statutory profit before tax	**989**	969
Taxation	**(267)**	(241)
Profit after tax	**722**	728

Net interest margin:
1.66%
(H1 2022/23: 1.48%)

Underlying cost income ratio (note iv):
45.5%
(H1 2022/23: 49.5%)

Statutory cost income ratio:
44.2%
(H1 2022/23: 49.7%)

Notes:

i. Underlying profit represents management's view of underlying performance. Member reward payments, gains or losses from derivatives and hedge accounting (presented separately within total income in the condensed consolidated income statement) and any FSCS costs and refunds from institutional failures (included within provisions for liabilities and charges) are excluded from statutory profit to arrive at underlying profit. There were no FSCS costs or refunds from institutional failures for the periods ended 30 September 2023 and 30 September 2022.

ii. Although we only use derivatives to hedge market risks, income statement volatility can still arise. Further information is provided in note 6 to the condensed consolidated interim financial statements.

iii. Member reward payments represent discretionary payments to members of the Society which may be determined by the Board from time to time, depending on the financial strength of the Society. Member reward payments were first recognised in the half year to 30 September 2023, and have been excluded from underlying profit on the basis that management does not consider such payments to be part of the Group's underlying business performance.

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

Total income and net interest margin

Net interest income increased by £282 million to £2,337 million (H1 2022/23: £2,055 million), with a net interest margin of 1.66% (H1 2022/23: 1.48%). Increases in the Bank rate during the period have led to an increase in net interest income, reflecting the timing and level of pass through of interest rate changes to savings products, partially offset by a decline in mortgage net interest income. Nationwide has passed a greater proportion of interest rate rises to savers than the market average, resulting in an increase in member financial benefit in the period.

Net other income has reduced by £23 million to £112 million (H1 2022/23: £135 million), with £22 million of supermarket shopping cashback to customers with a personal current account recognised in April 2023 as part of the Society's cost of living support.

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 2023.

For the half year ended 30 September 2023, we delivered member financial benefit of £885 million (H1 2022/23: £320 million). The increase is due to our strong savings and mortgage 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.

Member reward payments

The Board announced the inaugural Nationwide Fairer Share payment in May 2023 as part of our ongoing commitment to reward our members. During the period, the initial Nationwide Fairer Share payment of £344 million was paid to eligible members who had a qualifying current account plus either qualifying savings or a qualifying mortgage as at 31 March 2023. This payment is in addition to delivering the £885 million of member financial benefit to our members outlined above.

Administrative expenses

Administrative expenses have increased by £32 million to £1,115 million (H1 2022/23: £1,083 million) with inflationary increases mitigated by efficiencies within strategic investment and the non-repeat of restructuring costs incurred in the prior period.

Impairment charge on loans and advances to customers

Impairment charge/(release) (note i)	**Half year to 30 September 2023**	Half year to 30 September 2022
	£m	£m
Residential lending	**27**	69
Consumer banking	**22**	41
Retail lending	**49**	110
Commercial	**5**	(2)
Impairment charge	**54**	108

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 for the period has reduced to £54 million (H1 2022/23: £108 million). In the period we have retained provisions for affordability risks as a result of ongoing elevated inflation and interest rates and their impact on borrower affordability. The higher charge in the prior period included the recognition of additional provisions to reflect the deteriorating economic outlook at that time. Residential mortgage arrears have increased from historically low levels, leading to an increase in stage 3 provisions, but arrears remain well below the industry average and below the expected levels included in our provision models. Consumer banking arrears have reduced slightly. More information regarding critical accounting judgements, and the forward-looking economic information used in impairment calculations, is included in note 8 to the condensed 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 charge of £18 million (H1 2022/23: £19 million) reflects judgements and estimates used in determining provisions for such matters.

Taxation

From 1 April 2023, the main rate of corporation tax increased from 19% to 25% and the banking surcharge decreased from 8% to 3%. The tax charge for the period of £267 million (H1 2022/23: £241 million) represents an effective tax rate of 27.0% (H1 2022/23: 24.9%) which is higher than the statutory UK corporation tax rate of 25% (H1 2022/23: 19%). The effective tax rate is higher primarily due to the banking surcharge of £24 million (H1 2022/23: £54 million). Further information is provided in note 9 to the condensed consolidated interim financial statements.

Balance sheet

Total assets have increased by 1.0% to £274.5 billion at 30 September 2023 (4 April 2023: £271.9 billion). This increase is predominantly due to higher holdings of cash.

Mortgage lending has been robust during the period, with residential mortgage balances increasing to £202.3 billion (4 April 2023: £201.7 billion), maintaining our market share of mortgage balances in a competitive market. Member deposit balances have increased by £4.2 billion to £191.3 billion (4 April 2023: £187.1 billion) as a result of increases in savings balances, supported by competitive fixed rate products and increased levels of accrued and capitalised interest due to higher average savings rates.

Assets	**30 September 2023**		4 April 2023	
	£m	**%**	£m	%
Cash	**28,676**		25,635	
Residential mortgages (note i)	**202,275**	***95***	201,662	*95*
Consumer banking	**4,317**	***2***	4,408	*2*
Commercial	**5,480**	***3***	5,477	*3*
	212,072	***100***	211,547	*100*
Impairment provisions	**(774)**		(765)	
Loans and advances to customers	**211,298**		210,782	
Other financial assets	**31,654**		32,387	
Other non-financial assets	**2,847**		3,089	
Total assets	**274,475**		271,893	

12-month average
Liquidity Coverage Ratio
(note ii):
191%
(4 April 2023: 180%)

Asset quality	**%**		%	
Residential mortgages (note i):				
Proportion of residential mortgage accounts more than 3 months in arrears	**0.38**		0.32	
Average indexed loan to value (by value)	**55**		55	
Consumer banking:				
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.14**		1.21	

Notes:
i. Residential mortgages include owner-occupied, 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 held by our Treasury function for liquidity purposes, with the £3.0 billion increase to £28.7 billion (4 April 2023: £25.6 billion) predominantly due to increases in retail savings balances.

The average Liquidity Coverage Ratio over the 12 months ended 30 September 2023 increased to 191% (12 months ended 4 April 2023: 180%), with higher average liquid asset balances driven by growth in member deposits. Liquidity continues to be managed against internal risk appetite, which is more prudent than regulatory requirements and, under the most severe internal 30 calendar day stress test, the average liquid asset buffer remains robust. Further details are included in the Liquidity and funding risk section of the Risk report.

Residential mortgages

Total gross mortgage lending was lower than in the prior period at £12.1 billion (H1 2022/23: £19.7 billion) and our market share of gross advances decreased to 10.5% (H1 2022/23: 11.8%). Net lending in the period was £0.5 billion (H1 2022/23: £5.4 billion), maintaining our market share of balances at 12.2% in a competitive market with subdued growth. Net lending has been supported by our continued focus on retention through highly competitive products provided to existing customers, as well as our focus on first time buyers. Owner-occupied mortgage balances increased to £158.4 billion (4 April 2023: £157.6 billion) and buy to let and legacy mortgage balances decreased slightly to £43.8 billion (4 April 2023: £44.1 billion).

Arrears remain low but have increased slightly during the period, with cases more than three months in arrears representing 0.38% (4 April 2023: 0.32%) of the total portfolio. Further increases in arrears from current levels are expected, due to both inflation and higher interest rates negatively impacting household finances. Impairment provision balances have increased to £305 million (4 April 2023: £280 million) primarily due to higher interest rates, which have resulted in an increase in the provisions held to reflect mortgage affordability risks.

Consumer banking

Consumer banking balances were £4.3 billion (4 April 2023: £4.4 billion). Consumer banking comprises personal loan balances of £2.4 billion (4 April 2023: £2.6 billion), credit card balances of £1.6 billion (4 April 2023: £1.5 billion) and overdrawn current account balances of £0.3 billion (4 April 2023: £0.3 billion).

Arrears have reduced slightly during the period, with balances more than three months in arrears (excluding charged off accounts) representing 1.14% (4 April 2023: 1.21%) of the total portfolio. Provision balances reduced to £450 million (4 April 2023: £469 million), primarily due to updated expectations of the impacts of cost inflation pressures on future credit performance.

Commercial lending

During the period, commercial lending balances remained stable at £5.5 billion (4 April 2023: £5.5 billion). The overall portfolio includes registered social landlords with balances of £4.3 billion (4 April 2023: £4.1 billion), project finance with balances of £0.5 billion (4 April 2023: £0.5 billion), commercial real estate balances of £0.3 billion (4 April 2023: £0.4 billion) and a fair value adjustment for micro hedged risk of £0.4 billion (4 April 2023: £0.4 billion). Both project finance and commercial real estate books are closed to new lending.

Impairment provision balances increased to £19 million (4 April 2023: £16 million) due to updates relating to a small number of individual loans.

Other financial assets

Other financial assets of £31.7 billion (4 April 2023: £32.4 billion) comprise investment assets held by Nationwide's Treasury function amounting to £26.2 billion (4 April 2023: £27.6 billion), loans and advances to banks and similar institutions of £3.2 billion (4 April 2023: £2.9 billion), derivatives with positive fair values of £8.0 billion (4 April 2023: £6.9 billion) and fair value adjustments for portfolio hedged risk of £(5.8) billion (4 April 2023: £(5.0) billion). Derivatives largely comprise interest rate and foreign exchange contracts which economically hedge financial risks inherent in Nationwide's lending and funding activities.

Financial review (continued)

Members' interests, equity and liabilities		
	30 September 2023	4 April 2023
	£m	£m
Member deposits	**191,331**	187,143
Debt securities in issue	**29,456**	27,626
Other financial liabilities	**34,922**	38,701
Other liabilities	**1,412**	1,517
Total liabilities	**257,121**	254,987
Members' interests and equity	**17,354**	16,906
Total members' interests, equity and liabilities	**274,475**	271,893

Wholesale funding ratio:
23.5%
(4 April 2023: 25.0%)

Member deposits

Member deposit balances grew by £4.2 billion to £191.3 billion (4 April 2023: £187.1 billion). Nationwide's market share of deposit balances remained at 9.6%. The increase in deposit balances is due to growth in savings balances of £5.1 billion (H1 2022/23: £1.3 billion) supported by competitive fixed rate products, including the Fairer Share Bond, and increased levels of accrued and capitalised interest due to higher average savings rates. Credit balances on current accounts reduced by £0.9 billion (H1 2022/23: £1.9 billion growth), driven by a competitive savings market.

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 £29.5 billion (4 April 2023: £27.6 billion), reflecting secured and unsecured wholesale funding issuances during the period. Other financial liabilities decreased to £34.9 billion (4 April 2023: £38.7 billion) primarily due to repayment of £4.1 billion of drawings from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). Nationwide's wholesale funding ratio decreased to 23.5% (2022: 25.0%). 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 £17.4 billion (4 April 2023: £16.9 billion) largely as a result of retained profits.

Statement of comprehensive income

Statement of comprehensive income (note i)		
	Half year to 30 September 2023	Half year to 30 September 2022
	£m	£m
Profit after tax	**722**	728
Net remeasurement of pension obligations	**(109)**	(2)
Net movement in revaluation reserve	**-**	1
Net movement in cash flow hedge reserve	**(13)**	83
Net movement in other hedging reserve	**9**	(9)
Net movement in fair value through other comprehensive income reserve	**4**	(119)
Total comprehensive income	**613**	682

Note:
i. Movements are shown net of related taxation. Gross movements are set out in the condensed 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 12.5% and 4.3% respectively. The CET1 ratio increased to 27.4% (4 April 2023: 26.5%) and the leverage ratio increased to 6.4% (4 April 2023: 6.0%). 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 2023	4 April 2023
	£m	£m
Capital resources		
CET1 capital	**14,322**	13,733
Tier 1 capital	**15,658**	15,069
Total regulatory capital	**17,428**	16,908
Capital requirements		
Risk weighted assets (RWAs)	**52,311**	51,731
Leverage exposure	**245,767**	249,299
UK CRD V capital ratios	**%**	%
CET1 ratio	**27.4**	26.5
Leverage ratio	**6.4**	6.0

The CET1 ratio increased to 27.4% (4 April 2023: 26.5%) as a result of an increase in CET1 capital of £0.6 billion, partially offset by an increase in RWAs of £0.6 billion. The CET1 capital resources increase was driven by £0.7 billion profit after tax, partially offset by £0.1 billion of capital distributions. RWAs increased, predominantly due to an increase in residential mortgage balances.

The leverage ratio increased to 6.4% (4 April 2023: 6.0%), with Tier 1 capital increasing by £0.6 billion as a result of the CET1 capital movements referenced above. In addition, there was a decrease in leverage exposure of £3.5 billion, with an increase in residential mortgage balances more than offset by a reduction in treasury investments in the period. 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 and future regulatory developments are described in the Capital risk section of the Risk report.

Risk report

Contents

Introduction

This report provides information on developments during the period in relation to the risks Nationwide's business is exposed to, and how those risks are managed. This information supports, and should be read in conjunction with, the material found in the Risk report in the Annual Report and Accounts 2023. 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

Top and emerging risks are managed through the process outlined in the Risk overview section of the Annual Report and Accounts 2023 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. Key developments in the macroeconomic and geopolitical environment since 4 April 2023 are described below.

Material developments in the macroeconomic and geopolitical environment	Internal or External	Level of Risk
Overall economic conditions are stable but remain uncertain with high inflation, modest reductions in house prices and higher interest rates. Whilst the Bank rate is expected to stabilise, the higher rates customers pay on their mortgages exacerbate existing pressure on their finances, impacting both the housing market and mortgage trading volumes. Whilst arrears rates have increased and more customers are taking up measures offered under the Mortgage Charter, these factors are adequately reflected in the assumptions used in our provisioning calculations. The geopolitical environment remains volatile with the ongoing war in Ukraine and the conflict in Gaza, which commenced after the half year reporting period.	External	Unchanged

The following internal and external risks, which were highlighted in the Annual Report and Accounts 2023, have not materially changed:

- Climate change
- Cyber
- Data
- Economic crime
- People risk
- Regulatory change
- Technology and resilience

Principal risks and uncertainties

Nationwide operates an Enterprise Risk Management Framework (ERMF), which ensures it remains safe and secure for its customers. 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 2023 and are as follows:

- Credit risk
- Liquidity and funding risk
- Capital risk
- Market risk
- Pension risk
- Operational and conduct risk
- Model risk
- Business 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 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 regarding the scope of Nationwide's credit risks and how they are managed, together with information on the calculation of impairment provisions based on expected credit losses (ECLs), is included within the Annual Report and Accounts 2023.

Performance overview

During the period the UK has seen steady increases in Bank rate aimed at reducing inflation. This has increased the cost of borrowing and put further pressure on household affordability. Residential mortgage arrears have increased from historically low levels but remain well below the industry average and below the levels expected in our provision models. Consumer banking arrears have seen limited movement during the period.

Nationwide has supported the Mortgage Charter initiatives introduced by the Government to mitigate the increase in mortgage costs and provide help and support to those who are in financial difficulty. Customer take-up has been relatively low with only circa 5,000 customers on Mortgage Charter interest only concessions as at 30 September 2023.

Provisions have remained broadly stable at £774 million (4 April 2023: £765 million) and include a modelled adjustment for economic uncertainty totalling £170 million (4 April 2023: £177 million). This modelled adjustment captures the affordability risks caused by inflation, and the increased cost of borrowing.

Outlook

A softening of housing market activity is expected to continue in the period ahead as transactions are deferred due to uncertainty in house price values and interest rates remaining elevated. The Group’s base case economic scenario assumes that house prices will fall by 3.7% during 2023 and a further 1.0% during 2024. As a result of continued economic uncertainty, the house price forecasts used within the provision models cover a wide range of outcomes.

We continue to monitor the external environment, its impact on borrowers and the credit risks affecting our lending portfolios to ensure that provisions reflect these risks.

Credit risk – Overview (continued)

Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk at 30 September 2023 was £282 billion (4 April 2023: £279 billion).

Credit risk largely arises from loans and advances to customers, which account for 79% (4 April 2023: 79%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 95% (4 April 2023: 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 2023	Gross balances	Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
	£m	£m	£m	£m	£m	%
Amortised cost loans and advances to customers:						
Residential mortgages	202,234	(305)	201,929	9,405	211,334	75
Consumer banking	4,317	(450)	3,867	33	3,900	2
Commercial and other lending	5,101	(19)	5,082	1,156	6,238	2
Fair value adjustment for micro hedged risk (note ii)	377	-	377	-	377	-
	212,029	(774)	211,255	10,594	221,849	79
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	41	-	41	-	41	-
Commercial	2	-	2	-	2	-
	43	-	43	-	43	-
Other items:						
Cash	28,676	-	28,676	-	28,676	10
Loans and advances to banks and similar institutions	3,168	-	3,168	-	3,168	1
Investment securities – FVOCI	26,207	-	26,207	-	26,207	9
Investment securities – Amortised cost	11	-	11	-	11	-
Investment securities – FVTPL	10	-	10	5	15	-
Derivative financial instruments	8,049	-	8,049	-	8,049	3
Fair value adjustment for portfolio hedged risk (note ii)	(5,791)	-	(5,791)	-	(5,791)	(2)
	60,330	-	60,330	5	60,335	21
Total	272,402	(774)	271,628	10,599	282,227	100

Credit risk – Overview (continued)

Maximum exposure to credit risk 4 April 2023	Gross balances £m	Impairment provisions £m	Carrying value £m	Commitments (note i) £m	Maximum credit risk exposure £m	% of total credit risk exposure %
Amortised cost loans and advances to customers:						
Residential mortgages	201,615	(280)	201,335	8,952	210,287	75
Consumer banking	4,408	(469)	3,939	28	3,967	2
Commercial and other lending	4,994	(16)	4,978	1,353	6,331	2
Fair value adjustment for micro hedged risk (note ii)	430	-	430	-	430	-
	211,447	(765)	210,682	10,333	221,015	79
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	47	-	47	-	47	-
Commercial	53	-	53	-	53	-
	100	-	100	-	100	-
Other items:						
Cash	25,635	-	25,635	-	25,635	9
Loans and advances to banks and similar institutions	2,860	-	2,860	-	2,860	1
Investment securities – FVOCI	27,562	-	27,562	-	27,562	10
Investment securities – Amortised cost	40	-	40	-	40	-
Investment securities – FVTPL	13	-	13	-	13	-
Derivative financial instruments	6,923	-	6,923	-	6,923	3
Fair value adjustment for portfolio hedged risk (note ii)	(5,011)	-	(5,011)	-	(5,011)	(2)
	58,022	-	58,022	-	58,022	21
Total	269,569	(765)	268,804	10,333	279,137	100

Notes:

i. In addition to the amounts shown above, Nationwide has revocable commitments of £10,314 million (4 April 2023: £10,444 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 2023: £0.2 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 owner-occupied, buy to let and legacy loans. Owner-occupied residential mortgages are mainly Nationwide-branded advances made through intermediary channels and the branch network. Since 2008, all new buy to let mortgages have been originated under The Mortgage Works (UK) plc (TMW) brand. Legacy mortgages are smaller owner-occupied portfolios in run-off.

Residential mortgage arrears have seen marginal increases in early and late arrears as higher inflation and rising interest rates place greater pressure on household finances.

The value of residential mortgages has seen a modest increase to £202.3 billion (April 2023: £201.7 billion), reflecting a slowdown in housing market activity.

Residential mortgage gross balances				
	30 September 2023		4 April 2023	
	£m	**%**	£m	%
Owner-occupied	**158,399**	**78**	157,511	78
Buy to let and legacy:				
Buy to let (note i)	**42,547**	**21**	42,704	21
Legacy (note ii)	**1,288**	**1**	1,400	1
	43,835	**22**	44,104	22
Amortised cost loans and advances to customers	**202,234**	**100**	201,615	100
FVTPL loans and advances to customers	**41**		47	
Total residential mortgages	**202,275**		201,662	

Notes:
i. Buy to let mortgages include £41,734 million (4 April 2023: £41,805 million) originated under the TMW brand, with other brands now closed to new originations.
ii. Legacy includes self-certified, near prime and sub-prime owner-occupied lending, all of which were discontinued in 2009.

Credit risk – Residential mortgages (continued)

Impairment charge and write-offs for the period		
	Half year to 30 September 2023	Half year to 30 September 2022
	£m	£m
Owner-occupied	**14**	18
Buy to let and legacy	**13**	51
Total impairment charge	**27**	69
	%	%
Impairment charge as a % of average gross balance	**0.01**	0.03
	£m	£m
Gross write-offs	**4**	2

Balance sheet provisions have increased to £305 million (4 April 2023: £280 million). This includes a modelled adjustment totalling £87 million (4 April 2023: £77 million) to reflect an increase to the probability of default to account for the combined risks of rising inflation, increasing interest rates and the impact of model inputs still benefitting from improvements in credit indicators which are judged to be temporary, such as reduced levels of arrears. The impairment charge for the period reflects the increase in this adjustment, primarily due to latest expectations of the extent to which higher mortgage interest rates will reduce borrower affordability. Further information is included in note 8 to the condensed consolidated interim financial statements.

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 2023	**Stage 1**	**Stage 2 total**	**Stage 2 Up to date**	**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								
Owner-occupied	**139,007**	**18,729**	**17,511**	**922**	**296**	**663**	**-**	**158,399**
Buy to let and legacy	**22,495**	**20,711**	**20,179**	**347**	**185**	**511**	**118**	**43,835**
Total	**161,502**	**39,440**	**37,690**	**1,269**	**481**	**1,174**	**118**	**202,234**
Provisions								
Owner-occupied	**8**	**62**	**50**	**6**	**6**	**27**	**-**	**97**
Buy to let and legacy	**12**	**141**	**117**	**12**	**12**	**55**	**-**	**208**
Total	**20**	**203**	**167**	**18**	**18**	**82**	**-**	**305**
Provisions as a % of total balance	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Owner-occupied	**0.01**	**0.33**	**0.29**	**0.66**	**2.05**	**4.10**	**-**	**0.06**
Buy to let and legacy	**0.06**	**0.68**	**0.58**	**3.34**	**6.52**	**10.69**	**-**	**0.47**
Total	**0.01**	**0.51**	**0.44**	**1.39**	**3.77**	**6.97**	**-**	**0.15**

Credit risk – Residential mortgages (continued)

Residential mortgages staging analysis								
4 April 2023	Stage 1	Stage 2 total	Stage 2 Up to date	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								
Owner-occupied	138,670	18,200	17,134	811	255	641	-	157,511
Buy to let and legacy	26,211	17,345	16,875	294	176	425	123	44,104
Total	164,881	35,545	34,009	1,105	431	1,066	123	201,615
Provisions								
Owner-occupied	10	48	39	5	4	26	-	84
Buy to let and legacy	13	143	127	8	8	41	(1)	196
Total	23	191	166	13	12	67	(1)	280
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Owner-occupied	0.01	0.26	0.23	0.60	1.51	4.04	-	0.05
Buy to let and legacy	0.05	0.83	0.75	2.85	4.70	9.76	-	0.44
Total	0.01	0.54	0.49	1.20	2.81	6.30	-	0.14

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 on transition to IFRS 9 of £5 million (4 April 2023: £5 million).

Total residential mortgage provisions have increased to £305 million (4 April 2023: £280 million), due to an increase in stage 3 provisions combined with an increase to the provisions held for affordability risks resulting from higher interest rates.

Stage 2 loans total £39.4 billion (4 April 2023: £35.5 billion), which includes £17.3 billion (4 April 2023: £16.6 billion) of loans where the PD has been uplifted to recognise the increased risk of default in a period of economic uncertainty. The stage 2 increase is primarily due to increases in the buy to let and legacy portfolios, which due to their interest only nature are more sensitive to increasing interest rates.

Credit performance continues to be strong. Stage 3 loans in the residential mortgage portfolio equate to 0.6% (4 April 2023: 0.5%) of the total residential mortgage exposure. Of the total £1,174 million (4 April 2023: £1,066 million) stage 3 loans, £692 million (4 April 2023: £562 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; £175 million (4 April 2023: £179 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 compare the position at 30 September 2023 to that at the start of the reporting period.

Reconciliation of net movements in residential mortgage balances and impairment provisions (note i)								
	Non-credit impaired				Credit impaired (note ii)			
	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 2023	164,881	23	35,545	191	1,189	66	201,615	280
Stage transfers:								
Transfers from stage 1 to stage 2	**(16,126)**	**-**	**16,126**	**-**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(70)**	**-**	**(330)**	**(8)**	**400**	**8**	**-**	**-**
Transfers from stage 2 to stage 1	**10,431**	**31**	**(10,431)**	**(31)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**28**	**-**	**125**	**4**	**(153)**	**(4)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage	**-**	**(29)**	**-**	**48**	**-**	**12**	**-**	**31**
Net movement arising from transfer of stage	**(5,737)**	**2**	**5,490**	**13**	**247**	**16**	**-**	**31**
New assets originated or purchased (note iii)	**11,397**	**1**	**480**	**6**	**-**	**-**	**11,877**	**7**
Net impact of further lending and repayments	**(3,128)**	**(1)**	**(462)**	**(2)**	**-**	**-**	**(3,590)**	**(3)**
Changes in risk parameters in relation to credit quality	**-**	**(4)**	**-**	**2**	**-**	**11**	**-**	**9**
Other items impacting income statement charge/(release) (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Redemptions	**(5,911)**	**(1)**	**(1,613)**	**(7)**	**(127)**	**(7)**	**(7,651)**	**(15)**
Income statement charge for the period								**27**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(17)**	**(4)**	**(17)**	**(4)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
30 September 2023	**161,502**	**20**	**39,440**	**203**	**1,292**	**82**	**202,234**	**305**
Net carrying amount		**161,482**		**39,237**		**1,210**		**201,929**

Notes:

i. The basis of preparation for this note has been updated. Previously, the table was presented on a gross basis, with the reported values representing an aggregation of monthly movements over the period. To reflect more appropriately the movements in credit quality over the period, the note is now prepared on a net basis.

ii. Gross balances of credit impaired loans include £118 million (4 April 2023: £123 million) of POCI loans, which are presented net of lifetime ECL on transition to IFRS 9 of £5 million (4 April 2023: £5 million).

iii. If a new asset is originated in the period, the values included are the closing gross balance and provision for the period. The stage in which the addition is shown reflects the stage of the account at the end of the period.

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 condensed consolidated interim financial statements.

Credit risk – Residential mortgages (continued)

Reason for residential mortgages being reported in stage 2 (note i)									
30 September 2023	**Owner-occupied**			**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)	**296**	**6**	**2.05**	**185**	**12**	**6.54**	**481**	**18**	**3.77**
Increase in PD since origination (less than 30 DPD)	**18,233**	**56**	**0.31**	**19,117**	**107**	**0.56**	**37,350**	**163**	**0.43**
Qualitative criteria:									
Forbearance (less than 30 DPD)	**165**	**-**	**0.02**	**4**	**-**	**0.75**	**169**	**-**	**0.04**
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**-**	**-**		**1,400**	**22**	**1.61**	**1,400**	**22**	**1.61**
Other qualitative criteria	**35**	**-**	**0.03**	**5**	**-**	**0.29**	**40**	**-**	**0.06**
Total stage 2 gross balances	**18,729**	**62**	**0.33**	**20,711**	**141**	**0.68**	**39,440**	**203**	**0.51**

Reason for residential mortgages being reported in stage 2 (note i)									
4 April 2023	Owner-occupied			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)	255	4	1.51	176	8	4.70	431	12	2.81
Increase in PD since origination (less than 30 DPD)	17,769	44	0.25	15,952	105	0.66	33,721	149	0.44
Qualitative criteria:									
Forbearance (less than 30 DPD)	137	-	0.17	5	-	0.21	142	-	0.02
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	-	1,203	30	2.46	1,203	30	2.46
Other qualitative criteria	39	-	0.02	9	-	1.12	48	-	0.23
Total stage 2 gross balances	18,200	48	0.26	17,345	143	0.83	35,545	191	0.54

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 2023 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)

Credit quality

The residential mortgage 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 2023	**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%	**113,598**	**4,742**	**34**	**118,374**	**3**	**6**	**-**	**9**	**0.01**
0.15 to < 0.25%	**18,765**	**1,935**	**14**	**20,714**	**2**	**4**	**-**	**6**	**0.03**
0.25 to < 0.50%	**19,054**	**7,387**	**17**	**26,458**	**7**	**15**	**-**	**22**	**0.08**
0.50 to < 0.75%	**5,465**	**3,313**	**9**	**8,787**	**2**	**9**	**-**	**11**	**0.13**
0.75 to < 2.50%	**4,100**	**12,588**	**55**	**16,743**	**3**	**44**	**-**	**47**	**0.28**
2.50 to < 10.00%	**494**	**5,826**	**58**	**6,378**	**2**	**45**	**-**	**47**	**0.73**
10.00 to < 100%	**26**	**3,649**	**181**	**3,856**	**1**	**80**	**7**	**88**	**2.26**
100% (default)	**-**	**-**	**924**	**924**	**-**	**-**	**75**	**75**	**8.17**
Total	**161,502**	**39,440**	**1,292**	**202,234**	**20**	**203**	**82**	**305**	**0.15**

Loan balance and provisions by PD									
4 April 2023	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%	126,387	5,620	48	132,055	4	19	-	23	0.02
0.15 to < 0.25%	20,845	5,133	17	25,995	9	19	-	28	0.11
0.25 to < 0.50%	12,556	6,566	29	19,151	5	26	-	31	0.16
0.50 to < 0.75%	3,020	3,981	19	7,020	1	16	-	17	0.24
0.75 to < 2.50%	1,937	8,180	62	10,179	2	39	-	41	0.40
2.50 to < 10.00%	120	3,663	77	3,860	1	31	1	33	0.86
10.00 to < 100%	16	2,402	141	2,559	1	41	4	46	1.76
100% (default)	-	-	796	796	-	-	61	61	7.61
Total	164,881	35,545	1,189	201,615	23	191	66	280	0.14

Note:
i. Includes POCI loans of £118 million (4 April 2023: £123 million).

At 30 September 2023, 94% (4 April 2023: 96%) of the portfolio had a 12-month IFRS 9 PD of less than 2.5%, reflecting the high quality of the residential mortgage portfolio.

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 2023 %	Half year to 30 September 2022 %
Owner-occupied:		
First time buyers	**32**	28
Home movers	**29**	30
Remortgages	**25**	24
Other	**1**	1
Total owner-occupied	**87**	83
Buy to let:		
Buy to let new purchases	**5**	7
Buy to let remortgages	**8**	10
Total buy to let	**13**	17
Total new business	**100**	100

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

The proportion of new lending to first time buyers has increased to 32% (H1 2022/23: 28%) due to our continued support for this segment. Buy to let lending reduced as a proportion of all new business to 13% (H1 2022/23: 17%) as the volume of both house purchases and remortgages in the buy to let market reduced due to rising interest rates adversely affecting landlord sentiment.

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 2023	Half year to 30 September 2022
	%	%
0% to 60%	**26**	27
60% to 75%	**29**	36
75% to 80%	**9**	10
80% to 85%	**14**	13
85% to 90%	**17**	11
90% to 95%	**5**	3
Over 95%	**-**	-
Total	**100**	100

Average LTV of new business (by value) (note i)	Half year to 30 September 2023	Half year to 30 September 2022
	%	%
Owner-occupied	**72**	70
Buy to let	**62**	67
Group	**71**	69

Average LTV of loan stock (by value) (note ii)	30 September 2023	4 April 2023
	%	%
Owner-occupied	**55**	54
Buy to let and legacy	**55**	56
Group	**55**	55

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 year.

The Group average stock LTV has remained unchanged at 55% (4 April 2023: 55%). Owner-occupied average stock LTV has increased slightly to 55% (4 April 2023: 54%), with buy to let average stock LTV reducing to 55% (4 April 2023: 56%) alongside a reduction in buy to let new lending average LTV to 62% (4 April 2023: 67%). Owner-occupied new lending average LTV has increased modestly to 72% (4 April 2023: 70%) due to support for the first time buyer segment.

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). The LTV is calculated using the latest indexed valuation based on the Nationwide House Price Index.

Residential mortgage gross balances by LTV and region										
30 September 2023	**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%	**25,249**	**14,923**	**11,511**	**9,533**	**7,821**	**4,138**	**2,551**	**1,126**	**76,852**	**0.06**
50% to 60%	**11,968**	**7,479**	**6,286**	**4,634**	**3,847**	**2,208**	**1,335**	**443**	**38,200**	**0.11**
60% to 70%	**13,014**	**7,687**	**6,842**	**5,077**	**4,038**	**2,531**	**1,253**	**484**	**40,926**	**0.13**
70% to 80%	**10,398**	**4,709**	**4,390**	**2,991**	**2,268**	**1,585**	**786**	**312**	**27,439**	**0.17**
80% to 90%	**3,967**	**2,435**	**2,430**	**1,601**	**1,123**	**816**	**484**	**206**	**13,062**	**0.14**
90% to 100%	**1,076**	**814**	**788**	**634**	**503**	**310**	**205**	**61**	**4,391**	**0.23**
	65,672	**38,047**	**32,247**	**24,470**	**19,600**	**11,588**	**6,614**	**2,632**	**200,870**	**0.11**
Not fully collateralised										
Over 100% LTV	**3**	**5**	**8**	**3**	**16**	**21**	**-**	**16**	**72**	**14.19**
Collateral value	**2**	**5**	**7**	**3**	**15**	**18**	**-**	**15**	**65**	
Negative equity	**1**	**-**	**1**	**-**	**1**	**3**	**-**	**1**	**7**	
Total stage 1 and 2 loans	**65,675**	**38,052**	**32,255**	**24,473**	**19,616**	**11,609**	**6,614**	**2,648**	**200,942**	**0.11**
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	**254**	**104**	**79**	**67**	**52**	**23**	**18**	**11**	**608**	**3.05**
50% to 60%	**89**	**56**	**48**	**34**	**30**	**12**	**12**	**3**	**284**	**4.81**
60% to 70%	**51**	**36**	**53**	**18**	**17**	**14**	**10**	**5**	**204**	**6.60**
70% to 80%	**34**	**18**	**31**	**9**	**5**	**11**	**2**	**5**	**115**	**9.86**
80% to 90%	**10**	**5**	**15**	**3**	**2**	**3**	**2**	**4**	**44**	**21.45**
90% to 100%	**2**	**1**	**8**	**1**	**1**	**2**	**-**	**4**	**19**	**25.60**
	440	**220**	**234**	**132**	**107**	**65**	**44**	**32**	**1,274**	**5.59**
Not fully collateralised										
Over 100% LTV	**2**	**3**	**4**	**-**	**-**	**2**	**-**	**7**	**18**	**55.04**
Collateral value	**2**	**2**	**3**	**-**	**-**	**2**	**-**	**6**	**15**	
Negative equity	**-**	**1**	**1**	**-**	**-**	**-**	**-**	**1**	**3**	
Total stage 3 and POCI loans	**442**	**223**	**238**	**132**	**107**	**67**	**44**	**39**	**1,292**	**6.27**
Total residential mortgages	**66,117**	**38,275**	**32,493**	**24,605**	**19,723**	**11,676**	**6,658**	**2,687**	**202,234**	**0.15**
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 2023	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%	25,295	14,722	11,214	9,433	7,969	3,944	2,512	1,074	76,163	0.03
50% to 60%	11,743	7,396	6,162	4,572	3,882	2,127	1,338	421	37,641	0.08
60% to 70%	12,937	7,878	6,956	5,108	4,142	2,478	1,299	504	41,302	0.13
70% to 80%	11,411	4,977	4,601	3,406	2,239	1,875	791	345	29,645	0.21
80% to 90%	3,704	2,072	2,132	1,368	952	766	418	206	11,618	0.18
90% to 100%	866	718	817	551	351	330	175	86	3,894	0.26
	65,956	37,763	31,882	24,438	19,535	11,520	6,533	2,636	200,263	0.10
Not fully collateralised										
Over 100% LTV	7	23	21	20	21	36	5	30	163	6.90
Collateral value	6	22	20	20	20	32	5	28	153	
Negative equity	1	1	1	-	1	4	-	2	10	
Total stage 1 and 2 loans	65,963	37,786	31,903	24,458	19,556	11,556	6,538	2,666	200,426	0.11
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	225	99	77	59	50	24	18	11	563	1.95
50% to 60%	82	51	48	29	25	12	11	3	261	3.30
60% to 70%	48	36	46	18	15	12	7	5	187	5.47
70% to 80%	29	18	29	12	4	11	3	4	110	11.53
80% to 90%	9	3	12	2	1	5	1	3	36	22.39
90% to 100%	3	1	5	-	1	1	-	3	14	31.00
	396	208	217	120	96	65	40	29	1,171	4.67
Not fully collateralised										
Over 100% LTV	1	1	5	1	-	2	-	8	18	71.68
Collateral value	1	1	3	1	-	2	-	7	15	
Negative equity	-	-	2	-	-	-	-	1	3	
Total stage 3 and POCI loans	397	209	222	121	96	67	40	37	1,189	5.53
Total residential mortgages	66,360	37,995	32,125	24,579	19,652	11,623	6,578	2,703	201,615	0.14
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 the owner-occupied and buy to let and legacy portfolios is in Greater London, with proportions broadly stable at 29% and 45% (4 April 2023: 29% and 46%) respectively.

In addition to balances held at amortised cost shown in the table above, £41 million (4 April 2023: £47 million) of residential mortgages are held at FVTPL. These have an average LTV of 34% (4 April 2023: 35%). The largest geographical concentration within the FVTPL balances is also in Greater London, at 62% (4 April 2023: 61%) of total FVTPL balances.

Arrears and possessions

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 2023	4 April 2023
	%	%
Owner-occupied	**0.33**	0.29
Buy to let and legacy	**0.55**	0.44
Total	**0.38**	0.32
UK Finance industry average	**0.84**	0.72

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 increased during the period to 0.38% (4 April 2023: 0.32%), with a more significant increase in buy to let and legacy cases where arrears are disproportionately impacted by older accounts within these portfolios. Arrears levels are expected to increase further as a result of the rising interest rates resulting in higher mortgage payments.

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 2023				4 April 2023			
	Owner-occupied	**Buy to let and legacy**	**Total**		Owner-occupied	Buy to let and legacy	Total	
	£m	**£m**	**£m**	**%**	£m	£m	£m	%
Not past due	**156,527**	**42,877**	**199,404**	**98.5**	155,849	43,270	199,119	98.7
Past due 0 to 1 month	**1,153**	**420**	**1,573**	**0.8**	1,044	376	1,420	0.7
Past due 1 to 3 months	**345**	**219**	**564**	**0.3**	310	213	523	0.3
Past due 3 to 6 months	**186**	**141**	**327**	**0.2**	155	108	263	0.1
Past due 6 to 12 months	**132**	**98**	**230**	**0.1**	111	65	176	0.1
Past due over 12 months	**84**	**53**	**137**	**0.1**	76	50	126	0.1
Possessions	**13**	**27**	**40**	**-**	13	22	35	-
Total residential mortgages	**158,440**	**43,835**	**202,275**	**100**	157,558	44,104	201,662	100

The balance of cases past due by more than 3 months has increased to £734 million (4 April 2023: £600 million) reflecting economic conditions, including rising interest rates. Increases are in line with expectations and remain well below the levels expected in our provisioning calculations.

Interest only mortgages

At 30 September 2023, interest only balances of £6,374 million (4 April 2023: £6,812 million) account for 4% (4 April 2023: 4%) of the owner-occupied residential mortgage portfolio. Nationwide re-entered the owner-occupied market for interest only lending under a newly established credit policy in April 2020; however, 82% 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, £39,910 million (4 April 2023: £40,126 million) relates to interest only balances, representing 91% (4 April 2023: 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 £35 million. (4 April 2023: £45 million).

Past term interest only loans 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. The Annual Report and Accounts 2023 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, including balances which are within stage 1 for provision purposes but which continue to meet the EBA definition of forbearance. Accounts that are currently 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 2023			4 April 2023		
	Owner-occupied	**Buy to let and legacy**	**Total**	Owner-occupied	Buy to let and legacy	Total
	£m	**£m**	**£m**	£m	£m	£m
Past term interest only (note ii)	**100**	**149**	**249**	101	149	250
Interest only concessions	**403**	**25**	**428**	503	25	528
Capitalisation	**82**	**19**	**101**	85	22	107
Capitalisation – notification of death of borrower	**77**	**117**	**194**	75	105	180
Term extensions (within term)	**47**	**17**	**64**	41	18	59
Permanent interest only conversions	**1**	**31**	**32**	1	29	30
Total forbearance (note iii)	**710**	**358**	**1,068**	806	348	1,154
Of which stage 2	**252**	**73**	**325**	289	74	363
Of which stage 3	**349**	**272**	**621**	383	253	636
	%	**%**	**%**	%	%	%
Total forbearance as a % of total gross balances	**0.4**	**0.8**	**0.5**	0.5	0.8	0.6
	£m	**£m**	**£m**	£m	£m	£m
Impairment provisions on forborne loans	**11**	**28**	**39**	11	20	31

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.

iii. 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.

As part of our ongoing commitment to support our borrowers facing financial difficulty, Nationwide has signed up to HM Government's Mortgage Charter. This offers borrowers who are up to date on their mortgage payments the option to switch to interest only payments for a six-month period. As at 30 September 2023, £862 million of outstanding balances have taken up this option. £34 million of these balances are included in the table above, as they were in a forbearance probation period when the option was taken up. The remainder is not classified as forborne as the temporary switch to interest only as part of the Mortgage Charter is not classified as forbearance.

The average LTV for forborne accounts is 47% (4 April 2023: 47%). In addition to the amortised cost balances above, £4 million of FVTPL balances (4 April 2023: £4 million) are also 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 year, total balances across these portfolios have reduced to £4,317 million (4 April 2023: £4,408 million) driven by reduced new business and a pay down of the existing book on personal loans.

Arrears levels have remained low during the period, with the balance of cases past due by more than 3 months, excluding charged off balances, representing 1.14% (4 April 2023: 1.21%) of these balances. During the period there has been an increase in early arrears, which the Group will continue to monitor. Arrears levels are expected to increase over the short to medium term due to high levels of inflation and rising interest rates putting pressure on household budgets, stretching affordability for some borrowers.

Consumer banking gross balances				
	30 September 2023		4 April 2023	
	£m	**%**	£m	%
Overdrawn current accounts	**274**	**6**	310	7
Personal loans	**2,426**	**56**	2,574	58
Credit cards	**1,617**	**38**	1,524	35
Total consumer banking	**4,317**	**100**	4,408	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 2023	Half year to 30 September 2022
	£m	£m
Overdrawn current accounts	**9**	10
Personal loans	**13**	29
Credit cards	**-**	2
Total impairment charge	**22**	41
	%	%
Impairment charge as a % of average gross balance	**0.51**	0.87
	£m	£m
Gross write-offs	**43**	42

The lower impairment charge for the period ended 30 September 2023 reflects a reduction in balance sheet provisions, which reduced to £450 million (4 April 2023: £469 million). Provisions include a modelled uplift to the probability of default to reflect economic uncertainty. This adjustment increases provisions by £83 million (4 April 2023: £100 million) and has reduced during the period due to updated expectations of the impact of cost inflation pressures on future credit performance.

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 2023				4 April 2023			
	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	**113**	**104**	**57**	**274**	160	91	59	310
Personal loans	**1,224**	**1,069**	**133**	**2,426**	1,378	1,063	133	2,574
Credit cards	**945**	**586**	**86**	**1,617**	845	591	88	1,524
Total	**2,282**	**1,759**	**276**	**4,317**	2,383	1,745	280	4,408
Provisions								
Overdrawn current accounts	**4**	**23**	**39**	**66**	5	21	38	64
Personal loans	**7**	**52**	**116**	**175**	9	54	117	180
Credit cards	**10**	**120**	**79**	**209**	11	136	78	225
Total	**21**	**195**	**234**	**450**	25	211	233	469
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Overdrawn current accounts	**4.02**	**21.36**	**67.92**	**24.03**	3.10	22.90	64.80	20.57
Personal loans	**0.55**	**4.90**	**87.68**	**7.23**	0.67	5.09	87.66	7.00
Credit cards	**1.06**	**20.54**	**91.92**	**12.95**	1.25	22.96	88.85	14.73
Total	**0.93**	**11.08**	**84.89**	**10.43**	1.04	12.07	83.25	10.63

Balance sheet provisions of £450 million (4 April 2023: £469 million) include a modelled adjustment of £83 million (4 April 2023: £100 million) to reflect an increase to the probability of default to account for the combined risks of rising inflation, increasing interest rates and the impact of model inputs still benefitting from improvements in credit indicators which are judged to be temporary, such as reduced levels of arrears. This has resulted in £502 million (4 April 2023: £585 million) of balances being moved to stage 2. Further information is included in note 8 to the condensed consolidated interim financial statements.

Credit performance continues to be strong, with the proportion of total balances in stage 3 remaining stable at 6.4% (4 April 2023: 6.4%). Consumer banking stage 3 gross balances and provisions include charged off balances. These are accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months) whilst recovery activities take place. Excluding these charged off balances and related provisions, provisions amount to 6.5% (4 April 2023: 6.9%) 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 compare the position at 30 September 2023 to that at the start of the reporting period.

Reconciliation of net movements in consumer banking balances and impairment provisions (note i)	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2023	2,383	25	1,745	211	280	233	4,408	469
Stage transfers:								
Transfers from stage 1 to stage 2	**(349)**	**(5)**	**349**	**5**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(7)**	**-**	**(39)**	**(17)**	**46**	**17**	**-**	**-**
Transfers from stage 2 to stage 1	**374**	**34**	**(374)**	**(34)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**-**	**-**	**3**	**2**	**(3)**	**(2)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage	**-**	**(27)**	**-**	**40**	**-**	**17**	**-**	**30**
Net movement arising from transfer of stage	**18**	**2**	**(61)**	**(4)**	**43**	**32**	**-**	**30**
New assets originated or purchased (note ii)	**346**	**3**	**215**	**11**	**1**	**1**	**562**	**15**
Net impact of further lending and repayments	**(292)**	**(7)**	**(41)**	**(15)**	**(4)**	**(1)**	**(337)**	**(23)**
Changes in risk parameters in relation to credit quality	**-**	**(1)**	**-**	**(5)**	**-**	**12**	**-**	**6**
Other items impacting income statement charge/(release) (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Redemptions	**(173)**	**(1)**	**(99)**	**(3)**	**(1)**	**-**	**(273)**	**(4)**
Income statement charge for the period								**22**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(43)**	**(43)**	**(43)**	**(43)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**2**
30 September 2023	**2,282**	**21**	**1,759**	**195**	**276**	**234**	**4,317**	**450**
Net carrying amount		**2,261**		**1,564**		**42**		**3,867**

Notes:

i. The basis of preparation for this note has been updated. Previously, the table was presented on a gross basis, with the reported values representing an aggregation of monthly movements over the period. To reflect more appropriately the movements in credit quality over the period, the note is now prepared on a net basis.

ii. If a new asset is originated in the period, the values included are the closing gross balance and provision for the period. The stage in which the addition is shown reflects the stage of the account at the end of the period.

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 condensed consolidated interim financial statements.

Credit risk – Consumer banking (continued)

Reason for consumer banking balances being reported in stage 2												
30 September 2023	**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**	**75**	**11**	**6**	**52**	**5**	**3**	**72**	**19**	**11**	**61**
Increase in PD since origination (less than 30 DPD)	**94**	**20**	**21**	**1,055**	**46**	**4**	**570**	**115**	**20**	**1,719**	**181**	**11**
Qualitative criteria:												
Forbearance (less than 30 DPD) (note ii)	**-**	**-**	**15**	**-**	**-**	**7**	**-**	**-**	**21**	**-**	**-**	**11**
Other qualitative criteria (less than 30 DPD)	**7**	**1**	**8**	**3**	**-**	**4**	**11**	**2**	**17**	**21**	**3**	**12**
Total stage 2 gross balances	**104**	**23**	**21**	**1,069**	**52**	**5**	**586**	**120**	**21**	**1,759**	**195**	**11**

Reason for consumer banking balances being reported in stage 2												
4 April 2023	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)	2	2	98	11	6	52	4	4	84	17	12	65
Increase in PD since origination (less than 30 DPD)	81	18	22	1,049	48	5	576	130	23	1,706	196	12
Qualitative criteria:												
Forbearance (less than 30 DPD) (note ii)	-	-	17	1	-	10	-	-	19	1	-	13
Other qualitative criteria (less than 30 DPD)	8	1	10	2	-	4	11	2	18	21	3	13
Total stage 2 gross balances	91	21	23	1,063	54	5	591	136	23	1,745	211	12

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 £1,759 million (4 April 2023: £1,745 million) stage 2 balances, only 1% (4 April 2023: 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 £502 million (4 April 2023: £585 million) of loans where the modelled PD has been uplifted to recognise the increased risk of default in a high inflation and interest rate environment. The impact of this uplift in PD has resulted in these loans breaching existing quantitative PD thresholds.

The Annual Report and Accounts 2023 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 a 12-month IFRS 9 PDs at the reporting date.

Consumer banking gross balances and provisions by PD									
30 September 2023	**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%	**657**	**9**	**-**	**666**	**2**	**-**	**-**	**2**	**0.29**
0.15 to < 0.25%	**313**	**31**	**-**	**344**	**1**	**1**	**-**	**2**	**0.49**
0.25 to < 0.50%	**386**	**153**	**-**	**539**	**2**	**2**	**-**	**4**	**0.77**
0.50 to < 0.75%	**207**	**156**	**-**	**363**	**1**	**3**	**-**	**4**	**1.16**
0.75 to < 2.50%	**461**	**561**	**3**	**1,025**	**5**	**21**	**-**	**26**	**2.64**
2.50 to < 10.00%	**240**	**559**	**11**	**810**	**8**	**67**	**2**	**77**	**9.46**
10.00 to < 100%	**18**	**290**	**10**	**318**	**2**	**101**	**5**	**108**	**33.91**
100% (default)	**-**	**-**	**252**	**252**	**-**	**-**	**227**	**227**	**90.48**
Total	**2,282**	**1,759**	**276**	**4,317**	**21**	**195**	**234**	**450**	**10.43**

Consumer banking gross balances and provisions by PD									
4 April 2023	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%	644	7	-	651	2	-	-	2	0.30
0.15 to < 0.25%	338	26	-	364	1	1	-	2	0.48
0.25 to < 0.50%	397	136	-	533	2	2	-	4	0.77
0.50 to < 0.75%	225	157	-	382	1	3	-	4	1.13
0.75 to < 2.50%	482	554	3	1,039	6	21	-	27	2.60
2.50 to < 10.00%	270	552	13	835	10	69	2	81	9.70
10.00 to < 100%	27	313	9	349	3	115	4	122	34.79
100% (default)	-	-	255	255	-	-	227	227	89.38
Total	2,383	1,745	280	4,408	25	211	233	469	10.63

The credit quality of the consumer banking portfolio has remained strong. 87% (4 April 2023: 86%) of the portfolio has a 12-month IFRS 9 PD of less than 10%.

Credit risk – Consumer banking (continued)

Consumer banking balances by payment due status

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

Consumer banking gross balances by payment due status										
	30 September 2023					4 April 2023				
	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	**220**	**2,243**	**1,512**	**3,975**	**92.1**	265	2,386	1,423	4,074	92.4
Past due 0 to 1 month	**16**	**46**	**19**	**81**	**1.9**	8	49	14	71	1.6
Past due 1 to 3 months	**4**	**14**	**9**	**27**	**0.6**	4	15	8	27	0.6
Past due 3 to 6 months	**4**	**10**	**6**	**20**	**0.5**	5	11	6	22	0.5
Past due 6 to 12 months	**3**	**8**	**1**	**12**	**0.3**	4	11	1	16	0.4
Past due over 12 months	**3**	**12**	**-**	**15**	**0.3**	2	11	-	13	0.3
Charged off (note i)	**24**	**93**	**70**	**187**	**4.3**	22	91	72	185	4.2
Total	**274**	**2,426**	**1,617**	**4,317**	**100.0**	310	2,574	1,524	4,408	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 accounts, arrears greater than three months have reduced to £47 million (4 April 2023: £51 million), representing 1.1% (4 April 2023: 1.2%) of these balances. Arrears balances of less than three months have increased to £108 million (4 April 2023: £98 million). Arrears levels are expected to increase further 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 2023 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, including balances which are within stage 1 for provision purposes but which continue to meet the EBA definition of forbearance. Accounts that are currently 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 2023				4 April 2023 (note ii)			
	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	**3**	**-**	**13**	**16**	4	-	13	17
Interest suppressed payment concession	**27**	**31**	**9**	**67**	28	33	9	70
Balance re-aged/re-written	**-**	**2**	**2**	**4**	-	2	2	4
Total forbearance (note iii)	**30**	**33**	**24**	**87**	32	35	24	91
Of which stage 2	**3**	**2**	**14**	**19**	3	3	14	20
Of which stage 3	**27**	**30**	**9**	**66**	29	31	9	69
	%	**%**	**%**	**%**	%	%	%	%
Total forbearance as a % of total gross balances	**10.9**	**1.4**	**1.5**	**2.0**	10.3	1.4	1.6	2.1
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Impairment provisions on forborne loans	**13**	**26**	**11**	**50**	12	28	12	52

Notes:
i. Where more than one concession event has occurred, balances are reported under the latest event.
ii. The 4 April 2023 values for credit cards have been restated to reflect an update to forbearance definitions during the current period, which has resulted in £12 million of payment concessions being classified as forbearance.
iii. 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. Overall credit quality has remained stable.

Commercial gross balances	**30 September 2023 £m**	4 April 2023 £m
Registered social landlords (note i)	**4,284**	4,131
Project finance (note ii)	**518**	537
Commercial real estate (CRE)	**299**	326
Commercial balances at amortised cost	**5,101**	4,994
Fair value adjustment for micro hedged risk (note iii)	**377**	430
Commercial balances – FVTPL (note iv)	**2**	53
Total	**5,480**	5,477

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.

iv. FVTPL balances have reduced to £2 million (4 April 2023: £53 million) following CRE loan redemptions, with the remaining balance relating to loans to registered social landlords.

Impairment charge/(release) and write-offs for the period	**Half year to 30 September 2023 £m**	Half year to 30 September 2022 £m
Total impairment charge/(release)	**5**	(2)
Gross write-offs	**3**	-

Commercial provision charges and write-offs remain low and primarily reflect updates to a small number of individually assessed exposures.

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 ratios.

Commercial product and staging analysis	30 September 2023				4 April 2023			
	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	**4,166**	**118**	**-**	**4,284**	4,061	70	-	4,131
Project finance	**439**	**79**	**-**	**518**	459	78	-	537
CRE	**232**	**43**	**24**	**299**	274	19	33	326
Total	**4,837**	**240**	**24**	**5,101**	4,794	167	33	4,994
Provisions								
Registered social landlords	**1**	**-**	**-**	**1**	1	-	-	1
Project finance	**-**	**7**	**-**	**7**	-	8	-	8
CRE	**-**	**-**	**11**	**11**	1	-	6	7
Total	**1**	**7**	**11**	**19**	2	8	6	16
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Registered social landlords	**0.01**	**0.20**	**-**	**0.02**	0.01	0.26	-	0.02
Project finance	**0.02**	**8.02**	**-**	**1.24**	0.02	10.65	-	1.57
CRE	**0.22**	**0.77**	**43.90**	**3.80**	0.19	1.31	18.94	2.13
Total	**0.02**	**2.87**	**43.90**	**0.36**	0.02	5.26	18.94	0.32

Over the period, the performance of the commercial portfolio has remained stable, with 95% (4 April 2023: 96%) of balances in stage 1. Of the £240 million (4 April 2023: £167 million) stage 2 loans, which represent 4.7% (4 April 2023: 3.3%) of total balances, £0.4 million (4 April 2023: £nil) were in arrears by 30 days or more.

The increase in stage 2 balance across each portfolio reflects isolated risk events, all considered capable of remedy with a low risk of loss. A reduction in asset values for the remaining impaired loans has resulted in an overall increase in stage 3 provisions to £11 million (4 April 2023: £6 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 CRE portfolio 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 47% (4 April 2023: 39%) of total CRE balances, with a weighted average LTV of 36% (4 April 2023: 35%). Exposure to office assets has reduced to 13% (4 April 2023: 21%) of total CRE balances, with a weighted average LTV of 66% (4 April 2023: 64%).

The LTV distribution of CRE balances has remained stable with 90% (4 April 2023: 91%) of the portfolio having an LTV of 75% or less, and 54% (4 April 2023: 47%) of the portfolio having an LTV of 50% or less.

CRE balances with arrears have reduced to £17 million (4 April 2023: £18 million). Of these, £8 million (4 April 2023: £10 million) have arrears greater than 3 months and relate to loans that are in recovery or are being actively managed.

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 2023					4 April 2023				
	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	**162**	**20**	**-**	**182**	**0.0**	171	-	-	171	0.0
Good	**67**	**-**	**-**	**67**	**0.4**	97	1	-	98	0.3
Satisfactory	**3**	**1**	**-**	**4**	**4.3**	6	2	-	8	2.8
Weak	**-**	**22**	**-**	**22**	**1.5**	-	16	1	17	1.5
Impaired	**-**	**-**	**24**	**24**	**43.9**	-	-	32	32	19.1
Total	**232**	**43**	**24**	**299**	**3.8**	274	19	33	326	2.1

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 85% (4 April 2023: 85%) 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 85% (4 April 2023: 85%) 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 strong, with an average 12-month PD of 0.04% (4 April 2023: 0.04%) across the portfolio.

Credit risk – Commercial (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.

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

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

Gross balances subject to forbearance (note i)		
	30 September 2023	4 April 2023
	£m	£m
Modifications:		
Payment concession	**11**	79
Extension at maturity	**8**	16
Breach of covenant	**86**	21
Refinance	**1**	-
Total	**106**	116
Total impairment provision on forborne loans	**16**	14

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 £106 million (4 April 2023: £116 million), comprising CRE of £39 million (4 April 2023: £50 million) and project finance of £67 million (4 April 2023: £66 million), following a reduction in CRE balances through redemption or write off. Over the period, the increase in breach of covenant balance is predominantly driven by a single project finance exposure moving from the payment concession category.

There are no FVTPL commercial lending balances which are forborne (4 April 2023: £36 million).

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 2023 treasury assets represented 24.1% (4 April 2023: 23.2%) 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 2023	4 April 2023
	Classification	**£m**	£m
Cash	Amortised cost	**28,676**	25,635
Loans and advances to banks and similar institutions	Amortised cost	**3,168**	2,860
Investment securities (note i)	FVOCI	**26,207**	27,562
Investment securities (note i)	FVTPL	**10**	13
Investment securities	Amortised cost	**11**	40
Liquidity and investment portfolio		**58,072**	56,110
Derivative instruments (note ii)	FVTPL	**8,049**	6,923
Treasury assets		**66,121**	63,033

Notes:

i. Investment securities at FVOCI include £56 million (4 April 2023: £44 million) and investment securities at FVTPL include £10 million (4 April 2023: £13 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 2023, derivative liabilities were £1,660 million (4 April 2023: £1,524 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 2023. 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 2023 (4 April 2023: £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 2023		4 April 2023	
	Gross balances	**Provisions**	Gross balances	Provisions
	£m	**£m**	£m	£m
Loans and advances to banks and similar institutions	**3,168**	**-**	2,860	-
Investment securities – FVOCI	**26,207**	**-**	27,562	-
Investment securities – amortised cost	**11**	**-**	40	-

Credit risk – Treasury assets (continued)

Liquidity and investment portfolio

The liquidity and investment portfolio of £58,072 million (4 April 2023: £56,110 million) comprises liquid assets and other securities as set out below.

Liquidity and investment portfolio by credit rating (note i)										
30 September 2023		**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Japan**	**Other**
	£m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Liquid assets:										
Cash and reserves at central banks	**28,676**	**-**	**100**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
Government bonds (note ii)	**18,366**	**5**	**78**	**17**	**-**	**37**	**24**	**12**	**13**	**14**
Supranational bonds	**2,991**	**46**	**54**	**-**	**-**	**-**	**-**	**-**	**-**	**100**
Covered bonds	**3,081**	**100**	**-**	**-**	**-**	**45**	**-**	**15**	**-**	**40**
Residential mortgage backed securities (RMBS)	**705**	**100**	**-**	**-**	**-**	**62**	**-**	**38**	**-**	**-**
Other asset backed securities	**169**	**100**	**-**	**-**	**-**	**98**	**-**	**2**	**-**	**-**
Liquid assets total	**53,988**	**12**	**82**	**6**	**-**	**69**	**8**	**6**	**5**	**12**
Other securities (note iii):										
RMBS FVOCI	**836**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
RMBS amortised cost	**11**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
Other investments (note iv)	**69**	**-**	**5**	**-**	**95**	**95**	**-**	**5**	**-**	**-**
Other securities total	**916**	**93**	**-**	**-**	**7**	**100**	**-**	**-**	**-**	**-**
Loans and advances to banks and similar institutions	**3,168**	**-**	**83**	**14**	**3**	**82**	**12**	**4**	**0**	**2**
Total	**58,072**	**12**	**81**	**6**	**1**	**71**	**8**	**5**	**4**	**12**
4 April 2023	£m	%	%	%	%	%	%	%	%	%
Liquid assets:										
Cash and reserves at central banks	25,635	-	99	1	-	99	-	1	-	-
Government bonds (note ii)	20,130	31	54	15	-	37	24	14	12	13
Supranational bonds	2,838	46	54	-	-	-	-	-	-	100
Covered bonds	2,843	100	-	-	-	46	-	16	-	38
Residential mortgage backed securities (RMBS)	618	100	-	-	-	69	-	31	-	-
Other asset backed securities	197	100	-	-	-	94	-	6	-	-
Liquid assets total	52,261	22	72	6	-	67	9	7	5	12
Other securities (note iii):										
RMBS FVOCI	885	100	-	-	-	100	-	-	-	-
RMBS amortised cost	40	100	-	-	-	100	-	-	-	-
Other investments (note iv)	64	-	11	-	89	89	-	11	-	-
Other securities total	989	93	1	-	6	99	-	1	-	-
Loans and advances to banks and similar institutions	2,860	-	85	14	1	82	13	5	-	-
Total	56,110	22	71	7	-	68	9	7	4	12

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 £10 million (4 April 2023: £13 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 2023	Government Bonds (note i) £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	360	-	-	-	-	-	360
Belgium	329	-	-	-	-	-	329
Denmark	58	-	9	-	-	-	67
Finland	414	-	23	-	-	-	437
France	880	-	137	-	30	4	1,051
Germany	160	-	57	-	88	3	308
Netherlands	35	268	-	-	-	-	303
Norway	-	-	126	-	-	-	126
Sweden	35	-	106	-	-	-	141
Spain	-	-	-	-	1	-	1
Total Europe	**2,271**	**268**	**458**	**-**	**119**	**7**	**3,123**
Australia	42	-	158	-	-	-	200
Canada	2,438	-	989	-	51	-	3,478
Japan	2,412	-	-	-	-	-	2,412
Singapore	-	-	77	-	-	-	77
USA	4,342	-	-	-	391	-	4,733
Supranational entities (note ii)	-	-	-	2,991	-	-	2,991
Total	**11,505**	**268**	**1,682**	**2,991**	**561**	**7**	**17,014**

Credit risk – Treasury assets (continued)

Country exposures							
4 April 2023	Government Bonds (note i)	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	418	-	-	-	-	-	418
Belgium	360	-	-	-	-	-	360
Denmark	105	-	9	-	-	-	114
Finland	355	-	23	-	-	-	378
France	939	-	139	-	60	7	1,145
Germany	274	-	57	-	72	12	415
Netherlands	306	191	-	-	-	-	497
Norway	-	-	128	-	-	-	128
Sweden	11	-	107	-	-	-	118
Spain	-	-	-	-	-	-	-
Total Europe	2,768	191	463	-	132	19	3,573
Australia	43	-	153	-	-	-	196
Canada	2,506	-	852	-	6	-	3,364
Japan	2,383	-	-	-	-	-	2,383
Singapore	-	-	76	-	-	-	76
USA	4,959	-	-	-	384	-	5,343
Supranational entities (note ii)	-	-	-	2,838	-	-	2,838
Total	12,659	191	1,544	2,838	522	19	17,773

Notes:
i. Balances classified as government bonds include government guaranteed, agency and government sponsored bonds.
ii. Exposures to supranational entities are made up of bonds issued by highly-rated multilateral development banks (MDBs) and international organisations (IOs).

Credit risk – Treasury assets (continued)

Derivative financial instruments

Derivatives are used to manage exposure to market risks, and not for trading or speculative purposes. The fair value of derivative assets as at 30 September 2023 was £8.0 billion (4 April 2023: £6.9 billion) and the fair value of derivative liabilities was £1.7 billion (4 April 2023: £1.5 billion).

Nationwide, as a direct member of a central counterparty (CCP), has central clearing capability which it uses to clear standardised derivatives. Where derivatives are not cleared at a CCP they are transacted under the International Swaps and Derivatives Association (ISDA) Master Agreement. A Credit Support Annex (CSA) is always executed in conjunction with the ISDA Master Agreement. Under the terms of a CSA collateral is passed between parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions. 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.

Nationwide's CSA legal documentation for derivatives grants legal rights of set-off for transactions with the same counterparty. Accordingly, the credit risk associated with such positions is reduced to the extent that negative mark-to-market values offset positive mark-to-market values in the calculation of credit risk within each netting agreement.

Under the terms of CSA netting agreements, outstanding transactions with the same counterparty can be offset and settled on a net basis following a default, or another predetermined event. Under these arrangements, netting benefits of £1.4 billion (4 April 2023: £1.3 billion) were available and £6.6 billion (4 April 2023: £5.6 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						
	30 September 2023			4 April 2023		
Counterparty credit quality	**AA**	**A**	**Total**	AA	A	Total
	£m	**£m**	**£m**	£m	£m	£m
Derivative assets	**753**	**7,296**	**8,049**	636	6,287	6,923
Netting benefits	**(219)**	**(1,212)**	**(1,431)**	(182)	(1,104)	(1,286)
Net current credit exposure	**534**	**6,084**	**6,618**	454	5,183	5,637
Collateral (cash)	**(530)**	**(6,084)**	**(6,614)**	(451)	(5,183)	(5,634)
Net derivative credit exposure	**4**	**-**	**4**	3	-	3

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 the management of liquidity and funding risk are included within the Risk report in the Annual Report and Accounts 2023.

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 191% over the 12 months ended 30 September 2023 (4 April 2023: 180%). This was primarily due to higher average liquid asset balances, driven by growth in member deposits. Liquidity continues to be managed against internal risk appetite which is more prudent than regulatory requirements.

The position against the longer-term funding metric, the Net Stable Funding Ratio (NSFR), is also monitored. Nationwide's average NSFR for the four quarters ended 30 September 2023 was 149% (4 April 2023: 147%), 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 2023 £bn**	4 April 2023 £bn	**Members' interests, equity and liabilities**	**30 September 2023 £bn**	4 April 2023 £bn
Retail mortgages	**202.0**	201.4	Retail funding	**191.3**	187.1
Treasury assets (including liquidity portfolio)	**58.1**	56.1	Wholesale funding	**56.2**	57.9
Commercial lending	**5.4**	5.5	Other liabilities	**3.2**	3.1
Consumer lending	**3.9**	3.9	Capital and reserves (note ii)	**23.8**	23.8
Other assets	**5.1**	5.0			
Total	**274.5**	271.9	**Total**	**274.5**	271.9

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 2023, Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 106.8% (4 April 2023: 109.6%). Included within shares and other deposits, which are reported in the retail and wholesale funding categories above, is £35 billion of deposits (4 April 2023: £35 billion[1]) that exceed the £85,000 per customer Financial Services Compensation Scheme (FSCS) limit.

[1] The 4 April 2023 comparative for deposits that exceed the £85,000 threshold has been restated to reflect improved data quality since originally reported.

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 decreased by £1.7 billion to £56.2 billion during the period driven by repayment of £4.1 billion of drawings from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). This decrease was partially offset by secured and unsecured wholesale funding issuances during the period. The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) at 30 September 2023 was 23.5% (4 April 2023: 25.0%).

The table below sets out wholesale funding by currency.

Wholesale funding by currency												
	30 September 2023						4 April 2023					
	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	**0.1**	**-**	**-**	**-**	**0.1**	**0**	1.4	0.1	0.6	-	2.1	4
Deposits	**13.4**	**-**	**-**	**-**	**13.4**	**24**	11.0	-	-	-	11.0	19
Certificates of deposit	**3.3**	**-**	**-**	**-**	**3.3**	**6**	1.0	-	-	-	1.0	2
Covered bonds	**5.9**	**7.2**	**-**	**1.4**	**14.5**	**26**	6.0	7.2	-	1.2	14.4	25
Medium term notes	**1.9**	**4.5**	**4.0**	**1.3**	**11.7**	**21**	1.1	4.8	3.9	1.3	11.1	19
Securitisations	**1.4**	**-**	**0.2**	**-**	**1.6**	**3**	2.3	-	0.2	-	2.5	4
Term Funding Scheme with additional incentives for SMEs (TFSME)	**13.2**	**-**	**-**	**-**	**13.2**	**23**	17.2	-	-	-	17.2	29
Other (note i)	**-**	**(1.3)**	**(0.2)**	**(0.1)**	**(1.6)**	**(3)**	-	(1.1)	(0.2)	(0.1)	(1.4)	(2)
Total	**39.2**	**10.4**	**4.0**	**2.6**	**56.2**	**100**	40.0	11.0	4.5	2.4	57.9	100

Note:
i. Other consists of fair value adjustments to debt securities in issue for micro hedged risks.

Liquidity and funding risk (continued)

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

Wholesale funding – residual maturity								
30 September 2023	**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	**0.1**	**-**	**-**	**-**	**0.1**	**-**	**-**	**0.1**
Deposits	**10.1**	**1.4**	**1.6**	**0.2**	**13.3**	**0.1**	**-**	**13.4**
Certificates of deposit	**3.3**	**-**	**-**	**-**	**3.3**	**-**	**-**	**3.3**
Covered bonds	**-**	**-**	**1.6**	**0.5**	**2.1**	**0.9**	**11.5**	**14.5**
Medium term notes	**-**	**0.2**	**1.2**	**0.1**	**1.5**	**3.7**	**6.5**	**11.7**
Securitisations	**0.3**	**-**	**-**	**0.2**	**0.5**	**0.1**	**1.0**	**1.6**
TFSME	**0.1**	**-**	**-**	**-**	**0.1**	**13.1**	**-**	**13.2**
Other (note i)	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(1.4)**	**(1.6)**
Total	**13.9**	**1.6**	**4.4**	**1.0**	**20.9**	**17.7**	**17.6**	**56.2**
Of which secured	**0.5**	**-**	**1.6**	**0.7**	**2.8**	**14.1**	**11.5**	**28.4**
Of which unsecured	**13.4**	**1.6**	**2.8**	**0.3**	**18.1**	**3.6**	**6.1**	**27.8**
% of total	**24.7**	**2.9**	**7.8**	**1.8**	**37.2**	**31.5**	**31.3**	**100.0**

Wholesale funding – residual maturity								
4 April 2023	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	2.1	-	-	-	2.1	-	-	2.1
Deposits	7.6	1.6	1.4	0.3	10.9	0.1	-	11.0
Certificates of deposit	1.0	-	-	-	1.0	-	-	1.0
Covered bonds	0.8	0.1	-	1.6	2.5	1.1	10.8	14.4
Medium term notes	0.7	-	-	1.4	2.1	0.8	8.2	11.1
Securitisations	0.7	-	0.2	0.2	1.1	0.3	1.1	2.5
TFSME	-	-	-	-	-	11.9	5.3	17.2
Other (note i)	-	-	-	-	-	(0.1)	(1.3)	(1.4)
Total	12.9	1.7	1.6	3.5	19.7	14.1	24.1	57.9
Of which secured	3.6	0.1	0.2	1.8	5.7	13.3	16.4	35.4
Of which unsecured	9.3	1.6	1.4	1.7	14.0	0.8	7.7	22.5
% of total	22.3	2.9	2.8	6.0	34.0	24.4	41.6	100

Note:
i. Other consists of fair value adjustments to debt securities in issue for micro hedged risks.

At 30 September 2023, cash, government bonds and supranational bonds included in the liquid asset buffer represented 233% (4 April 2023: 229%) of wholesale funding maturing in less than one year, assuming no rollovers.

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 2023						4 April 2023					
	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	**28.6**	**0.1**	**-**	**-**	**-**	**28.7**	25.5	-	0.1	-	-	25.6
Government bonds (note ii)	**6.4**	**2.9**	**5.3**	**1.7**	**0.9**	**17.2**	5.9	3.2	5.3	1.3	1.1	16.8
Supranational bonds	**0.1**	**2.2**	**0.4**	**-**	**0.1**	**2.8**	0.1	2.2	0.5	-	-	2.8
Covered bonds	**1.2**	**1.8**	**0.1**	**-**	**-**	**3.1**	1.1	1.6	0.1	-	-	2.8
Residential mortgage backed securities (RMBS) (note iii)	**1.2**	**0.3**	**-**	**-**	**-**	**1.5**	1.3	0.2	-	-	-	1.5
Asset-backed securities and other securities	**0.2**	**-**	**-**	**-**	**-**	**0.2**	0.2	-	-	-	-	0.2
Total	**37.7**	**7.3**	**5.8**	**1.7**	**1.0**	**53.5**	34.1	7.2	6.0	1.3	1.1	49.7

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 £56.4 billion for the 12 months ended 30 September 2023 (4 April 2023: £53.3 billion). Further details can be found in the Group's interim Pillar 3 disclosure 2023-24 at **nationwide.co.uk**

Nationwide has met its most recent Environmental, Social and Governance (ESG) asset investment target of £1.5 billion and will maintain a minimum holding of £1.5 billion during 2023/24. Nationwide's internal definition of ESG assets remains restricted to bonds issued by multilateral development banks and green bonds issued by selected governments.

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 2023	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	28,676	-	-	-	-	-	-	-	28,676
Loans and advances to banks and similar institutions	2,163	-	-	-	-	-	-	1,005	3,168
Investment securities	50	258	449	346	279	1,243	10,634	12,969	26,228
Derivative financial instruments	23	25	307	57	34	1,503	3,635	2,465	8,049
Fair value adjustment for portfolio hedged risk	(12)	(203)	(402)	(187)	(273)	(1,462)	(2,820)	(432)	(5,791)
Loans and advances to customers	2,800	1,396	2,040	1,971	1,974	7,782	23,121	170,214	211,298
Total financial assets	33,700	1,476	2,394	2,187	2,014	9,066	34,570	186,221	271,628
Financial liabilities									
Shares	141,891	5,178	6,318	7,557	14,543	12,817	2,123	904	191,331
Deposits from banks and similar institutions	7,419	1	-	3	1	13,070	-	-	20,494
Of which repo	*132*	-	-	-	-	-	-	-	*132*
Of which TFSME	*168*	-	-	-	-	*13,070*	-	-	*13,238*
Other deposits	3,000	1,379	1,564	122	113	80	5	-	6,263
Fair value adjustment for portfolio hedged risk	4	6	6	6	21	12	1	-	56
Secured funding – ABS and covered bonds	290	21	1,648	587	41	973	6,763	4,761	15,084
Senior unsecured funding	3,336	204	1,211	72	17	3,483	5,026	1,023	14,372
Derivative financial instruments	31	1	13	49	34	180	491	861	1,660
Subordinated liabilities	17	38	19	-	3	-	3,490	2,713	6,280
Subscribed capital (note iii)	1	-	1	-	-	-	-	167	169
Total financial liabilities	155,989	6,828	10,780	8,396	14,773	30,615	17,899	10,429	255,709
Off-balance sheet commitments (note iv)	10,599	-	-	-	-	-	-	-	10,599
Net liquidity difference	(132,888)	(5,352)	(8,386)	(6,209)	(12,759)	(21,549)	16,671	175,792	5,320
Cumulative liquidity difference	(132,888)	(138,240)	(146,626)	(152,835)	(165,594)	(187,143)	(170,472)	5,320	-

Liquidity and funding risk (continued)

Residual maturity (note i) 4 April 2023	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	25,635	-	-	-	-	-	-	-	25,635
Loans and advances to banks and similar institutions	1,887	-	-	-	-	-	-	973	2,860
Investment securities	81	151	41	68	402	772	8,880	17,220	27,615
Derivative financial instruments	77	1	59	44	243	450	3,904	2,145	6,923
Fair value adjustment for portfolio hedged risk	(16)	(31)	(297)	(26)	(314)	(1,118)	(2,829)	(380)	(5,011)
Loans and advances to customers	2,784	1,371	2,127	2,053	2,076	7,957	23,489	168,925	210,782
Total financial assets	30,448	1,492	1,930	2,139	2,407	8,061	33,444	188,883	268,804
Financial liabilities									
Shares	149,642	2,153	6,955	8,292	6,473	10,116	2,581	931	187,143
Deposits from banks and similar institutions	7,882	13	1	-	-	11,890	5,270	-	25,056
Of which repo	*2,075*	-	-	-	-	-	-	-	*2,075*
Of which TFSME	-	*6*	-	-	-	*11,890*	*5,270*	-	*17,166*
Other deposits	1,806	1,559	1,374	224	103	116	9	-	5,191
Fair value adjustment for portfolio hedged risk	-	1	1	-	-	-	-	-	2
Secured funding – ABS and covered bonds	1,501	41	264	233	1,592	1,328	5,930	5,142	16,031
Senior unsecured funding	1,685	12	53	200	1,126	805	5,757	1,957	11,595
Derivative financial instruments	56	-	2	1	24	134	405	902	1,524
Subordinated liabilities	8	2	31	14	-	795	3,225	2,680	6,755
Subscribed capital (note iii)	1	-	1	-	-	-	-	171	173
Total financial liabilities	162,581	3,781	8,682	8,964	9,318	25,184	23,177	11,783	253,470
Off-balance sheet commitments (note iv)	10,333	-	-	-	-	-	-	-	10,333
Net liquidity difference	(142,466)	(2,289)	(6,752)	(6,825)	(6,911)	(17,123)	10,267	177,100	5,001
Cumulative liquidity difference	(142,466)	(144,755)	(151,507)	(158,332)	(165,243)	(182,366)	(172,099)	5,001	-

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 2023, a reduction in deposits from banks and similar institutions is primarily due to the repayment of TFSME drawings and a reduction in deposits via repo agreements.

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 owner-occupied 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 2023.

Certain unencumbered assets are readily available to secure funding or meet collateral requirements. These include owner-occupied mortgages, cash and securities held in the liquid asset buffer. Other unencumbered assets, such as non-owner-occupied 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 2023, Nationwide had £33,721 million (4 April 2023: £35,215 million) of externally encumbered assets with counterparties other than central banks. In addition, £64,497 million (4 April 2023: £68,535 million) of prepositioned and encumbered assets were held at central banks and £170,511 million (4 April 2023: £162,254 million) of assets were neither encumbered nor prepositioned but capable of being encumbered. The decrease in assets prepositioned and encumbered at central banks reflects the repayment of TFSME drawings. The increase in assets neither encumbered nor prepositioned but capable of being encumbered reflects the increase in total assets and release of assets encumbered against TFSME.

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**	**September 2023**	**Stable**
Moody's	**A1**	**P-1**	**A3**	**Baa1**	**August 2023**	**Stable**
Fitch	**A+**	**F1**	**A**	**BBB+**	**July 2023**	**Stable**

Nationwide's credit ratings were affirmed and outlook confirmed by Fitch in July 2023, Moody's in August 2023 and by S&P in September 2023.

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 2023	4 April 2023
Capital ratios	**%**	%
CET1 ratio	**27.4**	26.5
Tier 1 ratio	**29.9**	29.1
Total regulatory capital ratio	**33.3**	32.7
Leverage ratio	**6.4**	6.0
Capital requirements	**£m**	£m
Risk weighted assets (RWAs)	**52,311**	51,731
Leverage exposure	**245,767**	249,299

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio at 27.4% (4 April 2023: 26.5%), above Nationwide's CET1 capital requirement of 12.5%. The CET1 capital requirement includes a 7.0% minimum Pillar 1 and Pillar 2 requirement and the UK CRD V combined buffer requirements of 5.5% of RWAs.

The CET1 ratio increased to 27.4% (4 April 2023: 26.5%) as a result of an increase in CET1 capital of £0.6 billion, partially offset by an increase in RWAs of £0.6 billion. The CET1 capital resources increase was driven by £0.7 billion profit after tax, partially offset by £0.1 billion of capital distributions. RWAs increased, predominantly due to an increase in residential mortgage balances.

UK CRD V requires firms to calculate a leverage ratio, which is non-risk based, to supplement risk-based capital requirements. Nationwide's leverage ratio is 6.4% (4 April 2023: 6.0%), with Tier 1 capital increasing by £0.6 billion as a result of the CET1 capital movements referenced above. In addition, there was a decrease in leverage exposure of £3.5 billion, with an increase in residential mortgage balances more than offset by a reduction in treasury investments for the period.

The leverage ratio remains in excess of Nationwide's leverage capital requirement of 4.3%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 1.05%. The buffer requirements include a 0.7% UK countercyclical leverage ratio buffer, in force from July 2023, and a 0.35% additional leverage ratio buffer.

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 2023-24 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 2023	4 April 2023
	£m	£m
General reserve	**14,709**	14,184
Core capital deferred shares (CCDS) (note i)	**1,334**	1,334
Revaluation reserve	**37**	38
Fair value through other comprehensive income (FVOCI) reserve	**(10)**	(14)
Cash flow hedge and other hedging reserves	**125**	129
Regulatory adjustments and deductions:		
Cash flow hedge and other hedging reserves (note ii)	**(125)**	(129)
Direct holdings of CET1 instruments (note i)	**(177)**	(101)
Foreseeable distributions (note iii)	**(63)**	(67)
Prudent valuation adjustment (note iv)	**(86)**	(119)
Own credit and debit valuation adjustments (note v)	**(11)**	(27)
Intangible assets (note vi)	**(831)**	(839)
Goodwill (note vi)	**(12)**	(12)
Defined benefit pension fund asset (note vi)	**(519)**	(614)
Excess of regulatory expected losses over impairment provisions (note vii)	**(49)**	(45)
IFRS 9 transitional arrangements (note viii)	**-**	15
Total regulatory adjustments and deductions	**(1,873)**	(1,938)
CET1 capital	**14,322**	13,733
Other equity instruments (Additional Tier 1)	**1,336**	1,336
Tier 1 capital	**15,658**	15,069
Dated subordinated debt (note ix)	**1,737**	1,835
Excess of impairment provisions over regulatory expected losses (note vii)	**33**	14
IFRS 9 transitional arrangements (note viii)	**-**	(10)
Tier 2 capital	**1,770**	1,839
Total regulatory capital	**17,428**	16,908

Notes:

i. The CCDS amount does not include the deductions for the Group's repurchase exercises completed in February and June 2023. This is presented separately as a regulatory adjustment in line with UK Capital Requirements Regulation (CRR) article 42.

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 rules.

iv. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under UK CRD V 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 2025 due to the impact of the introduction of IFRS 9 and 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 2023-2024 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 condensed consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

Capital risk (continued)

As part of the Bank Recovery and Resolution Directive, 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). From 1 January 2023, Nationwide's 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 1.05% of leverage exposure. This equals a total loss-absorbing requirement of 7.55%. At 30 September 2023, total MREL resources, which include total regulatory capital and eligible liabilities, were in excess of this requirement at 9.0% (4 April 2023: 8.8%) of leverage exposure.

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 2023			4 April 2023		
	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	35,836	2,991	38,827	34,609	2,991	37,600
Retail unsecured lending	5,037	1,114	6,151	5,145	1,114	6,259
Commercial loans	1,793	60	1,853	1,883	60	1,943
Treasury	1,426	290	1,716	1,559	290	1,849
Counterparty credit risk (note iii)	754	-	754	989	-	989
Other (note iv)	1,634	1,376	3,010	1,715	1,376	3,091
Total	46,480	5,831	52,311	45,900	5,831	51,731

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 increased by £0.6 billion predominantly due to a £1.2 billion increase in retail mortgage RWAs. This was due to an increase in residential mortgage balances, in conjunction with a higher portfolio average loss given default (LGD) linked to property valuations. There was a £0.6 billion reduction in RWAs across other business lines.

In line with 4 April 2023, a model adjustment continues to be included within RWAs to ensure outcomes consistent with revised Internal Ratings Based (IRB) regulations in force from 1 January 2022. The impact of this is a £22.4 billion increase in RWAs, mainly relating to retail mortgages. In line with other industry participants, Nationwide continues to engage with the PRA regarding approval and implementation timings for Hybrid IRB mortgage models.

More detailed analysis of RWAs is included in the Group's interim Pillar 3 Disclosure 2023-24 at **nationwide.co.uk**

Capital risk (continued)

Stress testing

The Bank of England returned to the Annual Cyclical Scenario (ACS) Stress Test framework in September 2022. This followed two years of Covid-19 pandemic-related stress testing and its decision to postpone the test in March 2022. The 2022 ACS tested the resilience of the UK banking system to deep simultaneous recessions in the UK and global economies, large falls in asset prices and higher global interest rates, and a separate stress of misconduct costs.

Nationwide's low point CET1 ratio through the scenario was 20.3% before strategic management actions. This was in excess of that of peers, showing Nationwide is well capitalised and positioned to meet stressed economic conditions. The leverage ratio low point was 5.6%, remaining in excess of the 3.6% regulatory requirement at that time.

On 10 October 2023, the Bank of England confirmed it intends to run a desk-based stress test exercise in 2024, rather than an ACS, to support the Financial Policy Committee (FPC) and PRA monitoring and assessment of the resilience of the UK banking system to potential downside risks.

Regulatory developments

The Basel Committee published its 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, including the introduction of an RWA standardised output floor to restrict the use of internal models. On 30 November 2022, the Bank of England issued CP16/22 'Implementation of the Basel 3.1 standards'. The consultation paper, although materially similar to the original Basel reforms, includes interpretations and some divergences.

The reforms may lead to an increase in Nationwide's RWAs relative to the current position, mainly due to the application of the standardised RWA output floor. The expected implementation date is 1 July 2025, with a phased introduction of the standardised RWA output floor until fully implemented by 2030. Based on Nationwide's latest interpretation of the draft rules, there will not be a material day-one impact on Nationwide's CET1 ratio.

Nationwide's CET1 ratio would reduce to a low-to-mid 20% range compared to the 27.4% reported at 30 September 2023, if the 2030 fully implemented standardised RWA output floor was overlaid. However, final impacts are uncertain as they are subject to future balance sheet size and mix and the rules are not yet final.

Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any resulting change.

CCDS repurchase

In January 2023, the PRA granted Nationwide a one-year general prior permission (GPP) to repurchase CCDS up to the equivalent of 2% of CET1 capital resources. Nationwide has applied to renew the GPP, which subject to approval, will allow Nationwide to offer to repurchase up to 2% of CET1 capital resources (equating to £286 million at 30 September 2023) during 2024 at the Board's discretion. In the six months to 30 September 2023, £76 million of CCDS were repurchased under the current GPP.

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.

Developments in the UK economic environment have continued during this period with inflation rates (Consumer Price Index) remaining high, despite falling from 8.3% at April 2023 to 6.7% at the end of September 2023. In response to this continued heightened inflation rate, the Bank of England voted to raise the Bank rate on three occasions since April 2023 to a rate of 5.25% as at 30 September 2023, with the aim of returning inflation to the 2% target in the medium term. This has led to a change to the UK housing market, with the average house price decreasing by 1.0% over the first six months of the financial year.

Sterling has weakened against the dollar during the period; 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. Further information on market risk appetite, risk management, structural interest rate risk and reporting measures is included within the Risk report in the Annual Report and Accounts 2023.

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. The sensitivities 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.

The purpose of these sensitivities is to assess the 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 asset and liability maturities 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 Bank rate.

Potential adverse impact on annual pre-tax future earnings		
	30 September 2023 £m	4 April 2023 £m
+100 basis point shift	**(37)**	(30)
+25 basis point shift	**(8)**	(6)
-25 basis point shift	**(6)**	(5)
-100 basis point shift	**(33)**	(32)

The low levels of NII sensitivity reflect Nationwide's prudent management of interest rate risk. Minimal NII sensitivity continues to arise in the +25 basis point shift given that rate changes are assumed to be fully passed through in this scenario, with product margins held static. The negative impacts for the +25 and +100 basis point shifts assume that a higher proportion of customers will take up mortgage offers reserved at lower rates, resulting in the need for further hedging at higher rates.

Pension risk

Pension risk is defined as the risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit. Pension risk could negatively impact Nationwide's capital position and might result in increased cash funding obligations to the pension schemes.

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 within the Risk report in the Annual Report and Accounts 2023.

The Fund's net defined benefit pension surplus, which is shown within assets on the condensed consolidated balance sheet, has decreased from £946 million to £800 million since 4 April 2023. This was mainly driven by narrowing credit spreads during this period which resulted in liabilities reducing by less than the assets. Further information is included in note 14 to the condensed consolidated interim financial statements.

In the years ahead, the Fund's board of trustees (the Trustee) intends to further reduce 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, longevity hedging and implementing derivative, and other hedging strategies.

In May 2023, the Fund entered into a longevity swap transaction to manage the scheme's longevity risk in relation to £1.7 billion of pension liabilities, covering approximately 7,000 pensioners. This transaction will provide income to the Fund in the event that pensions are paid out for longer than expected, mitigating the financial impact and reducing the scheme's longevity risk exposure by approximately one third. The swap is included in the Fund's assets, with a zero fair value at 30 September 2023, with future changes to its fair value expected to broadly offset changes in the scheme's liabilities relating to updates to life expectancy for those pensioners covered.

On 9 November 2023, the Government issued a consultation on potential options for how it could intervene to cap ground rents, as part of its wider leasehold reforms. Developments on this will continue to be monitored to determine the potential impact on the £105 million of freehold properties held as part of the Fund's assets.

Operational and conduct risk

Operational and conduct risk is the risk resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. Nationwide's overall operational and conduct risk profile has remained broadly stable since 4 April 2023. Key focus areas during the period include IT and operational resilience, and ensuring good outcomes for customers, particularly in the context of the increased cost of living and implementation of the Consumer Duty. Further information on operational and conduct risk can be found within the Risk report in the Annual Report and Accounts 2023.

IT and operational resilience

Operational resilience is key to the Society's strategy and the regulatory environment. Focus remains on keeping services resilient and available through ongoing investment in IT. Infrastructure continues to be upgraded to ensure services are delivered using the latest technology. Work also continues to enhance the Society's critical payment infrastructure to ensure service disruption is minimised.

Nationwide continually assesses the resilience of its Important Business Services (IBS) by testing and exercising incident management and disaster recovery responses to known threats by running scenarios and incident simulations. This includes scenarios which could impact third parties, to help identify any areas for improvement. Where vulnerabilities are identified, remediation is prioritised to ensure any potential impacts to customers are minimised and regulatory expectations can be met. Nationwide is currently reviewing its disaster recovery capabilities in relation to a supplier of printing services, which includes an assessment of options available to ensure any impact on operations is minimised.

Operational and conduct risk (continued)

Cost of living and customers in financial difficulty

The increased cost of living continues to pose challenges for the management of conduct risk as more customers are expected to face financial difficulty and require appropriate support. Nationwide has taken a series of steps to support those customers who may be facing cost of living challenges, including a freephone support helpline, cost of living training for front line advisors, and financial health checks for customers. Our customers now have greater access to support through 24/7 chat and through our contact centres which are now open 7 days a week, in addition to the support available through our branch network.

Good customer outcomes and the Consumer Duty

Nationwide has implemented the requirements of the Financial Conduct Authority's Consumer Duty for new and existing products, which came into effect on 31 July 2023. The Consumer Duty requires a higher standard of consumer care beyond the previous set of principles and rules and requires firms to be more proactive in the delivery of fair outcomes. Nationwide remains committed to ensuring good customer outcomes, and work is ongoing to implement the Duty's requirements for closed products and services prior to the deadline of 31 July 2024.

Model risk

Model risk is the risk of adverse consequences from model errors or the inappropriate use of modelled outputs. 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 within the Risk report in the Annual Report and Accounts 2023.

In May 2023, the Prudential Regulation Authority published a new supervisory statement 'Model risk management principles for banks', setting out stronger governance expectations for model risk management. The supervisory statement comes into effect on 17 May 2024. Work is ongoing to align Nationwide's model risk framework and standards with the statement's principles in line with the implementation deadline.

Condensed consolidated interim financial statements

Contents

Condensed consolidated income statement

(Unaudited)

	Notes	**Half year to 30 September 2023 £m**	Half year to 30 September 2022 £m
Interest receivable and similar income:			
Calculated using the effective interest rate method	3	**6,676**	3,233
Other	3	**36**	18
Total interest receivable and similar income	3	**6,712**	3,251
Interest expense and similar charges	4	**(4,375)**	(1,196)
Net interest income		**2,337**	2,055
Fee and commission income		**214**	209
Fee and commission expense		**(148)**	(125)
Other operating income	5	**46**	51
Gains/(losses) from derivatives and hedge accounting	6	**71**	(11)
Total income		**2,520**	2,179
Administrative expenses	7	**(1,115)**	(1,083)
Impairment charge on loans and advances to customers	8	**(54)**	(108)
Provisions for liabilities and charges		**(18)**	(19)
Profit before member reward payments and tax		**1,333**	969
Member reward payments		**(344)**	-
Profit before tax		**989**	969
Taxation	9	**(267)**	(241)
Profit after tax		**722**	728

The notes on pages 69 to 89 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of comprehensive income

(Unaudited)

	Notes	**Half year to 30 September 2023 £m**	Half year to 30 September 2022 £m
Profit after tax		**722**	728
Other comprehensive (expense)/income			
Items that will not be reclassified to the income statement			
Retirement benefit obligations:			
Remeasurement of net retirement benefit asset	14	**(167)**	(2)
Taxation		**58**	-
		(109)	(2)
Revaluation reserve:			
Revaluation of property		**-**	2
Taxation		**-**	(1)
		-	1
Fair value through other comprehensive income reserve:			
Revaluation gains/(losses) on equity instruments at fair value through other comprehensive income		**5**	(15)
Taxation		**(2)**	4
		3	(11)
Items that may subsequently be reclassified to the income statement			
Cash flow hedge reserve:			
Hedging net gains arising during the period		**6**	136
Amount transferred to income statement		**(24)**	(21)
Taxation		**5**	(32)
		(13)	83
Other hedging reserve:			
Hedging net gains arising during the period		**22**	2
Amounts transferred to income statement		**(9)**	(14)
Taxation		**(4)**	3
		9	(9)
Fair value through other comprehensive income reserve:			
Revaluation gains/(losses) on debt instruments at fair value through other comprehensive income		**49**	(88)
Amount transferred to income statement		**(48)**	(62)
Taxation		**-**	42
		1	(108)
Other comprehensive expense		**(109)**	(46)
Total comprehensive income		**613**	682

The notes on pages 69 to 89 form part of these condensed consolidated interim financial statements.

Condensed consolidated balance sheet

(Unaudited)

	Notes	30 September 2023 £m	4 April 2023 £m
Assets			
Cash		**28,676**	25,635
Loans and advances to banks and similar institutions		**3,168**	2,860
Investment securities		**26,228**	27,615
Derivative financial instruments		**8,049**	6,923
Fair value adjustment for portfolio hedged risk		**(5,791)**	(5,011)
Loans and advances to customers	10	**211,298**	210,782
Intangible assets		**851**	862
Property, plant and equipment		**707**	744
Accrued income and prepaid expenses		**284**	302
Deferred tax		**111**	119
Current tax assets		**-**	15
Other assets		**94**	101
Retirement benefit asset	14	**800**	946
Total assets		**274,475**	271,893
Liabilities			
Shares		**191,331**	187,143
Deposits from banks and similar institutions		**20,494**	25,056
Other deposits		**6,263**	5,191
Fair value adjustment for portfolio hedged risk		**56**	2
Debt securities in issue		**29,456**	27,626
Derivative financial instruments		**1,660**	1,524
Other liabilities		**789**	695
Provisions for liabilities and charges		**47**	82
Accruals and deferred income		**235**	334
Subordinated liabilities		**6,280**	6,755
Subscribed capital		**169**	173
Deferred tax		**337**	406
Current tax liabilities		**4**	-
Total liabilities		**257,121**	254,987
Members' interests and equity			
Core capital deferred shares		**1,157**	1,233
Other equity instruments		**1,336**	1,336
General reserve		**14,709**	14,184
Revaluation reserve		**37**	38
Cash flow hedge reserve		**163**	176
Other hedging reserve		**(38)**	(47)
Fair value through other comprehensive income reserve		**(10)**	(14)
Total members' interests and equity		**17,354**	16,906
Total members' interests, equity and liabilities		**274,475**	271,893

The notes on pages 69 to 89 form part of these condensed consolidated interim financial statements.

Condensed consolidated statement of movements in members' interests and equity

(Unaudited)

For the period ended 30 September 2023	**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 2023	1,233	1,336	14,184	38	176	(47)	(14)	16,906
Profit for the period	**-**	**-**	**722**	**-**	**-**	**-**	**-**	**722**
Net remeasurements of retirement benefit obligations	**-**	**-**	**(109)**	**-**	**-**	**-**	**-**	**(109)**
Net movement in cash flow hedge reserve	**-**	**-**	**-**	**-**	**(13)**	**-**	**-**	**(13)**
Net movement in other hedging reserve	**-**	**-**	**-**	**-**	**-**	**9**	**-**	**9**
Net movement in FVOCI reserve	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Total comprehensive income	**-**	**-**	**613**	**-**	**(13)**	**9**	**4**	**613**
Reserve transfer	**-**	**-**	**1**	**(1)**	**-**	**-**	**-**	**-**
Repurchase of core capital deferred shares	**(76)**	**-**	**-**	**-**	**-**	**-**	**-**	**(76)**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(50)**	**-**	**-**	**-**	**-**	**(50)**
Distribution to the holders of Additional Tier 1 capital	**-**	**-**	**(39)**	**-**	**-**	**-**	**-**	**(39)**
At 30 September 2023	**1,157**	**1,336**	**14,709**	**37**	**163**	**(38)**	**(10)**	**17,354**

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

The notes on pages 69 to 89 form part of these condensed consolidated interim financial statements.

Condensed consolidated cash flow statement

(Unaudited)

	Notes	**Half year to 30 September 2023 £m**	Half year to 30 September 2022 £m
Cash flows generated from/(used in) operating activities			
Profit before tax		**989**	969
Adjustments for:			
Non-cash items included in profit before tax	16	**382**	438
Changes in operating assets and liabilities	16	**2,036**	3,590
Taxation		**(252)**	(230)
Net cash flows generated from operating activities		**3,155**	4,767
Cash flows generated from/(used in) investing activities			
Purchase of investment securities		**(4,097)**	(6,892)
Sale and maturity of investment securities		**5,037**	6,741
Purchase of property, plant and equipment		**(37)**	(23)
Sale of property, plant and equipment		**4**	12
Purchase of intangible assets		**(154)**	(136)
Net cash flows generated from/(used in) investing activities		**753**	(298)
Cash flows generated from/(used in) financing activities			
Distributions paid to the holders of core capital deferred shares		**(50)**	(54)
Distributions paid to the holders of Additional Tier 1 capital		**(39)**	(39)
Repurchase of core capital deferred shares		**(76)**	-
Issue of subordinated liabilities		**373**	-
Redemption of subordinated liabilities		**(764)**	(1,468)
Interest paid on subordinated liabilities		**(217)**	(92)
Interest paid on subscribed capital		**(5)**	(2)
Repayment of lease liabilities		**(16)**	(16)
Net cash flows used in financing activities		**(794)**	(1,671)
Effect of exchange rate changes on cash and cash equivalents		**(61)**	38
Net increase in cash and cash equivalents		**3,053**	2,836
Cash and cash equivalents at start of period		**25,955**	30,824
Cash and cash equivalents at end of period	16	**29,008**	33,660

The notes on pages 69 to 89 form part of these condensed consolidated interim financial statements.

Notes to the condensed 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 2023.

These condensed consolidated interim financial statements have been prepared as at 30 September 2023 and show the financial performance for the period from, and including, 5 April 2023 to this date. They were approved for issue on 16 November 2023. These condensed consolidated interim financial statements have been reviewed, not audited.

2. Basis of preparation

The condensed consolidated interim financial statements of the Group for the half year ended 30 September 2023 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 condensed consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 4 April 2023, 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 condensed consolidated interim financial statements is consistent with that used in the Annual Report and Accounts 2023. Copies of the Annual Report and Accounts 2023 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 condensed consolidated interim financial statements and those which the Group currently expects to adopt in the Annual Report and Accounts 2024 are consistent with those disclosed in the Annual Report and Accounts 2023, except for the addition of a new accounting policy in the period for member reward payments.

Member reward payments

Member reward payments represent discretionary payments to members of the Society which may be determined by the Board from time to time, depending on the financial strength of the Society. The Group recognises the expected cost of member reward payments on the date at which they are announced.

Judgements in applying accounting policies and critical accounting estimates

Judgements have to be made in applying the Group's accounting policies which affect the amounts recognised in these condensed consolidated interim financial statements. In addition, estimates and assumptions are made that could affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates.

Details of the significant judgements and estimates which are relevant to the Group, including any changes from those disclosed in the Annual Report and Accounts 2023, are disclosed in the relevant notes as follows:

- impairment charge and provisions on loans and advances to customers (note 8); and
- retirement benefit obligations (note 14).

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 condensed consolidated interim financial statements and that it is therefore appropriate to adopt the going concern basis.

Notes to the condensed consolidated interim financial statements (continued)

3. Interest receivable and similar income

	Half year to 30 September 2023 £m	Half year to 30 September 2022 £m
On financial assets measured at amortised cost:		
Residential mortgages	**2,955**	2,230
Other loans	**339**	278
Other liquid assets, including reserves at central banks	**997**	253
Investment securities	**1**	1
On investment securities measured at FVOCI	**237**	114
Net income on financial instruments hedging assets in a qualifying hedge accounting relationship	**2,147**	357
Total interest receivable and similar income calculated using the effective interest rate method	**6,676**	3,233
Interest on net defined benefit pension surplus	**22**	13
Other interest and similar income (note i)	**14**	5
Total	**6,712**	3,251

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 2023 £m	Half year to 30 September 2022 £m
On shares held by individuals	**2,253**	469
On subscribed capital	**5**	5
On deposits and other borrowings:		
Subordinated liabilities	**124**	129
Deposits from banks and similar institutions and other deposits	**935**	273
Debt securities in issue	**548**	294
Net expense on financial instruments hedging liabilities	**510**	26
Total	**4,375**	1,196

5. Other operating income

	Half year to 30 September 2023	Half year to 30 September 2022
	£m	£m
Losses on financial assets measured at FVTPL	**(3)**	(4)
Gains on disposal of FVOCI investment securities	**49**	62
Other expense	**-**	(7)
Total	**46**	51

There were no gains or losses on disposal of financial assets measured at amortised cost in the period ended 30 September 2023 (H1 2022/23: £nil).

6. Gains/losses from derivatives and hedge accounting

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. Hedge accounting is employed by the Group to minimise the accounting volatility associated with the change in fair value of derivative financial instruments. The Group only uses derivatives 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. In addition, 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 2023	Half year to 30 September 2022
	£m	£m
Gains from fair value hedge accounting	**43**	8
Gains from cash flow hedge accounting	**-**	2
Fair value gains/(losses) from other derivatives (note i)	**30**	(33)
Foreign exchange retranslation (note ii)	**(2)**	12
Total	**71**	(11)

Notes:

i. Gains or losses arise from derivatives used for economic hedging purposes which are not currently in a hedge accounting relationship, including derivatives economically hedging fixed rate mortgages not yet on the balance sheet, and valuation adjustments applied at a portfolio level which are not allocated to individual hedge accounting relationships.

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

7. Administrative expenses

	Half year to 30 September 2023 £m	Half year to 30 September 2022 £m
Employee costs:		
Wages, salaries and bonuses	**361**	299
Social security costs	**41**	41
Pension costs	**86**	76
	488	416
Other administrative expenses	**399**	413
	887	829
Depreciation, amortisation and impairment	**228**	254
Total	**1,115**	1,083

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

The following tables set out the 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 2023 £m**	Half year to 30 September 2022 £m
Owner-occupied mortgages	**14**	18
Buy to let and legacy residential mortgages	**13**	51
Consumer banking	**22**	41
Commercial lending	**5**	(2)
Total	**54**	108

Impairment provisions	**30 September 2023 £m**	4 April 2023 £m
Owner-occupied mortgages	**97**	84
Buy to let and legacy residential mortgages	**208**	196
Consumer banking	**450**	469
Commercial lending	**19**	16
Total	**774**	765

8. Impairment charge 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 take into account 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; and
- 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; and
- The additional judgements made in modelling expected credit losses (ECL) – these currently include PD uplifts relating to the current economic uncertainty and LGD uplifts for property valuation risk.

The Group has considered the potential impact of climate change on impairment provisions beyond the impact on economic assumptions and has concluded that an adjustment to modelled provisions is not currently appropriate. The Group will continue to monitor this risk.

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 2023. 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; or
- The residual lifetime PD is at least 75 basis points more than, and at least double, the original lifetime PD.

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 either if it has an arrears status of more than 90 days past due, is considered to be in default, or 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 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 2023 by £123 million (4 April 2023: £125 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. There have been no changes to scenario weightings during the period. 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 2023	**10**	**45**	**30**	**15**
4 April 2023	10	45	30	15

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

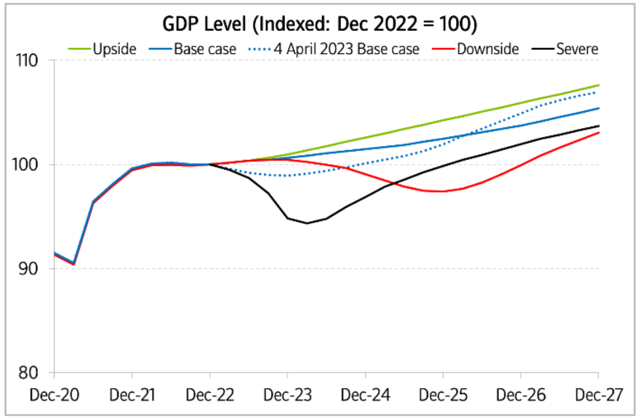
Critical accounting estimates and judgements (continued)

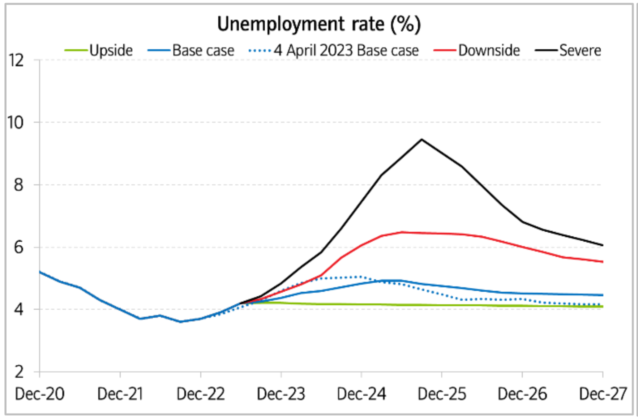
In the base case scenario at 30 September 2023, limited economic growth is forecast, with an increase in GDP of 0.7% expected in 2023. In this scenario unemployment is forecast to increase to 4.9% (4 April 2023: 5.0%). By contrast, the peak unemployment in the downside scenario of 6.5% (4 April 2023: 7.0%) reflects a significant UK economic downturn, whilst the severe downside scenario peak of 9.4% (4 April 2023: 10.0%) reflects a severe and longer-lasting economic downturn.

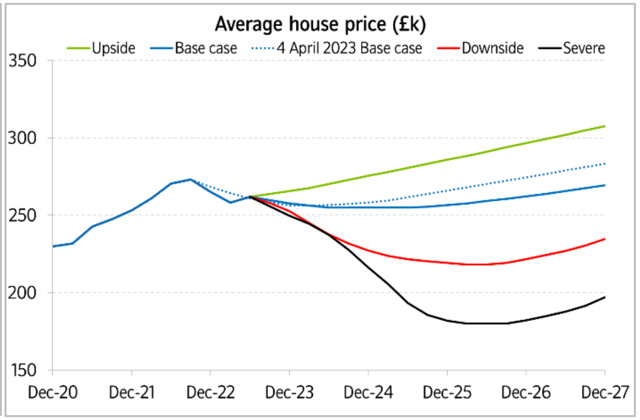
House prices are expected to fall in the base case scenario by 3.7% during 2023 and a further 1.0% during 2024. This is the result of ongoing affordability pressures due to increasing borrowing costs and inflation. The downside scenario assumes more significant falls until 2025, driven by a deterioration in economic conditions, including an increase in unemployment, whilst the severe downside scenario includes a fall in house prices of 33% from the start of 2023 to the low point in early 2026. As a result of continued economic uncertainty, the house price forecasts used within the provision calculations cover a wide range of outcomes. Given the impact of the severe downside scenario, the weighted average of all scenarios represents a fall in house prices of 10% from the September 2023 balance sheet date to early 2026.

The Bank rate is assumed to peak at 5.75% (4 April 2023: 4.25%) in the base case scenario and is expected to remain elevated during 2024. Inflation in this scenario is expected to reduce during 2024 to 1.8%. In the downside scenario the Bank rate is low from 2025 onwards, reflecting that there is a significant economic downturn, with a reduction in the Bank rate required to stimulate economic demand. The severe downside scenario includes a sustained high level of inflation, which requires an increase in Bank rate to 7%.

The graphs below show the historical and forecasted GDP level, unemployment rate and average house price for the Group's current economic scenarios, as well as the previous base case economic scenario.







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

Critical accounting estimates and judgements (continued)

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 2022-2027						5-year average (note i)	December 2022 to peak (note ii)	December 2022 to trough (note ii)
	Actual	Forecast							
	2022	2023	2024	2025	2026	2027			
30 September 2023	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	0.6	1.0	1.6	1.6	1.6	1.6	1.5	7.6	0.1
Base case scenario	0.6	0.7	0.8	1.0	1.2	1.6	1.1	5.4	0.1
Downside scenario	0.6	0.4	(1.4)	(1.7)	2.6	3.1	0.6	3.1	(2.6)
Severe downside scenario	0.6	(0.3)	(4.4)	0.2	3.2	2.6	0.7	3.7	(5.7)
Unemployment									
Upside scenario	3.7	4.2	4.2	4.1	4.1	4.1	4.1	4.2	3.9
Base case scenario	3.7	4.4	4.8	4.7	4.5	4.5	4.6	4.9	3.9
Downside scenario	3.7	4.6	6.1	6.4	6.0	5.5	5.6	6.5	3.9
Severe downside scenario	3.7	4.8	7.5	9.0	6.8	6.1	6.7	9.4	3.9
HPI growth									
Upside scenario	4.8	(0.7)	3.7	3.8	3.8	3.8	2.8	15.1	(2.7)
Base case scenario	4.8	(3.7)	(1.0)	0.6	2.2	2.7	0.1	1.0	(5.5)
Downside scenario	4.8	(5.6)	(10.1)	(3.5)	1.0	5.9	(2.6)	(1.2)	(19.1)
Severe downside scenario	4.8	(6.7)	(13.3)	(16.0)	0.2	8.2	(5.9)	(1.2)	(33.3)
Bank rate									
Upside scenario	3.5	5.3	4.0	4.0	4.0	4.0	4.3	5.3	4.0
Base case scenario	3.5	5.8	5.8	4.8	3.8	3.0	4.7	5.8	3.0
Downside scenario	3.5	6.0	4.0	1.5	1.0	1.0	3.0	6.5	1.0
Severe downside scenario	3.5	6.5	7.0	5.0	4.3	3.8	5.4	7.5	3.8
Consumer price inflation									
Upside scenario	10.5	3.5	1.7	2.0	2.0	2.0	2.9	10.1	1.4
Base case scenario	10.5	5.3	1.8	1.7	1.9	2.0	3.2	10.1	1.6
Downside scenario	10.5	5.0	1.5	0.3	1.2	1.7	2.5	10.1	0.3
Severe downside scenario	10.5	9.0	7.8	3.0	2.0	2.0	5.4	10.1	2.0

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

Critical accounting estimates and judgements (continued)

Economic variables	Rate/annual growth rate at December 2022-2027						5-year average (note i)	December 2022 to peak (note ii)	December 2022 to trough (note ii)
	Actual	Forecast							
	2022	2023	2024	2025	2026	2027			
4 April 2023	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	0.4	1.3	2.0	1.8	1.6	1.6	1.7	8.6	0.2
Base case scenario	0.4	(1.1)	1.2	1.8	2.9	2.0	1.4	7.0	(1.1)
Downside scenario	0.4	(2.9)	0.8	2.4	2.3	2.0	0.9	4.7	(3.2)
Severe downside scenario	0.4	(5.2)	2.2	3.0	2.1	1.7	0.7	3.7	(5.7)
Unemployment									
Upside scenario	3.7	3.9	4.0	4.0	4.0	4.0	3.9	4.0	3.7
Base case scenario	3.7	4.6	5.0	4.5	4.3	4.2	4.5	5.0	3.9
Downside scenario	3.7	5.8	6.5	5.7	5.3	5.1	5.6	7.0	3.9
Severe downside scenario	3.7	6.6	9.4	8.0	7.0	6.4	7.5	10.0	4.2
HPI growth									
Upside scenario	6.0	0.4	3.7	3.8	3.8	3.8	3.1	16.2	(1.0)
Base case scenario	6.0	(4.5)	0.7	3.0	3.2	3.2	1.1	5.6	(4.5)
Downside scenario	6.0	(8.6)	(11.4)	2.0	6.8	4.3	(1.7)	(1.7)	(19.5)
Severe downside scenario	6.0	(21.0)	(15.8)	2.2	7.7	5.1	(5.1)	(1.7)	(33.8)
Bank rate									
Upside scenario	3.5	4.0	3.0	3.0	3.0	3.0	3.3	4.3	3.0
Base case scenario	3.5	4.3	3.8	2.8	2.3	2.0	3.1	4.3	2.0
Downside scenario	3.5	5.0	0.5	0.1	0.1	0.5	1.5	5.0	0.1
Severe downside scenario	3.5	7.0	3.0	2.5	2.5	2.5	3.5	7.0	2.5
Consumer price inflation (CPI)									
Upside scenario	10.5	1.2	1.8	2.0	2.0	2.0	2.3	8.5	1.2
Base case scenario	10.5	4.0	2.0	2.0	2.0	2.0	2.9	9.0	2.0
Downside scenario	10.5	5.0	1.5	0.5	1.5	1.9	3.0	13.0	0.3
Severe downside scenario	10.5	14.0	3.5	2.0	2.0	2.0	5.3	16.0	2.0

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 2022 over the forecast period. The unemployment rate and CPI is shown as the highest/lowest rate over the forecast period from 31 December 2022.

8. Impairment charge 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						Proportion of balances in stage 2 under 100% weighted scenarios					
	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported provision	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported stage 2	Reported stage 3 (note i)
30 September 2023	**£m**	**£m**	**£m**	**£m**	**£m**	**%**	**%**	**%**	**%**	**%**	**%**
Residential mortgages	**194**	**211**	**260**	**795**	**305**	**16.1**	**15.5**	**14.5**	**36.5**	**19.5**	**0.6**
Consumer banking – credit cards	**192**	**190**	**206**	**284**	**209**	**35.6**	**35.5**	**36.8**	**37.4**	**36.2**	**5.3**
Consumer banking – personal loans and overdrafts	**230**	**232**	**243**	**272**	**241**	**38.9**	**40.8**	**45.0**	**49.7**	**43.4**	**7.0**
Commercial lending	**18**	**18**	**18**	**19**	**19**	**4.7**	**4.7**	**4.7**	**4.7**	**4.7**	**0.5**
Total	**634**	**651**	**727**	**1,370**	**774**						
4 April 2023	£m	£m	£m	£m	£m	%	%	%	%	%	%
Residential mortgages	160	179	236	789	280	14.6	13.9	13.5	35.7	17.6	0.5
Consumer banking – credit cards	213	212	228	264	225	37.8	37.8	39.0	40.2	38.8	5.8
Consumer banking – personal loans and overdrafts	227	233	247	281	244	34.6	37.5	41.4	46.5	40.0	6.7
Commercial lending	16	16	16	17	16	3.3	3.3	3.3	3.3	3.3	0.7
Total	616	640	727	1,351	765						

Note:
i. The staging of stage 3 assets is not sensitive to economic scenarios. The reported stage 3 proportion is the same as it would be in any of the 100% weighted scenarios.

The ECL for each scenario multiplied by the scenario probability will not reconcile to the reported provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the reported 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 2023 to some of the key assumptions used within the ECL calculation:

Sensitivity to key forward looking assumptions	
	Increase in provision
	£m
10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%)	**9**
5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%)	**32**

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

Critical accounting estimates and judgements (continued)

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

Significant adjustments made in modelling provisions	30 September 2023				4 April 2023			
	Residential Mortgages	Consumer Banking: Credit cards	Consumer Banking: Personal loans and overdrafts	Total	Residential Mortgages	Consumer Banking: Credit cards	Consumer Banking: Personal loans and overdrafts	Total
	£m	£m	£m	£m	£m	£m	£m	£m
PD uplift for economic uncertainty	87	50	33	170	77	64	36	177
LGD uplift for property valuation risks	22	-	-	22	22	-	-	22
Total	109	50	33	192	99	64	36	199
Of which:								
Stage 1	8	4	3	15	5	4	4	13
Stage 2	95	46	28	169	89	60	30	179
Stage 3	6	-	2	8	5	-	2	7

PD uplift for economic uncertainty

Household disposable income has reduced over the past two years due to a combination of high inflation and increasing interest rates, which has increased the risk that borrowers will not be able to meet their contractual repayments. In addition, model inputs relating to borrower credit quality are still benefitting from improvements to credit indicators which are judged to be temporary, such as reduced levels of arrears. This adjustment to modelled provisions reflects the cumulative effect of increasing the probability of default to reflect management's judgements for these risks.

Since 4 April 2023, interest rate expectations have increased, resulting in an increase in the adjustments made to modelled provisions for mortgage affordability. At the same time, a combination of wage growth and a reduction in the rate of inflation have resulted in a reduction to the adjustments made for the consumer banking portfolios.

At 30 September 2023 the overall PD uplift adjustment for economic uncertainty increased provisions by £170 million (4 April 2023: £177 million). The adjustment also results in approximately £17.3 billion (4 April 2023: £16.6 billion) of residential mortgages and £502 million (4 April 2023: £585 million) of consumer banking balances moving from stage 1 to stage 2.

LGD uplift for property valuation risks

An adjustment is made to reflect the property valuation risk associated with flats, originally driven by risks associated with properties subject to fire safety issues such as unsuitable cladding. We continue to hold an adjustment to provisions for this segment of the market whilst there is insufficient evidence of a recovery in the value of properties. This adjustment increased provisions by £22 million (4 April 2023: £22 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 2023	Half year to 30 September 2022
	£m	£m
Profit before tax:	989	969
Tax calculated at a tax rate of 25% (H1 2022/23: 19%)	247	184
		-
Tax credit on distribution to the holders of Additional Tier 1 capital	(10)	(6)
Banking surcharge	24	54
Expenses not deductible for tax purposes	5	3
Effect of deferred tax provided at different tax rates	1	6
		-
Tax charge	**267**	241

From 1 April 2023, the main rate of corporation tax increased to 25% and the banking surcharge decreased to 3%.

On 17 November 2022 the UK Government confirmed its intention to implement the G20-OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. This legislation, enacted on 11 July 2023, seeks to ensure that UK-headquartered multinational enterprises pay a minimum tax rate of 15% on UK and overseas profits arising after 31 December 2023. As the UK rate of corporation tax is 25%, and the Group's business is UK based, the impact of these rules on the Group is not expected to be material. The IAS 12 exemption to recognise and disclose information about deferred tax assets and liabilities related to Pillar 2 income taxes has been applied.

10. Loans and advances to customers

	30 September 2023						4 April 2023					
	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
Owner-occupied mortgages	158,399	(97)	-	158,302	41	158,343	157,511	(84)	-	157,427	47	157,474
Buy to let and legacy residential mortgages	43,835	(208)	-	43,627	-	43,627	44,104	(196)	-	43,908	-	43,908
Consumer banking	4,317	(450)	-	3,867	-	3,867	4,408	(469)	-	3,939	-	3,939
Commercial lending	5,101	(19)	377	5,459	2	5,461	4,994	(16)	430	5,408	53	5,461
Total	211,652	(774)	377	211,255	43	211,298	211,017	(765)	430	210,682	100	210,782

Note:

i. 'Other' represents a fair value adjustment for micro hedged risk for commercial loans that were previously hedged on an individual basis. The hedge relationships have been discontinued and the balances are being amortised over the remaining life of the loans.

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. Residential mortgages represent the majority of the Group's loans and advances to customers. Additional tables summarising the movements for the Group's residential mortgages and consumer banking are presented in the Credit risk sections of the Risk report.

The basis of preparation for this note has been updated. Previously, the tables were presented on a gross basis, with the reported values representing an aggregation of monthly movements over the period. To reflect more appropriately the movements in credit quality over the period, the note is now prepared on a net basis. The movements within the table now compare the position at 30 September to that at the start of the reporting period, rather than movements for all months therein. Further detail on the methodology is included within the footnotes to this table. The comparative table has been restated to also be presented on a net basis.

Reconciliation of net movements in 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 2023	172,058	50	37,457	410	1,502	305	211,017	765
Stage transfers:								
Transfers from stage 1 to stage 2	**(16,549)**	**(5)**	**16,549**	**5**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(79)**	**-**	**(368)**	**(25)**	**447**	**25**	**-**	**-**
Transfers from stage 2 to stage 1	**10,806**	**65**	**(10,806)**	**(65)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**29**	**-**	**127**	**6**	**(156)**	**(6)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage	**-**	**(55)**	**-**	**88**	**-**	**30**	**-**	**63**
Net movement arising from transfer of stage (note ii)	**(5,793)**	**5**	**5,502**	**9**	**291**	**49**	**-**	**63**
New assets originated or purchased (note iii)	**12,255**	**5**	**695**	**17**	**2**	**1**	**12,952**	**23**
Net impact of further lending and repayments (note iv)	**(3,476)**	**(8)**	**(503)**	**(16)**	**(9)**	**-**	**(3,988)**	**(24)**
Changes in risk parameters in relation to credit quality (note v)	**-**	**(8)**	**-**	**(5)**	**-**	**28**	**-**	**15**
Other items impacting income statement (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**
Redemptions (note vi)	**(6,423)**	**(2)**	**(1,712)**	**(10)**	**(128)**	**(7)**	**(8,263)**	**(19)**
Income statement charge for the period								**54**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(66)**	**(49)**	**(66)**	**(49)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
At 30 September 2023	**168,621**	**42**	**41,439**	**405**	**1,592**	**327**	**211,652**	**774**
Net carrying amount		**168,579**		**41,034**		**1,265**		**210,878**

10. Loans and advances to customers (continued)

Reconciliation of net movements in 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	(8,231)	(7)	8,231	7	-	-	-	-
Transfers to stage 3	(103)	(1)	(243)	(25)	346	26	-	-
Transfers from stage 2 to stage 1	5,714	59	(5,714)	(59)	-	-	-	-
Transfers from stage 3	144	1	161	7	(305)	(8)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(48)	-	80	-	29	-	61
Net movement arising from transfer of stage (note ii)	(2,476)	4	2,435	10	41	47	-	61
New assets originated or purchased (note iii)	19,221	12	941	26	2	1	20,164	39
Net impact of further lending and repayments (note iv)	(3,597)	(9)	(242)	(15)	(19)	(2)	(3,858)	(26)
Changes in risk parameters in relation to credit quality (note v)	-	22	-	32	-	8	-	62
Other items impacting income statement (including recoveries)	-	-	-	-	-	(4)	-	(4)
Redemptions (note vi)	(9,719)	(3)	(956)	(13)	(136)	(8)	(10,811)	(24)
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

Notes:

i. Gross balances of credit impaired loans include £118 million (4 April 2023: £123 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL on transition to IFRS 9 of £5 million (4 April 2023: £5 million).

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

iii. If a new asset is originated in the period, the values included are the closing gross balance and provision for the period. The stage in which the addition is shown reflects the stage of the account at the end of the period.

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

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

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

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 2023.

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

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

	30 September 2023				4 April 2023			
	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	**21,357**	**-**	**-**	**21,357**	22,968	-	-	22,968
Other debt investment securities	**3,081**	**1,714**	**2**	**4,797**	2,843	1,707	2	4,552
Investments in equity shares	**-**	**-**	**63**	**63**	-	3	52	55
Total investment securities (note i)	**24,438**	**1,714**	**65**	**26,217**	25,811	1,710	54	27,575
Interest rate swaps	**-**	**5,321**	**-**	**5,321**	-	4,617	-	4,617
Cross currency interest rate swaps	**-**	**2,090**	**-**	**2,090**	-	1,801	-	1,801
Foreign exchange swaps	**-**	**41**	**-**	**41**	-	13	-	13
Inflation swaps	**-**	**309**	**288**	**597**	-	265	157	422
Bond forwards and futures	**-**	**-**	**-**	**-**	-	70	-	70
Total derivative financial instruments	**-**	**7,761**	**288**	**8,049**	-	6,766	157	6,923
Loans and advances to customers	**-**	**-**	**43**	**43**	-	-	100	100
Total financial assets	**24,438**	**9,475**	**396**	**34,309**	25,811	8,476	311	34,598
Financial liabilities								
Interest rate swaps	**-**	**(786)**	**-**	**(786)**	-	(774)	-	(774)
Cross currency interest rate swaps	**-**	**(829)**	**-**	**(829)**	-	(663)	-	(663)
Foreign exchange swaps	**-**	**(2)**	**-**	**(2)**	-	(6)	-	(6)
Inflation swaps	**-**	**(39)**	**-**	**(39)**	-	(52)	(8)	(60)
Bond forwards and futures	**-**	**-**	**-**	**-**	-	(18)	-	(18)
Swaptions	**-**	**-**	**(4)**	**(4)**	-	-	(3)	(3)
Total derivative financial instruments	**-**	**(1,656)**	**(4)**	**(1,660)**	-	(1,513)	(11)	(1,524)
Total financial liabilities	**-**	**(1,656)**	**(4)**	**(1,660)**	-	(1,513)	(11)	(1,524)

Note:

i. Investment securities shown here exclude £11 million (4 April 2023: £40 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 move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation; movements are recognised at the date of the event or change in circumstances which caused the transfer. There were no transfers between the Level 1 and Level 2 portfolios during the current or prior 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;
- 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 2023**				Half year to 30 September 2022			
	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	54	157	(11)	100	63	260	(176)	116
Gains/(losses) recognised in the income statement, within:								
Net interest income	**-**	**27**	**-**	**3**	-	(172)	(15)	2
Gains/(losses) from derivatives and hedge accounting (note i)	**-**	**185**	**7**	**-**	-	718	72	-
Other operating income	**-**	**4**	**-**	**(3)**	1	-	(9)	(7)
Gains/(losses) recognised in other comprehensive income, within:								
Fair value through other comprehensive income reserve	**5**	**-**	**-**	**-**	(15)	-	-	-
Additions	**6**	**-**	**-**	**-**	1	-	-	-
Disposals	**-**	**(4)**	**-**	**-**	(1)	-	9	-
Settlements/repayments	**-**	**(81)**	**-**	**(57)**	-	(4)	5	(4)
Transfers out of Level 3 portfolio (note ii)	**-**	**-**	**-**	**-**	-	(483)	102	-
At 30 September	**65**	**288**	**(4)**	**43**	49	319	(12)	107
Unrealised gains/(losses) recognised in the income statement attributable to assets and liabilities held at the end of the period	**-**	**192**	**7**	**(3)**	-	424	6	(7)

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 half year to 30 September 2022, 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 significant unobservable market inputs. Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of 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 2023					4 April 2023				
		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	**65**	**4**	**(3)**	**15**	**(14)**	54	4	(3)	12	(11)
Net derivative financial instruments	**284**	**19**	**(19)**	**-**	**-**	146	32	(32)	-	-
Loans and advances to customers	**43**	**2**	**(2)**	**-**	**-**	100	3	(2)	-	-
Total	**392**	**25**	**(24)**	**15**	**(14)**	300	39	(37)	12	(11)

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.

Significant unobservable inputs

	30 September 2023							4 April 2023						
	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	**65**	**-**	**Internal assessment**	**Various (note ii)**	**-**	**-**	**£**	54	-	Internal assessment	Various (note ii)	-	-	£
Derivative financial instruments	**288**	**(4)**	**Discounted cash flows**	**Seasonality**	**0.01**	**1.00**	**%**	157	(11)	Discounted cash flows	Seasonality	0.02	0.82	%
Loans and advances to customers	**43**	**-**	**Discounted cash flows**	**Discount rate**	**5.58**	**7.58**	**%**	100	-	Discounted cash flows	Discount rate	3.31	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. Some of the significant unobservable inputs used in the fair value measurement of investment securities may be interdependent.

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 2023.

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 (note i)				
	30 September 2023		4 April 2023	
	Carrying value	**Fair value**	Carrying value	Fair value
	£m	**£m**	£m	£m
Financial assets				
Loans and advances to banks and similar institutions	**3,168**	**3,168**	2,860	2,860
Investment securities	**11**	**11**	40	40
Loans and advances to customers:				
Residential mortgages	**201,929**	**191,773**	201,335	192,504
Consumer banking	**3,867**	**3,752**	3,939	3,821
Commercial lending	**5,459**	**4,665**	5,408	4,863
Total	**214,434**	**203,369**	213,582	204,088
Financial liabilities				
Shares	**191,331**	**191,032**	187,143	186,917
Deposits from banks and similar institutions	**20,494**	**20,494**	25,056	25,056
Other deposits	**6,263**	**6,260**	5,191	5,190
Debt securities in issue	**29,456**	**29,686**	27,626	27,865
Subordinated liabilities	**6,280**	**6,314**	6,755	6,731
Subscribed capital	**169**	**162**	173	171
Total	**253,993**	**253,948**	251,944	251,930

Note:

i. The table above excludes cash and other financial assets and liabilities such as accruals, trade receivables, trade payables, and settlement balances which are short-term in nature and for which fair value approximates carrying value.

13. Contingent liabilities

During the ordinary course of business, the Group may be subject to complaints, disputes and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties. The Group may also be subject to legal and regulatory reviews, challenges, investigations and enforcement actions which may result in, among other things, actions being taken by governmental, tax and regulatory authorities, increased costs being incurred in relation to remediation of systems and controls, or fines. Any such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability and any ability to recover any losses in future periods.

In those instances where it is concluded that it is not yet probable that a quantifiable payment will be made, for example because the facts are unclear or further time is required to fully assess the merits of the case or to reasonably quantify the expected payment, no provision is made.

The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote or where, in the case of matters subject to active legal proceedings, such disclosure could be seriously prejudicial to the conduct of the claims.

The FCA has commenced an investigation of the Society's compliance with UK money laundering regulations and the FCA's rules and Principles for Businesses in an enquiry focused on aspects of the Society's anti-money laundering control framework. The Society is co-operating with the investigation, which remains at an early stage. The Group has not disclosed an estimate of the potential financial impact arising from this matter as it is not currently practicable to do so.

Apart from the matters disclosed, the Group does not expect the ultimate resolution of any current complaints, disputes, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position. However, in light of the uncertainties involved in such matters there can be no assurance that the outcome of a particular matter or matters may not ultimately be material to the Group's results.

14. 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 2023.

Defined benefit pension schemes

Retirement benefit obligations on the balance sheet		
	30 September 2023	4 April 2023
	£m	£m
Fair value of fund assets	**4,596**	5,281
Present value of funded obligations	**(3,792)**	(4,331)
Present value of unfunded obligations	**(4)**	(4)
Surplus	**800**	946

14. 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 2023 £m	Half year to 30 September 2022 £m
At 5 April	946	1,008
Interest on net defined benefit asset	**22**	13
Return on assets less than discount rate (note i)	**(727)**	(1,947)
Contributions by employer	**1**	-
Administrative expenses	**(2)**	(2)
Actuarial gains on defined benefit obligations (note i)	**560**	1,945
At 30 September	**800**	1,017

Note:
i. The net impact before tax on the surplus of return on assets and actuarial gains is a decrease of £167 million (H1 2022/23: £2 million) in other comprehensive income.

As the Fund is closed to future accrual, there have been no current service costs, past service costs or employer contributions made in respect of future benefit accrual during the current or prior period. Additionally, there have been no employer deficit contributions required into the Fund and there are no such contributions scheduled in the year ending 4 April 2024 or future years under the current Schedule of Contributions. Employer deficit contributions of £1 million (H1 2022/23: less than £1 million) were made in respect of the Group's defined benefit scheme in its Nationwide (Isle of Man) Limited subsidiary.

The £727 million (H1 2022/23: £1,947 million) loss relating to the return on assets less than the discount rate is primarily driven by decreases in the value of UK government bonds. The £560 million (H1 2022/23: £1,945 million) actuarial gain on defined benefit obligations is primarily driven by an increase in the discount rate.

In May 2023, the Fund entered into a longevity swap transaction to manage the scheme's longevity risk in relation to £1.7 billion of pension liabilities, covering approximately 7,000 pensioners and reducing the scheme's longevity risk exposure by approximately one third. The swap is included in the Fund's assets, with a zero fair value at 30 September 2023.

Critical accounting estimates and judgements

The key assumptions used to calculate the defined benefit obligation which represent significant sources of estimation uncertainty are the discount rate, inflation assumptions and mortality assumptions. The principal actuarial assumptions used are as follows:

Financial assumptions	30 September 2023 %	4 April 2023 %
Discount rate	**5.55**	4.65
Future pension increases (maximum 5%)	**3.10**	3.05
Retail price index (RPI) inflation	**3.25**	3.15
Consumer price index (CPI) inflation	**2.60**	2.50

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. Related party transactions

There were no related party transactions during the period ended 30 September 2023 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 2023 can be found in note 35 of the Annual Report and Accounts 2023.

16. Notes to the condensed consolidated cash flow statement

	Half year to 30 September 2023 £m	Half year to 30 September 2022 £m
Non-cash items included in profit before tax		
Net increase in impairment provisions	**9**	68
Net decrease in provisions for liabilities and charges	**(35)**	(14)
Amortisation and net (gains)/losses on investment securities	**45**	24
Write down of inventory	**2**	1
Depreciation, amortisation and impairment	**228**	254
Profit on sale of property, plant and equipment	**(1)**	(1)
Loss on the revaluation of property, plant and equipment	**-**	2
Net credit in respect of retirement benefit obligations	**(20)**	(11)
Interest on subordinated liabilities	**220**	102
Interest on subscribed capital	**5**	2
(Gains)/losses from derivatives and hedge accounting	**(71)**	11
Total	**382**	438
Changes in operating assets and liabilities		
Loans and advances to banks and similar institutions	**(289)**	(794)
Net derivative financial instruments	**49**	5,010
Loans and advances to customers	**(578)**	(5,435)
Other operating assets	**3**	(30)
Shares	**4,188**	3,210
Deposits from banks and similar institutions, customers and others	**(3,419)**	(2,238)
Debt securities in issue	**2,063**	4,135
Contributions to defined benefit pension scheme	**(1)**	-
Other operating liabilities	**20**	(268)
Total	**2,036**	3,590
Cash and cash equivalents		
Cash	**28,676**	32,890
Loans and advances to banks and similar institutions repayable in 3 months or less	**332**	770
Total	**29,008**	33,660

The Group is required to maintain balances with the Bank of England which, at 30 September 2023, amounted to £2,257 million (30 September 2022: £2,306 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. The Group also excludes from cash and cash equivalents cash collateral and other deposit balances relating to derivative activities totalling £578 million (30 September 2022: £953 million).

Responsibility statement

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

- The condensed 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 condensed 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 2023.

Signed on behalf of the Board by

Chris Rhodes
Chief Financial Officer

16 November 2023

Board of directors

Chairman
Kevin Parry

Executive directors
Debbie Crosbie
Chris Rhodes

Non-executive directors
Tracey Graham
Albert Hitchcock
Alan Keir
Debbie Klein
Sally Orton
Tamara Rajah
Gillian Riley
Phil Rivett

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 condensed consolidated interim financial statements in the Interim Results for the period ended 30 September 2023, which comprise the condensed consolidated balance sheet as at 30 September 2023 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of movements in members' interests and equity and condensed consolidated 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 condensed consolidated interim financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the Interim Results for the period ended 30 September 2023 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 condensed 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 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 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 condensed consolidated interim financial statements in the 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 paragraph 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
16 November 2023

Other information

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

The financial information for the year ended 4 April 2023 has been extracted from the Annual Report and Accounts 2023. The Annual Report and Accounts 2023 has been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The independent auditor's report on the Annual Report and Accounts 2023 was unqualified.

Nationwide has continued to adopt the UK Finance Code for Financial Reporting Disclosure ('the Code') in its Annual Report and Accounts 2023. 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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