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Strategic Report

The Strategic Report has been approved by the Board of directors and signed on its behalf by:
Joe Garner
20 May 2019

Patty, member since 2016 and **Ian**, member since 2003

FRIDAY
RM *R8JRC2HS* 06/12/2019 #149
COMPANIES HOUSE

What have we done to build society this year?

No.1
for customer satisfaction amongst our peer group[1]

UK's most trusted financial brand[2]

Banking Brand of the Year 2018

Awards 2018 Which?

15.9 million members
2018: 15.5 million

77,000
first-time buyers helped into their own homes
2018: 76,000

SOLD

More than **1 in 5**
current account switchers came to us[3]

£788 million
underlying profit[4]
2018: £977 million

£833 million
statutory profit
2018: £977 million

£705 million
member financial benefit[5]
2018: £560 million

4.9 %
UK leverage ratio
2018: 4.9%

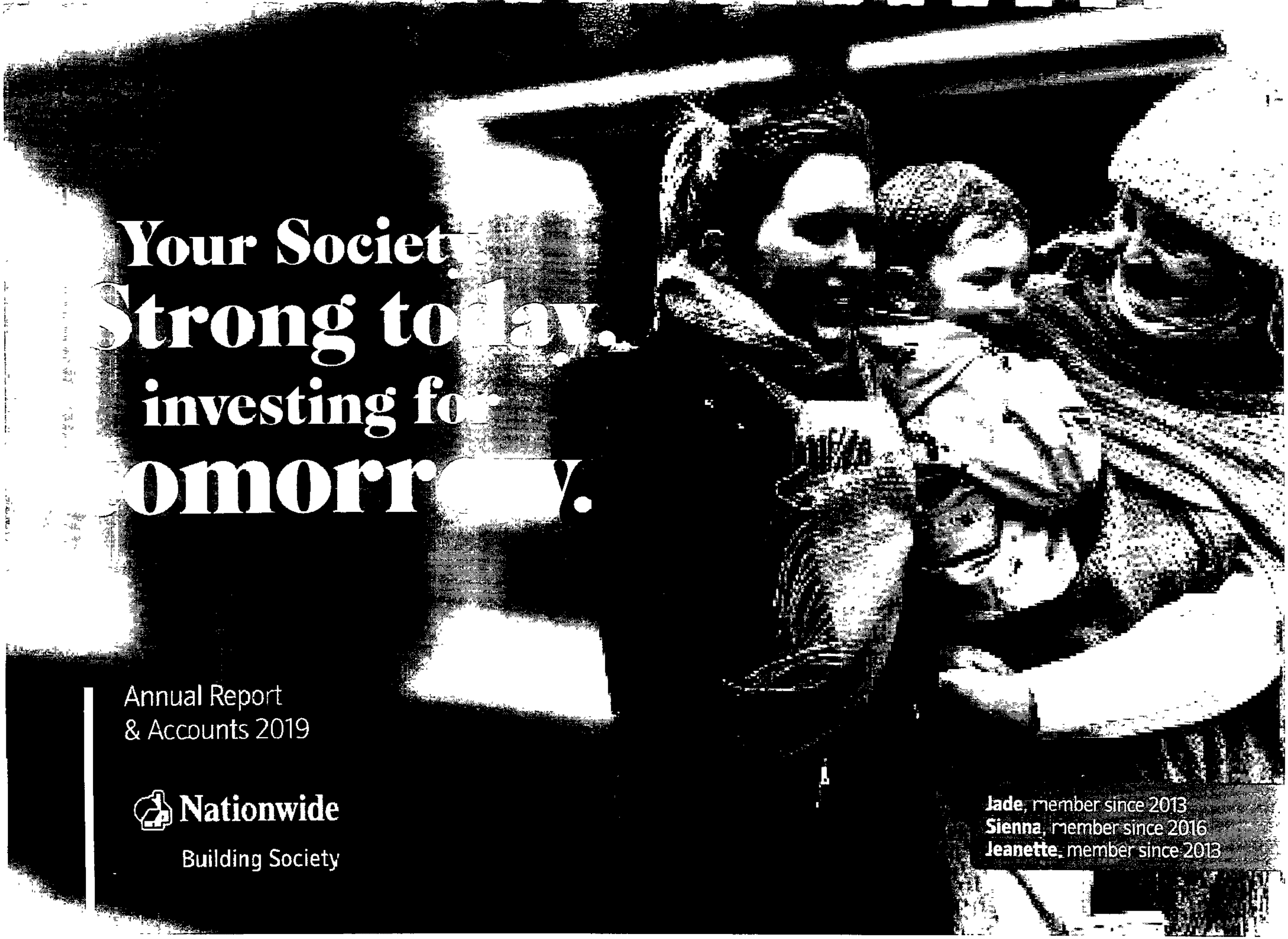
Our branch promise:
every town and city which has a branch today will still have one until at least May 2021

Nationwide for Business:
our commitment to launch an everyday current account for small businesses

XXXX XXXX

We're investing an extra
£1.3 billion
over five years in technology bringing our total strategic investment to £4.1 billion

[1] Lead at March 2019: 4.3%, March 2018: 4.6%. © Ipsos MORI 2019 Financial Research Survey (FRS), 12 months ending 31 March 2019 and 12 months ending 31 March 2018, c 60,000 adults surveyed per annum. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB)
[2] Lead at March 2019: 2.3%, March 2018: 1.4%. Source: Nationwide Brand and Advertising tracker – compiled by Independent Research Agency, based on all consumer responses. 12 months ending March 2019 and 12 months ending March 2018. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, TSB and Santander
[3] Pay.UK monthly CASS data: 12 months to March 2019: 21.5%, 12 months to March 2018: 18.9%
[4] 2018 comparative has been restated to reflect a change in the components of underlying profit. See page [29] for more information
[5] See page [30] for more information about member financial benefit



Your Society
Strong today, investing for tomorrow.

Annual Report
& Accounts 2019

Nationwide
Building Society

Jade, member since 2013
Sienna, member since 2016
Jeanette, member since 2013

Subsidiary No [illegible]

Welcome
to our Annual Report and Accounts 2019

We were founded 135 years ago with the belief that people are stronger together and that we should be run for the benefit of our members. Today we have over 15 million members.

The strength that comes from that membership means we can meet our members' needs today, as well as investing in the future.

Together, we're building society, nationwide.

Strategic Report

An overview of how we've done this year, our strategy and how we measure our performance.

Governance

How we are governed, what items are discussed in our Board and Committee meetings and how we pay our directors.

Business and Risk Report

Key risks that could affect our business performance and what we do to manage them.

Financial Statements

Our audited financial statements, related notes and our independent auditors' report.

Other Information

Including our annual business statement.

Who we are and what we do

Our building society was founded 135 years ago to help people save and buy homes of their own. We were driven by our social purpose, and our focus on building society is as important to us today as it was then.

We're here to help our members achieve their financial goals, whether that's:

- owning a home – this year, we helped one in five first-time buyers into a home of their own
- saving for the future – we look after £1 in every £10 saved in the UK, or
- looking after their day-to-day finances – almost 10% of all current accounts in the UK, and 8% of main current accounts are with us[1]

We do many of the things that banks do, but we're owned by, and run for, our members: people who have their mortgages, savings or current accounts with us. And we measure our success through the things that matter to them: service, value and financial strength.

We need to be profitable to make sure that our Society and our members' money are safe and secure, but – as a building society – we don't need to pursue profits to pay ever higher dividends or put shareholders' needs above those of our members

We consider whether every business decision is the right thing to do from the perspective of our current and future members, which means we make different decisions from our competitors:

- we choose to forgo some of our profit to give members better long-term rates and service
- we have a prudent approach to lending
- we're investing in our branches, as well as in improving members' digital experiences, and
- we've committed to give 1% of each year's pre-tax profits to charitable activities.

We're helping to build society, nationwide.

[1] Source: CACI [illegible]

Chairman's letter

Dear fellow member

As a member of our building society you are also an owner, so this report is for you – to find out how we've done in the last year, and how the Board and management are leading the Society on your behalf.

From my perspective as your Chairman, I see a Society that is thriving. We're attracting record numbers of members and doing more for them. Our service continues to be better than that of our peer group[1]. And the strength of our finances means we can invest for the future, whilst maintaining strong capital reserves - the amount we set aside to protect ourselves and our members against unexpected events.

This makes our Society a point of stability in an uncertain world, where people appear to be more divided along political, social and economic lines than in generations. These divisions have been brought into sharp focus by Brexit.

While we cannot remove political uncertainties, we've worked hard to make sure our Society will be able to support members whatever the future brings. Our strong capital position and cautious approach to risk mean we can continue to deliver for our members – as we have through many turbulent times in our 135-year history – supporting more members to buy homes, save for the future and manage their finances.

Today we are also facing transformational changes in technology and financial services. The way we communicate, organise ourselves, work and play has changed hugely in the last decade. New competitors are emerging, and consumers have more choice than ever before over when, where and how they manage their money, and who they trust with it. While our Society is highly successful today, if we are to remain relevant, valued and competitive, we need to reassess how we serve our members. This is why last year we undertook a review of the Society's plans and capabilities in light of these trends.

As a result, we have chosen to increase significantly the amount we are investing in technology, taking our planned five-year strategic investment to over £4 billion. The additional investment will allow us to develop new digital and branch technologies to serve the changing needs of our members, however they choose to interact with us, and to remain safe and secure.

This investment has reduced our profits in the short term, but they remain sufficiently strong. This was a deliberate decision we were able to make as a building society, where profitability is only one measure of success – alongside excellent service, long-term value, and financial strength.

The Society must be fit for the future and so must the Board. We evaluate the Board's capabilities and performance annually, and in 2018 this took the form of an externally facilitated review. This found the Board to be operating effectively, with a strong focus on the interests of our members. The review identified some areas for us to prioritise, including preserving our culture and mutual values in a time of great change, and spending more time on strategic issues, as well as overseeing operational performance.

My fellow board members contribute a huge amount of expertise to the Society. We review regularly the balance of the Board's skills, capabilities and independence. During the year we welcomed Albert Hitchcock, who brings a wealth of experience in technology transformation, to the Board. He has joined the Board's IT & Resilience and Risk committees and will strengthen the Board's oversight of the Society's technology strategy. After eight years Mitchel Lenson will retire from the Board at our AGM in July 2019 and I would like to thank Mitchel on behalf of the Board for his valuable contribution over that time. On the management side, Tony Prestedge became Deputy Chief Executive Officer and we welcomed Patrick Eltridge to the Executive Committee as Chief Operating Officer. Our Chief Financial Officer, Mark Rennison, has discussed with the Board his intention to retire and the Board is actively considering succession planning.

[1] © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019, c.60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

Chairman's letter *continued*

There is more information about these changes in the Corporate governance report on page [46].

Another important part of the Board's work is to ensure we pay our colleagues fairly. We don't reward anyone for maximising profits. We pay the vast majority of our people at or above the market average and consciously pay our most senior executives less than most of our competitors, balancing this decision with the need to attract the right people to lead the Society now, and in the future. I'd encourage you to read more about this in our Remuneration report on page [84].

Our Board benefits hugely from hearing the views of members and colleagues. We have a valuable dialogue with members through live Talkback events and through our online forum, Member Connect. Colleagues are given lots of opportunities to hear from and, as importantly, have open conversations with the CEO and his leadership team. For example, our 'People's Choice' leaders, who are chosen by their colleagues, represent the employee voice and share insights at Board meetings twice a year. We have also given non-executive director Mai Fyfield responsibility for ensuring the views of our employees are heard by the Board. Member and colleague views have a real impact on what we do: one example among many is that member feedback prompted us to develop a business banking proposition for small businesses.

I've talked a lot about change, so I'd like to close by assuring you that some things will remain the same. Our values and aspirations are constant, allowing us all to thrive together, through thick and thin. In these uncertain times, what our Society stands for has become more important, not less: bringing people together; delivering for members; doing the right thing; supporting our communities.

Our Society is financially strong and growing, and we look to the future with confidence. There is no other member-owned financial business in the UK that can match our scale and reach, and we feel a real sense of responsibility to provide a service-and values-driven alternative to the big banks.

We have the strength, experience and values, as well as the steadfast support of our members and colleagues, to continue to succeed. Thank you all for your support for our Society.

David Roberts
Chairman

Chief Executive's review

Dear fellow member

Nationwide is a building society, which means we are owned by you, our members. We have a deep and true member focus: we are here to serve your needs today and tomorrow.

We are committed to delivering great service, long-term value and a financially secure Society, run in the best interests of our members.

We have led our peer group on service for seven years running[1]. We are now also comparing our service against the best in the UK, not just in financial services, tracking our place in the all-sector UK Customer Satisfaction Index. We have achieved our long-term goal of breaking into the top five, being ranked joint fifth in 2019, up from joint seventh in 2018[2]. A key part of our service proposition is our branch network which is why we are investing in our branches and have pledged to keep a branch in every town or city we are in today until at least 2021. [➤BLS, p19]

Being member-owned means we can balance giving value to members, investing in our Society and maintaining our financial strength.

This year members benefited from £705 million (2018: £560 million) through better rates, fees and incentives compared with the market average. We kept our commitment to offer competitive mortgages and rewarded our loyal savers with special rates. Our leading service[1] and long-term value products have, I believe, helped us to another year of record membership as more people chose Nationwide for their mortgages, savings and current accounts. [➤ BTM, p15].

Financially, we are strong. Our key measure of financial strength, our leverage ratio, is above our target at 4.9% (2018: 4.9%). We continue to manage our risks very carefully in an uncertain environment.

Our Society is in good health today. However, we must also look to the future and ensure we are best able to serve the needs of our members in a world where technology is changing how people manage their money. That's why we announced in September an investment of an extra £1.3 billion in technology, taking our total strategic investment, including investment in our branches, to £4.1 billion over five years. Our investment will make us more efficient, innovative and responsive, and help us address our members' needs today and in the future. In addition, we have committed to launch a business current account for small firms.

As a building society, we were able to increase our investment in technology to meet the long-term needs of our members, even though this reduces profit in the short term. Our underlying profit is in line with expectations, reducing to £788 million (2018: £977 million) after recognising a charge from technology asset write-offs and additional technology investment made during the year. [➤ BTL, p17]

Our success is thanks to the hard work and commitment of our people, and I would like to thank them for their care and support for our members. I would also like to thank you, our loyal and growing membership, for your continued support for Nationwide.

Despite the economic uncertainties in the UK today, people still want to buy homes, save and manage their money, and we remain determined to support and serve our membership better every day.

Joe Garner
Chief Executive Officer

[1] © Ipsos MORI 2019, Financial Research Survey (FRS), lead held over seven-year period covering 12 months ending 31 March 2013 to 12 months ending 31 March 2019, c.60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB). Prior to April 2017, peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (Lloyds TSB prior to 2015), NatWest and Santander).

[2] Institute for Customer Service's UK Customer Satisfaction Index, January 2019 and January 2018.

Chief Executive's review *continued*

Q&A

Q Why are you launching a business current account?
Christopher, Andover, Hampshire

We estimate that up to a million members own a small business and our proposition will meet the straightforward needs of businesses, offering a fair value current account with market leading service. We have long believed we could bring a mutual alternative of scale to small firms, offering everyday great service and value. However, in the past, the costs of setting up were high and, at the time, we didn't believe this was the optimal use of members' money. Now technology is making it more economical to enter the market, and we have also secured £50 million from the Capability and Innovation Fund to boost competition in business banking, which will allow us to develop our business banking proposition faster.

Q How far can you guarantee that you won't close any branches?
Jill, Waltham Cross, Herts

While we can't guarantee to keep every branch open, we've pledged to keep a branch in every town or city that has one today until at least May 2021. We are also adapting them to meet members' changing needs. Members make it very clear that branches are an important part of what we offer – they value the ability to have conversations about important financial decisions with people they know, and that comes through very clearly at Member Talkbacks and through our online member forum, Member Connect. We will continue to listen to members and adapt to their changing needs.

Q Why aren't your savings rates higher?
Brian, Chelmsford, Essex

We've kept our average deposit rate more than 50% higher than the market average, meaning we've provided members with £515 million pounds in extra interest. We can do this because we are member-owned and focused on their interests. However, in an environment where mortgage rates are low there are limits on how much we can pay to our savings members. But we always try our hardest to give great value to our membership as a whole.

Q What are you spending over £4 billion of the Society's funds on?
Sharon, Market Harborough, Leics

Technology is having a profound effect on every aspect of our lives, including how we manage our money. A significant part of our £4.1 billion five-year strategic investment will allow us to develop IT systems and infrastructure to enable us to address members' changing needs. We are also investing in our branches. We strongly believe these are investments that will benefit our members over the long term, both in terms of being able to access new services and exciting digital technologies, and in maintaining a resilient and secure Society.

Q How are you protecting your members' money from fraud?
Mark, Kings Lynn, Norfolk

Members need to be able to rely on us to keep their money safe. We constantly strengthen our fraud defences and invest in new technology. We recognise the impact fraud has on customers and are committed to raising awareness of scams, as well as working closely with regulators, law enforcement agencies and other providers to combat customer fraud. Our colleagues in our branches play an important role in educating members on the risks of fraud and providing help when needed. We also place prominent warnings on our mobile app and internet bank to encourage members to 'Stop and Think' before making a new payment.

How we're building society, nationwide

Our purpose, building society, nationwide, describes our aspiration to make a positive contribution to society by delivering the benefits of mutuality to more members. both present and future. It is underpinned by five strategic cornerstones that describe what we'll do and how we'll do it

Building thriving membership

is about helping more members make more of their money

because...

the more members we help, whether it's to buy a home of their own, save for the future or manage their everyday finances, the bigger difference we can make.

To achieve this, we will...

develop our core and 'just for members' products and enter new markets where we can make a mutual difference for more people.

Which will mean...

more than 4 million members will be using at least two of our products by 2022.

Our priorities next year are to...

develop our range of later life mortgage products and an everyday current account for small businesses.

Built to last

because...

our members need to know that their money, and personal data, are safe and secure and that they can access their money wherever and whenever they need it.

To achieve this, we will...

use our members' money wisely, and strike a balance between retaining profits, rewarding members and investing in the future of our Society.

Which will mean...

our capital levels give confidence that we can withstand future challenges and we are profitable, resilient and sustainable for the long term.

Our priorities next year are to...

maintain strong capital levels and progress our technology investment, which will help us to grow, support and protect future generations of members (see page [13]).

Building legendary service

is about striving to serve our members better every day

because...
our members want the best service, with both the convenience of digital and the human touch of face-to-face service.

To achieve this, we will...
transform our service so that things work seamlessly for our members whether they are online, in a branch or speaking to us on the phone.

Which will mean...
we are recognised as one of the best for customer service, both amongst our peers and in the UK as a whole.

Our priorities next year are to...
continue our £350 million branch transformation and extend and improve our digital and mobile experiences.

Building PRIDE

is about creating the right culture to do the best for our members

because...
a positive and energising work environment, where our colleagues are trusted to make the right decisions at the right time, will in turn benefit our members.

To achieve this, we will...
create a distinctive experience for our colleagues that supports their performance and growth, and recognises their contribution.

Which will mean...
we are recognised as one of the best places to work in the UK.

Our priorities next year are to...
attract and develop the digital and data talent we need for the future, grow our leadership capability, and inspire and enable our colleagues to keep learning.

Building a national treasure

is about supporting communities and making a difference

because...
we have a social purpose, to build society, nationwide, and believe that everyone deserves a place fit to call home.

To achieve this, we will...
make sure our actions are consistent with our values, take a bolder stand on issues affecting society, and invest in local communities.

Which will mean...
consumers think of and trust us to meet their financial needs, and we make a difference on the things our members care about.

Our priorities next year are to...
continue our five-year social investment via our Community Boards, our Oakfield housing project and our Open Banking for Good challenge (see page [25]).

How we are doing on service, value and strength

Nationwide is not like most organisations and our key performance indicators (KPIs) are not like those used by most organisations.

We track our performance by focusing on the things that matter most to our members: great service, long-term value and financial strength. Our KPIs and targets for 2019/20 are the same as those for 2018/19. We don't seek to maximise profits, so profit is not a KPI. Instead, we've developed a Financial Performance Framework that helps us strike the right balance between retaining profits to maintain our financial strength, rewarding members now and investing so that we can continue to meet members' needs in the future. You can find out more about this on page [34].

Service

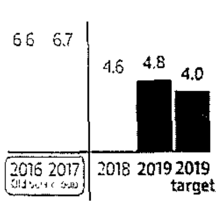
Giving our members the best service possible.

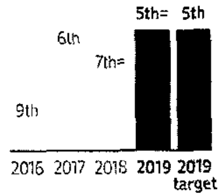
We aim to be the best for customer satisfaction in our peer group as measured by the FRS survey, with a lead of at least 4% against our closest competitor.

Our lead of 4.8% exceeded our 2019 target[1].

We also want to be among the top five organisations across all sectors for customer service, as measured by the Institute of Customer Service's UK Satisfaction Index.

We were joint fifth in January 2019, in line with our 2019 target[2].





Value

Helping more members achieve their financial goals, giving them better value products and contributing to local communities.

We're aiming to have 10 million engaged members by 2022, with 4 million committed members who use at least two of our products[3].

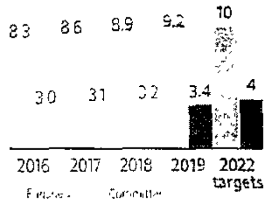
We are on track to achieve our 2022 targets.

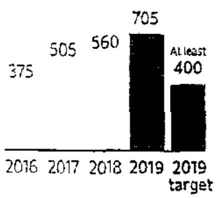
We aim to deliver at least £400 million of value each year to our members through better pricing than the market average[4].

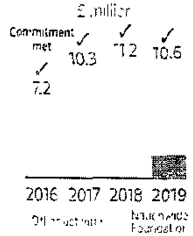
We shared £705 million of benefit with our members during 2018/19.

We've committed to give at least 1% of pre-tax profits to charitable activities[5].

We committed £10.6 million to charitable activities during 2018/19 meaning that we continued to meet our 1% commitment.

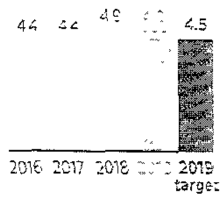






We aim to have a UK leverage ratio (a measure of our financial strength) of at least 4.5%.

Our UK leverage ratio of 4.9% exceeded our 2019 target.



1 Ipsos MORI 2019 Financial Research Survey (FRS), 12 months ending 31 March 2016 to 12 months ending 31 March 2019 ... adults interviewed per annum. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB). Prior to April 2017, peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest and Santander).
2 Institute of Customer Service's UK Customer Satisfaction Index as at January in each year.
3 Engaged members have their main personal current account with us, a mortgage with a balance greater than £5,000, or a savings account with a balance greater than £1,000. Committed members have two or more of our products, of which at least one is an engaged membership product. Prior to 2018/19 the savings threshold was £5,000; prior year comparatives have been restated using the new £1,000 threshold. Figures are as at 31 March each year.
4 For more information on member financial benefit see page [20].
5 The % is calculated based on average pre-tax profits over the past three years. Other activities includes, amongst other things, internal costs associated with managing our social investment, but excludes employee volunteering.

Our technology investment

We're investing an extra £1.3 billion in technology, bringing our total strategic investment over five years to £4.1 billion. This will help make sure we can keep meeting our members' needs in the future.

Why is this important?

Our Society is growing, and digital technologies are changing how our members manage their money. For example, last year they made almost 50% more contactless payments and over 40% more logins to our mobile app. Members also expect our services to be there whenever and wherever they need them.

The world around us is changing too. New digital challenger banks are emerging, and we, the wider industry and regulators are increasingly focused on making sure that firms' customer data is secure and used appropriately.

What will it achieve?

Our technology investment will make us more resilient and secure, increase our agility to deliver better digital capabilities and improve our use of data. It will streamline our technology and reduce costs, meaning we can use our members' money more efficiently.

Our technology investment underpins our strategy, delivering better member outcomes and helping us to build society, nationwide.

This new investment means we can...

Deliver new features and services to our members more quickly, especially on our digital platforms, by using new tools and techniques, and changing how we work.

Keep Nationwide, our members' money and their data safe and secure by using state of the art security solutions to make sure we're protected against potential threats.

Be there when our members need us by using technologies like cloud computing, and improving the way our systems are designed so that our services are always available.

Keep improving our products and services incorporating smarter data analysis into our services and back office processes.

Give our members faster service by using automation to support our colleagues with everyday tasks.

Use our members' money more efficiently by streamlining our technology, which will reduce how much it costs to deliver our services to our members.

Make sure our people have the right technology skills by developing the skills of our existing employees and hiring over 1,000 specialists to our new technology hubs in Swindon and London.

Helping more members make more of

"It made perfect sense to trust Nationwide with my home."

Jay's had her current account and savings with Nationwide for over 20 years. So, when she came to buy her first home, she turned to us again.

"I've been with Nationwide since I was little, and I've worked here for 15 years, so I didn't think twice about choosing them for my mortgage. I took a look at some other providers, but Nationwide was the one for me."

Jay also used our MyNationwide app to help her along the way.

"The app was great – I could ask questions any time and get the answers I needed. As a first-time buyer that was super helpful as I was a bit clueless at the start of it all! I also used the calculators to check how much I could borrow and which rates were best for me.

I've always trusted them to look after my money, so it made perfect sense to trust Nationwide with my home. And with the money I saved, I bought my beautiful boxer puppy, Olive."

Building thriving membership

We are owned by the 15.9 million members who we're helping into a home, to save for the future, or to manage their everyday finances.

Our membership grew to its highest level in 2018/19 and we are doing more with our members. Our committed membership – members who have two or more of our products – grew from 3.2 million to 3.4 million[1].

Members trusted Nationwide with more of their savings and this helped us grow deposits strongly by £6.0 billion (2018: £3.5 billion). We kept average deposit rates more than 50% above the market average, and launched attractive new rates on loyalty accounts. However, in an environment where mortgage rates are low, there are limits to how much we can pay to our savings members

Despite economic uncertainties, mortgage volumes remained strong and our competitive mortgage pricing meant we lent more to homebuyers and landlords on both a gross and net basis

We relaunched our home insurance proposition which was well received by members who took out 97,000 policies, almost 30% more than in 2018, and helped us become the top-placed insurance provider in the Institute of Customer Service's UK Customer Satisfaction Index[2].

More people are choosing Nationwide to manage their everyday finances; 794,000 new current accounts were opened this year (2018: 816,000) and our market share of main current accounts has reached 8% for the first time[3]. We hope to replicate this success in the small business market, with the launch of a business current account.

Membership matters

Customers become members when they choose Nationwide to help them buy a home, save, or manage their everyday banking, which means that mortgages, savings and current accounts are the foundation of our relationships with members. We grew our membership to a new high and members are doing more with us: the number of 'committed' members – those with two or more products – grew by 5% to 3.4 million.

Helping more members into homes

Overall, we lent more to help people into a home this year. Gross mortgage lending reached an all-time high of £36.4 billion (2018: £33.0 billion) and net lending was £8.6 billion (2018: £5.8 billion).

We're working hard to expand home loan choices for members whether they are just starting their home journey, are established home owners, or are empty nesters.

We've supported new home buyers since our founding days, and this remains at the heart of our purpose Last year, we helped a record 77,000 first time buyers, one in five of all first time buyers, into their own home.

For older members looking to access the value in their properties, our Later Life Lending range now offers three ways to borrow against their property in retirement, and we have a team of dedicated advisers to advise members on the option that suits them best.

We also improved our buy to let range and grew our lending to landlords through The Mortgage Works.

Saving for the future

Savers continue to be hard pressed by persistently low interest rates, and we continue to give them the best rates we can sustainably afford.

Overall, our members benefited from an extra £515 million in deposit interest compared with the market average (2018: £435 million). We launched a number of new products to reward loyalty and meet new needs. Our members responded enthusiastically, opening more than 470,000 new Single Access and Loyalty ISAs. Over 75,000 Future Saver accounts, a straightforward savings account for children, were also opened in the year.

Managing everyday finances

The number of people choosing Nationwide to look after their daily finances continues to grow. More people opened a new current account with Nationwide than any other brand[4], with 794,000 (2018: 816,000) accounts opened this year. This takes our market share of all current accounts to just below 10%, and our share of main accounts to 8%[5].

More than one in five of all switchers via the current account switching service chose Nationwide[6] and we're making it easier for people to open accounts with us. For example, you can now open our youth FlexOne account in 10 minutes and we will extend this swift account opening process to all our adult accounts from the summer of 2019.

Open for business

We are hoping to replicate our success in personal current accounts in the small business current account market. We will launch a straightforward business account, combining a market-leading digital platform with the personal service our colleagues give every day. We were successful in our bid for funding from the Banking Competition Remedy Limited's Capability and Innovation Fund and will receive £50 million funding, which will accelerate the launch of new products and services for small businesses

[1] Committed members have at least two of our products, at least one of which is their main personal current account, a mortgage with a balance greater than £5,000, or a savings account with a balance greater than £1,000
[2] Source Institute of Customer Service's UK Customer Satisfaction Index, January 2019
[3] Source CACI (February 2019) and internal calculations. 'Main accounts' refers to main standard and packaged account.
[4] Sources eBenchmarkers (April 2018 - March 2019), CACI (April 2018 - February 2019) and internal calculations
[5] Source CACI (February 2019) and internal calculations 'Main accounts' refers to main standard and packaged accounts
[6] Source Pay UK monthly CASS data 12 months to March 2019.

Keeping our Society and our members' money safe

Mr L visited our Woodley branch and asked to transfer £95,000 from his bonds to his current account.

When the branch team routinely asked why he wanted to move the money, he told them it was for personal reasons.

Our Branch Manager, Andreas (pictured), thought something didn't quite seem right. He took Mr L into a private room and asked him if everything was ok.

"Mr L's one of our regulars and we know him well here in the branch, so I could tell that he wasn't his normal self. I asked if anyone had told him to take out the money. After a bit of hesitation, he told me someone claiming to be the police and trading standards had told him he needed to pay them £95,000 to repair the foundations of his house."

The rogue traders had told Mr L if he didn't pay, they'd name and shame him in the newspaper. They'd also warned him not to tell anyone what he was doing.

"I'm so glad Andreas intervened and was persistent in trying to help me, as the alternative would have been too scary. I would have had nothing.

Nationwide is, and always has been, looking after us. I'm so grateful to Andreas and the team for being so vigilant."

"Nationwide is, and always has been, looking after us."

Built to last

We are committed to running a financially secure Society, providing a safe home for our members' money. As a building society, we are able to make decisions in the long-term interests of our members.

Our Financial Performance Framework helps the Society achieve the right balance between giving value to members, investing in our business and maintaining our financial strength.

Our capital – the funds that are a cushion against unexpected economic events – is above our own targets and regulatory requirements. At 4.9% our UK leverage ratio, a key measure of our financial strength, is also above our target. Following the announcement in April 2019 of our intention to redeem our Additional Tier 1 capital instrument in full, our UK leverage ratio will reduce but will remain above regulatory requirements.

We are managing our risks conservatively, although slowing house price growth resulted in a slightly higher loan to value ratio on total lending of 58% (2018: 56%).

We chose to provide extra value to members by competing in a crowded savings and mortgage market. Our competitive rates, fees and incentives meant members benefited from £705 million in member financial benefit, well above our aim of at least £400 million.

We also decided to invest an extra £1.3 billion in technology over five years so that we can meet members' changing needs.

Underlying profit was down to £788 million, largely due to the impact of asset write-offs and our additional investment in technology, in line with expectations. Statutory profit was £833 million (2018: £977 million). As a building society, we were able to make these choices knowing it would impact profitability in the short term. We remain committed to our Financial Performance Framework, and our current performance is consistent with this framework which enables us to make conscious decisions to increase our investment at a time when members' needs are changing rapidly and technology advancement is offering new opportunities.

We have continued to manage costs and have delivered over £100 million in sustainable cost savings in each of the last two years.

Financial and operational resilience

We continue to manage our capital ratios in the best interests of our members, based on economic and market conditions. Our common equity tier 1 capital ratio reached 32.4% (2018: 30.5%) and our UK leverage ratio was above our target at 4.9% (2018: 4.9%). Both are well above regulatory requirements. Our UK leverage ratio will reduce following redemption of our Additional Tier 1 capital in June 2019, but will remain above regulatory requirements.

One of our core values is that we spend our members' money carefully. We have been working hard to become more efficient and to achieve sustainable cost savings. Although our business has grown, we've kept costs broadly flat – excluding the impact of technology asset write-offs and expenditure directly related to our additional technology investment. We've also delivered over £100 million in sustainable savings in each of the past two years and are on track to achieve our increased target of £500 million in sustainable cost savings by 2023.

Operational resilience is also a priority for management and the Board. We are particularly focused on cyber and fraud defences, which we've enhanced to protect our members' money. For example, we've delivered new measures to detect and prevent attacks, including improved authentication on more risky online shopping transactions.

Managing our profits in our members' interests

As a building society, our decisions are driven by what is in the long-term interests of our members rather than the need to make ever-higher profits. We've made two such decisions in the last year, consciously choosing to prioritise our members' interests over higher profits.

Firstly, we chose to keep average deposit rates at a level that was 50% higher than the market average. At the same time, we've offered competitive rates for new and existing mortgage members. As expected, this has continued to put pressure on our margin – the difference between the rates we pay on deposits and those we charge on mortgages – and had an impact on profits. We expect further pressure on margin in 2019/20 and will continue to manage our rates in the long-term interest of our members and the Society.

The second decision was to invest in the future of our Society. We have announced plans to invest an additional £1.3 billion in technology over five years, taking our total strategic investment to £4.1 billion. Our investment will mean we can develop a new digital platform, improve our service experience across all channels and deliver greater cost efficiencies. There's more about our investment on page [13].

The effects of these decisions can be seen in this year's underlying profits, which were lower at £788 million (2018: £977 million). Statutory profits were £833 million (2018: £977 million). The major factor in the reduction in profits was a charge related to technology asset write-offs and our additional technology investment. Further information on our Financial Performance Framework is included on page [34].

Striving to serve our members better every day

Emma's sons told her they wanted to look after their own money. That's why she took Carl and Jacob into their local branch to open their very own FlexOne current accounts.

"I chose Nationwide because I wanted an organisation that I can trust to look after my sons' interests. The team were so welcoming and I knew instantly that I'd made the right choice. To me, a building society feels safer and more caring than the big banks, and that's what I want for my boys."

Carl and Jacob had a fab time when they went into branch and met Luke, one of our Personal Banking Managers.

"We loved opening our accounts. Luke was really nice and he told us all about saving our money. He even told us we own Nationwide and that we're his boss!"

Emma's really pleased that she and her family have a branch nearby.

"It means we feel like we have a real relationship with Nationwide. It makes us trust them and know that we're part of something. And thank you so much to Luke for being so amazing. You made my boys feel like they matter. That they're not just a number."

"You made my boys feel like they matter. That they're not just a number."

Building legendary service

We all know what good service feels like. When we're in a hurry, it's quick and efficient. When we're facing a dilemma, it's unhurried and personal. Good service is not 'one-size-fits-all' but combines the best of human and digital interaction to serve our members well however they choose to interact with us.

We start from a strong base. For seven years running, we've been no 1 for service among our peer group[1]. We've moved up to joint fifth in the all-industry UK Customer Satisfaction Index, achieving our target of being in the top five[2]. Our current account satisfaction is also ahead of our peer group, with a lead of over 10%[3], and we were named Which? Banking Brand of the Year for the second year running.

Service expectations continue to grow, and we continue to work hard to improve our member experience. We are investing £350 million in transforming our branch network, while pledging that every town and city with a Nationwide branch will continue to have one until at least May 2021. Simultaneously, with mobile users up by 33% last year, we are investing in our digital services, bringing new levels of speed, convenience and security to our members.

Branches: here today, here tomorrow

Branches are a vital part of our local communities and valued by our members. We believe that members still want to talk to someone face to face about big financial decisions, which is why we continue to invest in our branches. We've recently pledged to keep a branch in every town or city where we have one today for at least two years.

However, it's also true that how our members use our branches is changing. That's why we are evolving the role of branches and transforming our network with a £350 million investment over five years. We're introducing new branch styles. Last year, we converted over 100 branches to an open plan format combining the latest technology, such as high-definition video and iPads, with comfortable seating for coffee and conversation, and private spaces for personal consultations. We also merged a handful of branches which were near each other and refurbished the remaining branches to offer better services and technology.

Delivering digitally

Alongside our branches, members want to make the most of the speed and convenience of digital devices. We now have over 2.7 million members who are active mobile users – almost a third more than last year – and they are logging in, on average, nearly every day.

Net satisfaction with our app is over 90%[4] but we are not complacent and we continue to invest in our digital services to give members more control over their money. New mobile functionality means members can now set up new payees, report lost or stolen cards, set up standing orders, and change their passcode on the move.

We've redesigned some of our processes to make it faster and easier to take out a mortgage or open a current account online, and we will be extending these improvements to more of our services over the next few months.

We're also exploring how we can use Open Banking rules that apply across our industry to put members in control of their money. Since last year, members have been able to share their financial data with Open Banking approved third-parties. We have also trialled an aggregation service in our mobile banking app that lets members see their accounts with multiple providers in one place. We will roll this out to members this year.

We will be able to go further and faster in developing our digital services over the next few years, thanks to our technology investment, and this will help the Society meet the changing lifestyles of our members, providing them with excellent service however they choose to deal with us.

1 © Ipsos MORI 2019, Financial Research Survey (FRS) lead held over seven year period covering 12 months ending 31 March [illegible] 12 months ending 31 March 2019 c 60,000 adults surveyed per annum, proportion of extremely/very [illegible] customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander [illegible]) defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (Lloyds TSB prior to 2015), NatWest and Santander)
2 Institute for Customer Service's UK Customer Satisfaction Index, January 2019
3 © Ipsos MORI 2019 Financial Research Survey (FRS) 12 months ending 31 March 2019, c 60,000 adults surveyed per annum, proportion of extremely/very satisfied main current account customers minus proportion of extremely/very/fairly dissatisfied [illegible] Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander [illegible] TSB)
4 Source: Member surveys commissioned by Nationwide, and collated by KPMG Nunwood, 12 months to March 2019. KPMG Nunwood has [illegible] the information provided and accepts no liability for any inaccuracies or omissions.

Creating the right culture to do the best for our members

We have so many people working here at Nationwide.
We're all from different backgrounds with different perspectives.

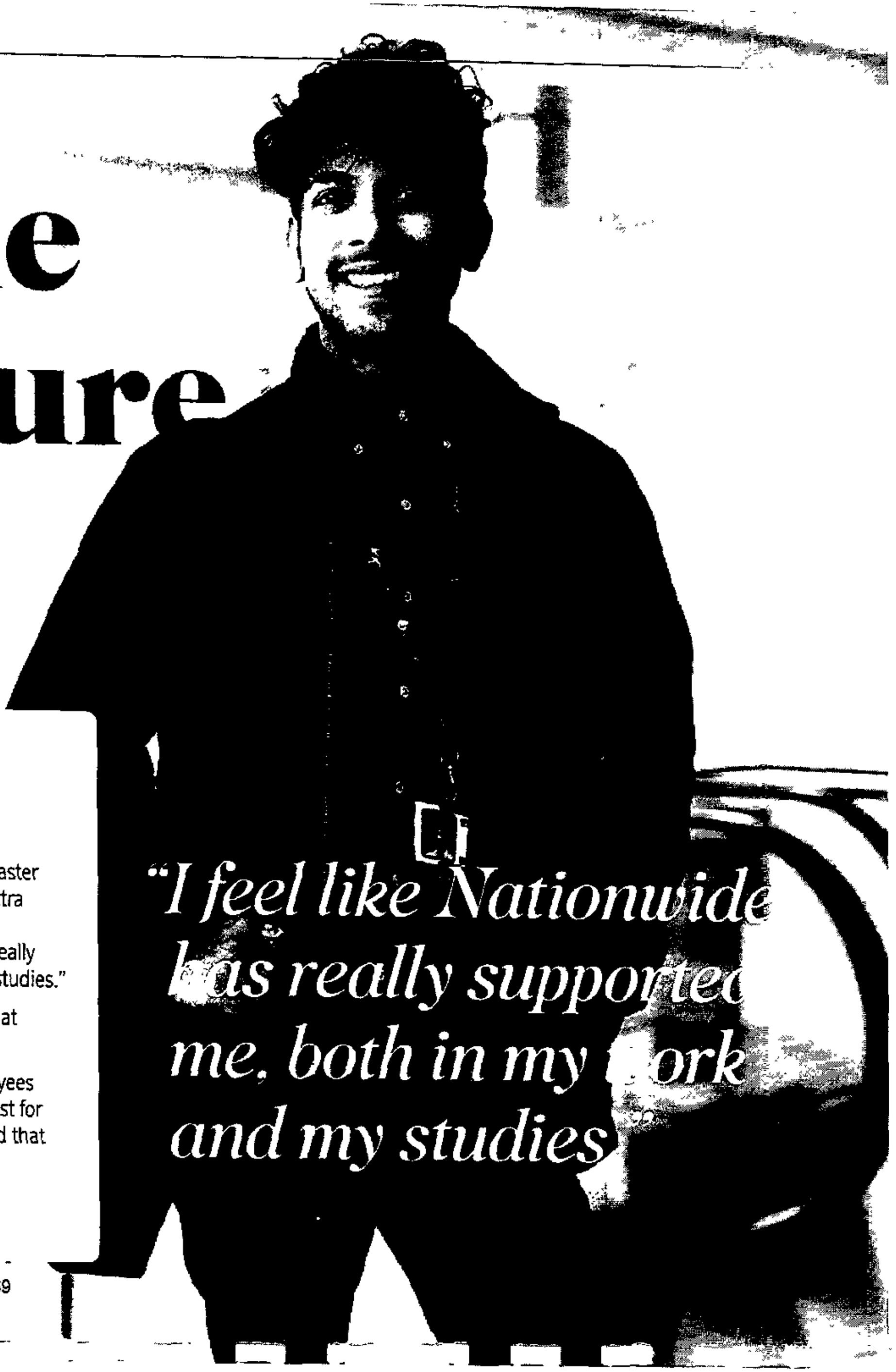
And we know that those differences make us stronger and help us understand our members, who are also hugely diverse. Some of our people have been with us for over 40 years, some are brand new. Some have come from university, others have joined us from other organisations. And recently, we've had more and more apprentices coming to work with us.

Elrich is 21. He went to school in Swindon and as the time came to leave, he decided to look into an apprenticeship. That's when he thought of us. He joined the Society's apprenticeship scheme back in 2016.

"Since then, I've been promoted to IT Disaster Recovery Analyst and have been given extra time to study for my degree in Business Management. I feel like Nationwide has really supported me, both in my work and my studies."

Kate, our Emerging Talent Manager here at Nationwide, looks after our apprentices.

"We believe that encouraging our employees to build their careers in the way that's best for them means they're happier at work. And that means they'll be doing their best for our members, too."



Building PRIDE

PRIDE is a statement of the culture, values and principles we strive to live by. It's about how we treat our members and each other.

We've worked hard to create a working environment where people are valued, teamwork is celebrated, and everyone can grow and develop their careers.

We have a strong culture and committed colleagues. This is evident from this year's employee engagement score, which at 79% (March 2018: 78%)[1], continues to be above the high-performing benchmark[1] of 77%.

However, our rapidly changing world demands new skills and behaviours from our people: we need to be more innovative and able to work at pace. To help us achieve this, we developed a new people strategy last year. Our goal is to develop leaders at every level of our business to inspire and empower our people, and to help them learn new skills and capabilities. In the coming year, we will also be actively recruiting up to 1,000 technology specialists to support our technology investment. We have an approach to reward and recognition that recognises every colleague's contribution based on the Society's overall performance.

Culture and values underpin our success

Building society, nationwide is our purpose, and achieving that requires all our people to understand our strategy and live and breathe our values every day.

We know from independent surveys that our ethic of care for members and each other is strong. The Banking Standards Board culture survey[2] showed that 92% of our people believe we put our customers at the centre of business decisions, a clear indication that our mutual values are shared throughout the Society.

However, we face new challenges in a world being redefined by technology, and we need to evolve our culture to meet these. We want to move from prescriptive approaches to clear principles and values that genuinely empower our people and we are focusing on this in our annual employee awards, by encouraging people to compete in new categories such as 'have a go', 'growth', 'fresh perspectives' and 'mutual good'.

Empowering our People

We've launched a number of initiatives to support a move towards individuals feeling more accountable and empowered, notably the Arthur Webb challenge cup. In its second year we have seen over 700 colleagues join cross-community teams to work towards producing simple, innovative solutions to improve our employee and member experience. We are now focusing on challenging structural barriers to change, such as policies, governance and procedures, and encouraging colleagues to be more experimental.

Developing leaders at every level

Over 1,000 leaders have now taken part in our flagship Leading for Mutual Good programmes that we launched last year to develop senior leaders. In addition, we've introduced Developing My Leadership learning modules that put our managers in control of their skills development. So far, the modules have a 98.6% recommendation rate from the 1,600 colleagues who've taken part.

We are also identifying ways in which we can provide roles and experiences that will stretch and broaden our leaders, so we can meet future demands.

Creating a learning organisation

We are expanding our online learning resources so that every colleague can develop their skills and knowledge. We've launched a new development framework that translates our PRIDE values into demonstrable everyday skills and behaviours. Over 2,200 colleagues have used this to take part in learning relevant to them since April 2018. We'll continue to develop the platform to support lifelong learning and development of our people.

Investing in the skills to deliver a fully digital organisation

Our technology investment to upgrade and develop our digital capabilities means we need to attract technology specialists to Nationwide. We've created a Technology Talent Squad to address this people challenge, responsible for both helping existing colleagues develop new skills and recruiting up to 1,000 new specialists – from software engineers to agile delivery experts – to work in Swindon and London.

Rewarding and recognising people

Fair pay and reward remain an important part of our ethos. This was the second year of Sharing in Success, our reward scheme that recognises every colleague's contribution based on the Society's overall performance. Instead of individual bonuses, all our people receive a variable pay award which in 2019 was 8.7% (2018: 9.5%). The award reflects our success in achieving things that are important to members – giving you better service than our peer group, serving more of our members' needs, and achieving our cost-saving targets.

We also made a significant change in how we celebrate loyalty and long service. Following feedback from our people, who told us they valued time off to spend with friends and family, we have introduced a paid six-week sabbatical for everyone who works for Nationwide for 25 years.

Putting our members and their money first
Rising to the challenge
Inspiring trust
Doing the right thing in the right way
Excelling at relationships

pride

[1] The comparative for Nationwide's employee engagement score in 2018 has been restated based on updated information. The high performing benchmark is based on data from more than 35 companies [illegible]
[2] This is an annual survey undertaken by the Banking Standards Board covering 26 firms, including [illegible]. Over 3,000 colleagues at NBS participated in the last assessment.

Building PRIDE (continued)

Promoting diversity and inclusion

Our diversity and inclusion agenda is about creating a working environment where all our people feel valued, and able to combine their unique talents with those of other colleagues to make our Society stronger and more successful.

In 2015 we set ourselves challenging diversity targets to be achieved by the end of 2020. We're pleased to have met our gender target, for women to fill between 33-35% of our most senior roles, ahead of schedule; 34.9% of senior roles are filled by women. We're also close to achieving our target of 2.6% of roles at all levels being filled by disabled people (currently 2.5%). However, despite considerable efforts, achieving our Black, Asian and Minority Ethnic (BAME) targets has proved much more challenging than we anticipated. We were aiming for 8-15% of senior roles to be filled by BAME employees (currently 4.7%). We are creating progressive and sustainable plans to address this and stretch our ambition in all areas of diversity and inclusion.

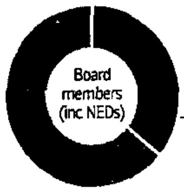
Each part of the Society is working to address its own priorities, with tailored diversity and inclusion action plans. For example, the Finance & Efficiency community has begun cultural awareness workshops to prevent potential unconscious bias. Each area of the Society has also appointed a senior manager to report progress monthly to our new Strategic Diversity and Inclusion Action Group

As we are planning on recruiting up to 1,000 people to support our technology investment, we have also created a distinct people proposition and assessment process to help attract quality candidates who share our values. This includes making sure we are attractive to candidates who are neuro-diverse, such as people on the autism spectrum, widening our potential talent pool.

Gender pay gap

We published our second gender pay gap report in November 2018, which showed our mean average gender pay gap as at 5 April 2018 was 28% (compared with 29% in 2017). This is very much a function of the nature of our business and our resulting employee profile. Our overall gender pay gap is therefore driven by having far fewer men in our junior roles which reflects our long-term success in offering a variety of work patterns which appeal to individuals at different stages of their career. We are committed to achieving a more balanced gender distribution and are putting new programmes in place to help improve opportunities for women at senior levels.

Employee gender split

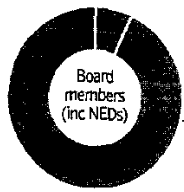


Female 36%
Male 64%

Female 35%
Male 65%

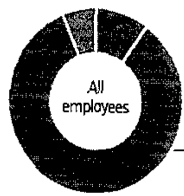
Female 63%
Male 37%

Employee BAME split



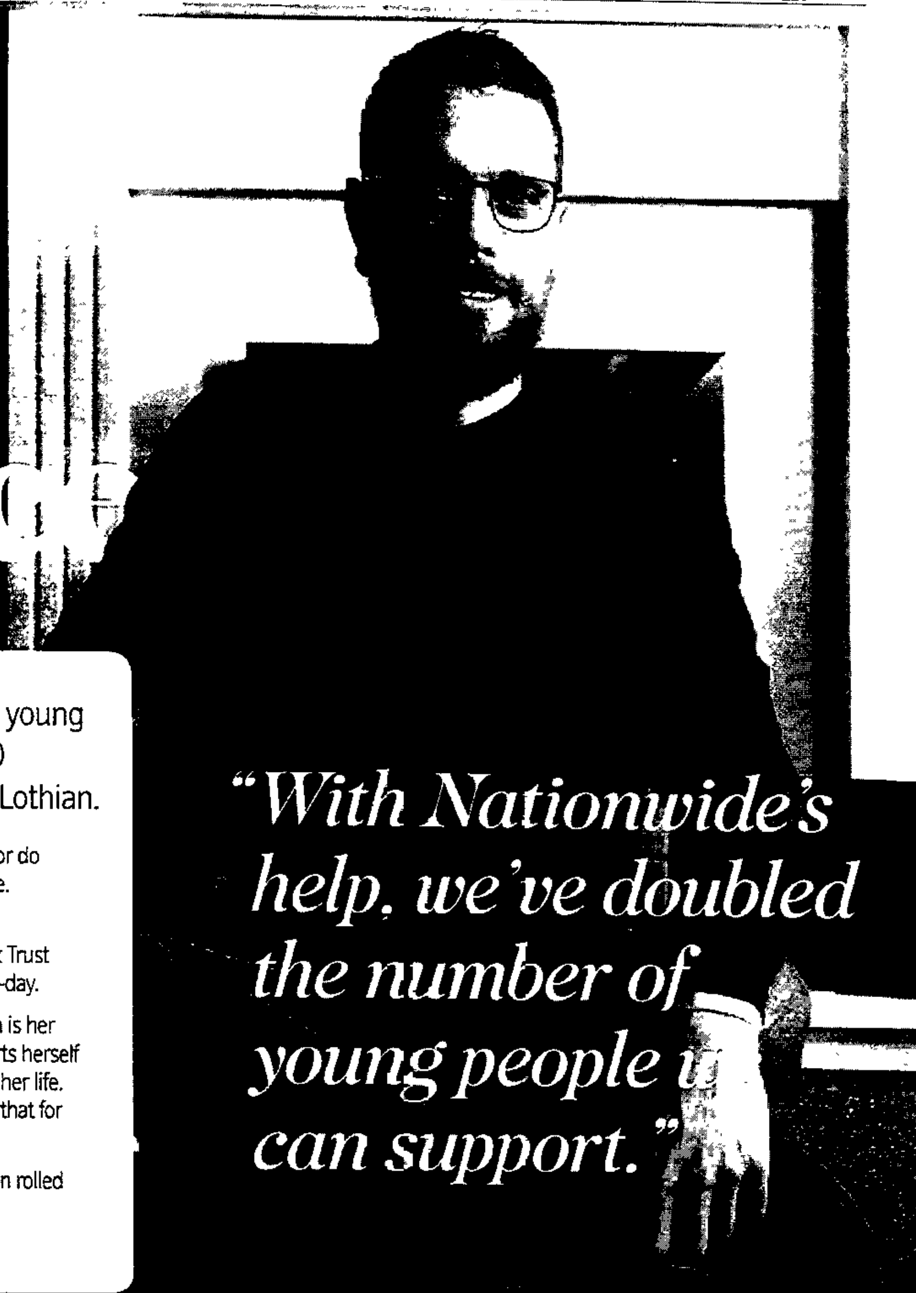
BAME 7%
Non-BAME 93%

BAME 5%
Non-BAME 90%
Undeclared 5%



BAME 10%
Non-BAME 84%
Undeclared 6%

Supporting communities and making a difference



The Rock Trust aims to prevent youth homelessness and support young people to build better futures. Last year, they received a £50,000 Community Grant from Nationwide's Community Board in West Lothian.

Ally is Head of Services at the Rock Trust.

"When young people leave foster care, they face temporary accommodation and uncertain futures. Our Housing First project helps them break out of that cycle by offering them a permanent place to live, and support to stand on their own two feet. With Nationwide's help, we've doubled the number of young people we can support."

Hannah is 17 and used to be Scotland's most reported missing person.

"The Rock Trust stepped in when I most needed it. I used to run away all the time and I didn't feel like I could trust anyone. Now I've got a place to call my own, I'm at college and I don't drink or do drugs anymore. I feel like this is my home. And I know I have help no matter what."

Adam (pictured) is one of Hannah's Rock Trust project workers who supports her day-to-day.

"The biggest change I've seen in Hannah is her confidence. She lives on her own, supports herself and has made such a positive change to her life. And Nationwide's grant is helping us do that for so many others now, too."

Nationwide Community Grants have been rolled out across the whole of the UK.

"With Nationwide's help, we've doubled the number of young people we can support."

Building a national treasure

Building a national treasure is perhaps our most ambitious cornerstone. It's not about how we see ourselves, but about how others see us: how well we are trusted, recognised as a brand, and seen as a force for good in society.

We're pleased to be no.1 for trust in our peer group, and joint top for brand consideration[1] – a measure of how many consumers would consider Nationwide for their financial needs

As a building society, we are guided by a social rather than a commercial purpose and aim to make our communities better places to live and work. Last year, we aligned our social investment with our goal of helping people into better homes and now direct most of our community investment into housing initiatives. In the second year of our social investment strategy, built on the idea that everyone should have a place fit to call home, we've awarded Community Grants totalling £3.9 million to more than 100 housing-related projects. We're also working with Swindon Borough Council to develop a multi-generational community of 239 homes.

Financial capability is also important to us. We are funding a £3 million Open Banking for Good challenge, to motivate technology firms to use Open Banking standards to develop apps and services that put people in control of their money.

No.1 for trust

We're no.1 for trust in our peer group, with a lead over our nearest competitor of 2.3% (March 2018: 1.4%), and we're joint top for brand consideration. Our trust and brand consideration scores were our highest year-end scores ever[2].

Everyone should have a place fit to call home

We continue to take concrete steps to make our communities better places to live and work[3].

In 2007 our members voted to commit at least 1% of pre-tax profit to charitable activities each year. In 2018/19, we invested £10.6 million in community projects through the Nationwide Foundation (an independent charity which we fund), our own social investment strategy and a range of local initiatives.

Our social investment is aligned with our founding purpose of helping people into better homes. Since launching our strategy, we've established 11 Community Boards covering the whole of the UK, each made up of Nationwide members, colleagues and local housing experts. Each Community Board has the power to award housing-related Community Grants, and local members have the final say over which projects we support.

In the last year, we have made grants totalling £3.9 million to over 100 housing-related charities or projects. Our funding has helped older people live independently for longer in Scotland, supported homeless young people in Gloucestershire to rebuild their lives, and has supported young vulnerable people in Wales through funding for a new helpline.

We have applied for planning permission for our Oakfield development, which will transform a brownfield site creating the start of a community of 239 new homes, including affordable housing. Through the support of a community organiser, local residents have helped shape the plans to foster neighbourliness through shared gardens, extensive places to meet and play, and a community hub. We intend to share what we learn to encourage other responsible businesses to do more as part of our commitment to find local solutions to the national housing shortage.

We are also working with two housing and homelessness charities. We have supported Shelter since 2001, part-funding its national helpline, donating £5 for every new mortgage taken out and supporting its Christmas campaign. We're also working with St Mungo's, to provide our branch colleagues with the tools and knowledge they need to provide a compassionate response to rough sleepers locally.

Looking out for tenants

Around one fifth of people in the UK live in privately rented homes and we're using our expertise and influence to improve the quality of these homes. In 2017, we established a cross-industry Partnership Board made up of organisations and charities representing tenants, landlords and agents. This is now developing a coherent strategy for the sector. It also backed a Private Member's Bill to allow tenants bring claims against landlords for poor quality homes and succeeded in widening access to the rogue landlord database.

Unlocking financial capability

There are around 13 million people in the country who are coping financially, but only just keeping their heads above water. We believe Open Banking could help transform the lives of these people and launched a £3 million Open Banking for Good challenge to the financial technology community to develop apps and other services for them. We received over 50 applications and have shortlisted seven firms who we are working with closely to develop solutions in three areas: helping people understand their income and expenditure; smoothing irregular incomes, for example, in the flexible 'gig' economy; and manage their money and debt. Our funding will help bring the most successful solutions to market.

[1] Source: Nationwide Brand and Advertising tracker compiled by Independent Research Agency, based on all consumer responses, 12 months ended 31 March 2019. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB. Joint top for brand consideration with Halifax.
[2] Source: Nationwide Brand and Advertising tracker compiled by Independent Research Agency, based on all consumer responses 12 months ended 31 March in each year since the surveys began in 2012. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB. Joint top for brand consideration with Halifax.
[3] Social investment statements on this page have been assured to ISAE 3000 standard by Corporate Citizenship, an external Corporate Responsibility Consultancy. The assurance statement is available on nationwide.co.uk

The Nationwide Foundation

The Nationwide Foundation is an independent charity set up by the Society in 1997. Each year, we give 0.25% of Nationwide's pre-tax profits to the Foundation – £2.4 million in 2018/19 – as part of the 1% of pre-tax profits we give to good causes. The Nationwide Foundation's vision is that everyone in the UK should have access to a decent, affordable home, and it funds three programmes to help achieve this ambition:

1 Nurturing ideas to change the housing system – to protect and create decent affordable homes

The Nationwide Foundation is supporting an organisation in Knowle West, Bristol, to find ways to use microsites – such as land in large back gardens, between buildings or grassed verges – to build up to 350 new homes for local residents. The Foundation is also funding the Affordable Housing Commission, to ensure more genuinely affordable homes will be created in England

2 Backing community-led housing – helping local people take control of their housing

The Nationwide Foundation is helping community-led housing schemes get off the ground by funding work that seeks to make public land widely available and accessible to community-led housing organisations. It is also supporting work exploring the health and wellbeing benefits of living in community-led housing in Wales.

3 Transforming the private rented sector – to provide affordable, decent homes for tenants

The Nationwide Foundation funded a landmark review of the private rented sector in England, which provided robust insights and evidence. Housing experts, politicians and charities welcomed its launch in 2018. Academics at the University of York conducted the review, independently analysing private rented housing, including how policies have changed the sector over the last ten years.

Outlook

While the UK economy has slowed over the last few years, it has proved more resilient than many expected, with continued healthy gains in employment and a gradual rise in earnings contributing to solid rates of household spending.

We expect economic activity to continue to rise at a modest pace in the near term, which may mean a small rise in the unemployment rate from recent 43-year lows, with interest rates remaining close to current levels over the next few years. We anticipate that economic activity will then pick up once Brexit uncertainties fade and the UK's trading relationship with the EU becomes clearer.

We expect demand in the housing market to remain fairly subdued, close to recent levels, before strengthening once the wider economy gains momentum. Deposit growth is likely to rise by around 4% per year, a little stronger than that recorded over the past two years.

In our own business, we will continue to make balanced decisions in the long-term interests of members and the Society as a whole. We expect our core mortgage and savings markets to remain competitive, with a continued narrowing of our net interest margin, and will continue our focus on delivering good long-term value for borrowers and savers.

Our financial strength has enabled us to commit to ongoing investment in technology with the confidence that we can continue to support our members now and in the future as we have done for the last 135 years.

Risk Overview

Nationwide takes a prudent approach to risk management. We keep our members' money safe and secure by aligning our risk appetite with our strategy. To ensure risks are managed consistently, we operate an Enterprise Risk Management Framework, which sets out the minimum standards and processes for risk management. Further detail is included on page [107] of the Business and Risk Report.

Top and Emerging Risks

Whilst the risks that Nationwide runs are broadly stable, the threat posed by the external environment has heightened over the past year. Nationwide has responded to these threats through our strategy as described below Additional information on these and other top and emerging risks, as well as a description of the principal risks and uncertainties we are exposed to through our business model, can be found in the Business and Risk Report on pages [102 to 107].

Political and Economic Environment

Nationwide's core markets are naturally exposed to any downturn in the UK's economic conditions. Economic risks remain heightened due to uncertainty surrounding Brexit and the wider geopolitical environment.

Our strategic response:

- Maintaining strong capital and liquidity surpluses over regulatory minimums with a CET1 ratio of 32.4%, UK leverage ratio of 4.9% and liquidity coverage ratio of 150.2%.
- Undertaking robust internal and regulatory stress tests, including the 2018 Bank of England stress test in which we maintained capital ratios in excess of regulatory expectations.

Technology (incorporates Managing Change and Cyber Security)

Our members are increasingly demanding always-on and intuitive digital services. This increases demand on our systems and the volume of data that must be managed securely and reliably.

Our strategic response:

- Investing an extra £1.3 billion over five years into our technology to improve services and minimise the risk of disruption to members.
- Investing in cyber security, evolving our controls across both new and existing technologies to protect our systems and customer data from more complex attacks.

Competition

Competition has intensified as newly ring-fenced banks have increased their focus on our core markets. Meanwhile new market entrants, competing primarily via digital channels, are seeking to exploit new technologies to revolutionise how customers use and access existing products and services.

Our strategic response.

- Diversifying our products to better meet customer needs through initiatives such as Later Life Lending and Nationwide for Business.
- Committing to maintain our branch presence and investing £350 million over five years to improve the experience in branch.
- Partnering with fin-techs to develop next-generation technologies
- Investing an additional £1.3 billion in technology over five years to ensure we continue to meet our members' needs.

Regulation

The regulatory environment continues to evolve with a focus on providing confidence in UK financial services and ensuring specific markets are operating in the interests of and delivering value for customers.

Our strategic response.

- As a mutual, our business model focuses on building long-term relationships rather than generating profits or shareholder dividends.
- Working with regulators and the industry to deliver fair outcomes to our members, and meet all regulatory obligations.

UK withdrawal from the European Union

In April 2019, the UK Government and the European Union agreed to delay the UK's departure from the European Union until 31 October 2019 unless a withdrawal agreement is agreed.

As Nationwide's business model is primarily focused in the UK, the Society has limited direct exposure to the EU.

However, Nationwide is exposed to secondary impacts, particularly volatility in the UK economy and financial markets given the uncertain nature of both the implementation period and the future relationship between the UK and the EU.

We have responded by considering a range of potential outcomes, including leaving without a deal, through our stress testing programme and preparing for alternative economic outcomes.

We continue to monitor closely and analyse political, economic and regulatory developments to ensure we remain well positioned to respond to any potential shocks and minimise any disruption for our members and staff.

Financial review

"Nationwide concluded 2018/19 in a position of financial strength with demonstrable momentum in trading performance. This reflects our continued commitment and focus on offering good value products, and better service for our members, whilst maintaining capital strength."

In summary

An advantage of being a building society is that we can choose how we utilise our resources in order to deliver more long-term value and better services to our members. During the year we have continued to be guided by our Financial Performance Framework on how we distribute value to members, invest in the Society and retain profits. As signalled by our technology investment announcement in September 2018, a programme of investment has been initiated which will target the simplification of our IT estate, together with enhancement of our digital service and data capabilities, over the next five years. During the year we have recognised a charge of £227 million from asset write-offs and additional technology investment.

As a mutual we continue to aim to optimise, not maximise, profit and offer good long-term value to our members. For the year ended 4 April 2019, we delivered a member financial benefit of £705 million (2018: £560 million), demonstrating the competitive products and services that we offer our members. In line with expectations, underlying profit reduced by 19% to £788 million (2018: £977 million) and statutory profit before tax reduced by 15% to £833 million (2018: £977 million), largely due to the impact of asset write-offs and our investment in technology. This level of profitability maintained our capital strength, with our UK leverage ratio remaining at 4.9% (2018: 4.9%), well in excess of current and anticipated regulatory requirements.

Notwithstanding the continued uncertainty in the external environment and competitive market conditions, trading performance for the year has been robust with our strongest ever gross lending at £36.4 billion (2018: £33.0 billion), and a growth in member deposits of £6.0 billion (2018: £3.5 billion), reflecting the success of our Single Access ISA, Loyalty ISA and an increase in current account credit balances.

Achieving sustainable cost savings and embedding efficiencies remains a priority for the Society. We continue to make good progress with our efficiency programme, with a further £103 million of in-year sustainable saves being delivered during the year. On a cumulative basis, including the full year benefit of sustainable saves delivered over the last two years, *we have now delivered approximately half of our target of £500 million of sustainable saves by 2023*

On 5 April 2018 we implemented IFRS 9 'Financial Instruments'. The total impact on members' interests and equity, net of deferred tax, was a reduction of £162 million. There has been no restatement of comparatives following adoption of IFRS 9. Where useful for the interpretation of balances or movements, we have highlighted the impact on the Group's balance sheet and members' interests and equity at 5 April 2018.

Underlying profit:
£788m
(2018: £977m)

Statutory profit:
£833m
(2018: £977m)

UK leverage ratio:
4.9%
(2018: 4.9%)

Income statement

Underlying profit represents management's view of underlying performance. The components of underlying profit have been changed during the year to reflect more appropriately ongoing business performance. As a result, underlying profit now includes the bank levy and FSCS management expenses, which were previously excluded. For the year ended 4 April 2019 this decreased underlying profit by £45 million (2018: £46 million). Comparatives have been restated. Underlying profit continues to exclude FSCS costs arising from institutional failures, and gains or losses from derivatives and hedge accounting.

Underlying and statutory results (note i)	**Year to 4 April 2019**	Year to 4 April 2018
	£m	£m
Net interest income (note ii)	**2,915**	3,004
Net other income (note ii)	**255**	128
Total underlying income	**3,170**	3,132
Underlying administrative expenses	**(2,254)**	(2,024)
Impairment losses	**(113)**	(105)
Underlying provisions for liabilities	**(15)**	(26)
Underlying profit before tax	**788**	977
Financial Services Compensation Scheme (FSCS) (note iii)	**9**	1
Gains / (losses) from derivatives and hedging accounting (notes iii, iv)	**36**	(1)
Statutory profit before tax	**833**	977
Taxation	**(215)**	(232)
Profit after tax	**618**	745

Net Interest Margin:
1.22%
(2018: 1.31%, note ii)

Underlying Cost Income Ratio:
71.1%
(2018: 64.6%)

Statutory Cost Income Ratio:
70.3%
(2018: 64.6%)

Notes

i. Under IFRS 9, the recognition and measurement of expected credit losses differs from under IAS 39. As prior period amounts have not been restated, impairment losses on loans and advances in the comparative period remain in accordance with IAS 39 and are therefore not directly comparable with impairment losses recorded for the current period

ii. The opportunity has been taken to reclassify certain items previously included within net interest income to reflect better the nature of the transactions. As a result, gains and losses recognised on the disposal of investment securities classified as FVOCI (2018: available for sale) are now presented within net other income.

iii. Within statutory profit:
- FSCS costs arising from institutional failures, are included within provisions for liabilities and charges
- Gains from derivatives and hedge accounting, are presented separately within total income.

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

Total income and margin

As anticipated, net interest income has decreased, reducing by 3% to £2,915 million (2018: £3,004 million) due to lower mortgage income, reflecting sustained market competition and ongoing attrition of base mortgage rate (BMR) balances. Net interest margin (NIM) has therefore reduced to 1.22% (2018: 1.31%). We have continued to make conscious choices to deliver value to our borrowing members through attractive rates, with the average rate paid by our prime mortgage members reducing during the year to 2.34% (2018: 2.45%). The availability of low rates on new mortgages has encouraged product switching and refinancing, with £26.5 billion of prime mortgage customer balances having switched to a new Nationwide product in the year (2018: £24 billion). Our legacy BMR balances have continued to run off during the period and as at 4 April 2019 were £18.1 billion (4 April 2018: £22.7 billion).

The negative impact to NIM from declining mortgage margins has been partially offset by low savings rates. We have continued to manage savings pricing in line with our commitment to provide good long-term value for members. During the year depositors have continued to earn average rates more than 50% higher than the market average[1]. We expect market conditions to remain competitive, and product switching and BMR balance attrition to continue in line with recent experience. We anticipate therefore that our reported NIM will continue to trend lower in the year ahead.

Net other income has increased to £255 million during the year (2018: £128 million), predominantly due to the prior year including a £116 million charge in relation to a debt buy back exercise.

[1] Market average interest rates are based on Bank of England whole of market average interest rates, adjusted to exclude Nationwide's balances

Member financial benefit

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

We quantify member financial benefit as:

Our interest rate differential + incentives and lower fees

Interest rate differential

We measure how our average interest rates across our member balances in total compare against the market over the period.

For our two largest member segments, **mortgages** and **retail deposits**, we compare the average member interest rate for these portfolios against Bank of England and CACI industry data. A market benchmark based upon the data from CACI is used for mortgages and a Bank of England benchmark is used for retail deposits, both adjusted to exclude Nationwide balances. The differentials derived in this way are then applied to member balances for mortgages and deposits.

For unsecured lending, a similar comparison is made. We calculate an interest rate differential based on available market data from the Bank of England and apply this to the total interest bearing balances of **credit cards** and **personal loans**.

Member incentives and lower fees

Our member financial benefit measure also includes amounts in relation to higher incentives and lower fees that Nationwide offers to members. Our calculation includes annual amounts for the following:

- Mortgages: the differential on incentives for members compared to the market
- 'Recommend a friend': the amount paid to existing members, when they recommend a new current account member to the Society
- FlexPlus account: this current account is considered market leading against major banking competitors, with a high level of benefits for a relatively smaller fee. The difference between the monthly account fee of £13 and the market average of £17 is included in the member financial benefit measure.

For the year ended 4 April 2019, this measure shows we have provided our members with a financial benefit of £705 million (2018: £560 million). This demonstrates that we continue to offer good long-term value products to our members in both the mortgage and deposit markets, despite strong levels of competition.

Member financial benefit is derived with reference to available market or industry level data. No adjustment is made to take account of factors such as customer mix, risk appetite and product strategy, due to both limitations in the availability of data and to avoid bias from segments in which Nationwide may be under or over-represented. On an ongoing basis we will continue to review our methodology to ensure it captures all the key elements of the financial benefits we provide to our members, where data is available.

Administrative expenses

Administrative expenses include the impact of technology asset write-offs and incremental expenditure associated with our technology investment announced in September 2018. The investment programme incorporates £1.3 billion of incremental expenditure to be incurred over five years, targeting the enhancement of our digital services and data capabilities, together with a simplification of our technology estate. During the year we have recognised a charge of £227 million, comprising asset write-offs and impairments of £115 million, combined with expenditure which relates directly to our technology investment of £112 million.

Excluding this charge, our cost base is broadly flat. Our continued focus on efficiency has allowed us to absorb inflation, volume growth and the impact of prior year investment. Beyond our additional technology investment programme, we continue to make ongoing investments in supporting the long-term interests of our members, including improving member service and propositions, both in branch and through digital channels, and meeting regulatory requirements.

Achieving sustainable cost savings and embedding efficiencies remain a priority for the Society. We have delivered a further £103 million of new in-year sustainable saves during the year. On a cumulative basis, including the full year benefit of sustainable saves delivered over the last two years, we have now delivered approximately half of our target of £500 million of sustainable saves by 2023. This has been achieved through a range of initiatives that are focused on the development of digital capabilities, organisational design, third party savings, process improvements, simplification and elimination.

Our underlying cost income ratio has increased to 71.1% (2018. 64.6%) largely due to the impact of the asset write-offs and expenditure directly related to our technology investment programme.

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

Impairment losses/(reversals)	Year to 4 April 2019 £m	Year to 4 April 2018 £m
Residential lending	(17)	11
Consumer Banking	114	97
Retail Lending	**97**	108
Commercial and other lending	16	(1)
Impairment losses on loans and advances	**113**	107
Impairment losses on investment securities	-	(2)
Total	**113**	105

Note:
Under IFRS 9, the recognition and measurement of expected credit losses differs from under IAS 39. As prior period amounts have not been restated, impairment losses in the comparative period are not comparable to impairment losses recorded for the current period.

Impairment losses have increased by £8 million to £113 million (2018: £105 million). Despite this increase in impairments the underlying portfolio performance remains strong.

Retail lending impairment losses remain at historically low levels with the £17 million reversal (2018: £11 million charge) for the residential lending book resulting from improvements to the modelling of refinance risk on interest only loans and updated economic assumptions. The increase in the consumer banking impairment charge to £114 million (2018: £97 million) includes additional provisions against the credit card portfolio relating to borrowers considered to be in persistent debt (explained in the Credit risk - Consumer banking section of the Business and Risk Report). Notwithstanding this increase, delinquency levels on the consumer banking portfolio have remained low during the year.

During the year commercial loan impairments were £16 million (2018: £1 million reversal) due to increased credit risk associated with two individual loans, with the overall portfolio performance remaining robust.

Provisions for liabilities and charges

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and ongoing administration, including non-compliance with consumer credit legislation and other regulatory requirements. The net charge of £15 million (2018: £26 million) reflects our latest estimate of our customer redress liabilities. More information is included in note 27.

Taxation

The tax charge for the year of £215 million (2018: £232 million) represents an effective tax rate of 25 8% (2018: 23.7%) which is higher than the statutory UK corporation tax rate of 19% (2018: 19%). The effective tax rate is higher due to the 8% banking surcharge of £37 million (2018: £43 million) and the tax effect of disallowable bank levy and customer redress costs. More information is included in note 11.

Balance sheet

Total assets have increased 4% year on year to reach £238.3 billion (5 April 2018: £228.9 billion) with a robust trading performance driving £8.6 billion of net mortgage lending (2018: £5.8 billion). This has been supported by strong growth in retail funding flows, with member deposits growing by £6.0 billion to £154.0 billion (5 April 2018: £148.0 billion) and our market share of UK deposits increasing slightly to 10.1% (31 March 2018: 10.0%). Of the growth in member deposits, £4.6 billion is attributable to an increase in savings balances largely reflecting the success during the year of accounts such as our Single Access ISA and Loyalty ISA.

Liquidity Coverage Ratio:
150.2%
(2018: 130.3%)

Return on Assets:
0.26%
(2018: 0.33%)

Assets	4 April 2019 £m	%	5 April 2018 (note i) £m	%	4 April 2018 £m	%
Residential mortgages (note ii)	186,012	93	177,303	92	177,299	92
Commercial and other lending (note iii)	9,118	5	10,640	6	10,645	6
Consumer banking	4,586	2	4,107	2	4,107	2
	199,716	100	192,050	100	192,051	100
Impairment provisions	(665)		(629)		(458)	
Loans and advances to customers	199,051		191,421		191,593	
Other financial assets	36,709		34,877		34,912	
Other non-financial assets	2,541		2,639		2,593	
Total assets	**238,301**		228,937		229,098	

Asset quality	4 April 2019 %	4 April 2018 %
Residential mortgages (note ii):		
Proportion of residential mortgage accounts more than 3 months in arrears	0.43	0.43
Average indexed loan to value (by value)	58	56
Consumer banking:		
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances) (note iv)	1.35	1.56

Notes:

i. Balances as at 5 April 2018 reflect the impact of applying IFRS 9 'Financial Instruments'.
ii. Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let lending.
iii. Commercial and other lending now exclude balances held with counterparties which are institutions similar to banks. These balances are now reported in Loans and advances to banks and similar institutions (Other financial assets line), and comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.
iv. 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.

Residential mortgages

Despite competitive market conditions, total gross mortgage lending for the year was £36.4 billion (2018: £33.0 billion) representing our strongest ever year of gross mortgage lending and reflecting the competitively priced products and good long-term value that we continue to offer. Our market share of prime mortgage gross lending as at March 2019 has grown to 13.4% (2018: 12.8%). As a result, total net mortgage lending for the year increased by £2.8 billion to £8.6 billion (2018: £5.8 billion).

Arrears performance has remained stable during the year, with cases more than three months in arrears at 0.43% of the total portfolio (4 April 2018: 0.43%). The average LTV of the portfolio has increased during the year to 58% (4 April 2018: 56%), reflecting new lending, offset to a lesser degree this year by house price growth across the whole portfolio. Impairment provisions have decreased to £206 million (5 April 2018: £235 million) largely due to continued run-off of legacy, higher risk portfolios combined with refinements to our provisioning methodology.

Commercial and other lending

During the year commercial balances have decreased by £1.5 billion to £9.1 billion (5 April 2018: £10.6 billion). As previously reported, our commercial real estate (CRE) portfolio is closed to new business and is currently in run-off. As a result, CRE balances have reduced during the year by £0.4 billion to £1.4 billion (5 April 2018: £1.8 billion). Impairment provisions have increased to £41 million (5 April 2018. £29 million) due to increased credit risks associated with two individual loan exposures. Notwithstanding this increase in provisions, the overall book performance remains strong and our exit from the commercial real estate market continues to be carefully managed.

Given deleveraging activity in previous financial years, the overall portfolio is increasingly weighted towards registered social landlords with balances of £6 0 billion (5 April 2018: £6.8 billion) and project finance with balances of £0 8 billion (5 April 2018: £0.9 billion). The reduction in our registered social landlord book largely reflects early redemptions of loans by housing associations.

Consumer banking

Consumer banking balances have grown by £0.5 billion to £4.6 billion (5 April 2018: £4.1 billion). This balance growth was driven by a record £1.8 billion of personal loan lending during the year (2018· £1.3 billion) following the reduction in headline rates in March 2018 and changes to extend our lowest pricing to more members from January 2019

Other financial assets

Other financial assets total £36.7 billion (5 April 2018: £34.8 billion), primarily comprising liquidity and investment assets held by our Treasury function of £32.7 billion (5 April 2018: £30 8 billion) and derivatives with positive fair values of £3.6 billion (5 April 2018: £4.0 billion) Derivatives relate primarily to interest rate and foreign exchange contracts which economically hedge financial risks inherent in core lending and funding activities.

Our Liquidity Coverage Ratio has increased during the year to 150.2% (4 April 2018: 130.3%) largely due to the pre-funding of future wholesale funding maturities combined with a reduction in stressed collateral requirements We continue to manage our liquidity in accordance with our risk appetite, which is more prudent than regulatory requirements. Further details are included in the Liquidity and funding risk section of the Business and risk report.

Members' interests, equity and liabilities

	4 April 2019	5 April 2018 (note i)	4 April 2018
	£m	£m	£m
Member deposits	**153,969**	148,003	148,003
Debt securities in issue	**35,942**	34,118	34,118
Other financial liabilities	**33,755**	33,173	33,173
Other liabilities	**1,466**	1,402	1,401
Total liabilities	**225,132**	216,696	216,695
Members' interests and equity	**13,169**	12,241	12,403
Total members' interests, equity and liabilities	**238,301**	228,937	229,098

Note:
i. Balances as at 5 April 2018 reflect the impact of applying IFRS 9.

Wholesale funding ratio:
28.6%
(2018: 28.2%)

Member deposits

Member deposits have increased by £6.0 billion to £154.0 billion (4 April 2018: £148.0 billion) largely reflecting the success of our Single Access and Loyalty ISAs, combined with higher current account credit balances. In a competitive market, we have slightly increased our market share of deposits as at March 2019 to 10.1% (2018: 10.0%). Our market share of main standard and packaged current accounts grew to 8.0% (2018: 7.9%), with our market share of new current account openings increasing during the year to 16.2% (2018: 15.8%).

Debt securities in issue and other financial liabilities

Debt securities in issue have increased during the year by £1.8 billion to £35.9 billion (5 April 2018: £34.1 billion) largely due to wholesale funding issued in order to finance our core activities. Other financial liabilities have increased by £0 6 billion to £33.8 billion (5 April 2018. £33.2 billion) primarily due to issuances of debt during the year in order to meet the minimum requirement for own funds and eligible liabilities. Further details are included in the Liquidity and funding risk section of the Business and risk report.

Members' interests and equity

Members' interests and equity has increased by £1.0 billion to £13.2 billion (5 April 2018: £12 2 billion) largely reflecting additional retained profits and an increase in the cash flow hedge reserve.

Statement of comprehensive income

Statement of comprehensive income

	Year to 4 April 2019	Year to 4 April 2018
(note i)	£m	£m
Profit after tax	618	745
Net remeasurement of pension obligations	153	22
Net movement in cash flow hedge reserve	328	(191)
Net movement in fair value through other comprehensive income reserve	(12)	-
Net movement in available for sale reserve	-	31
Other Items	(1)	1
Total comprehensive income	**1,086**	608

Note

i Movements are shown net of related taxation.

Further information on gross movements in the pension obligation and movements in the cash flow hedge reserve are included in notes 30 and 7 respectively.

Financial Performance Framework

As a mutual, we aim to optimise, rather than maximise, profit and retain sufficient earnings to support future growth, sustain a strong capital position and allow us to invest in the business to provide the products and services that our members demand. We have used the most recent guidance from regulators regarding the maximum expected capital requirement for Nationwide to develop our Financial Performance Framework. This framework provides parameters which will allow us to calibrate future performance and help ensure that we achieve the right balance between distributing value to members, investing in our business and maintaining our financial strength.

One of the most important of these parameters is profit, management of which is a key component in maintaining Nationwide's capital strength. We believe that a level of underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium term would meet the Board's objective for sustainable capital strength. This range will vary from time to time, and whether our profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to provide value to members or to make investments in the business. It should not be construed as a forecast of the likely level of Nationwide's underlying profit for any financial year or period within a financial year

We remain committed to our Financial Performance Framework. Our profit for the year ended 4 April 2019 reflects conscious decisions to increase investment at a time when members needs are changing rapidly and technology advancement is offering new opportunities. We are satisfied that this performance is in line with the framework.

Governance

Roshni, member since 2003

Non-financial information *continued*

Our policies *continued*

Our key policies / statements of intent	Description
Our employees Board Composition and Succession Policy *Additional information is included in our Report of the directors on corporate governance on page [19].*	The Board Composition and Succession Policy ensures the Board comprises persons who are fit and proper to direct the Society's business, and sets out the approach to diversity in the senior leadership population (Board, executive leaders and their direct reports). The Society has committed to increasing female representation to 33-35% by 2020 across the senior leadership population. The strategy also includes a target of between 8% to 15% for BAME representation across the senior leadership population. These targets are supported by the Equality, Diversity and Inclusion Strategy and action plans, which are refreshed annually and against which progress is reported to the Nomination and Governance Committee annually.
Code of Conduct Policy	The Code of Conduct Policy outlines the standards of conduct and behaviour that Nationwide expects from its employees. We want to ensure that Nationwide is a great place to work for all our employees and we are committed to promoting a culture of honesty and integrity across Nationwide which enables our people to do the right thing for our customers.
Equality, Diversity and Inclusion Policy *Additional information is included in our Building PRIDE update on page [23].*	Our mutuality and fundamental commitment to valuing everyone defines and differentiates us. We are committed to being a fair employer, treating everyone equally and promoting a supportive culture of equality, diversity and inclusion for our employees, customers and third party business partners.
Social matters Our social purpose and commitment to our communities *Additional information is included in our Building National Treasure update on pages [24-25]*	It is 135 years since our business was founded - with a social purpose at its heart. This social purpose, helping people into homes of their own, motivates us still today. By helping people save, buy homes, and manage their money efficiently, we help people build secure and happy lives and communities. We've awarded Community Grants totalling £3.9 million to more than 100 housing-related projects and we're working with Swindon Borough Council to develop a multi-generational community of 239 homes.
Human rights Slavery and Human Trafficking *Additional information is included in our Slavery and Human Trafficking Statement available on nationwide.co.uk*	Section 54 of the Modern Slavery Act 2015 (the Act) requires certain commercial organisations, including Nationwide, to state on their website how they are tackling the risk of slavery and human trafficking in their business or supply chains. Each year, Nationwide produces its statement in accordance with the Act which outlines the steps we have taken and the policies we have in place to tackle the risk of modern slavery. One of these policies is the Third Party Code of Practice, which we ask all of our 1,200 suppliers to commit to. In addition, Nationwide's Code of Conduct details our employees', temporary workers' and contractors' obligations in relation to tackling modern slavery. Nationwide's Whistleblowing policy offers colleagues a confidential channel to flag concerns.
Anti bribery and anti corruption Anti-Bribery and Corruption *Additional information is included in our Anti-Bribery and Corruption policy statement available on nationwide.co.uk*	Bribery and corruption is a risk for organisations across the world, and a collaborative approach across governments, law enforcement agencies and businesses is taken to tackle the issue. Nationwide is bound by the laws of the UK, including the Bribery Act 2010 which concerns conduct both at home and abroad. The Board is committed to operating with honesty and integrity in all of our business activities and to promoting an anti-bribery and corruption culture across the Group. Nationwide takes a zero tolerance approach to bribery and is committed to implementing and enforcing effective systems, and risk-based controls and procedures to counter bribery and corruption. These controls and procedures include a communication programme, staff training and awareness, a confidential whistle-blowing procedure, and monitoring and review of the anti-bribery and corruption policy and other related policies.

Non-financial information

Measurement and reporting of non-financial matters is important for us to get a full picture of our performance. As a responsible business, we include below our statement on non-financial reporting.

The non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 are addressed below. Although Nationwide, as a building society, is not required to follow the Companies Act 2006, we seek to apply its requirements where appropriate.

Non-financial information	Disclosure	Section	
Business model	Our business model and information on how we do business differently	Strategic report – Who we are and what we do	[5]
Key performance indicators	Our KPIs set out how we are doing on service, value and strength	Strategic report – Our KPIs	[12]
Key risks	Our key risks and their management	Strategic report – Risk overview	[27]
Our Policies	Our key policies and statements of intent are in place to ensure consistent governance on environmental matters, our employees, social matters, human rights and anti-bribery and corruption	See below	

Our policies

Environmental matters

We're the world's largest building society, so it's only natural we play a part in shaping the communities and places we belong to. We know we must do more than meet legal and regulatory requirements; we must reduce the ways we affect the environment and always aim to do better. And we're encouraging everyone – our members, suppliers, contractors and other stakeholders – to do the same.

Our environmental targets for 2020, which were set in 2011, have already been met or exceeded. Already we're a zero landfill business with all our waste either recycled or used for energy recovery, and 100% of our electricity is from renewable sources - we're proud to receive over 50% from a Solar Farm Power Purchase Agreement, and we've offset our total carbon emissions by funding wind power projects at two sites in India, Andipatti and Thenai. Our ambition is to look for better, cleaner ways to run our operations and we're now turning our attention to the Conference of Parties (COP 21) two-degree target set in Paris.

The impact of climate risks

Whilst we continue to work hard to minimise our direct impact on the environment, we must also assess the impact that global climate change could have on our business in the future.

Two types of risk may shape our business: physical risks (which arise from weather-related events) and transitional risks (which come from adapting to a low-carbon economy). As a building society we're not significantly exposed to industries adapting to a low-carbon economy. Our core business is to help members buy houses and physical risks mainly arise in our mortgage portfolios. We welcome the recommendations of the Financial Stability Taskforce on Climate-related Financial Disclosures (TCFD) and are assessing how we can best implement the recommendations.

Governance	The Executive Risk Committee and Board Risk Committee are responsible for our climate related risks. We are creating an executive committee for Responsible Business which will be chaired by our Deputy CEO, Tony Prestedge. This committee will be charged by the Board with establishing the Society's responsible business agenda, tracking the Society's impact right across our business, setting targets for improvement and reporting back to the Board.
Strategy	We will continue to assess climate change risks on our business and integrate how we manage these risks into our strategy.
Risk Management	Over the longer term, risks could arise from more extreme weather events and we are building capability to improve our understanding of these risks. We have worked with third party organisations with geospatial modelling, and geological and hydrological expertise, to model the impacts of climate change on our property portfolios. Today we use this capability to protect members from purchasing uninsurable properties and over time this work will allow us to conduct "what if" analysis for different climate change scenarios and enable us to support our members better. To help us manage broader climate change risks, we assess the potential effects of climate-related financial risks and consider how we can include them in our stress testing and scenario analysis.
Metrics	We are developing our approach to reporting metrics and targets. A summary of our greenhouse gas emissions (GHG) is included in the Directors' Report on page [99]

We note the recent publications from the PRA and the FCA relating to the financial risks arising from climate change and will work with the regulators as they further develop their approaches to managing and monitoring these risks

Capital structure

Our capital position has strengthened during the period with our CET1 ratio increasing to 32.4% (5 April 2018: 30.4%) whilst our UK leverage ratio remained stable at 4.9% (5 April 2018: 4.9%). Both remain in excess of the regulatory capital requirements of 13.2% and 4.0% respectively, which include CRD IV buffers applicable from August 2019.

Capital structure (note i)	4 April 2019	5 April 2018 (note ii)	4 April 2018
	£m	£m	£m
Capital resources			
Common Equity Tier 1 (CET1) capital	**10,517**	9,915	9,925
Total Tier 1 capital	**11,509**	10,907	10,917
Total regulatory capital	**14,485**	13,930	13,936
Risk weighted assets (RWAs)	**32,506**	32,579	32,509
UK leverage exposure	**235,147**	221,982	221,992
CRR leverage exposure	**247,586**	236,458	236,468
CRD IV capital ratios:	**%**	**%**	**%**
CET1 ratio	**32.4**	30.4	30.5
UK leverage ratio (note iii)	**4.9**	4.9	4.9
CRR leverage ratio (note iv)	**4.6**	4.6	4.6

Notes:

i. Data in the table is reported under CRD IV on an end point basis with IFRS 9 transitional arrangements applied

ii. Figures have been adjusted to reflect the impact of applying IFRS 9 from 5 April 2018. Further information is provided in note 37 and in our 'Report on Transition to IFRS 9: Financial Instruments', which can be found at nationwide.co.uk.

iii. The UK leverage ratio (as defined in the PRA rulebook) is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves.

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

The CET1 ratio increased to 32.4% (5 April 2018: 30.4%) as a result of an increase in CET1 capital resources, with RWAs remaining relatively stable. CET1 capital resources have increased by £0.6 billion, primarily due to the profit after tax for the year of £0.6 billion. RWAs remained stable with increased retail lending and treasury related RWAs offset by run-off in the commercial book and the implementation of a new credit card IRB model.

The UK leverage ratio remained stable at 4.9% (5 April 2018: 4.9%), with an increase in Tier 1 capital driven by profit after tax of £0.6 billion offset by an increase in UK leverage exposure of £13 billion resulting from an increase in net retail lending of £9 billion, an increase in treasury exposures (including counterparty credit risk) of £5 billion, and an increase in other assets of £1 billion, offset by run-off in the commercial book of £2 billion. The CRR leverage ratio is based on the Delegated Act definition and therefore exposures include central bank reserves. This also remained stable at 4.6% (5 April 2018: 4.6%). On 24 April 2019, Nationwide notified investors of its intention to redeem its outstanding Additional Tier 1 capital instrument in full, on 20 June 2019. This will reduce Tier 1 capital resources by £992 million, resulting in a 0.4 percentage points reduction in the UK leverage ratio, to 4.5%, and a 0.4 percentage points reduction in CRR leverage ratio to 4.2%, based on the year end balance sheet.

Nationwide expects to implement new residential mortgage IRB models in 2020, incorporating the changes required by the June 2017 update to supervisory statement 11/13. This is anticipated to increase RWAs, leading to an estimated reduction in the CET1 ratio of approximately one third, based on our reported ratio at 4 April 2019. We expect the CET1 ratio to be impacted further by the Basel III reforms which come into effect progressively between 2022 and 2027. The impact of this legislation will supersede the effect of the new IRB models, with an expected reduction in the reported CET1 ratio of approximately 45% to 50%, relative to the 4 April 2019 position; however organic earnings through the transition will mitigate this impact and we expect leverage requirements to remain our binding constraint based on latest projections.

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

Board of directors

Meet your Board of directors who were in office at 4 April 2019, including Albert Hitchcock, who is seeking election as non executive director.

Key

- a Audit Committee
- e Executive Committee
- it Board IT and Resilience Committee
- ng Nomination and Governance Committee
- r Remuneration Committee
- ri Board Risk Committee
- Indicates chair of a Committee

Baroness Usha Prashar CBE PC

Non executive director since January 2017 (independent)

r

Skills and experience

Usha is a highly experienced policy advisor, with a singular mix of insight across the public, not-for-profit and broadcasting sectors. Her wealth of public and voluntary sector expertise helps inform Nationwide's regulatory perspectives and social purpose. Usha shares the Society's commitment to contributing to local communities and voluntary work.

Current external positions

Member of House of Lords
Honorary President, UK Community Foundations
Member, the Home Building Review Panel
Chair, Cumberland Lodge

Previous positions include

Deputy Chair, the British Council
Member, European Select Committee
Non executive director, ITV
Non executive director, the Cabinet Office
Non executive director, Channel 4
Non executive director, Ealing, Hounslow and Hammersmith Health Authority
Inaugural Chairman, the Judicial Appointments Commission

Tony Prestedge

Executive director since August 2007

e

Skills and experience

Tony combines deep strategic, transformation, IT and operational experience from over two decades in financial services, with a passionate focus on delivering exceptional service across every member touch point within the Society. Tony is Deputy Chief Executive; his accountabilities include developing Nationwide's strategy and driving digital transformation as well as leading the Society's Relationships and Distribution community. This encompasses branches, contact centres, mobile and digital channels, mortgage and financial planning distribution, collections and recoveries, member services and intermediary sales. Prior to his current role Tony was Nationwide's Chief Operating Officer.

Previous positions include

Managing Director, Home Finance and Retail Support and Operations Director, Barclays plc
Director, Woolwich Mortgage Services Limited
Director, Global Home Loans Limited
Director, Opportunity Now

Joe Garner

Chief Executive Officer since April 2016

e

Skills and experience

Joe has spent his working life in consumer-focused businesses, starting his career with consumer product companies Procter & Gamble and Dixons Carphone. He later took on leadership roles first as Head of HSBC's UK retail and commercial businesses and then as CEO at Openreach. Throughout his career, Joe has championed the interests of colleagues and customers, believing that looking after both is not only the right thing to do, but the key to commercial success. Since joining Nationwide, Joe's mission has been to inspire colleagues to remain true to the Society's social purpose: using the power of the collective to improve people's lives. Joe is passionate about Nationwide's core purpose of 'building society, nationwide'.

Current external positions

Director, UK Finance

Member, Financial Conduct Authority Practitioner Panel

Chairman and trustee, British Triathlon Trust

Member, Economic Crime Strategy Board

Previous positions include

CEO, Openreach

Deputy CEO, HSBC Bank plc

Head, HSBC's UK Retail and Commercial Business

Non executive director, Financial Ombudsman Service

Lynne Peacock

Non executive director since July 2011 and senior independent director since July 2016

r a ri ng

Skills and experience

Lynne has an exceptional background in financial services, including an extensive understanding of the mutual sector. In addition to leading two retail banks and holding a directorship within a building society, she has operated at Board level for over 20 years, overseeing brand development, mergers and acquisitions, change management and business transformation. Lynne is a strong advocate of mutuality and is Chair of the trustees of a charity for people with learning disabilities.

Current external positions

Non executive director, Serco Group plc

Chair of trustees, Westminster Society for People with Learning Disabilities

Previous positions include

CEO of National Australia Bank's UK business

CEO of Woolwich plc

Non executive director, Jardine Lloyd Thompson Group plc

Non executive director, Scottish Water

Non executive director, Standard Life Aberdeen plc

Kevin Parry OBE

Non executive director since May 2016 (independent)

a ri ng

Skills and experience

Kevin is a chartered accountant with a distinguished career in financial services and professional practice, bringing to the Board expertise in audit, regulation, risk management, and finance. As a former Chairman of the Homes and Communities Agency, his perspective on housing is a valuable asset to the Society. He is Chairman of Royal London, the largest mutual insurer in the UK. He is a trustee and former Chairman of the Royal National Children's SpringBoard Foundation, a charity providing life transforming opportunities through education to disadvantaged children.

Current external positions

Chairman, Royal London Group

Chairman, Intermediate Capital Group plc

Non executive director and Chairman of the Audit and Risk Committee, Daily Mail and General Trust plc

Trustee, Royal National Children's SpringBoard Foundation

Previous positions include

Chief Financial Officer, Schroders plc

Chief Executive Officer, Management Consulting Group plc

Managing Partner, Information Communications and Entertainment, KPMG LLP

Senior Independent Director, Standard Life Aberdeen plc

Tim Tookey

Non executive director since June 2015 (independent)

ri a it ng

Skills and experience

Tim is a chartered accountant with over 30 years' experience in finance, across retail and commercial banking, life assurance and pensions, and insurance. As a former Chief Financial Officer, Tim has the background and expertise to analyse and test the Society's financial and risk strategies.

Current external positions

Director, Westmoreland Court Management (Beckenham) Ltd

Previous positions include

Chief Financial Officer, Quilter plc (previously known as Old Mutual Wealth Management Limited)

Chairman, Alliance Trust Savings Limited

Chief Financial Officer, Friends Life Group Limited

Group Finance Director, Lloyds Banking Group

Finance Director, Prudential plc's UK business

Rita Clifton CBE

Non executive director since July 2012 (independent)

a r

Skills and experience

As a former CEO and Chair of brand consultancy Interbrand, Rita is an acclaimed brand expert. This, and her background in consumer insight, help ensure that member interests are central to Board business. Rita has helped a wide range of iconic British organisations understand how to use research, marketing strategy and communications to build sustainable brand value She is also a committed advocate for environmental and sustainability issues.

Current external positions

Non executive director, ASOS plc

Non executive director, Ascential plc (previously known as EMAP plc)

Chairman, BrandCap

Member, Assurance and Advisory Panel, BP's carbon off-setting programme 'Target Neutral'

Trustee, Green Alliance

Previous positions include

London CEO and Chairman, Interbrand

Vice Chairman, Saatchi & Saatchi

Non executive director, Dixons Retail plc

Fellow and Trustee, WWF (Worldwide Fund for Nature)

Non executive director, Bupa

Non executive director, Populus Limited

Member, the UK Government's Sustainable Development Commission

Chris Rhodes

Executive director since April 2009

e

Skills and experience

Chris is a chartered accountant with over 30 years' experience in retail and commercial banking, holding senior leadership roles across finance, treasury, operations, retail distribution and risk management This broad background in financial services means he is ideally placed to oversee the development of the Society's product and services to ensure they meet the needs of the Society's 15 million members.

Current external positions

Trustee, National Numeracy

Director, Lending Standards Board

Previous positions include

Group Finance Director, Alliance and Leicester Group

Deputy Managing Director, Girobank

Board Director, Visa Europe

Mitchel Lenson

Non executive director since July 2011 (independent)

it (Chair until March 2019) ri

Skills and experience

After serving the Society for eight years, Mitchel will step down from the Board at the 2019 AGM. During his term of office, Mitchel has brought to the Board an exceptional leadership track record in technology, operations and programme management. In a 30-year career in financial services he has held senior management positions across retail, corporate, investment banking and private wealth and asset management. In addition, Mitchel has advised on financial services in the private equity sector and has ongoing involvement in the fintech space.

Current external positions

Non executive director, The Currency Cloud Group Limited

Advisor to Lombard Odier.

Previous positions include

Group Chief Information Officer, Deutsche Bank AG

Managing Director, Global Head of Operations & Operation IT, UBS Warburg

Director, Group Operations, Credit Suisse First Boston

Partner, Olivant & Co

Non executive director, NYFIX.

Mai Fyfield

Non executive director since June 2015 (independent)

it r

Skills and experience

Mai combines her experience as an economist and strategist with considerable commercial experience to guide the Board's strategic thinking and assessment of new opportunities and initiatives. She was until last year Chief Strategy and Commercial Officer at Sky where she led strategy and commercial partnerships across the Sky Group, an organisation she joined in 1999. With a strong focus on customer experience and service delivery, Mai previously served as economic adviser to major blue-chip companies. She is a champion of diversity and helping women succeed in senior management and Board positions.

Current external positions

Director, Roku Inc.

Previous positions include

Director, Jupiter Entertainment

Chief Strategy and Commercial Officer, Sky Group plc.

David Roberts

Non executive director and Chairman elect from September 2014. Chairman since July 2015 (independent upon appointment as Chairman)

ng r

Skills and experience

David combines a distinctive blend of leadership experience across major listed corporations, the mutual movement, and public service, including 35 years in financial services. He is a passionate champion of Nationwide's social purpose and of the Society's commitment to help improve the financial lives of its members. David also strongly believes in the economic value of commerce and the importance of rebuilding trust in big business.

Current external positions

Chairman, Beazley plc

Vice Chair, NHS England

Associate non executive director, NHS Improvement

Non executive director, Campion Wilcocks Limited

Advisor Board member, The Mentoring Foundation Advisory Council

Member, Strategy Board, Henley Business School, University of Reading.

Previous positions include

Group Deputy Chairman, Lloyds Banking Group plc

Executive director, Barclays Bank plc and CEO, International and Commercial Banking

Chairman and CEO, Bawag PSK AG

Non executive director, BAA plc

Non executive director, Absa Group SA

Mark Rennison

Executive director since February 2007

e

Skills and experience

Mark is a chartered accountant with over 30 years' experience in financial services. His track record in the sector, including expertise in treasury operations, risk management and capital planning, equip him to lead the sustained and safe operation of a large financial business like Nationwide. As Chief Financial Officer, he is responsible for Finance and Efficiency, effectively ensuring Nationwide's financial strength so that it can continue to invest in sustainable services for current and future members.

Current external positions

Chair, Financial Risk and Policy Committee, UK Finance

Director, Arkose Funding Limited.

Previous positions include

Partner, PricewaterhouseCoopers LLP

Member, Bank of England's PRA Practitioner Panel.

Gunn Waersted

Non executive director since June 2017 (independent)

n (Chair from March 2019)

Skills and experience

Gunn has a distinguished international career, including senior leadership positions in financial services, telecommunications and petrochemicals. She brings to the Board vast experience of driving large-scale operational, cultural change and digital transformation programmes to improve customer experience. She is a strong advocate of the need for strong people cultures and creating genuinely diverse organisations.

Current external positions

Chair, Telenor ASA

Chair, Petoro AS

Member, Fidelity International.

Previous positions include

CEO, Wealth Management Division, CEO of Nordea Bank Norway and Executive Vice President at Nordea Bank Group

CEO, Vital Forsikring and Executive Vice President of DnB

Chair, Ferd and BI

Non executive director, Statkraft, Statoil.

Albert Hitchcock

Non executive director since December 2018 (independent)

n ri

Skills and experience

Albert is a leader in information technology with a 33-year career in the technology industry. His experience is of huge value to the Society as we embark upon our ambitious £4.1 billion transformation programme to meet the expectations of our members today and in the future.

Current external positions

Chief Technology and Operations Officer, Pearson plc.

Previous positions include

Technology Adviser to the Board, Royal Bank of Scotland plc

Group Chief Information Officer, Vodafone plc

Global Chief Information Officer, Nortel Networks.

Executive Committee biographies

As well as sitting on the Board of directors, the following people are also part of the Executive Committee:

3 Tony Prestedge

4 Mark Rennison

6 Chris Rhodes

10 Joe Garner

Executive Committee biographies continued

(1) Martin Boyle
Chief Transformation Officer

Martin leads the multi-million-pound strategic investment and change portfolio and is responsible for delivering the Society's transformational programmes, balancing modern, digital convenience with Nationwide's human touch. He joined the Portman Building Society in 2004 which subsequently merged with Nationwide Building Society. Before that Martin had over 20 years' change experience in consulting and retail financial services

(2) Patrick Eltridge
Chief Operating Officer

Patrick joined the Society as Chief Operating Officer in February 2019. He was previously Chief Information Officer at Royal Bank of Scotland, where he was responsible for the successful delivery of IT and operational resilience improvement programmes.
As COO, Patrick's focus is on the Society's infrastructure, ensuring that through the development of new, innovative technology Nationwide continues to deliver real value and service for members.

(5) Janet Chapman
Chief Internal Auditor
(Executive Committee attendee)

Janet joined Nationwide in 2017, following an extensive career in financial services in the UK and the USA. She leads the Internal Audit community and was most recently with Citigroup where she was Chief Auditor for the institutional businesses. Before that, Janet was Chief Auditor for the Americas at The Bank of Tokyo Mitsubishi. Her early career was spent with Accenture as an IT consultant.

(7) Mark Chapman
Chief Legal Officer
and Society Secretary

Mark joined the Society in 2018 as the leader of Legal and Secretariat which focuses on providing expert advice and guidance on legal and regulatory issues, as well as a comprehensive secretariat service. Immediately before joining Nationwide, Mark spent a year volunteering as a teacher at a school in a township in the Western Cape of South Africa. He previously served as General Counsel of Barclays UK for six years, and General Counsel at Nomura International for over a decade having started his career as a litigator at Freshfields.

(8) Julia Dunn
Chief Risk Officer

Julia joined Nationwide in 2013 as Chief Compliance Officer. She now leads the Risk Community, helping to keep the Society, and its members, safe and secure. A qualified chartered accountant, Julia previously spent 13 years in supervision and enforcement with the Financial Services Authority, and latterly the Financial Conduct Authority as Director of Retail Banking Supervision.

(9) Sara Bennison
Chief Marketing Officer

Sara started her career in advertising agencies, working across a variety of major brands in the UK and Asia. She joined Nationwide in 2016 having spent the previous decade at BT and then Barclays. She is responsible for all Nationwide's research, marketing, communications and social investment.

(11) Alison Robb
Chief People Officer

Alison leads Nationwide's people matters, including recruitment, training, diversity and the development of teams to meet our members' needs. A qualified chartered accountant, Alison worked for KPMG and WH Smith before joining Nationwide in 1996. She has worked across the Society, including in the finance and strategy functions.

Report of the directors on Corporate Governance

For the year ended 4 April 2019

Dear fellow member,

I am pleased to present the Corporate Governance Report for the financial year ended 4 April 2019.

With record numbers of members seeing the benefits of mutuality – from service to value – Nationwide must be responsive to their changing needs to ensure we remain relevant and competitive. Our governance framework continues to serve us well as we invest in new markets and enhanced services, ensuring that the long-term decisions we take continue to deliver value for members, today and tomorrow.

The board of directors is responsible for the governance of the Society and is committed to maintaining the highest standards in the way Nationwide is directed, governed and managed. We believe that good quality governance underpins Nationwide's ability to provide legendary service and reward the loyalty of our members. The Board seeks to balance members' needs with protecting the long-term success of the Society: an example being our response to the increased competition in digital banking services with our investment spend in new technologies, whilst still investing in branches.

Our Members

As a mutual, Nationwide is owned by and run for the benefit of you, our members. Members are at the heart of Nationwide and are central to everything we do. We believe that as owners of Nationwide, members should have the opportunity to share their views and have their say on the direction of the business. I am pleased that our regular member TalkBack sessions held at various locations throughout the United Kingdom continue to be successful, with 11 sessions held this financial year. To build on this success, we will be holding more TalkBack sessions in the 2019/20 financial year. More information on these sessions can be found on our website **nationwide.co.uk**

We encourage your participation at our Annual General Meeting (AGM), a key event which provides the Board with the opportunity to meet with members. All the directors, including the Chairs of Board Committees, attend the AGM and will be available at the meeting to answer your questions and hear your views. Members can also vote on important issues such as re-electing directors to the Board. At this year's AGM, following the audit tender process referenced in last year's report, members will also be asked to vote on the appointment of Ernst and Young LLP as the Society's external auditor. We look forward to meeting as many of you as possible at this year's AGM in Manchester on 18 July 2019.

Our People and Culture

Our culture defines the way we do business and is an integral part of our mutuality and our strategy. The Board recognises the importance of its role in setting and embedding the "tone from the top" throughout the Society. To this end, we pay close attention to culture and seek to shape the way we operate to ensure it is in the interests of both the Society and its members. The Board's commitment to the development of the Society's culture was demonstrated at our strategy conference in October 2018. Culture was a key topic with discussions on how the Society's culture could further evolve to support the organisation's purpose in a rapidly changing environment. Further information on this can be found on page [50].

Our Governance

At Nationwide we strive for excellence and transparency in corporate governance and have adopted the UK Corporate Governance Code (the Code) which sets the governance standards for public listed companies. We do so in line with the Building Societies Association Guidance on the Code to ensure alignment with good practice and our mutual status.

Further information about our governance structure and application of the Code can be found in the Corporate Governance Report on pages [46] to [61].

We have considered the revision to the Code published in July 2018 which is relevant to Nationwide from 5 April 2019. Over the past few months, we have reviewed our activities and assessed how to further embed the revised and updated principles into our governance framework. For example, to bring the voice of colleagues directly into the Boardroom, one of our non executive directors, Mai Fyfield has assumed specific responsibility for ensuring the voice of our employees is heard in the Boardroom. We will report on our compliance with the revised Code in our 2020 Annual Report.

Our Board

The Board collectively is responsible for the long-term success of your Society and as Chairman, it is my responsibility to lead the Board and promote its effectiveness within a strong and sound governance framework. Each year, a formal evaluation of the effectiveness of the Board and its committees is conducted. In 2019, the effectiveness review was conducted internally.

We will report fully on the findings and any action plans in next year's annual report. We continue to make good progress on the plans we put in place in response to the findings of the 2018 externally facilitated Board effectiveness review. More information on the 2018 evaluation process and its findings can be found on page [58].

It is vital to the success of Nationwide that the Board has the mix of skills and diversity needed to set the strategic direction and apply the appropriate level of oversight and challenge for the business. On a regular basis, we review the Board's balance of experience, knowledge and skills to enable the discharge of its responsibilities. At the end of 2018, we were pleased to announce the appointment of Albert Hitchcock to the Board as a non executive director. He also became a member of both the Board IT & Resilience and Board Risk committees. Albert's wealth of experience in transformation technology will be hugely valuable to the Board's oversight of the Society's technology strategy.

We also announced that, after eight years of service, Mitchel Lenson will retire from the Board as a non executive director at our AGM in July 2019. Gunn Waersted replaced Mitchel as Chair of the Board IT & Resilience Committee in March 2019. I would like to take the opportunity to thank Mitchel on behalf of the Board and Nationwide for his contribution to the Board and wish him well for the future.

As part of its remit, the Nomination and Governance Committee continues to focus on succession planning and leadership changes at executive management level. With effect from June 2018, Tony Prestedge was appointed Deputy Chief Executive Officer, a role which includes accountability for strategic planning. Tony has been an executive director with Nationwide since 2007. We are pleased to welcome Patrick Eltridge who joined the Executive Committee in February this year as Chief Operating Officer. Patrick has deep and relevant experience in technology development and operations from his previous role as Group Chief Information Officer at Royal Bank of Scotland. He is also a member of the Executive Risk Committee. Our Chief Financial Officer, Mark Rennison, has discussed with the Board his intention to retire and we are actively considering succession planning.

Diversity

The Board is committed to a diverse workforce and continues to focus on increasing diversity on our Board and at all levels across the Society. We recognise the significant benefits that come with having a diverse Board and I am pleased to report how the diversity on our Board compares with recent benchmarks set for listed firms Whilst Nationwide is a building society and not a listed company, we have already achieved the Hampton-Alexander review 2020 target for a minimum of 33% women's representation on the boards of FTSE 350 companies We have also achieved the Parker review 2021 target of each FTSE 100 company having at least one director from an ethnic background. We believe, however, that diversity needs to look much wider than gender and ethnicity to include variations in experience, skills, background and personal attributes. To further promote the Board's commitment and support for diversity initiatives at Nationwide, we have designated Baroness Usha Prashar, a non executive director, as the Board's sponsor of the Society's diversity and inclusion agenda. More information on our diversity targets across the Society can be found on page [23].

The year ahead

At Nationwide, we have an established and effective governance framework and we will continue to embrace the best governance practices to enable us to deliver great value products and outstanding service to you and our wider stakeholders.

David Roberts
Chairman

Governance at Nationwide

The Board has established a set of internal standards and principles by which Nationwide is governed to ensure sound and prudent control of the Society, to keep members' money and interests safe. Everyone in Nationwide has a role in governance:

The Board	Chief Executive Officer	Nationwide's People
Sets the strategy and tone, and promotes ethical leadership, culture, values, governance, controls and risk management.	The Chief Executive Officer derives their authority from the Board and cascades standards and principles agreed by the Board to the business.	Everyone at Nationwide is responsible for good governance and adhering to the standards and tone set by the Board.

Strategic Report
Governance
Business and Risk Report
Financial Statements
Other Information

UK Corporate Governance Code Statement of Compliance

Nationwide is committed to high standards of corporate governance and has continued to adopt the UK Corporate Governance Code 2016 (the Code) which is available at **www.frc.org.uk**. The Board believes that throughout the year ended 4 April 2019 Nationwide has complied with the principles of the Code as it applies to building societies (according to the Building Societies Association guidance of June 2016). Details of the principles, including a reference to where you can read more about how Nationwide complied with them, are set out below:

Leadership

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

Role of the Board - Page [13]

There should be a clear division of responsibilities at the head of the company between the running of the Board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

Roles and responsibilities - Pages [50] to [53]

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

Roles and responsibilities - Pages [50] to [53]

As part of their role as members of a unitary board, non executive directors should constructively challenge and help develop proposals on strategy.

Roles and responsibilities - Pages [50] to [53]

Effectiveness

The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

Board composition [illegible]

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

Nomination and Governance Committee report - Pages [illegible]

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

How the Board operates
Time commitment [illegible]

All directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

Induction
Nomination and Governance Committee report - Pages [illegible]

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Information and support [illegible]

The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Board effectiveness review [illegible]

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Tenure and independence [illegible]

The UK Corporate Governance Code uses the terminologies of 'company' and 'shareholder' but for the purpose of Nationwide and this Corporate Governance report, these terms should be read as 'Society' and 'member' respectively.

UK Corporate Governance Code Statement of Compliance (continued)

Accountability

The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

Audit Committee report - Pages [62] to [69]
Directors' report - Pages [98] to [100]

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.

Strategic report - Pages [3] to [37]
Business and risk report - Pages [101] to [168]
Board Risk Committee Report - Pages [70] to [73]

The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.

Audit Committee report - Pages [62] to [69]

Remuneration

Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.

Report of the directors on remuneration - Pages [84] to [97]

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Report of the directors on remuneration - Pages [84] to [97]

Relations with members

There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board has responsibility for ensuring that a satisfactory dialogue with shareholders takes place

Members help build society, nationwide - Page [61]

The Board should use general meetings to communicate with investors and to encourage their participation.

Members help build society, nationwide - Page [61]

Leadership

The role of the Board

The Board is responsible for ensuring that the Society can deliver long-term success for members and is built to last. It determines the Society's strategic objectives within a framework of risk appetite and controls. The Board monitors the Society's overall financial performance and ensures effective governance, controls and risk management.

When setting the Society's strategy, the Board considers the impact that its decisions might have on various stakeholders such as members, employees, suppliers and the community. It is accountable for ensuring that as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. The Board is also responsible for providing leadership to the Society on culture, values and ethics.

The powers of the Board are set out in the Society's Memorandum and Rules which are available on the Society's website **nationwide.co.uk**

The Board operates under formal terms of reference which include a schedule of matters reserved to the Board for decision, with the day to day running of the business delegated to the Chief Executive Officer. The Chief Executive Officer derives his authority from the Board and cascades the agreed standards to the business. The Board's terms of reference can be found on the Society's website **nationwide.co.uk**

Culture

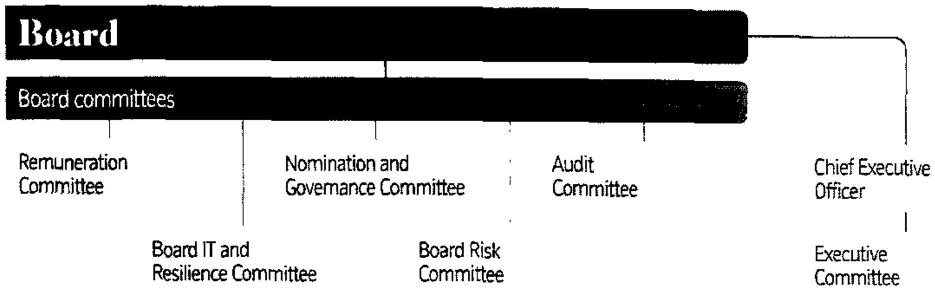
Leading the development of the Society's culture remains a key focus of the Board to support the organisation's purpose, and the delivery of its strategic ambitions. This is set against the backdrop of a rapidly changing competitive and technological environment. The Society's cultural assessment tool, the Culture Mosaic, has been in use for the last year providing analysis and insights to both the Executive Committee and the Board on the evolution of the culture. Using both quantitative and qualitative information including the organisation's employee engagement survey and the Banking Standards Board[2] report, it helps the Society to develop aspects of the culture to meet the changing needs of employees and members in the future.

Culture was a key theme of the Board Strategy Conference in October 2018. Led by a variety of inputs and insights provided by the Mosaic and external research, the cultural shifts needed to ensure the Society can respond to future challenges and opportunities were agreed. It was recognised that Nationwide's culture has many strengths, particularly its member focus, ethic of care and commitment to doing the right thing. Whilst maintaining this essence of what makes Nationwide special for members and colleagues, the Board identified more agility, pace and innovation as necessary to deliver Nationwide's business strategy and core purpose in a world being redefined by technology.

As a result, several priorities were identified that now form part of the Society's agenda on culture over the next few years. These include re-shaping the cultural narrative, empowering colleagues, developing leadership potential, creating a learning organisation and evolving the Society's approach to reward and recognition. An essential part of this is to create a distinctive Nationwide experience for employees, focusing on all aspects of working life that support performance and growth, helping people to be at their best for members. This includes stretching ambition on matters such as diversity, inclusion and wellbeing. Sponsoring and monitoring progress in all these areas will be a priority for the Board.

Leadership structure

An overview of the Board structure and its committees as at 4 April 2019 is set out below.



Further information on the role of the Board and its committees can be found on pages [50] to [53] of this report and in the individual committee reports.

[2] This is an annual survey undertaken by the Banking Standards Board covering 26 firms, including 9 systemically important institutions (of which Nationwide is one) and a range of other mid-sized and small banks and building societies. It aims is to raise standards across the sector. Over 3,300 colleagues at NBS participated in the last assessment.

Leadership (continued)

Whistleblowing

Nationwide has arrangements in place for employees, contractors and temporary workers to raise concerns, in confidence, about possible misconduct, wrongdoing and behaviour towards others, including those relating to non-financial matters.

Nationwide's Chairman, David Roberts, is the Society's Whistleblowers' Champion. David has the responsibility for ensuring and overseeing the integrity, independence and effectiveness of Nationwide's policies and procedures on whistleblowing, including those intended to protect whistleblowers from being victimised because they have disclosed reportable concerns.

Having effective and trusted confidential whistleblowing arrangements is a key priority for the Board in supporting the Society's open and honest culture. The Board receives an annual whistleblowing report so that it is aware of themes and categories of concerns raised during the year and has reviewed the adequacy and effectiveness of the arrangements.

Nationwide provides employees, contractors and temporary workers with annual training which includes information on how they can raise a whistleblowing concern directly with the Financial Conduct Authority or the Prudential Regulation Authority, without first reporting internally.

The Board

All directors are subject to conduct rules laid down by the regulators and must satisfy requirements relating to their fitness and propriety. In addition, the Chairman, the Senior independent director and Chairs of the key Board Committees are subject to all aspects of the Senior Managers Regime[3].

The Board governs and makes decisions as a collective body. Each role on the Board has specific responsibilities. A summary of the responsibilities of each role can be found below:

Role	Responsibilities
Chairman **David Roberts**	Leads the Board, ensuring it is effective; Key in setting the tone from the top both in terms of the Society's culture – fostering open and honest debates, and in setting the strategic direction; Together with the other members of the Board, promotes the long-term success and ensures the accountability of the Society to its members. Supervises and supports the Chief Executive Officer.
Senior independent director **Lynne Peacock**	Provides a sounding board for the Chairman; Leads the annual review of the Chairman's performance by the Board; Available to directors and members when contact through the usual channels (Chairman or Chief Executive Officer) may not be appropriate. Acts as trusted intermediary for other directors when necessary.
Non executive directors **Rita Clifton** **Mai Fyfield** **Albert Hitchcock** **Mitchel Lenson** **Kevin Parry** **Usha Prashar** **Tim Tookey** **Gunn Waersted**	Collectively set the tone from the top, in relation to culture and governance – holding management to account for embedding and maintaining the Society's culture and values; Contribute to the development of the strategy and risk appetite, exercising effective oversight over risk management and controls; Monitor performance and constructively challenge as appropriate using their skills and expertise to engage in honest debate; Promote the long-term success of the Society for the benefit of members and ensure that the Society meets its obligations as a regulated firm.

Role	Responsibilities
Chief Executive Officer **Joe Garner**	Responsible for the day to day running of the business and accountable to the Board for the Society's financial and operational performance; Implements and monitors systems for the apportionment and oversight of responsibilities, controls and best practices, policies and processes within the Society which maintain its operational efficiency and high standards of business conduct.
Executive directors **Tony Prestedge** **Mark Rennison** **Chris Rhodes**	As members of the Board, collectively with non executive directors, set the strategy, risk appetite and culture and values; Ensure that the Board is kept informed of all significant matters, escalating issues on a timely basis; Accountable to the Board for the execution of the strategy and the performance of the business; Hold specific management responsibilities in the day to day running of the business.
Society Secretary **Mark Chapman**	Advises the Board through the Chairman on all governance related matters. Supports the Board and is responsible for ensuring good information flows between the Board and the rest of the business to ensure that high quality and timely information is provided to the Board

3 The Senior Managers Regime allocates specific responsibilities to Senior Managers to enhance individual accountability across the business [illegible] UK banks, building societies, credit unions, branches of foreign banks operating in the UK and the largest investment firms regulated by the PRA and the FCA

Leadership (continued)

Board Committees

To assist the Board in carrying out its functions and to ensure that there is independent oversight of internal control and risk management, certain governance responsibilities have been delegated by the Board to board committees. These board committees comprise independent non executive directors and, in some cases, the Chairman. The terms of reference of the Board and its committees can be found on the Society's website. **nationwide.co.uk**

Committee	Responsibilities
Audit Committee	The Audit Committee provides oversight and advice to the Board in respect of financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems.
Board IT and Resilience Committee	The Committee provides oversight and advice to the Board on the Society's IT strategy, IT architecture, IT operating model effectiveness, delivery performance and resilience controls, including cyber risk, as well as overseeing the Society's data management strategy.
Board Risk Committee	The role of the Committee is to provide oversight and advice to the Board in relation to current and potential future risk exposures and future risk strategy including determination of risk appetite. In addition, the Committee is responsible for monitoring compliance oversight, and the effectiveness of the Enterprise Risk Management Framework (ERMF). It also advises the Remuneration Committee on any risk adjustments to be made to remuneration.
Nomination and Governance Committee	The Nomination and Governance Committee assists the Chairman in keeping the composition of the Board under review, making recommendations to the Board on succession planning, executive level appointments and leading the appointments process for nominations to the Board. The Committee oversees the implementation of the Society's Equality, Diversity and Inclusion strategy and objectives. It also reviews the Board's governance arrangements and makes recommendations to the Board to ensure that the arrangements are consistent with best practice.
Remuneration Committee	The Remuneration Committee is responsible for determining and agreeing with the Board the framework or broad policy for remuneration of the Chairman, the directors and other senior executives of the Society including employees who are identified as material risk takers under the PRA Remuneration Code. It determines, within the terms of the agreed policy, the specific remuneration packages for these roles. The Committee also reviews the ongoing appropriateness and relevance of the remuneration policy across the rest of Nationwide.

Executive Committees

There is a clear division of responsibilities between the Chairman, as leader of the Board, and the Chief Executive Officer who is responsible for the day to day running of the business. To the extent that matters are not reserved to the board of directors, responsibility is delegated to the Chief Executive Officer, who is assisted by the Executive Committee and the Executive Risk Committee.

Committee	Responsibilities
Executive Committee	The Executive Committee is Nationwide's key operational committee which oversees the day to day operations of the Society's business. This Committee meets once a month, reviews matters that are to be presented to the board of directors, and is composed of the Chief Executive Officer, the three other executive directors and the seven individuals who form the Society's senior leadership team. More information on Nationwide's senior leadership team can be found on page [45].
Executive Risk Committee	The Executive Risk Committee, which meets monthly, is responsible for ensuring a coordinated approach across all risks and oversight of the risk committees such as the Operational Risk Committee, Assets and Liabilities Committee, Credit Committee, Conduct and Compliance Committee and the Model Risk Oversight Committee. The Committee's membership comprises the four executive directors and a number of other members of the Executive Committee. It is chaired by the Society's Chief Risk Officer.

Leadership (continued)

How the Board operates

The Board meets regularly and holds a strategy meeting annually to review strategic options open to the Society in the context of the economic, regulatory and competitive environment. The Board also meets when necessary to discuss important emerging issues that require consideration between scheduled Board meetings. There were ten scheduled Board meetings this year including the annual strategy day. The Board meetings are structured to ensure that the Board covers a range of items (as detailed below) relating to the Society's business, strategy, culture and performance through open debate. The Chairman regularly meets with the non executive directors, without executive directors present.

The attendance record for board members during the period is set out below. The table shows the actual number of meetings attended with the number of meetings for which directors were eligible to attend shown separately. Each director attended all the meetings they were eligible to attend in the year.

In addition to the meetings shown below, two joint Board and Audit Committee meetings were held during the year to consider the Q1 and Q3 Interim Management Statements.

Board attendance







	Rita Clifton	Mai Fyfield	Joe Garner	Albert Hitchcock*	Mitchel Lenson	Kevin Parry	Lynne Peacock
Meetings attended / (eligible to attend)	10 / (10)	10 / (10)	10 / (10)	2 / (2)	10 / (10)	10 / (10)	10 / (10)







	Usha Prashar	Tony Prestedge	Mark Rennison	Chris Rhodes	David Roberts	Tim Tookey	Gunn Waersted
Meetings attended / (eligible to attend)	10 / (10)	10 / (10)	10 / (10)	10 / (10)	10 / (10)	10 / (10)	10 / (10)

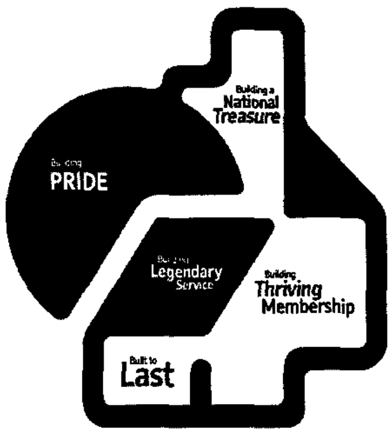
* Joined the Board on 2 December 2018

What the Board did this year

Throughout the year, the Board reviewed all areas of cultural and strategic importance, as well as reviewing and approving financial information, governance and regulatory matters.

The Board regularly received updates on business progress and the issues and challenges faced by management. Board activities were structured to support the Society's strategy, focusing on the cornerstones as outlined on *pages [10] to [11], and an in depth review* of the progress of the strategy was considered by the Board at its annual strategy day. During the year, focus was given to implementation plans for the Society's technology initiatives, including the people recruitment needs and organisational changes required for successful delivery of the Society's technology programme. The Society continues to develop and invest in new products and services which are developed within the Board's risk appetite.

In addition to the main *items for consideration*, the Board received updates at each meeting on the work of its principal committees to keep abreast of significant issues.



The following is a non-exhaustive list of the matters that the Board has considered during the year:

Building thriving membership

Items discussed

- Considered how best to meet the needs of small and micro businesses, and approved the proposal to launch Nationwide for Business and to submit a bid for £50 million from the RBS Alternative Remedies Package.
- Approved the development of a range of initiatives designed to broaden the products and services offered to Nationwide's members.
- Reviewed and discussed proposed enhancements to propositions for younger customers and initiatives which will continue to deepen relationships with existing members. This included consideration of progress made *in growing the number of committed members*.
- Approved enhancements to Nationwide's Later Life lending range.

Built to last

Items discussed

- Approved the Society's investment in technology, part of which would enable the Society to deliver increased resilience, making it more secure and delivering better member outcomes through improved digital capabilities and better use of data, whilst also driving down costs.
- Reviewed and approved the Society's 2019-24 five year plan.
- Regularly assessed financial performance of the Society and its main businesses via reports from the Chief Executive Officer and the Chief Financial Officer. Approved the Society's Annual Report and Accounts prior to publication with *consideration given to the viability of the business over a three-year horizon* and the preparation of the accounts on a going concern basis.
- Discussed the output of a Board and Executive Committee Business Continuity Exercise under the Society's Recovery Plan to ensure that adequate provisions and processes are in place to protect the Society's business and its members. Approved the overall set of actions within the annual recovery planning scenario.
- *Received quarterly updates from the Chief Risk Officer on Nationwide's risk* profile highlighting the top risks and key areas for consideration. Approved revisions to the Board risk appetite to take into account the additional financial risk and a reduction in the longer-term operational risk profile of the Society arising from the Society's investment in technology.

What the Board did this year (continued)

Building legendary service

Items discussed

- Discussed the Society's ability to collaborate and work with partners across the FinTech community in developing new technologies to ensure that the Society is taking a leadership position in a world of Open Banking. The Board received an overview of the current UK Digital Banking market with a focus on the progress made in the banking sector in this area.
- Received an update on the delivery on the technology investment and discussed the initiatives to support the delivery and the roadmap for execution of the Society's technology plans. There was a focus on initiatives to develop a platform that will support future growth and new services whilst honouring current delivery commitments with a view to improving member experience across the sales and service journeys.
- Reviewed progress in the Society's branch transformation, recognising that branches continue to remain an important and valued channel for members and the need to ensure Nationwide is in the right place with the best services to meet members' needs.

Building PRIDE

Items discussed

- Reviewed the progress made on the development of Nationwide's culture with a review of a Culture Mosaic which draws together a number of cultural themes within the organisation. This includes inputs from the 2018 'Viewpoint' employee engagement survey and the 2018 Banking Standards Board survey on culture. The Board reviewed key themes and areas for prioritisation.
- Reviewed the plans for recruitment, training and development and retention of employees to support the successful execution of our technology strategy.
- Reviewed the Annual Whistleblowing Report and the Society's whistleblowing arrangements, noting it as a key priority for the Board in support of the Society's open and honest culture.

Building a national treasure

Items discussed

- In considering what makes a national treasure the Board, as part of the Society's social investment strategy, explored opportunities to lead active campaigns and align to the key strategies pursued by the Nationwide Foundation.
- Received regular updates on the delivery of the Society's social investment strategy which focuses on providing decent affordable homes for people in need. As part of this, the Board approved the establishment of the Oakfield Foundation, a charitable foundation to support local initiatives that will complement the philosophy and aims of the Society's Oakfield community development project.
- Received regular updates on reputation and the positioning of the Society's brand, giving the Board the opportunity to reflect upon the progress made in re-defining the Society's brand and review the propositions offered to members.

Effectiveness

Board composition

The Nomination and Governance Committee is responsible for reviewing Board composition, considering succession plans for both the Board and senior executives, selecting and appointing new directors and considering the results of the Board effectiveness review. More information on the work of this Committee during the year can be found on pages [78] to [83].

The individual biographies of the directors, which include their relevant skills and experience, can be found on pages [39] to [45].

Executive directors' service contracts and the letters of appointment for the Chairman and non executive directors are available for inspection at the Society's principal office and will be available at the AGM.

Tenure and independence

The Society's Memorandum and Rules (Rules) require that board directors must be re-elected by the Society's membership every three years. However, in compliance with the UK Corporate Governance Code (the Code), all directors of Nationwide are subject to election or re-election by the members annually. Before re-election, a non executive director will be subject to a review of that director's continued effectiveness and independence.

The independence of each non executive director is considered by the Nomination and Governance Committee annually. The Committee considers factors such as length of tenure and relationships or circumstances which are likely to affect or appear to affect the director's judgement in determining whether they remain independent. On the recommendation of the Committee, all non executive directors have been assessed by the Board to be independent as to character and judgement and to be free of relationships and other circumstances which could materially affect the exercise of their judgement. Following this assessment, all directors eligible for re-election (save for Mitchel Lenson who has announced his retirement from the Board) will be recommended to members for re-election at the AGM in July 2019. The Code requires the Chairman to be independent on appointment. Thereafter, the test of independence no longer applies to this role. David Roberts, Chairman, was deemed to be independent upon his appointment to the role of non executive director and Chairman Elect.

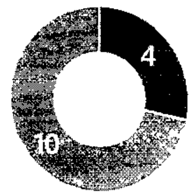
Member nominations

Members of Nationwide have the right to nominate candidates for election to the Board, subject to the Society's Rules and compliance with PRA and FCA requirements. No such nominations had been received by 4 April 2019, this being the deadline for election to the Board at the 2019 Annual General Meeting (AGM)

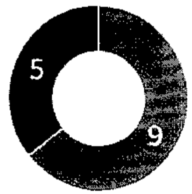
Time commitment

To discharge their responsibilities effectively, non executive directors must commit sufficient time to their role. The time the Society's non executive directors are expected to commit to their role at Nationwide is agreed individually, as part of the appointment process, and depends upon their responsibilities. For example, additional time commitment will often be required of the Senior independent director and Chairs of the Board Committees to fulfil their responsibilities. Time commitments are reviewed annually, or more regularly if needed, as Nationwide recognises the need to take account of changes in best practice – for example any revisions to the Code recommending different or expanded roles of Board Committees. For this year, the Chairman has individually confirmed with each non executive director that they have been able to allocate sufficient time to fulfilling their duties. The Chairman spends a minimum of an average of 2.5 days per week on Nationwide business. Externally, there has been no increase in the other significant commitments of the Chairman during the year which would impact the time he has to fulfil the role.

Board composition

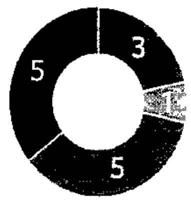


Executive and non executive directors
- Executive directors
- Non executive directors

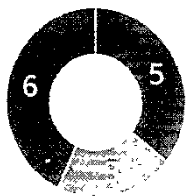


Gender
- Male
- Female

Board diversity



Age of board members
- 45-50
- 51-55
- 56-60
- 61+



Directors' tenure
- 0-3 years
- 3-6 years
- 6+ years

Effectiveness (continued)

Conflicts of interest

Directors have a legal duty to avoid conflicts of interests. Prior to appointment (and on an ongoing basis), potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the appointment.

If any potential conflict arises, the Society's Rules permit the Board to authorise the conflict, subject to such conditions or limitations as the Board may determine. The Board has considered the current external appointments of all directors which may give rise to a situational conflict and has authorised potential conflicts where appropriate.

In addition, at the start of every Board or Committee meeting the Chair asks if there are any conflicts (in addition to those already recorded) to be declared. In a situation where a potential conflict arises, the director will recuse themselves from any meeting or discussion, and all material in relation to that matter will be restricted, including Board papers and minutes.

Details of the Society's directors' other directorships can be found in the annual business statement on pages [254] to [255].

Information and advice

The Board has full and timely access to all relevant information to enable it to perform its duties effectively. The Society Secretary ensures appropriate and timely information flows between the Board, its Committees and senior management, enabling the Board to exercise its judgement and make fully informed decisions when discharging its duties. The Society Secretary supports the Chairman in setting the Board agenda. Board papers are distributed to all directors in advance of Board meetings via a secure electronic system allowing directors to access information in a timely manner.

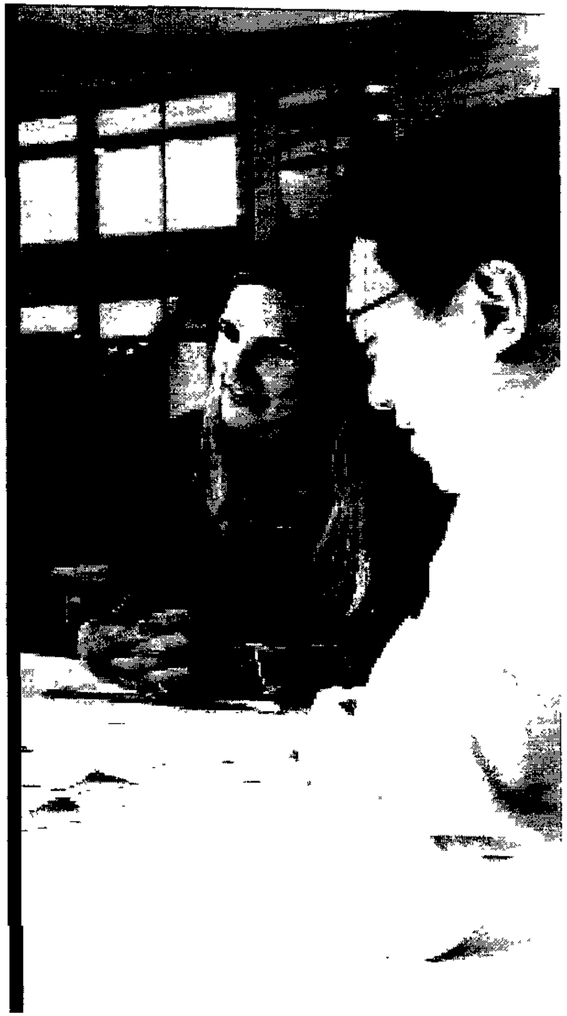
All directors have access to the advice and services of the Society Secretary, who is responsible to the Board for ensuring that Board procedures are followed and compliance with applicable rules and regulations is observed. The directors may, if required, take independent professional advice at the Society's expense.

Induction

Following appointment, each new director receives a full and formal bespoke induction to familiarise them with their duties and the Society's business operations, and risk and governance arrangements. Inductions are tailored to each director's individual experience, background and areas of focus. The induction programme includes meetings with members of the Executive Committee and senior management in key areas of the business. Typical areas covered include an overview of the Society's business strategy and model, the Society's brand, products and markets, capital management and financial controls, and risk and governance responsibilities, as well as information on the Society's people and culture. These meetings are supplemented by induction materials such as recent Board papers and minutes, industry and regulatory reports and relevant policies.

Training and development

To ensure that the directors have the necessary knowledge and understanding of the Society's business, they are regularly provided with the opportunity for ongoing training and professional development. Directors are encouraged to continually update their professional skills and knowledge of the business. The Chairman has conversations with each non executive director on a regular basis during the year and at the end of the year to review performance and development needs. The senior independent director is responsible for the evaluation of performance and development needs for the Chairman. Executive board directors continue to undertake performance and development review and planning activity as part of the annual performance management cycle. Training opportunities are provided through one-to-one meetings, presentations and briefings by senior management as well as external advisers. During the year, the directors attended briefing sessions on subjects including derivatives and hedge accounting, overview of models and cloud computing from a Nationwide perspective.



Board effectiveness review

2018 Board evaluation

To be effective as a Board, directors must function cohesively as a group. Each year, an evaluation of the effectiveness of the Board is conducted, providing an opportunity to identify and optimise the Board's strengths as well as highlighting areas for further focus and development.

The evaluation includes an assessment of the effectiveness of Board Committees and an evaluation of the performance of individual directors. The approach which has been developed at Nationwide is designed to ensure that all directors, both executive and non executive, contribute effectively to the good governance of Nationwide. The contribution of individuals is one of the factors considered when deciding whether individual directors will offer themselves for election or re-election at the Society's AGM.

The 2018 evaluation process was an external review led by Niall FitzGerald KBE. Mr FitzGerald has chaired a wide range of companies and public sector bodies, including Unilever, Reuters and the International Business Council. The Board was of the view that his broad experience would significantly assist the development of the Board. Mr FitzGerald has no other connection with the Society.

Form of the review

The review took place between January and March 2018 with the main theme being how the Board could be a high performing Board whilst in the pursuit of creating a long-term sustainable business. Mr FitzGerald attended Board and Board Committee meetings as an observer, reviewed a number of Board papers and materials and held a series of one to one meetings with Board members. An initial Board discussion and feedback session took place in April 2018 with a final report produced for further discussion with the Board in May.

Findings

The review endorsed the belief that the Board and its Committees are performing and operating effectively. Meetings were found to be professionally led with challenge and constructive debate by all encouraged. Mr FitzGerald found discussions at meetings to be engaging and insightful. The spirit of mutuality was evident in the Board's discussion with a strong focus on the interests of members. Changes to the Board and executive leadership had been handled well, resulting in an experienced and professional team.

As the Society's strategy evolves and the complexity of the business grows, key priorities for the Board are to ensure that the Society's culture and mutual values are preserved and that the immediate and short-term decisions necessary to implement the strategy do not compromise long-term success.

The Board adopted the recommendations from the findings and developed a plan to implement the actions with oversight by the Nomination and Governance Committee

Following the review, a number of changes to board processes have been made to ensure that the Board's focus remains on strategic, not operational, matters. The progress made on the key recommendations is described below.

Key Recommendations	Action Taken
Increased focus on key strategic issues and greater board debates on risks and risk appetite from a strategic perspective.	The frequency of Board meetings and programme have been revised to ensure that the Board devotes its time to the most important issues. This has allowed for enhanced discussions and debate of key strategic matters, including macro risks, at Board meetings, with the balance of the Board's attention moving more towards strategy and its execution.
Production of high quality reporting and information flows to the Board.	The production of high quality Board papers and management information, including KPIs, has continued to enhance the quality of debate at Board meetings and assist the Board in making timely and informed decisions
Continuing to monitor the talent pipeline for key Board and senior management positions.	To ensure that the Board has visibility of talent in the Society, an annual Board 'deep dive' on the talent pool led by the CEO has been incorporated into the Board's forward programme.

2019 Board evaluation

Following the comprehensive external review in 2018, the 2019 Board evaluation process was an internal review led by the Society Secretary The review took place in March and April of 2019.

The process took the form of a questionnaire covering general areas of effectiveness as well as actions implemented for the Board and Committees in response to 2018 review. It was followed by one to one meetings between the Chairman and individual directors to provide feedback and expand on particular aspects, for example culture and performance of the Board.

The results of the questionnaire and feedback were presented to the Board for discussion in May 2019 and will form the basis of an action plan for completion during 2019. A similar process will be followed for Board Committees.

Further information on the outcomes and actions identified will be presented in the Annual Report and Accounts 2020.

The evaluation of the performance and contribution of each director was conducted by the Chairman. The reviews concluded that each Director continues to perform effectively and demonstrate commitment to their role

Led by Lynne Peacock, the senior independent director, a review of the Chairman's performance was carried out by the Board. Feedback on the Chairman's performance was obtained from all the directors as well as selected members of the management team. The results were collated and were discussed at a meeting without the Chairman present. The review concluded that the Chairman continues to perform effectively and demonstrate commitment to his role.

Engaging with stakeholders

The Board recognises the impact the Society has [illegible] stakeholders and therefore understands [illegible] of engaging with them at all levels. The Board takes into consideration the interests of these stakeholders [illegible] decision-making processes. The detail below provides [illegible] the Society's engagement with its [illegible]

Members

We listen to our members

As a mutual organisation, members are at the heart of the Society's activities and need to be able to share their views on the overall direction of the business.

The Member TalkBack Programme is a series of events to facilitate dialogue between members, the Society's Board and senior management. Members can sign up to 'Nationwide Connect', our online research community which helps provide feedback on a variety of topics including products and services, as well as perceptions of how the directors are running the Society and directors' remuneration. Members are also encouraged to attend the Society's AGM to hear first-hand from directors and have their say on the way the Society is run.

More information on how the Society engages with its members can be found on page [61]

Employees are critical to the services provided by the Society and employee engagement is regularly discussed, including presentations to the Board on the results of "Viewpoint", the employee engagement survey.

During the year, the General Secretary of the Nationwide Group Staff Union attended a Board meeting and a Remuneration Committee meeting to discuss the relationship of the Union with Nationwide and the alignment of interests between the Union and the Society.

Nationwide employees can vote their colleagues onto leadership forums under the People's Choice programme, with a view to bringing a different perspective to our leadership forums. At least twice a year, a small number of the People's Choice representatives attend one of the Society's Board or Board Committee meetings to share their insight on a topic of their choosing.

The CEO also engages directly with employees via the Society's intranet on topics of interest and receives comments and views directly back from employees across the entire Society. To further promote the link and engagement between the Board and colleagues, Mai Fyfield has been appointed the non executive director with specific responsibilities for employee engagement.

More information on employee engagement metric can be found on page [20].

Communities

We support our local communities

As a building society, Nationwide believes in supporting people and their communities.

That includes housing, and Nationwide's belief is that regenerating local areas, working with local people and reinvesting profits will create real communities. In line with the member vote in 2007, the Society has continued to invest at least 1% of its pre-tax profits to support good causes, focusing on the belief that 'Everyone deserves a place fit to call home'. The Board regularly receives updates on progress made.

More information on the Society's community activities can be found on page [24].

Investors

We engage actively with our investors

Nationwide is active in wholesale funding markets, engaging *in the issuance of instruments.*

Wholesale investors contribute towards the Society's loss absorbing capital, helping to ensure that Nationwide is built to last. The Society maintains an active dialogue with the investors in its instruments through a thorough investor relations (IR) programme. During a typical year the IR team will host around 500 meetings, providing current and potential investors with the opportunity to meet senior managers and directors of the Society.

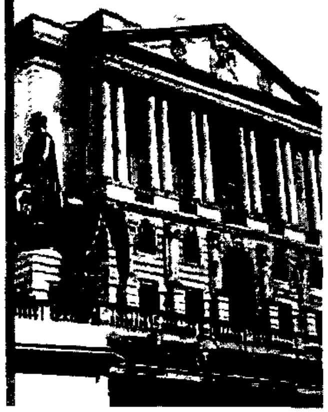
Suppliers

We work closely with our suppliers

Nationwide has approximately 1,200 suppliers who are seen as an extension of the organisation and therefore key to the Society's ability to develop and deliver services to its members.

It is important to Nationwide that all suppliers represent the Society in a manner that enhances its reputation and relationships with its stakeholders. As a result, the Society endeavours to partner with organisations that demonstrate a commitment to its mutual values, ethics, policies and standards. This is also embedded in the Code of Practice that we ask suppliers to commit to. The Nationwide Supplier Portal (https://www.nationwide.co.uk/suppliers/suppliers-home)] is designed to provide any new, potential or existing suppliers with all the information they need to know about supplying goods and services to Nationwide.

Regulators



We seek an open relationship with regulators

Nationwide is committed to complying with all legislation and regulatory rules applicable to its business.

It aims to foster and maintain an open and transparent working relationship with its key regulators, the Prudential Regulation Authority and the Financial Conduct Authority. In addition to receiving regular updates and reports on the views of the Society's key regulators, directors also meet regularly with representatives of these bodies as part of the regulators' supervisory activities.

Members help build society, nationwide

As a mutual organisation, members are also the owners of Nationwide, and we want our members to be able to share their views on the overall direction of the business. To help them do this, we aim:

to make it as easy as possible for members to talk to us in whichever way they prefer

to listen and respond to member suggestions and comments, building products and services based around their needs

to include members in other activities they'd like to join us in, for example deciding how our community grants are allocated via our Community Boards programme (see page [24] for details)

AGM

The AGM is the key event at which members can have their say on the way the Society is run and hear first-hand from directors. It is the main opportunity to hold the Board to account, as members can vote for or against those standing for election and on other key issues.

Last year more members than ever used the online facilities to cast their vote, with 41% of the voters choosing to vote online, although overall turnout at meetings continues to decline, both at Nationwide's AGM and across the building society sector. As has been the practice for a number of years, the meeting is held at a different venue across the UK each year, making us more accessible to members across the country. This year, the AGM will be held at Manchester Central on Thursday 18 July.

As well as the AGM, we also work throughout the year to speak to our members and to encourage feedback on the way we operate. The main ways we did this during 2018/19 were:

Face to face

Our popular Member TalkBack programme continued through 2018/19 with the delivery of 11 events across the UK. Over 750 members came along to these events over the course of the year. TalkBacks give our members the chance to meet and speak to the Society's Board and senior management about anything on their mind 99% of members attending felt 'valued' or 'more valued' as a result of taking part. In 2019/20 we're looking to increase the number of TalkBacks held, visiting more towns and cities, and meeting even more members.

Our branch teams have also been involved in their communities. They attended or held 168 events in 2018/19, ranging from supporting local fetes, carnivals and Pride parades, through to offering advice on protecting yourself from fraud, educating children on money and helping people to understand the world of mortgages. We held over 2,500 conversations at these events with existing and prospective members.

Members were also able to engage with Nationwide colleagues at 10 agricultural shows and festivals across the UK, including the Royal Norfolk, Great Yorkshire and the Royal Welsh shows.

Online

As well as the research Nationwide commissions to find out how members rate our service, we have around 9,000 members signed up to our online customer research community 'Nationwide Connect', which helps provide feedback on a variety of topics including executive remuneration. Any member can sign up to the Connect panel via our website This year the panel gave their views on topics such as savings bonds, credit card offerings, standard rate mortgages and much more, via regular online discussions and polls

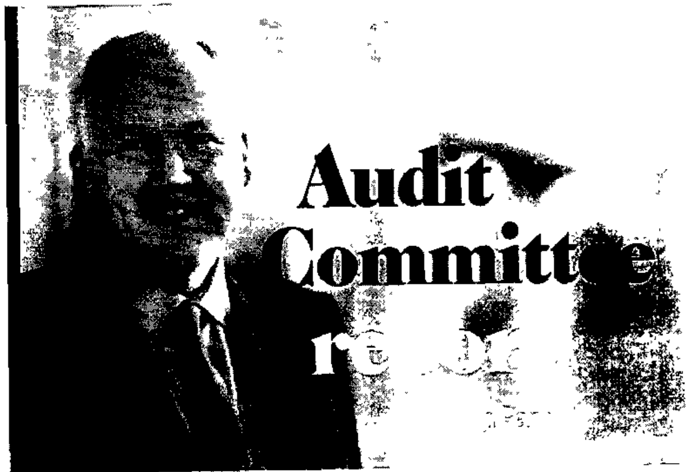
Nationwide Connect also includes Member Suggestions. Any member who wants to suggest a change or improvement to our products or services can submit it here, and they can also see suggestions made by other members. In 2018/19 just under 800 suggestions were made.

We also held two live online webcasts in 2018/19. One was a lifestyle show exclusively available for members, and the other gave a group of members the opportunity to ask questions directly to Chief Executive Joe Garner on everything related to savings rates

From the live and on-demand views, over 2,100 members have been able to interact with this online content. We'll continue to consider webcasts as a channel to reach our members for future engagement as opportunities arise.

Social media

The number of followers on the Society's main social media channels has increased by 11% over the last 12 months with content on these channels being seen by over 11 million members and non-members. Content relating to local branch stories, social investment and fraud education has generated the most engagement and advocacy.



"The Audit Committee has continued to provide challenge to management and oversee the integrity of financial reporting and the strength of financial controls."

Dear fellow member,

I am pleased to be able to report on the Audit Committee's key role in safeguarding the interests of Nationwide for the benefit of its members.

The Committee continues to challenge the financial reports prepared by management, to scrutinise the effectiveness of the Society's internal controls, to review the Society's procedures for fighting financial crime, and to oversee the assurance work of our internal and external auditors. We monitor external risks to ensure that reporting and controls respond to developments. This has included both uncertainty over future UK economic conditions and external security threats.

Our oversight of financial reporting matters has focused on assumptions driving loan loss provisions following a significant change in accounting requirements this year. We have also prioritised monitoring development of the control environment, including the increasing maturity of control ownership across the Society, and controls in important business activities such as payments and digital services.

To comply with mandatory requirements for rotation of the external auditor, we completed a rigorous tender process which resulted in the selection of Ernst & Young LLP who will be auditor for the 2020 year end, subject to approval at the Annual General Meeting. This year the Committee has overseen preparation for the auditor transition and I look forward to working with EY.

I should like to thank PwC for the audit service they have provided to the Society over the last 28 years.

If any member has feedback on this report, I should be pleased to receive their comments. I will attend the 2019 AGM and be available to answer members' questions.

Kevin Parry
Chair – Audit Committee

Who sits on the Committee

The Board believes members of the Audit Committee have the financial, risk, control and commercial expertise required to provide effective challenge to management. Kevin Parry and Tim Tookey are considered by the Board to meet the requirement of the UK Corporate Governance Code to have recent and relevant financial experience.

Committee members	Kevin Parry (Chair)	Rita Clifton	Lynne Peacock	Tim Tookey
Meetings attended (eligible to attend)	7 / (7)	6 / (7)	7 / (7)	7 / (7)

Regular attendees of the Committee include: Chairman of the Board, Chief Executive Officer, Deputy Chief Executive Officer, Chief Internal Auditor, Chief Financial Officer, Chief Product and Propositions Officer, Chief Risk Officer, Director of Financial Reporting and representatives of PricewaterhouseCoopers and Ernst & Young

How the Committee works

The Audit Committee comprises independent non executive directors who bring a diverse range of experience in business, finance, auditing, risk and controls, with particular depth of experience in the financial services sector. The Committee is therefore able to challenge and scrutinise the work of management. The Committee also draws on the expertise of key advisors and control functions, including the internal and external auditors.

The Committee provides oversight and advice to the Board on the matters listed in its terms of reference (available at **nationwide.co.uk**) and reports to the Board on those matters after each meeting. The Committee is authorised by the Board to obtain any information it needs from any director or employee of the Society. It is also authorised to seek, at the expense of the Society, appropriate professional advice as needed. The Committee did not need to take any independent advice during the year.

The Committee works closely with the Board Risk Committee, as some matters are relevant to both committees. A joint meeting was held in March 2019 to review the 2019/20 assurance plans for Risk and Compliance Oversight and Internal Audit.

During the year, the Committee met privately with the Chief Internal Auditor, the Society's external auditors and the Chief Risk Officer, without management present.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee's effectiveness is reviewed annually. In 2018, a number of recommendations were made to improve the performance of the Committee. In response to the outcome of the review, there are regular presentations to the Board by the Chief Internal Auditor, giving an overview of the control environment and suggestions for continuous improvement. The 2019 effectiveness review process is described on page [58].

Report on the year

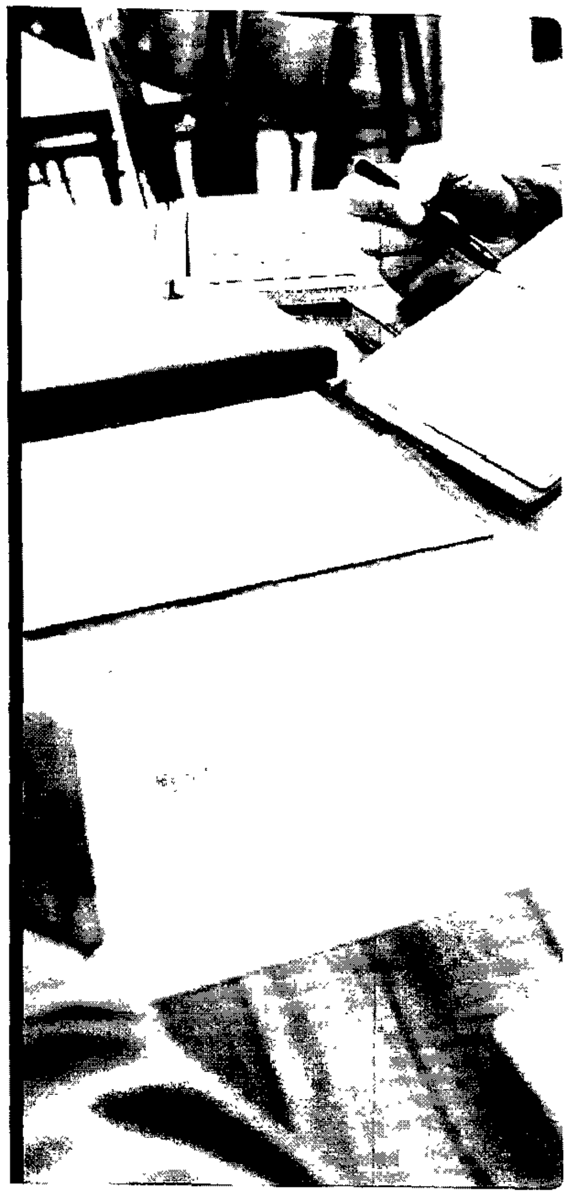
Preparation of the financial statements and external financial reporting

The Committee spent significant time in reviewing the half year and full year financial statements, and also the interim management statements published in August 2018 and February 2019. In particular, the Committee discussed and challenged management's analyses, the external auditor's work and conclusions on the main areas of judgement.

Internal controls and risk management systems are in place to provide assurance over the preparation of the Annual Report and Accounts. Financial information submitted for inclusion in the financial statements is attested by individuals with appropriate knowledge and experience. The Annual Report and Accounts are scrutinised throughout the process by relevant senior stakeholders before being submitted to the Audit Committee, who provide debate and challenge, before recommending to the Board for approval. Key controls in the process are subject to regular testing, the results of which are reported to the Audit Committee.

How the Committee spent its time in the year

- Financial reporting
- Internal controls and risk management (including internal audit)
- External audit
- Financial crime
- Statutory duties
- Other (including meeting administration)



Key areas/matters considered by the Committee during the year

The significant judgements, issues and actions taken by the Committee in relation to the Annual Report and Accounts 2019 are outlined below. Each of these matters was discussed with the external auditor during the year and, where appropriate, have been addressed as areas of audit focus in the Auditors' Report.

Area of focus	Committee's response
Accounting policies, including the implementation of IFRS 9 (accounting for financial instruments) and forthcoming implementation of IFRS 16 (leases)	The Committee reviewed the Society's accounting policies and confirmed they were appropriate to be used in the financial statements. It also considered changes to policies required by new and forthcoming accounting standards, and the effectiveness of new models and processes introduced as a result. IFRS 9 was implemented for the 2018/19 financial year and represents a significant change in accounting. The Committee had monitored the Society's preparations for the introduction of IFRS 9 throughout the implementation programme, and in 2018/19 received regular reporting from management on the outputs from models and nature and value of any post model adjustments in relation to expected credit loss provisions. The Committee also discussed management's regular cycle of model monitoring and development, which included incorporating into the models a number of items previously recognised as post model adjustments. At the Committee's request, management included changes to models in regular reporting to the Committee. The Committee received updates from management on preparations for the adoption of IFRS 16, which will also become effective from 2019/20. The Committee discussed work carried out to identify leases which will be recognised on the balance sheet and the quantification of adjustments on implementation, including the disclosure of the expected impact in the financial statements. The Committee considered management's proposal to adopt the hedge accounting provisions of IFRS 9 for individual hedges from 2019/20 and agreed that it was appropriate.
Alternative Performance Measures and disclosure of member financial benefit **Details on member financial benefit are shown on page [30]**	The Committee continues to consider that certain non-GAAP measures, such as underlying profit, aid an understanding of the Society's results. However, it is important that items are excluded from underlying profit only where they do not relate to ongoing business performance. Following discussion with management, the definition of underlying profit was reviewed and updated during the year, resulting in a change to include both the Bank Levy and FSCS management charges in underlying profit. The other performance disclosure considered carefully by the Committee was the value for member financial benefit included in Nationwide's financial reporting. This metric shows the benefit provided to members in the form of differentiated pricing and incentives, representing Nationwide's interest rate differential, lower fees and higher member incentives compared with market averages and is considered a key performance indicator. The Committee was pleased that, following improvements made in the prior year, the documentation of, and controls over, the calculation of member financial benefit measure have matured. The Committee was satisfied with the calculation.
Going concern and business viability statement **See the Directors' Report (page [99]) for the business viability and the going concern statements**	The Committee reviewed the going concern basis of preparation of the financial statements and the statement of business viability for recommendation to the Board for approval. As a deposit taking institution, liquidity management and viability are core requirements for the Society and there is substantial oversight by the Board through the Risk Committee and the Audit Committee. Information scrutinised by the Committee in drawing conclusions included assessment of levels of capital and availability of funding and liquidity, together with output of stress tests and reverse stress tests. It also covered profitability from business activities and any matters likely to affect future development, performance and financial position, together with the assessment of principal risks. The Committee considered whether a longer period than three years should be covered in the viability statement, concluding that, as in the prior year, a period of three years was appropriate, particularly when taking into account changes in the economic, technological and regulatory environment. The Committee concluded that it remained appropriate to prepare the accounts on a going concern basis and recommended the viability statement to the Board for approval.

Key areas/matters considered by the Committee during the year (continued)

Area of focus	Committee's response
Fair, balanced and understandable report and accounts	The Society's Annual Report and Accounts, taken as a whole, must be fair, balanced and understandable. The Committee considered the overall presentation of the financial statements and was satisfied that the reporting, including the disclosures in the notes to the accounts, fairly represented the results and business performance for the year ended 4 April 2019. The Committee considered the Annual Report and Accounts against a number of hallmarks of 'fair, balanced and understandable', including whether the overall portrayal of Nationwide was open and honest, setting out both successes and challenges, and whether language was used that a person with reasonable knowledge of financial sector financial reporting could understand. The Committee also considered whether the reporting was relevant in the context of the Society's strategy. The Committee considered a report by management setting out the review processes used to assess the overall presentation of the Annual Report and Accounts. This included an independent management review by members of executive management covering a wide range of business responsibilities, which concluded that the reporting was clear, consistent, balanced, open and appropriately focused on material items. The Committee reviewed the draft Corporate governance report and was satisfied that it presented an accurate view of the work of the Board and its Committees After consideration of management's report and the Committee's own review, the Committee concluded that it could inform the Board that, in its opinion, the Annual Report and Accounts were fair, balanced and understandable.

In compiling a set of financial statements, it is necessary to make estimates and judgements about outcomes that are typically dependent on future events. Significant matters are set out below. In addition, the Committee reviewed and was satisfied with management's application of the effective interest rate method, assumptions relating to the calculation of the defined benefit pension deficit, and hedge accounting.

Area of focus	Committee's response
Impairment provisions for loan portfolios and related disclosures **Information on credit risk and assumptions relating to expected credit losses are included in Note 10 to the Financial Statements**	Given the materiality of Nationwide's loan portfolios and the significance of changes to provisioning methodology introduced with IFRS 9 from 5 April 2018, understanding the Society's exposure to credit risk and ensuring that impairment provisions are appropriate are key priorities for the Audit Committee. The introduction of provisions based on expected credit losses in accordance with IFRS 9 required implementation of a new suite of models, using key assumptions about the impact on loan portfolio performance of a range of potential economic scenarios. The Committee challenged management over the scenarios modelled to ensure that they adequately reflected uncertainty in the economic outlook and the potential for an economic downturn from the benign environment experienced in recent years Following detailed review and discussion, assumptions and probabilities for central, upside and downside scenarios, as well as a severe economic downturn, were agreed. Nationwide published its report on the transition to IFRS 9 in June 2018 and the Committee held an additional meeting to review the report. The Committee scrutinised in detail the approach taken to identifying loans which had experienced a significant increase in credit risk, including the assessment of the risk of borrowers failing to repay interest only loans at maturity, principally in the buy-to-let portfolio. The Committee also focused on the clarity and transparency of disclosures in the report, and asked management to confirm that best practice disclosures were included as far as possible. At the year end, the Committee challenged management to ensure that all relevant risks had been taken into account in the expected credit risk models, and that post model adjustments were recognised for risks which could not be modelled. The Committee discussed economic uncertainty in the UK, particularly in the period before Brexit, satisfying itself that these risks had been considered sufficiently in impairment provisions. The Committee requested assurance from management that latest data available regarding indications of affordability pressure, and also performance of interest only loans at maturity, had been considered. It also discussed any heightened risk in the commercial property lending portfolio arising from exposure to the retail sector. The Committee was satisfied with the overall level of provisioning. Looking forward, the Committee encouraged management to continue to develop disclosure, prioritising transparency and clarity of disclosures, as well as supporting the aims of the Prudential Regulatory Authority and industry peers to improve consistency.

Key areas/matters considered by the Committee during the year (continued)

Area of focus	Committee's response
Provisions for customer redress **Information on provisions is included in note [27] to the Financial Statements**	The Committee received updates on a number of conduct-related matters during the year and considered whether provisions for customer redress were appropriate. Assumptions used in calculating provisions for customer redress are often highly judgemental, including in relation to the volume of cases and amounts of redress required. Judgement may also be needed in assessing the likelihood of potential conduct issues crystallising, and evaluating whether a provision, or alternatively disclosure of a contingent liability, is required. The Committee reviewed judgements and estimates for a number of conduct-related issues, discussing with management matters including administration of customer accounts, non-compliance with consumer credit legislation and other issues subject to ongoing remediation, including the sale of Payment Protection Insurance (PPI) and the related Plevin legal case in respect of high levels of undisclosed commission. Discussions included the criteria for recognition of new provisions or provision releases, as well as the estimation of liabilities. The Committee reviewed latest data on PPI and Plevin complaint volumes at each reporting period, challenging management to ensure appropriate recognition of the risk of an escalation of complaints in the period to the FCA's August 2019 deadline for complaint submission. Information reviewed included historic complaint rates and uphold rates as well as market experience and expectations for further media and claims management company activities. Provisions for other conduct matters were reviewed and the basis for assumptions challenged, including the likely potential outcomes for those matters where less historic experience is available. The Committee concluded that the current provisions held by the Society were appropriate
Capitalisation and impairment of software	Following the announcement in September 2018 of a significant additional investment in technology, the Committee reviewed the work carried out by management to identify any existing assets whose useful life or value was affected by the new investment. The Committee scrutinised carefully the scope and depth of work carried out, and was satisfied that the amount written off was appropriate.

The Committee has responsibility for monitoring the adequacy of the control environment, including the prevention of financial crime. Following reporting of control improvements required in areas of IT in the prior year, and also an increase in the number of open issues raised by Internal Audit, the Committee increased the time spent this year reviewing internal control matters and ensuring that there was sufficient management focus on improvements. The Committee's review of the operation of internal controls encompassed the following:

Area of focus	Committee's response
Controls	**Control environment** The Committee continued to monitor the overall effectiveness of the Society's control environment, including work to strengthen and enhance controls. The Committee was updated regularly on the status of important work to streamline the approach to control ownership, including management accountability for key controls and declarations of control effectiveness. **Financial controls** The Committee reviewed reporting by management on the effectiveness of the financial controls framework. The Committee also considered analysis by management of the principal differences between the current approach and a Sarbanes-Oxley approach to internal financial controls, concluding that the steps proposed by management would deliver an appropriately robust and proportionate approach. The Committee also scrutinised reporting on the effectiveness of controls relating to balance sheet substantiation, considering the results of management's control testing as well as the low level of errors and reported control weaknesses in concluding that the control environment is adequate and there is appropriate focus on continued improvement.

Key areas/matters considered by the Committee during the year (continued)

Area of focus	Committee's response
Controls	**Security, IT controls and operational resilience** The Committee monitored closely work focused on strengthening further aspects of security management. Internal Audit also completed several related audits during the year, and the Committee discussed with PwC their view on controls over privileged access to IT systems. These reports, together with reporting by management, demonstrated the progress made in the year and informed priorities going forward. The Committee will continue to monitor this important aspect of control in the forthcoming year. **Financial crime** Financial crime is a broad term that includes anti-bribery and corruption, anti-money laundering, fraud, theft from customers' accounts and card related thefts. The Committee received a number of reports on each of these areas. The Committee noted that a comprehensive review of the Society's Anti-Bribery and Corruption policies and framework had been carried out, and good progress had been made. The Committee emphasised the importance of understanding and monitoring this risk in third parties. The Committee also received a report from the Group Anti-Money Laundering Officer and noted the improvement in the capabilities of the Society. The Committee reviewed a detailed report on anti-fraud controls, which noted the relatively low level of losses but emphasised the continued external threat. The Committee also considered the implications of the approach of the Payment Services Regulator and consumer organisations to liability for fraud losses, stressing the importance of industry co-ordination. In the context of the Board's risk appetite, the Committee was satisfied with the steps being taken to reduce losses from financial crime. **First line controls** During the year the Committee introduced a series of deep dives into key aspects of first line controls, which included anti-fraud controls, payments controls and controls in digital services. This enabled the Committee to engage directly with relevant executive management to ensure that risks are fully understood and the effectiveness of controls is monitored and improved as necessary. The Committee was satisfied that controls are being developed, enhanced and then embedded in important business areas where development is fast paced and it is critically important to ensure that controls keep pace.

The Committee has responsibilities beyond financial reporting disclosures, judgments and estimates and the control environment. Other matters considered during the year were:

Area of focus	Committee's response
Capital and distributions	The Committee is responsible for advising the Board on the affordability of making distributions to holders of Core Capital Deferred Shares (CCDS) and AT1 securities and recommended to the Board that the payments proposed by management be made.
Tax	The Committee reviewed the management of Nationwide's tax affairs and discussed with the Head of Tax Management the management of tax risk in business activities. The Committee also reviewed the updated tax strategy prior to approval by the Board and external publication.

Internal Audit

The Committee works closely with the Chief Internal Auditor who reports directly to the Chairman of the Audit Committee. Throughout the year, the Committee continued to monitor the progress of the internal audit function.

The Audit Committee approved the annual audit plan and all changes to the plan during the year, which were reviewed quarterly. The scope of work takes account of the function's own assessment of risks, and the input of first and second line management and the Audit Committee itself. The Committee also approved the risk-based frequency of audit coverage to be used in planning internal audit activities. The annual audit plan and annual risk and compliance plans were approved at a joint meeting of the Audit and Risk Committees where the Committees reviewed materials setting out the co-ordination and combined coverage of these plans.

The Committee received quarterly updates from the Chief Internal Auditor on the work of the internal audit function, drawing its attention to the most significant audit work which included operational resilience, foundational IT and security controls. The Committee continued to focus on the prompt and effective resolution of control issues raised by internal audit, where progress was made during the year, although this remains an area of focus, particularly in respect of complex issues which require extended time to resolve.

The quality of internal audit's work is monitored by a quality control function whose head reports findings directly to the Audit Committee Chairman. No major issues were reported although there was continued focus on improving the quality of documentation. The effectiveness of the internal audit function was also assessed by means of a survey of recipients of internal audit work. The findings showed that internal audit continues to be effective, independent and objective. Priorities for continued improvement included clarification of the relationship between Internal Audit and other lines of defence, consistent focus on the more material issues and continuing to develop technical expertise in specialist areas.

The Committee reviewed the resourcing of the audit function each quarter and was satisfied that the resources were appropriate. The Audit Committee Chairman and the Chief Internal Auditor review progress on a monthly basis. The Committee also considered the new organisational structure of the internal audit function, which recognises the changing focus of its activities as business priorities and risks develop, concluding that it was appropriate.

External Audit

PwC acted as the Society's external audit firm throughout the 2018/19 financial year. The Audit Committee is responsible for overseeing the relationship with the external auditor, and for the effectiveness of the audit process.

Senior statutory auditor

Hemione Hudson of PwC has been Nationwide's senior statutory auditor for the 2015 year through to 2019 year end. Under regulation Ms Hudson would be due for rotation following the 2019 year end audit which coincides with the audit rotation date. PwC's report can be found on pages [170] to [178].

Audit quality and materiality

The Committee has a responsibility for reviewing the quality and effectiveness of the external audit. The Committee approved the scope of the audit plan and materiality level in advance of the annual audit. Materiality is the level at which the auditor considers that a misstatement would compromise the truth or fairness of the financial statements. For 2018/19, overall Group audit materiality was set at £42.3 million (2018: £54.5 million).

Auditor independence

The Board has an established policy setting out the non-audit services that can be provided by the external auditor. The aim of the policy, which is reviewed annually, is to safeguard the independence and objectivity of the external auditors and comply with the ethical standards of the Financial Reporting Council (FRC). The policy specifies non-audit services provided by the external auditor that are either permitted or prohibited. PwC has confirmed that it has complied with relevant regulatory and professional requirements and its objectivity is not impaired. The Committee is satisfied that PwC remained independent throughout the year.

Audit outputs

During the year the Committee reviewed the following reports:

- PwC's year end report for the 2017/18 financial year and its statutory opinion in respect of the year. The report set out key areas of focus in the audit work, namely year end impairment provisions and the judgements made in determining opening IFRS 9 provisions for 2018/19, judgements in relation to conduct provisions and controls over privileged access. The Audit Committee Chairman met with the PwC audit partners in advance of Committee meetings during the year and discussed in detail the basis of their opinion on the key judgements in the financial statements.
- PwC's report on the findings from their review of the Interim Financial Statements.
- PwC's private reports to the Prudential Regulation Authority (PRA), which focused on key areas as requested by the PRA, including aspects of expected credit loss methodology.

Audit and non-audit fees

The Committee reviewed and approved the external auditor's engagement letter and proposed audit fee.

Under the Society's non-audit fees policy, all non-audit work is approved by the Audit Committee where the fee is over £50,000, or by the Audit Committee Chairman and the Chief Financial Officer with ratification at the next Audit Committee meeting where the fee is below £50,000. During the year, the Committee considered a number of proposals from management to use the external auditors for non-audit services, ensuring that management had considered alternative suppliers and scrutinising analysis of any potential threats to auditor independence. The value of non-audit fees incurred in the year was reported to the Committee at each regular meeting.

A regulatory cap on the annual value of non-audit fees of 70% of the average of three years' audit fee will be mandatory for Nationwide in 2022/23, being the fourth financial year following the forthcoming change of auditor. The Committee monitors the cumulative value of non-audit work with the aim of operating within this framework in advance of the regulatory requirement.

The fees paid to PwC for the year ended 4 April 2019 totalled £6.8 million (2018: £5.5 million), of which £2.8 million (2018: £1.8 million) were for non-audit services. Non-audit services represented 67% (2018: 51%) of the statutory audit fee. Fees for individual non-audit services where the expenditure was more than £100,000 were:

- Supporting the selection and preparation for implementation of a governance, risk and control system; fees of £247,100
- Half year review; fees of £208,000
- Assurance on work to enhance privileged access management; fees of £157,000
- Assurance over the Society's technology strategy implementation; fees of £1.6 million.

The remaining non-audit services relate to treasury funding issuances and programme updates, and cyber security assessment.

The total fees are set out in note 8 to the Financial Statements on page [202].

Having reviewed both the quantum of the non-audit fees and the nature of the work carried out, the Committee is satisfied that the non-audit work do not detract from PwC's audit independence.

Audit effectiveness

The Committee reviews the effectiveness of the external audit process on an annual basis. The Committee received a report on audit effectiveness based on a questionnaire to Audit Committee members and those members of management who interact with the auditors. It showed that the external auditor was performing its duties in an independent and effective manner, with some improvement in feedback results compared with the prior year. The Committee concluded that the rating given to PwC remained acceptable, with strengths including planning, engagement with senior management and communication. Some areas for improvement were noted, including providing greater insight into industry practice and ensuring challenges to management are communicated as early as possible. PwC has responded effectively to the findings. Following the review, it was recommended to the Board and subsequently to the Annual General Meeting that PwC be reappointed as auditor for the 2018/19 financial year.

Auditor rotation

Following the completion of a competitive tender in 2017, Ernst & Young LLP (EY) will be recommended to the members as Nationwide's auditor for 2019/20 at the AGM in 2019. During the year, EY commenced planning for the audit, including engaging widely with management, shadowing the PwC audit, including understanding key areas of audit focus and management judgement, and observing Audit Committee meetings. As part of the transition, the following reports were presented to the Audit Committee:

- EY's transition plan, which set out the audit transition activities completed and planned, and confirmed the firm's independence
- an Initial Observations report, which set out EY's views on various aspects of governance and control based on their audit planning activities.

Further information on the competitive tender process is presented in the Audit Committee report of the 2018 Annual Report and Accounts.

The year ahead

In 2019/20 the Audit Committee will continue to focus on its oversight of the financial reporting and internal controls of Nationwide, including monitoring the ongoing maturity of expected credit loss provisions under IFRS 9.

A key area of focus for the Committee will be the effective transition to the incoming audit firm to ensure that audit independence and quality is safeguarded. The Committee will also continue to work with the Board Risk Committee to ensure that the Internal Audit, Prudential Risk Oversight and Compliance Oversight functions have appropriate and co-ordinated plans in place and will monitor their progress and implementation.

In the challenging and competitive environment in which Nationwide operates, the Audit Committee remains committed to its vital role in overseeing the integrity of financial reporting and effectiveness of controls.

Board Risk Committee report

Tim Tookey

"The Board Risk Committee has continued to provide support and challenge to management to ensure that our members, their money and the Society's safety and security are being appropriately protected."

Dear fellow member,

I am pleased to present the Board Risk Committee's report for the financial year ended 4 April 2019. During the year, we have continued to focus on maintaining operational resilience to provide the service that our members expect. Despite customer expectations continuing to increase and other challenges remaining in the external environment, the Society's risk profile has stayed broadly stable through monitoring and proactively managing risk exposures before they have crystallised.

External challenges have included uncertainty in the macroeconomic environment relating to Brexit, further competition for our core products, as well as continued customer affordability pressures. Technological change has continued at pace and the nature of threats in the IT and cyber environments have continued to evolve. Internally, the number of operational incidents has reduced despite increasing transaction volumes and delivery of complex change initiatives. The Committee has been focused on challenging management to ensure that our systems are built to last, that conduct matters are proactively identified and resolved and that our members receive the level of service they expect from Nationwide. Whilst the Committee retains overall responsibility for providing oversight and advice to the Board on all risk matters, assessment and measurement of IT related risk is delegated to the Board IT and Resilience Committee (BITRC); regular reporting is provided to the Committee from BITRC and further detail can be found in that Committee's report on page [74].

Whilst ensuring robust management of key risks, this year has seen the Committee continue to provide advice to management, with active support for the Society's strategy. The Committee has continued to provide oversight of the important role played by the Risk community independent of the Society's operations, has overseen the conscious further investment in risk capability through developing its people, systems and innovation agenda, and has ensured that sufficient priority is given to maintaining strong relationships with our regulators.

Tim Tookey
Chair – Board Risk Committee

Who sits on the Committee

Committee members	Tim Tookey (Chair)	Albert Hitchcock (Joined the Committee in January 2019)	Mitchel Lenson	Kevin Parry	Lynne Peacock
Meetings attended (eligible to attend)	7 / (7)	1 / (1)	7 / (7)	7 / (7)	7 / (7)

Regular attendees of the Committee include: Chairman of the Board, Chief Executive Officer, Deputy Chief Executive Officer, Chief Products and Proposition Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Credit Officer, Chief Internal Auditor and representatives of the auditors, PricewaterhouseCoopers.

How the Committee works

The Board Risk Committee comprises independent non executive directors whose attendance record is set out on page [70]. Albert Hitchcock became a member of the Committee in January 2019. Details of the skills and experience of the Committee members can be found in their biographies on pages [39] to [45] The Committee is scheduled to meet seven times a year and additionally as and when required During the year there was one joint Audit and Board Risk Committee meeting to consider matters of common interest: the overall assurance plan, the annual oversight plan and the annual internal audit plan.

In addition to the regular attendees from management, the Committee invites the CEO for his perspectives on the current and emerging risk profile of the Society and receives a report from the Chief Risk Officer on the same matters at each meeting. Subject matter experts are also invited to Committee meetings to present on a variety of topics. Following each meeting, updates are provided to the Board, summarising activities undertaken, areas where the Committee had challenged management and key decisions taken. Updates from the Committee to the Board are accompanied by reports from the Chief Risk Officer.

The Committee delegates responsibility for oversight and challenge of the day-to-day IT and resilience risk, control and oversight arrangements to the Board IT and Resilience Committee. This includes reviewing the effectiveness of the relevant aspects of the control environment. The Board IT and Resilience Committee formally reports on these matters to the Board Risk Committee. The Board Risk Committee also oversees the Executive Risk Committee, which is the management committee responsible for ensuring a co-ordinated risk management approach across all the Society's risks.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee's effectiveness is reviewed annually. In 2018, the review was carried out as part of the overall review of the effectiveness of the Board and its committees. In response to the outcome of the review, the Committee will continue to focus on developing a dynamic framework within which the Board continually assesses its appetite for risk. In addition, there will be an increased focus on macro risks, cultural, competitive, and environmental risks, and reviews of the appropriate balancing of risks and rewards across various components of our strategy. The 2019 effectiveness review process is described on page [58].

Report on the year

The principal purpose of the Committee is to provide oversight on behalf of, and advice to, the Board in relation to risk-related matters. The Committee fulfils this role by providing advice, oversight and challenge to enable management to promote, embed and maintain a strong risk awareness culture throughout the Society. The Society's approach to the management of risk is set out in more detail on pages [107] to [109].

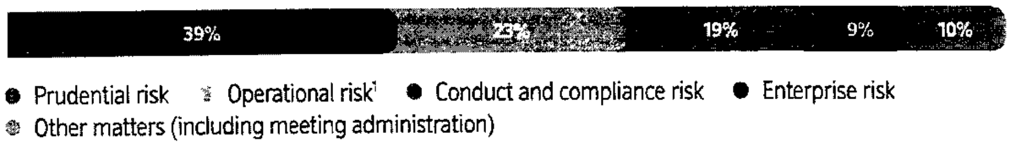
In addition to considering the Society's current and emerging risk exposures, the Committee also considered longer-term risks to delivering the Society's strategy and emerging issues that could present risks in the future.

The Board considers the appropriateness of the Society's strategic plan in the context of its risk appetite. During the year, the Committee recommended the Society's Board risk appetite to the Board and monitored performance against it by undertaking appropriate reviews on material risk issues against the set risk appetite.

On behalf of the Board, the Committee reviewed and approved the Society's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) documents. In addition, under a delegated mandate from the Board, the Committee approved:

- The Enterprise Risk Management Framework (ERMF) which defines what risk management is and how it works at Nationwide
- The Society's risk strategy
- Pillar 3 disclosures and the updated Pillar 3 Disclosure Policy
- The Society's recovery plan.

How the Committee spent its time in the year



[1] It should be noted that the Board IT and Resilience Committee also covers significant areas of operational risk oversight on behalf of the Board Risk Committee

Key areas/matters considered by the Committee during the year

The Committee balanced its agenda to continue to focus on standing areas of risk management whilst ensuring key risks were escalated for consideration during the course of the year. As part of this, the Committee reviewed the Society's risk profile, facilitated by reporting and analysis from the Chief Risk Officer. An outline of other key matters considered by the Committee in the year is broken down by risk category and set out below:

Area of focus	Committee's response
Prudential Risk (includes credit, model, liquidity and funding, market, solvency and pension risks)	The Society lends in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society through the credit cycle. It maintains sufficient capital and liquidity resources to support current business activity, including planned growth, to remain resilient to significant stress. In this context, the Committee discussed macroeconomic risk matters against a challenging global geopolitical backdrop and the uncertainty around Brexit. These events were continually monitored and assessed to manage the impact on the Society's business. The Committee discussed and challenged management on the risks associated with potential weaknesses in the design or execution of models used by the Society. During the year there was a training session for the Committee members for a better understanding of the key features of the Society's most important models. Models are used to support key decisions including in relation to the amount of capital and liquidity resources required, lending and pricing, resourcing and earnings. During the year, the Committee reviewed a number of aspects of prudential risk as required by the PRA, including the Society's capital and liquidity adequacy (as reported in the ICAAP and the ILAAP respectively), the Pillar 3 risk disclosures, the recovery plan and associated regulatory reporting. It also reviewed and approved the results of the 2018 Concurrent Stress Test focusing on new requirements for estimating loan loss provisions on an expected loss basis. The Committee held deep dive sessions to discuss controls in place to mitigate mortgage credit risk in different scenarios This included its approach to managing risk within the unsecured lending and buy to let portfolios to ensure they remain within the Board's approved risk appetite. The Committee also held a deep dive session on the performance of the Society's savings, current account and prime mortgage portfolios. The Committee undertook an evaluation of the ability of the Society's business model to endure stress through a review of the 2018 reverse stress test. The principal scenario explored was based on the work carried out on the 2017 reverse stress test and the Bank of England's Biennial Exploratory Scenario. The Society was challenged to consider how it would react to a range of scenarios, including an environment of sustained low interest rates and margin compression. The Committee considered how the Society would remain resilient and stable in such instances.
Operational Risk	The Society minimises customer disruption, financial loss and reputational damage through providing sustainable customer services and resilient systems. In addition to receiving regular reports on IT related risk, resilience issues, IT-related risk decisions taken and other important matters from the Chairman of the Board IT & Resilience Committee, the Committee reviewed key areas of operational risk exposure during the year including: • the risk management and assurance approach for delivery of the technology investment. • the management of outsourcing and third party related risks with a focus on three key areas – procurement and contracts, operational vendor management and the testing and assurance of suppliers. • how the Society is ensuring compliance with the requirements of the General Data Protection Regulation (GDPR) and to enhance members' data protection and privacy. • how the Society supports colleagues in managing specific risks including insider threat and IT privileged access. • the contingency plans to mitigate the impact of various potential Brexit scenarios on the business of the Society. The Committee discussed the findings and learnings identified from the result of a Business Continuity Incident Management exercise which was carried out at the Executive Committee level.

Key areas/matters considered by the Committee during the year (continued)

Area of focus	Committee's response
Conduct and compliance risk	The Society treats customers fairly, before, during and after the sales process through offering products and services which meet customer needs and expectations, perform as represented and provide value for money. The Committee has continued to champion the Society's approach to the ongoing embedding of conduct risk, meaning that the Society's products and processes are focused on delivering good customer outcomes and minimising regulatory non-compliance. The Committee discussed residual risks to compliance with the General Data Protection Regulation (GDPR) and noted the continued focus by the Society on ensuring compliance with the requirements of the regulation. The Committee also discussed and approved the Society's approach to managing the emerging risks relating to data ethics and the ways in which the Society uses members' data. Management was challenged to ensure a continuous embedding of conduct risk awareness and the need for consideration of conduct risk at the early stages of developing new propositions. It should be noted that whilst the conduct risk profile of the Society was considered satisfactory, there will always be focus maintained on further embedding conduct risk awareness. On behalf of the Board, the Committee approved the Society's Complaint Handling Framework and the Society's Treasury Communications Policy which have been put in place to satisfy the requirements of the Markets in Financial Instruments Directive II (MiFID II) regulation with respect to complaints handling and call recording respectively. The Committee reviewed the progress on the implementation of the BCBS 239 Reporting Principles (principles for effective data aggregation and risk reporting) and approved the Society's Risk Data Aggregation and Risk Reporting Framework.
Enterprise risk (includes Business risk)	The Society operates a mutual business model which is sustainable and remains within the constraints of the Building Societies Act in a stress. In this context, the Committee has: • On behalf of the Board, endorsed the Board's risk appetite which clearly sets out the amount and type of risk that the Board is comfortable with the Society taking. This is to ensure that it remains sustainable in the long term for all members' benefit. Within the parameters set by the Board's risk appetite, the Committee performed a regular review of the Society's risk performance to ensure that appropriate action was being taken and to inform consideration of any potential risk adjustments to executive remuneration. • Approved the results of the review of the Society's Enterprise Risk Management Framework (ERMF), an annual review of the adequacy of Nationwide's system of risk management and internal controls. The review concluded that the Society's system of risk management and internal control was adequate when assessed against the Board's risk appetite. • Approved the Society's risk strategy which had been updated based on changes to the external environment, the Society's technology strategy and updated Board risk appetite. Nationwide's risk strategy sets out the Society's approach to managing the emerging risk landscape over the medium to longer term. During the year, the Committee received regular updates from the Society's second line oversight functions. It satisfied itself that the Society's segregation of duties between the first and second lines of defence is sufficiently robust to ensure that the Society's operational decisions receive appropriate, timely and sufficient challenge. The Committee also approved changes to the Terms of Reference of the Executive Risk Committee. As part of its remit to provide advice to the Remuneration Committee on potential risk adjustments to be applied to performance objectives incorporated in the incentive structure for executives, the Committee reviewed a report from the Remuneration Committee on variable pay arrangements across the Society during the year.

The year ahead

The Society has ambitions to broaden and deepen its member relationships through its lending, current accounts and savings portfolios in an increasingly competitive market, ensure its costs are controlled effectively, and continue to invest in IT and operational resilience whilst managing changing regulatory requirements. Delivering against these objectives will be challenging but these are the right areas to focus on for the benefit of the Society's members – making sure that they are at the heart of everything the Society does.

To support this ambition, over the next 12 months the Committee will continue to focus on the top and emerging risks, to monitor the uncertain macroeconomic outlook, and to ensure the Society delivers what is required by regulators and other authorities - ensuring the Society is built to last. The Committee will continue to support and challenge management in addressing these requirements and in overseeing the strengthening of the Society's business operations, particularly with regard to operational resilience – ensuring that members' interests are safeguarded

Board IT and Resilience Committee report

"It has been my privilege to chair this Board Committee over the past 7 years, as it oversees the future technology roadmap to deliver legendary service for current and future members."

Dear fellow member,

The past year has been a momentous one for your Society.

We are living through times of unprecedented change, with technology transforming the way we all live our lives. An increasing number of our members are accessing our services digitally, and Nationwide saw 220 million more mobile log-ins than last year and our mobile app now has 2.7 million active users. Technology is enabling new services, propositions and business models; this brings new opportunities but also creates a new set of challenges we must rise to.

That is why in September 2018 we announced plans for additional technology investment of £1.3 billion over five years to enhance our existing technology programme. Our technology investment will deliver increased resilience, make us more secure and deliver better member outcomes through improved digital capabilities and better use of data, whilst also driving down costs.

This is an exciting, ambitious plan to improve the service we offer existing members and to develop new capabilities to serve the needs of members in the future. I want to reassure members that this is not a single 'big bang' change. Rather, members will see a series of improvements over the course of time with each step carefully managed. In totality the changes will further improve the quality of the service we can offer, all underpinned by the security and reliability our members expect, and the Society's ethos of mutuality.

Gunn Waersted assumed the Chair of this Committee in March 2019. I wish her and the Committee every success. I am confident that the Society is well placed to execute its ambitious technology programme.

Mitchel Lenson
Chair – Board IT and Resilience Committee
(until March 2019)

Who sits on the Committee

Committee members	Mitchel Lenson (Chair until March 2019)	Gunn Waersted (Chair from March 2019)	Mai Fyfield	Albert Hitchcock (Joined the Committee in January 2019)	Tim Tookey (Joined the Committee in July 2018)
Meetings attended (eligible to attend)	6 / (6)	6 / (6)	6 / (6)	1 / (1)	4 / (5)

Regular attendees of the Committee include: Chairman of the Board, Chief Executive Officer, Deputy Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Product & Propositions Officer, Chief Risk Officer, Chief Technology Officer, Chief Data Officer, Chief Transformation Officer, Chief Internal Auditor; and the Society's external advisers Conrad Prince and Oliver Bussmann. The Society's other external advisers partner business areas and attend the Committee where their specific expertise is relevant and valuable to the Committee.

How the Committee works

The Board IT and Resilience Committee supports the Board and the Board Risk Committee.

The Committee comprises independent non executive directors whose *attendance record is set out on page [74]*. Albert Hitchcock became a member of the Committee in January 2019, and Gunn Waersted replaced Mitchel Lenson as Chair of the Committee in March 2019. The Committee is supported by six external experts who help the Society keep up to date with digital innovation, the mobile channel, payments, data, security and resilience.

Following each Committee meeting, the Chair of the Committee provides verbal updates to the Board and the Board Risk Committee

The Committee reviews its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee's effectiveness is reviewed annually. In 2018, the review was carried out as part of the overall review of the effectiveness of the Board and Board Committees. Following the review, the Committee will continue to focus on macro issues and develop a dynamic framework for decisions linked to the strategic priorities of the business. The 2019 effectiveness review process is described on page [58].

Report on the year

In March 2018, the IT Strategy & Resilience Committee was successfully repurposed as the Board IT and Resilience Committee. This year has seen the Committee's remit extended to include oversight of the recently approved technology investment, in addition to providing oversight for the Society's IT and cyber-related risks, IT service availability and delivery, and monitoring execution of the Society's respective IT-related plans.

Additionally, the Committee provides challenge to, and oversight of, the Society's management activities to ensure that the Society's technology continues to deliver the best possible member experience. Concurrently, the Committee is focused on ensuring that the Society's online and mobile *products are available when members need them and continue to keep* their data safe. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

How the Committee spent its time in the year

- Service delivery and operational resilience
- *Technology programme and architecture*
- Cyber risk and security
- Data and analytics
- Transformation delivery and operating model
- IT risk and controls oversight
- Other (including meeting administration)

Key areas/matters considered by the Committee during the year

Area of focus	Committee's response
Service delivery and operational resilience	The Committee reviewed IT service provision throughout the year considering incidents, root causes, solutions and strategic intent. The Committee challenged management to maintain focus on operational impact, evidenced with the development of metrics to capture operational risk to enable the Society to better monitor performance and member impact following IT incidents. A service availability measure has been enhanced to capture the number of minutes of outage, rather than percentage, to better assess member impact. Furthermore, the Committee has overseen activity to manage the risk of IT service outages that might impact member services and has focused on ensuring that any action taken to mitigate risk considered conduct risk, ensuring that members are fairly treated. The Society's Operational Resilience Strategy was approved and delivered in conjunction with the Resilience Programme. Highlights included the development of a framework for the target state of operational resilience, demonstrating a good understanding of people, processes and technology.
Technology programme and architecture	**Technology programme** The investment in technology has been part of the 2018 Society-wide and was approved by the Board in September 2018. This investment underpins the plans to grow the Society and provide better products and services to members. The investment will enable the Society to simplify its technology estate and build new technology platforms to enable growth and diversification, and drive forward digital, data and analytics plans. The Committee challenged management to ensure that significant deliverables are business-driven and technology led. The technology investment will create a technology model to meet future challenges and ensure success. Looking to the future, the Committee challenged management to prioritise its activity across strategic workstreams to make sure the Society manages its resources to meet members' needs efficiently. Mobilisation efforts are now underway and include execution of delivery projects, architectural decision making and the creation of an operating model to build future capability. PwC was appointed to provide external independent assurance over the delivery of the technology investment to the Committee and Board. PwC's work, together with that of the Society's oversight and internal audit functions, will form part of a combined assurance approach. **Nationwide for Business** Nationwide for Business will mark the Society's entry into the small business banking market. The Committee discussed and challenged management on the core platform selection, delivery plans, costs and particularly the risks of the business banking proposition.
Cyber risk and security	Over the last year, the financial services industry has been subject to a concerted campaign of ever increasing and sophisticated attacks against systems worldwide, including successful hacks, ransomware and phishing attacks. The Committee approved the Nationwide Security Strategy 2018-21 and has received regular updates throughout the course of the year. The Committee has supported management during the cyber security strategy refresh. The Society, supported by the Committee, continues to sustain focus and provide investment to support and improve its security capability, mitigating against cyber risks and taking a proactive approach to help keep members' money and data safe. The Society works with the wider industry and with the Government's National Cyber Security Centre to share good practice and understanding about new and evolving threats.

Key areas/matters considered by the Committee during the year (continued)

Area of focus	Committee's response
Data and analytics	Since endorsement in July 2017, the Committee has supported management in developing the Society's data plans. In May 2018, the Society successfully demonstrated compliance with the General Data Protection Regulation (GDPR), further improving the Society's awareness of control and governance of member data The Committee has also helped management to develop its thinking as the Society prepares for the new Basel Committee Banking Supervision (BCBS) 239 Regulation and align activities to the reporting principles of timeliness, completeness and accuracy, expecting compliance by June 2019.
Transformation delivery and operating model	**Transformation** The Committee has continued to review management's progress against key transformation delivery objectives, some of which are enabled by change activity. The Committee regularly received insight on programmes within the Society's Transformation Portfolio, including: • The successful transformation of the Society's high street presence which brings a new branch design to members • The Society's commitment to comply with industry standards on Open Banking, GDPR and most recently BCBS 239 • Assessing whether critical delivery milestones are met in line with planned timetables. **Improved ways of working** The Committee has continued to champion the Society's use of 'Agile' working and recognised a shift in the cultural mindset towards agile management and the use of agile methodology and skills, with the aim of bringing individuals together from across the Society to create a more efficient and innovative working environment. By streamlining decision-making, the Society has made progress towards improving processes and products for members.
IT risk and controls oversight	**Second line, third line and external reviews** The Committee is routinely provided with independent reviews from the Society's Oversight and Internal Audit functions. This activity complements the Society's first line risk management by business areas and processes have been improved by initiatives to encourage first line risk teams to become more proactive in identifying and managing risk across the Society. During the year the Committee has also received reports from external reviews of the Society's cyber security and technology plans from PwC, which has enabled the Committee to hold management to account against industry standard best practice and to shape future development plans.

The year ahead

The year ahead presents an exciting opportunity to continue to deliver the technology investment which will be transformative for the Society, instrumental in safeguarding future resilience and a key enabler to continue to meet Nationwide's core purpose in years to come. The Committee will need to strike a balance between the enablement of operational continuity (operations, resilience and security), meeting new regulatory requirements and providing oversight of strategic initiatives, whilst challenging management to ensure that the Society makes the best use of members' money.

Nomination and Governance Committee

"The Committee retains its focus on the identification and development of talent to meet leadership needs at Board and management levels in an inclusive way that reflects the society in which Nationwide operates."

Dear fellow member,

This year the Nomination and Governance Committee has overseen all matters within its terms of reference, with increased focus on leadership, resourcing, succession and diversity.

The Committee has observed that the Society continues to build the strong leadership needed to deliver our strategy, supported by our continued investment in leadership development. With oversight from the Committee, the Society is building on this through a 'leadership pathways' activity to ensure we have the leadership talent we need for the future. The Committee has also seen the Society strengthen its position on emerging talent and on the technical training needed to support our technology investment.

The Committee is committed to diversity and inclusion and has endorsed a programme of activity to educate and engage leadership teams across the Society in driving positive action, supported by research and deep insight. This includes a focus on enabling difference of all kinds to flourish in the interests of our members. Baroness Usha Prashar attends Committee meetings as the Board's sponsor of the Society's diversity and inclusion agenda.

We have continued to strengthen the composition of the Board with the recent appointment of Albert Hitchcock enhancing the skills and experience to oversee how we optimise our strategic investment plans. We've also taken the opportunity to hear employee perspectives in the boardroom this year with Mai Fyfield as the designated director for employee engagement.

The Committee's attention to corporate governance includes a review of best practice and participation in national policy consultations. Our approach to managing regulatory regime requirements on matters such as senior manager accountabilities and fitness and propriety is now well established.

The Committee has a busy year ahead with an agenda informed by the Board Strategy Conference in October, where several people priorities were identified that will require the Committee's oversight. Board effectiveness and sound corporate governance will continue to be important aspects of the Committee's responsibilities to ensure that we are fit to face an exciting future.

David Roberts
Chair – Nomination and Governance Committee

Who sits on the Committee

				
Committee members	David Roberts (Chair)	Kevin Parry	Lynne Peacock	Tim Tookey
Meetings attended (eligible to attend)	8 / (8)	8 / (8)	8 / (8)	8 / (8)

Regular attendees of the Committee include: Chief Executive Officer, Chief People Officer, Baroness Usha Prashar (non executive director), Chief Legal Officer and Society Secretary, Director of Secretariat; and Director, Engagement & Leadership

How the Committee works

The Committee is chaired by the Chairman of the Board and the members are independent non executive directors; their attendance record is set out on page [78]. Details of the skills and experience of the Committee members can be found in their biographies on pages [39] to [45]. The Committee meets as and when required and the number of meetings held in the year can be found on page [78]. Following each meeting, the Chair of the Committee provides verbal updates to the Board, summarising activities undertaken, and key decisions taken.

The Committee reviewed its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee's effectiveness is reviewed annually. In 2018, the review was carried out as part of the overall review of the effectiveness of the Board and Board committees. Following the review, the Committee will continue to focus on ways in which the Society can accommodate and encourage diversity of style without compromise to its values. The 2019 effectiveness review process is described on page [58].

Report on the year

The Committee continued to focus on strengthening the Society's leadership capability during the year, with the emphasis on building those skills and behaviours required to evolve the organisation's culture and renewed strategic ambitions. This was a core theme of the Board Strategy Conference in October 2018, and oversight responsibility for this resides with the Nomination and Governance Committee.

Board members have been actively involved in the continuation of the Society's flagship leadership programme, Leading for Mutual Good, with over 1,000 leaders having participated to date. More information on the work of the Committee in this area can be found on page [80]. The Committee also endorsed the launch of the Developing My Leadership (DML) learning curriculum with over 1,600 junior and middle managers participating.

As an output of the Board Strategy Conference in October, management has placed further focus on leadership talent through a 'leadership pathways' approach, having concluded that leadership is a key lever for future organisational culture, performance and growth. Initiated in January 2019, this involves a review of the Society's operating model, redefinition of its future capability requirements and creating the right career pathways for leaders to develop. The Committee has reviewed the approach and will monitor progress at every meeting as part of its forward agenda. Meanwhile, the Committee has continued to review the robustness of succession plans and scrutinise resourcing activity for senior leadership roles.

An essential part of this work is optimising opportunities to strengthen the diversity of the Society's leadership population. The Committee has continued to put priority on the Diversity and Inclusion agenda with the sponsorship of non executive director, Baroness Usha Prashar.

Recognising the increasing significance of digital and technology resilience expertise, the Committee commenced the search for a new non executive director. Ridgeway Partners, an executive search firm which has no other connection with the Society, was engaged to assist with the search for a suitable candidate. A candidate specification was prepared considering the desired skills, knowledge, experience and personal characteristics required for the role. From the specification, a list of potential candidates was identified, who were approached for initial discussions with the Chairman. Following this, a short list of candidates was produced and after a series of interviews with executive directors and Committee members, the Committee recommended the Board to approve the appointment of Albert Hitchcock as a non executive director in December 2018. Bringing senior transformational technology leadership experience, his appointment supports succession planning and Board composition in the context of the Society's ambitions for technology.

How the Committee spent its time in the year

- Leadership, talent and succession
- Executive resourcing and retention
- Diversity and inclusion
- Board composition and effectiveness
- Individual accountability regimes
- Governance and Regulatory Requirements
- Other (including meeting administration)

Key areas/matters considered by the Committee during the year

Area of focus	Committee's response
Leadership, talent and succession	The Committee reviewed several matters on this subject, with a strong focus on developing leadership capability for the future. The Committee supported the extension of the Leading for Mutual Good leadership programme to reach 1000 leaders this year and the set-up of an active alumni to help bring learning to life. In addition, the Committee noted the success of the core management curriculum in its first full year of delivery. Underpinning the Society's investment in technology, management has supported an increase in new talent to join the Technology Development Programme and the onboarding of a managed service provider to respond to the increasing technical and knowledge-based training required to support the development of services and products provided to members. The Committee welcomed the increased focus on technical and knowledge-based learning to support the Society's technology investment, together with increases in the intake of emerging talent in the form of graduates, industrial placements and apprentices. Early in the year, the Committee paid attention to retaining individual talent, upon whom the Society had a dependency in terms of particular skills that are scarce in the marketplace. Retention plans were put in place with good results. Latterly, the Committee provided oversight for the design and implementation of the Society's 'leadership pathways' work through which we are identifying experiential opportunities that provide stretch and breadth to develop top talent. This involves a comprehensive review of the skills and motivations of the Society's leaders to shape the right career pathways. The Committee will continue to oversee this substantial activity in the coming year.
Executive resourcing and retention	The Committee received updates on leavers, vacancies and appointments in the senior executive population at every meeting and observed that retention levels were relatively high and, accordingly, recruitment volumes low. The Committee also started to review headcount changes to ensure the Society is maintaining resourcing levels while managing costs. It was noted that the Society continues to be rigorous in selection, using appropriate assessment tools and observing all regulatory requirements. Ensuring diverse candidate pools continues to be a priority for the Committee, in addition to which, analysis of assessment insights and outcomes has led to a greater understanding of how the Society can enable difference to flourish through the way it selects and onboards new talent.
Diversity and inclusion	With the sponsorship of non executive director, Usha Prashar, the Committee endorsed recommendations resulting from research into the experiences of BAME colleagues and maternity returners and supported Nationwide's response to Gender Pay Gap and Women in Finance reporting, with the latest reporting on these published in November 2018. This showed a similar position to last year and provided a clear and complete picture of how the Society is actively promoting gender equality. Business area diversity targets and action plans are being established to support the Society's commitments. This year, the Society signed up to the BITC Race at Work charter and played an active membership role in the 30% Club and Mentoring Foundation, demonstrating the Board's ongoing commitment to improve diversity and inclusion at Nationwide and beyond. Nationwide is one of the first business signatories to the Race at Work charter and is also involved in the government consultation on the ethnicity pay gap. More information on the Society's diversity targets can be found on page [22]. One of the key areas of activity in 2018-19 overseen by the Committee was about strengthening 'tone from the top' by engaging and educating senior leadership teams in inclusion matters and driving local action planning. In addition, the Society is promoting inclusion through key people processes such as talent management, performance management and resourcing as well as developing a programme of sponsorship and mentoring for its diverse talent.

"By far the best thing I've ever done in my career. I'm so grateful for the opportunity."

Krissy took part in our Leading for Mutual Good programme

What did you know about leadership before Leading for Mutual Good?

I think I was a pretty good leader, but I had nowhere near as much confidence as I do now.

What did you think of it?

The programme was amazing. I learned so much about leadership, and I'm still learning now. I met all kinds of interesting people, and realised there's a whole world out there that I didn't even know about.

What have you done since?

All sorts of new experiences have come along. I've made a video on mental health awareness, and I've run 'Best Self' sessions inspired by the programme for several areas of the business. I've organised nutritional therapy sessions, sleep clinics and mindfulness sessions (all with my new-found confidence). Helping people be at their best for our members is so important.

Also, I've been to Parliament and saw Joe talk about Nationwide and putting trust back into financial services, attended part of a Board meeting to represent the voice of our people and interviewed our senior leaders about results on behalf of the Society. Finally, I've got myself a mentor. She's in Bournemouth. We'd never have met if not for LMG.

How has it changed your life?

LMG gave me a voice and increased my confidence to speak up and make positive changes in my own business area, knowing I had the support and guidance of my LMG peer group. It gave me a fresh perspective to look at improving the way we do things that I would have overlooked in the past. I have been able to learn from others across the organisation and at all levels and share my learning to benefit others. It's definitely changed my life for the better – by far the best thing I've ever done in my career. I'm so grateful for the opportunity.

Key areas/matters considered by the Committee during the year (continued)

Area of focus	Committee's response
Board composition and Effectiveness	The remit of the Nomination and Governance Committee includes ensuring the Society has the right mix of knowledge, skills and behaviours on the Board for it to be effective in delivering its responsibilities to provide oversight and governance of the Society and to safeguard the interests of its members. Composition and succession have been reinforced by the appointment of Albert Hitchcock, who brings a wealth of technology transformation experience to support the strategic investment the Society is making into the innovation of products and services for members. The Committee has also strengthened the employee voice in the boardroom by assigning additional responsibilities in this respect to non executive director, Mai Fyfield. She has participated in a programme of engagement activity with employees throughout the year and supported several colleagues attending Board meetings to represent the views of employees. The General Secretary of the union and various colleagues have attended Board and Committee meetings during the year to provide feedback on their experiences of what's going well and what's hindering progress across the Society in relation to the strategy and culture of the organisation. This is bringing new perspectives to the Board to inform areas of challenge and support decision-making. The Committee regularly examined the progress of the action plan arising out of the outcome of the 2018 Board effectiveness review and endorsed the approach to be taken for the 2019 Board effectiveness review. More information on the effectiveness review can be found on page [58].
Corporate governance	Throughout the year the Committee has exercised oversight of the Society's governance arrangements on behalf of the Board. Among other things, it reviewed the corporate governance disclosures for the annual report. The Committee received updates on significant corporate governance developments and in particular those emanating from the revised UK Corporate Governance Code published in July 2018 with a view to understanding how the revised Code might impact the Society.
Individual accountability regimes	The Committee continued to focus on regulatory requirements to ascertain fitness and propriety of relevant individuals and ensure senior manager responsibilities were allocated appropriately through our now well-established mapping process. As part of its oversight role, the Committee noted the rigour with which Nationwide continued to respond to the regimes and agreed that the interventions and processes put in place for the Senior Manager Regime were working well. The annual certification process, capturing 1,200 employees, was completed. All individuals were deemed as 'fit' to continue in their certified roles. The Committee was also satisfied that Conduct Rules were embedded and that employee relations policies and processes were sufficiently robust to handle any breaches.

The year ahead

Through the Board Strategy Conference this year, a set of priorities were identified that includes areas for the Committee's ongoing scrutiny and oversight. These priorities were defined in relation to Nationwide's strategy and culture ambitions.

The first of these is the work on 'leadership pathways' and the gestation of stretching roles and experiences for leaders to grow their capability for the future and strengthen succession. The Committee will also be keen to see opportunities generated to recruit and onboard new and diverse leadership talent that can stimulate progress and innovation in line with the Society's strategic ambitions. Refreshed diversity targets will be set for 2025.

Further priorities were identified in relation to the Society's people proposition which will require the Committee's attention.

This involves the need to focus on aspects that support performance and growth such as inclusion, wellbeing and learning.

As well as the areas brought into focus through the Strategy Conference, the Committee will continue to ensure that Board effectiveness, corporate governance and processes to support the regulatory regimes remain fit for purpose, reinforce positive member outcomes and support the strategic direction of the Society.

Albert joined the Board in December 2018 and shares his experiences so far

What are your first impressions of Nationwide?

My experience so far leads me to believe that Nationwide is a purpose driven organisation, with great integrity and a sincere and deep commitment to the members. People are really open, honest and engaging. I also see an organisation that may find change challenging and I know leaders are aware of the need for greater pace, innovation and agility.

How is your induction going?

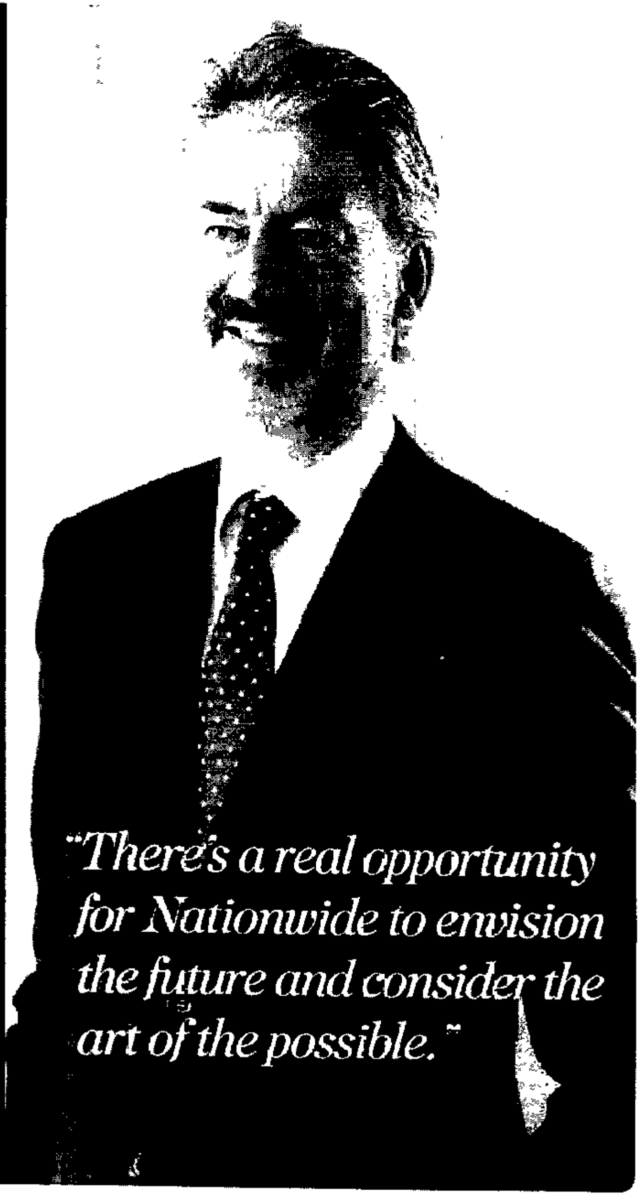
It's going really well. I've had meetings with a range of people from across the Society and they have been very generous with their time. I'm learning a lot and the challenges and opportunities I hear about are certainly similar to those I experience elsewhere. I spent some time on the Leading for Mutual Good Programme last week and really enjoyed being in the company of such enthusiastic people and hearing the quality of their thinking and ideas about shaping the future of the Society.

What do you see as the main opportunities and challenges for Nationwide?

There's a real opportunity for Nationwide to envision the future and consider the art of the possible. We need to be pre-emptive and prepare for a digital future. At the same time, we need to preserve the things that make Nationwide special and distinctive such as its ethos and values.

What do you think you can bring to the Society and its members?

I believe I can bring differing perspectives and experiences to the Board, which can form the basis for constructive challenge and support. My background means I can help the Society use technology to enable business success and enhance member experience.



Report of the directors on remuneration

For the year ended 4 April 2019

"We believe it is vital that all of our employees share in the collective success of the Society, which is why our culture is supported by a common set of goals directly linked to members' interests"

Dear fellow member,

I am pleased to present the Remuneration Committee's report, including details of our directors' pay for the year to 4 April 2019. This report includes a summary of our remuneration policy, together with the key decisions made in the year.

How we decide how much to pay our people

Our approach to pay takes into account our mutual status and our commitment to create a remuneration policy that is aligned with our members' interests. We want to be fair to our members who rightly expect us to use their money wisely and fair to our people who work hard to deliver for our members.

Across the Society in addition to salary, what people earn takes into account how well we perform for our members each year. We do not reward people for maximising profit, instead we focus on sharing in success in our reward scheme whereby all employees, including executive directors, are rewarded on delivering what we know matters most to members, delivering the highest quality service, attracting more business from members and sustainable cost savings. Moreover, the Board will only pay any variable award if it is sure that the Society is financially secure.

The targets we set ourselves are challenging. For example, we have to be at least first for customer service against our peer group for any part of the 'building legendary service' element of the variable award to pay out.

For our directors, a significant proportion of pay is performance-related and is based on the same assessment of the Society's performance, together with team and personal goals. The way we manage performance pay for our most senior people has to be different because there are regulations in place that mean that a significant part of their pay has to be held back for up to seven years and may not be paid in part or at all if misconduct is found. A substantial proportion therefore remains 'money at risk' which may be reduced or cancelled at the Committee's discretion, taking into account the Society's and the individual's performance over the seven-year period.

Our people join the Society for a number of reasons beyond the financial, and in overall terms, we pay less than the market for our executive team, relative to their peers in large financial services businesses and other organisations of similar scale and complexity. We are also not out of step with the building society sector when you consider the size and scale of the organisation. However, we must accept that we operate in a competitive market. It is in the interest of the Society and members to recruit the most competent people which means that we have to be able to compete for talent. We do that by looking at a pay package which reflects these market realities.

We voluntarily disclose details of our executive pay arrangements to the extent it is appropriate for us to do so as a mutual.

Activities during the year

During the year, the revised UK Corporate Governance Code was published which sets out a number of changes in the way in which remuneration committees are expected to operate and approach the structure of executive remuneration. Nationwide has, to date, applied the principles of the UK Corporate Governance Code and will continue to do so, whenever practicable.

The revised Code applies to accounting periods beginning on or after 1 January 2019 and I am pleased to say that we are already well placed in a number of areas from a remuneration perspective. For example, the Committee is already responsible for determining the pay of senior management roles below the Board and has oversight of the pay policies and practices for the broader workforce. The Committee also has wide discretionary powers to adjust variable remuneration outcomes to take account of broader performance considerations.

As with our entire workforce, our directors receive pension contributions. Over the next two to three years, we will reduce these contributions from 33% to 16% of salary in line with the contributions we make for employees in the Nationwide Group Personal Pension. As a first step, the pension allowance for executive directors will reduce from 33% to 24% of salary with effect from 1 April 2019. The Committee undertook a review of our remuneration policies and approaches across the Society during the year. The Committee concluded that no other material changes be made to the structure of pay for our directors in 2019/20.

Report of the directors on remuneration *(continued)*

Broader context

The Committee pays close attention to the relationship between pay policies and practices for executive directors and all other employees. The Board and Committee directly engage with the Nationwide Group Staff Union and one member of the Committee has accountability for the 'Voice of the Employee' to ensure that the Board considers this broader perspective in its decision making.

This year, the Society has decided to publish the ratio of the Chief Executive's pay to the wider employee population, ahead of the formal disclosure requirement coming into force next year. This ratio reflects the nature of our business with a high proportion of our employees working in branches and contact centres.

How the directors have performed

Our results for the year to 4 April 2019 demonstrate that the Society has continued to deliver strong performance against our purpose of building society, nationwide, and the strategic cornerstones that underpin it. We have retained our position of first amongst our peer group on customer satisfaction[1] and have increased our committed members to 3.4 million. We have also achieved sustainable cost savings of £103 million and passed all performance gateway measures based on statutory profit, leverage ratio and conduct matters.

The impact on directors' performance pay

In considering directors' pay for the year, the Committee took into account the Society's results together with an assessment of the underlying performance of the Society with input from the Board Risk and Audit committees. Based on this assessment, payments have been awarded under the Directors' Performance Award (DPA) in respect of the year. Details of these payments, including the measures set and factors considered, are set out in this report. The Committee believes that our directors have continued to deliver real benefits for the Society and all our members.

The year ahead

Our remuneration policy was approved by our members in 2017 and sets the framework for our directors' remuneration. A summary of the remuneration policy is set out in this report and this will continue to apply in 2019/20. We will be presenting a new policy for approval at the 2020 AGM and accordingly during the forthcoming year the Committee will continue to review the Society's approach to executive remuneration taking into account the Society's strategy, together with developments in the external environment and feedback from members.

On behalf of the Remuneration Committee, I recommend that you support our Annual Report on Remuneration

Lynne Peacock
Chair - Remuneration Committee

Who sits on the Committee

The members of the Remuneration Committee are all independent non executive directors of the Society and include a member of the Board Risk Committee and two members of the Audit Committee.

Committee members	Number of meetings attended (eligible to attend)
Lynne Peacock (Chair)	9/(9)
David Roberts	9/(9)
Rita Clifton	9/(9)
Mai Fyfield	6/(6)
Usha Prashar	9/(9)

Regular attendees of the Committee include: the Chief Executive, the Leader of People and Culture and the Director of Reward and Pensions. In no case is any person present when their own remuneration is discussed. In addition, Deloitte LLP, our independent external consultants, who were appointed by the Committee following a tender process, also attend. Deloitte also provided tax, financial advisory, risk, internal audit and consulting services to the Society during the year The Committee is satisfied that the advice received is objective and independent, and reviews annually all other services provided by Deloitte to ensure this continues to be the case. Their fees for advice provided to the Committee during 2018/19 were £217,450, typically charged based on a time-and-material basis.

[1] © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019 and 12 months ending 31 March 2018, c60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings Peer group defined as providers with main current account market share >4% [illegible] Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB)

Report of the directors on remuneration *(continued)*

The Remuneration Committee is supported by the Board Risk Committee on risk related matters including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls. The Remuneration Committee is also supported by and receives input from the Audit Committee.

How the Committee works

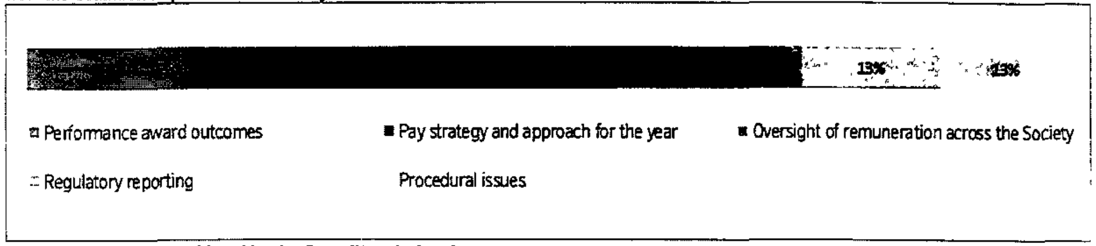
The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration strategy, policy and the specific remuneration packages for the Chairman, the executive directors and other members of the Executive Committee of the Society as well as any other employees who are deemed to fall within scope of the PRA / FCA Remuneration Codes. This includes reviewing the year-end pay outcomes for the Society's Material Risk Taker population as well as the outcome for the Society-wide element of our variable pay. The Committee approves the design of, and determines the performance targets for, the discretionary performance pay plan operated by the Society for the benefit of employees within the Committee's remit and approving the total annual payments under such plan.

The Committee also oversees the remuneration policy throughout the Society, with a specific focus on the risks posed by remuneration policies and practices. As part of its oversight role, the Committee receives an update on the pay policies for the wider workforce at least annually. In addition, this year the Committee has received direct feedback from both the Nationwide Group Staff Union and also from members.

The Committee reviews its terms of reference and its activities over the previous year as part of an annual update to confirm that they were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference at **nationwide.co.uk**

Report on the year

How the Committee spent its time in the year



Key areas / matters considered by the Committee during the year

Area of focus	Committee's response
Remuneration Review	The Committee undertook a strategic review of remuneration during the year and agreed that no material changes were required to the structure of pay for directors prior to the full policy review in 2020
Performance Targets	The Committee agreed the performance targets for awards to be made under the Directors' Performance Award (DPA) taking into account the Society's plan
Outcome of DPA	Taking into account input from the Board Risk and Audit committees, the Committee reviewed and approved the outcome of the DPA to be paid in respect of the year
Base Pay Review	Agreed base salary increases for executive directors as outlined in the year ahead section
Evolving Regulation	Ongoing work in relation to the PRA / FCA Remuneration Codes and other corporate governance matters, including the updated UK Corporate Governance Code, and how they apply to Nationwide as a mutual
Directors' Remuneration Report	Approved the Directors' Remuneration Report including the implementation of the remuneration policy for 2019/20
Material Risk Taker (MRT) identification	Reviewed and approved the identification approach and list of employees who fall within the scope of the PRA/FCA Remuneration Codes
Broader context	The Committee reviewed information on the pay policies and practices across the Society and met with the Nationwide Staff Group Union

Annual Report on Remuneration

Directors' Performance Award (DPA)

A significant proportion of the overall remuneration for executive directors is dependent on the performance achieved in the year against a number of key measures. The DPA was the only performance award in which executive directors participated in 2018/19. The DPA is aligned to the key objectives for the Society and the measures reflect three of the five strategic cornerstones, which help us to deliver value to members.

The maximum potential award level for 2018/19 was 152% of salary for the Chief Executive and 112% of salary for other executive directors, which is unchanged from 2017/18.

The all-employee element of the performance pay plan rewards the attainment of challenging strategic and financial metrics drawn from the Society's plan. The senior element also incorporates an amount based on individual performance and behaviours. The Society measures fall within the following broad areas and ensure focus on delivering benefits for our members.

Society measures - Three strategic cornerstones		Individual performance
Building Thriving Membership – Number of committed members Building Legendary Service – Customer service satisfaction rating Built to Last – Sustainable cost savings	+	Objectives reflecting each individual's contribution towards the delivery of the Society's plan as well as individual conduct and behaviours

For the Chief Executive, 28% of the maximum award is based on individual performance. For the other executive directors, this is 27% of the maximum award

Payments under the plan are made at the discretion of the Remuneration Committee and delivered in instalments over the next seven years. Payments due over the next seven years remain "at risk" and may be reduced or cancelled if the Committee believes that the plan outcomes are not representative of the overall performance of the Society, the individual or by reference to wider circumstances as appropriate. The Society also has the ability to claw back performance pay awards for up to ten years after they were awarded in certain circumstances.

Illustration of the years when performance pay is paid to our executive directors

Performance year	2019	2020	2021	2022	2023	2024	2025	2026
Award determined based on value delivered for members in the year	——>	——>	——>	——>	——>	——>	——>	——>
	20% of award	*20% of award*		*60% of award*				
	At least 50% of awards are linked to the value of the Society's core capital deferred shares (CCDS) and subject to a 12-month retention period							
	Payments remain "at risk" and may be reduced or cancelled during the 7 year deferral period (clawback provisions may apply for up to ten years in certain circumstances) ——>							

The table above shows that for awards in respect of 2018/19, 20% of the award is payable in June 2019 with 20% retained until June 2020. The remaining 60% is deferred, payable between years three and seven following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS). These CCDS linked elements are payable in cash subject to a 12 month retention period

Report of the directors on remuneration *(continued)*

Outcomes for DPA 2018/19

Audited information

Three 'gateways' must be passed before any payment is made under the plan, based on measures of statutory profit, leverage ratio and conduct risk. These gateways were achieved in 2018/19. The Board must also be satisfied that there are no significant conduct, risk, reputational, financial, operational or other reasons why awards should not be made, taking into account input from the Board Risk and Audit committees. In reviewing performance under the DPA during 2018/19, the Committee then assessed the Society's performance against three equally weighted measures.

Cornerstone/Measure	Performance target range: threshold – maximum	Performance relative to targets	Outcome	Performance pay achieved (% of salary)	
				Chief Executive	Executive directors
Building Thriving Membership - Number of committed members	3.23 million - 3.57 million	Above target	3.4 million committed members	24.6	19.6
Building Legendary Service - Customer service satisfaction rating (note i)	1st – 1st + 6%	Above target	1st in our peer group with a 4.8% lead	28.9	22.3
Built to Last - Sustainable cost savings (note ii)	£80 million - £140 million	Above target	£103 million	24.6	19.6
Total performance pay achieved based on Society performance				78.1	61.5
Individual performance element (see further detail below)				36	19-27
Total performance pay achieved based on Society and individual performance				114.1	80.5-88.5
Out of a maximum opportunity (as a % of salary) of:				152	112

Notes:
i. © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019, c60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).
ii. Subject to remaining within an adjusted cost position of £2,198 million after excluding costs of incremental investment relating to our efficiency programme.

For the element based on individual performance, performance has been assessed against both the delivery of the Society performance scorecard as well as individual goals, conduct and behaviours.

The table below provides an overview of the individual performance 2018/19 achieved by each executive director based on their objectives.

Executive director	Performance pay achieved (% of salary) / maximum available	Comments
J D Garner	36/42	The Society delivered strong performance under Joe's leadership, together with good progress across a range of objectives, including: • Maintenance of customer service with continued leading position amongst our peer group[1]. • Extremely strong and improved brand metrics and strengthened external relationships. • Successful progress in key strategic opportunities including technology investment and Nationwide for Business. • Strong trading performance, capital ratios and delivery of cost plan. • Sustained strong employee engagement in period of change and mobilised changes to people strategy. • Good risk and compliance management in context of Board risk appetite. Improved operational resilience with further planned enhancements. • Strong cultural leadership.
T P Prestedge	27/30	• A very strong year where Tony resumed accountability for technology and operations plus leading strategy, and undertook additional responsibilities in his role of Deputy Chief Executive • Significant elements of above target performance contributed to significant improvement in operational resilience evidenced by reduced unplanned outages, with further enhancements being planned. • Strong contribution to delivery of agreed technology strategy plus building capabilities in cyber security. • Contributed to development of strategy including venturing and partnering opportunities. • Strong focus on people strategy including building talent pipeline.
M M Rennison	19/30	• Notwithstanding the continued uncertainty in the external environment, and competitive market conditions, a good year with predominantly on target outcomes and good focus on risk and conduct management. • Strong focus on efficiency agenda with second year of £100m sustainable savings delivered. • Good contribution to development of technology strategy, specifically in relation to financial outcomes. • Successful completion of stress testing, including IFRS9 outcomes for the first time, with further improvements now being planned. • Led Society activity in Operational Continuity in Resolution (OCR) work, with further evolution planned. • Has overseen good contribution from Society's Treasury function including successful MREL issuance. • Has overseen procurement team with significant focus on third party management and work in relation to outsourcing.
C S Rhodes	23/30	• Notwithstanding the continued uncertainty in the external environment, and competitive market conditions, a good year with predominantly on target outcomes. • Good progress made on growing broader and deeper member relationships evidenced by number of committed members without any evidence of increased conduct risk. • Led the Society's development of new propositions including launch of Later Life proposition with learning through initial pilot activity with further planned enhancements. • Achieved objectives in terms of member journeys, simplification of savings range. • Strong contribution to leadership team through approach to balancing complexities of member benefits, profitability and conduct priorities.

[1] © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019 and 12 months ending 31 March 2018, c60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

Report of the directors on remuneration *(continued)*

Executive directors' remuneration

Where indicated, the tables in the following sections have been audited by PricewaterhouseCoopers LLP.

These disclosures are included in compliance with the Building Societies Act 1986 and other mandatory reporting regulations, as well as the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which the Society has voluntarily adopted. The table below shows the total remuneration for each executive director for the years ended 4 April 2019 and 4 April 2018.

Single total figure of remuneration for each executive director (£'000)
(Audited)

	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay Package
Executive directors 2019	**Salary (note i)**	**Pension allowance**	**Directors' Performance Award (note ii)**	**Travel and other taxable benefits (note iii)**	
J D Garner	885	292	1,010	185	2,372
T P Prestedge	590	195	522	141	1,448
M M Rennison	635	210	511	141	1,497
C S Rhodes	590	195	499	67	1,351
Total	2,700	892	2,542	534	6,668

	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay Package
Executive directors 2018	Salary	Pension allowance	Directors' Performance Award (note ii)	Travel and other taxable benefits (note iii)	
J D Garner	855	342	903	217	2,317
T P Prestedge	580	191	493	146	1,410
M M Rennison	625	206	511	189	1,531
C S Rhodes	580	191	480	68	1,319
Total	2,640	930	2,387	620	6,577

Notes:

i. As disclosed in last year's report, salaries were increased with effect from 1 April 2018. J D Garner received an increase of 3.5%, T P Prestedge 1.7%, M M Rennison 1.6% and C S Rhodes 1.7%.
ii. Variable remuneration consists of the awards under the DPA. A substantial proportion of this award is subject to deferral with payments spread over the following seven years. Details of this plan and associated performance measures are set out earlier in this report.
iii. This value is included as fixed remuneration for the calculation of the bonus cap in meeting our regulatory requirements. A full description of the taxable benefits is set out below

Our directors receive a number of benefits and, where appropriate, we pay tax associated with those benefits. In the single figure table above, 'taxable benefits' includes certain essential travel costs met by the Society, including any tax due under HMRC regulations, provided to enable the executive directors to work whilst travelling and undertake their responsibilities most effectively. Other benefits include medical insurance, car allowance and security.

Report of the directors on remuneration *(continued)*

Executive directors' pensions

M M Rennison is a deferred member of the Society's defined benefit scheme. He did not accrue any additional pension entitlement during the year. The change in accrued pension shown in the table below is as a result of inflationary increases that are required by legislation. For his benefit accrued prior to 1 April 2011, the Normal Retirement Age is 60 and for his benefit accrued between 1 April 2011 and 30 June 2011, his Normal Retirement Age is 65.

Table of the value of pension benefits for executive directors (£'000)
(Audited)

Executive directors	Accrued pension at 4 April 2019 (a)	Accrued pension at 4 April 2018 (b)	Transfer value at 4 April 2019 (c)	Transfer value at 4 April 2018 (d)	Change in transfer value (note i) (c)-(d)	Additional pensions earned in year (e)	Transfer value of the increase	Directors' contributions in year
M M Rennison	62	60	1,965	1,764	201	-	-	-

Notes:
i The transfer value basis is set by the Nationwide Pension Fund Trustee and is based on financial market conditions at the calculation date. The increases in transfer values over the year reflect these financial market changes (which have increased the transfer value for all members of the Fund including executive directors) in addition to the fact that the executive directors are one year older and thus one year closer to normal retirement age.

Explanations:
(a) and (b) show deferred pension entitlement at 4 April 2019 and 2018 respectively.
(c) is the transfer value of the deferred pension in (a) calculated at 4 April 2019.
(d) is the transfer value of the deferred pension in (b) calculated at 4 April 2018.
(e) is the increase in pension built up during the year. A zero figure means that, after allowing for inflation, no additional pension was built up

Chairman and non executive directors

The fees for the Chairman and non executive directors were last reviewed in March 2019. Inflationary increases have been made to both the Chairman's fee of 2.5% and the basic fee for non executive directors of 2 2%.

M Fyfield was appointed the director with specific responsibility for the 'Voice of the Employee' during 2018 as an extension of her Board responsibilities. This role provides a two-way process to enhance existing employee engagement mechanisms for employees across the Society, to ensure that a broad range of views are reflected in Board discussions. On creation of the role, in recognition of the additional time commitment required, an annual fee of £10,000 was set, payable from 1 September 2018 which is equivalent to the fees for membership of the IT, Strategy and Resilience Committee.

Report of the directors on remuneration *(continued)*

Fee Policy	Annual Fees for 2019/20 (£'000)	Annual Fees for 2018/19 (£'000)
Chairman	**405**	395
Basic fee (note i)	**69**	67
Senior Independent Director (note ii)	**40**	40
Chairman of the Audit, Board Risk or Remuneration Committee	**35**	35
Member of the Audit, Board Risk or Remuneration Committee	**15**	15
Member of the Nomination and Governance Committee	**6**	6
Chairman of the IT Strategy and Resilience Committee	**25**	25
Member of the IT Strategy and Resilience Committee	**10**	10
Voice of the Employee (note iii)	**10**	10

Notes.
i. The actual basic fee for 2019/20 is £68,500.
ii The Senior Independent Director fee is inclusive of committee membership fees. Committee Chairmen fees will continue to be paid.
iii. New role from 1 September 2018.

Additional fees may be paid for other committee responsibilities during the year.

Single total figure of remuneration for non executive directors

The total fees paid to each non executive director are shown below.

Single total figure of remuneration for each non executive director (£'000)	2019			2018		
(Audited)	**Society and Group fees**	**Travel and other taxable benefits (note iv)**	**Total fees and taxable benefits**	Society and Group fees	Travel and other taxable benefits (note iv)	Total fees and taxable benefits
D L Roberts (Chairman)	**395**	**2**	**397**	389	2	391
R Clifton	**97**	**8**	**105**	96	15	111
M Fyfield	**92**	**9**	**101**	76	7	83
A Hitchcock (note i)	**28**	**5**	**33**	-	-	-
M A Lenson	**106**	**4**	**110**	106	3	109
K A H Parry	**123**	**6**	**129**	121	10	131
L M Peacock (Senior Independent Director)	**142**	**4**	**146**	141	6	147
U K Prashar	**82**	**11**	**93**	81	13	94
T Tookey	**131**	**6**	**137**	125	7	132
G Waersted (note ii)	**78**	**10**	**88**	63	8	71
Total	**1,274**	**65**	**1,339**	1,198	71	1,269
Pension payments to past non executive directors (note iii)			**243**			251

Notes:
i. A Hitchcock joined the Board on 2 December 2018.
ii. G Waersted joined the Board on 1 June 2017.
iii The Society stopped granting pension rights to non executive directors who joined the Board after January 1990.
iv. Taxable benefits for non executive directors relate to expenses incurred in connection with travel and attendance at Board meetings. HMRC deem these expenses to be taxable where the meetings take place at the Society's main offices and the Society settles the tax on behalf of the non executive directors.

Report of the directors on remuneration *(continued)*

Additional Disclosures

Chief Executive remuneration for the past ten years

The table below shows details of the Chief Executive's remuneration for the previous ten years.

Financial year	Total remuneration (£'000)	Annual performance pay earned as % of maximum available	Medium term performance pay earned as % of maximum available
2018/19	**2,372**	75.1	**- (note i)**
2017/18	2,317	69.5	- (note i)
2016/17	3,386 (note ii)	71.9	- (note i)
2015/16	3,413 (note iii)	75.8	80.8
2014/15	3,397 (note iii)	74.4	84.5
2013/14	2,571	83.3	74.9
2012/13	2,258	60.6	41.7
2011/12	2,251	60.6	40.7
2010/11	1,961	75.4	76.9
2009/10	1,539	33.8	61.7

Notes
i. Medium term performance pay ceased at the end of 2015/16
ii Joe Garner commenced his role as Chief Executive on 5 April 2016. His total remuneration for 2016/17 included the value of buy-out awards on joining (2017: £1,070,752). These awards do not form part of ongoing remuneration. If this amount is excluded, the figure for 2016/17 would be £2,315,047.
iii The Chief Executive in 2015/16 and all previous financial years shown in the table above was Graham Beale. His total remuneration for 2015/16 and 2014/15 includes awards under the DPA as well as legacy payouts under the directors' previous medium term pay plan as a result of the transition period between plans.

Change in remuneration of Chief Executive

The change in remuneration (base salary, benefits (including pension) and annual performance pay only) for the Chief Executive from 2017/18 to 2018/19 compared to the average for all other employees is shown in the table below.

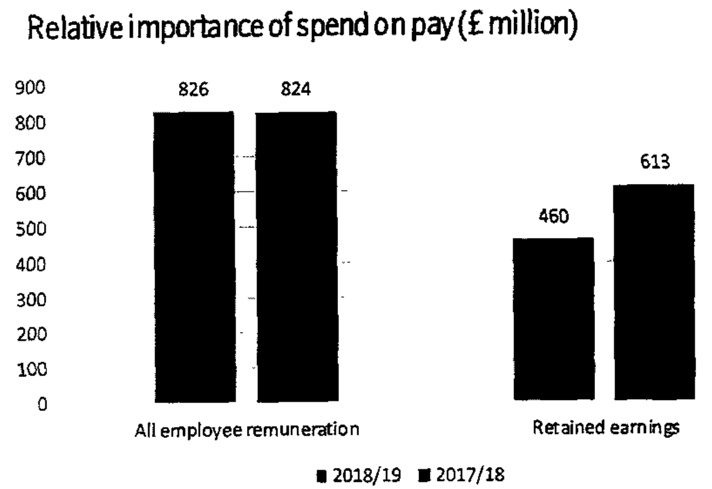
	Salary	Benefits	Annual performance pay
Chief Executive	3.51%	-14.65%	11.80%
Average employee	2.73%	7.22%	-8.93%

Note:
i The difference in annual performance pay for the CEO compared with the average employee is due to a number of contributing factors. Society performance for 2018/19, whilst still above target, is lower than in 2017/18 for all employees. In addition, 2017/18 performance pay for the CEO was reduced by 7.5% to the total value of his performance pay achieved. Both of these factors contribute to the year on year changes. Finally, in 2018/19 the CEO has also received a higher individual performance rating compared with 2017/18.

Report of the directors on remuneration *(continued)*

Relative importance of spend on pay

The chart below illustrates the amount spent on remuneration paid to all employees of Nationwide Building Society, compared with retained earnings.



Payroll costs represent 36.65% (2018: 40.71%) of total administrative expenses. Nationwide's profit after tax for the year was £618 million, of which £158 million was paid as distributions and the remaining £460 million is held as retained earnings.

Total remuneration bandings

Total remuneration includes base salary, performance awards for 2018/19, pension and benefits/allowances. The total number is based on employees of the Society as at 4 April 2019 and 4 April 2018.

Total Remuneration Bandings	Total Employees 2018/19	Total employees 2017/18
£0 - £50,000	13,693	13,966
£50,001 - £100,000	3,806	3,592
£100,001 - £250,000	586	517
£250,001 - £500,000	65	57
£500,001 - £1,000,000	11	12
Over £1,000,000	6	4

Report of the directors on remuneration *(continued)*

Other directorships

Executive directors and members of senior management may be invited to become non executive directors of other companies, subject to the agreement of the Society. These appointments provide an opportunity to gain broader experience outside Nationwide and therefore benefit the Society, providing that appointments are not likely to lead to a conflict of interest. Any fees earned may be retained by the executive director concerned. No executive director earned any fees during the year. With effect from 1 July 2014, the number of external appointments that executive and non executive directors can hold is limited as required under CRD IV.

Payments for loss of office

No payments for loss of office were made during the year.

Payments to past directors

No payments were made to former directors in the year in excess of the minimum threshold for disclosure of £20,000.

Gender pay gap reporting

The Society is fully committed to promoting a diverse and inclusive workplace. The gender pay gap measures the difference in earnings between women and men across all roles. We published our second gender pay gap report in November 2018, which can be found at **nationwide.co.uk**, together with an update of progress on our Women in Finance charter commitments. Our mean average gender pay gap, as at 5 April 2018, was 28%, compared with 29% in 2017.

Gender pay is not the same as equal pay and our regular audits show that our pay policies operate fairly. Equal pay measures the pay of men and women who are carrying out the same or equivalent roles.

CEO pay ratio reporting

The Society has decided to publish the ratio of the Chief Executive's pay to the wider employee population, ahead of the formal disclosure requirement coming into force next year. This ratio will build annually to cover a rolling 10-year period. The ratio compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles).

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018/19	Option A	99:1	77:1	48:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2018/19 are:

	25th percentile	Median	75th percentile
Total remuneration	£23,969	£30,939	£49,466
Salary	£19,059	£24,773	£35,968

Notes.

i. The calculation is based on Option A as set out in the regulations which is considered to be the most statistically accurate methodology.

ii. Employee data includes full time equivalent total remuneration for all UK employees as at 1 March 2019. For each employee, remuneration was calculated based on all components of pay including base pay, performance pay for 2018/19, core benefits and pension payments

iii. Whilst the majority of employees participate in a defined contribution scheme with a fixed maximum employer contribution, there are other pension arrangements in place for some employees including a defined benefit pension scheme which has been closed to new participants since 2007. Although it would be possible to recognise a higher value under the defined benefit scheme, in order to ensure accurate year on year comparative data going forward, a fixed value equal to the maximum employer contribution available to the defined contribution scheme members is included for all defined benefit scheme members

iv. The Committee has considered the pay data for the three individuals identified for 2018/19 and confirms that the ratios reasonably represent the Society's approach to pay and reward for employees taken as a whole.

Voting at AGM

A resolution to approve the 2017/18 'Report of the directors on remuneration' was passed at the 2018 AGM. The Remuneration Policy was last approved by members at the 2017 AGM. In each case votes were cast as follows:

	Report of the directors on remuneration	Remuneration Policy
Votes in favour	534,342 (90.75%)	550,109 (92.04%)
Votes against	54,448 (9.25%)	47,552 (7.96%)
Votes withheld	9,743	10,261

Report of the directors on remuneration *(continued)*

The year ahead

A summary of the remuneration policy approved by our members in 2017 is set out below together with an overview of how it will be applied in 2019/20. In applying this policy, the Committee is guided by the need to ensure executives are appropriately motivated and rewarded to deliver demonstrable value for our members. This summary does not replace or override the full approved policy, which is available at **nationwide.co.uk**

The Committee will continue to focus on ensuring that our remuneration structure supports the right culture and behaviours as well as our values as a mutual. Key priorities for 2019/20 include preparation of a new policy for approval at the 2020 AGM and accordingly during the forthcoming year the Committee will continue to review the Society's approach to executive remuneration taking into account the Society's strategy, together with developments in the external environment.

The Committee agreed base salary increases with effect from 1 April 2019, in line with the all-employee pay settlement. The exception is T P Prestedge where the increase reflects his additional responsibilities in his role of Deputy Chief Executive. In addition, with effect from 1 April 2019, the pension allowance for all executive directors has been reduced from 33% to 24% of base salary as part of a wider three-year strategy to align contributions to those made for employees in the Nationwide Group Personal Pension.

Remuneration policy	Operation	Implementation in 2019/20 for executive directors
Base salary	• Reviewed annually, taking into account market levels of pay, individual skills, performance and experience, and the approach to salaries throughout Nationwide.	An overall aggregate increase of 4.1% applies across the executive directors which is in line with the pay review for the wider employee population except for T P Prestedge where the increase also reflects his additional responsibilities as Deputy Chief Executive: • J D Garner £916,000 (3.50%) • T P Prestedge £635,000 (7.63%) • M M Rennison £654,000 (2.99%) • C S Rhodes £605,000 (2.54%)
Benefits	• Include car benefits, healthcare and insurance benefits.	No change for 2019/20.
Pension	• Executive directors receive a cash allowance in lieu of pension • Maximum allowance is 40% of salary.	From 2019/20 executive directors will receive a pension allowance of 24% of salary (reduced from 33%). The maximum pension allowance for new appointments is capped at 25% of salary. This limit will be reviewed as part of the wider policy review during the year. In practice for 2019/20, in the event of new appointments at this level, it is not anticipated that any pension allowance would be above that for the current executive directors.
Our performance pay plan, the Directors' Performance Award (DPA), comprises two elements: (i) an all-employee element; and (ii) an element in which the most senior team participate subject to deferral provisions	• Rewards annual performance against stretching Society, team and individual measures and objectives • Performance measures reflect the priorities of the Society and are drawn from the Society's plan • Deferral periods are such that no more than 40% of total performance pay is paid after the performance period and 60% is deferred for between three and seven years • At least 50% of awards are linked to the value of the Society's core capital deferred shares (CCDS) and subject to a 12 month retention period • Awards are subject to clawback for up to ten years • The all-employee element operates on the same basis for all employees.	No change in maximum award opportunity for 2019/20: • 152% of base salary for the Chief Executive • 112% of base salary for other executive directors Performance measures: • Gateway measures based on statutory profit, leverage ratio and conduct matters • Society performance, subject to minimum performance thresholds, assessed against the following cornerstones: o Building Thriving Membership – Number of committed members o Building Legendary Service – Customer service satisfaction rating o Built to Last – Sustainable cost savings. For the CEO, 28% of the maximum award assessed is based on individual contribution and behaviours including in relation to conduct matters. For the other executive directors, this is 36% of the maximum award.
Chairman and non executive director fees	• Chairman fees normally reviewed and approved by the Remuneration Committee on an annual basis • Non executive director fees normally reviewed and approved by the executive directors and the Chairman on an annual basis • Non executive directors receive a basic fee and an additional supplement is paid for serving on or chairing a Board Committee • The Chairman and non executive directors do not participate in any performance pay plans or pension arrangements. Benefits may be provided if considered appropriate.	As set out in this report, inflationary increases of 2.5% have been made to the Chairman and 2.2% to the non executive director basic fee for 2019/20.

What our executive directors could earn in 2019/20 based on performance

The table below illustrates the amounts that executive directors would be paid under three different scenarios.

Breakdown of total remuneration for 2019/20 (£'000)	J D Garner	T P Prestedge	M M Rennison	C S Rhodes
Fixed Pay				
Salary	916	635	654	605
Pension as a % of salary	24%	24%	24%	24%
Performance pay				
Target as a % of salary	98%	78%	78%	78%
Maximum as a % of salary	152%	112%	112%	112%
Total remuneration				
Fixed pay - base salary, pension and benefits (note i)	1,321	928	952	817
Target - assuming we deliver target levels of performance against the measures set out in the DPA	2,219	1,424	1,462	1,289
Maximum - Assuming DPA arrangements pay out in full. This would only occur where performance has been truly exceptional across all the measures set	2,713	1,640	1,684	1,495

Note i:

i Includes benefits based on 2018/19 actuals.

Directors' report For the year ended 4 April 2019

Information for the 'Content' items listed in the table below can be found in the section of the accounts as listed against them. These items are required to be shown in the Directors' report by the Building Societies Act 1986 and are incorporated into the Directors' report by this cross referencing.

Content	Section	Pages
Business objectives and future plans	Strategic Report	[4] to [37]
Nationwide results and key performance indicators	Strategic Report – Chief Executive's review including performance updates	[8] to [25]
Charitable donations	Strategic Report – How we are doing on service, value and strength	[25]
Employee engagement, development, equality, diversity and inclusion	Strategic Report – Building PRIDE	[21] to [22]
Directors' remuneration	Governance – Report of the directors on remuneration	[84] to [97]
Mortgage arrears	Business and Risk Report	[126]
Risk management	Business and Risk Report	[107] to [109]
Principal, top and emerging risks	Strategic Report – Risk overview	[102] to [106]
Directors' share options	Annual business statement	[255]
CRD IV country-by-country reporting	Published online – **www.nationwide.co.uk/about/corporate-information/results-and-accounts**	-
Distributions on CCDS instruments	Financial Statements – Note [31]	[239]

Board of directors

The names of the directors of the Society who were in office at the date of signing the financial statements, along with their biographies, are set out on pages [39] to [43].

The only change in the year and up to the date of signing the financial statements was the appointment of Albert Hitchcock (non-executive director), in December 2018.

Mitchel Lenson will be retiring at the AGM on 18 July 2019.

None of the directors have any beneficial interest in equity shares in, or debentures of, any connected undertaking of the Society.

The Board has agreed that in accordance with the UK Corporate Governance Code, all the directors will stand for election or re-election on an annual basis.

Political donations

Nationwide engages with a range of policymakers across the political spectrum on issues which matter to our members such as housing. Nationwide did not give any money for political purposes during the year. (2017/18: None)

Participation in the unclaimed assets scheme

The Society participates in the Government-backed unclaimed assets scheme, whereby savings accounts that have been inactive for 15 years, and where the account holder cannot be traced, are eligible to be transferred into a central reclaim fund. The central reclaim fund has the responsibility for retaining sufficient monies to meet the costs of future reclaims for any previously transferred dormant account balances, and to transfer any surplus to the Big Lottery Fund for the benefit of good causes which have a social or environmental purpose. On 14 December 2018 Nationwide made a transfer of £12,143,551 to the Reclaim Fund Limited, the administrators of the unclaimed assets scheme. This follows the previous transfer the Society made in April 2017 (£4,996,120). The total contributions from inception to that date are £69,642,551.

Creditor Payment Policy

The Society's policy is to agree the terms of payment with suppliers at the start of trading, to ensure that suppliers are aware of the terms of payment, and pay in accordance with contractual and other legal obligations. It is the Society's policy to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments) within the agreed payment terms, subject to the full conformity with the terms and conditions of the purchase. The Society's creditor days were 9 days at 4 April 2019 (2018: 11 days).

Environment

The Society reports its greenhouse gas emissions (GHG) on the right, as set out by the Companies Act 2006. For more information on the Society's environmental sustainability performance, see page [36].

A summary of our performance is as follows:	Year to 4 April 2019	Year to 4 April 2018	Baseline year 4 April 2011
Carbon dioxide (CO_2e) in tonnes (notes i and ii)			
Scope 1 emissions			
Energy	3,721	4,374	4,890
Travel	2,190	1,624	2,448
Scope 2 emissions			
Electricity	23,445	29,268	50,802
Total Scope 1 and 2 emissions (note iii)	29,357	35,266	58,140
PPA carbon reduction (note iv)	(22,187)	(19,972)	-
Absolute carbon outturn	7,170	15,294	58,140
Total carbon dioxide in tonnes per FTE	0.39	0.87	3.46
Water use (cubic metres)	195,854	209,207	259,718
Water use (cubic metres) per FTE	10.56	11.87	15.45
Waste generated in tonnes	2,581	2,516	4,554
Percentage of waste recycled	63%	68%	43%

Notes:

i. CO_2e is an abbreviation of 'carbon dioxide equivalent' and is the internationally recognised measure of greenhouse gas emissions.

ii. When calculating our carbon emissions we have used the DEFRA 2015 conversion factors

iii. Scope 1 covers direct combustion of fuels and company owned vehicles and Scope 2 covers emissions from electricity.

iv. Represents the contribution of a solar power purchase agreement, producing emissions-free energy backed by renewable obligations certificates

Directors' responsibilities in respect of the preparation of the Annual Report and Accounts

The following statement, which should be read in conjunction with the Independent auditor's report on pages [170] to [178], is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, the directors' emoluments disclosures within the Report of the directors on remuneration, the Annual business statement and the Directors' report.

The Annual Report and Accounts have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

A copy of the Annual Report and Accounts can be found on Nationwide Building Society's website at **nationwide.co.uk** (Results and accounts section). The directors are responsible for the maintenance and integrity of statutory and audited information on the 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.

Building Societies Act 1986 (the Act)

As required by regulations made under the Act, the directors have prepared an Annual Report and Accounts which gives a true and fair view of the income and expenditure of the Society and the Group for the financial year and of the state of the affairs of the Society and the Group as at the end of the financial year, and which provides details of directors' emoluments in accordance with Part VIII of the Act and regulations made under it. The Act states that the requirements under international accounting standards achieve a fair presentation. In preparing the Annual Report and Accounts, the directors have:

- selected appropriate accounting policies and applied them consistently
- made judgements and estimates that are reasonable
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepared the financial statements on the going concern basis.

British Bankers' Association Code for Financial Reporting Disclosure (the BBA Code)

The Group has continued to adopt the BBA Code in preparing the Annual Report and Accounts in compliance with the code.

Going concern

The Group's business activities, along with its financial position, capital structure, risk management approach and factors likely to affect its future performance are described in the Strategic Report and the Business and Risk Report. The Group's forecasts and projections, taking account of possible changes in trading performance and funding retention, and including stress testing and scenario analysis, show that the Group will be able to operate at adequate levels of both liquidity and capital for the next 12 months. Furthermore, the Group's capital ratios and its total capital resources are comfortably in excess of PRA requirements.

After making enquiries the directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements.

Business viability statement

In addition to the going concern statement above, the directors have an obligation in accordance with provision C2.2 of the UK Corporate Governance Code to confirm that they believe that both the Society and the Group will be able to continue in operation, and to meet their liabilities as they fall due. This assessment is made over a time period considered appropriate by reference to the Society's financial plan.

Assessment of prospects

In making this viability assessment, the directors have used a wide range of sources including: the principal and emerging risks which could impact the performance of the Group; the outcome of the Bank of England's 2018 Concurrent Stress Test; and, the Group's financial plan. This plan includes forecasts of detailed financial, capital, funding and customer information over the next five years, together with an assessment of the relevant risks.

The Group's financial plan is produced and reviewed at least annually by the directors. The process for creating the financial plan takes into account the Group's strategic objectives, the risks involved in meeting those objectives and the risk appetite limits in place to ensure that the Group remains safe and secure for its members. The Group's annual planning process involves the following key steps:

1 The Board reviews the Group's strategic objectives in the context of the market environment.

2. Economic and market assumptions for the next five years are prepared. These are then used to develop financial, propositional pricing, funding and capital projections

3 In addition to our core projections, a range of alternate economic scenarios are prepared to ensure that the Group would continue to remain profitable if the assumptions included in our financial plan were different. The scenarios are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions. This enables the Group to develop actions to mitigate these scenarios, should they occur.

4 The Board also obtains independent assurance from the Group's Risk Oversight function that the financial plan aligns with the Group's strategic ambitions and risk appetite. This assessment also identifies the key risks to delivery of the financial plan, and any relevant adjustments are made to ensure that we remain within our risk appetite

5. These projections, including the plausible downside scenarios, are then reviewed and challenged by the Board to confirm that they fully reflect Nationwide's strategic ambitions, whilst ensuring that they are based on plausible assumptions and remain within the Group's risk appetite. Once approved by the Board, they form the basis of the Group's targets for the following year

Assessment of viability
Whilst the financial plan represents the best estimate of Nationwide's future prospects, the directors have also considered the financial impact of the alternative scenarios described above and the results of the Bank of England's 2018 Concurrent Stress Test, which outlines the impact on the Group's business model of a severe economic downturn. Due to the Group's strong capital position and robust business model, it would be able to withstand both plausible and severe economic and competitive downturns.

The Group has also developed policies and processes for monitoring and managing its top and emerging risks. Further details on this are described in the 'Business and Risk Report' (pages [102] to [103]).

Assessment period used for reviewing Nationwide's viability
Based on the above, the directors have a reasonable expectation that the Society and Group will be able to continue to operate and meet liabilities as they fall due, over the next three years to 4 April 2022. The directors have specifically assessed the prospects of the Society and Group over the first three years of the financial plan because

- The uncertain economic environment caused by the UK's vote to leave the EU, and the pace of regulatory and technological change, mean that the assumptions underpinning the fourth and fifth years of the financial plan may be less reliable. Notwithstanding this, there is no information contained within the outer years of the financial plan which would cause the directors to conclude that the Group would not remain viable in the longer term.
- It is within the period covered by the Group's future projections of profitability, cashflows, capital requirements and capital resources. It is also within the period covered by both the Bank of England's Concurrent Stress Tests and our own internal alternative downside scenarios

Fair, balanced and understandable
The directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, business model and strategy.

Details of the governance procedures that have been embedded to support this can be found in the Audit Committee report.

Enhanced Disclosure Task Force (EDTF)
The EDTF established by the Financial Stability Board, published its report 'Enhancing the Risk Disclosures of Banks' in October 2012. All EDTF recommendations are reflected in the Annual Report and Accounts and Pillar 3 Disclosure.

Directors' statement pursuant to the disclosure and transparency rules

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the directors have included a fair review of the business and a description of the principle risks and uncertainties facing the Group. The directors confirm that, to the best of each director's knowledge and belief:

- The Chief Executive's review and the Financial review contained in the Strategic Report include a fair review of the development and performance of the business and the position of the Group and Society. In addition, the Strategic Report contains a description of the principal risks and uncertainties.
- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society.
- In addition to the Annual Report and Accounts, as required by the Act, the directors have prepared an Annual business statement and a Directors' report, each containing prescribed information relating to the business of the Society and its connected undertakings.

Directors' responsibilities in respect of accounting records and internal control

The directors are responsible for ensuring that the Society and its connected undertakings:

- keep accounting records which disclose with reasonable accuracy the financial position of the Society and the Group and which enable them to ensure that the Annual Report and Accounts comply with the Building Societies Act
- take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to the Society.

The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The auditors

Due to audit firm rotation regulations PricewaterhouseCoopers LLP is due to resign as the Society's audit firm effective from the date of the Annual General Meeting. Following a successful tender, as reported in the Audit Committee report of the Annual Report and Accounts 2018, a resolution will be proposed at the Annual General Meeting to appoint Ernst & Young LLP (EY) as external audit firm for the year ending 4 April 2020.

David Roberts
Chairman

Busi[illegible]nd

Melissa, member since 2013

Business and Risk Report

Introduction

Risk management is at the heart of our business and has an important part to play in delivering our shared purpose of *building society, nationwide* by making sure we are safe and secure for the future.

Whilst it is accepted that all business activities involve some degree of risk, Nationwide seeks to protect its members by appropriately managing the risks that arise from its activities. Nationwide's risk management processes ensure the Society is built to last by:

- identification of risks through a robust assessment of principal risks and uncertainties facing the Society, including those that would threaten its business model, future performance, solvency or liquidity
- contributing to better decision making, ensuring we take the right risks, in a way that is considered and supports the strategy
- ensuring the risks we do take are appropriately understood, controlled and managed
- maintaining an appropriate balance between delivering member value and remaining a prudent and responsible lender.

Top and emerging risks

Top and emerging risks are identified through the process outlined in the 'Managing Risk' section of this report and are closely tracked throughout the governance structure. They are specific instances of one or more of our principal risks which are particularly relevant in the current environment and which the Society will keep under close observation through risk reporting. The top and emerging risks to Nationwide's strategy are detailed below.

Political and Economic Environment ↗

Nationwide is inherently exposed to a downturn in macro-economic conditions which can impact customer affordability, credit losses and the availability and cost of financial resources. Numerous factors are expected to impact the external political and economic environment over the coming year, including uncertainty surrounding the UK's exit from the European Union, trade wars, and ongoing geopolitical tensions.

We maintain strong capital and liquidity surpluses over regulatory minimums, operate strong credit controls, and conduct regular stress tests to identify and manage our exposure to economic shocks.

Key principal risks impacted

- Business Risk
- Credit Risk
- Solvency Risk
- Liquidity and Funding Risk
- Market Risk
- Pension Risk

Competition ↗

The competitive environment continues to evolve as rapid technological advancement and societal change revolutionise how members use and access existing products and services. These trends are also changing the kinds of products and services required by members.

We continue to identify new and innovative products, technology and service propositions to better meet customer needs. We are investing in our technology and branches, as well as diversifying our product offerings.

Key principal risks impacted

- Business Risk
- Operational Risk
- Conduct and Compliance Risk

Technology →

Increasingly our members demand an always-on, constantly evolving and improving digital service. This means systems need to be managed to avoid disruption to member services whilst also delivering technological change to match demand and improve our services. In addition, ever increasing volumes of data must be managed securely and reliably

We continue to invest in the resilience of systems, implementing robust controls to minimise disruption.

Key principal risks impacted

- Operational Risk
- Conduct and Compliance Risk

Key (level of risk to Nationwide)

↗ Increasing level of risk → Stable level of risk ↘ Decreasing level of risk

Top and emerging risks (continued)

Regulation ➔

The regulatory environment is evolving as regulators continue to drive an agenda committed to maintaining trust and confidence in UK financial services and a number of complex regulatory changes continue to be embedded

We continue to work closely both with regulators and the industry to deliver fair outcomes to our members, and ensure we meet all regulatory obligations.

Key principal risks impacted

- Conduct and Compliance Risk
- Business Risk
- Operational Risk

Managing Change ↗

The Society's investment in technology has increased the scale of the Society's change agenda. Whilst this will lower risk over the long-term, it increases the immediate risk to service provision and costs as change is delivered.

We continue to manage the change agenda to minimise the risk of service disruption and maximise return on investment for our members.

Key principal risk impacted

- Business Risk
- Operational Risk
- Conduct and Compliance Risk

Cyber Security ➔

The threat of disruption to customer services or a loss of customer data as a result of cyber crime remains heightened as cyber attacks become ever more sophisticated and as Nationwide and our members become more connected and embrace new technology.

We continue to invest in cyber security, evolving our controls across both new and existing technologies to protect our systems and customer data from more complex attacks whilst collaborating with industry bodies and law enforcement agencies to respond to emerging cyber threats.

Key principal risk impacted

- Operational Risk

Key (level of risk to Nationwide)

↗ Increasing level of risk ➔ Stable level of risk ↘ Decreasing level of risk

Principal risks and uncertainties

The principal risks described below represent the most significant risks to successful delivery of our strategic objectives. These risks remain largely unchanged from last year and are managed through the Society's Enterprise Risk Management Framework as described on page [107].

Credit risk

The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations.

Why this risk is important for Nationwide

Borrowers may be unable to repay loans for a number of reasons, such as changes to the economic and market environment or in their individual circumstances. This may lead to:

- Financial difficulty or other detriment to borrowers who are unable to afford repayments on existing products and services, either with Nationwide or other providers.
- Credit losses which adversely impact the Society's profitability, ability to generate sufficient capital or sustainability.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise unaffordable lending and credit losses through:

- Stringent affordability checks and controls, ensuring lending is responsible and will not cause financial difficulty for members and customers.
- Prudent lending policies, operated across specific market segments, which ensure lending remains within the Board's risk appetite.
- Continuous monitoring of credit portfolios to identify potential risks, through stress testing, modelling and ongoing reporting to senior management and the Board.

Find out more on page [110].

Principal risks and uncertainties (continued)

Solvency risk

The risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and to maintain the confidence of current and prospective members, investors, the Board and regulators.

Why this risk is important for Nationwide

A sudden stress or series of unexpected losses may result in Nationwide's capital reserves being depleted. This may lead to:

- Threats to the ongoing viability of the Society should capital resources be exhausted.
- An inability to offer new products to members as capital is not available to support these offerings.
- Reputational damage to the Society as members, regulators, investors and counterparties lose trust in Nationwide's ability to operate.

How Nationwide manages this risk on behalf of members

Nationwide ensures it maintains sufficient capital resources through:

- Defining a minimum level of capital, including leverage, which the Society is willing to accept through Board risk appetite, which is maintained and monitored by the Board and other risk committees.
- Structuring capital to meet key regulatory minimums, stakeholder expectations and the requirements of the strategy.

Find out more on page [154].

Market risk

The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes. As Nationwide does not have a trading book, market risk only arises in the banking book.

Why this risk is important for Nationwide

Nationwide's income or the value of its assets may be altered by changes in interest rates, currency rates and equity prices. This may lead to:

- Lower than expected income, adversely affecting the Society's profitability and ability to generate capital.
- Assets and investments which are worth less than expected, impacting the Society's ability to meet its financial commitments and its ongoing viability.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise its exposure to fluctuations in market prices and rates through:

- Fully hedging market risks where possible and appropriate and taking market risks only when these are essential to core business activities, or are designed to provide stability of earnings.
- Continuous monitoring through a variety of techniques including sensitivity analysis, earnings sensitivity, Value at Risk and stress analysis

Find out more on page [158].

Business risk

The risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, *regulatory or other external* events.

Why this risk is important for Nationwide

Nationwide may fail to respond appropriately to changes in the external environment including new technology, consumer behaviour, regulation or market conditions. This may lead to:

- Products and services which fail to meet members' needs, adversely *affecting both the Society's relationship* with members and the ability to generate income.
- A weakening of our relationships with members as they increasingly conduct their business through third parties.
- Degradation of profitability through increased costs or decreased income.

How Nationwide manages this risk on behalf of members

Whilst changes in Nationwide's operating environment pose risks, they also present opportunities to provide new, innovative products and services to members. Nationwide ensures it is able to adapt to new conditions and continues to meet members' needs whilst remaining safe and secure for the future through:

- Considering the potential for disruption to the market and operating environment from a range of factors, including technology and consumer trends, through regular Board and senior management reporting.
- Continuing to develop new products and services based on member engagement, emerging trends, and technological innovation.
- Identifying and monitoring potential risks to its business model through dedicated horizon scanning processes.

Find out more on page [164].

Principal risks and uncertainties (continued)

Liquidity and funding risk

Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and other stakeholder confidence.

Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits

Why this risk is important for Nationwide

In the event of a downturn in the macroeconomic environment, sudden withdrawals of member deposits or other potential shocks, Nationwide could have insufficient financial resources to meet its commitments. This may lead to:

- Members being unable to access their money or other products and services.
- Disruption to other organisations or the market.
- Damage to the Society's reputation, decreased member and stakeholder confidence and increased funding costs.

How Nationwide manages this risk on behalf of members

Nationwide ensures it is able to meet its liabilities as they fall due and maintain appropriate funding through:

- Operating a comprehensive suite of policies, limits, stress testing, monitoring and robust governance controls to ensure a stable and diverse funding base and sufficient holdings of high quality liquid assets.
- Continuously monitoring liabilities against internal and regulatory requirements, and management of liquidity resources to meet these as they fall due
- Maintaining a contingency funding plan which details the actions available to the Society in a stress situation.

Find out more on page [143].

Pension risk

The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit.

Why this risk is important for Nationwide

Nationwide has funding obligations to defined benefit pension schemes. The value of the schemes' assets could become insufficient to meet estimated liabilities as a result of volatility in the value of schemes' assets and liabilities, driven by market interest rates, inflation and longevity. This may lead to:

- Insecurity of employee pension arrangements.
- A requirement to increase cash funding into these schemes.
- An adverse impact on Nationwide's capital position.

How Nationwide manages this risk on behalf of members

The assets of Nationwide's defined benefit schemes are held in legally separate trusts, each administered by a board of trustees, in accordance with UK legislation. Nationwide minimises the impact of pension risk on both the Society and pension scheme members through:

- Maintaining effective engagement with trustees to ensure that the investment strategy balances risk, return, and employee considerations appropriately.

Find out more on page [163].

Model risk

The risk of weaknesses or failures in models used to support key decisions including in relation to the amount of capital and liquidity resources required, lending and pricing, resourcing and earnings.

Why this risk is important for Nationwide

Model outputs could be inaccurate as a result of inappropriate design or operation, leading to:

- Members being inappropriately offered or refused access to products and services.
- Financial loss or insufficient financial resources.
- Regulatory censure.

How Nationwide manages this risk on behalf of members

Models play an ever more important part in supporting the strategy as decision making becomes more sophisticated. This risk is mitigated through:

- A well governed model development process, operated by expert modelling teams and independently validated by specialists in the second line.
- Regular monitoring of model performance and maintenance, supported by independent review.

Find out more on page [165].

Principal risks and uncertainties (continued)

Operational risk

The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Why this risk is important for Nationwide

Process, people or system failures or external events could lead to:

- Disruption either to the services provided to members or to internal processes, resulting in unfair customer outcomes.
- The loss of customer data, assets, or other form of detriment due to external parties (e.g. cyber-attack, fraud) or poor internal controls.
- Financial loss, through a loss of income, increase in costs, or direct loss.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise detriment and loss to members, customers and the Society through:

- Regularly identifying and assessing the key operational risks to its strategy, ensuring appropriate controls are in place to mitigate these risks.
- Considering and planning for extreme but plausible events which could affect the Society.
- Continuing to invest in enhanced controls in key areas including cyber, resilience and data.

Find out more on page [165].

Conduct and Compliance risk

The risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to:

- non-compliance with regulation or legislation
- market integrity being undermined, or
- an unfair outcome being created for customers.

Why this risk is important for Nationwide

In an evolving regulatory and consumer environment, Nationwide could provide products and services which are misaligned to the needs of customers or market conditions due to the pace of change in customer behaviour, regulation, or the external environment. This may lead to:

- Unfair customer outcomes, with customers being sold products which are not wanted or needed.
- Non-compliance with the letter or spirit of legislation or regulation.
- Disruption to the market.
- Regulatory censure.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise its conduct and compliance exposure through:

- Rigorous testing of products and services both before and after providing them to members to ensure they are designed and performing appropriately.
- Continually assessing new and existing risks in the conduct and compliance environment (e.g. technology, cyber-crime, changes in consumer or market behaviour and regulatory changes) and ensuring that risk exposures are appropriately managed.

Find out more on page [168].

Managing risk

How we manage our risks

Like any business, Nationwide is exposed to risks as part of its normal activities. Nationwide aims to protect our members by limiting the risks we take, and, when we do take risks ensuring that we manage them appropriately and proportionately to ensure that we continue to meet our obligations to our members to remain safe and secure and to operate effectively and efficiently.

This is done through an enterprise-wide risk management framework, which describes the approach to risk management at Nationwide by setting out the minimum standards, and associated processes, for successful risk management, connecting the Society's strategy with day-to-day risk management activities.

Enterprise risk management framework (ERMF)

Whilst Nationwide has continued to evolve the ERMF in response to best practice and the risk landscape, our approach to risk management remains fundamentally unchanged from last year as set out below.

Risk appetite articulates the level of risk the Society is prepared to take in pursuit of Nationwide's agreed overall strategy. This ensures that the level of risk we take will not impact our overall obligation to provide an ongoing service to members in a safe and secure way.

Risk strategy sets out in detail how the Society will manage its most significant risks within the agreed risk appetite, to ensure that we are able to achieve the overall goals and objectives set out in Nationwide's strategy safely and securely

Control environment is the approach to managing our key risks through the effective design and operation of controls.

Risk and control management and governance is the structure, processes, tools and systems which ensure effective day-to-day identification and management of risks across the Society.

Risk, incident and control reporting ensures that information regarding key risks, incidents and controls identified across the Society is escalated and reported in a timely manner to our Board, risk committees, and other key stakeholders, driving effective decision making and ensuring the Society's risk exposure remains within appetite.

Together these activities and structures provide a framework which ensures that risks are managed through robust and consistent processes, supported by appropriate tools and guidance, enabling better business decisions for delivery of Nationwide's strategy for the benefit of our members.

The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. During the year, the Society's risk management and internal control systems have been reviewed and, on the basis of this review, the Board is satisfied that Nationwide has an adequate system of risk management and internal control

Managing risk (continued)

Risk appetite

Board risk appetite articulates how much risk the Board is willing to accept on behalf of its members in the delivery of the strategy. The following statements articulate Nationwide's approach to taking risk responsibly in the interests of our members The Society's ambitions are to:

- Lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle
- Maintain sufficient capital and liquidity resources to support current business activity and planned growth and to remain resilient to significant stress
- Minimise customer disruption, financial loss, reputational damage and regulatory non-compliance, especially those caused by failures of people, processes and systems
- Provide sustainable customer services over resilient systems
- Treat customers fairly before, during and after the sales process
- Offer products and services which meet customer needs and expectations, perform as represented and provide value for money
- Operate a mutual business model which is sustainable and remains within the requirements of the Building Societies Act
- Only incur market risks that are required for operational efficiency, stability of earnings or cost minimisation in supporting core business activities.

The Board is satisfied that the Group has stayed within its risk appetite during the year.

Three lines of defence

Nationwide operates a three lines of defence model, ensuring clear separation between risk and control ownership (first line), oversight, support and challenge (second line), and audit assurance (third line) Accountabilities within the three lines of defence model are outlined below:

First line **Risk and control ownership**	**Second line** **Oversight, support and challenge**	**Third line** **Assurance**
Specific accountabilities include:	Specific accountabilities include:	Specific accountabilities include:
• Setting business objectives	• Providing expert advice on business initiatives	• Performing independent audits of the effectiveness of first line risk and control and second line risk *oversight, support and challenge*
• *Defining management risk appetite*	• Advising the Board on setting risk appetite	• Taking a risk-based approach to the programme of audit work
• Identifying, owning and managing risks	• Reporting aggregate enterprise level risks to the Board	• Preparing an annual opinion on the risk management and controls framework to present to the Audit Committee
• Defining, operating and testing controls	• Conducting independent and risk-based oversight and challenge	
• Implementing and maintaining regulatory compliance	• *Interpreting material regulatory change*	
• Adhering to the minimum standards set out in the risk management framework and associated policies	• Setting the risk management framework and associated policies	
• Identifying future threats and risks	• Identifying future threats and risks	

Managing risk (continued)

Risk Committee structure

The Board Risk Committee and Audit Committee provide oversight and advice to the Board.
The Executive Risk Committee ensures a co-ordinated management approach across all risk categories.
The risk committee structure is represented in the following diagram.

Board committees

Board

Chair: David Roberts, Chairman

- Ensure maintenance of a sound system of internal control and risk management
- Review the effectiveness of the risk and control processes to support its strategy and objectives.
- Approve risk appetite and key regulatory documents (such as Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process)

Board IT and Resilience Committee

Chair (until March 2019): Mitchel Lenson, Non Executive Director

- Oversight of the Technology Strategy, IT architecture and associated execution and delivery
- Oversight of the Data Management strategy
- Oversee Nationwide's IT operating model effectiveness, including organisational structure and capabilities
- Oversight of IT Business Protection and Business Continuity risks

Board Risk Committee

Chair: Tim Tookey, Non Executive Director

- Provide oversight and advice to the Board on current and emerging risk exposures
- Review the Risk appetite and supporting metrics
- Review the effectiveness of the ERMF to manage and mitigate risk.

Audit Committee

Chair: Kevin Parry, Non Executive Director

- Monitor the integrity of the financial statements
- Review the adequacy and effectiveness of internal controls and risk management systems.
- Oversee the adequacy of the procedures for anti-money laundering; anti-bribery and corruption, counter terrorism financing and financial crime.
- Monitor the effectiveness of the internal audit function and the external audit

Executive committees

Executive Risk Committee

Chair: Julia Dunn, Chief Risk Officer

- Determine the attitude to risk.
- Exercise responsibility for controlling risk across Nationwide
- Monitor and review risk exposures

First line - risk and control ownership

Additional specialist risk sub-committees and forums provide specialist advice

Conduct and Compliance Committee

Chair: Alison Verlander, Director of Channel Risk and Compliance

- Determine the attitude to conduct and compliance risk.
- Manage Nationwide's conduct and compliance risk profile

Operational Risk Committee

Chair: Lee Raybould, Chief Data Officer

- Determine attitude to operational risk.
- Manage Nationwide's operational risk profile.

Assets and Liabilities Committee

Chair: Mark Rennison, Chief Financial Officer

- Determine the attitude to prudential risk
- Manage Nationwide's prudential risk profile

Credit Committee

Chair: James Tebboth, Chief Credit Officer

- Determine the attitude to credit risk.
- Manage Nationwide's credit risk profile.

------------ Information flow

Credit risk – Overview

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk encompasses:

- borrower/counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay the interest or principal on a loan, financial product, or service on time;
- security/collateral risk – the risk of loss arising from deteriorating security/collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification;
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

Nationwide manages credit risk for the following portfolios:

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

Management of credit risk

At Nationwide, we lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of the Society's strategy, which is articulated as Board risk appetite statements and underlying principles:

We safeguard our members by lending responsibly

- We will only lend to members, customers or counterparties who demonstrate that they can afford to borrow.
- We will support members and customers buying houses of wide-ranging types and qualities.
- We will work with members, customers and counterparties to recover their financial position should there be a delay, or risk of delay, in meeting their financial obligations.

We safeguard the Society's financial performance, strength and reputation

- We will manage asset quality so that losses through an economic cycle will not undermine profitability, financial strength and our standing with internal/external stakeholders.
- We will ensure that no material segment of our lending exposes the Society to excessive loss.
- We will proactively manage credit risk and comply with regulation.

We operate with a commitment to responsible lending and a focus on championing good conduct and fair outcomes. In this respect, we formulate appropriate credit criteria and policies which are aimed at mitigating risk against individual transactions and ensuring that the Society's credit risk exposure remains within risk appetite. The Board Risk Committee and, under a governed delegated mandate structure, the Credit Committee, the Executive Sanctioning Committee and Material Risk Takers make credit decisions, based on a thorough credit risk assessment, to ensure that customers are able to meet their obligations.

At a portfolio level, we measure and manage our risk profile and the performance of our credit portfolios on an ongoing basis, through a formal governance structure. Compliance with Board risk appetite is measured against absolute limits and risk metrics and is reported to the Society's Credit Committee monthly, with adverse trends being investigated and corrective action taken to mitigate the risk and bring performance back on track.

Nationwide is committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. This is the case for residential mortgages, consumer banking and commercial lending. Accounts in financial difficulty/arrears are managed by specialist teams within Nationwide to ensure an optimal outcome for our members, customers and the Society

Forbearance

Forbearance occurs when concessions are made to the contractual terms of a loan when the customer is facing or about to face difficulties in meeting their financial commitments. A concession is where the customer receives assistance, which could be a modification to the previous terms and conditions of a facility or a total or partial refinancing of debt, either mid-term or at maturity. Requests for concessions are principally attributable to:

- temporary cash flow problems;
- breaches of financial covenants; or
- an inability to repay at contractual maturity.

Credit risk – Overview (continued)

Consistent with the European Banking Authority reporting definitions, loans that meet the regulatory forbearance exit criteria are not reported as forborne. The concession events used to classify balances subject to forbearance for residential mortgages, consumer banking and commercial lending are described in the relevant sections of this report.

IFRS 9 Transition

With effect from 5 April 2018 Nationwide adopted IFRS 9 'Financial Instruments', which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. Under IFRS 9, impairment provisions on financial assets are calculated on an expected credit loss (ECL) basis for assets held at amortised cost and at fair value through other comprehensive income (FVOCI). ECL impairment provisions are based on an assessment of the probability of default (PD), exposure at default and loss given default, discounted to give a net present value. The Credit risk section of this report summarises for the individual portfolios:

- the maximum exposure to credit risk;
- the stage distribution of loans and provisions (explained below);
- credit quality,
- other risk factors and concentrations, including loan to value ratios, regional exposures, arrears and forbearance.

Further information on the impact of implementing IFRS 9 is provided in note 37 to the financial statements and in our 'Report on Transition to IFRS 9: Financial Instruments', which can be found at **nationwide.co.uk**

In accordance with IFRS 9, in the consolidated financial statements there has been no restatement of comparative information for the year ended 4 April 2018, which is reported on an IAS 39 basis. However, to support the understanding of the current year IFRS 9 disclosures, certain comparative balances within the Credit risk section of this Business and risk report are shown as at 5 April 2018 (the effective date of the adoption of IFRS 9). These 5 April 2018 comparatives include financial asset balance sheet carrying values that have changed as a result of adopting IFRS 9, and the stage distribution of gross lending and ECL provisions.

The table below shows the classification of assets on the Group's balance sheet following the adoption of IFRS 9:

Classification and measurement

	4 April 2019 (IFRS 9 basis)	5 April 2018 (IFRS 9 basis)	4 April 2018 (IAS 39 basis)
(Audited)	**£m**	£m	£m
Cash – Amortised cost	**12,493**	14,361	14,361
Loans and advances to customers – Amortised cost (notes i and ii)	**198,922**	191,174	191,593
Loans and advances to customers – FVTPL	**129**	247	-
Investment securities – FVOCI	**14,500**	11,881	11,926
Investment securities – Amortised cost (note i)	**1,656**	1,120	1,120
Investment securities – FVTPL	**78**	45	-
Fair value adjustment for portfolio hedged risk	**411**	(144)	(109)

Notes:

i. Balances are stated net of impairment provisions

ii. Loans and advances to customers exclude balances held with counterparties which are institutions similar to banks. These balances are now reported in loans and advances to banks and similar institutions, and comparatives for the prior period have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

The stage distribution of gross lending and provisions for loans and advances to customers is presented for assets held at amortised cost. Certain tables below exclude loans and advances to customers classified as fair value through profit or loss (FVTPL), since these are not subject to the impairment requirements of IFRS 9.

Stage distribution

Impairment provisions are calculated using a three stage approach depending on changes in credit risk since original recognition of the assets:

- an asset which is not credit impaired on initial recognition and has not subsequently experienced a significant increase in credit risk is categorised as being within stage 1, with a provision equal to a 12 month ECL (losses arising on default events expected to occur within 12 months);
- where a loan's credit risk increases significantly, it is moved to stage 2. The provision recognised is equal to the lifetime ECL (losses on default events expected to occur at any point during the life of the asset);
- if a loan meets the definition of credit impaired, it is moved to stage 3 with a provision equal to its lifetime ECL.

Credit risk – Overview *(continued)*

For loans and advances *held at amortised cost*, the stage distribution and the provision coverage ratios are shown in this report for each individual portfolio. The provision coverage ratio is calculated by dividing the provisions by the gross balances for each main lending portfolio. Loans remain on the balance sheet, net of associated provisions, until they are deemed no longer recoverable, when such loans are written off. The definition, assumptions and timing *for write-off of loans have not changed* with the adoption of IFRS 9.

Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk has risen to £249 billion (5 April 2018: £240 billion), principally reflecting the growth in residential mortgages.

Credit risk largely arises from exposure to loans and advances to customers, which account for 85% (5 April 2018: 85%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 93% (5 April 2018: 93%) of total loans and advances to customers and which comprise high quality assets with 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 risk **4 April 2019** ***(Audited)***	**Gross balances** **£m**	**Less: 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	185,940	(206)	185,734	12,051	197,785	79
Consumer banking	4,586	(418)	4,168	33	4,201	2
Commercial and other lending (note ii)	8,178	(41)	8,137	872	9,009	4
Fair value adjustment for micro hedged risk (note iii)	883	-	883	-	883	-
	199,587	(665)	198,922	12,956	211,878	85
FVTPL loans and advances to customers:						
Residential mortgages (note iv)	72	-	72	-	72	-
Commercial and other lending	57	-	57	-	57	-
	129	-	129	-	129	-
Other items:						
Cash	12,493	-	12,493	-	12,493	5
Loans and advances to banks and similar institutions (note ii)	4,009	-	4,009	-	4,009	2
Investment securities – FVOCI	14,500	-	14,500	-	14,500	6
Investment securities – Amortised cost	1,656	-	1,656	-	1,656	1
Investment securities – FVTPL	78	-	78	-	78	-
Derivative financial instruments	3,562	-	3,562	-	3,562	1
Fair value adjustment for portfolio hedged risk (note iii)	411	-	411	-	411	-
	36,709	-	36,709	-	36,709	15
Total	236,425	(665)	235,760	12,956	248,716	100

Credit risk – Overview (continued)

Maximum exposure to credit risk 5 April 2018	Gross balances	Less: impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
(Audited)	£m	£m	£m	£m	£m	%
Amortised cost loans and advances to customers:						
Residential mortgages	177,114	(235)	176,879	12,205	189,084	79
Consumer banking	4,107	(365)	3,742	42	3,784	2
Commercial and other lending (note ii)	9,540	(29)	9,511	943	10,454	4
Fair value adjustment for micro hedged risk (note iii)	1,042	-	1,042	-	1,042	-
	191,803	(629)	191,174	13,190	204,364	85
FVTPL loans and advances to customers:						
Residential mortgages (note iv)	189	-	189	-	189	-
Commercial and other lending	58	-	58	-	58	-
	247	-	247	-	247	-
Other items:						
Cash	14,361	-	14,361	-	14,361	6
Loans and advances to banks and similar institutions (note ii)	3,493	-	3,493	-	3,493	1
Investment securities – FVOCI	11,881	-	11,881	-	11,881	5
Investment securities – Amortised cost	1,120	-	1,120	700	1,820	1
Investment securities – FVTPL	45	-	45	-	45	-
Derivative financial instruments	4,121	-	4,121	-	4,121	2
Fair value adjustment for portfolio hedged risk (note iii)	(144)	-	(144)	-	(144)	-
	34,877	-	34,877	700	35,577	15
Total	226,927	(629)	226,298	13,890	240,188	100

Credit risk – Overview (continued)

Maximum exposure to credit risk 4 April 2018	Gross balances	Less: impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
(Audited)	£m	£m	£m	£m	£m	%
Cash	14,361	-	14,361	-	14,361	6
Loans and advances to banks and similar institutions (note ii)	3,493	-	3,493	101	3,594	1
Investment securities – Available for sale	11,926	-	11,926	-	11,926	5
Investment securities – Held to maturity	1,120	-	1,120	700	1,820	1
Derivative financial instruments	4,121	-	4,121	-	4,121	2
Fair value adjustment for portfolio hedged risk (note iii)	(109)	-	(109)	-	(109)	-
	34,912	-	34,912	801	35,713	15
Loans and advances to customers:						
Residential mortgages	177,299	(145)	177,154	12,204	189,358	79
Consumer banking	4,107	(298)	3,809	42	3,851	1
Commercial and other lending (notes ii and iii)	10,645	(15)	10,630	842	11,472	5
	192,051	(458)	191,593	13,088	204,681	85
Total	226,963	(458)	226,505	13,889	240,394	100

Notes:

i. In addition to the amounts shown above, Nationwide has, as part of its retail operations, revocable commitments of £9,475 million (4 and 5 April 2018: £9,517 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. Commercial and other lending excludes balances held with counterparties which are institutions similar to banks. These balances are now reported in loans and advances to banks and similar institutions, and comparatives for the prior period have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

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

iv. FVTPL residential mortgages include equity release loans, the balance of which has reduced following a disposal during the year.

Commitments

Irrevocable undrawn commitments to lend are within the scope of *IFRS 9* 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, and the total associated provision of £0.4 million (5 April 2018: £0.6 *million*) is included within provisions for liabilities and charges.

Revocable commitments relating to overdrafts and credit cards are included in ECL-based provisions, with the allowance for future drawdowns made as part of the exposure at default element of the ECL calculation.

Credit risk – Residential mortgages

Summary

Nationwide's residential mortgages comprise both prime and specialist loans. Prime residential mortgages are mainly Nationwide-branded advances made through the branch network and intermediary channels. Specialist lending consists principally of buy to let (BTL) mortgages originated under The Mortgage Works (UK) plc (TMW) brand, together with smaller legacy portfolios in run-off. Over the year, as we continued to grow our lending in line with established credit criteria, the credit performance of our residential mortgages has remained stable and credit quality continues to be strong.

Residential mortgage gross balances

	4 April 2019		5 April 2018		4 April 2018	
(Audited)	**£m**	**%**	£m	%	£m	%
Prime	**151,445**	**82**	143,869	81	144,049	81
Specialist:						
Buy to let	**32,012**	**17**	30,439	17	30,438	17
Other (note i)	**2,483**	**1**	2,806	2	2,812	2
	34,495	**18**	33,245	19	33,250	19
Amortised cost loans and advances to customers	**185,940**	**100**	177,114	100	177,299	100
FVTPL loans and advances to customers (note ii)	**72**		189			
Total residential mortgages	**186,012**		177,303		177,299	

Notes:

i. Other includes self-certified, near prime and sub prime lending, all of which were discontinued in 2009.

ii. As a result of their contractual cash flow characteristics, certain residential mortgages (including equity release loans) were reclassified from amortised cost to FVTPL on transition to IFRS 9 on 5 April 2018 and remeasured at fair value as disclosed in the above table.

Total balances across the residential mortgage portfolios have grown by 5% during the year to £186 billion (4 April 2018: £177 billion) as we continue to help people buy a home of their own and support the BTL sector. The reduction in FVTPL balances reflects a disposal of equity release loans.

Credit risk – Residential mortgages (continued)

Impairment losses for the year

Impairment (reversals)/losses for the year

(Audited)	2019 (IFRS 9 basis) £m	2018 (IAS 39 basis) £m
Prime	(1)	3
Specialist	(16)	8
Total	(17)	11

Note:
Impairment losses/(reversals) represent the net amount charged/(credited) through the profit and loss account, rather than amounts written off during the year.

Due to the high quality of residential mortgage portfolios and continued low levels of arrears, impairment losses remain low. The provision reversals above are principally attributable to improvements in the modelling of refinance risk on interest only loans and updated economic assumptions used in calculating ECLs. As impairment provisions are calculated on a different basis under IFRS 9 from IAS 39, the losses shown above are not comparable between 2018 and 2019.

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

4 April 2019	Stage 1	Stage 2 total	Stage 2 <30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	POCI (note ii)	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m
Gross balances							
Prime	148,639	2,048	1,781	267	758	-	151,445
Specialist	27,384	6,431	6,218	213	513	167	34,495
Total	176,023	8,479	7,999	480	1,271	167	185,940
Provisions							
Prime	22	12	9	3	10	-	44
Specialist	15	115	101	14	32	-	162
Total	37	127	110	17	42	-	206
Provisions as a % of total balance	%	%	%	%	%	%	%
Prime	0.01	0.57	0.48	1.19	1.38	-	0.03
Specialist	0.06	1.80	1.63	6.78	6.15	-	0.47
Total	0.02	1.50	1.37	3.65	3.31	-	0.11

Credit risk – Residential mortgages (continued)

Residential mortgages staging analysis 5 April 2018	Stage 1	Stage 2 total	Stage 2 <30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	POCI (note ii)	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m
Gross balances							
Prime	134,864	8,289	8,035	254	716	-	143,869
Specialist	21,783	10,783	10,574	209	499	180	33,245
Total	156,647	19,072	18,609	463	1,215	180	177,114
Provisions							
Prime	6	29	25	4	12	-	47
Specialist	11	142	131	11	35	-	188
Total	17	171	156	15	47	-	235
Provisions as a % of total balance	%	%	%	%	%	%	%
Prime	0.00	0.35	0.31	1.53	1.67	-	0.03
Specialist	0.05	1.32	1.24	5.33	7.01	-	0.57
Total	0.01	0.90	0.84	3.25	3.84	-	0.13

Notes:

i Days past due, 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 net of the lifetime ECL of £6 million (£7 million at 5 April 2018)

At 4 April 2019, 95% (5 April 2018: 88%) of the residential mortgage portfolio is in stage 1, reflecting the portfolio's strong credit quality. In addition to new mortgages originated during the year, the stage 1 balances have increased as a result of transfers from stage 2. Explanations of the transfer of assets between stages are provided on page [x].

Stage 3 loans in the residential mortgage portfolio equate to 1% (5 April 2018: 1%) of the total residential mortgage exposure. Of the total £1,271 million (5 April 2018. £1,215 million) stage 3 loans, £705 million (5 April 2018: £686 million) is in respect of balances which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeness to pay such as distressed restructures or the bankruptcy of the borrower.

Credit risk – Residential mortgages (continued)

The table below summarises the movements in the Group's residential mortgages held at amortised cost, including the impact of ECL impairment provisions. The movements within the table are an aggregation of monthly movements over the year.

Reconciliation of movements in gross residential mortgage balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12 month ECL Stage 1		Subject to lifetime ECL Stage 2		Subject to lifetime ECL Stage 3 and POCI		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	156,647	17	19,072	171	1,395	47	177,114	235
Stage transfers:								
Transfers from Stage 1 to Stage 2	(27,661)	(8)	27,661	8	-	-	-	-
Transfers to Stage 3	(294)	-	(837)	(30)	1,131	30	-	-
Transfers from Stage 2 to Stage 1	35,956	141	(35,956)	(141)	-	-	-	-
Transfers from Stage 3	185	1	547	13	(732)	(14)	-	-
Net remeasurement of ECL arising from transfer of stage		(131)		120		(8)		(19)
Net movement arising from transfer of stage	8,186	3	(8,585)	(30)	399	8	-	(19)
New assets originated or purchased	35,279	6	-	-	-	-	35,279	6
Repayments and changes in risk parameters	(7,459)	13	(293)	-	(43)	4	(7,795)	17
Other items impacting income statement charge/(reversal) (including recoveries)	1	-	-	-	1	(4)	2	(4)
Redemptions	(16,631)	(2)	(1,715)	(14)	(273)	(1)	(18,619)	(17)
Income statement charge for the year								(17)
Decrease due to write-offs	-	-	-	-	(41)	(16)	(41)	(16)
Other provision movements	-	-	-	-	-	4	-	4
4 April 2019	176,023	37	8,479	127	1,438	42	185,940	206
Net carrying amount		175,986		8,352		1,396		185,734

Note:
i. Gross balances of credit impaired loans include £157 million (5 April 2018: £180 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (5 April 2018: £7 million).

Gross balances increased by £8,826 million over the year as a result of positive net lending. The stage 2 balance reduced by £10,593 million, primarily due to net transfers from stage 2 to stage 1 for both prime and specialist residential mortgages. As the stage of individual loans is assessed monthly, the gross movements between stages 1 and 2 include transfers caused by relatively small changes in PD leading to their breaching the threshold for transferring assets to stage 2 and vice versa.

During the year there has been a net decrease of £8,585 million of residential mortgage balances in stage 2, the majority of which moved to stage 1. The reasons for this movement are:

- Prime mortgages - ECL models are subject to ongoing review to ensure they continue to reflect actual experience as it evolves. Consequential model updates during the year reduced PDs, resulting in a shift in loans from stage 2 to stage 1. This movement was partly offset *by a decision to change one of our staging criteria from a multiple of 8 times origination PD to a multiple of 4, thus making the models more sensitive to relative PD* changes over time. There was no significant impact on provisions given the strong quality of the loans affected.
- Specialist mortgages - Staging movements during the year were affected by the same updates and criterion change described above for prime mortgages. In addition, we have changed assumptions for income growth on BTL loans to be correlated to wage growth, rather than CPI, to align more closely with other aspects of our risk assessment on these loans. This change reduced the number of stage 2 loans with a consequent reduction in provisions of £11 million.

Total impairment provisions decreased by £29 million. The main drivers of this reduction are the movement of assets from stage 2 to stage 1, combined with the run-off of legacy portfolios which represent the majority of write-offs.

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 14 to the financial statements

Credit risk – Residential mortgages (continued)

Reason for residential mortgages being included in stage 2 4 April 2019	Prime £m	%	Specialist £m	%	Total £m	%
Quantitative criteria:						
Payment status (greater than 30 DPD) (note i)	267	13	213	3	480	6
Increase in PD since origination (less than 30 DPD)	1,613	79	2,186	34	3,799	45
Qualitative criteria:						
Forbearance (less than 30 DPD)	148	7	7	-	155	2
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	4,018	63	4,018	47
Other qualitative criteria	20	1	7	-	27	-
Total Stage 2 gross balances	2,048	100	6,431	100	8,479	100

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

Loans which are reported within stage 2 are those which have experienced a significant increase in credit risk since origination. The significant increase is determined through both quantitative and qualitative indicators Of the £8,479 million stage 2 balances, only 6% are in arrears by 30 days or more.

The primary quantitative indicators are the outputs of internal credit risk assessments. For retail exposures, PDs are derived using modelled scorecards, which use external information such as that from credit reference agencies, as well as internal information such as known instances of arrears or other financial difficulty. While different approaches are used within each portfolio, current and historical data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default.

The credit risk of each loan is evaluated at each reporting date by calculating the residual lifetime PD of each loan. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime probability of default (PD) exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD has increased by both at least 75bps and a 4x multiple of the original lifetime PD (5 April 2018: 8x multiple).

Qualitative indicators are also used to complement the above. These indicators include the increased risk associated with interest only loans which may not be able to refinance at maturity. Also included are forbearance events where full repayment of principal and interest is still anticipated, on a discounted basis. In addition, loans will be moved to stage 2 when certain "backstop" events occur, including arrears of greater than 30 days past due

Credit risk – Residential mortgages *(continued)*

Credit quality

The residential mortgages portfolio comprises many relatively 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 a 12 month PD under IFRS 9 at the reporting date.

Loan balance and provisions by PD (note i)

4 April 2019 (Audited)	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
PD Range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to < 0.15%	165,949	4,278	88	170,315	30	43	-	73	0.04
0.15 to < 0.25%	4,631	731	23	5,385	3	9	-	12	0.23
0.25 to < 0.50%	2,471	490	34	2,995	2	8	-	10	0.33
0.50 to < 0.75%	1,689	270	16	1,975	1	5	-	6	0.29
0.75 to < 2.50%	1,157	879	57	2,093	1	18	-	19	0.93
2.50 to < 10.00%	126	1,057	129	1,312	-	18	1	19	1.45
10.00 to < 100%	-	774	189	963	-	26	3	29	3.00
100% (default)	-	-	902	902	-	-	38	38	4.18
Total	176,023	8,479	1,438	185,940	37	127	42	206	0.11

Loan balance and provisions by PD (note i)

5 April 2018 (Audited)	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
PD Range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to < 0.15%	147,728	10,781	81	158,590	13	63	-	76	0.05
0.15 to < 0.25%	4,969	1,733	22	6,724	2	14	-	16	0.24
0.25 to < 0.50%	2,317	1,461	38	3,816	1	11	-	12	0.31
0.50 to < 0.75%	1,014	1,205	16	2,235	-	9	-	9	0.43
0.75 to < 2.50%	619	1,719	57	2,395	1	21	-	22	0.90
2.50 to < 10.00%	-	1,332	125	1,457	-	26	1	27	1.82
10.00 to < 100%	-	841	166	1,007	-	27	2	29	2.87
100% (default)	-	-	890	890	-	-	44	44	4.93
Total	156,647	19,072	1,395	177,114	17	171	47	235	0.13

Note:
i. Includes POCI loans of £167 million (5 April 2018: £180 million).

Over the year, the PD distribution has remained broadly stable, reflecting the high quality of the residential mortgage portfolios and benign economic conditions. At year end, 98% of the portfolio had a PD of less than 2.5% (5 April 2018: 98%). The provisions allocated to the lowest PD range primarily reflect the fact that the majority of loans are in this range. Changes in provision coverage for loans in different PD ranges are principally due to the continued run-off of balances in specialist legacy lending portfolios, together with the impact of updating economic assumptions.

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)	2019 %	2018 %
Prime		
First time buyers	35	38
Home movers	25	29
Remortgagers	25	21
Other	1	1
Total prime	**86**	89
Specialist:		
Buy to let new purchases	3	2
Buy to let remortgagers	11	9
Total specialist	**14**	11
Total new business	100	100

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

New business by borrower type remains diversified. During the year there has been a shift in the distribution of new business from prime to specialist lending, reflecting an increase in buy to let low LTV remortgage business and, following a successful pilot, the embedding of our lending to limited companies, recognising that landlords are increasingly using these as a vehicle for their investment.

In October 2014, the Financial Policy Committee (FPC) introduced a 15% limit on the proportion of new lending for residential mortgages, excluding buy to let, that may be written at income multiples of 4 5 and above. The proportion of new lending at income multiples of 4 5 or higher was 7.7% in the year (2018: 8.3%). This is closely monitored and controlled to remain within risk appetite and FPC limits.

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	2019	2018
	%	%
0% to 60%	25	26
60% to 75%	33	30
75% to 80%	7	9
80% to 85%	10	14
85% to 90%	22	18
90% to 95%	3	3
Over 95%	-	-
Total	100	100

Average LTV of new business (note i)	2019	2018
	%	%
Prime	73	72
Specialist (buy to let)	60	61
Group	71	71

Average LTV of loan stock (note ii)	4 April 2019	4 April 2018
	%	%
Prime	57	55
Specialist	58	58
Group	58	56

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

The maximum LTV for new prime residential borrowers remains at 95%. Nationwide continues to support first time buyers. All of this lending meets Nationwide underwriting criteria and our risk appetite for lending. The proportion of new business with an LTV above 80% remained stable at 35% (4 April 2018: 35%). The average LTV of loan stock has increased to 58% (4 April 2018: 56%), with the increase reflecting our new lending; in the prior year this was offset to a greater degree by house price growth impacting the whole portfolio. Whilst there are no signs of deterioration in the residential mortgage portfolio, with the immediate outlook for the UK and the HPI being less certain, the expectation is for a gradual rise in LTV from current low levels.

Credit risk – Residential mortgages (continued)

Residential mortgage balances by LTV and region

Geographical concentration by stage

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

Residential mortgage gross balances by LTV and region **4 April 2019**	**Greater London**	**Central England**	**Northern England**	**South East England**	**South West England**	**Scotland**	**Wales**	**Northern Ireland**	**Total**	
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	24,171	10,927	7,408	8,286	5,833	3,104	1,439	970	62,138	
50% to 60%	11,296	6,122	4,382	4,221	3,143	1,714	814	382	32,074	
60% to 70%	10,060	6,743	6,434	3,928	3,385	2,458	1,285	413	34,706	
70% to 80%	8,078	5,498	5,682	3,480	2,757	2,516	1,172	428	29,611	
80% to 90%	5,876	3,331	3,679	2,595	2,019	1,488	744	282	20,014	
90% to 100%	2,645	705	543	916	517	208	167	84	5,785	
	62,126	33,326	28,128	23,426	17,654	11,488	5,621	2,559	184,328	99.1
Not fully collateralised										
Over 100% LTV	5	3	17	1	2	6	2	138	174	0.1
Collateral value	4	3	14	1	1	6	1	118	148	
Negative equity	1	-	3	-	1	-	1	20	26	
Total stage 1 and 2 loans	62,131	33,329	28,145	23,427	17,656	11,494	5,623	2,697	184,502	99.2
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio										
Up to 50%	233	83	61	61	39	23	11	11	522	
50% to 60%	115	50	39	35	25	15	9	5	293	
60% to 70%	54	58	56	31	25	20	9	5	258	
70% to 80%	15	48	57	17	21	17	11	4	190	
80% to 90%	9	14	50	4	3	13	10	4	107	
90% to 100%	3	1	22	1	1	3	3	5	39	
	429	254	285	149	114	91	53	34	1,409	0.8
Not fully collateralised										
Over 100% LTV	-	1	6	-	-	1	1	20	29	-
Collateral value	-	1	5	-	-	1	1	17	25	
Negative equity	-	-	1	-	-	-	-	3	4	
Total stage 3 and POCI loans	429	255	291	149	114	92	54	54	1,438	0.8
Total residential mortgages	62,560	33,584	28,436	23,576	17,770	11,586	5,677	2,751	185,940	100
Total geographical concentrations	34%	18%	15%	13%	10%	6%	3%	1%	100%	

Credit risk – Residential mortgages (continued)

Residential mortgage gross balances by LTV and region 5 April 2018 (note i) (Audited)	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	27,017	10,490	6,962	8,789	5,846	2,911	1,396	943	64,354	
50% to 60%	11,577	5,968	4,133	4,527	3,250	1,624	803	393	32,275	
60% to 70%	9,030	6,848	6,182	3,698	3,326	2,388	1,279	397	33,148	
70% to 80%	6,453	4,974	5,604	2,820	2,423	2,511	1,105	409	26,299	
80% to 90%	4,989	2,824	3,411	1,977	1,594	1,461	679	276	17,211	
90% to 100%	508	318	458	308	172	286	67	87	2,204	
	59,574	31,422	26,750	22,119	16,611	11,181	5,329	2,505	175,491	99.1
Not fully collateralised										
Over 100% LTV	4	4	24	2	2	12	1	179	228	0.1
Collateral value	3	3	20	2	2	11	1	153	195	
Negative equity	1	1	4	-	-	1	-	26	33	
Total stage 1 and 2 loans	59,578	31,426	26,774	22,121	16,613	11,193	5,330	2,684	175,719	99.2
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	257	76	59	65	38	17	11	12	535	
50% to 60%	98	47	36	36	25	15	9	6	272	
60% to 70%	39	55	55	33	23	20	11	5	241	
70% to 80%	7	41	53	11	18	19	10	4	163	
80% to 90%	4	20	53	2	2	10	10	6	107	
90% to 100%	1	2	28	-	1	5	4	4	45	
	406	241	284	147	107	86	55	37	1,363	0.8
Not fully collateralised										
Over 100% LTV	-	1	5	-	-	1	1	24	32	-
Collateral value	-	1	5	-	-	1	1	19	27	
Negative equity	-	-	-	-	-	-	-	5	5	
Total stage 3 and POCI loans	406	242	289	147	107	87	56	61	1,395	0.8
Total residential mortgages	59,984	31,668	27,063	22,268	16,720	11,280	5,386	2,745	177,114	100
Total geographical concentrations	34%	18%	15%	13%	9%	6%	3%	2%	100%	

Note:
i The distribution of the portfolio by geography and LTV ratios at 4 April 2018 is the same as that disclosed for 5 April 2018.

Over the year, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 34% of the total.

Credit risk – Residential mortgages (continued)

In addition to balances held at amortised cost shown in the table above, there are £72 million (5 April 2018: £189 million) of residential mortgages held at FVTPL which have an average LTV of 40% (5 April 2018: 40%). The largest geographical concentration within the FVTPL balances is in Greater London, at 44% (5 April 2018: 33%).

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

	4 April 2019	4 April 2018
	%	%
Prime	0.35	0.34
Specialist	0.82	0.83
Total	0.43	0.43
UK Finance (UKF) industry average	0.78	0.81

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

Number of properties in possession as % of total book

	4 April 2019		4 April 2018	
	Number of properties	%	Number of properties	%
Prime	78	0.01	108	0.01
Specialist	153	0.05	150	0.05
Total	231	0.01	258	0.02
UKF industry average		0.02		0.03

Whilst there are no signs of deterioration in the portfolio, with the immediate outlook for the UK being less certain and the buy to let market facing increased costs and potentially less investor demand, a gradual rise in arrears from current low levels is expected over the medium term.

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

	4 April 2019				4 April 2018			
	Prime	Specialist	Total		Prime	Specialist	Total	
(Audited)	£m	£m	£m	%	£m	£m	£m	%
Not past due	149,771	33,468	183,239	98.5	142,383	32,197	174,580	98.5
Past due up to 3 months	1,356	657	2,013	1.1	1,294	685	1,979	1.1
Past due 3 to 6 months	177	159	336	0.2	162	159	321	0.2
Past due 6 to 12 months	122	121	243	0.1	113	110	223	0.1
Past due over 12 months	84	69	153	0.1	89	76	165	0.1
Possessions	7	21	28	-	8	23	31	-
Total residential mortgages	151,517	34,495	186,012	100	144,049	33,250	177,299	100

The proportion of loans in arrears has remained stable at 1.5% (4 April 2018: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the favourable economic conditions and low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending In total, £370 million (4 April 2018: £368 million) of specialist lending balances were more than 3 months past due or in possession. Of these, £233 million or 63.0% (4 April 2018: £252 million; 68.5%) related to legacy portfolios in run-off.

As at 4 April 2019, the mortgage portfolios included 1,491 mortgage accounts (4 April 2018: 1,634), including those in possession, where payments were more than 12 months in arrears. The total principal outstanding in these cases was £165 million (4 April 2018: £182 million), and the total value of arrears was £20 million (4 April 2018: £22 million) or 0.01% (4 April 2018: 0.01%) of total mortgage balances.

Interest only mortgages

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

The majority of the specialist lending portfolio comprises buy to let loans, with 89% of the porfolio relating to interest only balances (4 April 2018: 89%).

Interest only mortgages (gross balance) – term to maturity
(note i)

	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of book
4 April 2019	£m	£m	£m	£m	£m	£m	%
Prime	69	278	329	1,532	9,288	11,496	7.6
Specialist	133	166	272	1,281	28,785	30,637	88.8
Total	202	444	601	2,813	38,073	42,133	22.7
4 April 2018	£m	£m	£m	£m	£m	£m	%
Prime	54	331	366	1,577	11,271	13,599	9.4
Specialist	126	173	213	1,305	27,795	29,612	89.1
Total	180	504	579	2,882	39,066	43,211	24.4

Note:
i Balances subject to forbearance with agreed term extensions are presented based on the latest agreed contractual term

Interest only loans that are term expired (still open) are not considered to be past due where contractual interest payments continue to be met, pending renegotiation of the facility. However, under IFRS 9 these are now treated as credit impaired and form part of the stage 3 balance from three months after the maturity date. Previously, term expired (still open) loans were not categorised as impaired unless in litigation or more than 3 months in arrears on the contractual interest payments.

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 following concession events are included within the forbearance reporting for residential mortgages:

Past term interest only concessions

Nationwide works with borrowers who are unable to repay the capital at term expiry of their interest only mortgage. Where a borrower is unable to renegotiate the facility within six months of maturity but no legal enforcement is pursued, the account is considered forborne. Should another concession event such as a term extension occur within the six month period, this is also classed as forbearance.

Interest only concessions

Where a temporary interest only concession is granted the loans do not accrue arrears for the period of the concession and are not categorised as impaired, unless already impaired, provided the revised interest only repayment amount is maintained.

Capitalisation

When a borrower emerges from financial difficulty and provided they have made at least six full monthly instalments, they are offered the option to capitalise arrears. This results in the account being repaired and the loans are categorised as not impaired provided contractual repayments are maintained

Term extensions (within term)

Customers in financial difficulty may be allowed to extend the term of their mortgage. On a capital repayment mortgage this will reduce their monthly commitment; interest only borrowers will benefit by having a longer period to repay the capital at maturity.

Permanent interest only conversions

In the past, some borrowers in financial difficulty were granted a permanent interest only conversion, normally reducing their monthly commitment. This facility was withdrawn in March 2012.

The table below provides details of residential mortgages held at amortised cost subject to forbearance, which are all assessed as in either stage 2 or stage 3:

Gross balances subject to forbearance (note i)	**4 April 2019**			5 April 2018		
	Prime £m	**Specialist £m**	**Total £m**	Prime £m	Specialist £m	Total £m
Past term interest only (note ii)	**122**	**134**	**256**	130	136	266
Interest only concessions	**525**	**59**	**584**	511	66	577
Capitalisation	**42**	**51**	**93**	45	59	104
Term extensions (within term)	**35**	**13**	**48**	35	14	49
Permanent interest only conversions (note iii)	**3**	**33**	**36**	5	24	29
Total forbearance	**727**	**290**	**1,017**	726	299	1,025
Impairment provisions on forborne loans	**5**	**11**	**16**	5	11	16

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. The increase from 2018 represents loans which were part interest only and part capital repayment, where the capital repayment element has been repaid and the loan categorised as an interest only conversion

Over the year, total balances subject to forbearance have remained stable at £1,017 million (5 April 2018: £1,025 million) and, as the portfolio has grown, the forborne balances as a percentage of total residential mortgage lending have reduced to 0.55% (5 April 2018: 0.58%).

In addition to the amortised cost balances above, there are £72 million FVTPL balances (5 April 2018: £189 million), of which £4 million (5 April 2018: £19 million) are forborne.

The total value of balances subject to forbearance at 4 April 2018 was £1,043 million, with an associated impairment provision of £17 million.

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 grown by £479 million to £4,586 million (4 April 2018: £4,107 million), equating to 12% growth, and credit quality has remained stable.

Consumer banking gross balances

(Audited)	4 April 2019 £m	%	4 and 5 April 2018 £m	%
Overdrawn current accounts	324	7	277	7
Personal loans	2,449	53	2,031	49
Credit cards	1,813	40	1,799	44
Total consumer banking	**4,586**	**100**	4,107	100

Following the transition to IFRS 9, *all consumer banking loans continue to be classified and measured at amortised cost.*

Impairment losses for the year

(Audited)	2019 (IFRS 9 basis) £m	2018 (IAS 39 basis) £m
Overdrawn current accounts	9	15
Personal loans	38	36
Credit cards	67	46
Total	114	97

Note.
Impairment losses represent the net amount charged through the profit and loss account, rather than amounts written off during the year.

Impairment losses for the year reflect updates to the economic assumptions applied to provision calculations, which have led to a £23 million increase in provisions. The losses also include £13 million in recognition of the risk related to borrowers in persistent debt[1] in the credit card portfolio. As impairment provisions are calculated on a different basis under IFRS 9 from IAS 39, the losses shown above are not comparable between 2018 and 2019

1 Borrowers are classified as being in persistent debt when they have paid more interest, fees and charges than capital over an 18-month period

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

	4 April 2019				5 April 2018			
(Audited)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balances								
Overdrawn current accounts	187	100	37	324	149	94	34	277
Personal loans	2,140	186	123	2,449	1,803	116	112	2,031
Credit cards	1,211	475	127	1,813	1,312	365	122	1,799
Total	3,538	761	287	4,586	3,264	575	268	4,107
Provisions								
Overdrawn current accounts	2	18	33	53	2	23	30	55
Personal loans	11	22	107	140	10	18	96	124
Credit cards	14	92	119	225	13	62	111	186
Total	27	132	259	418	25	103	237	365
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Overdrawn current accounts	1.30	17.42	89.92	16.37	1.34	24.19	90.52	19.97
Personal loans	0.53	12.11	86.58	5.74	0.57	15.16	86.31	6.11
Credit cards	1.12	19.33	93.61	12.38	1.03	17.09	90.64	10.36
Total	0.77	17.32	90.12	9.11	0.78	17.86	88.45	8.90

As at 4 April 2019, 77% (5 April 2018: 79%) of the consumer banking portfolio is in stage 1. Over the year, consumer banking balances in stages 2 and 3 have increased, principally as a result of updating personal loan and credit card risk models for latest performance expectations and the recognition of the risks associated with persistent debt in the credit card portfolio, which resulted in balances moving from stage 1 to stage 2. In addition, changes in assumptions regarding the economic outlook have led to increased provisions, and therefore provision coverage, in the credit card portfolio. Further information is included in note 10 to the financial statements.

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, the provision coverage ratio for the total portfolio is 5.0% (5 April 2018: 4.8%).

Credit risk – Consumer banking (continued)

Reason for consumer banking balances being included in stage 2

4 April 2019	Overdrawn current accounts £m	Overdrawn current accounts %	Personal loans £m	Personal loans %	Credit cards £m	Credit cards %	Total £m	Total %
Quantitative criteria:								
Payment status (greater than 30 DPD) (note i)	3	3	9	5	6	1	18	2
Increase in PD since origination (less than 30 DPD)	84	84	172	92	414	87	670	88
Qualitative criteria:								
Forbearance (less than 30 DPD) (note ii)	2	2	-	-	-	-	2	-
Other qualitative criteria (less than 30 DPD)	11	11	5	3	55	12	71	10
Total Stage 2 gross balances	100	100	186	100	475	100	761	100

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, on a discounted basis.

Of the £761 million stage 2 balances, only 2% are in arrears by 30 days or more. Balances reported within stage 2 are those which have experienced a significant increase in credit risk since origination. The significant increase is determined through both quantitative and qualitative indicators. The majority of credit card balances included in stage 2 due to qualitative factors relate to exposures where there is increased risk as a result of persistent debt, reflecting emerging regulatory requirements.

The primary quantitative indicators are the outputs of internal credit risk assessments. For retail exposures, PDs are derived using modelled scorecards, which use external information such as that from credit reference agencies as well as internal information such as known instances of arrears or other financial difficulty. While different approaches are used within each portfolio, current and historic data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default.

The credit risk of each loan is evaluated at each reporting date by calculating its residual lifetime PD. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime probability of default (PD) exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD has increased by both at least 75bps and a 4x multiple of the original lifetime PD

Qualitative criteria include both forbearance events and, within the credit card portfolio, recognition of the risk related to borrowers in persistent debt. In addition, loans are moved to stage 2 when certain "backstop" events occur, including arrears of greater than 30 days past due.

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 probability of default under IFRS 9 at the reporting date:

Consumer banking gross balances and provisions by PD
4 April 2019
(Audited)

	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
PD range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to <0.15%	1,016	5	-	1,021	3	-	-	3	0.29
0.15 to < 0.25%	364	9	-	373	1	1	-	2	0.48
0.25 to < 0.50%	542	24	-	566	2	2	-	4	0.74
0.50 to < 0.75%	332	26	-	358	2	2	-	4	1.19
0.75 to < 2.50%	911	190	-	1,101	9	21	-	30	2.71
2.50 to < 10.00%	366	349	1	716	9	53	-	62	8.74
10.00 to < 100%	7	158	4	169	1	53	2	56	33.19
100% (default)	-	-	282	282	-	-	257	257	90.98
Total	**3,538**	**761**	**287**	**4,586**	**27**	**132**	**259**	**418**	**9.11**

Consumer banking gross balances and provisions by PD
5 April 2018
(Audited)

	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
PD range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to <0.15%	998	3	-	1,001	1	-	-	1	0.15
0.15 to < 0.25%	314	5	-	319	1	-	-	1	0.32
0.25 to < 0.50%	465	17	-	482	2	1	-	3	0.58
0.50 to < 0.75%	292	17	-	309	2	1	-	3	0.90
0.75 to < 2.50%	838	116	-	954	9	9	-	18	1.93
2.50 to < 10.00%	347	282	1	630	9	41	-	50	7.86
10.00 to < 100%	10	135	5	150	1	51	3	55	36.92
100% (default)	-	-	262	262	-	-	234	234	89.26
Total	3,264	575	268	4,107	25	103	237	365	8.90

The credit quality of the consumer banking portfolio has remained broadly stable, benefiting from the continued low interest rate environment, with 90% of the portfolio (5 April 2018: 90%) considered good quality with a PD of less than 10%. Changes in provision coverage for loans in different PD ranges are principally due to changes in the mix of products

Credit risk – Consumer banking (continued)

Consumer banking balances by payment due status

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

Consumer banking gross balances by payment due status

(Audited)

	4 April 2019					4 April 2018				
	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	**279**	**2,282**	**1,667**	**4,228**	**92.2**	235	1,882	1,656	3,773	91.9
Past due up to 3 months	**12**	**48**	**30**	**90**	**1.9**	12	43	33	88	2.1
Past due 3 to 6 months	**3**	**8**	**11**	**22**	**0.5**	4	13	11	28	0.7
Past due 6 to 12 months	**3**	**15**	**2**	**20**	**0.4**	3	12	2	17	0.4
Past due over 12 months	**3**	**14**	**-**	**17**	**0.4**	3	13	-	16	0.4
Charged off (note i)	**24**	**82**	**103**	**209**	**4.6**	20	68	97	185	4.5
Total	**324**	**2,449**	**1,813**	**4,586**	**100**	277	2,031	1,799	4,107	100

Note:

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

Total balances subject to arrears, excluding charged off balances, have remained stable at £149 million (4 April 2018: £149 million). Excluding charged off balances, balances on accounts in arrears have reduced to 3.2% (4 April 2018: 3.6%) of the total portfolio as a result of overall portfolio growth.

Credit risk – Consumer banking (continued)

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 following concession events are included within the forbearance reporting for consumer banking:

Payment concession

This concession consists of reduced monthly payments over an agreed period and may be offered to customers with an overdraft or credit card. For credit cards subject to such a concession, arrears do not increase provided the payments are made.

Interest suppressed payment arrangement

This temporary interest payment concession results in reduced monthly payments and may be offered to customers with an overdraft, credit card or personal loan. Interest payments and fees are suppressed during the period of the concession and arrears do not increase. Cases subject to this concession are classified as impaired.

Balances re-aged/re-written

As customers repay their debt in line with the terms of their arrangement and begin to emerge from financial difficulty we will repair their accounts, bringing them into an up-to-date and performing position. For personal loans we will re-write their account over a longer term, to maintain a reduced monthly payment. For credit cards we re-age the account and set the payment status to 'up-to-date', at which point the customer is treated in the same way as any other performing account.

The table below provides details of consumer banking balances subject to forbearance. These 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)	4 April 2019				5 April 2018			
	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	16	-	2	18	18	-	2	20
Interest suppressed payment concession	6	34	15	55	6	32	16	54
Balance re-aged/re-written	-	1	3	4	-	-	4	4
Total forbearance	22	35	20	77	24	32	22	78
Impairment provisions on forborne loans	12	29	14	55	13	27	16	56

Note:

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

Over the year, the volume of balances subject to forbearance has remained stable at £77 million (5 April 2018: £78 million), with forborne balances as a percentage of the total consumer banking lending improving to 1.7% (5 April 2018: 1.9%), largely as a result of book growth.

The total value of balances subject to forbearance at 4 April 2018 was £78 million with an associated impairment provision of £43 million.

Credit risk – Commercial and other lending

Summary

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, commercial real estate investors and project finance initiatives. Whilst the project finance and commercial real estate portfolios are closed to new business, the registered social landlord portfolio was re-opened in September 2018.

Commercial and other lending gross balances

	4 April 2019	5 April 2018	4 April 2018
	£m	£m	£m
Registered social landlords (note i)	5,980	6,816	6,820
Commercial real estate (CRE)	1,383	1,810	1,868
Project finance (note ii)	807	906	906
Other lending (note iii)	8	8	8
Commercial and other lending balances at amortised cost	8,178	9,540	9,602
Fair value adjustment for micro hedged risk (note iv)	883	1,042	1,043
Commercial lending balances – FVTPL (note v)	57	58	-
Total	9,118	10,640	10,645

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. Other lending previously included balances held with counterparties which are institutions similar to banks. These are now reported in loans and advances to banks and similar institutions, and comparatives for the prior period have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.
iv. Micro hedged risk relates to loans hedged on an individual basis.
v. As a result of their contractual cash flow characteristics, certain commercial loans were reclassified from amortised cost to FVTPL on transition to IFRS 9 on 5 April 2018 and remeasured at fair value

Over the year, total balances across the commercial portfolios have reduced, reflecting run-off of the closed CRE and project finance books, with borrowers repaying loans at or before loan maturity. In the registered social landlord portfolio, reductions are due to early repayments and a managed reduction in the concentration risk to loans above £200 million. As the portfolio balances have reduced the quality and performance of the portfolios has remained stable.

Impairment losses /(reversals) for the year for commercial and other lending

	2019 (IFRS 9 basis)	2018 (IAS 39 basis)
	£m	£m
Total	16	(1)

Note:
Impairment losses represent the net amount charged through the profit and loss account, rather than amounts written off during the year

The £16 million impairment loss for the year relates to two loans which are not representative of risks in the wider portfolio. As impairment provisions are calculated on a different basis under IFRS 9 from IAS 39, the losses shown above are not comparable between 2018 and 2019

Credit risk – Commercial and other lending (continued)

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

Commercial and other lending product and staging analysis

	4 April 2019				5 April 2018			
	Stage 1 £m	**Stage 2 £m**	**Stage 3 £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balances								
Registered social landlords	5,923	57	-	5,980	6,725	91	-	6,816
CRE	1,122	213	48	1,383	1,587	186	37	1,810
Project finance	754	29	24	807	818	88	-	906
Other lending	8	-	-	8	8	-	-	8
Total	7,807	299	72	8,178	9,138	365	37	9,540
Provisions								
Registered social landlords	1	-	-	1	1	-	-	1
CRE	2	2	18	22	5	3	13	21
Project finance	1	-	17	18	-	7	-	7
Other lending	-	-	-	-	-	-	-	-
Total	4	2	35	41	6	10	13	29
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Registered social landlords	0.02	0.18	-	0.02	0.01	0.15	-	0.01
CRE	0.19	0.96	37.11	1.58	0.32	1.19	36.99	1.15
Project finance	0.15	0.97	71.54	2.20	0.02	8.37	-	0.83
Other lending	-	-	-	-	1.25	-	-	1.25
Total	0.05	0.81	48.74	0.50	0.07	2.74	35.55	0.30

Over the year, the performance of the commercial and other lending portfolios has remained stable, with 95% (5 April 2018: 96%) of balances remaining in stage 1. Of the £299 million stage 2 loans (5 April 2018: £365 million), £1 million (5 April 2018: £2 million) is in arrears by 30 days or more, with the remainder in stage 2 due to non-arrears factors such as a deterioration in risk rating or placement on a watchlist.

The increase in CRE stage 2 and 3 balances is in respect of a small number of loans that are subject to increased loan maturity risk, with stage 3 (credit-impaired) loans, at £48 million (5 April 2018: £37 million), equating to 3% (5 April 2018: 2%) of the total CRE exposure.

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (5 April 2018: 1%) of the exposure is in stage 2. Against a backdrop of a long history of zero defaults, the risk profile of this portfolio remains low.

Loans in the project finance portfolio benefit from long-term cash flows, which typically emanate from the provision of assets such as schools, hospitals, police stations, government buildings and roads, procured under the Private Finance Initiative. 97% of balances are in respect of fully developed assets.

There is no significant exposure to credit risk on the other lending balances.

Credit risk – Commercial and other lending (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 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

	4 April 2019					5 April 2018				
	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	676	57	-	733	0.3	912	20	-	932	0.5
Good	381	76	-	457	0.1	614	79	-	693	0.1
Satisfactory	65	8	-	73	0.4	61	32	-	93	1.2
Weak	-	72	-	72	1.4	-	55	-	55	2.0
Impaired	-	-	48	48	37.1	-	-	37	37	36.0
Total	**1,122**	**213**	**48**	**1,383**	**1.6**	1,587	186	37	1,810	1.1

The risk grades in the table above are based upon supervisory slotting criteria, under which exposures are classified into categories depending on the underlying credit risk, with the assessment based upon financial strength, asset characteristics, the strength of the sponsor and the security. As CRE balances reduce, the credit quality of the portfolio remains strong, with 91% (5 April 2018: 95%) of the portfolio continuing to be rated as satisfactory or better.

Risk grades for the project finance portfolio are also based upon supervisory slotting criteria, with 97% 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, independent viability assessment ratings provided by the Regulator of Social Housing, and the type and size of the registered social landlord. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults, the credit quality remains high, with an average 12 month PD of 0.05% across the portfolio.

In addition to the above, £57 million (5 April 2018: £58 million) of commercial lending balances are classified as FVTPL, of which £53 million (5 April 2018: £53 million) relates to CRE loans with a risk grade of satisfactory.

Credit risk – Commercial and other lending (continued)

CRE balances by LTV and region

The following table includes both amortised cost and FVTPL CRE balances

CRE lending gross balances by LTV and region (note i)	4 April 2019 London £m	4 April 2019 Rest of UK £m	4 April 2019 Total £m	5 April 2018 London £m	5 April 2018 Rest of UK £m	5 April 2018 Total £m
Fully collateralised						
LTV ratio (note ii):						
Less than 25%	89	70	159	189	124	313
25% to 50%	559	298	857	569	374	943
51% to 75%	181	175	356	241	291	532
76% to 90%	1	20	21	4	51	55
91% to 100%	1	6	7	1	4	5
	831	569	1,400	1,004	844	1,848
Not fully collateralised:						
Over 100% LTV	-	36	36	-	16	16
Collateral value	-	19	19	-	7	7
Negative equity	-	17	17	-	9	9
Total CRE loans	831	605	1,436	1,004	860	1,864
Geographical concentration	58%	42%	100%	54%	46%	100%

Notes
i A CRE loan may be secured on assets located in different regions. The calculation for regional allocation has been changed in the year to reflect a more refined approach, with comparatives presented on a consistent basis
ii The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The Investment Property (IPD) monthly index is used.

Changes to the regional distribution of the CRE portfolio reflect the managed reduction of the portfolio, with 58% (5 April 2018: 54%) of the CRE exposure now being secured against assets located in London. Over the year, the LTV distribution of the CRE portfolio remained stable, with 96% (5 April 2018: 96%) of the portfolio having an LTV of 75% or less, and 71% (5 April 2018: 67%) of the portfolio having an LTV of 50% or less.

The distribution of the CRE balances by geography and LTV ratios at 4 April 2018 is the same as that disclosed above as at 5 April 2018.

Credit risk concentration by industry sector

Credit risk exposure by industry sector is unchanged from the prior year, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, including FVTPL balances, the highest concentration is to the residential investment sector at 44% (5 April 2018: 44%). Over the year, our exposure to retail assets has reduced from £367 million to £286 million.

CRE balances by payment due status

Of the £1,436 million (5 April 2018: £1,864 million) CRE exposure, including FVTPL balances, £24 million (5 April 2018: £52 million) relates to balances with arrears, of which £2 million (5 April 2018: £24 million) have arrears greater than 3 months.

Credit risk – Commercial and other lending (continued)

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.

For commercial customers in financial difficulty, the following concession events are included within forbearance reporting:

Refinance

Debt restructuring, either mid-term or at maturity, will be considered where asset sales or external refinance cannot be secured to repay facilities in full and where a restructure is considered to provide the best debt recovery outcome for both the customer and Nationwide.

Interest concession

The temporary postponement of interest or a reduction to the interest rate charged, during which period the loans do not accrue arrears, may be considered where the customer is experiencing payment difficulties.

Capital concession

Capital concessions consist of temporary suspensions to capital repayments to allow the customer time to overcome payment difficulties, the full or partial consolidation of previous payment arrears or the partial write-off of debt.

Gross balances subject to forbearance (note i)	4 April 2019 £m	5 April 2018 £m
Refinance	44	78
Modifications:		
Capital concession	2	8
Security amendment	6	9
Extension at maturity	12	42
Breach of covenant	122	139
Total	**186**	276
Total impairment provision on forborne loans	**23**	19

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

Security amendment

Where a customer seeks the release of assets charged to Nationwide as security for their commercial loan, this will be treated as forbearance where Nationwide's position is weakened in terms of either the loan to value of the remaining exposure or the level of interest cover available.

Extension at maturity

Customers who are unable to repay the loan at term expiry may be given short term maturity extensions to allow them time to negotiate the repayment of facilities in full either via asset sales or external refinance.

Breach of covenant

Where a customer is unable to comply with either financial or non-financial covenants, as specified in their loan agreement, a temporary waiver or amendment to the covenants will be considered, as appropriate

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

Amortised cost balances subject to forbearance have reduced, reflecting the managed run-off of the CRE portfolio.

In addition to the amortised cost balances included in the table above, there are £57 million (5 April 2018: £58 million) of FVTPL commercial lending balances, none (5 April 2018: £42 million) of which are forborne.

The total value of balances subject to forbearance at 4 April 2018 was £318 million with an associated impairment provision of £10 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 4 April 2019 treasury assets represented 15.2% (2018: 15.3%) of total assets.

Investment activity, in line with the Board's risk appetite, remains restricted to high quality liquid securities. The size of the portfolio has increased, predominantly due to higher US Treasury balances held as a strategic response to potential market volatility during ongoing negotiations for the UK's departure from the EU. In addition, the Society invests in highly rated liquid assets that are eligible for accessing central bank funding operations. Derivatives are used to reduce exposure to market risks but are not used for trading or speculative purposes. There are no exposures to emerging markets, hedge funds or credit default swaps.

The table below shows the classification of treasury asset balances following the adoption of IFRS 9.

Treasury asset balances

(Audited)	IFRS 9 classification	4 April 2019 £m	5 April 2018 (IFRS 9) £m	4 April 2018 (IAS 39) £m
Cash	Amortised cost	12,493	14,361	14,361
Loans and advances to banks and similar institutions (note i)	Amortised cost	4,009	3,493	3,493
Investment securities	FVOCI	14,500	11,881	11,926
Investment securities	FVTPL	78	45	-
Investment securities	Amortised cost	1,656	1,120	1,120
Liquidity and investment portfolio		32,736	30,900	30,900
Derivative instruments (note ii)	FVTPL	3,562	4,121	4,121
Treasury assets		36,298	35,021	35,021

Notes
i Loans and advances to banks has been renamed to loans and advances to banks and similar institutions and now includes balances held with counterparties that are institutions similar to banks. These balances were previously reported in loans and advances to customers Comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.
ii. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 4 April 2019, derivative liabilities were £1,593 million (4 April 2018: £2,337 million).

Managing treasury credit risks

Credit risk within the treasury portfolio arises primarily from the instruments held and transacted by the Treasury function for operational, liquidity and investment purposes. In addition, counterparty credit risk arises from the use of derivatives to reduce exposure to market risks; these are only transacted with highly rated organisations and are collateralised under market standard documentation. The Treasury Credit Risk function manages all aspects of credit risk in accordance with the Society's risk governance frameworks, under the supervision of the Credit Committee.

A monthly review is undertaken of the current and expected future performance of treasury assets. An established governance structure identifies and reviews under-performing assets to assess the likelihood of future losses. There were no impairment losses for the year ended 4 April 2019, or the prior year. For financial assets classified as FVTPL, no provisions are calculated as credit risk is reflected in the carrying value of the asset; no additional provision information is therefore disclosed in respect of these assets. For financial assets held at amortised cost or at FVOCI, the stage distribution is described below

Impairment provisions on treasury assets

	4 April 2019		5 April 2018	
	Gross balances	Provisions	Gross balances	Provisions
(Audited)	£m	£m	£m	£m
Loans and advances to banks and similar institutions (note i)	4,009	-	3,493	-
Investment securities – FVOCI	14,500	-	11,881	-
Investment securities – Amortised cost	1,656	-	1,120	-

Note.
i Loans and advances to banks has been renamed to loans and advances to banks and similar institutions and now includes balances held with counterparties that are institutions similar to banks. These balances were previously reported in loans and advances to customers Comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

Credit risk – Treasury assets (continued)

The credit quality of treasury financial assets continues to be low risk and stable with all exposures within the table on the previous page classified as stage 1, except for £1.5 million of FVOCI investment securities in stage 2. If there is objective evidence that an instrument measured at amortised cost or FVOCI is credit-impaired, the financial asset will be transferred into stage 3. There are no assets in stage 3.

Liquidity and investment portfolio

The liquidity and investment portfolio of £32,736 million (4 April 2018: £30,900 million) comprises liquid assets and other securities. An analysis of the on-balance sheet portfolios is set out below.

Liquidity and investment portfolio by credit rating (note i)

4 April 2019 (Audited)	£m	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Liquid assets:									
Cash and reserves at central banks	12,493	-	100	-	-	100	-	-	-
Government bonds	11,581	29	71	-	-	63	23	14	-
Supranational bonds	725	100	-	-	-	-	-	-	100
Covered bonds	1,202	60	4	36	-	59	-	18	23
Residential mortgage backed securities (RMBS)	556	100	-	-	-	54	-	46	-
Asset backed securities (other)	258	100	-	-	-	49	-	51	-
Liquid assets total	26,815	21	77	2	-	78	10	8	4
Other securities (note ii):									
RMBS FVOCI	142	35	20	45	-	100	-	-	-
RMBS amortised cost	1,656	84	6	8	2	100	-	-	-
Other investments (note iii)	114	-	29	52	19	19	52	29	-
Other securities total	1,912	75	9	13	3	95	3	2	-
Loans and advances to banks and similar institutions (note iv)	4,009	-	51	49	-	86	7	6	1
Total	32,736	22	70	8	-	80	9	8	3

Liquidity and investment portfolio by credit rating (note i)

4 April 2018 (Audited)	£m	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Liquid assets:									
Cash and reserves at central banks	14,361	-	100	-	-	100	-	-	-
Government bonds	8,937	15	85	-	-	80	5	15	-
Supranational bonds	655	96	4	-	-	-	-	-	100
Covered bonds	1,007	100	-	-	-	51	-	27	22
Residential mortgage backed securities (RMBS)	738	100	-	-	-	64	-	36	-
Asset backed securities (other)	302	100	-	-	-	56	-	44	-
Liquid assets total	26,000	16	84	-	-	87	2	8	3
Other securities (note ii):									
RMBS available for sale	188	21	19	60	-	100	-	-	-
RMBS held to maturity	1,120	85	5	7	3	100	-	-	-
Other investments (note iii)	99	-	36	42	22	22	42	36	-
Other securities total	1,407	71	9	16	4	95	3	2	-
Loans and advances to banks and similar institutions (note iv)	3,493	-	47	50	3	84	6	8	2
Total	30,900	16	77	6	1	87	2	8	3

Notes:

i. Ratings used are obtained from Standard & Poor's (S&P), and from Moody's or Fitch if no S&P rating is available. For loans and advances to banks and similar institutions, internal ratings are used.
ii. Includes RMBS (UK Buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).
iii. Includes investment securities held at FVTPL of £78 million (2018 IAS 39 basis: £nil).
iv. Loans and advances to banks has been renamed to loans and advances to banks and similar institutions and now includes balances held with counterparties that are institutions similar to banks. These balances were previously reported in loans and advances to customers. Comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

Credit risk – Treasury assets (continued)

Country exposures

The following table summarises the exposure (shown at the balance sheet carrying value) to institutions outside the UK. None of the exposures detailed in the table were in stage 2 or 3 at 4 April 2019.

Country exposures 4 April 2019	**Government bonds**	**Mortgage backed securities**	**Covered bonds**	**Supra-national bonds**	**Loans and advances to banks and similar institutions**	**Other assets**	**Total**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Belgium	208	-	-	-	-	-	208
Finland	244	-	24	-	-	-	268
France	185	-	-	-	24	33	242
Germany	673	-	15	-	190	132	1,010
Netherlands	178	255	-	-	-	-	433
Spain	-	-	-	-	18	-	18
Total Eurozone	1,488	255	39	-	232	165	2,179
USA	2,642	-	-	-	265	59	2,966
Rest of world (note i)	140	-	455	725	60	-	1,380
Total	4,270	255	494	725	557	224	6,525

Country exposures 4 April 2018	Government bonds	Mortgage backed securities	Covered bonds	Supra-national bonds	Loans and advances to banks and similar institutions	Other assets	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m
Austria	66	-	-	-	-	-	66
Belgium	44	-	-	-	-	-	44
Finland	267	-	24	-	-	-	291
France	-	-	-	-	156	36	192
Germany	627	-	-	-	119	132	878
Ireland	-	-	-	-	1	-	1
Netherlands	335	263	-	-	-	-	598
Total Eurozone	1,339	263	24	-	276	168	2,070
USA	441	-	-	-	215	41	697
Rest of world (note i)	-	-	472	656	63	-	1,191
Total	1,780	263	496	656	554	209	3,958

Note

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

Credit risk – Treasury assets (continued)

Derivative financial instruments

Derivatives are used to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement in a financial year. The fair value of derivative assets at 4 April 2019 was £3 6 billion (4 April 2018: £4.1 billion) and the fair value of derivative liabilities was £1.6 billion (4 April 2018: £2.3 billion).

To comply with EU regulatory requirements, 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.

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 2018: £2.0 billion) were available and £2.1 billion of collateral (4 April 2018: £2.2 billion) was held. Only cash is held as collateral.

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

Derivative credit exposure

	4 April 2019				4 April 2018			
Counterparty credit quality	**AA**	**A**	**BBB**	**Total**	AA	A	BBB	Total
(Audited)	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross positive fair value of contracts as reported on the balance sheet	**1,096**	**2,460**	**6**	**3,562**	1,584	2,266	271	4,121
Netting benefits	**(350)**	**(1,007)**	**(6)**	**(1,363)**	(532)	(1,156)	(271)	(1,959)
Net current credit exposure	**746**	**1,453**	**-**	**2,199**	1,052	1,110	-	2,162
Collateral (cash)	**(732)**	**(1,398)**	**-**	**(2,130)**	(1,051)	(1,106)	-	(2,157)
Net derivative credit exposure	**14**	**55**	**-**	**69**	1	4	-	5

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 other stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.

Nationwide manages liquidity and funding risks 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 sufficient holdings of high quality liquid assets so that there is no significant risk that liabilities cannot be met as they fall due.

Liquidity and funding levels continued to be within Board risk appetite and regulatory requirements throughout the year. This includes the Liquidity Coverage Ratio (LCR), which ensures that sufficient high quality liquid assets are held to survive a short term severe but plausible liquidity stress. Nationwide's LCR at 4 April 2019 was 150.2% (4 April 2018: 130.3%), above the regulatory minimum of 100%.Nationwide continues to manage its liquidity against its internal risk appetite, which is more prudent than regulatory requirements.

Nationwide also monitors its position against the longer term funding metric, the Net Stable Funding Ratio (NSFR). Based on current interpretations of expected European regulatory requirements and guidance, the NSFR at 4 April 2019 was 130.5% (4 April 2018: 131.0%) which exceeds the expected 100% minimum future requirement.

Funding risk

Funding strategy

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

Funding profile

Assets (note i)	4 April 2019	5 April 2018 (note ii)	4 April 2018	Liabilities	4 April 2019	5 April 2018 (note ii)	4 April 2018
	£bn	£bn	£bn		£bn	£bn	£bn
Retail mortgages	185.8	177.1	177.2	Retail funding	154.0	148.4	148.4
Treasury assets (including liquidity portfolio) (note iii)	32.7	30.9	30.9	Wholesale funding	61.2	58.8	58.8
Commercial lending (note iii)	9.1	10.6	10.6	Other liabilities	3.0	3.7	3.7
Consumer lending	4.2	3.7	3.8	Capital and reserves	20.1	18.0	18.2
Other assets	6.5	6.6	6.6				
	238.3	228.9	229.1		238.3	228.9	229.1

Notes
i. The figures in the above table are stated net of impairment provisions where applicable.
ii. Balances as at 5 April 2018 reflect the impact of applying IFRS 9 'Financial Instruments'.
iii. Treasury assets now include balances held with counterparties that are institutions similar to banks. These balances were previously reported in commercial lending balances. Comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

At 4 April 2019, Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 125.2% (4 April 2018: 125.5%).

Liquidity and funding risk (continued)

Wholesale funding

The wholesale funding portfolio is made up of a range of secured and unsecured instruments to ensure Nationwide has a stable and diversified funding base 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 sufficient contingent funding capacity is retained in the event of a stress.

Wholesale funding has increased by £2.4 billion to £61.2 billion during the year primarily in liabilities with maturities of less than one year. This additional funding is reflected in Nationwide's wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) which was 28.6% at 4 April 2019 (4 April 2018: 28.2%).

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

Wholesale funding by currency

	4 April 2019						4 April 2018					
	GBP	EUR	USD	Other	Total	% of total	GBP	EUR	USD	Other	Total	% of total
	£bn	£bn	£bn	£bn	£bn		£bn	£bn	£bn	£bn	£bn	
Repos	0.4	0.3	0.1	-	0.8	1	0.7	0.2	-	-	0.9	2
Deposits	6.0	1.2	0.1	-	7.3	12	5.4	1.4	-	-	6.8	12
Certificates of deposit	3.2	1.1	0.5	-	4.8	8	4.0	0.1	0.2	-	4.3	7
Commercial paper	-	0.3	2.9	-	3.2	5	-	-	1.0	-	1.0	2
Covered bonds	3.8	12.9	-	0.1	16.8	28	2.5	12.6	-	0.2	15.3	26
Medium term notes	2.0	3.0	1.9	0.6	7.5	12	2.0	4.6	1.8	0.6	9.0	15
Securitisations	0.7	1.1	1.2	-	3.0	5	1.1	1.3	1.3	-	3.7	6
TFS	17.0	-	-	-	17.0	28	17.0	-	-	-	17.0	29
Other	0.2	0.6	-	-	0.8	1	0.2	0.6	-	-	0.8	1
Total	33.3	20.5	6.7	0.7	61.2	100	32.9	20.8	4.3	0.8	58.8	100

The residual maturity of the wholesale funding book, on a contractual maturity basis, is set out below.

Wholesale funding – residual maturity

4 April 2019	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	0.8	-	-	-	0.8	-	-	0.8
Deposits	4.5	0.6	2.2	-	7.3	-	-	7.3
Certificates of deposit	-	2.3	2.3	0.2	4.8	-	-	4.8
Commercial paper	-	2.0	1.2	-	3.2	-	-	3.2
Covered bonds	0.8	0.9	-	-	1.7	3.3	11.8	16.8
Medium term notes	-	0.6	0.4	0.9	1.9	0.1	5.5	7.5
Securitisations	0.4	-	0.1	0.3	0.8	1.0	1.2	3.0
TFS	-	-	-	-	-	6.0	11.0	17.0
Other	-	-	-	-	-	0.2	0.6	0.8
Total	6.5	6.4	6.2	1.4	20.5	10.6	30.1	61.2
Of which secured	2.0	0.9	0.1	0.3	3.3	10.5	24.6	38.4
Of which unsecured	4.5	5.5	6.1	1.1	17.2	0.1	5.5	22.8
% of total	10.6	10.5	10.1	2.3	33.5	17.3	49.2	100.0

Liquidity and funding risk (continued)

Wholesale funding – residual maturity 4 April 2018	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	0.9	-	-	-	0.9	-	-	0.9
Deposits	4.5	0.5	1.4	0.4	6.8	-	-	6.8
Certificates of deposit	-	3.6	0.5	0.2	4.3	-	-	4.3
Commercial paper	0.1	0.9	-	-	1.0	-	-	1.0
Covered bonds	0.8	0.1	-	-	0.9	1.6	12.8	15.3
Medium term notes	0.1	0.1	0.1	1.4	1.7	1.8	5.5	9.0
Securitisations	0.1	-	0.3	0.4	0.8	0.9	2.0	3.7
TFS	-	-	-	-	-	-	17.0	17.0
Other	-	-	-	-	-	-	0.8	0.8
Total	6.5	5.2	2.3	2.4	16.4	4.3	38.1	58.8
Of which secured	1.8	0.1	0.3	0.4	2.6	2.5	32.6	37.7
Of which unsecured	4.7	5.1	2.0	2.0	13.8	1.8	5.5	21.1
% of total	11.1	8.8	3.9	4.1	27.9	7.3	64.8	100.0

At 4 April 2019, cash, government bonds and supranational bonds included in the liquid asset buffer represented 120% of wholesale funding maturing in less than one year, assuming no rollovers (4 April 2018: 142%).

The increase in the proportion of wholesale funding with a residual maturity of less than one year is principally driven by the pre-funding of upcoming maturities as we manage funding in the uncertain economic environment.

Liquidity risk

Liquidity strategy

Nationwide ensures it has sufficient liquid assets, both in terms of amount and quality, to meet daily cash flow needs as well as simulated stressed requirements driven by the Society's risk appetite and regulatory assessments. This includes ensuring the currency composition of the liquid asset buffer is consistent with the currency profile of stressed outflows.

Nationwide's liquid assets are held and managed centrally by its Treasury function. Nationwide maintains a high quality liquidity portfolio, predominantly comprising reserves held at central banks and highly rated debt securities issued by a restricted range of governments, central banks and supranationals.

The size and mix of the liquid asset buffer is defined by the Society's risk appetite as set by the Board, which is translated into a set of liquidity risk limits; it is also influenced by other relevant considerations such as stress testing and regulatory requirements.

Liquidity and funding risk (continued)

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 bonds received through reverse repurchase (repo) agreements, and excludes bonds encumbered through repo agreements.

Liquid assets

	4 April 2019				4 April 2018			
	GBP £bn	**EUR £bn**	**USD £bn**	**Total £bn**	GBP £bn	EUR £bn	USD £bn	Total £bn
Cash and reserves at central banks	**12.4**	**0.1**	**-**	**12.5**	14.4	-	-	14.4
Government bonds	**7.8**	**0.7**	**2.8**	**11.3**	6.8	0.8	0.6	8.2
Supranational bonds	**0.5**	**-**	**0.2**	**0.7**	0.4	-	0.3	0.7
Covered bonds	**0.4**	**0.7**	**-**	**1.1**	0.6	0.6	-	1.2
Residential mortgage backed securities (RMBS) (note i)	**0.6**	**0.3**	**0.1**	**1.0**	1.7	0.3	-	2.0
Asset-backed securities and other securities	**0.1**	**0.1**	**0.1**	**0.3**	0.2	0.1	-	0.3
Total	**21.8**	**1.9**	**3.2**	**26.9**	24.1	1.8	0.9	26.8

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

The average combined month end balance during the year of cash and reserves at central banks, and government and supranational bonds, was £27.8 billion (2018: £27.2 billion).

Nationwide also holds a portfolio of high quality, central bank eligible covered bonds, RMBS and asset-backed securities. Other securities are held that are not eligible for central bank operations but can be monetised through repurchase agreements with third parties or through sale.

Nationwide undertakes securities financing transactions in the form of repurchase agreements. This demonstrates the liquid nature of the assets held in its liquid asset buffer and also satisfies regulatory requirements. Cash is borrowed in return for pledging assets as collateral and because settlement is on a simultaneous 'delivery versus payment' basis, the main credit risk arises from intra-day changes in the value of the collateral. This is largely mitigated by Nationwide's collateral management processes.

Repo market capacity is assessed and tested regularly to ensure there is sufficient capacity to monetise the liquid asset buffer rapidly in a stress.

For contingent purposes, Nationwide pre-positions unencumbered mortgage assets at the Bank of England which can be used in the Bank of England's liquidity operations if market liquidity is severely disrupted.

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) 4 April 2019	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	12,493	-	-	-	-	-	-	-	12,493
Loans and advances to banks and similar institutions (note iii)	3,363	-	-	-	-	-	-	646	4,009
Investment securities	16	20	114	284	78	971	5,558	9,193	16,234
Derivative financial instruments	18	127	29	33	70	535	1,183	1,567	3,562
Fair value adjustment for portfolio hedged risk	(2)	4	11	26	26	132	71	143	411
Loans and advances to customers	3,024	1,393	1,982	2,003	1,974	8,303	23,549	156,823	199,051
Total financial assets	18,912	1,544	2,136	2,346	2,148	9,941	30,361	168,372	235,760
Financial liabilities									
Shares	131,451	3,039	4,070	1,482	1,475	3,926	7,386	1,140	153,969
Deposits from banks and similar institutions	3,026	1	122	-	-	6,000	11,000	-	20,149
Of which repo	*849*	-	-	-	-	-	-	-	*849*
Of which TFS	-	*1*	-	-	-	*6,000*	*11,000*	-	*17,001*
Other deposits	2,295	625	2,094	25	19	4	12	-	5,074
Fair value adjustment for portfolio hedged risk	-	(1)	(1)	-	(1)	(2)	(12)	-	(17)
Secured funding – ABS and covered bonds	1,183	887	132	141	148	4,367	7,754	5,777	20,389
Senior unsecured funding	43	4,890	3,979	512	466	99	2,297	3,267	15,553
Derivative financial instruments	36	118	21	10	12	127	69	1,200	1,593
Subordinated liabilities	18	-	54	3	-	662	756	5,213	6,706
Subscribed capital (note iv)	1	1	1	-	-	-	-	247	250
Total financial liabilities	138,053	9,560	10,472	2,173	2,119	15,183	29,262	16,844	223,666
Off-balance sheet commitments (note v)	12,956	-	-	-	-	-	-	-	12,956
Net liquidity difference	(132,097)	(8,016)	(8,336)	173	29	(5,242)	1,099	151,528	(862)
Cumulative liquidity difference	(132,097)	(140,113)	(148,449)	(148,276)	(148,247)	(153,489)	(152,390)	(862)	

Liquidity and funding risk (continued)

Residual maturity (note i) 4 April 2018	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	14,361	-	-	-	-	-	-	-	14,361
Loans and advances to banks and similar institutions (note iii)	3,149	-	-	-	-	-	-	344	3,493
Investment securities	76	64	17	141	89	387	2,498	9,774	13,046
Derivative financial instruments	12	17	6	231	52	381	1,966	1,456	4,121
Fair value adjustment for portfolio hedged risk	-	(16)	(30)	(19)	(30)	(90)	(53)	129	(109)
Loans and advances to customers (note iii)	2,970	1,318	1,925	1,886	1,908	7,564	22,961	151,061	191,593
Total financial assets	20,568	1,383	1,918	2,239	2,019	8,242	27,372	162,764	226,505
Financial liabilities									
Shares	120,617	2,892	4,403	4,430	3,248	6,593	4,499	1,321	148,003
Deposits from banks and similar institutions (note iii)	3,375	9	47	5	-	-	17,000	-	20,436
Of which repo	946	-	-	-	-	-	-	-	946
Of which TFS	-	1	-	-	-	-	17,000	-	17,001
Other deposits (note iii)	2,493	481	1,343	315	50	11	-	-	4,693
Fair value adjustment for portfolio hedged risk	-	(6)	(6)	(4)	(4)	(8)	(25)	-	(53)
Secured funding – ABS and covered bonds	872	65	273	211	224	2,491	9,266	6,288	19,690
Senior unsecured funding	229	4,644	595	980	553	1,845	1,589	3,993	14,428
Derivative financial instruments	39	25	11	6	11	64	305	1,876	2,337
Subordinated liabilities	17	-	49	-	-	-	690	4,741	5,497
Subscribed capital (note iv)	1	1	1	-	-	-	-	260	263
Total financial liabilities	127,643	8,111	6,716	5,943	4,082	10,996	33,324	18,479	215,294
Off-balance sheet commitments (note v)	13,890	-	-	-	-	-	-	-	13,890
Net liquidity difference	(120,965)	(6,728)	(4,798)	(3,704)	(2,063)	(2,754)	(5,952)	144,285	(2,679)
Cumulative liquidity difference	(120,965)	(127,693)	(132,491)	(136,195)	(138,258)	(141,012)	(146,964)	(2,679)	-

Notes:

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

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

iii. Loans and advances to banks and deposits from banks have been renamed to loans and advances to banks and similar institutions and deposits from banks and similar institutions and now include balances held with counterparties that are institutions similar to banks. These balances were previously reported in loans and advances to customers and other deposits respectively. In addition, balances reported previously as due to customers are now reported in other deposits. Comparatives for the prior period have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

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

v. Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments, customer overpayments on residential mortgages where the borrower is able to 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 faster. This gives rise to funding mismatches on Nationwide's balance sheet. The balance sheet structure and risks are managed and monitored by Nationwide's Assets and Liabilities Committee (ALCO). Nationwide uses judgement and past behavioural performance of each asset and liability class to forecast likely cash flow requirements.

Liquidity and funding risk (continued)

Financial liabilities – gross undiscounted contractual cash flows

The tables below provide an analysis of gross contractual cash flows. The totals differ from the analysis of residual maturity as they include estimated future interest payments, calculated using balances outstanding at the balance sheet date, contractual maturities and appropriate forward looking interest rates.

Amounts are allocated to the relevant maturity band based on the timing of individual contractual cash flows.

Gross contractual cash flows **4 April 2019**	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and twelve months	Due between one and two years	Due between two and five years	Due after more than five years	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shares	131,451	3,098	4,121	1,525	1,514	4,063	7,605	1,141	154,518
Deposits from banks and similar institutions (note ii)	3,026	32	153	31	31	6,102	11,119	-	20,494
Other deposits	2,295	630	2,096	25	19	4	12	-	5,081
Secured funding – ABS and covered bonds	1,199	835	172	185	186	4,313	7,493	5,901	20,284
Senior unsecured funding	43	4,670	4,270	518	524	252	2,656	3,486	16,419
Subordinated liabilities	20	-	123	28	75	888	607	6,412	8,153
Subscribed capital (note iii)	1	1	4	3	4	13	68	217	311
Total non-derivative financial liabilities	138,035	9,266	10,939	2,315	2,353	15,635	29,560	17,157	225,260
Derivative financial liabilities:									
Gross settled derivative outflows	(439)	(2,565)	(1,243)	(76)	(71)	(1,951)	(2,840)	(5,349)	(14,534)
Gross settled derivative inflows	427	2,485	1,185	58	45	1,783	2,595	5,086	13,664
Gross settled derivatives – net flows	(12)	(80)	(58)	(18)	(26)	(168)	(245)	(263)	(870)
Net settled derivative liabilities	(28)	(125)	(101)	(130)	(119)	(368)	(579)	(916)	(2,366)
Total derivative financial liabilities	(40)	(205)	(159)	(148)	(145)	(536)	(824)	(1,179)	(3,236)
Total financial liabilities	137,995	9,061	10,780	2,167	2,208	15,099	28,736	15,978	222,024
Off-balance sheet commitments (note iv)	12,956	-	-	-	-	-	-	-	12,956
Total financial liabilities including off-balance sheet commitments	150,951	9,061	10,780	2,167	2,208	15,099	28,736	15,978	234,980

Liquidity and funding risk (continued)

Gross contractual cash flows

4 April 2018	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and twelve months	Due between one and two years	Due between two and five years	Due after more than five years	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shares	120,617	2,959	4,462	4,479	3,288	6,708	4,690	1,524	148,727
Deposits from banks and similar institutions (note ii)	3,402	8	48	64	75	182	17,271	-	21,050
Other deposits (note ii)	2,493	486	1,345	315	50	11	-	-	4,700
Secured funding – ABS and covered bonds	880	76	297	193	367	2,739	8,006	8,625	21,183
Senior unsecured funding	162	4,712	638	990	629	1,992	1,049	5,274	15,446
Subordinated liabilities	18	-	104	18	56	197	1,004	5,400	6,797
Subscribed capital (note iii)	1	1	4	3	14	13	60	244	340
Total non-derivative financial liabilities	127,573	8,242	6,898	6,062	4,479	11,842	32,080	21,067	218,243
Derivative financial liabilities									
Gross settled derivative outflows	(13)	(67)	(39)	(237)	(103)	(522)	(2,522)	(5,692)	(9,195)
Gross settled derivative inflows	14	59	41	222	105	521	2,479	5,596	9,037
Gross settled derivatives – net flows	1	(8)	2	(15)	2	(1)	(43)	(96)	(158)
Net settled derivative liabilities	(23)	(63)	(59)	(105)	(46)	(265)	(608)	(1,190)	(2,359)
Total derivative financial liabilities	(22)	(71)	(57)	(120)	(44)	(266)	(651)	(1,286)	(2,517)
Total financial liabilities	127,551	8,171	6,841	5,942	4,435	11,576	31,429	19,781	215,726
Off-balance sheet commitments (note iv)	13,890	-	-	-	-	-	-	-	13,890
Total financial liabilities including off-balance sheet commitments	141,441	8,171	6,841	5,942	4,435	11,576	31,429	19,781	229,616

Notes:

i. Due less than one month includes amounts repayable on demand.
ii. Deposits from banks has been renamed to deposits from banks and similar institutions and now includes balances held with counterparties that are institutions similar to banks. These balances were previously reported in other deposits. In addition, balances reported previously as due to customers are now reported in other deposits. Comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.
iii. The principal amount for undated subscribed capital is included within the due more than five years column.
iv. Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid and commitments to acquire financial assets

Liquidity and funding risk (continued)

Asset encumbrance

Encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise the Covered Bond and Silverstone secured funding programmes (further information is included in note 14) and from participation in the Bank of England's Term Funding Scheme (TFS).

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

An analysis of Nationwide's encumbered and unencumbered on-balance sheet assets is set out below. This disclosure is not intended to identify assets that would be available in the event of a resolution or bankruptcy.

Asset encumbrance 4 April 2019	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					Total
						Assets not positioned at the central bank				
	As a result of covered bonds	As a result of securitisations	Other	Total	Assets positioned at the central bank (i.e. prepositioned plus encumbered)	Readily available for encumbrance	Other assets that are capable of being encumbered	Cannot be encumbered	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash	590	660	-	1,250	140	10,859	-	244	11,243	12,493
Loans and advances to banks and similar institutions	-	-	1,352	1,352	1,276	-	-	1,381	2,657	4,009
Investment securities	-	-	1,694	1,694	30	13,043	-	1,467	14,540	16,234
Derivative financial instruments	-	-	-	-	-	-	-	3,562	3,562	3,562
Loans and advances to customers	22,656	6,936	-	29,592	39,558	82,561	47,340	-	169,459	199,051
Non-financial assets	-	-	-	-	-	-	-	2,541	2,541	2,541
Other financial assets	-	-	-	-	-	-	-	411	411	411
Total	23,246	7,596	3,046	33,888	41,004	106,463	47,340	9,606	204,413	238,301
4 April 2018	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash	381	376	-	757	-	13,389	-	215	13,604	14,361
Loans and advances to banks and similar institutions (note i)	-	-	1,220	1,220	1,124	-	-	1,149	2,273	3,493
Investment securities	-	-	944	944	30	12,027	-	45	12,102	13,046
Derivative financial instruments	-	-	-	-	-	-	-	4,121	4,121	4,121
Loans and advances to customers (note i)	21,000	8,712	-	29,712	37,732	76,791	47,358	-	161,881	191,593
Non-financial assets	-	-	-	-	-	-	-	2,593	2,593	2,593
Other financial assets	-	-	-	-	-	-	-	(109)	(109)	(109)
Total	21,381	9,088	2,164	32,633	38,886	102,207	47,358	8,014	196,465	229,098

Note:

i. Loans and advances to banks has been renamed to loans and advances to banks and similar institutions now includes balances held with counterparties that are institutions similar to banks. These balances were previously reported in loans and advances to customers. Comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

Liquidity and funding risk (continued)

Managing liquidity and funding risk

Nationwide's management of liquidity and funding risks aims to ensure that at all times there are sufficient liquid assets, both as to amount and quality, to:

- cover cash flow mismatches and fluctuations in funding
- retain public confidence
- meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows, and through the translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high quality liquid assets and appropriate encumbrance levels are maintained.

The liquidity and funding risk framework is reviewed by the Board as part of the annual Internal Liquidity Adequacy Assessment Process (ILAAP). ALCO is responsible for managing the balance sheet structure, including the Funding Plan, and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

A Liquidity Contingency Plan (LCP) is maintained which describes early warning triggers for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust. Nationwide also has a Recovery Plan which describes potential actions that could be utilised in a more extreme stress.

Liquidity stress testing

To mitigate liquidity and funding risks generated by its business activities, Nationwide aims to maintain a liquid asset buffer of at least 100% of the anticipated outflows seen under internal stress test scenarios and the regulatory-prescribed LCR.

Potential contractual and behavioural stress outflows are assessed across a range of liquidity risk drivers over 30 calendar days, with the key assumptions shown below. A three month assessment is also performed against which LCP capacity is assessed. Internal stress assumptions are reviewed regularly with changes approved by ALCO, and approved annually by the Board as part of the ILAAP.

Liquidity risk driver	Modelling assumptions used
Retail funding	Significant unexpected outflows are experienced with no new deposits received.
Wholesale funding	Following a credit rating downgrade: • zero roll-over of maturing long-term wholesale funding; • zero roll-over of maturing short-term funding received from financial counterparties and partial roll-over from non-financial counterparties; • no new wholesale funding received.
Off-balance sheet	Contractual outflows occur in relation to secured funding programmes due to credit rating downgrades Lending commitments continue to be met. Collateral outflows arise due to adverse movements in market rates. Inflows from mortgages or retail and commercial loans are assessed on a contractual basis.
Intra-day	Liquidity is needed to pre-fund outgoing payments.
Liquid assets	Asset values are reduced in recognition of the stressed conditions assumed.

At 4 April 2019, under the most severe internal 30 calendar day stress test (a combined market-wide and Nationwide-specific stress scenario), modelled stressed net outflows equated to £21.5 billion (4 April 2018: £20.5 billion). The liquid asset buffer as a percentage of stressed net outflows equated to 119% (4 April 2018: 120%).

Liquidity and funding risk (continued)

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 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	November 2018	Positive
Moody's	Aa3	P-1	Baa1	Baa1	February 2019	Negative
Fitch	A+	F1	A	A-	March 2019	Ratings Watch Negative

In November 2018 Standard & Poor's reaffirmed their positive outlook reflecting their expectation that Nationwide's buffer of bail-in instruments could exceed their threshold for two notches of Additional Loss Absorbing Capacity (ALAC) uplift over their 18-24 month forecast horizon.

In October 2018, Moody's affirmed Nationwide's Aa3/P-1 long and short term ratings, but changed its outlook to negative from stable The change in outlook reflected uncertainties embedded in Moody's forward looking view on the loss given failure of the Society's senior debt. This was reaffirmed in February 2019.

In March 2019, Fitch placed the Long Term Issuer Default Rating of Nationwide, along with eighteen other UK banking groups, on Ratings Watch Negative. The Ratings Watch Negative reflects the heightened uncertainty over the ultimate outcome of the Brexit process and the increased risk that a disruptive 'no-deal' Brexit could result in negative action on the UK banks, with the likelihood that negative outlooks will be assigned

Whilst there have been changes to outlook as referred to above, Nationwide's credit ratings remain unchanged since April 2018.

The table below sets out the amount of additional collateral Nationwide would need to provide in the event of a one and two notch downgrade by external credit rating agencies.

	Cumulative adjustment for a one notch downgrade £bn	Cumulative adjustment for a two notch downgrade £bn
4 April 2019	3.0	3.4
4 April 2018	3.1	3.3

The contractually required cash outflow would not necessarily match the actual cash outflow as a result of management actions that could be taken to reduce the impact of the downgrades.

Solvency risk

Solvency 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.

Managing solvency risk

A number of tools are employed to support the management of solvency risk. The Board is responsible for setting risk appetite with respect to solvency risk, which is articulated through its risk appetite statements, and it defines minimum levels of capital, including leverage, that it is willing to operate with. These are translated into specific risk metrics, which are monitored by the Board Risk Committee (BRC), Assets and Liabilities Committee (ALCO) and other internal management reviews.

The capital structure is managed to ensure that Nationwide continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, strong capital ratios are targeted relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the fair value through other comprehensive income reserve and defined benefit pension deficit) are all considered.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. With general reserves forming the majority of capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which forms part of the Society's board risk appetite metrics as well as forming part of the performance monitoring activity for individual product segments. In recent years, Nationwide's ability to supplement retained earnings through the issuance of Common Equity Tier 1 (CET1), Additional Tier 1 and Tier 2 capital instruments has been demonstrated, and its non-core commercial lending portfolios have been significantly deleveraged.

Capital is held to meet Pillar 1 requirements for credit, operational and market risks. In addition, the PRA requires firms to hold capital to meet Pillar 2A requirements, which form an Individual Capital Requirement (ICR). This is a point in time estimate, set by the PRA on an annual basis based on the submission of the results of our annual Internal Capital Adequacy Assessment Process (ICAAP). This process confirms the amount of capital required to be held to meet risks partly covered by Pillar 1 such as credit concentration and operational risk, and risks not covered by Pillar 1 such as pension and interest rate risk. The combination of Pillar 1 and Pillar 2A requirements form Nationwide's Total Capital Requirement (TCR). The ICR and TCR replace the former Individual Capital Guidance (ICG)

Nationwide's latest Pillar 2A ICR and TCR were received in September 2018. The ICR equates to circa £2.4 billion, of which at least circa £1.4 billion (56%) must be met by CET1 capital. The ICR was equivalent to 7.4% of risk weighted assets (RWAs) as at 4 April 2019 (4 April 2018: 7.1%), largely reflecting the low average risk weight, given that approximately 78% (4 April 2018: 78%) of total assets are in the form of secured residential mortgages.

To protect against the risk of consuming Pillar 1 and Pillar 2A requirements (thereby breaching TCR), firms are subject to regulatory capital buffers which are set out in CRD IV. The ICAAP process also considers a capital buffer to ensure that the impact of a severe but plausible stress can be absorbed. The PRA may also set an additional firm-specific buffer based upon supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources, and taking into account other factors including leverage, systemic importance and any weaknesses in firms' risk management and governance procedures

Regular stress tests are undertaken, covering Nationwide and its subsidiaries, to enhance the understanding of potential vulnerabilities and how management actions might be deployed in the event of stressed conditions developing. These stress tests project capital resources and requirements over a multi-year period, during severe but plausible scenarios that cover a range of macro-economic or market-wide stresses, and idiosyncratic scenarios that test particular risks to Nationwide's business model. Stress test results are reported to the Board Risk Committee.

Nationwide aims to be in a position where it would maintain strong capital and leverage ratios in the event of a severe but plausible economic or idiosyncratic stress. Embedded in the risk appetite framework is an expectation to maintain the CET1 and leverage ratios in excess of regulatory minima under stressed conditions.

A set of management actions is maintained that would be available in the event of a breach of one or more of the risk metrics, to support the capital position. In a more severe stress, Nationwide would consider the implementation of its Recovery Plan, maintained under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD), which documents a broad range of management actions. In addition, reverse stress testing is carried out using extreme, highly improbable scenarios to further test the viability of Nationwide's business model.

During 2018, the major UK banks and building societies, including Nationwide, took part in the PRA's annual concurrent stress test (CST), which included two scenarios. The main scenario, the Annual Cyclical Scenario (ACS), assessed firms' resilience to a severe economic downturn, characterised by an increase in the Bank of England base rate to 4%, a 33% fall in UK house prices and a 4.7% fall in UK GDP. The stress featured the same global and domestic economic downturn used for the 2017 exercise but with the expected credit losses (ECLs) modelled under the new IFRS 9 accounting standard. The Financial Policy Committee (FPC) will use these results to understand more fully the impact of IFRS 9 on capital ratios, and to consider changes to the way in which it monitors firms' capital position.

Despite the severity of the ACS, the results illustrate the strength and resilience of Nationwide, with low point CET1 and leverage ratios of 14.1% and 5.1% respectively after the application of management actions. While the leverage ratio remained relatively stable, risk weighted assets increased significantly causing a reduction in the CET1 ratio, largely due to the use of Point in Time (PiT) modelling approaches for secured portfolios.

Solvency risk (continued)

Nationwide, along with the major UK banks, is currently taking part in the 2019 CST. This year's ACS features a similar global and domestic economic downturn to that used for the 2018 exercise, reflecting the FPC's assessment of underlying vulnerabilities being broadly unchanged year on year.

Capital position

Capital ratios

	4 April 2019	5 April 2018 (note i)	4 April 2018
Solvency	%	%	%
Common Equity Tier 1 (CET1) ratio	32.4	30.4	30.5
Total Tier 1 ratio	35.4	33.5	33.6
Total regulatory capital ratio	44.6	42.8	42.9
Leverage	£m	£m	£m
UK leverage exposure (note ii)	235,147	221,982	221,992
CRR leverage exposure (note iii)	247,586	236,458	236,468
Tier 1 capital	11,509	10,907	10,917
	%	%	%
UK leverage ratio	4.9	4.9	4.9
CRR leverage ratio	4.6	4.6	4.6

Notes.
i. Figures have been adjusted to reflect the impact of applying IFRS 9 Financial Instruments from 5 April 2018. Further information is provided in our Report on Transition to IFRS 9 Financial Instruments, which can be found on nationwide.co.uk
ii. The UK leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves
iii. The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.

The capital disclosures included in this report are on a Capital Requirements Directive IV (CRD IV) end point basis. This assumes that all CRD IV requirements are in force during the period, with no transitional provisions permitted. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

The CET1 ratio increased to 32.4% (5 April 2018: 30.4%) as a result of an increase in CET1 capital resources, with risk weighted assets (RWAs) remaining relatively stable. CET1 capital resources have increased by £0.6 billion, primarily due to the profit after tax for the year of £0.6 billion. RWAs remained stable with increased retail lending and treasury related RWAs offset by run-off in the commercial book and the implementation of a new credit card internal ratings based (IRB) model

Risk-based ratios remain in-excess of regulatory requirements with the CET1 ratio of 32.4% (5 April 2018: 30.4%) above Nationwide's capital requirement of 13.2% This includes a minimum CET1 capital requirement of 8.7% (Pillar 1 and Pillar 2A) and CRD IV combined buffer requirements of 4.5% (allowing for the announced 1% systemic risk buffer). The CET1 ratio is expected to be impacted by future regulatory developments, with Nationwide expecting to implement the PRA's revised expectations for residential mortgage IRB models in 2020. The implementation of the new IRB models is expected to cause an increase in RWAs leading to an estimated reduction in the CET1 ratio of approximately one third. We also expect the CET1 ratio to be impacted further through the Basel III reforms, expected to come into effect between 2022 and 2027 (see regulatory developments section for further details).

CRD IV requires firms to calculate a non-risk based leverage ratio, to supplement risk-based capital requirements. The UK leverage ratio of 4.9% (5 April 2018: 4.9%) remains in excess of Nationwide's capital requirement of 4.0% from August 2019, which comprises of a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.75% (allowing for the 0.35% additional leverage buffer).

The UK leverage ratio remained stable at 4.9% (5 April 2018: 4.9%), with an increase in Tier 1 capital driven by profits after tax of £0.6 billion offset by an increase in UK leverage exposure of £13 billion resulting from an increase in net retail lending of £9 billion, an increase in treasury exposures (including counterparty credit risk) of £5 billion, and an increase in other assets of £1 billion, offset by run-off in the commercial book of £2 billion. The CRR leverage ratio is based on the Delegated Act definition and therefore exposures include central bank reserves. This also remained stable at 4.6% (5 April 2018: 4.6%). On 24 April 2019, Nationwide notified investors of its intention to redeem its outstanding Additional Tier 1 capital instrument in full, on 20 June 2019. This will reduce Tier 1 capital resources by £992 million, resulting in a 0.4 percentage points reduction in the UK leverage ratio, to 4.5%, and a 0.4 percentage points reduction in CRR leverage ratio to 4.2%, based on the year-end balance sheet.

Leverage requirements continue to be Nationwide's binding capital constraint, as they are in excess of risk-based requirements, and it is expected that will continue despite the impact of IRB model changes and Basel III reforms on risk-based capital requirements. The expected impact of the Basel III reforms on Nationwide's leverage ratio is negligible. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

Further details on the leverage exposure can be found in the Group's annual Pillar 3 Disclosure 2019 at **nationwide.co.uk**

Solvency risk (continued)

The table below reconciles the general reserves to total regulatory capital on an end-point basis and so does not include non-qualifying instruments.

Total regulatory capital	2019	2018
(Audited)	£m	£m
General reserve	10,418	9,951
Core capital deferred shares (CCDS)	1,325	1,325
Revaluation reserve	64	68
FVOCI reserve	50	-
Available for sale reserve	-	75
Regulatory adjustments and deductions:		
Foreseeable distributions (note i)	(68)	(68)
Prudent valuation adjustment (note ii)	(50)	(32)
Own credit and debit valuation adjustments (note iii)	-	(1)
Intangible assets (note iv)	(1,274)	(1,286)
Goodwill (note iv)	(12)	(12)
Excess of regulatory expected losses over impairment provisions (note v)	(2)	(95)
IFRS 9 transitional arrangements (note vi)	66	-
Total regulatory adjustments and deductions	(1,340)	(1,494)
Common Equity Tier 1 capital	10,517	9,925
Additional Tier 1 capital securities (AT1) (note vii)	992	992
Total Tier 1 capital	11,509	10,917
Dated subordinated debt (notes viii)	2,976	3,019
Excess of impairment provisions over regulatory expected losses (note v)	46	-
IFRS9 transitional arrangements (note vi)	(46)	-
Tier 2 capital	2,976	3,019
Total regulatory capital	14,485	13,936

Notes:
i. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
ii. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
iii. 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 Nationwide's own credit standing and risk, in accordance with CRD IV rules.
iv. Intangible assets and goodwill are deducted from capital resources after netting associated deferred tax liabilities.
v. Where capital expected loss exceeds accounting impairment provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where impairment provisions exceed capital expected loss, the excess balance is added back 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.
vi. The transitional adjustments to capital resources apply scaled relief for the impact of IFRS 9, over a 5-year transition period. Further detail regarding these adjustments is provided in the Interim Pillar 3 disclosures at nationwide.co.uk
vii. On 24 April 2019 Nationwide announced the redemption of the AT1 instrument in full at the first call date of 20 June 2019, therefore making it ineligible as regulatory capital from the date of this announcement.
viii. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and eligible liabilities (MREL) and provided firms with indicative MREL. From 1 January 2020, it is anticipated that Nationwide will be subject to a requirement to hold twice the minimum capital requirements (6.5% of UK leverage exposure), plus the applicable capital requirement buffers, which are currently expected to amount to 0.75% of UK leverage exposure. In order to meet this pending requirement, Nationwide issued a further £1 billion of senior non-preferred notes in the financial year which are MREL eligible.

At 4 April 2019, total MREL resources were equal to 7.9% of UK leverage ratio exposure (4 April 2018 7.5%), above the anticipated 2020 requirement of 7.25% described above.

Solvency risk (continued)

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

	2019			2018		
	Credit Risk (note i)	Operational Risk (note ii)	Total Risk Weighted Assets	Credit Risk (note i)	Operational Risk (note ii)	Total Risk Weighted Assets
	£m	£m	£m	£m	£m	£m
Retail mortgages	14,072	3,393	17,465	13,764	3,564	17,328
Retail unsecured lending	5,581	778	6,359	5,805	725	6,530
Commercial loans	3,604	176	3,780	4,634	210	4,844
Treasury	779	152	931	540	87	627
Counterparty credit risk (note iii)	1,532	-	1,532	1,184	-	1,184
Other (note iv)	2,095	344	2,439	1,681	315	1,996
Total	**27,663**	**4,843**	**32,506**	27,608	4,901	32,509

Notes:
i. This column includes credit risk exposures, counterparty credit risk exposures and exposures below the thresholds for deduction that are subject to a 250% risk weight.
ii. RWAs have been allocated according to the business lines within the standardised approach to operational risk, as per article 317 of CRR.
iii. Counterparty credit risk relates to derivative financial instruments and repurchase agreements.
iv. Other relates to equity, fixed and other assets.

RWAs remained stable at £32.5 billion (4 April 2018: £32.5 billion) primarily due to an increase in retail lending and treasury related RWAs offset by run-off in commercial loans and the implementation of a new credit card IRB model impacting retail unsecured lending RWAs.

The increase in counterparty credit risk RWAs is driven by changes in interest rates and foreign exchange rates, impacting the regulatory value of derivative exposures. The increase in Other RWAs is driven by higher equity balances and a change in the treatment of 'items in the course of collection', which is now risk weighted at 100% (2018: 20%).

More detailed analysis of RWAs is included in the Group's annual Pillar 3 Disclosure 2019 at nationwide.co.uk

IRB model risk

The performance and accuracy of IRB models is critical to the calculation of credit risk capital requirements. The effectiveness of the models is achieved through clear allocation of roles and responsibilities covering model ownership, approval and governance, ongoing model monitoring, review and independent validation. Further information can be found in the 'model risk management of IRB risk ratings systems' section of the Group's annual Pillar 3 Disclosure 2019 at nationwide.co.uk

Regulatory developments

Highlighted below are a number of areas where regulatory requirements are yet to be finalised. Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any change

Nationwide is currently required to maintain a minimum leverage ratio of 3.25% following the recalibration to adjust for the impact of excluding central bank holdings from the exposure measure. Following the Financial Policy Committee's (FPC) announcement on the countercyclical buffer (November 2018: 1%), the equivalent countercyclical leverage ratio buffer (CCLB) was set at 0.4%. There is also an additional leverage ratio buffer (ALRB) due to be implemented in August 2019, linked to the individual systemic risk buffer (SRB) requirement, which will be set at 0.35%. Therefore, Nationwide's leverage ratio requirement is expected to be 4% from August 2019. Nationwide's UK leverage ratio of 4.9% at 4 April 2019 exceeds the requirement and will continue to meet requirements after redemption of the outstanding Additional Tier 1 capital instrument, which will result in a UK leverage ratio of 4.5% on a proforma year end basis.

Nationwide has submitted its new hybrid IRB mortgage models to the PRA for approval with the expectations that these will be implemented during 2020, in line with the deadline set out in PS13/17 Our current estimate is that the impact of these models will be to reduce our reported CET1 ratio by approximately one third given the material increase in risk weighted assets; however we expect UK leverage requirements to continue to be the binding capital constraint.

Solvency risk (continued)

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a lengthy transitional period from 2022 to 2027. These reforms will lead to a significant increase in the Group's risk weights over time. Nationwide currently expects the consequential impact on the reported CET1 ratio to ultimately be a reduction of approximately a half relative to the current position. The change relates to the application of standardised floors which override IRB model outputs and should therefore not be aggregated with the impact of new hybrid IRB models noted above. Organic earnings through the transition will mitigate this impact such that the reported CET1 ratio will in practice remain well in excess of the proforma levels implied by this change, and leverage requirements will remain the binding constraint based on latest projections. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources held or the risk profile of assets. Final impacts are subject to uncertainty for future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA's discretion.

Market risk

Summary

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

The principal market risks, linked to Nationwide's balance sheet assets and liabilities, are listed in the table below, irrespective of materiality.

Market risk linkage to the balance sheet

	2019			Market risk		
	£bn	Interest rate risk	Basis risk	Swap spread risk	Currency risk	Product option risk
Assets						
Cash	12.5	•	•			
Loans and advances to banks and similar institutions	4.0	•	•		•	
Investment securities	16.2	•	•	•	•	
Derivative financial instruments	3.6	•	•	•	•	•
Loans and advances to customers	199.1	•	•		•	•
Other assets	2.9	•			•	
Total assets	**238.3**					
Liabilities						
Shares (customer deposits)	154.0	•	•			•
Deposits from banks and similar institutions	20.1	•	•		•	
Other deposits	5.1	•	•		•	•
Debt securities in issue	35.9	•	•		•	
Derivative financial instruments	1.6	•	•	•	•	•
Subordinated liabilities	6.7	•	•		•	
Other liabilities (note i)	1.7	•	•	•	•	
Total liabilities	**225.1**					

Note:

i. Other liabilities include the difference between the assets and liabilities of the Nationwide Pension Fund (a defined benefit pension scheme). Nationwide's obligations to the Nationwide Pension Fund result in Pension risk, which includes exposure to market risk factors such as interest rate risk, inflation risk, and equity risk (share prices). Pension risk is managed separately from the market risk arising from Nationwide's core business. For further details, see the 'Pension risk' section of this report.

Market risk (continued)

Global market conditions

During the year, general market conditions have been dominated by the political uncertainty primarily caused by Brexit, despite the optimism at the start of the year that caused rates to rise and sterling to strengthen. At 4 April 2019, sterling was 9% below its 2018 peak in April. Swap rates fluctuated within a relatively tight band, despite some significant one-day falls. The Bank of England (BoE) raised the bank rate by 0.25% in August following positive economic data in the first half of the year. Globally, economies struggled to maintain the momentum they achieved in 2017 with growth slowing in many countries, including in the Eurozone. While stock markets traded at record highs in the first few months of the year, in October concerns about growth, both globally and in the US, together with fears about the impact of a US/China trade war caused indices around the world to fall. The US Federal Reserve has increased interest rates three times since April 2018.

Regulation

The UK regulators have reiterated their intention to transition from LIBOR to alternative benchmark rates by the end of 2021. Nationwide is directly impacted through exposure to LIBOR linked assets, liabilities and derivative transactions. Nationwide is closely engaged with the Bank of England's Working Group on Sterling Risk-Free Reference Rates and other industry bodies, and planning is underway to progress and manage the impacts of this transition.

The European Banking Authority (EBA) published final guidelines on Interest Rate Risk in the Banking Book (IRRBB) in July 2018, which largely endorse the consultation paper published in 2017. These guidelines specify a prescribed series of standardised interest rate shocks that firms must use to assess sensitivities on their Economic Value of Equity (EVE) and Net Interest Income (NII). Whilst the final guidelines become effective from June 2019, Nationwide already monitors its exposures against these prescribed shocks, as well as against internally generated shock scenarios. Final standardised market disclosures for IRRBB are expected to be implemented through ongoing revisions to the CRD and CRR.

Market risk appetite

Nationwide's market risk only arises in the banking book as it does not have a trading book. Most of the exposure to market risk arises from fixed rate mortgages or savings and changes in the market value of the liquidity portfolio There is a limited amount of net currency risk on non-sterling financial assets and liabilities held.

The Board is responsible for setting market risk appetite and ALCO is responsible for managing Nationwide's market risk profile within this defined risk appetite. Market risk is managed within a comprehensive risk framework which includes policies, limit setting and monitoring, stress testing and robust governance controls. Internal risk limits remain low to restrict the potential exposure to market risk arising from the daily management of residual positions, with relevant market risk metrics reported monthly to ALCO.

Market risk management

The principal market risks that affect Nationwide are listed below together with the types of risk reporting measures used:

Market risk exposure	Definition	Reporting measure
Interest rate risk	The impact of market movements in interest rates, which affects the interest rate margin realised from lending and borrowing activities. Volatility in short term interest rates can also impact the net income contribution from rate insensitive liabilities.	Value sensitivity / Value at Risk / Earnings sensitivity
Basis risk	The impact on earnings of relative changes in short term interest rate benchmarks, for example between Bank Base Rate and LIBOR	Earnings sensitivity
Swap spread risk	The impact on the market value of treasury investments arising from changes in the spread between bond yields and swap rates	Value at Risk
Currency risk	The impact on earnings due to changes in exchange rates	Value sensitivity / Value at Risk
Product option risk	The impact from changes to hedging which may be required when customer behaviour deviates from expectations, principally resulting from early repayment of fixed rate loans	Value at Risk

Nationwide has a capital requirement for each of the above market risks. In addition, stress analysis is used to evaluate the impact of more extreme, but plausible events. These analytical techniques are described below with a review of the exposures during the year.

Value and earning sensitivities

Sensitivity analysis is used to assess the change in value of the net exposure to defined parallel and non-parallel shifts in interest rates. For example, a one basis point (0.01%) shift is measured using PV01. This analysis is performed daily by currency. Earning sensitivity metrics are used to measure and quantify exposure to interest rate risks, including basis risk. These techniques assess the impact on earnings when rate shocks are applied to the rates paid on liabilities and to the rates earned on assets based on a static balance sheet position.

Nationwide also measures interest rate risk through NII and EVE measures, under a range of shock scenarios which include behavioural assumptions for retail products as interest rates change These measures are assessed based on the standard shocks prescribed in the EBA final guidelines published in July 2018, as well as against internally generated shock scenarios.

- NII sensitivities assess the impact to earnings in different interest rate shocks over a one year period. Sensitivities are calculated based on a static balance sheet, where all assets and liabilities maturing within the year are reinvested in like for like products. The sensitivity also includes the impact arising from off-balance sheet exposures.
- EVE sensitivities measure the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks. Sensitivities are calculated on a run-off balance sheet basis.

Both NII and EVE sensitivities are measured monthly, with risk limits set against the various shocks

Market risk (continued)

Value at Risk (VaR)

VaR is a technique that estimates the potential losses that could occur from risk positions because of future movements in market rates and prices, over a specified time horizon, to a given level of statistical confidence. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This considers inter-relationships between different markets and rates.

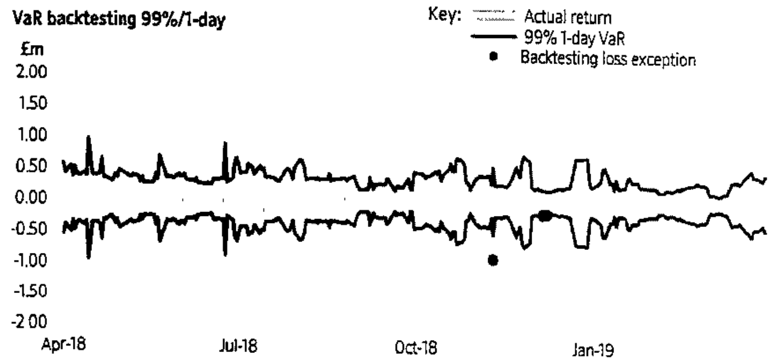
The VaR model incorporates risk factors based on historic interest rate and currency movements. A 10-day horizon and a 99% confidence level is typically used in day to day VaR monitoring. VaR is used to monitor interest rate, swap spread, currency and product option risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by management to test the validity of the assumptions and factors used in the VaR calculation. The values reported below are on the same basis as those used internally.

Although VaR is a valuable risk measure, it needs to be viewed in the context of the following limitations which may mean that exposures could be higher than modelled:

- The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence;
- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of offsetting positions in those extreme events;
- The VaR model uses historical data to predict future events. Extreme market moves outside of those used to calibrate the model will deliver exceptions. In periods where volatility is increasing, the model is likely to under-predict market risks and in periods where volatility is decreasing it is likely to over-predict market risks;
- Historical data may not adequately predict circumstances arising from government interventions and stimulus packages, which increase the difficulty of evaluating risks.

To seek to mitigate these limitations, backtesting of the VaR model is undertaken regularly to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss is greater than the daily VaR on any given day. The chart below shows the results of this backtesting. The three loss exceptions were due to significant movements in market rates on each of those days. In 2018/19, the backtesting and broader model governance did not highlight any model deficiencies.

VaR backtesting 99%/1-day



The model will continue to be subject to an annual review process to ensure it remains appropriate for risk reporting. The types of risks not captured in VaR include:

- Market liquidity risk – this has a limited impact because, whilst Nationwide requires an appropriate level of market liquidity to manage market risk, it does not have a high ongoing dependency on liquidity for market risk purposes as it does not operate a trading book;
- Level 3 asset valuation uncertainty – only a very small portfolio of these assets is held so the impact is limited. Any valuation uncertainty is included within the Prudent Valuation Adjustment reflected in capital resources; and
- Interest rate movements that can impact credit/debit valuation adjustments (CVA/DVA). These are not captured in the VaR or sensitivity analysis but are negligible.

Stress analysis

To evaluate the potential impact of more extreme but plausible events or movements in a set of financial variables, the standard VaR metric is supported with sensitivity and stress analysis. For example, for interest rate risk exposures, the standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily. In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two-year period and on a 99% 10-day basis, but uses market data from a period of significant financial stress.

Market risk (continued)

Interest rate risk

Nationwide's main market risk is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities. To reduce the impact of such movements, hedging activities are undertaken by Nationwide's Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO. In addition to our primary lending and borrowing activities, income volatility arising from certain rate insensitive products (including reserves and CCDS) are structurally hedged. Nationwide's interest rate risk is measured using a combination of value-based assessments and earnings sensitivity assessments.

The table below highlights Nationwide's limited exposure to interest rate risk, shown against a range of value-based assessments. The risk exposure is calculated each day and summarised over the financial year:

Interest rate risk

	2019			2018		
	Average	**High**	**Low**	Average	High	Low
	£m	**£m**	**£m**	£m	£m	£m
VaR (99%/10-day) *(audited)*	**1.1**	**3.1**	**0.4**	0.9	5.4	0.1
Sensitivity analysis (PV01) *(audited)*	**0.0**	**0.1**	**(0.1)**	0.0	0.2	(0.2)
Stress testing (PV200 all currencies)	**6.1**	**21.4**	**(23.4)**	4.2	39.1	(32.6)

The interest rate sensitivities in the table above do not include retail product behavioural changes, which are captured by other measures.

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

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

Potential favourable/(adverse) impact on annual earnings

	2019	2018
(Audited)	**£m**	£m
+200 basis points shift	**132**	121
+100 basis points shift	**64**	56
-25 basis points shift	**(26)**	(10)

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

- the interest rate sensitivities set out above are illustrative only and are based on a static balance sheet; all assets and liabilities maturing within the year are assumed to reinvest in like for like products;
- the reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, market conditions, product rate flooring assumptions, customer behaviour assumptions and strategic changes to the balance sheet mix, and should not therefore be considered a guide to future performance;
- the sensitivity analysis includes all financial assets and liabilities held;
- the model does not take account of any management actions; and
- the impact on equity would be equivalent to the change in net interest income after tax.

The absolute levels of interest rates can influence the flexibility to manage earnings. Illustratively, if rates were to fall then margins may be constrained because it is unlikely that the benefit to borrowers could be fully offset through current account or savings product rate changes.

Market risk (continued)

Basis risk

Basis risk arises where variable rate assets and liabilities re-price with reference to differing short term interest rate benchmarks. The primary interest rates that Nationwide is exposed to are the Bank of England base rate, Sterling Overnight Index Average (SONIA) and three-month sterling LIBOR. If the difference between these interest rates changes over time, this may impact earnings.

Assets and liabilities are offset when their reference rate, or 'basis' type, is matched. Exposure to the net mismatch is mitigated, where required, by transacting basis swaps to ensure Nationwide remains within internally agreed risk limits.

Swap spread risk

A liquidity portfolio is held to manage Nationwide's liquidity risk. These assets are predominantly fixed rate sovereign debt securities. Interest rate swaps are used to hedge the interest rate risk associated with these assets. However, there remains a residual risk associated with the possible movement in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects the fact that the market value of the liquidity portfolio assets can change due to movements in bond yields and the swaps due to movements in swap rates. In economic terms, this risk is only realised if a bond is sold and the swap is cancelled ahead of maturity.

Swap spread risk is monitored using a historical VaR metric and the risk is controlled via internal limits linked to capital requirements. Exposures are monitored daily and are reported monthly to ALCO.

Currency risk

Currency exposure is managed through natural offsetting on the balance sheet, with derivatives used to maintain the net exposures within limits. ALCO sets and monitors limits on the net currency exposure The table below sets out the limited extent of the residual exposure to currency risk:

Currency risk

	2019			2018		
	Average	**High**	**Low**	Average	High	Low
(Audited)	**£m**	**£m**	**£m**	£m	£m	£m
VaR (99%/10-day)	**0.1**	**2.4**	**0.0**	0.1	2.2	0.0

Product option risk

Market risk also arises when customers exercise options contained within fixed rate products which can require changes to hedging. The key product risks are prepayment risk (early redemption or under- or over-payment of fixed rate mortgages), access risk (early withdrawal of fixed rate savings), and take-up risk (higher or lower completions of fixed rate mortgages than expected). These risk exposures are quantified under a range of stress scenarios using models that predict customer behaviour in response to changes in interest rates. The potential impacts are then closely monitored. These stressed risk measures are subject to a set of limits and are reported to ALCO, along with proposed management actions where necessary to bring the exposures within limits. This approach is also used to assess internal capital requirements for product option risks.

Model risk

Managing market risk effectively is highly dependent on effective models. The models are designed as representations of business systems and markets to help describe the impact of various scenarios and to optimise decisions taken as a result.

The risk associated with market risk models is controlled and managed through Nationwide's Model Risk Policy. This requires all significant models to be validated by an independent oversight team prior to use The validation process identifies model strengths and weaknesses, assesses the potential impact of these and suggests appropriate mitigating actions. After implementation, model performance is assessed regularly via back testing and sensitivity analysis. All models are also subject to a more thorough periodic review, at least annually, to ensure they remain fit for purpose. The results of the model performance assessment are used to inform future model development

Calculations to determine the Pillar 2 capital requirements for market risks are made using the same models as those used for monitoring them day to day.

Pension risk

Summary

Nationwide has funding obligations to several defined benefit pension schemes. 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 can negatively impact Nationwide's capital position and may result in increased cash funding obligations to the pension schemes.

The largest pension scheme is the Nationwide Pension Fund (the Fund), which has approximately 29,500 Fund members, the majority of whom are deferred members (former employee members, not yet retired). The Fund is closed to new employees, although some employees continue to accrue benefits.

In accordance with UK legislation, the assets of the Fund are held in a legally separate trust from Nationwide's assets and are administered by a board of trustees (the Trustee) who have fiduciary responsibilities to Fund members.

Nationwide has a responsibility to ensure that Fund members are paid the pension they have been promised. To support this aim, Nationwide has a dedicated pension team which ensures that pension risk is appropriately monitored and managed, whilst helping to educate and engage Fund members about their pension benefits

Risk factors

Volatility in investment returns from and the value of the assets and liabilities both cause volatility in the Fund's deficit. The key risk factors which impact the deficit are set out below. These factors can have a positive or negative effect on the deficit.

Asset performance: The Fund's liabilities are calculated using a discount rate set with reference to high quality bond yields. This creates a risk that the Fund's assets perform worse than those bond yields, resulting in the Fund's deficit being volatile or increasing.

The Fund holds a significant proportion of return-seeking assets including equities and credit investments. Return-seeking assets are expected to outperform liabilities in the long-term, but they are risky and volatile in the short to medium-term. Investments in return-seeking assets are monitored by both the Trustee and Nationwide to ensure they remain appropriate given the Fund's long-term objectives. Further details are set out in note 30 to the accounts.

Liabilities: There is a risk that the Fund's liabilities increase to a level which is not supported by asset performance, whether through discount rate changes, increases in long-term inflation expectations, or increases in the life expectancy (longevity) of Fund members.

Actuarial assumptions: There is a risk that a change in the methodology used to derive key actuarial assumptions (for example, the discount rate or longevity assumptions) results in a step change in the assessment of the liabilities and therefore deficit (impacting Nationwide's capital and/or deficit funding requirements). The ultimate cost of providing pension benefits over the life of the Fund will depend on actual future events, rather than assumptions made.

Changes in the year

During the year, £61 million of employer deficit contributions were paid. These deficit contributions are included in employer contributions in the table below, together with employer contributions in respect of employee benefit accrual during the period. Following the 31 March 2016 Triennial Valuation, which was completed in 2017, annual employer deficit contributions of £61 million are payable over the years 2019 to 2021, in line with an agreed Deficit Recovery Plan, and employer contributions in respect of employee benefit accrual will be paid in line with an agreed Schedule of Contributions. Nationwide can cease paying deficit contributions in certain circumstances, such as the Fund reaching a funding surplus. The effective date of the next Triennial Valuation of the Fund is 31 March 2019, from which point the Society and Trustee have 15 months to negotiate, among other things, a new Schedule of Contributions and Deficit Recovery Plan.

The retirement benefit obligation that appears within liabilities on the balance sheet has decreased from £345 million to £105 million, as set out below:

Changes in the present value of net defined benefit liability

	2019 £m	2018 £m
At 5 April	**(345)**	(423)
Pension charge	**(98)**	(95)
Net interest cost	**(6)**	(8)
Benefits paid directly by the Group	**3**	-
Actuarial remeasurement	**210**	29
Employer contributions (including deficit contributions)	**131**	152
At 4 April	**(105)**	(345)

The pension charge (recognised in the income statement) increased to £98 million (2018: £95 million), mainly due to a decrease in corporate bond yields between April 2017 and April 2018.

Benefits paid directly by the Group relate to a settlement of a retirement benefit obligation for an unfunded legacy pension obligation.

The actuarial remeasurement quantifies the impact on the deficit from updating financial assumptions (e.g. discount rate and long-term inflation) and demographic assumptions (e.g. longevity). Further details are included in note 30 to the Financial statements.

Outlook

Regular analysis, insight and monitoring supports pension risk management and helps Nationwide to anticipate any management actions that may be required. This includes risk appetite articulation and regular reporting to governance committees. In addition, pension risk is embedded into Nationwide's Enterprise Risk Management Framework and stress testing processes. Nationwide monitors all pension regulation and legislation change which may impact Nationwide's obligations to the Fund.

Pension risk (continued)

Over the long term, the Trustee intends to further reduce the Fund's risk, and Nationwide actively engages with the Trustee to ensure broad alignment on investment objectives and implementation. This is supported by permanent representation by Nationwide at the Trustee's Investment & Funding Committee and investment working groups, and the sharing of management information between Nationwide and the Trustee in order to consider specific risk management initiatives.

Potential risk management initiatives include, but are not limited to, adjusting the asset allocation (for example reducing the allocation to equities and increasing the allocation to bonds), implementing derivative hedging strategies, adjusting contribution levels and adjusting the level of benefits that employee Fund members accrue in the future.

On 26 October 2018 a verdict from the High Court relating to the Lloyds Banking Group pension schemes confirmed that Guaranteed Minimum Pensions (GMPs) must be equalised between male and female members, and arrears paid. The verdict will be applicable to all defined benefit pension schemes (including the Nationwide Pension Fund) that contracted out of the state second pension between 1978 and 1997, substituting members' state second pensions for GMP. Nationwide has recognised an increase of £9 million in pension liabilities. Further details are included in note 30 to the Financial Statements.

The Government's white paper, 'Protecting defined benefit pension schemes', published in March 2018, set out a package of measures to improve trustees' focus on long-term strategic thinking, and detailed The Pension Regulator's (TPR) intention to review and consult on updating its Defined Benefit funding code of practice. In March 2019, TPR released their 2019 annual funding statement confirming their intentions, with particular emphasis on how schemes conduct their Triennial Valuations. TPR confirmed that in summer 2019, it will be consulting on various options for a revised funding framework and funding code of practice. Nationwide will monitor closely any developments that may impact its obligations to the Fund.

Business risk

Summary

Nationwide defines business risk as the risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy, due to external or internal factors. We actively manage this risk so that we continue to benefit our current or future members, with a focus on long-term sustainability rather than short-term performance metrics. Nationwide ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value which is commensurate with risk appetite. The Society monitors this risk as part of ongoing business performance reporting to senior management and the Board.

Managing business risk

Business risks are identified as part of the Society's strategy and financial planning processes. These risks inform potential areas of strategy development and are assessed using a range of sensitivities to the financial plan. This activity is complemented by ongoing financial forecasting and monitoring as well as a range of stress testing activity to consider unlikely but plausible events or longer-term risks to the Society. Ongoing strategy development ensures that the strategy and associated plans continue to evolve to address risks to the business model by considering changes in the external environment, including new technology, consumer behaviour, regulation or market conditions.

These risks are assessed against Board risk appetite, and aligned to the Financial Performance Framework, which ensures the right balance between distributing value to members, investing in the business and maintaining financial strength.

Business risk is managed and mitigated through a range of measures such as:

- **Financial forecasting**
  As part of the financial planning process Nationwide forecasts income and costs over a five year period with an updated forecast reviewed by management regularly, taking into consideration the key risks and sensitivities.

- **Monitoring of financial and business performance**
  The various components of financial performance are monitored monthly against internal forecasts, limits and triggers across a variety of committees and forums, which consider potential risks and possible mitigating actions. In addition, business areas monitor the demand for products and services to ensure we continue to provide propositions that our members want and need.

- **Stress testing and sensitivity analysis**
  Business risk is regularly stress tested as part of internal management reporting such as the financial plan downside and upside scenarios, Internal Capital Adequacy Assessment Process and reverse stress tests. In addition, the PRA's Concurrent Stress Test scenarios provide a test of the business model and the risks it is exposed to.

As an output from these activities the Society identifies potential actions that can be taken if risks crystallise. To effectively manage more extreme events the Society maintains a Recovery Plan, in line with regulatory guidance, that contains a range of strategic options that could be taken if necessary to protect the Society from severe stresses and ensure it remains sustainable over the long term.

Outlook

Business risks are closely related to the top and emerging risks outlined on page [102]. The current competitive environment is expected to continue and further increases in competition would increase the level of business risk for Nationwide, potentially putting pressure on the Society's financial performance. In addition, uncertainty in the economic outlook caused by the political environment and the length of the current economic and/or credit cycle represents potential risks in the short-term, although stress testing results demonstrate that Nationwide is resilient to significant short-term economic shocks.

Model risk

Summary

Models are widely used throughout Nationwide to support decision making. Whilst they provide significant benefit, using models also carries risk.

Nationwide defines model risk as risk of an adverse outcome that occurs as a direct result of weaknesses or failures in the development, implementation or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to Nationwide's reputation.

Model risk is established in Nationwide's Enterprise Risk Management Framework and is managed at a Group level using limits and triggers set according to Board Risk Appetite, governed and supported by policies, standards and guidelines.

Current environment

The effectiveness of all models and management of inherent model risk are achieved through clear allocation of roles and responsibilities covering ownership for each of the core activities relating to the control of model risk. Each model is required to have a model owner in the first line of defence, who is responsible for the development, implementation and maintenance of the model. Key models are also subject to regular monitoring, which is reported to the relevant risk committee or accountable individual, with a detailed review required at least annually. The model owner is also responsible for ensuring the model has been through the appropriate model governance. Ultimate responsibility for approving the use of Nationwide's key models resides with the first line of defence risk committees (for example Assets & Liabilities Committee, Credit Committee) who ensure that model risk is managed within appetite.

Nationwide's risk appetite for models is articulated to ensure they are developed, governed and maintained to a high quality to meet internal standards. Metrics, with limits and triggers, are designed to indicate when there is a systemic issue with model development capability or model management so that senior committees can take appropriate action. The approval process brings together directors, senior managers of business areas and technical staff to provide challenge and identify issues that would prevent a model being fit for purpose.

Independent oversight and challenge of the models is conducted by a team which sits within the Risk function. Nationwide monitors the risk and materiality of its models on an individual basis, these are aggregated to create a single profile across all models to manage the Society's overall risk. Internal Audit provides independent assurance over both the control and oversight of the models.

Outlook

The impact of upcoming changes in regulation continues to be a significant factor driving model development activity.

Internal Ratings Based (IRB) models, used in credit risk capital calculations, are undergoing significant regulatory reform with a view to bringing more consistency to IRB approaches across financial services firms. Nationwide is well advanced through the programme of work designed to redevelop all the IRB models to ensure the models comply with the new regulations when they come into force in 2021

Another key area of significant reliance on models is in the annual Concurrent Stress Testing (CST) exercise, an assessment by the regulator of the broader banking system's resilience to adverse economic scenarios. The models used to support this exercise will continue to be developed in the coming year to ensure they meet internal and regulatory requirements. In addition, an area of focus for this year will be to further enhance model risk reporting to support the Board in providing challenge of key model assumptions that underpin the stress testing results.

Operational risk

Summary

Operational Risk is the risk of loss resulting from failures of internal processes, people and systems, or from external events. Nationwide manages operational risk across a number of sub-categories, which include cyber, IT resilience and security, business continuity, payments and fraud.

Nationwide operates a three lines of defence model to manage its operational risk. Details on this approach are set out in the Managing risk section on page [107]. The operational risk profile is informed by risk assessments from across the business, and by review and challenge by both management and the Risk Oversight function which operates as a second line of defence. Risk Oversight supports management in managing the risks it faces in its normal day-to-day activities and when implementing change programmes. Nationwide continues to enhance and embed its operational risk framework, expanding the use of techniques such as scenario analysis to support the understanding of current and future risks and to optimise risk-based decision making across the Society.

Nationwide also monitors and reports on the operational risk events that have occurred, to understand better those exposures and drive sustainable mitigation to prevent recurrence. For the purposes of this report, operational risk events include only those where a financial loss arises from an operational risk incident. Nationwide records operational risk events against causal categories, as well as reporting them against the operational risk categories defined by the Basel Committee on Banking Supervision in Basel II. This allows comparison of operational risk experience with its peer group

Operational risk (continued)

Operational risk experience

A significant proportion of Nationwide's operational risk events have been recorded against three of the Basel categories: 'Clients, Products & Business Practices', 'External Fraud' and 'Execution, Delivery and Process Management'. These categories account for 99.2% by value, and 98.4% by number, of Nationwide's operational risk events (2018: 99.3% by value and 96.8% by number).

Whilst the highest losses are against the Clients, Products and Business Practices (C,P&BP) category, this is where we record the cost of administration and customer redress for payment protection insurance (PPI) claims, however due to treating these losses as a single event, this does not represent a high volume of reported instances. Nationwide continues to experience a high volume of events with relatively low individual loss amounts in the External Fraud category. This is in line with other financial institutions and predominantly relates to Card Not Present fraud.

Operational risk events by Basel risk category, % of total events by value (note i)

	2019 %	2018 (note ii) %
Clients, products and business practices (note iii)	79.1	69.7
External fraud	10.6	5.9
Execution, delivery and process management	9.5	23.7
Internal fraud	0.1	0.3
Business disruption and system failure	0.3	-
Damage to physical assets	0.0	0.2
Employment practices and workplace safety	0.4	0.2
Total	**100.0**	100.0

Operational risk events by Basel risk category, % of total events by number (note i)

	2019 %	2018 (note ii) %
Clients, products and business practices (note iii)	3.0	4.5
External fraud	86.0	84.4
Execution, delivery and process management	9.4	7.9
Internal fraud	0.5	0.5
Business disruption and system failure	0.4	0.6
Damage to physical assets	0.0	0.9
Employment practices and workplace safety	0.7	1.2
Total	**100.0**	100.0

Notes
i. Risk events with losses over £5,000; multiple losses relating to the same event are only counted once.
ii. Comparatives have been restated to include additional historic data where more information has been received.
iii. Includes the costs of administration and customer redress in relation to ongoing payment protection insurance claims.

Current environment

Over the course of the year, the overall profile of operational risks has remained relatively stable, with the main risks continuing to relate to IT resilience and cyber security. Nationwide continues to meet the high standards expected by our customers with regards to management of key inherent risks such as cyber-security and IT resilience. Nationwide's focus is on being safe, secure and dependable in order to ensure that service availability and customer data are protected.

Cyber security

Nationwide recognises the direct impact a successful cyber attack may have on customers and their ability to carry out transactions on a day-to-day basis. The constant threat posed by a cyber attack also directly impacts the risks associated with external fraud, data loss, data integrity and data accessibility, and makes the threat of a cyber attack the single biggest risk for Nationwide.

There continues to be an increase in the maturity, intensity and sophistication of organised cyber crime; attacks continue to raise the profile and increase the public awareness of cyber threats such as Ransomware ᵛd Distributed Denial of Service (DDOS).

ʰe last year there have been significant improvements in the prevention and detection environment to ᵉe with the threat posed by cyber-crime. Nationwide continues to put significant effort into discharging its cyber risk management responsibilities effectively, with ongoing investment in appropriate technology and processes to effectively manage this risk. This includes exercising our responses to a simulated successful cyber attack, which allows us to safely test, maintain and build our performance in this area.

Nationwide maintains strong links with government bodies and continues to work with the wider industry to identify vulnerabilities and share best practice to help combat cyber crime. Cyber security remains a high priority and Nationwide will continue to focus on improving the awareness of its customers and employees, as well as continuing to build its understanding of the developing threats, its defences and its resilience to cyber attacks.

IT and operational resilience

Nationwide's members quite rightly expect IT systems to be stable and available when they want to use them. In September 2018 Nationwide announced that it would invest an additional £1.3 billion in technology over the next five years. This technology investment will ensure that Nationwide remains resilient and secure, increase agility and deliver new features and services to our members more quickly. More information on this investment can be found on page [13]

Operational risk (continued)

People risk

Nationwide relies on the talent and dedication of its people to deliver its strategy, provide first class service, and to operate a strong risk and control framework. Attracting, retaining and developing the right people remains a key focus for the Society, particularly in specialist areas, such as technology, where the appropriate skill sets are scarce or in high demand. Nationwide continues to monitor and closely mange the impact on its people requirements as it delivers the products, services and experience that members want, to ensure that the required levels of skill, knowledge and engagement are maintained.

Pace of change

Nationwide is committed to responding to the varied and evolving needs of its customers, making it easier for them to transact through a range of channels. However, the scale and pace of change can create delivery challenges. Such challenges have the potential to disrupt Nationwide's operating environment and negatively impact the service experienced by customers. These operational risks are managed through a strong focus on service management, transformation governance and programme management disciplines. There is also a high volume of change driven by regulation; this is explored further in the Conduct and compliance risk section on page [167].

Data

The continued expansion of data used in digital services increases the complexity and cost of managing data securely and effectively. Nationwide is committed to protecting customer data from accidental loss, or from nefarious activities. There is a steady flow of regulation that will have an impact on how data is managed; Nationwide will monitor these developments, continue to be agile and react to the evolving requirements.

External fraud

Debit and credit card fraud remains the largest driver of fraud losses, driven by increasing transaction volumes as a result of business growth and customer behaviour. Nationwide continues to develop its fraud detection and prevention capabilities. Losses incurred through the digital channels remain low; however, in common with the industry Nationwide continues to see increasingly sophisticated attacks. Nationwide is dedicated to keeping pace with the increases in digital capability and sophistication of attacks by investing in its fraud defences.

Nationwide recognises the impact fraud has on its customers and is committed to raising awareness of fraud scams, as well as working closely with the Payments Service Regulator and UK Finance to combat customer losses. Nationwide welcome the increased authentication requirements being introduced with the EU Payments Services Directive (PSD2), which should help protect our customers from Card Not Present fraud

Use of third parties

Nationwide needs to ensure customer outcomes and service experiences are maintained regardless of whether services are delivered in house or through third parties. Relationships with third parties are managed closely to ensure the service they offer is in line with acceptable standards and Nationwide's customer ethos.

The use of cloud based solutions is a key strategic enabler for the Society and provides the potential to reduce aspects of the operational risk profile. Significant progress has been made in the year in addressing the associated risks in this area; this includes the operation of a specific cloud surgery and governance board to bring a higher level of scrutiny and governance.

Outlook

Nationwide's operational risk outlook is impacted by the environment in which it operates and its strategy. The drivers of operational risk are expected to remain broadly consistent, with the main themes being:

- the scale and pace of change, particularly in a digital environment and with the enablement of Open Banking
- the impact on fraud of PSD2 and delivering help to the victims of Authorised Push Payment scams.
- IT resilience and the continued increase in the sophistication of cyber security threats
- the continued reliance on strategic third-party partners, including increased adoption of cloud based solutions.

Nationwide continues to invest in all these areas to maintain and develop appropriate controls to ensure residual risk exposures are managed within appetite

Conduct and Compliance risk

Summary

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

Current environment

Nationwide believes in delivering fair outcomes to its customers, through the embedding of effective conduct risk management, improving frameworks and guidance, and interpreting and implementing regulatory obligations.

Our strategy recognises that our members' needs are changing. Increasingly our members demand an always-on, constantly evolving and improving digital service. Member impact and the potential for member harm is considered as a matter of course throughout the Society as we deliver our strategy. This gives us the confidence that our strategy will be successfully delivered, with the mitigation of risk and especially risks with the potential to harm members at the core of our activity.

The regulatory environment remains challenging, with a variety of complex regulatory changes having to be embedded, as regulators continue to drive an agenda committed to rebuilding trust and confidence in the UK financial services market. In addition to this, regulators have been putting in place the necessary arrangements to continue to meet their statutory objectives in the event of a no-deal Brexit, and seeking feedback from the industry. As Nationwide is a UK-domiciled and UK-focused building society, the proposals put forward by the regulators are not expected to have material implications for our business model, financial

Conduct and Compliance risk (continued)

soundness, or ability to continue to provide service to our members. Nevertheless, we continue to monitor both political and regulatory developments in this space to ensure we continue to provide reliable services to our members.

Nationwide remains committed to financial crime compliance and continues to develop its capability to limit financial crime by preventing, deterring and detecting money laundering and terrorist financing, making ongoing improvements to internal policies and procedures to support this agenda.

In 2017, the Financial Conduct Authority (FCA) announced the final deadline for making new Payment Protection Insurance (PPI) complaints as 29 August 2019. As the deadline approaches, it is expected that the number of both customer complaints and Claims Management Company (CMC) managed PPI complaints will increase. Nationwide continues to monitor the volume of complaints received and to ensure appropriate resources are in place to handle peak volumes. Nationwide will continue to monitor CMC activities to identify emerging patterns in newly targeted areas of focus as the PPI industry-wide complaints process comes to an end and the CMCs fall under the FCA's remit from April 2019.

As noted, there continues to be a significant volume of complex regulatory change impacting the financial services industry; some of the key items relevant to Nationwide are listed below:

Data

The Basel Committee and Banking Standards (BCBS) 239 principles are aimed at strengthening banks' and building societies' risk data aggregation capabilities and internal risk reporting practices, in support of risk management and decision-making processes. Nationwide is in the process of enhancing its reporting capabilities in line with the BCBS 239 principles and timescales agreed with the regulators.

Open banking

The introduction of Open Banking creates both opportunities and risks for Nationwide. Nationwide views the change as a positive opportunity to deepen relationships with its members. Open Banking also has the potential to drive changes in customer behaviour and how customers interact with their financial services providers. Nationwide continues to develop its Open Banking strategy and capability and from September 2019 will facilitate both Account Information Services and Payment Information Services to Third Party Providers (TPPs). This will enable Open Banking subscribers to authorise TPPs to obtain and aggregate their Nationwide current account and credit card account information, manage their accounts and make payments from those products outside of the Nationwide Online Bank.

Financial crime compliance

Nationwide is continuing to invest in processes and systems to achieve compliance with the European Union's Money Laundering Directives, enhancing defences to combat money laundering and terrorist financing and protect the integrity of the financial markets.

Industry reviews

The Financial Conduct Authority's (FCA) published the final report on its Mortgage Market Study in March 2019 with an overall assessment that the market works well in many respects, that engagement is high, and consumers are getting mortgages that are suitable and affordable. Working with UK Finance, we have already committed to the voluntary code for 'mortgage prisoners' and will consider any further findings against our existing mortgage proposition, with enhancements made where appropriate.

This year, the FCA published its final report on the Strategic Review of Retail Banking Business Models, designed to better understand the competitive forces shaping the banking sector, and the potential impact on customers. This has highlighted a regulatory focus on 'back book' pricing and customer inertia, which is considered further in the recent Discussion Paper on 'Fair Pricing in Financial Services'. We will continue to engage in and monitor this discussion.

Following the FCA's High-Cost Credit Review, firms are required to introduce a series of measures with the aim of encouraging competition by increasing customer awareness of how they use their overdraft and how an overdraft works. The FCA is proposing reforms to the way firms charge for overdrafts, including unarranged overdrafts. Nationwide will continue to engage with and support the regulator in reviewing overdrafts and implementing any additional requirements.

Both the FCA and PRA have recognised the potential impact that climate change and the transition to a low carbon economy could have on the UK's economy and financial services, and how this transition relates to their respective statutory objectives. Both regulators are working to understand how firms are currently identifying, monitoring and mitigating the risks of climate change, and how they intend to disclose these. The FCA is also focusing on how firms intend to provide suitable consumer protection, while ensuring regulation does not stifle positive innovation in green financial services. We expect further developments in this area over the coming year.

Following the FCA's Occasional Paper on consumer vulnerability in 2015, firms' approaches to vulnerable customers have been a focal point for the regulator. At a high level, the FCA expects firms to proactively identify vulnerable customers and ensure that policies are in place to protect those at a greater risk of harm. The Society has made significant progress since 2015 in its approach to vulnerable customers and continues to develop the Society-wide strategic approach ahead of the FCA guidance to published in early 2019.

Nationwide will actively engage with the regulators to respond to these complex regulatory changes, and will continue to provide a secure and dependable variety of products and services which are designed to meet the needs of members and customers.

Financial statements

Victoria, member since 2003

Independent auditors' report to the members of Nationwide Building Society

Report on the audit of the financial statements

Opinion

In our opinion, Nationwide Building Society's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 4 April 2019 and of the Group's and the Society's profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the *Annual Report and Accounts 2019* (the "Annual Report"), which comprise: the Group and Society balance sheets as at 4 April 2019; the Group and Society income statements and the statements of comprehensive income, the Group and Society cash flow statements, and the Group and Society statements of movements in members' interests and equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's *Ethical Standard*, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society.

Other than those disclosed in note [8] to the financial statements, we have provided no non-audit services to the Group or the Society in the period from 5 April 2018 to 4 April 2019.

Our audit approach

Overview

- Overall Group materiality: £42.3 million (2018: £54.5 million), based on 5% of profit before tax.
- Overall Society materiality: £18.0 million (2018: £28.0 million), based on 5% of profit before tax.

The key audit matters for our Group and Society audits were:

- The judgements applied to allowances made in addition to the core models, multiple economic scenarios and staging as they relate to loan loss provisioning;
- The judgements applied to the material provisions for customer redress;
- Valuation of IT intangible assets; and
- Privileged access to IT systems.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Report on the audit of the financial statements (continued)

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking laws and regulations such as, but not limited to, regulations relating to consumer credit and unethical and prohibited business practices, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Building Societies Act 1986 and the Consumer Credit Act 1974. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Incorporation of unpredictability into the nature, timing and/or extent of our testing;
- Reading key correspondence with the Financial Conduct Authority and Prudential Regulation Authority;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to allowances made in addition to the core models, multiple economic scenarios and staging; provisions for customer redress; and valuation of IT intangible assets (see related key audit matters below);
- Testing of period end adjustments; and
- Identifying and testing journal entries, in particular any journal entries posted by senior management including the directors or infrequent users, posted on unusual days, posted with descriptions indicating a higher level of risk, posted to unusual account combinations, or duplicate journal entries and material late adjustments.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Society, the accounting processes and controls, and the industry in which they operate.

We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements and evaluating the disclosures in the financial statements.

We tested and examined information using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to form our own judgements. We obtained audit evidence by testing the effectiveness of controls, substantive procedures or a combination of both.

Within the financial statements, the Group has been recognised as one operating segment. However for the purposes of our audit, we scoped the Group at a component level, defined by product or service function, for example treasury or prime mortgages, to ensure appropriate granularity of our testing approach.

Individually financially significant components, in the context of the Group's financial statements, are identified as those that have greater than 15% of absolute total income of the Group. We performed a full scope audit of the financial information of these individually financially significant components. Subsequently, we identified components that are related to significant risks and performed audit procedures over the relevant account balances to address the significant audit risks. All residual components were considered to be non-significant components; however, we assessed these non-significant components for large or unusual balances. Where large or unusual balances were identified, we performed audit procedures to obtain sufficient audit evidence over those balances

At the Society level, we performed scoping to ensure that the untested balances within each balance were below our materiality.

In addition, we attended all Audit Committee meetings and also held meetings with senior management. We also met privately with the non-executive directors and other key stakeholders, including the regulators of the Group and Society.

Report on the audit of the financial statements (continued)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows.

	Group financial statements	Society financial statements
Overall materiality	£42.3 million (2018. £54.5 million).	£18.0 million (2018 £28.0 million).
How we determined it	5% of profit before tax.	5% of profit before tax.
Rationale for benchmark applied	Profit before tax is one of the principal considerations when assessing the Group's and Society's performance, and is a generally accepted auditing benchmark.	

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £2.0 million and £15.0 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.1 million (Group audit) (2018: £2.7 million) and £0.9 million (Society audit) (2018: £1.4 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Based on our understanding of the business, changes in the economic environment and our discussions with the Audit Committee, we performed a risk assessment to determine the higher risk areas. We presented those identified higher audit risk areas during the Audit Committee meeting in October 2018. Throughout the year our plan was refreshed and revised to address changes in the external and internal environment and we presented a final, updated risk assessment in the May 2019 Audit Committee meeting.

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Report on the audit of the financial statements (continued)

Key audit matter	How our audit addressed the key audit matter
The judgements applied to allowances made in addition to the core models, multiple economic scenarios and staging as they relate to loan loss provisioning **Group and Society** *Refer to page [62] (Audit Committee Report), page [185] (Accounting Policies) and page [204] (Note [10] and Critical Accounting Estimates and Judgements).* The determination of expected credit losses ('ECL') is highly subjective and judgemental. The introduction of IFRS 9 in the current year meant that significant changes have been incorporated into the measurement of loan loss provisioning, including the development of new impairment models where losses are recognised on an expected, forward-looking basis, reflecting the Group's view of potential future economic events. As a result, a new methodology encompassing new estimates and judgements is now required to calculate impairment provisions and disclose them. In 2018, we audited the opening balances under IFRS 9. This work provided a foundation for our testing in 2019 Management built and implemented a number of models to achieve compliance with the requirements of IFRS 9 The determination of ECL is a complex process and a number of judgements are involved in the estimation of ECL We focused our audit work on the areas of the methodology that we identified as most judgemental The three areas we focused on were 1 The assessment of allowances made in addition to the core impairment models, which management has made to take account of latent risks and known core model limitations. We focused our work on the key assumptions in material additional allowances made by management. Management has implemented models to take account of risks associated with maturing interest only mortgages as well as risks associated with a severe economic downturn. We therefore focused our work on testing these additional allowances and updates to assumptions. 2. The application of forward-looking economic assumptions used in the models; and 3. The appropriateness of the 'staging' thresholds selected by management to determine whether a significant increase in credit risk had arisen, and hence whether a 12 month or lifetime loss provision is recorded.	We understood and critically assessed the methodology applied in the impairment models, using modelling specialists to confirm that the implemented methodology was compliant with IFRS 9. We tested key assumptions and judgements used in the calculation of provisions and tested the accuracy of critical data inputs used by the impairment models on a sample basis to supporting documentation. We tested the key assumptions in material additional allowances made by management and considered the completeness of adjustments to core models using our audit and wider industry knowledge to take account of latent risks and known model limitations. We compared the forward-looking economic assumptions to independent consensus forecasts when testing the impact of the multiple economic scenarios used. We also considered the reasonableness of management's downside and severe downside assumptions and their assigned weightings to take account of risks from an economic downturn. We found that the assumptions adopted and assigned weightings were reasonable We re-performed key aspects of management's validation activities to test the 'staging' thresholds. This included independently re-performing a retrospective review of the staging outcomes for a sample of portfolios to confirm that the criteria selected by management were reasonable We tested management's monitoring controls including the sufficiency of the model validation activities undertaken in the current year and re-performed a number of monitoring tests independently We reviewed the credit risk disclosures made by management to ensure compliance with IFRS requirements and agreed the disclosures to supporting evidence without any material exceptions. From the evidence obtained we found the judgements applied to allowances made in addition to the core models, multiple economic scenarios and staging as they relate to loan loss provisioning to be appropriate and supportable.

Report on the audit of the financial statements (continued)

Key audit matter	*How our audit addressed the key audit matter*
The judgements applied to the material provisions for customer redress **Group and Society** *Refer to page [62] (Audit Committee Report), page [185] (Accounting Policies) and page [231] (Note [27] and Critical Accounting Estimates and Judgements).* There is inherent uncertainty in assessing and measuring the potential obligations resulting from ongoing regulatory matters and past sales practices, including mis-selling of Payment Protection Insurance ('PPI'), issues related to administration of customer accounts and non-compliance with consumer credit legislation. In relation to PPI, there continues to be uncertainty about the volume of future complaints. As we near the timebar set by the Financial Conduct Authority (29 August 2019), some of this uncertainty will start to dissipate, *however, it remains difficult to predict future complaints given the unprecedented nature of this event.*	For significant customer redress provisions, we tested the completeness and accuracy of the data used and re-performed the calculations. We found no material differences in these tests. We assessed the assumptions used in the provisions for reasonableness based on the evidence available and our broader industry knowledge. We traced the actual claims experience and costs to date to historical data without exception. We tested a sample of customer complaints by reviewing the related correspondence with the customers to understand whether there were indicators of inconsistency with the outcome recorded. This testing did not identify any exceptions. Specifically, for PPI provisioning, we challenged the forecasted complaint volumes and consider them to be acceptable based on our understanding of the Society and the industry Given the inherent uncertainty in the calculation of customer redress provisions and their judgemental nature, we considered whether the disclosures relating to the provisions adequately reflected the uncertainties associated with customer redress and determined that they did No additional material customer redress issues that would require either provision or disclosure in the financial statements were identified as a result of the audit work performed. From the evidence obtained we found the judgements applied to calculate the material provisions for customer redress to be appropriate and supportable.
Valuation of IT intangible assets **Group and Society** *Refer to page [62] (Audit Committee Report), page [185] (Accounting Policies) and page [229] (Note [25] and Critical Accounting Estimates and Judgements).* In September 2018, the Group announced a technology investment to simplify the existing IT estate and enhance digital services and data capabilities over the next five years. The Group's investment in new technologies has lowered the realisable value of certain existing intangible assets that are becoming obsolete or redundant. Consequently, the technology strategy has impacted the planned usage, and therefore, recoverability of certain assets. Management have evaluated the impact of the technology strategy and assessed assets for impairment indicators. This impairment assessment and determination of future recoverability is judgemental. It entails considering the specific nature of each asset and the planned future use. Given the complexity and degree of management judgement, we determined that there was a higher level of audit risk.	We tested the design and operating effectiveness of the controls surrounding the impairment assessment for intangible assets. We understood and critically assessed management's impairment process for intangible assets. We tested a sample of assets to assess whether there were any indicators of impairment. We obtained management's impairment assessment and tested this for reasonableness. We reconciled the data to underlying accounting records and challenged assumptions made with regard to the specific nature of the asset, the impact of the technology strategy and planned future use. Where indicators of impairment were identified, we obtained further corroborating evidence to support the recoverability of the asset. We recalculated the impairment charge for those assets that were considered to be impaired. We challenged the rationale for the impairment and ensured the judgements made were appropriate. We reconciled the *impairment charges back to underlying accounting records, noting no exceptions* Based on the procedures performed, management's conclusions over impairment were supported by the evidence obtained.

Report on the audit of the financial statements (continued)

Key audit matter

Privileged access to IT systems

Group and Society

Refer to page [62] (Audit Committee report).

In previous years, we identified and reported that privileged access management (PAM) controls to applications, operating systems and data in the financial reporting process required improvements. These controls are critical to mitigate the risk that users can change IT system functionality and data intentionally or through error.

Management have made significant progress in addressing the control findings, including onboarding most systems to a suite of enhanced PAM controls.

However, the privileged access remediation achieved in the year occurred in the latter half and further improvements are required for remediation to be fully complete. A number of accounts are yet to be on boarded onto PAM controls. As a result, we tested mitigating controls and performed substantive testing procedures in line with the prior year approach.

How our audit addressed the key audit matter

We understood and tested the design and operating effectiveness of the privileged access control environment.

We identified the inventory of privileged generic accounts and tested if they were controlled appropriately on CyberArk (third party privileged access management tool). For any accounts that were not, we tested whether there were effective compensating controls and inspected login date stamps to verify whether they were logged into during the year

In response to the weaknesses identified, we performed additional testing of systems that were not on CyberArk and did not have appropriate mitigating controls. For operating systems, we identified the automated controls we used in our audit procedures and inspected timestamps and code comparisons to test that system functionality had not been amended during the year. No inappropriate changes to system functionality were identified through our testing.

For databases, additional substantive testing was performed on those areas where we identified a higher risk of fraud or error in relation to privileged access, including the following·

- A higher extent of testing on key reconciliations;
- Increased sample testing of administrative expenses;
- A specific test over the validity of payments;
- Additional risk based manual journal testing;
- Additional payroll testing to mitigate the risk of inappropriate amendments to standing data.

In our procedures performed above, no inappropriate changes to system data were identified through our testing.

Conclusions relating to going concern

In accordance with ISAs (UK), we are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Society's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We have nothing material to add or to draw attention to.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Society's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Society's business, customers, suppliers and the wider economy

Report on the audit of the financial statements (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Annual business statement and Directors' report we also considered whether the disclosures required by the Building Societies Act 1986 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Building Societies Act 1986 and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Building Societies Act 1986 – Opinion on Annual business statement and Directors' report

In our opinion, based on our work undertaken in the course of the audit:

- the Annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' report for the year ended 4 April 2019 is consistent with the accounting records and the financial statements; and
- the information given in the Annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the Group and Society and their environment, we have not identified any material misstatements in the directors' report

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- the directors' confirmation on page [100] of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- the directors' explanation on page [99] of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- the statement given by the directors, on page [100], that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Society's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Society obtained in the course of performing our audit.
- the section of the Annual Report on page [62] describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities in respect of the preparation of the Annual Report set out on page [99], the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Building Societies Act 1986 exception reporting

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 26 July 1991 to audit the financial statements for the year ended 4 April 1992 and subsequent financial periods. The period of total uninterrupted engagement is 28 years, covering the years ended 4 April 1992 to 4 April 2019.

Other voluntary reporting

Corporate Governance Statement

The Group prepares a Corporate governance report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority ("DTR") and has chosen to voluntarily comply with the UK Corporate Governance Code (the 'Code'). The directors have requested that we review the parts of the Corporate governance report relating to the Society's compliance with the provisions of the DTR and the Code, specified for auditor reporting by the Companies Act 2006, or for review by the Listing Rules of the Financial Conduct Authority, as if the Society were a premium listed company.

We have nothing to report arising from our responsibility to report if a Corporate Governance Statement has not been prepared by the Society.

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages [46] to [61]) about internal controls and risk management systems in relation to financial reporting processes in compliance with rules 7.2.5 and 7.2.6 of the DTR is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of our knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we did not identify any material misstatements in this information.

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages [46] to [61]) with respect to the Society's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR.

Going concern

The directors have requested that we review the statement on page [99] in relation to going concern as if the Society were a premium listed company. We have nothing to report having performed our review.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

The directors have requested that we perform a review of the directors' statements on pages [99] and [100] that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the Society were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and Society and their environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions

The directors have prepared a Corporate Governance Statement and requested that we review it as though the Society were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the Society's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

The Society voluntarily prepares a Report of the directors on remuneration in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited, as if the Society were a quoted company.

In our opinion, the part of the Report of the directors on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Hermione Hudson

Hemione Hudson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 May 2019

Statements of comprehensive income

For the year ended 4 April 2019

	Notes	Group 2019 £m	Group 2018* £m	Society 2019 £m	Society 2018* £m
Profit after tax		**618**	745	**254**	337
Other comprehensive income/(expense)					
Items that will not be reclassified to the income statement					
Remeasurements of retirement benefit obligations:					
Retirement benefit remeasurements before tax	30	**210**	29	**210**	26
Taxation	11	**(57)**	(7)	**(57)**	(8)
		153	22	**153**	18
Revaluation of property:					
Revaluation before tax	26	**(2)**	2	**(2)**	2
Taxation	11	**1**	(1)	**1**	(1)
		(1)	1	**(1)**	1
		152	23	**152**	19
Items that may subsequently be reclassified to the income statement					
Cash flow hedge reserve:					
Fair value movements taken to members' interests and equity		**540**	(2,316)	**434**	(418)
Amount transferred to income statement		**(100)**	2,057	**(249)**	342
Taxation	11	**(112)**	68	**(47)**	19
		328	(191)	**138**	(57)
Fair value through other comprehensive income reserve:					
Fair value movements taken to members' interests and equity		**12**		**13**	
Amount transferred to income statement		**(28)**		**(27)**	
Taxation	11	**4**		**3**	
		(12)		**(11)**	
Available for sale reserve:					
Fair value movements taken to members' interests and equity			50		50
Amount transferred to income statement			(8)		(8)
Taxation	11		(11)		(11)
			31		31
Other comprehensive income/(expense)		**468**	(137)	**279**	(7)
Total comprehensive income		**1,086**	608	**533**	330

*The year to 4 April 2019 is prepared on an IFRS 9 basis; comparatives are prepared on an IAS 39 basis. On implementation of IFRS 9 the available for sale reserve was replaced by the fair value through other comprehensive income reserve.

The notes on pages [185] to [251] form part of these financial statements.

Income statements

For the year ended 4 April 2019

		Group		Society	
		2019	2018*	2019	2018*
	Notes	£m	£m	£m	£m
Interest receivable and similar income/(expense):					
Calculated using the effective interest rate method	3	**5,141**	4,862	**4,827**	4,501
Other	3	**(23)**	(51)	**(31)**	(72)
Total interest receivable and similar income/(expense)	3	**5,118**	4,811	**4,796**	4,429
Interest expense and similar charges	4	**(2,203)**	(1,807)	**(2,313)**	(1,964)
Net interest income		**2,915**	3,004	**2,483**	2,465
Fee and commission income	5	**449**	449	**446**	445
Fee and commission expense	5	**(248)**	(244)	**(248)**	(244)
Other operating income/(expense)	6	**54**	(77)	**52**	(78)
Gains/(losses) from derivatives and hedge accounting	7	**36**	(1)	**(7)**	(26)
Total income		**3,206**	3,131	**2,726**	2,562
Administrative expenses	8	**(2,254)**	(2,024)	**(2,223)**	(1,995)
Impairment losses on loans and advances to customers	10	**(113)**	(107)	**(129)**	(97)
Impairment recoveries on investment securities		**-**	2	**-**	2
Provisions for liabilities and charges	27	**(6)**	(25)	**(6)**	(20)
Profit before tax		**833**	977	**368**	452
Taxation	11	**(215)**	(232)	**(114)**	(115)
Profit after tax		**618**	745	**254**	337

*Comparatives have been restated as detailed in note 1.

The notes on pages [185] to [251] form part of these financial statements.

Balance sheets

At 4 April 2019

		Group			Society		
	Notes	**4 April 2019 £m**	5 April 2018* £m	4 April 2018* £m	**4 April 2019 £m**	5 April 2018* £m	4 April 2018* £m
Assets							
Cash		**12,493**	14,361	14,361	**12,493**	14,361	14,361
Loans and advances to banks and similar institutions		**4,009**	3,493	3,493	**3,994**	3,477	3,477
Investment securities	13	**16,234**	13,046	13,046	**16,232**	13,046	13,046
Derivative financial instruments	15	**3,562**	4,121	4,121	**2,614**	3,108	3,108
Fair value adjustment for portfolio hedged risk		**411**	(144)	(109)	**411**	(144)	(109)
Loans and advances to customers	14	**199,051**	191,421	191,593	**164,447**	158,087	158,175
Investments in Group undertakings	33	**-**	-	-	**32,220**	31,296	31,296
Intangible assets	25	**1,324**	1,342	1,342	**1,312**	1,330	1,330
Property, plant and equipment	26	**889**	887	887	**887**	885	885
Accrued income and expenses prepaid		**184**	164	164	**1,299**	1,535	1,535
Deferred tax	11	**53**	144	98	**39**	127	95
Current tax assets		**-**	-	-	**-**	4	4
Other assets		**91**	102	102	**87**	100	100
Total assets		**238,301**	228,937	229,098	**236,035**	227,212	227,303
Liabilities							
Shares		**153,969**	148,003	148,003	**153,969**	148,003	148,003
Deposits from banks and similar institutions	16	**20,149**	20,436	20,436	**19,091**	19,248	19,248
Other deposits	17	**5,074**	4,693	4,693	**6,619**	6,110	6,110
Fair value adjustment for portfolio hedged risk		**(17)**	(53)	(53)	**(17)**	(53)	(53)
Debt securities in issue	18	**35,942**	34,118	34,118	**32,354**	29,734	29,734
Derivative financial instruments	15	**1,593**	2,337	2,337	**2,959**	3,746	3,746
Other liabilities		**583**	345	345	**2,857**	3,549	3,549
Provisions for liabilities and charges	27	**199**	274	273	**198**	272	271
Accruals and deferred income		**346**	336	336	**346**	335	335
Subordinated liabilities	19	**6,706**	5,497	5,497	**6,706**	5,497	5,497
Subscribed capital	20	**250**	263	263	**250**	263	263
Deferred tax	11	**144**	49	49	**33**	23	23
Current tax liabilities		**89**	53	53	**49**	-	-
Retirement benefit obligations	30	**105**	345	345	**103**	342	342
Total liabilities		**225,132**	216,696	216,695	**225,517**	217,069	217,068
Members' interests and equity							
Core capital deferred shares	31	**1,325**	1,325	1,325	**1,325**	1,325	1,325
Other equity instruments	32	**992**	992	992	**992**	992	992
General reserve		**10,418**	9,802	9,951	**8,056**	7,804	7,883
Revaluation reserve		**64**	68	68	**64**	68	68
Cash flow hedge reserve		**320**	(8)	(8)	**25**	(113)	(113)
Fair value through other comprehensive income reserve		**50**	62		**56**	67	
Available for sale reserve				75			80
Total members' interests and equity		**13,169**	12,241	12,403	**10,518**	10,143	10,235
Total members' interests, equity and liabilities		**238,301**	228,937	229,098	**236,035**	227,212	227,303

*Comparatives have been restated as detailed in note 1. Balances at 5 April 2018 have been prepared under IFRS 9 as detailed in note 37.

The notes on pages [185] to [251] form part of these financial statements.

Approved by the Board of directors on 20 May 2019.

D L Roberts Chairman
J D Garner Chief Executive Officer
M M Rennison Chief Financial Officer

Group statement of movements in members' interests and equity

For the year ended 4 April 2019

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Available for sale reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 4 April 2018	1,325	992	9,951	68	(8)	75	-	12,403
IFRS 9 transition (note i)	-	-	(149)	-	-	(75)	62	(162)
At 5 April 2018	1,325	992	9,802	68	(8)	[illegible]	62	12,241
Profit for the year	-	-	618	-	-	[illegible]	-	618
Net remeasurements of retirement benefit obligations	-	-	153	-	-	[illegible]	-	153
Net revaluation of property	-	-	-	(1)	-	[illegible]	-	(1)
Reserve transfer	-	-	3	(3)	-	[illegible]	-	-
Net movement in cash flow hedge reserve	-	-	-	-	328	[illegible]	-	328
Net movement in FVOCI reserve	-	-	-	-	-	[illegible]	(12)	(12)
Total comprehensive income	-	-	774	(4)	328	[illegible]	(12)	1,086
Distribution to the holders of core capital deferred shares	-	-	(108)	-	-	[illegible]	-	(108)
Distribution to the holders of Additional Tier 1 capital (note ii)	-	-	(50)	-	-	[illegible]	-	(50)
At 4 April 2019	1,325	992	10,418	64	320	[illegible]	50	13,169

For the year ended 4 April 2018	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Available for sale reserve	Total
	£m	£m	£m	£m	£m	£m	£m
At 5 April 2017	531	992	9,316	67	183	44	11,133
Profit for the year	-	-	745	-	-	-	745
Net remeasurements of retirement benefit obligations	-	-	22	-	-	-	22
Net revaluation of property	-	-	-	1	-	-	1
Net movement in cash flow hedge reserve	-	-	-	-	(191)	-	(191)
Net movement in available for sale reserve	-	-	-	-	-	31	31
Total comprehensive income	-	-	767	1	(191)	31	608
Issue of core capital deferred shares	794	-	-	-	-	-	794
Distribution to the holders of core capital deferred shares	-	-	(82)	-	-	-	(82)
Distribution to the holders of Additional Tier 1 capital (note ii)	-	-	(50)	-	-	-	(50)
At 4 April 2018	1,325	992	9,951	68	(8)	75	12,403

Notes.
i. Adjustments on implementation of IFRS 9 as detailed in note 37.
ii. The distribution to the holders of Additional Tier 1 capital is shown net of an associated tax credit of £18 million (2018: £18 million).

The notes on pages [185] to [251] form part of these financial statements.

Cash flow statements

For the year ended 4 April 2019

	Notes	Group 2019 £m	Group 2018* £m	Society 2019 £m	Society 2018* £m
Cash flows (used in)/generated from operating activities					
Profit before tax		833	977	368	452
Adjustments for:					
Non-cash items included in profit before tax	36	1,401	1,202	1,409	1,184
Changes in operating assets and liabilities	36	(2,514)	7,255	(2,874)	7,812
Taxation		(135)	(236)	(41)	(140)
Net cash flows (used in)/generated from operating activities		(415)	9,198	(1,138)	9,308
Cash flows used in investing activities					
Purchase of investment securities		(9,020)	(7,090)	(9,018)	(7,090)
Sale and maturity of investment securities		6,298	3,553	6,298	3,553
Purchase of property, plant and equipment		(156)	(159)	(156)	(159)
Sale of property, plant and equipment		12	10	12	10
Purchase of intangible assets		(371)	(365)	(371)	(365)
Net cash flows used in investing activities		(3,237)	(4,051)	(3,235)	(4,051)
Cash flows generated from/(used in) financing activities					
Distributions paid to the holders of core capital deferred shares		(108)	(82)	(108)	(82)
Distributions paid to the holders of Additional Tier 1 capital		(68)	(68)	(68)	(68)
Issue of core capital deferred shares		-	794	-	794
Issue of debt securities		27,956	22,298	27,956	21,389
Redemption of debt securities in issue		(25,970)	(27,737)	(25,288)	(26,970)
Interest paid on debt securities in issue		(592)	(679)	(552)	(643)
Issue of subordinated liabilities		1,029	3,995	1,029	3,995
Redemption of subordinated liabilities		-	(1,251)	-	(1,251)
Interest paid on subordinated liabilities		(222)	(141)	(222)	(141)
Redemption of subscribed capital		(13)	-	(13)	-
Interest paid on subscribed capital		(14)	(14)	(14)	(14)
Net cash flows generated from/(used in) financing activities		1,998	(2,885)	2,720	(2,991)
Net (decrease)/increase in cash and cash equivalents		(1,654)	2,262	(1,653)	2,266
Cash and cash equivalents at start of year		17,510	15,248	17,494	15,228
Cash and cash equivalents at end of year	36	15,856	17,510	15,841	17,494

*Comparatives have been restated as detailed in note 1.

The notes on pages [185] to [251] form part of these financial statements

Society statement of movement in members' interests and equity

For the year ended 4 April 2019

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Available for sale reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 4 April 2018	1,325	992	7,883	68	(113)	80		10,235
IFRS 9 transition (note i)	-	-	(79)	-	-	(80)	67	(92)
At 5 April 2018	1,325	992	7,804	68	(113)		67	10,143
Profit for the year	-	-	254	-	-		-	254
Net remeasurements of retirement benefit obligations	-	-	153	-	-		-	153
Net revaluation of property	-	-	-	(1)	-		-	(1)
Reserve transfer	-	-	3	(3)	-		-	-
Net movement in cash flow hedge reserve	-	-	-	-	138		-	138
Net movement in FVOCI reserve	-	-	-	-	-		(11)	(11)
Total comprehensive income	-	-	410	(4)	138		(11)	533
Distribution to the holders of core capital deferred shares	-	-	(108)	-	-		-	(108)
Distribution to the holders of Additional Tier 1 capital (note ii)	-	-	(50)	-	-		-	(50)
At 4 April 2019	**1,325**	**992**	**8,056**	**64**	**25**		**56**	**10,518**

For the year ended 4 April 2018

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Available for sale reserve	Total
	£m	£m	£m	£m	£m	£m	£m
At 5 April 2017	531	992	7,660	67	(56)	49	9,243
Profit for the year	-	-	337	-	-	-	337
Net remeasurements of retirement benefit obligations	-	-	18	-	-	-	18
Net revaluation of property	-	-	-	1	-	-	1
Net movement in cash flow hedge reserve	-	-	-	-	(57)	-	(57)
Net movement in available for sale reserve	-	-	-	-	-	31	31
Total comprehensive income	-	-	355	1	(57)	31	330
Issue of core capital deferred shares	794	-	-	-	-	-	794
Distribution to the holders of core capital deferred shares	-	-	(82)	-	-	-	(82)
Distribution to the holders of Additional Tier 1 capital (note ii)	-	-	(50)	-	-	-	(50)
At 4 April 2018	1,325	992	7,883	68	(113)	80	10,235

Notes
i Adjustments on implementation of IFRS 9 as detailed in note 37
ii The distribution to the holders of Additional Tier 1 capital is shown net of an associated tax credit of £18 million (2018: £18 million).

The notes on pages [185] to [251] form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union. These financial statements have also been prepared in accordance with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) applicable to organisations reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, branches and non-specialised buildings, financial assets measured at fair value through other comprehensive income (FVOCI), and derivatives and certain other financial assets and liabilities measured at fair value through profit and loss (FVTPL). As stated in the Directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

A summary of the Group's accounting policies is set out below. The accounting policies have been consistently applied, except for changes arising from adoption of new and revised IFRSs and certain voluntary changes in accounting policy, as described below.

Further information about judgements in applying accounting policies and critical accounting estimates is provided in note 2.

Adoption of new and revised IFRSs

The Group has adopted the following standards with effect from 5 April 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'.

Further information on the impacts of adopting these new standards is set out below.

In addition, a number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of 1 January 2018. Those relevant to these financial statements, being minor amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions' and IAS 40 'Transfers of Investment Property', were adopted with no significant impact for the Group or Society.

IFRS 9 'Financial Instruments'

The Group has adopted the requirements of IFRS 9 from 5 April 2018. The classification and measurement and impairment requirements have been applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no restatement of comparatives. The impacts on the Group's and Society's balance sheet and members' interests and equity at 5 April 2018 are included in note 37. Additional information on the transition to IFRS 9 can be found in Nationwide's 'Report on Transition to IFRS 9: Financial Instruments', available on the Society's website at **nationwide.co.uk**

IFRS 9 also includes an accounting policy choice to continue applying IAS 39 hedge accounting, which the Group has exercised within these financial statements. The revised accounting policies following the adoption of IFRS 9 are set out in the sections below.

Consequential amendments to IAS 1 'Presentation of Financial Statements,' arising from IFRS 9, introduced a requirement to present separately interest revenue calculated using the effective interest rate method. The Group has therefore disaggregated the previous line item for interest receivable and similar income into two separate components for amounts:

- calculated using the effective interest rate method, and
- other

Comparative amounts have been restated.

IFRS 15 'Revenue from Contracts with Customers'

The Group has applied IFRS 15 'Revenue from Contracts with Customers' from 5 April 2018. The standard applies to all contracts with customers but does not apply to financial instruments, lease contracts or non-monetary exchanges. IFRS 15 has introduced a principles-based approach for revenue recognition, with revenue being recognised as the related obligations are satisfied.

The Group has assessed revenue streams within the scope of IFRS 15 and concluded that the timing of revenue recognition is unchanged under the new standard. There is therefore no transitional impact from adopting this standard.

1. Statement of accounting policies (continued)

Other changes in accounting policy

Income statement presentation

While not necessarily required by the adoption of IFRS 9 as described above, voluntary changes in accounting policy have also been made in relation to the presentation of certain income and expense relating to financial instruments. In particular, the opportunity has been taken to reclassify certain items previously included in interest receivable and similar income/(expense) to reflect better the nature of the transactions, with gains and losses recognised on the disposal of investment securities classified as FVOCI (2018: available for sale) now presented in other operating income. Comparatives have been restated as shown below:

Income statement extract for the year ended 4 April 2018

	Previously published £m	Adjustment £m	Restated £m
Group			
Interest receivable and similar income	4,818	(7)	4,811
Other operating income/(expense)	(84)	7	(77)
Society			
Interest receivable and similar income	4,437	(8)	4,429
Other operating income/(expense)	(86)	8	(78)

This reclassification has no impact on the Group's or Society's net assets or members' interests and equity at 4 April 2018 and no impact on the Group's or Society's net cash flows generated from operating activities or cash and cash equivalents for the year ended 4 April 2018.

Balance sheet presentation

To provide a more meaningful presentation of the Group's collateral, repurchase agreement and reverse repurchase agreement balances, amounts held with counterparties which are non-banking financial institutions and central clearing houses are now presented with similar balances held with banking counterparties within newly named categories of 'loans and advances to banks and similar institutions' and 'deposits from banks and similar institutions.' Previously, balances with non-banking and central clearing house counterparties were presented separately within 'loans and advances to customers' and 'other deposits,' and similar balances with banking counterparties were included within 'loans and advances to banks' and 'deposits from banks'.

Additionally, following the closure of the Group's Isle of Man and Republic of Ireland operations in the year ended 4 April 2018, the remaining balances within 'due to customers' have been combined with 'other deposits'.

Comparatives have been restated to reflect these reclassifications as shown below:

Balance sheet extract at 4 April 2018

	Previously published £m	Adjustment £m	Restated £m
Group			
Loans and advances to banks and similar institutions (note i)	3,422	71	3,493
Loans and advances to customers	191,664	(71)	191,593
Deposits from banks and similar institutions (note ii)	19,404	1,032	20,436
Other deposits	5,323	(630)	4,693
Due to customers	402	(402)	-
Society			
Loans and advances to banks and similar institutions (note i)	3,406	71	3,477
Loans and advances to customers	158,246	(71)	158,175
Deposits from banks and similar institutions (note ii)	18,216	1,032	19,248
Other deposits	6,740	(630)	6,110
Due to customers	402	(402)	-

Notes:
i. Previously 'Loans and advances to banks'.
ii. Previously 'Deposits from banks'.

These reclassifications have no impact on the Group's or Society's net assets or members' interests and equity at 4 April 2018. 'Net cash flows generated from operating activities' have increased by £66 million for the year ended 4 April 2018, and 'cash and cash equivalents' as at 4 April 2018 and 5 April 2017 have increased by £71 million and £5 million, respectively, as collateral held with non-banking counterparties is now included in cash equivalents, consistent with collateral held with banking counterparties.

1. Statement of accounting policies (continued)

Future accounting developments

The following pronouncements, relevant to the Group, have been adopted by the EU but are either not effective at 4 April 2019 or are voluntary and have therefore not been applied in preparing these financial statements:

Pronouncement	Nature of change	Effective date
IFRS 16 Leases	For lessee accounting there will no longer be a distinction between operating and finance leases. Lessees will capitalise leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments will be recognised as lease liabilities. Lessees will recognise interest expense on the lease liability and a depreciation charge on the right-of-use asset. IFRS 16 will not result in a significant change to lessor accounting. The Group will adopt IFRS 16 on a modified retrospective basis. This is expected to result in the recognition of right-of-use assets of approximately £180 million and a lease liability of approximately £190 million in respect of leased branch and office properties previously classified as operating leases, with no expected impact to members' interest and equity. As permitted by the transition option, comparative figures for the prior year will not be restated. The Group intends to take advantage of certain exemptions within IFRS 16, including the election not to recognise a lease liability and right-of-use asset for leases with a term not exceeding 12 months or for which the underlying asset is of low value.	Accounting periods beginning on or after 1 January 2019
IFRS 9 Financial Instruments – Hedge Accounting	The transition requirements of IFRS 9 include an option to continue to apply the existing hedge accounting requirements of IAS 39 until the development of a separate standard on accounting for dynamic risk management (macro hedge accounting). The Group continued to apply this option in its financial statements for the year ended 4 April 2019 The Group intends to voluntarily adopt the hedge accounting provisions of IFRS 9 with effect from 5 April 2019, but will continue to apply the scope exception to apply IAS 39 for fair value hedge accounting for a portfolio hedge of interest rate risk. The adoption of IFRS 9 hedge accounting provisions will allow the Group to make use of the improvements the standard has made available for micro hedge accounting. This includes the ability to choose to exclude currency basis spreads from hedge designation and instead report this element of fair valuation directly in a hedge reserve within equity. Adoption will be on a prospective basis, and is not expected to have a significant impact for the Group.	Voluntary adoption for accounting periods beginning on or after 1 January 2018
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	These amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the 'solely payments of principal and interest' (SPPI) condition if specified criteria are met. These amendments are not expected to have a significant impact for the Group	Accounting periods beginning on or after 1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	This interpretation clarifies the accounting for uncertainties in income tax treatments The interpretation is not expected to have a significant impact for the Group.	Accounting periods beginning on or after 1 January 2019

1. Statement of accounting policies (continued)

Future accounting developments (continued)

Pronouncement	Nature of change	Effective date
Annual Improvements to IFRS Standards 2015 – 2017 Cycle	Amendments have been made to four standards: • IFRS 3 'Business Combinations' • IFRS 11 'Joint Arrangements' • IAS 12 'Income Taxes' • IAS 23 'Borrowing Costs'. The amendment to IAS 12 clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. As a result of its application, the income tax consequences of distributions on Additional Tier 1 instruments will be presented in profit or loss rather than directly in members' interests and equity. Comparative information will be restated. If the amendment had been applied in the year ended 4 April 2019, the impact would have been a £18 million increase in profit after tax with no effect on members' interests and equity. The amendments to other accounting standards are not expected to have a significant impact for the Group	Accounting periods beginning on or after 1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	The amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement and clarifies the effect of such activities on the requirements regarding an asset ceiling The Group will apply the amendments to any pension plan amendments, curtailments or settlements which occur prospectively from the effective date.	Accounting periods beginning on or after 1 January 2019

The following pronouncement which may be relevant to the Group but is neither adopted by the EU nor effective at 4 April 2019 has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 17 Insurance Contracts	IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The requirements of IFRS 17 are currently being assessed; however, it is not expected that the new standard will have a significant impact for the Group.	Accounting periods beginning on or after 1 January 2021

1. Statement of accounting policies (continued)

Basis of consolidation

The assets, liabilities and results of the Society and its undertakings, which include subsidiaries and structured entities, are included in the financial statements on the basis of accounts made up to the reporting date.

The Group consolidates an entity from the date on which the Group: (i) has power over the entity; (ii) is exposed to, or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through the exercise of its power. The assessment of control is based on all facts and circumstances. The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Group deconsolidates subsidiaries from the date that control ceases.

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control. The Group considers factors such as the purpose and design of the entity, size and exposure to variability of returns and nature of the relationship.

Upon consolidation, all intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated.

Investments in subsidiary undertakings are stated in the Society accounts at cost less provisions for any impairment in value The directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Adjustment is made for individually significant transactions arising between 31 March and the Society's year end.

Securitisation transactions

The Group has securitised certain mortgage loans by the transfer of the loans to structured entities controlled by the Group. The securitisation enables a subsequent issuance of debt, either by the Society or the structured entities, to investors who gain the security of the underlying assets as collateral. Those structured entities are fully consolidated into the Group accounts.

The transfers of the mortgage loans to the structured entities are not treated as sales by the Society. The Society continues to recognise the mortgage loans on its own balance sheet after the transfer because it retains their risks and rewards through the receipt of substantially all of the profits or losses of the structured entities. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the structured entities.

As explained in note 14, the Group has also entered into self issuances of debt to be used as collateral for repurchase ('repo') and similar transactions. Investments in self issued debt and the related obligation, together with the related income, expenditure and cash flows, are not recognised in the Society's or Group's financial statements. This avoids the 'grossing-up' of the financial statements that would otherwise arise.

To manage interest rate risk, the Society enters into derivative transactions with the structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans are not derecognised. All other derivatives relating to securitisations are treated as explained in the derivatives and hedge accounting policy below.

Interest receivable and interest expense

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example early redemption penalty charges) and anticipated customer behaviour but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts above or below market rates.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. net of the allowance for expected credit losses (ECLs)). Where loans are credit impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. For these assets the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest receivable and similar income/(expense) calculated using the effective interest rate method also includes interest on financial assets classified as fair value through other comprehensive income, and on derivatives in qualifying hedge relationships.

Interest income not calculated using the effective interest rate method, including interest on financial assets classified as fair value through profit or loss and derivatives not in qualifying hedge relationships, is presented as other interest receivable and similar income/(expense).

Fees and commissions

Fees and commission income and expense includes fees other than those that are an integral part of EIR. Fees and commissions relating to current accounts, mortgages and credit cards are either:

- transaction-based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to the provision of services over a period of time and therefore recognised on a systematic basis over the life of the agreement as services are provided.

The transaction prices and provision of services are defined within the product terms and conditions.

Trail commission relating to investments under administration, general insurance and protection products sold on behalf of third parties may include variable consideration. Where this is the case the trail commission is recognised either on the accruals basis or, if the uncertainties are more significant, once the uncertainties are resolved.

Fee and commission income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

1. Statement of accounting policies (continued)

Segmental reporting

The Group's Executive Committee is responsible for allocating resources and assessing the performance of the business and is therefore identified as the chief operating decision maker.

The Group has determined that it has one reportable segment as the Executive Committee reviews performance and makes decisions based on the Group as whole. No segmental analysis is required on geographical lines as substantially all of the Group's activities are in the United Kingdom. As a result, no segmental disclosure is provided.

Intangible assets

Intangible assets held by the Group consist primarily of externally acquired and internally developed computer software which is held at cost less accumulated amortisation and impairment. In accordance with IAS 38 'Intangible Assets', software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Web development costs are capitalised where the expenditure is incurred on developing an income generating website.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Computer software intangible assets are amortised using the straight line method over their estimated useful lives of between 3 and 10 years. Amortisation commences when the assets are ready for their intended use. Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Computer software is reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Property, plant and equipment

Freehold and long leasehold properties comprise mainly branches and office buildings.

Branches and non-specialised buildings are stated at revalued amounts, being the fair value, determined by market-based evidence at the date of the valuation, less any subsequent accumulated depreciation and subsequent impairment. Valuations are completed annually, as at 4 April, by external, independent and qualified surveyors who have recent experience in the location and type of properties. Valuations are performed in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards and are performed on a vacant possession basis, using a comparative method of valuation with reference to sales prices and observable market rents for similar properties in similar locations.

Increases in the valuations of branches and non-specialised buildings are credited to other comprehensive income except where they reverse decreases for the same asset previously recognised in the income statement, in which case the increase in the valuation is recognised in the income statement. Decreases in valuations are recognised in the income statement except where they reverse amounts previously credited to other comprehensive income for the same asset, in which case the decrease in valuation is recognised in other comprehensive income.

The Group holds a small number of investment properties comprising properties held for rental These are stated at fair value, determined by market-based evidence at the date of the valuation. Valuations are completed annually, as at 4 April, by independent surveyors. Changes in fair value are included in the income statement. Depreciation is not charged on investment properties.

Other property, plant and equipment, including specialised administration buildings, are included at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Land is not depreciated. The depreciation of other assets commences when the assets are ready for their intended use and is calculated using the straight line method to allocate their cost or valuation over the following estimated useful lives:

Branches and non-specialised buildings	60 years
Specialised administration buildings	up to 60 years
Plant and machinery	5 to 15 years
Equipment, fixtures, fittings and vehicles	3 to 10 years

Estimated useful lives and residual values are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Assets are reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

Gains and losses on disposals are included in other operating income/(expense) in the income statement

Leases

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership to the lessee. Operating lease payments and receipts are charged or credited to the income statement on a straight line basis over the life of the lease.

Taxation including deferred tax

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

1. Statement of accounting policies (continued)

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Tax related to the fair value remeasurement of financial assets measured at FVOCI, which is charged or credited to other comprehensive income and accumulated in the FVOCI reserve, is also credited or charged to other comprehensive income and is subsequently reclassified from other comprehensive income to the income statement together with the associated deferred loss or gain.

Tax related to movements in the fair value of derivatives that are subject to cash flow hedge accounting, which are charged or credited to other comprehensive income and accumulated in the cash flow hedge reserve, is also credited or charged to other comprehensive income and is subsequently reclassified from other comprehensive income to the income statement together with the associated deferred loss or gain from cash flow hedge accounting.

Tax related to movements in the valuation of property, which are charged or credited to other comprehensive income and accumulated in the revaluation reserve, is also credited or charged to other comprehensive income and accumulated in the revaluation reserve.

Tax related to remeasurements of retirement benefit obligations, which are charged or credited to other comprehensive income and accumulated in the general reserve, is also credited or charged to other comprehensive income

Employee benefits

(a) Pensions

The Group operates a number of defined benefit and defined contribution pension arrangements.

Defined benefit pension arrangements

A defined benefit plan is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.

The liability recognised on the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and assumptions agreed with the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows derived from yields of high quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in forward looking actuarial assumptions Actuarial remeasurements are recognised in full, in the year they occur, in other comprehensive income. Past service costs are recognised immediately in the income statement.

Defined contribution pension arrangements

A defined contribution arrangement is one into which the Group and the employee pay fixed contributions, without any further obligation to pay additional contributions. Payments to defined contribution schemes are charged to the income statement as they fall due.

(b) Other post retirement obligations

The Group provides post retirement healthcare to a small number of former employees. The Group recognises this obligation and the actuarial remeasurement in a similar manner to the defined benefit pension plans.

(c) Other long term employee benefits

The cost of bonuses payable 12 months or more after the end of the year in which they are earned is accrued over the period from the start of the performance year until all relevant criteria have been met.

(d) Short term employee benefits

The cost of short term employee benefits, including wages and salaries, social security costs and healthcare for current employees, is recognised in the year of service.

Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated. This includes management's best estimate of amounts payable for customer redress.

The Group has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks A provision is recognised, to the extent that it can be reliably estimated, when the Group has an obligation in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the levy is legally enforceable, in line with IFRIC 21 'Levies'. The amount provided is based on information received from the FSCS and the Group's historic share of industry protected deposits.

Financial assets

Financial assets comprise cash, loans and advances to banks and similar institutions, investment securities, derivative financial instruments and loans and advances to customers.

Recognition and derecognition

All financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all the risks and rewards of ownership have been transferred.

1. Statement of accounting policies (continued)

The fair value of a financial instrument on initial recognition is normally the transaction price (plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss). On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. Any difference between the fair value at initial recognition and the transaction price is recognised immediately as a gain or loss in the income statement where the fair value is based on a quoted price in an active market or a valuation using only observable market data. In all other cases, any gain or loss is deferred and recognised over the life of the transaction, or until valuation inputs become observable.

Modification of contractual terms

An instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms (such as renegotiations of commercial loans). Residential mortgages reaching the end of a fixed interest deal period are deemed repricing events, rather than a modification of contractual terms, as the change in interest rate at the end of the fixed rate period was envisaged in the original mortgage contract.

Where an instrument is renegotiated and not derecognised (for example forbearance), the change is considered a modification of contractual terms. Where this arises, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate. Any gain or loss on recalculation is recognised immediately in the income statement.

Classification and measurement

The classification and subsequent measurement of financial assets is based on an assessment of the Group's business models for managing the assets and their contractual cash flow characteristics. Financial assets are classified into the following three categories:

(a) *Amortised cost*

Financial assets held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified as amortised cost. This category of financial assets includes cash, loans and advances to banks and similar institutions, the majority of the Group's residential and commercial mortgage loans, all unsecured lending, and certain investment securities within a 'hold to collect' business model.

Financial assets within this category are recognised on either the receipt of cash or deposit of funds into one of the Group's bank accounts (for cash and loans and advances to banks and similar institutions), when the funds are advanced to borrowers (for residential, commercial and unsecured lending) or on the trade date for purchases of investment securities. After initial recognition, the assets are measured at amortised cost using the effective interest rate method, less provisions for expected credit losses.

(b) *Fair value through other comprehensive income*

Debt instruments held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where contractual terms comprise solely payments of principal and interest, are classified and measured at FVOCI. This category of financial assets includes most of the Group's investment securities which are held to manage liquidity requirements.

Financial assets within this category are recognised on trade date. The assets are measured at fair value using, in the majority of cases, market prices or, where there is no active market, prices obtained from market participants. In sourcing valuations, the Group makes use of a consensus pricing service, in line with standard industry practice. In cases where market prices or prices from market participants are not available, discounted cash flow models are used

Interest on FVOCI assets is recognised in interest receivable and similar income in the income statement, using the effective interest rate method.

Unrealised gains and losses arising from changes in value are recognised in other comprehensive income. Provisions for expected credit losses and foreign exchange gains or losses are recognised in the income statement.

Cumulative gains or losses arising on sale are recognised in the income statement, net of any credit or foreign exchange gains or losses already recognised.

(c) *Fair value through profit or loss*

All other financial assets are measured at FVTPL. Financial assets within this category include derivative instruments and a small number of residential and commercial loans and investment securities with contractual cash flow characteristics which do not meet the SPPI criteria. The contractual terms for these cash flows include contingent or leverage features, or returns based on movements in underlying collateral values such as house prices.

Fair values are based on observable market data, valuations obtained by third parties or, where these are not available, internal models. Gains or losses arising from changes in the fair value of these instruments and on disposal are recognised in the income statement within other operating income/(expense).

Hedge accounting is not applied to assets classified as FVTPL; however, hedging may be applied for economic purposes. Gains or losses arising from changes in the fair value of derivatives economically hedging FVTPL financial assets is also included within other operating income/(expense)

Impairment of financial assets

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at either amortised cost or FVOCI. These include cash, loans and advances to banks and similar institutions, and the majority of investment securities and loans and advances to customers. Also within scope are irrevocable undrawn commitments to lend and intra-group lending (the latter being eliminated on consolidation in the Group accounts).

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument or undrawn commitment. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive.

1. Statement of accounting policies (continued)

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are typically calculated from initial recognition of the financial asset for the maximum contractual period that the Group is exposed to the credit risk. However, for revolving credit loans such as credit cards and overdrafts, the Group's credit risk is not limited to their contractual period and therefore the expected life of the loan and associated undrawn commitment is calculated based on the behavioural life of the loan.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the balance sheet is net of impairment provisions. For financial assets classified as FVOCI, any credit losses recognised are offset against cumulative fair value movements within the other comprehensive income reserve. For separately identifiable irrevocable loan commitments, where the related financial asset has not yet been advanced, the provision is presented in provisions for liabilities and charges in the balance sheet.

Forward looking economic inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases. To capture any non-linear relationship between economic assumptions and credit losses, a minimum of three scenarios is used. This includes a central scenario which reflects the Group's view of the most likely future economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability

Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: no significant increase in credit risk since initial recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

Whether a significant increase in credit risk has occurred is ascertained by comparing the probability of default at the reporting date to the probability of default at origination, based on quantitative and qualitative factors. Quantitative considerations take into account changes in the residual lifetime probability of default (PD) of the asset. As a backstop, all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in stage 2.

Qualitative factors that may indicate a significant change in credit risk include concession events where full repayment of principal and interest is envisaged, on a discounted basis.

Further information about the identification of significant increases in credit risk is provided in note 10

Stage 3: credit impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cashflows; or
- the loan is otherwise considered to be in default.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

Purchased or originated credit impaired loans

Where loans are credit impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. Thereafter, any subsequent change (favourable or unfavourable) in the lifetime ECL is recognised in the income statement. POCI loans are separately disclosed as credit impaired loans and cannot be transferred out of the POCI designation, even if there is a significant improvement in credit quality.

Transfers between stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above.

For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met. For loans subject to concession events such as forbearance, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months.

Write-off

Loans remain on the balance sheet, net of associated provisions, until they are deemed to have no reasonable expectation of recovery Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

1. Statement of accounting policies (continued)

Financial liabilities

Borrowings, including shares, deposits, debt securities in issue, subordinated liabilities and permanent interest bearing shares (subscribed capital) are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

The Group previously included within other deposits amounts relating to the sale of protected equity bonds (PEBs) on behalf of Legal & General. These deposits were designated at fair value upon initial recognition, with changes in fair value recognised in gains/(losses) from derivatives and hedge accounting, along with fair value movements in the associated equity-linked derivatives which were used to economically hedge the instruments. These deposits matured during the year ended 4 April 2018.

Derivative financial liabilities are measured at FVTPL. Borrowings that are designated as hedged items are subject to measurement under the hedge accounting requirements described in the derivatives and hedge accounting policy below.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired. The financial liabilities of dormant shares and deposit accounts are extinguished when balances have been transferred to the Government-backed unclaimed asset scheme under the terms of the Dormant Accounts and Building Society Accounts Act 2008 with no impact on the income statement.

Fair value of assets and liabilities

IFRS 13 'Fair Value Measurement' 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 below:

Level 1 – Valuation using quoted market prices

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

Level 2 – Valuation technique using observable inputs

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forward rate agreements which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data ('unobservable inputs'). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Derivatives and hedge accounting

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk, and are not used for speculative purposes.

(a) Derivative financial instruments

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from third parties. For collateralised positions the Group uses discount curves based on overnight indexed swap rates such as Sonia, and for non-collateralised positions the Group uses discount curves based on term Libor rates.

In the first instance fair values are calculated using mid prices. An adjustment is then made to derivative assets and liabilities to value them on a bid and offer basis respectively. The bid-offer adjustment is calculated on a portfolio basis and reflects the costs that would be incurred if substantially all residual net portfolio market risks were closed out using available hedging instruments or by disposing of or unwinding actual positions. The methodology for determining the bid-offer adjustments involves netting between long and short positions and the grouping of risk by type, in accordance with hedging strategy. Bid-offer spreads are derived from market sources such as broker data and are reviewed periodically. In measuring fair value, separate credit valuation and debit valuation adjustments are made for counterparty or own credit risk to the extent not already included in the valuation

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal right and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

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

1. Statement of accounting policies (continued)

(b) Embedded derivatives

Some complex contracts may be hybrid in nature, in that a derivative element is included within a non-derivative host contract, in which case the derivative is termed an embedded derivative. If the host contract is an asset, it falls under the scope of IFRS9 and the entire contract has its accounting classification assessed under IFRS9. If the host contract is a liability it does not fall under the scope of IFRS9 and the embedded derivative is then separated and treated as a standalone derivative instrument if:

- its economic characteristics are not closely related to the host,
- a separate instrument with the same terms would meet the definition of a derivative, and
- the hybrid contract is not already being fair valued through the income statement.

(c) Hedge accounting

The Group applies IAS 39 for all of its hedge accounting requirements. When transactions meet the criteria specified in IAS 39, the Group can apply two types of hedge accounting: either hedges of the changes in fair value of the financial asset or liability (fair value hedge accounting) or hedges of the variability in cash flows of the financial asset or liability (cash flow hedge accounting). The Group does not have hedges of net investments. The financial statement note for derivative financial instruments sets out the split of the derivative portfolio between fair value, cash flow and no hedge accounting at the balance sheet date.

At inception each hedge relationship is formally documented, including a description of the hedged item (a financial asset or liability which is being economically hedged) and the hedging instrument (a derivative), as well as the methods which will be used to assess the effectiveness of the hedge. Hedges are required to be highly effective (i.e. the fair value offset between hedged item and hedging instrument is in the 80-125% range) on both a retrospective and a prospective basis

Fair value and cash flow hedges may have residual hedge ineffectiveness. This is the degree to which the change in fair value of the hedging instrument does not offset the change in fair value of the hedged item. This ineffectiveness is recognised in the income statement and typically arises from:

i) differences in the magnitude or timing of future expected cashflows in the hedged item and hedging instrument;
ii) differences in the market curves used to value the hedged item and hedging instrument;
iii) unexpected adjustments to either the hedged item or hedging instrument, due to early repayments or disposals;
iv) the ongoing amortisation of any existing balance sheet mismatch between the fair value of the hedged item and hedging instrument.

The Group discontinues hedge accounting when:

i) it is evident from testing that a hedging instrument is not, or has ceased to be, highly effective as a hedge;
ii) the hedging instrument expires, or is sold, terminated or exercised;
iii) the hedged item matures or is sold or repaid or, in the case of a forecasted item, is no longer deemed to be highly probable to occur.

The Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge.

Fair value hedge accounting

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the risk being hedged. This creates an offset to the fair value movements of the hedging instrument. Changes in the fair value of the hedged items and hedging instruments are recorded in the income statement.

For larger and distinctively identifiable assets and liabilities, such as investment securities and debt securities in issue, a single or small number of hedging instruments may be used. This is referred to as a micro fair value hedge. If the hedge is highly effective, the Group adjusts the carrying value of that specific asset or liability to reflect changes in its fair value due to movements in the designated benchmark rate, such as Libor or Sonia. This creates an offset to the fair value movement of the hedging instruments.

For hedged items which are classified as FVOCI, such as investment securities, there is no further need to adjust their carrying value as they are already held at fair value. Instead, hedge accounting results in an amount being removed from the FVOCI reserve and instead reported in the income statement, to create an offset to the change in fair value of the hedging instrument.

For balances within homogeneous portfolios, such as mortgages, savings and commercial loans, derivatives may be used to hedge risks on a portfolio basis. The Group creates separate portfolio (macro) hedges for assets and liabilities. The Group determines the hedged item by identifying portfolios of similar assets or liabilities and scheduling the expected future cash flows from these items into repricing time buckets, based on expected rather than actual repricing dates. A portion of the total cashflow from each time bucket is then included in the hedged item. The size of this portion is set so that it is expected to create a highly effective fair value offset to the equivalent future cashflows from the hedging instruments. If the hedge is highly effective the Group records an adjustment in the fair value adjustment for portfolio hedged risk category on the balance sheet. Macro hedges are frequently rebalanced to include new business.

In fair value hedge accounting relationships, if the hedging instrument no longer meets the criteria for hedge accounting, the cumulative fair value hedge adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the hedged item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

1. Statement of accounting policies (continued)

Cash flow hedge accounting

In a cash flow hedge accounting relationship, the portion of the hedging instrument's fair value movement that is deemed to be an effective hedge is deferred to the cash flow hedge reserve, instead of being immediately recognised in the income statement. The ineffective portion of the derivative fair value movement is recognised immediately in the income statement.

Amounts deferred to the cash flow hedge reserve are subsequently recycled to the income statement. This recycling occurs when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised. In cash flow hedge accounting relationships, if the derivative no longer meets the criteria for hedge accounting, the cumulative gain or loss from the effective portion of the movement in the fair value of the derivative remains in other comprehensive income until the cash flows from the underlying hedged item are recognised in the income statement. If the hedged item is sold or repaid, the cumulative gain or loss in other comprehensive income is immediately recognised in the income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Sale and repurchase agreements (including securities borrowing and lending) and collateralised total return swaps

Investment and other securities may be lent or sold subject to a commitment to repurchase them at a pre-determined price (a repo) or a right to continue to receive all future cash flows and changes in capital value on collateral pledged (a total return swap). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership (typically, the interest rate risk and credit risk on the asset) remain within the Group, and the counterparty liability is included separately on the balance sheet within deposits from banks and similar institutions as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a reverse repo) or settle all future cash flows and changes in capital value to a third party on collateral held (a reverse total return swap) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans within loans and advances to banks and similar institutions, and the securities are not included on the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

Equity instruments

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments. Where the Group does have a present obligation, the instrument is classified as a financial liability.

The proceeds of the issuance of equity instruments are included in equity. Costs incurred that are incremental and directly attributable to the issuance are deducted from the proceeds (net of applicable tax).

Distributions to holders of equity instruments are recognised when they become irrevocable and are deducted, net of tax where applicable, from the general reserve.

Foreign currency translation

The consolidated financial statements are presented in sterling, which is the functional currency of the Society. Items included in the financial statements of each of the Group's entities are measured using sterling which is also the functional currency of each entity. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement as disclosed in note 7.

Cash flow hedge accounting is applied to derivatives which are used to economically hedge foreign currency items.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, included within cash and loans and advances to banks and similar institutions on the balance sheet.

Contingent liabilities

Contingent liabilities are possible obligations whose existence is dependent on the outcome of uncertain future events, or those where the outflow of resources is uncertain or cannot be measured reliably.

During the ordinary course of business the Group is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote or where such disclosure could be seriously prejudicial to the conduct of the claims.

IFRS disclosures

The audited sections in the Business and Risk Report and the Report of the directors on remuneration form an integral part of these financial statements. These disclosures (where marked as 'audited') are covered by the independent auditors' report for this Annual Report and Accounts

2. Judgements in applying accounting policies and critical accounting estimates

The preparation of the Group's financial statements in accordance with IFRS involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The most significant sources of estimation uncertainty made by management in applying the Group's accounting policies, which are deemed critical to the Group's results and financial position, are disclosed in the following notes These accounting estimates include areas of significant judgement.

Area with significant judgements or estimates	**Note**
Impairment losses and provisions on loans and advances to customers	10
Provisions for customer redress	27
Retirement benefit obligations (pensions)	30

3. Interest receivable and similar income

	Group		**Society**	
	2019	2018 (note i)	**2019**	2018 (note i)
	£m	£m	**£m**	£m
On financial assets measured at amortised cost:				
Residential mortgages	**4,469**	4,532	**3,377**	3,409
Connected undertakings	**-**	-	**783**	756
Other loans	**656**	677	**644**	664
Other liquid assets	**137**	67	**137**	67
Investment securities	**27**	14	**27**	14
On investment securities measured at FVOCI (2018: available for sale)	**167**	115	**166**	114
On financial instruments hedging assets in a qualifying hedge accounting relationship	**(315)**	(543)	**(307)**	(523)
Total interest receivable and similar income calculated using the effective interest rate method	**5,141**	4,862	**4,827**	4,501
Other interest and similar income/(expense) (note ii)	**(23)**	(51)	**(31)**	(72)
Total	**5,118**	4,811	**4,796**	4,429

Notes:

i. Comparative balances have been restated to present separately interest receivable and similar income calculated using the effective interest rate method as detailed in note 1.

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

4. Interest expense and similar charges

	Group		Society	
	2019	2018	2019	2018
	£m	£m	£m	£m
On shares held by individuals	1,335	1,140	1,335	1,140
On subscribed capital	14	15	14	15
On deposits and other borrowings:				
Subordinated liabilities	238	175	238	175
Connected undertakings	-	-	48	34
Other	207	320	210	320
On debt securities in issue	673	712	612	669
Net income on financial instruments hedging liabilities	(270)	(563)	(150)	(397)
Interest on net defined benefit pension liability (note 30)	6	8	6	8
Total	2,203	1,807	2,313	1,964

In the year to 4 April 2018 interest on deposits and other borrowings included an expense of £210 million in relation to the maturity and redemption of Protected Equity Bond (PEB) deposits which had returns linked to the *performance* of specified stock market indices. The PEBs, all of which had matured at 4 April 2018, were economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities in the year to 4 April 2018 included income of £206 million in relation to the associated derivatives. Further details are included in note 22.

5. Fees and commission income and expense

	2019			2018		
	Income	Expense	Net	Income	Expense	Net
Group	£m	£m	£m	£m	£m	£m
Current account and savings	261	(202)	59	246	(187)	59
General insurance	65	-	65	76	-	76
Protection and investments	63	-	63	65	-	65
Mortgage	13	(1)	12	16	(2)	14
Credit card	43	(39)	4	42	(45)	(3)
Other fees and commissions	4	(6)	(2)	4	(10)	(6)
Fee and commission	449	(248)	201	449	(244)	205

The Society's fee and commission income and expense is as shown above for the Group, except that it excludes £3 million (2018: £4 million) of mortgage income.

6. Other operating income/expense

	Group 2019	2018 (note i)	Society 2019	2018 (note i)
	£m	£m	£m	£m
Gains on financial assets measured at FVTPL	23	-	22	-
Gains on FVOCI investment securities (2018: available for sale investment securities)	27	33	27	34
Other income/(expense)	4	(110)	3	(112)
Total	54	(77)	52	(78)

Note:
Comparatives have been restated as detailed in note 1.

Other income/(expense) includes the net amount of rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialised buildings which are not recognised in other comprehensive income. There were no gains or losses on disposal of financial assets measured at amortised cost in the year ended 4 April 2019 (2018: £nil). In the year ended 4 April 2018, other income/(expense) included a £116 million loss from a debt buy-back exercise.

7. 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. More information on how the Group manages market risk can be found in the Business and Risk Report. Hedge accounting is employed by the Group to minimise the accounting volatility associated with the change in fair value of derivative financial instruments. This volatility does not reflect the economic reality of the Group's hedging strategy. 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. 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.

Note 1 describes how fair value and cash flow hedge accounting affect the financial statements and the main sources of the residual hedge ineffectiveness remaining in the income statement. Further information on the current derivative portfolio and the allocation to hedge accounting types is included in note 15.

	Group 2019	2018	Society 2019	2018
	£m	£m	£m	£m
Gains/(losses) from fair value hedge accounting	24	(86)	8	7
Gains/(losses) from cash flow hedge accounting	23	17	(34)	(33)
Net gain from mortgage pipeline (note i)	-	50	-	50
Fair value (losses)/gains from other derivatives (note ii)	(18)	5	8	(39)
Foreign exchange retranslation (note iii)	7	13	11	(11)
Total	36	(1)	(7)	(26)

Notes:
i Includes the fair value movement of both interest rate swaps, which are used to economically hedge expected new mortgage business, and firm mortgage commitments, where the Group has elected to fair value those commitments to reduce the accounting mismatch. The Group has not applied this fair value option for new mortgage business in the year ended 4 April 2019; therefore, the fair value movements of the interest rate swaps have been reported in 'fair value (losses)/gains from other derivatives'.
ii. Other derivatives are those used for economic hedging purposes, but which are not currently in a hedge accounting relationship.
iii Gains or losses arise from the retranslation of foreign currency monetary items not subject to effective hedge accounting.

Gains of £24 million (2018: losses of £86 million) from fair value hedge accounting include losses of £9 million (2018: losses of £42 million) from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts, and gains of £33 million relating to micro hedges (2018: losses of £44 million) which arise due to a combination of hedge ineffectiveness, disposals and restructuring, and the amortisation of existing balance sheet amounts.

7. Gains/losses from derivatives and hedge accounting (continued)

Fair value hedge accounting

The Group's risk management approach is to use interest rate derivatives to economically hedge the fair value of fixed rate assets and liabilities. The market risk from fixed rate assets and liabilities may be netted down before deciding to use derivatives. The derivatives used are predominantly interest rate swaps, which convert fixed rate cashflows to a benchmark floating rate such as Libor or Sonia. In addition, bond forwards are used to reduce swap spread risk within the investment securities portfolio and inflation swaps are used to economically hedge contractual inflation risk within investment securities. The table below provides further information on the Group's fair value hedges.

Fair value hedge accounting 2019			***Change in fair value used for determining hedge ineffectiveness***		***Hedge* ineffectiveness recognised in the income statement**	**Carrying amount of the hedged item**	***Of which:* accumulated fair value adjustment (note i)**
Hedged item balance sheet classification	**Hedging instrument**	**Risk category**	**Hedged item**	**Instrument**			
			£m	£m	£m	£m	£m
Assets:							
Loans and advances to customers (note ii)	Interest rate swaps	Interest rate	396	(406)	(10)	94,635	1,294
Investment securities	Interest rate swaps, bond forwards	Interest rate	230	(193)	37	13,292	323
Investment securities	Inflation swaps	Interest rate and inflation	16	(15)	1	1,439	19
Total assets			642	(614)	28	109,366	1,636
Liabilities:							
Shares (note iii)	Interest rate swaps	Interest rate	(37)	38	1	4,131	(17)
Debt securities in issue	Interest rate swaps	Interest rate	(31)	28	(3)	4,662	642
Subordinated liabilities	Interest rate swaps	Interest rate	(3)	4	1	2,407	37
Subscribed capital	Interest rate swaps	Interest rate	-	(3)	(3)	240	40
Total liabilities			(71)	67	(4)	11,440	702
Total fair value hedges			571	(547)	24		

Notes:

i. Debt securities in issue and subordinated liabilities include £440 million and £23 million respectively of accumulated fair value adjustments relating to hedged items no longer in a hedge accounting relationship. This is mainly due to the migration of fair value hedges to cash flow hedges, which results in the hedged item no longer being adjusted for fair value gains and losses. Where hedges have been migrated, the ongoing amortisation of the closing accumulated fair value adjustment is presented in the cash flow hedge accounting table below within the change in fair value of the instrument as it offsets the ongoing amortisation of derivative fair value.

ii. Some of the Group's loans and advances to customers have been included as hedged items in macro fair value hedges of interest rate risk. £411 million of the accumulated fair value hedge adjustment is recognised in the separate balance sheet asset 'Fair value adjustment for portfolio hedged risk.' The remaining amount relates to the fair value adjustment to commercial loans in a micro fair value hedge accounting relationship and is included in the carrying value of these loans as shown in note 14.

iii. Some of the Group's shares have been included as hedged items in macro fair value hedges of interest rate risk. All of the accumulated fair value hedge adjustment has been recognised in the separate balance sheet liability for 'Fair value adjustment for portfolio hedged risk.'

7. Gains/losses from derivatives and hedge accounting (continued)

Cash flow hedge accounting

The Group's risk management approach may be to create future cash flow certainty. The Group uses a combination of foreign currency interest rate swaps and cross currency interest rate swaps to hedge non-sterling debt securities in issue and subordinated liabilities. The hedging instruments remove the uncertainty caused by interest and foreign exchange rate movements on coupon and principal payments. In addition, inflation swaps are used to hedge RPI-linked debt securities in issue. The Group also uses sterling interest rate swaps to hedge some of its re-pricing lag risk. In this instance the hedging instruments result in the Group receiving a fixed rate of interest and so are designated as hedges of variable rate loans and advances to customers. The table below provides further information on the Group's cash flow hedges.

Cash flow hedge accounting 2019			Change in fair value used for determining hedge ineffectiveness		Changes in instrument fair value reported as			Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation)	
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item £m	Instrument £m	Hedge ineffectiveness recognised in the income statement £m	Foreign exchange retranslation recycled to the income statement (note i) £m	Net amounts deferred to other comprehensive income £m	Continuing hedges £m	Discontinued hedges £m
Assets:									
Loans and advances to customers	Interest rate swaps	Interest rate	(2)	2	-	-	2	2	-
Total assets			(2)	2	-	-	2	2	-
Liabilities:									
Debt securities in issue	Inflation swaps	Interest rate and inflation	(10)	10	-	-	10	6	-
Debt securities in issue	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	(49)	85	10	(190)	265	357	19
Subordinated liabilities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	(308)	335	13	159	163	44	-
Total liabilities			(367)	430	23	(31)	438	407	19
Total cash flow hedges			(369)	432	23	(31)	440	409	19

Note:
i. The foreign exchange retranslation recycled to the income statement offsets foreign exchange retranslation on the hedged item.

The deferral of fair value movements to the cash flow hedge reserve, and the transfer of amounts from the cash flow hedge reserve to the income statement, are shown in the consolidated statement of comprehensive income. The net deferral to other comprehensive income of gains before tax of £440 million (2018: £259 million losses) is driven by changes in derivative valuations caused by movements in interest rates and foreign exchange rates. These gains amount to £328 million (2018: £191 million losses) after tax. All forecast transactions included as hedged items in cash flow hedges are still expected to occur.

8. Administrative expenses

	Notes	Group 2019 £m	Group 2018 £m	Society 2019 £m	Society 2018 £m
Employee costs:					
Wages and salaries		**525**	524	**520**	518
Bonuses		**55**	61	**55**	61
Social security costs		**65**	66	**65**	65
Pension costs	30	**181**	173	**179**	171
		826	824	**819**	815
Other administrative expenses (note i):					
Other staff related costs		**129**	101	**127**	100
Property operating lease rental		**31**	30	**31**	30
Other property running costs		**91**	94	**91**	94
Printing, postage and stationery		**32**	34	**32**	34
IT and communications		**264**	225	**264**	225
Marketing and advertising		**63**	74	**63**	74
Product operating costs		**58**	54	**57**	54
Legal, professional and consultancy		**108**	85	**108**	84
Other operating costs		**60**	61	**39**	43
		836	758	**812**	738
Bank levy	27	**43**	45	**43**	45
Depreciation, amortisation and impairment		**549**	397	**549**	397
Total		**2,254**	2,024	**2,223**	1,995

Note:
i Categories have been updated to better align with how the Group manages and monitors expenses. Comparatives have been restated to align with the current year presentation.

The bonus expense within employee costs in the above table includes £6 million (2018: £6 million) of long-term bonuses which will be paid more than one year from the balance sheet date.

Executive directors and certain senior executives are entitled to bonus payments under the Directors' Performance Award (DPA) scheme. Under this scheme, awards are based on current year results but are paid over a period of up to seven years, with part of the awards linked to the value of Nationwide's core capital deferred shares (CCDS). The payment of deferred elements remains subject to further discretion by the Remuneration Committee. These bonuses are recognised in the income statement over the period from *the start of the performance year until all relevant criteria have been met.*

8. Administrative expenses (continued)

The table below shows actual and expected charges to the income statement in respect of all DPA bonuses for each relevant scheme year:

Income statement charge for long-term bonuses

	Group and Society			
	Actual 2017/18	**Actual 2018/19 (note i)**	Expected 2019/20 (note ii)	Expected 2020/21 and beyond (note ii)
	£m	**£m**	£m	£m
Directors Performance Award				
2016/17 and previous years	6.8	**3.0**	1.6	2.1
2017/18	8.8	**3.1**	1.3	2.1
2018/19	-	**8.8**	3.4	4.3
Income statement charge for long-term bonuses	15.6	**14.9**	6.3	8.5

Notes.

i In the year ended 4 April 2019, £5 million (2018: £6 million) was recognised in the income statement in relation to awards linked to share based payments, being amounts dependent on the performance of the Group's CCDS. This payment is deferred and therefore included in accruals and deferred income on the balance sheet.

ii The amount expected is an estimate based on past performance together with current assumptions of future leaver rates and future CCDS performance. From 2016/17 the period over which bonuses are recognised in the income statement was extended based on a change to the bonus deferral period from five to seven years

Directors' emoluments, including details of the bonus scheme, are shown in the Report of the directors on remuneration in accordance with Schedule 10A, paragraphs 1 to 9 of the Building Societies Act 1986.

The remuneration of the external auditors, PricewaterhouseCoopers LLP, is set out below:

External auditors' remuneration

	Group		Society	
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Audit fees for the Group and Society statutory audit	**3.6**	3.3	**3.6**	3.3
Fees payable for other services:				
Audit of Group subsidiaries	**0.4**	0.4	**-**	-
Audit-related assurance services	**0.7**	0.7	**0.7**	0.7
Total audit and audit-related assurance services	**4.7**	4.4	**4.3**	4.0
Other non-audit services	**2.1**	1.1	**2.1**	1.1
Total	**6.8**	5.5	**6.4**	5.1

Audit fees for the year ended 4 April 2019 include amounts related to the transition of auditors.

The Group's policy in relation to the use of its auditors on non-audit engagements sets out the types of services they are generally precluded from performing. All non-audit services are subject to pre-approval by the Audit Committee.

Fees for 'other non-audit services' for the year ended 4 April 2019 are primarily for assurance work undertaken in relation to delivery of the Group's incremental technology investment

9. Employees

	Group 2019	Group 2018	Society 2019	Society 2018
	£m	£m	£m	£m
The average number of persons employed during the year was:				
Full time	13,841	14,247	13,834	14,211
Part time	4,444	4,240	4,444	4,235
Total	18,285	18,487	18,278	18,446
Society:				
Central administration	11,296	11,098	11,296	11,098
Branches	6,982	7,348	6,982	7,348
Subsidiaries	7	41	-	-
Total	18,285	18,487	18,278	18,446

Central administration employee numbers include employees engaged in direct customer facing operations in administrative centres.

10. Impairment losses and provisions on loans and advances to customers

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

Impairment losses/(reversals)

	Group 2019	Group 2018 (note i)	Society 2019	Society 2018 (note i)
	£m	£m	£m	£m
Prime residential	(1)	3	(1)	3
Specialist residential	(16)	8	-	-
Consumer banking	114	97	114	97
Commercial and other lending	16	(1)	16	(1)
Total	113	107	129	99

Impairment provisions

	Group 4 April 2019	Group 5 April 2018 (note i)	Group 4 April 2018 (note i)	Society 4 April 2019	Society 5 April 2018 (note i)	Society 4 April 2018 (note i)
	£m	£m	£m	£m	£m	£m
Prime residential	44	47	36	44	47	36
Specialist residential	162	188	109	3	4	-
Consumer banking	418	365	298	418	365	298
Commercial and other lending	41	29	15	41	29	15
Total	665	629	458	506	445	349

Note:
i. 5 April 2018 balances are prepared under IFRS 9. Comparatives for the year ended and as at 4 April 2018 are prepared under IAS 39.

10. Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the Group uses outputs from statistical models, incorporating a number of estimates and judgements to determine the Probability of Default (PD), the Exposure at Default, and the Loss Given Default for each loan. The most significant areas of estimation uncertainty are:

- the use of forward-looking information
- the performance of interest only mortgages at maturity
- the level of future recoveries for consumer banking.

The most significant area of judgement is:

- the approach to identifying significant increases in credit risk and impairment.

The Group's approach to each of these estimates and judgements is described in more detail below.

Use of forward-looking economic information

Forward-looking economic information is incorporated into the measurement of provisions in two ways: as an input to the calculation of ECL and as a factor in determining the staging of an asset. Management exercises judgement in estimating future economic conditions which are incorporated through modelling of multiple economic scenarios (MES).

The use of MES ensures that the calculation of ECL captures a range of possible outcomes. It addresses the risk of non-linearity in the relationship between credit losses and economic conditions, with provisions increasing more in unfavourable conditions (particularly severe conditions) than they reduce in favourable conditions. The IFRS 9 ECL provision recognised is therefore the probability-weighted sum of the provisions calculated under a range of economic scenarios. For the retail and commercial portfolios, the Group has adopted the use of three main economic scenarios (referred to as the central, upside and downside scenarios). The scenarios and the weightings are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions.

The central scenario represents the most likely economic forecast and is aligned with the central scenario used in the Group's financial planning processes. This scenario reflects moderate economic growth and low house price inflation over the projection period of 2019-23, after which the economic variables are assumed to revert gradually to long run average rates by 2028. At 5 April 2018 and 4 April 2019 this scenario is assigned a 50% probability weighting. The upside and downside economic scenarios are judged less likely and have been given 20% and 30% weightings respectively at 4 April 2019 (5 April 2018: 30% and 20% respectively). The downside scenario reflects a period of recession in 2019 and 2020, accompanied by a fall in house prices during this period, followed by gradual recovery in subsequent years and reversion to a lower long-term growth rate by 2028. The upside scenario reflects stable economic growth over the projection period, accompanied by house price inflation in excess of 4% per year, and reversion to higher long-term growth rates by 2028.

In addition to the three economic scenarios described above, additional provision has been made to reflect the risks associated with a low probability, severe downside scenario. In management's judgement, this additional provision is required to fully reflect the non-linearity in the relationship between expected losses and economic conditions. The adjustment is calculated as the difference between a 10% probability for this scenario, and a reduction of 10% in the downside scenario; this probability has increased from 5% at 5 April 2018 due to increased economic uncertainty. At 4 April 2019, this additional provision represents £97 million (5 April 2018: £85 million) of the total £133 million (5 April 2018: £110 million) MES impact. In this severe downside scenario, real GDP growth over a five year period is slightly negative. In the first two years unemployment rises sharply by 4.8%, and house prices fall by 33% from peak to trough, before gradual recovery from year 3 onwards. Due to the way in which the additional provision has been calculated, the results of this scenario have not been used in determining the reported stage allocation of loans, although in this scenario an increased proportion of loans are assumed to migrate to stage 2 and stage 3 over the projection period.

10. Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The table below provides a summary of the simple average values of the key UK economic variables used within the economic scenarios, including the severe downside scenario, over the period from May 2019 to April 2024.

Economic variables (average %)	Central scenario	Upside scenario	Downside scenario	Severe downside scenario (used for additional provision)
GDP growth	1.8	2.3	1.0	(0.1)
Unemployment	4.3	3.8	5.5	8.3
HPI	2.4	5.0	(2.4)	(5.2)
BoE base rate	1.1	2.2	0.1	3.5

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 the upside, central and downside scenarios.

Sensitivity analysis impact of multiple economic scenarios	Upside scenario ECL	Central scenario ECL	Downside scenario ECL
4 April 2019	**£m**	**£m**	**£m**
Residential mortgages	99	112	242
Consumer banking	381	383	400
Commercial and other lending	37	37	37
Total	**517**	**532**	**679**
5 April 2018	£m	£m	£m
Residential mortgages	128	143	279
Consumer banking	350	352	374
Commercial and other lending	24	24	24
Total	502	519	677

The ECL for each scenario multiplied by the scenario probability will not reconcile to the final probability weighted ECL, since the stage allocation of loans varies in each scenario. In the probability weighted ECL, each loan is allocated to a discrete stage based on the weighted average PD under the economic scenarios. The impact of the severe downside scenario on impairment provisions is explained above.

10. Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

For prime and specialist residential mortgages, the estimate of future house price index (HPI) movements is a key assumption in estimating the eventual loss. The table below shows the sensitivity of provisions, in the central scenario only, to a decrease/increase in Loss Given Default as a result of an immediate decrease/increase in house prices, with no change to subsequent house price inflation or to other assumptions:

Residential mortgages – impact of change in HPI

4 April 2019	Increase/(decrease) in provision £m
10% decrease in HPI	29
10% increase in HPI	(16)

Performance of interest only mortgages at maturity

An additional key area of management estimation is the allowance for the risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Buy to let mortgages are typically advanced on an interest only basis. Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis has been agreed. The impact of the allowance for unredeemed interest only mortgages at contractual maturity in the central scenario amounts to £47 million (5 April 2018: £58 million), and has also been calculated for the other modelled scenarios, with an additional impact of £24 million (5 April 2018: £16 million) included in the impact of forward looking economic information above. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2.

Consumer banking future recoveries

For consumer banking, the estimate of future recoveries is a key source of estimation uncertainty. The Group uses a combination of both historical data and management judgement in estimating the level and timing of future recoveries. A 10% absolute change in expected future recoveries would result in an estimated £43 million change in the provision.

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. The Group has used judgement to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place. 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 macroeconomic information to determine the probability of default (PD) at each reporting date. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD has increased by at least 75bps and a 4x multiple of the original lifetime PD (5 April 2018: 8x for residential mortgages, 4x for consumer banking). During the year the multiple has been reduced from 8x to 4x for residential mortgages, following a review of staging criteria effectiveness. The impact on ECL of this change was immaterial.

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk. The sensitivity of ECLs to stage allocation is such that a transfer of 1% of current stage 1 balances from stage 1 to stage 2 would increase provisions by £11 million for residential mortgages, and £5 million for consumer banking.

Identifying credit impaired loans (stage 3)

The identification of credit impaired loans is an important judgement within the IFRS 9 staging approach. A loan is credit impaired where 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.

11. Taxation

Tax charge in the income statement

	Group 2019 £m	Group 2018 £m	Society 2019 £m	Society 2018 £m
Current tax:				
UK corporation tax	209	246	131	151
Adjustments in respect of prior years	(12)	(12)	(12)	(32)
Total current tax	197	234	119	119
Deferred tax:				
Current year charge/(credit)	6	(7)	(9)	(11)
Adjustments in respect of prior years	9	9	9	10
Effect of deferred tax provided at different tax rates	3	(4)	(5)	(3)
Total deferred taxation	18	(2)	(5)	(4)
Tax charge	215	232	114	115

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

	Group 2019 £m	Group 2018 £m	Society 2019 £m	Society 2018 £m
Profit before tax	833	977	368	452
Tax calculated at a tax rate of 19%	158	186	70	86
Adjustments in respect of prior years	(3)	(3)	(3)	(22)
Banking surcharge	37	43	37	43
Expenses not deductible for tax purposes/(income not taxable):				
Depreciation on non-qualifying assets	3	1	3	1
Bank levy	8	8	8	8
Effect of results of LLP structured entity (note i)	-	-	(6)	2
Customer redress	8	-	8	-
Other	1	1	-	-
Effect of deferred tax provided at different tax rates	3	(4)	(3)	(3)
Tax charge	215	232	114	115

Note:
i. *The Society is liable for tax on the results of Nationwide Covered Bonds LLP, the profit or loss of which is reported within that entity.*

11. Taxation (continued)

The tax on items through other comprehensive income is as follows:

Tax charge/(credit) on items through other comprehensive income

	Group		Society	
	2019	2018 (note i)	2019	2018 (note i)
	£m	£m	£m	£m
Relating to:				
FVOCI investment securities (2018: available for sale investment securities)	(4)	11	(3)	11
Cash flow hedges	112	(68)	47	(19)
Property revaluation	(1)	1	(1)	1
Retirement benefit obligations	57	7	57	8
Total	164	(49)	100	1

Note.
i 2019 balances are prepared under IFRS 9, 2018 prepared under IAS 39. Adjustments made on transition to IFRS 9 are detailed in note 37

The Group tax credit through the fair value through other comprehensive income (FVOCI) reserve of £4 million (2018: charge through the available for sale reserve of £11 million) is made up of a charge of £4 million (2018: charge of £8 million) through current tax and a credit of £8 million (2018: charge of £3 million) through deferred tax.

Reconciliation of tax charge to tax paid

The table below reconciles the corporation tax charge in the income statement to the taxation paid in the consolidated cash flow statement:

	Group	
	2019	2018
	£m	£m
Income statement tax charge	215	232
Deferred tax and prior year adjustments	(6)	14
Current tax liability	209	246
Prior year payments	43	107
Current year tax payments due after the end of the year	(117)	(117)
Tax paid per consolidated cash flow statement	135	236

11. Taxation (continued)

Deferred tax

Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised or deferred tax liability is settled based on rates enacted or substantively enacted at the balance sheet date, including the banking surcharge where applicable. The Finance Act 2016 was enacted on 15 September 2016 and reduces the corporation tax rate from 19% to 17% from 1 April 2020.

The movements on the deferred tax account are as follows:

Movements in deferred taxation

	Group 2019 £m	Group 2018 £m	Society 2019 £m	Society 2018 £m
At 4 April	49		72	
IFRS 9 transition (note i)	46		32	
At 5 April	95	3	104	72
Deferred tax (charge)/credit in the income statement:				
Accelerated capital allowances	4	-	4	1
Effect of deferred tax provided at different tax rates	(3)	4	5	3
Other items	(19)	(2)	(4)	-
Taxation on items through the income statement	(18)	2	5	4
Deferred tax (charge)/credit in other comprehensive income:				
FVOCI investment securities (2018: available for sale investment securities)	6	(2)	6	(2)
Cash flow hedges	(85)	48	(35)	13
Property revaluation	1	1	1	1
Retirement benefit obligations	(45)	(15)	(45)	(15)
Effect of deferred tax provided at different tax rates	(45)	12	(30)	(1)
Taxation on items through other comprehensive income	(168)	44	(103)	(4)
At 4 April	(91)	49	6	72

Note:
i. Adjustment on implementation of IFRS 9 as detailed in note 37.

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets and liabilities

	Group 2019 £m	Group 2018 £m	Society 2019 £m	Society 2018 £m
Deferred tax assets				
Accelerated capital allowances	(2)	(16)	(5)	(16)
Property revaluation	1	1	-	-
Available for sale investment securities	-	(30)	-	(30)
Fair value through other comprehensive income assets	(22)		(22)	
Cash flow hedges	-	39	-	39
Retirement benefit obligations	28	92	27	92
Provisions for loan impairment	-	1	-	-
Other provisions	48	11	39	10
	53	98	39	95
Deferred tax liabilities				
Property revaluation	(10)	(12)	(10)	(12)
Cash flow hedges	(108)	(34)	(9)	-
Other provisions	(26)	(3)	(14)	(11)
	(144)	(49)	(33)	(23)
Net deferred tax (liability)/asset	(91)	49	6	72

The majority of deferred tax assets are anticipated to be recoverable after one year. The Group considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

12. Classification and measurement

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in this note and notes 21 to 24 are on a consolidated basis. The following table summarises the classification of carrying amounts of the Group's financial assets and liabilities.

Classification of financial assets and liabilities

	4 April 2019				5 April 2018 (note i)			
	Amortised cost	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Total**	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
Group	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial assets								
Cash	**12,493**	**-**	**-**	**12,493**	14,361	-	-	14,361
Loans and advances to banks and similar institutions	**4,009**	**-**	**-**	**4,009**	3,493	-	-	3,493
Investment securities	**1,656**	**14,500**	**78**	**16,234**	1,120	11,881	45	13,046
Derivative financial instruments	**-**	**-**	**3,562**	**3,562**	-	-	4,121	4,121
Fair value adjustment for portfolio hedged risk	**411**	**-**	**-**	**411**	(144)	-	-	(144)
Loans and advances to customers	**198,922**	**-**	**129**	**199,051**	191,174	-	247	191,421
Total financial assets	**217,491**	**14,500**	**3,769**	**235,760**	210,004	11,881	4,413	226,298
Other non-financial assets				**2,541**				2,639
Total assets				**238,301**				228,937
Financial liabilities								
Shares	**153,969**	**-**	**-**	**153,969**	148,003	-	-	148,003
Deposits from banks and similar institutions	**20,149**	**-**	**-**	**20,149**	20,436	-	-	20,436
Other deposits	**5,074**	**-**	**-**	**5,074**	4,693	-	-	4,693
Fair value adjustment for portfolio hedged risk	**(17)**	**-**	**-**	**(17)**	(53)	-	-	(53)
Debt securities in issue	**35,942**	**-**	**-**	**35,942**	34,118	-	-	34,118
Derivative financial instruments	**-**	**-**	**1,593**	**1,593**	-	-	2,337	2,337
Subordinated liabilities	**6,706**	**-**	**-**	**6,706**	5,497	-	-	5,497
Subscribed capital	**250**	**-**	**-**	**250**	263	-	-	263
Total financial liabilities	**222,073**	**-**	**1,593**	**223,666**	212,957	-	2,337	215,294
Other non-financial liabilities				**1,466**				1,402
Total liabilities				**225,132**				216,696

Note
i. 5 April 2018 balances are presented under IFRS 9. Balances have been restated as detailed in note 1 and adjustments made on transition to IFRS 9 are detailed in note 37.

As at 4 April 2019, the Group had no financial assets or liabilities (2018: none) for which it had taken the option to designate at FVTPL. Further details on the transition to IFRS 9 are included in note 37 and information on the fair value of financial assets and liabilities is included in notes 21 to 23.

13. Investment securities

	Group and Society	
	2019	2018
	£m	£m
Government and supranational investment securities	12,306	9,592
Other debt investment securities	3,909	3,450
Investments in equity shares	19	4
Total	**16,234**	13,046

The Group may use its investment securities as collateral. Investment securities of £30 million (2018: £30 million) have been pledged as collateral for UK payment schemes. Investment securities with a fair value of £1,694 million (2018: £945 million) have been used as collateral in short term repurchase agreements. The Group also holds £1,333 million (2018: £403 million) of investment securities as collateral under reverse repurchase agreements which are not recognised in the table above.

Further information on investment securities is included in the 'Treasury assets' section of the Business and Risk Report

14. Loans and advances to customers

	4 April 2019						5 April 2018 (note i)						4 April 2018 (note i)			
	Loans held at amortised cost				Loans held at FVTPL	Total	Loans held at amortised cost				Loans held at FVTPL	Total	Loans held at amortised cost			Total
	Gross	Provisions	Other (note ii)	Total			Gross	Provisions	Other (note ii)	Total			Gross	Provisions	Other (note ii)	
Group	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Prime residential mortgages	151,445	(44)	-	151,401	72	151,473	143,869	(47)	-	143,822	189	144,011	144,049	(36)	-	144,013
Specialist residential mortgages	34,495	(162)	-	34,333	-	34,333	33,245	(188)	-	33,057	-	33,057	33,250	(109)	-	33,141
Consumer banking	4,586	(418)	-	4,168	-	4,168	4,107	(365)	-	3,742	-	3,742	4,107	(298)	-	3,809
Commercial and other lending	8,178	(41)	883	9,020	57	9,077	9,540	(29)	1,042	10,553	58	10,611	9,602	(15)	1,043	10,630
Total	198,704	(665)	883	198,922	129	199,051	190,761	(629)	1,042	191,174	247	191,421	191,008	(458)	1,043	191,593

	4 April 2019						5 April 2018 (note i)						4 April 2018 (note i)			
	Loans held at amortised cost				Loans held at FVTPL	Total	Loans held at amortised cost				Loans held at FVTPL	Total	Loans held at amortised cost			Total
	Gross	Provisions	Other (note ii)	Total			Gross	Provisions	Other	Total			Gross	Provisions	Other (note ii)	
Society	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Prime residential mortgages	151,073	(44)	-	151,029	72	151,101	143,425	(47)	-	143,378	189	143,567	143,603	(36)	-	143,567
Specialist residential mortgages	590	(3)	-	587	-	587	663	(4)	-	659	-	659	663	-	-	663
Consumer banking	4,586	(418)	-	4,168	-	4,168	4,107	(365)	-	3,742	-	3,742	4,107	(298)	-	3,809
Commercial and other lending	7,703	(41)	883	8,545	46	8,591	9,059	(29)	1,042	10,072	47	10,119	9,108	(15)	1,043	10,136
Total	163,952	(506)	883	164,329	118	164,447	157,254	(445)	1,042	157,851	236	158,087	157,481	(349)	1,043	158,175

Notes:
i. 5 April 2018 balances are presented under IFRS 9. Balances have been restated as detailed in note 1 and adjustments made on transition to IFRS 9 are detailed in note 37.
ii. Loans held at amortised cost include a fair value adjustment for micro hedged risk for commercial loans hedged on an individual basis.

14. Loans and advances to customers (continued)

The tables below summarise the movements in gross loans and advances to customers held at amortised cost, including the impact of ECL impairment provisions and excluding the fair value adjustment for micro hedged risk. The lines within the tables are an aggregation of monthly movements over the year. Residential mortgages represent the majority of the Group's loans and advances to customers. An additional table that summarises the movements for the Group's residential mortgages, is presented in the Credit risk section of the Business and Risk Report.

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12 month ECL Stage 1		Subject to lifetime ECL Stage 2		Subject to lifetime ECL Stage 3 and POCI		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Group	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	169,049	48	20,012	284	1,700	297	190,761	629
Stage transfers:								
Transfers from Stage 1 to Stage 2	(29,278)	(30)	29,278	30	-	-	-	-
Transfers to Stage 3	(305)	(1)	(1,022)	(113)	1,327	114	-	-
Transfers from Stage 2 to Stage 1	37,282	266	(37,282)	(266)	-	-	-	-
Transfers from Stage 3	187	3	573	24	(760)	(27)	-	-
Net remeasurement of ECL arising from transfer of stage		(237)		287		20		70
Net movement arising from transfer of stage (note ii)	7,886	1	(8,453)	(38)	567	107	-	70
New assets originated or purchased (note iii)	38,717	30	-	-	-	-	38,717	30
Repayments and changes in risk parameters (note iv)	(8,835)	(9)	(199)	32	(63)	29	(9,097)	52
Other items impacting income statement charge/(reversal) including recoveries	2	-	-	-	(1)	(19)	1	(19)
Redemptions (note v)	(19,451)	(2)	(1,821)	(17)	(285)	(1)	(21,557)	(20)
Income statement charge for the year								113
Decrease due to write-offs	-	-	-	-	(121)	(96)	(121)	(96)
Other provision movements	-	-	-	-	-	19	-	19
4 April 2019	187,368	68	9,539	261	1,797	336	198,704	665
Net carrying amount		187,300		9,278		1,461		198,039

The reasons for key movements shown in the table above are as follows:

- The movement in gross balances is principally a result of £38,717 million of new lending, offset by a reduction of £30,654 million as a result of repayments and redemptions. The majority of these movements relate to residential mortgages.
- Of the £121 million of write-offs, £74 million relates to unsecured lending, £41 million to residential mortgages and £6 million to commercial and other lending.
- Impairment provisions increased by £36 million in the period to £665 million. As shown in note 10, unsecured and commercial provisions increased in the period; however, these increases were offset by a reduction in residential mortgages provisions.
- The net £52 million increase in impairment provisions from 'Repayments and changes in risk parameters', includes the majority of the £23 million impact of changes made to the economic scenarios applied during the period.

14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired		Total	
	Subject to 12 month ECL Stage 1		Subject to lifetime ECL Stage 2		Subject to lifetime ECL Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Society	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	146,762	37	9,471	146	1,021	262	157,254	445
Stage transfers:								
Transfers from Stage 1 to Stage 2	(19,307)	(24)	19,307	24	-	-	-	-
Transfers to Stage 3	(207)	-	(600)	(88)	807	88	-	-
Transfers from Stage 2 to Stage 1	24,327	189	(24,327)	(189)	-	-	-	-
Transfers from Stage 3	105	2	297	14	(402)	(16)	-	-
Net remeasurement of ECL arising from transfer of stage		(168)		218		27		77
Net movement arising from transfer of stage (note ii)	4,918	(1)	(5,323)	(21)	405	99	-	77
New assets originated or purchased (note iii)	33,751	28	-	-	-	-	33,751	28
Repayments and changes in risk parameters (note iv)	(8,570)	(9)	(167)	28	(48)	26	(8,785)	45
Other items impacting income statement charge/(reversal) including recoveries	1	-	-	-	(1)	(14)	-	(14)
Redemptions (note v)	(17,270)	(1)	(738)	(5)	(164)	(1)	(18,172)	(7)
Income statement charge for the year								129
Decrease due to write-offs	-	-	-	-	(96)	(82)	(96)	(82)
Other provision movements	-	-	-	-	-	14	-	14
4 April 2019	159,592	54	3,243	148	1,117	304	163,952	506
Net carrying amount		159,538		3,095		813		163,446

Notes:
i. Group gross balances of credit impaired loans include £167 million (5 April 2018: £180 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (5 April 2018: £7 million).
ii. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.
iii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in Stage 1.
iv. This line comprises capital repayments where the asset is not derecognised, changes in risk parameters, and changes to modelling inputs and methodology. The repayment value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The repayment value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.
v. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

14. Loans and advances to customers (continued)

Maturity analysis

The following table shows the residual maturity of loans and advances to customers, based on their contractual maturity:

Residual maturity of loans and advances to customers

	Group 4 April 2019 £m	Group 5 April 2018 (note i) £m	Group 4 April 2018 (note i) £m	Society 4 April 2019 £m	Society 5 April 2018 (note i) £m	Society 4 April 2018 (note i) £m
Repayable:						
On demand	**2,146**	2,087	2,087	**2,146**	2,087	2,087
In not more than three months	**2,285**	2,211	2,211	**2,099**	2,038	2,038
In more than three months but not more than one year	**5,976**	5,729	5,729	**5,836**	5,585	5,585
In more than one year but not more than five years	**31,919**	30,546	30,545	**30,234**	28,934	28,932
In more than five years	**156,507**	150,435	150,436	**123,755**	118,846	118,839
	198,833	191,008	191,008	**164,070**	157,490	157,481
Impairment provision on loans and advances	**(665)**	(629)	(458)	**(506)**	(445)	(349)
Fair value adjustment for micro hedged risk	**883**	1,042	1,043	**883**	1,042	1,043
Total	**199,051**	191,421	191,593	**164,447**	158,087	158,175

Note.
i. 5 April 2018 balances are presented under IFRS 9 Balances have been restated as detailed in note 1 and adjustments made on transition to IFRS 9 are detailed in note 37.

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for the Bank of England's (BoE) Term Funding Scheme (TFS). The programmes have enabled the Group to obtain secured funding. Mortgages pledged and the carrying values of the notes in issue are as follows:

Mortgages pledged to asset backed funding programmes

	2019					2018				
			Notes in issue					Notes in issue (note i)		
			Held by the Group					Held by the Group		
	Mortgages pledged (note ii)	Held by third parties (note iii)	Drawn (note iv)	Undrawn (note v)	Total notes in issue	Mortgages pledged (note ii)	Held by third parties (note iii)	Drawn (note iv)	Undrawn (note v)	Total notes in issue
Group	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Covered bond programme	**22,656**	**17,339**	**-**	**-**	**17,339**	21,000	16,035	-	-	16,035
Securitisation programme	**6,936**	**3,051**	**-**	**339**	**3,390**	8,711	3,655	-	338	3,993
Whole mortgage loan pools	**24,117**	**-**	**17,001**	**-**	**17,001**	22,831	-	17,001	-	17,001
Total	**53,709**	**20,390**	**17,001**	**339**	**37,730**	52,542	19,690	17,001	338	37,029

Notes:
i. Prior year comparatives have been restated to present balances on a consistent basis with the current period.
ii. Mortgages pledged include £5.4 billion (2018: £8.7 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.
iii. Notes in issue which are held by third parties are included within debt securities in issue (note 18)
iv. Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn under the TFS. At 4 April 2019 the Group had outstanding TFS drawings of £17.0 billion (2018: £17.0 billion)
v. Notes in issue, held by the Group and undrawn, are debt securities issued by the programmes to the Society and mortgage loan pools that have been pledged to the BoE but not utilised

14. Loans and advances to customers (continued)

The Society established the Nationwide Covered Bond programme in November 2005. Mortgages pledged under the Nationwide Covered Bond programme provide security for issues of covered bonds made by the Society. During the year ended 4 April 2019, £2.5 billion (sterling equivalent) of notes were issued, and £0.8 billion (sterling equivalent) of notes matured.

The Society established the Silverstone Master Trust securitisation programme in July 2008. The securitisation programme notes are issued by Silverstone Master Issuer plc and the issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Society and are consolidated into the accounts of the Group. The remaining beneficial interest in the pledged mortgages of £3.9 billion (2018: £5.2 billion) stays with the Society and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2019 a total of £0.7 billion (sterling equivalent) of notes matured, with no issuances in the period.

The securitisation programme notes are issued by Silverstone Master Issuer plc and are not included in the accounts of the Society. Silverstone Master Issuer plc is fully consolidated into the accounts of the Group.

The whole mortgage loan pools are pledged at the BoE under the TFS. Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. At 4 April 2019, £24.1 billion (2018: £22.8 billion) of pledged collateral supported £17.0 billion (2018: £17.0 billion) of TFS drawdowns. There were no further drawdowns during the year following the closure of the TFS drawdown window in February 2018.

In accordance with accounting standards, notes in issue and held by the Group are not recognised in the Group's or Society's balance sheets. Mortgages pledged are not derecognised from the Group or Society balance sheets as the Group has retained substantially all the risks and rewards of ownership. The Group and Society continue to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

The following table sets out the carrying value and fair value of the transferred assets and liabilities for the Silverstone Master Trust:

	Carrying value			Fair value		
	Transferred assets	Associated liabilities	Total	Transferred assets	Associated liabilities	Total
	£m	£m	£m	£m	£m	£m
At 4 April 2019	**6,936**	**(3,390)**	**3,546**	**6,743**	**(3,418)**	**3,325**
At 4 April 2018 (note i)	8,711	(3,993)	4,718	8,428	(4,030)	4,398

Note.
i Prior year comparatives have been restated to present balances on a consistent basis with the current period.

The Society holds cash deposited by the Nationwide Covered Bond programme of £0.6 billion (2018: £0.4 billion) and by the Silverstone programme of £0.7 billion (2018: £0.4 billion).

15. Derivative financial instruments

All of the Group's derivative financial instruments are used to manage economic risk, although not all of the derivatives are subject to hedge accounting. Note 7 sets out the link between economic risk management and the hedge accounting applied by the Group. The table below provides an analysis of the notional amount and fair value of derivatives by both hedge accounting type and instrument type. The amount of ineffectiveness recognised for each hedge type is shown in note 7. Contract/notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

Derivatives by instrument and hedge type

	2019						2018					
	Group			Society			Group			Society		
	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Micro fair value hedges:												
Interest rate swaps	12,673	68	178	17,054	171	181	13,347	452	297	17,152	374	501
Bond forwards	2,625	-	58	2,625	-	58	-	-	-	-	-	-
Inflation swaps	1,403	1	14	1,403	1	14	-	-	-	-	-	-
	16,701	69	250	21,082	172	253	13,347	452	297	17,152	374	501
Macro fair value hedges:												
Interest rate swaps	128,704	2	882	128,704	2	882	101,741	266	1,344	101,741	266	1,344
	128,704	2	882	128,704	2	882	101,741	266	1,344	101,741	266	1,344
Cash flow hedges:												
Interest rate swaps	47,472	1,129	26	23,031	51	2	32,099	873	287	7,162	39	180
Cross currency interest rate swaps	23,860	2,023	232	7,413	139	113	23,551	2,363	254	6,016	16	199
Inflation swaps	280	34	-	280	34	-	280	24	-	280	24	-
	71,612	3,186	258	30,724	224	115	55,930	3,260	541	13,458	79	379
Not subject to hedge accounting:												
Interest rate swaps	63,827	72	21	85,526	724	731	54,595	62	77	77,795	711	574
Cross currency interest rate swaps	6,866	215	91	26,232	1,474	891	1,870	79	39	23,039	1,676	909
Foreign exchange swaps	6,037	15	80	6,037	15	80	1,635	2	27	1,635	2	27
Other derivatives	4,301	3	11	4,301	3	7	1,717	-	12	1,717	-	12
	81,031	305	203	122,096	2,216	1,709	59,817	143	155	104,186	2,389	1,522
Total	298,048	3,562	1,593	302,606	2,614	2,959	230,835	4,121	2,337	236,537	3,108	3,746

15. Derivative financial instruments (continued)

The contractual maturity of derivatives used as *hedging instruments in micro* fair value and cash flow hedges is provided in the table below. As described in note 1, macro fair value hedges are frequently rebalanced to include new business. As a result, these hedges have not been included in the analysis below.

Contractual maturity of hedging instruments (contract/notional amount)

2019	**Group**				**Society**			
	Less than one year	**Between one and five years**	**More than five years**	**Total**	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Micro fair value hedges								
Interest rate swaps	358	5,722	6,593	12,673	1,866	6,276	8,912	17,054
Bond forwards	2,625	-	-	2,625	2,625	-	-	2,625
Inflation swaps	233	367	803	1,403	233	367	803	1,403
	3,216	6,089	7,396	16,701	4,724	6,643	9,715	21,082
Cash flow hedges								
Interest rate swaps	19,155	16,615	11,702	47,472	14,180	4,560	4,291	23,031
Cross currency interest rate swaps	2,017	11,474	10,369	23,860	191	2,985	4,237	7,413
Inflation swaps	-	280	-	280	-	280	-	280
	21,172	28,369	22,071	71,612	14,371	7,825	8,528	30,724

Contractual maturity of hedging instruments (contract/notional amount)

2018	Group				Society			
	Less than one year	Between one and five years	More than five years	Total	Less than one year	Between one and five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Micro fair value hedges								
Interest rate swaps	183	4,007	9,157	13,347	883	5,715	10,554	17,152
	183	4,007	9,157	13,347	883	5,715	10,554	17,152
Cash flow hedges								
Interest rate swaps	2,387	17,915	11,797	32,099	-	2,354	4,808	7,162
Cross currency interest rate swaps	1,831	10,566	11,154	23,551	-	1,260	4,756	6,016
Inflation swaps	-	160	120	280	-	160	120	280
	4,218	28,641	23,071	55,930	-	3,774	9,684	13,458

15. Derivative financial instruments (continued)

The weighted average rates of cash flow hedging instruments which achieve fixed rates are summarised in the table below. Fair value and cash flow hedging instruments which do not achieve a fixed rate have not been included in this analysis.

Average rates achieved 2019	**Group**				**Society**			
	Less than one year	**Between one and five years**	**More than five years**	**Total**	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
Cross currency interest rate swaps								
Average EUR/GBP rate	1.24	1.29	1.22	1.26	1.15	1.15	1.12	1.14
Average USD/GBP rate	1.50	1.35	1.38	1.38	-	1.34	1.34	1.33
Average JPY/GBP rate	-	147.50	145.41	145.83	-	147.50	145.41	145.83
Average NOK/GBP rate	-	9.19	11.05	10.59	-	-	10.88	10.88
Average HKD/GBP rate	-	11.89	11.85	11.85	-	-	-	-
Interest rate swaps								
Average fixed interest rate (GBP %)	0.76	-	-	0.76	0.76	-	-	0.76
Inflation swaps								
Average fixed interest rate (GBP %)	-	3.55	-	3.55	-	3.55	-	3.55
Average inflation rate (RPI index)	-	256.07	-	256.07	-	256.07	-	256.07

16. Deposits from banks and similar institutions

Deposits from banks and similar institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	Group 2019 £m	2018 (note i) £m	**Society 2019 £m**	2018 (note i) £m
Accrued interest	3	2	3	2
Repayable:				
On demand	2,176	2,430	1,118	1,242
In not more than three months	848	952	848	952
In more than three months but not more than one year	122	52	122	52
In more than one year but not more than five years	17,000	17,000	17,000	17,000
Total	20,149	20,436	19,091	19,248

Note:
i Comparatives have been restated as detailed in note 1.

For the Group and Society, deposits from banks and similar institutions include £17.0 billion (2018: £17.0 billion) drawn down against the Bank of England Term Funding Scheme (TFS) which is repayable within more than one year but not more than five years.

17. Other deposits

Other deposits are repayable from the balance sheet date in the ordinary course of business as follows:

	Group 2019 £m	Group 2018 (note i) £m	Society 2019 £m	Society 2018 (note i) £m
Accrued interest	1	2	1	2
Repayable:				
On demand	2,141	2,344	3,686	3,761
In not more than three months	778	628	778	628
In more than three months but not more than one year	2,138	1,708	2,138	1,708
In more than one year but not more than five years	16	11	16	11
Total	**5,074**	4,693	**6,619**	6,110

Note:
i. Comparatives have been restated as detailed in note 1.

Other deposits comprise *wholesale and commercial* deposits. The Society's other deposits as at 4 April 2019 include £1,545 million (2018: £1,417 million) of deposits from subsidiary undertakings.

18. Debt securities in issue

	Group 2019 £m	Group 2018 £m	Society 2019 £m	Society 2018 £m
Certificates of deposit and commercial paper	7,975	5,413	7,975	5,413
Fixed and floating rate notes	23,962	23,969	23,970	23,980
Other debt securities	3,363	3,959	310	301
	35,300	33,341	32,255	29,694
Fair value adjustment for micro hedged risk	642	777	99	40
Total	**35,942**	34,118	**32,354**	29,734
Debt securities in issue are repayable from the balance sheet *date in the ordinary course* of business as follows:				
Accrued interest	167	157	156	148
Residual maturity repayable:				
In not more than one year	12,205	8,489	11,424	7,712
In more than one year	22,928	24,695	20,675	21,834
	35,300	33,341	32,255	29,694
Fair value adjustment for micro hedged risk	642	777	99	40
Total	**35,942**	34,118	**32,354**	29,734

Debt securities in issue in the Group include £20,390 million (2018: £19,690 million), and in the Society include £16,746 million (2018: £15,312 million), secured on certain loans and advances to customers. Further information is given in note 14.

19. Subordinated liabilities

	Issuance date	Next call date	Maturity date	Group and Society 2019 £m	2018 £m
Senior non-preferred					
3.766% senior non-preferred notes (US Dollar 1 billion)	8 March 2018	8 March 2023	8 March 2024	766	713
1.5% senior non-preferred notes (Euro 1 billion)	8 March 2018	8 March 2025	8 March 2026	858	875
4.302% senior non-preferred notes (US Dollar 0.75 billion)	8 March 2018	8 March 2028	8 March 2029	575	534
4.363% senior non-preferred notes (US Dollar 1 billion)	1 August 2018	1 August 2023	1 August 2024	769	-
3.4675% senior non-preferred notes (Norwegian Kroner 1 billion)	5 October 2018		5 October 2026	90	-
0.805% senior non-preferred notes (Japanese Yen 1 billion)	24 October 2018	24 October 2023	24 October 2024	7	-
0.9925% senior non-preferred notes (Japanese Yen 4 billion)	30 October 2018	30 October 2025	30 October 2026	27	-
3.875% senior non-preferred notes (Norwegian Kroner 0.3 billion)	13 November 2018		13 November 2028	27	-
3.9% senior non-preferred notes (Norwegian Kroner 1 billion)	13 November 2018		13 November 2028	90	-
1.2775% senior non-preferred notes (Japanese Yen 3 billion)	14 November 2018	14 November 2028	14 November 2029	21	-
Tier 2 Eligible					
6.75% subordinated notes (Euro 0.75 billion)	22 July 2010		22 July 2020	673	686
4% subordinated notes (US Dollar 1.25 billion)	14 September 2016		14 September 2026	957	886
2% subordinated notes (Euro 1 billion)	25 July 2017	25 July 2024	25 July 2029	867	889
4.125% subordinated notes (US Dollar 1.25 billion)	18 October 2017	18 October 2027	18 October 2032	973	904
				6,700	5,487
Fair value hedge accounting adjustments				37	42
Unamortised premiums and issue costs				(31)	(32)
Total				6,706	5,497

Senior non-preferred notes are a class of subordinated liability which rank equally with each other and behind the claims against the Society of all depositors, creditors and investing members other than holders of Tier 2 eligible subordinated notes, permanent interest-bearing shares (PIBS), Additional Tier 1 (AT1) instruments and CCDS. The Tier 2 eligible subordinated notes rank equally with each other and ahead of claims against the Society of holders of PIBS, AT1 instruments and CCDS.

During the year the Group issued US Dollar 1 billion, Norwegian Kroner 2.3 billion and Japanese Yen 8 billion of senior non-preferred notes as detailed above. The issuance of senior non-preferred notes will contribute to meeting forthcoming minimum requirements for own funds and eligible liabilities (MREL).

The interest rate risk and foreign exchange risk arising from the issuance of fixed rate and foreign currency subordinated liabilities have been mitigated through the use of derivatives.

20. Subscribed capital

			Group and Society	
			2019	2018
	Notes	**Next call date**	**£m**	£m
7.25% permanent interest-bearing shares	i	5 December 2021	**34**	34
6.25% permanent interest-bearing shares	i	22 October 2024	**45**	45
5.769% permanent interest-bearing shares	i	6 February 2026	**84**	84
7.859% permanent interest-bearing shares	i	13 March 2030	**39**	39
Floating rate (6-month Libor + 2.4%) permanent interest-bearing shares	ii		**10**	10
6.875% permanent interest-bearing shares			**-**	10
Floating rate (3-month Libor + 1.5%) permanent interest-bearing shares			**-**	3
			212	225
Fair value hedge accounting adjustments			**40**	40
Unamortised premiums and issue costs			**(2)**	(2)
Total			**250**	263

Notes:

i Repayable, at the option of the Society, *in whole on the initial* call date or every fifth anniversary thereafter. If not repaid on a call date, then the interest rate is reset at a margin to the yield on the then prevailing five-year benchmark gilt rate.
ii Only repayable in the event of winding up the Society.

During the year, there were two redemptions of subscribed capital at par. On 6 May 2018 the Group redeemed the £3 million floating rate (3-month Libor + 1.5%) PIBS and on 10 January 2019 the Group redeemed the £10 million 6.875% PIBS.

All PIBS are denominated in sterling and only repayable with the prior consent of the PRA.

PIBS rank equally with each other and the Group's AT1 instruments. They are deferred shares of the Society and rank behind the claims against the Society of all noteholders, depositors, creditors and investing members of the Society, other than the holders of CCDS.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

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

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in notes 21 to 23 are on a consolidated basis. The following tables show the Group's financial assets and liabilities that are held at fair value by fair value hierarchy, balance sheet classification and product type:

2019	Fair values based on Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Government and supranational investments	12,306	-	-	12,306
Other debt investment securities	1,202	989	62	2,253
Investments in equity shares	-	-	19	19
Total investment securities (note i)	13,508	989	81	14,578
Interest rate swaps	-	1,271	-	1,271
Cross currency interest rate swaps	-	2,238	-	2,238
Foreign exchange swaps	-	15	-	15
Inflation swaps	-	35	-	35
Swaptions	-	3	-	3
Total derivative financial instruments	-	3,562	-	3,562
Loans and advances to customers (note ii)	-	-	129	129
Total financial assets	13,508	4,551	210	18,269
Financial liabilities				
Interest rate swaps	-	(1,107)	-	(1,107)
Cross currency interest rate swaps	-	(324)	-	(324)
Foreign exchange swaps	-	(80)	-	(80)
Bond forwards	-	(58)	-	(58)
Swaptions	-	(3)	-	(3)
Inflation swaps	-	(21)	-	(21)
Total derivative financial instruments	-	(1,593)	-	(1,593)
Total financial liabilities	-	(1,593)	-	(1,593)

2018	Fair values based on Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Government and supranational investments	9,592	-	-	9,592
Other debt investment securities	1,007	1,282	41	2,330
Investments in equity shares	-	-	3	3
Total investment securities (note i)	10,599	1,282	44	11,925
Interest rate swaps	-	1,654	-	1,654
Cross currency interest rate swaps	-	2,441	-	2,441
Foreign exchange swaps	-	2	-	2
Inflation swaps	-	24	-	24
Equity index swaps	-	-	-	-
Total derivative financial instruments	-	4,121	-	4,121
Total financial assets	10,599	5,403	44	16,046
Financial liabilities				
Interest rate swaps	-	(2,002)	(4)	(2,006)
Cross currency interest rate swaps	-	(293)	-	(293)
Foreign exchange swaps	-	(27)	-	(27)
Bond forwards	-	(1)	-	(1)
Swaptions	-	(3)	-	(3)
Inflation swaps	-	(7)	-	(7)
Total derivative financial instruments	-	(2,333)	(4)	(2,337)
Total financial liabilities	-	(2,333)	(4)	(2,337)

Notes:

i. Investment securities exclude £1,656 million of investment securities held at amortised cost (2018: £1,120 million of held to maturity investment securities and £1 million of available for sale investments in equity shares).

ii. On transition to IFRS 9, certain loans and advances to customers have been classified as FVTPL. Further information is included in note 37

The Group's Level 1 portfolio comprises liquid 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 using models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

More detail on the Level 3 portfolio is provided in note 22.

Transfers between fair value hierarchies

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

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

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

Investment securities

The Level 3 items in this category primarily include £62 million (2018: £44 million) of investments in industry-wide banking and credit card service operations and £18 million of new investments made in Fintech companies during the year.

Derivative financial instruments

During the year, derivatives economically hedging a small closed portfolio of equity release mortgages were settled upon sale of the associated loans.

Loans and advances to customers

On transition to IFRS 9, certain loans and advances to customers have been classified as FVTPL. Level 3 assets in this category include a closed portfolio of residential mortgages and a small number of commercial loans

During the year, a portfolio of residential mortgages was transferred from Level 3 to Level 2 after a market price was obtained. These assets were subsequently sold.

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

Movements in Level 3 portfolio

	Investment securities	Derivative financial instruments	Loans and advances to customers
	£m	£m	£m
At 4 April 2018	44	(4)	
IFRS 9 transition (note i)	1	-	247
At 5 April 2018	45	(4)	247
Gains/(losses)recognised in the income statement, within:			
Net interest income	-	-	8
Gains from derivatives and hedge accounting (note ii)	4	-	-
Other operating income	15	2	6
Additions	18	-	-
Settlements/repayments	(1)	2	(21)
Transfers out of Level 3 portfolio	-	-	(111)
At 4 April 2019	81	-	129

Movements in Level 3 portfolio

	Investment securities	Derivative financial instruments	Other deposits – PEBs (note iii)
	£m	£m	£m
At 5 April 2017	66	228	(810)
Gains/(losses) recognised in the income statement, within:			
Net interest income/(expense)	-	206	(210)
(Losses)/gains from derivatives and hedge accounting	-	(232)	233
Other operating income	26	-	-
(Losses)/gains recognised in other comprehensive income:			
Fair value movement taken to members' interests and equity	(18)	-	-
Settlements	-	(206)	787
Disposals	(30)	-	-
At 4 April 2018	44	(4)	-

Notes:
i. Adjustment on implementation of IFRS 9 as detailed in note 37.
ii. Includes foreign exchange revaluation gains/losses.
iii. The PEBs matured in full during the year ended 4 April 2018.

22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (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

2019		Income statement		Other comprehensive income	
	Fair value	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	£m	£m	£m	£m	£m
Investment securities (note i)	81	36	(39)	-	-
Loans and advances to customers	129	4	(5)	-	-
Total	210	40	(44)	-	-

Sensitivity of Level 3 fair values

2018		Income statement		Other comprehensive income	
	Fair value	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	£m	£m	£m	£m	£m
Investment securities (note i)	44	-	-	25	(35)
Derivative financial instruments	(4)	-	-	-	-
Total	40	-	-	25	(35)

Note:
i On adoption of IFRS 9 the Level 3 investment securities were classified as FVTPL. The sensitivity analysis on fair values in the table above therefore impacts the income statement in the current period. At 4 April 2018 Level 3 investment securities were available for sale assets, with fair value movements recognised in other comprehensive income.

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market. The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply. Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

Significant unobservable inputs

2019	Total assets	Valuation technique	Significant unobservable inputs	Range (note i)		Weighted average (note ii)	Units
	£m						
Investment securities	81	Discounted cash flows	Discount rate	10.00	12.00	11.00	%
			Share conversion	-	100.00	65.85	%
Loans and advances to customers	129	Discounted cash flows	Discount rate	2.34	9.00	4.12	%

Significant unobservable inputs

2018	Total assets	Valuation technique	Significant unobservable inputs	Range (note i)		Weighted average (note ii)	Units
	£m						
Investment securities	44	Discounted cash flows	Discount rate	10.00	12.00	11.00	%
			Share conversion	-	100.00	66.45	%

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. Weighted average represents the input values used in calculating the fair values for the above financial instruments.

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

Discount rate

The discount rate is used to determine the present value of future cash flows. The level of the discount rate takes into account the time value of money, but also the risk or uncertainty of future cash flows. Typically, the greater the uncertainty, the higher the discount rate. A higher discount rate leads to a lower valuation and vice versa.

Share conversion

Where the fair value of a security is affected by potential conversion into another instrument, share conversion is factored into the fair value. The higher the share conversion, the higher the valuation and vice versa.

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

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

Fair value of financial assets and liabilities (note i)

	2019					2018 (note ii)				
	Carrying value	Fair values based on			Total fair value	Carrying value	Fair values based on			Total fair value
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets										
Loans and advances to banks and similar institutions	4,009	-	4,009	-	4,009	3,493	-	3,493	-	3,493
Investment securities (note iii)	1,656	-	1,651	-	1,651	1,120	-	1,128	-	1,128
Loans and advances to customers:										
Residential mortgages	185,734	-	-	186,151	186,151	177,154	-	-	176,479	176,479
Consumer banking	4,168	-	-	4,104	4,104	3,809	-	-	3,666	3,666
Commercial and other lending	9,020	-	-	8,973	8,973	10,630	-	-	9,570	9,570
Total	204,587	-	5,660	199,228	204,888	196,206	-	4,621	189,715	194,336
Financial liabilities										
Shares	153,969	-	153,989	-	153,989	148,003	-	147,901	-	147,901
Deposits from banks and similar institutions	20,149	-	20,149	-	20,149	20,436	-	20,436	-	20,436
Other deposits	5,074	-	5,074	-	5,074	4,693	-	4,693	-	4,693
Debt securities in issue	35,942	16,566	20,154	-	36,720	34,118	15,124	19,683	-	34,807
Subordinated liabilities	6,706	-	6,681	-	6,681	5,497	-	5,521	-	5,521
Subscribed capital	250	-	235	-	235	263	-	258	-	258
Total	222,090	16,566	206,282	-	222,848	213,010	15,124	198,492	-	213,616

Notes:

i. The tables above exclude cash for which fair value approximates to carrying value.
ii. Comparatives have been restated as detailed in note 1.
iii. The Group holds residential mortgage backed securities under a programme to securitise Bradford & Bingley plc residential mortgage assets. These financial assets are classified as amortised cost in the current period under IFRS 9; at 4 April 2018 they were classified as held to maturity investment securities under IAS 39.

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

The fair values of loans and advances to customers are further analysed, between those impaired and those not impaired, as follows:

Fair value of loans and advances to customers

	2019						2018 (note i)					
	Non-credit impaired (Stages 1 and 2)		Credit-impaired (Stage 3 and POCI) (note ii)		Total		Not impaired		Impaired		Total	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Residential mortgages	184,338	184,752	1,396	1,399	185,734	186,151	176,459	175,813	695	666	177,154	176,479
Consumer banking	4,140	4,076	28	28	4,168	4,104	3,772	3,642	37	24	3,809	3,666
Commercial and other lending	8,983	8,933	37	40	9,020	8,973	10,613	9,556	17	14	10,630	9,570
Total	197,461	197,761	1,461	1,467	198,922	199,228	190,844	189,011	749	704	191,593	189,715

Notes:
i Comparative balances are prepared under IAS 39, and have been restated as detailed in note 1.
ii. POCI loans are those which were credit-impaired when purchased or originated.

Loans and advances to banks and similar institutions

The fair value of loans and advances to banks and similar institutions is estimated by discounting expected cash flows at a market discount rate.

Investment securities

The fair value of investment securities is sourced from consensus pricing or other observable market prices.

Loans and advances to customers

The fair value of loans and advances to customers is estimated by discounting expected cash flows at rates that reflect current rates for similar lending.

Consistent modelling techniques are used across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR) which, for example, in the case of the Group's residential base mortgage rate (BMR) mortgage book, generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR.

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

Shares, deposits and amounts due to customers

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

Debt securities in issue

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

Subordinated liabilities and subscribed capital

The fair value of subordinated liabilities and subscribed capital is determined by reference to quoted market prices of similar instruments.

24. Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis, or realise the asset and liability simultaneously. In accordance with IAS 32 'Financial Instruments: Presentation,' where the right to set off is not unconditional in all circumstances this does not result in an offset of balance sheet assets and liabilities.

In accordance with IFRS 7 'Financial Instruments: Disclosures' the following table shows the impact on financial assets and financial liabilities relating to transactions where:

- there is an enforceable master netting arrangement or similar agreement in place, an unconditional right to offset is in place and there is an intention to settle net ('amounts offset'),
- there is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied ('master netting arrangements'), and
- financial collateral is paid and received ('financial collateral').

Offsetting financial assets and financial liabilities

	2019						2018					
	Gross amounts recognised	Amounts offset (note i)	Net amounts reported on the balance sheet	Master netting arrangements	Financial collateral (note ii)	Net amounts	Gross amounts recognised	Amounts offset (note i)	Net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets												
Derivative financial assets	3,973	(411)	3,562	(1,363)	(2,130)	69	4,288	(167)	4,121	(1,959)	(2,157)	5
Reverse repurchase agreements	1,320	(826)	494	-	(492)	2	403	-	403	-	(403)	-
Total financial assets	5,293	(1,237)	4,056	(1,363)	(2,622)	71	4,691	(167)	4,524	(1,959)	(2,560)	5
Financial liabilities												
Derivative financial liabilities	2,649	(1,056)	1,593	(1,363)	(198)	32	2,506	(169)	2,337	(1,959)	(333)	45
Repurchase agreements	1,680	(826)	854	-	(853)	1	945	-	945	-	(945)	-
Total financial liabilities	4,329	(1,882)	2,447	(1,363)	(1,051)	33	3,451	(169)	3,282	(1,959)	(1,278)	45

Notes:

i. Amounts offset for derivative financial assets of £411 million (2018: £167 million) include cash collateral netted of £85 million (2018: £3 million). Amounts offset for derivative financial liabilities of £1,056 million (2018: £169 million) include cash collateral netted of £730 million (2018: £5 million).

ii. The balances presented for financial collateral on reverse repurchase agreements and repurchase agreements are less than the financial collateral balances reported in note 13, as the amounts disclosed above are limited to the net amounts reported on the balance sheet after amounts offset as shown in the table.

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

Financial collateral on derivative financial instruments consists of cash settled, typically daily or weekly, to mitigate the credit risk on the fair value of derivative contracts. Financial collateral on repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The net amounts after offsetting under IFRS 7 presented above show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements.

25. Intangible assets

Group

	Computer software		Total computer software	Other intangible assets	Goodwill	Total
	Externally acquired	Internally developed				
2019	£m	£m	£m	£m	£m	£m
Cost						
At 5 April 2018	759	1,521	2,280	-	12	2,292
Additions	39	340	379	-	-	379
Disposals	(23)	(185)	(208)	-	-	(208)
At 4 April 2019	775	1,676	2,451	-	12	2,463
Accumulated amortisation and impairment						
At 5 April 2018	189	761	950	-	-	950
Amortisation charge	55	232	287	-	-	287
Impairment in the year	1	109	110	-	-	110
Disposals	(23)	(185)	(208)	-	-	(208)
At 4 April 2019	222	917	1,139	-	-	1,139
Net book value						
At 4 April 2019	553	759	1,312	-	12	1,324

Group

	Computer software		Total computer software	Other intangible assets	Goodwill	Total
	Externally acquired	Internally developed				
2018	£m	£m	£m	£m	£m	£m
Cost						
At 5 April 2017	591	1,371	1,962	40	12	2,014
Additions	187	181	368	-	-	368
Disposals	(19)	(31)	(50)	(40)	-	(90)
At 4 April 2018	759	1,521	2,280	-	12	2,292
Accumulated amortisation and impairment						
At 5 April 2017	155	590	745	39	-	784
Amortisation charge	53	189	242	1	-	243
Impairment in the year	-	13	13	-	-	13
Disposals	(19)	(31)	(50)	(40)	-	(90)
At 4 April 2018	189	761	950	-	-	950
Net book value						
At 4 April 2018	570	760	1,330	-	12	1,342

Computer software capitalised during the year primarily relates to the Group's investment in infrastructure, new applications and software costs to meet the future strategic and regulatory needs of the business. The total cost at 4 April 2019 includes £305 million (2018: £281 million) of assets in the course of construction which, to the extent that they are not yet ready for use by the business, have no amortisation charged against them. For all other computer software capitalised the estimated useful life of individual assets is predominantly 5 years.

An impairment loss of £110 million (2018: loss of £13 million) was recognised in the year primarily in respect of assets impacted by the Group's new technology investment.

The Society's intangible assets are as shown above for the Group, except that they exclude the £12 million (2018: £12 million) of goodwill which relates to the acquisition of The Mortgage Works (UK) plc, and which is only recognised at Group level.

26. Property, plant and equipment

Group 2019	Branches and non-specialised buildings £m	Specialised administration buildings £m	Investment properties £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 5 April 2018	220	182	9	252	948	1,611
Additions	9	-	-	26	136	171
Transfers (note i)	6	(6)	-	-	-	-
Revaluation	(7)	-	-	-	-	(7)
Disposals	(6)	-	-	-	(74)	(80)
At 4 April 2019	222	176	9	278	1,010	1,695
Accumulated depreciation and impairment						
At 5 April 2018	-	83	-	153	488	724
Depreciation charge	-	3	-	23	115	141
Impairment	-	-	-	-	11	11
Disposals	-	-	-	-	(70)	(70)
At 4 April 2019	-	86	-	176	544	806
Net book value						
At 4 April 2019	222	90	9	102	466	889

Group 2018	Branches and non-specialised buildings £m	Specialised administration buildings £m	Investment properties £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Total £m
Cost or valuation						
At 5 April 2017	219	182	8	222	887	1,518
Additions	-	-	-	30	145	175
Revaluation	2	-	1	-	-	3
Disposals	(1)	-	-	-	(84)	(85)
At 4 April 2018	220	182	9	252	948	1,611
Accumulated depreciation and impairment						
At 5 April 2017	-	81	-	132	446	659
Depreciation charge	-	2	-	21	118	141
Disposals	-	-	-	-	(76)	(76)
At 4 April 2018	-	83	-	153	488	724
Net book value						
At 4 April 2018	220	99	9	99	460	887

Note.

i. In the year ended 4 April 2019, a section of land adjacent to a specialised administration building was transferred to branches and non-specialised buildings following the decision to separate and market for sale.

Group property, plant and equipment at 4 April 2019 includes £2 million (2018: £2 million) of specialised administration buildings held by subsidiary undertakings

Property, plant and equipment includes £95 million (2018: £78 million) of assets in the course of construction.

As at 4 April 2019, branches and non-specialised building includes £15 million of properties which are classified as held for sale (2018: £7 million)

26. Property, plant and equipment (continued)

Branches and non-specialised buildings are valued annually by independent surveyors. The current use of all branches and non-specialised buildings equates to highest and best use, and there have been no changes to the valuation technique during the year.

IFRS 13 requires that all assets held at fair value are classified according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. Branches and non-specialised buildings valuations are classified within Level 2 of the fair value hierarchy.

27. Provisions for liabilities and charges

Group

	Bank levy	**FSCS**	**Customer redress**	**Other provisions**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 4 April 2018	24	15	221	13	273
Transition to IFRS 9 (note i)	-	-	-	1	1
At 5 April 2018	24	15	221	14	274
Provisions utilised	(46)	(6)	(77)	(17)	(146)
Charge for the year	43	1	79	26	149
Release for the year	-	(10)	(64)	(4)	(78)
Net income statement charge (note ii)	43	(9)	15	22	71
At 4 April 2019	21	-	159	19	199
At 5 April 2017	16	42	305	24	387
Provisions utilised	(37)	(26)	(110)	(14)	(187)
Charge for the year	45	-	34	6	85
Release for the year	-	(1)	(8)	(3)	(12)
Net income statement charge (note ii)	45	(1)	26	3	73
At 4 April 2018	24	15	221	13	273

Notes
i On transition to IFRS 9, an expected credit loss provision of £1 million was recognised in respect of separately identifiable irrevocable loan commitments.
ii Of the net income statement charge of £71 million (2018: £73 million), a net charge of £6 million (2018: £25 million) relating to FSCS and customer redress is included in provisions for liabilities and charges, and a net charge of £65 million (2018: £48 million) relating to bank levy and other provisions is included in administrative expenses.

The Group provisions for liabilities and charges include £1 million (2018: £2 million) of customer redress and expected credit loss (ECL) provisions relating to irrevocable loan commitments within its subsidiaries; all other amounts relate to the Society.

Financial Services Compensation Scheme (FSCS)

The FSCS, the UK's independent statutory compensation fund for customers of authorised financial services firms, pays compensation if a firm is unable to pay claims against it. Following the default of a number of deposit takers, the FSCS borrowed funds of approximately £15.6 billion from HM Treasury, the interest on which was charged to firms through the FSCS levy. During the year, UK Asset Resolution (UKAR) sold portfolios relating to Bradford and Bingley plc, and repaid the outstanding loan from HM Treasury. There are therefore no further amounts due in respect of this interest levy at 4 April 2019. In common with other financial institutions subject to the FSCS, the Group continues to have a potential exposure to future levies resulting from any future failure of other financial institutions and consequential claims which arise against the FSCS as a result of any such failure.

27. Provisions for liabilities and charges (continued)

Customer redress

During the course of its business, the Group receives complaints from customers in relation to past sales or ongoing administration. The Group is also subject to enquiries from and discussions with its regulators, governmental and other public bodies, including the Financial Ombudsman Service (FOS), on a range of matters. Customer redress provisions are recognised where the Group considers it is probable that payments will be made as a result of such complaints and other matters.

The Group holds provisions of £159 million (2018: £221 million) in respect of the potential costs of remediation and redress in relation to past sales of PPI, issues relating to administration of customer accounts, non-compliance with consumer credit legislation and other regulatory matters.

Other provisions

Other provisions include amounts for severance costs, a number of property related provisions and ECLs on irrevocable personal loan and mortgage lending commitments.

Critical accounting estimates and judgements

Customer redress provisions

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

Provision for PPI

The amount of the provision relating to past sales of PPI is calculated based upon management's best estimate of complaint volumes, average redress payments, referral rates to the Financial Ombudsman Service (FOS), uphold rates internally and with the FOS, complaint handling costs and response rates from customer contact activity relating to previous sales. The amount provided at 4 April 2019 therefore reflects the compensation and administrative costs associated with cases that the Group expects to uphold and the cost of processing invalid claims which the Group expects to receive up to the FCA's deadline of August 2019.

At 4 April 2019, the Group held a PPI provision of £80 million (4 April 2018: £159 million). This represents management's best estimate of future costs, including the expected impact of Plevin v Paragon Personal Finance Limited. The principal uncertainty in this calculation is the impact of the ongoing FCA media campaign on complaints volumes in advance of the August 2019 complaints deadline.

	Cumulative to 31 March 2019	Future expected	Sensitivity
Claims ('000s of policies) (note i)	434	71	10 = £9m
Average uphold rate (note ii)	45%	39%	5% = £5m
Average redress per claim (note iii)	£1,070	£936	£100 = £4m

Notes:
i. Claims include responses to proactive mailing.
ii. The cumulative average uphold rate of claims includes responses to past proactive mailings. As a result, future expected average uphold rates are forecast to decline as no further proactive mailing activity is anticipated.
iii. Future expected average redress reflects the expected mix of future claims upheld.

Other provisions for customer redress

Provisions for other matters are in respect of issues relating to administration of customer accounts, non-compliance with consumer credit legislation and other regulatory matters, where an outflow is probable. Amounts provided are based on management's best estimate of the number of customers impacted and anticipated remediation. As any new matters emerge, an estimate is made of the outcome, although in some cases uncertainties remain as to the eventual costs given the inherent difficulties in determining the number of impacted customers and the amount of any redress applicable. In the case of provisions relating to the administration of customer accounts, if the number of impacted customers changed by 10%, the current provision would change by £7 million. Provisions will be adjusted in future periods as further information becomes available.

28. Capital and leasing commitments

Capital expenditure contracted for but not accrued is as follows:

Capital commitments at 4 April

	Group and Society	
	2019	2018
	£m	£m
Capital expenditure relating to:		
Intangibles	**51**	44
Property, plant and equipment	**58**	44
Total	**109**	88

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, rent escalation clauses, renewal rights, and in some cases contingent rent payable. Future minimum payments under operating leases relating to land and buildings were as follows:

Leasing commitments at 4 April

	Group and Society	
	2019	2018 (note i)
	£m	£m
Amounts falling due:		
Within one year	**31**	30
Between one and five years	**101**	96
After five years	**98**	96
Total	**230**	222

Note.
i The prior year values for future minimum lease payments under non-cancellable leases have been restated to be consistent with the current year presentation. At 4 April 2018, the reported total future minimum lease payments was £248 million.

At the balance sheet date, future minimum lease payments receivable under non-cancellable operating leases were as follows:

Leasing amounts receivable as lessor at 4 April

	Group and Society	
	2019	2018
	£m	£m
Amounts falling due:		
Within one year	**4**	3
Between one and five years	**7**	7
After five years	**10**	3
Total	**21**	13
Amounts receivable under non-cancellable subleases	**4**	4

29. Contingent liabilities

The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position.

30. Retirement benefit obligations

The Group operates two defined contribution pension schemes in the UK – the Nationwide Group Personal Pension Plan (GPP) and the Nationwide Temporary Workers Pension Scheme. New employees are automatically enrolled into one of these schemes, with both schemes being administered by Aviva. Outside of the UK, there are defined contribution pension schemes for a small number of employees in the Isle of Man and Ireland.

The Group also has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day to day administration. The Group's largest pension scheme is the Nationwide Pension Fund (the Fund). This is a contributory defined benefit pension scheme, with both final salary and career average revalued earnings (CARE) sections. The Fund was closed to new entrants in 2007 and since that date employees have been able to join the GPP. Further information on the Group's obligations to defined benefit pension schemes are set out below.

Defined benefit pension schemes

Retirement benefit obligations on the balance sheet

	Group	
	2019	2018
	£m	£m
Present value of funded obligations	**6,375**	6,108
Present value of unfunded obligations	**8**	12
	6,383	6,120
Fair value of fund assets	**(6,278)**	(5,775)
Deficit at 4 April	**105**	345

Most members of the Fund can draw their pension when they reach the Fund's retirement age of 65. The level of pension benefits accrued before 1 April 2011 vary in methodology; however, most are based on 1/54th of final salary for each year of service. Pension benefits accrued after 1 April 2011 are usually based on 1/60th of average earnings, revalued to age of retirement, for each year of service (also called CARE).

On the death of a Fund member, benefits may be payable in the form of a spouse/dependant's pension, lump sum (paid within 5 years of a Fund member beginning to take their pension), or refund of Fund member contributions. Fund members are able to place redundancy severance into their pension.

Approximately 31% of the Fund's pension obligations have been accrued by current employees (active Fund members), 37% by former employees (deferred Fund members) and 32% by current pensioners and dependants. The average duration of the Fund's pension obligation is approximately 22 years, reflecting the obligation between current employees (27 years), deferred Fund members (24 years) and current pensioners (15 years).

The Group's retirement benefit obligations include £2 million (2018: £2 million) recognised in a subsidiary company, Nationwide (Isle of Man) Limited. This obligation relates to a defined benefit scheme providing benefits based on both final salary and CARE, which was closed to new entrants in 2009.

The Group's retirement benefit obligations also include £8 million (2018: £12 million) in respect of unfunded legacy defined benefit arrangements.

30. Retirement benefit obligations (continued)

The amounts recognised in the income statement are as follows:

Retirement benefit obligations recognised in the income statement

	Group 2019 £m	2018 £m
Defined contribution cost	83	78
Defined benefit schemes		
Current service cost	89	95
Past service cost	12	5
Curtailment gains	(7)	(9)
Administrative expenses	4	4
Included in employee costs (note 8)	181	173
Interest on net defined benefit liability (note 4)	6	8
Total	187	181

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

Movements in net defined benefit liability

	Group 2019 £m	2018 £m
Deficit at 5 April	345	423
Current service cost	89	95
Past service cost	12	5
Curtailment gains	(7)	(9)
Benefits paid directly by the Group	(3)	-
Interest on net defined benefit liability	6	8
Return on assets (greater)/less than discount rate	(370)	1
Contributions by employer	(131)	(152)
Administrative expenses	4	4
Actuarial losses/(gains) on defined benefit obligations	160	(30)
Deficit at 4 April	105	345

Current service cost represents the increase in liabilities resulting from employees accruing service over the year. This includes salary sacrifice employee contributions.

Past service cost represents the increase in liabilities of the Fund arising from Fund members choosing to pay additional contributions (AVCs or pension credits) to boost their pension benefits. Included in the £12 million past service cost in the table above is £9 million representing the Fund's estimated Guaranteed Minimum Pensions (GMPs) equalisation obligation, following the High Court verdict on 26 October 2018 on GMP equalisation for men and women.

Curtailment gains are in respect of Fund members made redundant during the year. As an active member pension benefits are linked to the Retail Prices Index (RPI). When a member becomes a deferred member their pension benefits are linked from that point to the Consumer Price Index (CPI), which reduces the liability.

Benefits paid directly by the Group relate to a settlement of a retirement benefit obligation for an unfunded legacy pension obligation paid directly by the Group.

The interest on net defined benefit liability represents the expected interest accruing on the liabilities over the year, offset by the expected interest income on assets

30. Retirement benefit obligations (continued)

The £370 million gain relating to the return on assets greater than the discount rate (2018: £1 million loss from returns less than the discount rate) is driven by positive equity returns, positive increases in the value of government bond holdings due to falling bond yields and an increase in long term inflation expectations.

The £131 million of employer contributions includes deficit contributions of £61 million (2018: £152 million), with the remainder relating to employer contributions in respect of future benefit accrual. The Group estimates that its contributions to the defined benefit pension schemes (including deficit contributions under the current deficit recovery plan) during the year ending 4 April 2020 will be £126 million.

The £160 million actuarial loss on defined benefit obligations (2018: £30 million actuarial gain on defined benefit obligations) shown above is due to:

- A £206 million loss (2018: £153 million gain) from changes in financial assumptions, including a 0.05% decrease in the discount rate and a 0.15% increase in assumed Retail Prices Index inflation, both of which increase the value of the liabilities.
- A £58 million gain (2018: £97 million loss) due to updating to the latest industry standard actuarial model for projecting future longevity improvements.
- An experience loss of £12 million (2018: £26 million loss) reflecting the difference between previous estimates of long-term inflation assumptions and actual experience.

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

Movements in defined benefit obligations

	Group	
	2019	2018
	£m	£m
At 5 April	6,120	6,051
Current service cost	**89**	95
Past service cost	**12**	5
Curtailment gains	**(7)**	(9)
Interest expense on retirement obligation	**148**	144
Experience losses on plan assumptions	**12**	26
Changes in demographic assumptions	**(58)**	97
Changes in financial assumptions	**206**	(153)
Benefits paid (note i)	**(139)**	(136)
At 4 April	**6,383**	6,120

Note.
i. Includes £3 million benefit paid directly by the Group (2018: £nil).

Changes in the fair value of plan assets for the pension schemes are as follows:

Movements in plan assets

	Group	
	2019	2018
	£m	£m
At 5 April	5,775	5,628
Interest income on assets	**142**	136
Return on assets (less)/greater than discount rate	**370**	(1)
Administrative expenses	**(4)**	(4)
Contributions by employer	**131**	152
Benefits paid	**(136)**	(136)
At 4 April	**6,278**	5,775

30. Retirement benefit obligations (continued)

The Group offers a salary sacrifice arrangement whereby employee contributions are deducted from pay before their salary is paid each month. Therefore, no employee contributions are reported in the table above; instead all employee contributions are reflected in contributions by employer. In line with UK pensions legislation, a formal actuarial valuation ('Triennial Valuation') of the assets and liabilities of the Fund is carried out at least every three years by independent actuaries. The effective date of the next Triennial Valuation of the Fund is 31 March 2019, from which point the Society and Trustee has 15 months to negotiate, among other things, a new Schedule of Contributions and Deficit Recovery Plan.

The major categories of assets held for the pension schemes, stated at fair value, are as follows:

Categories of plan assets

	Group	
	2019	2018
	£m	£m
Listed equities (quoted)	**881**	813
Government bonds (quoted)	**3,846**	3,350
Corporate bonds and other credit investments (quoted)	**591**	554
Infrastructure (unquoted)	**312**	324
Property (unquoted)	**612**	581
Private equity investments (unquoted)	**380**	317
Cash	**294**	175
Liability relating to repurchase agreement	**(759)**	(469)
Other assets and liabilities	**121**	130
Total	**6,278**	5,775

The defined benefit pension schemes do not invest in the Group's own financial instruments or property.

Assets described as quoted are based on unadjusted prices quoted in an active market and represent Level 1 assets as defined by IFRS 13. All private equity, infrastructure and property investments are Level 3 assets as defined by IFRS 13. These assets have been valued using a combination of industry standard approaches, for example discounted cashflow models.

The Fund's liabilities are partly hedged by matching assets, primarily government bonds and corporate bonds. In addition, the Fund invests in alternative matching assets such as property ground rents and property leases (included in property above) that are expected to generate inflation linked income over the long term.

The Fund also holds return-seeking assets which are primarily listed equities. These are expected to generate a return over and above the Fund's liabilities in the long term but may create risk and volatility in the short to medium term.

During the year the Trustee has continued to reduce interest rate and inflation risk in the Fund, purchasing a number of government bonds amounting to a notional £653 million and transacting interest rate and inflation swaps amounting to a notional £1.2 billion. These investments have been supported by the utilisation of a repurchase agreement (a loan, collateralised against the Fund's government bonds), which totals £759 million at the year ended 4 April 2019 (2018: £469 million), and the sale of other assets, such as corporate bonds. This will reduce volatility from changes to long-term interest rates and inflation expectations.

The investments are monitored by both the Trustee and the Group to ensure they remain appropriate given the Fund's long-term objectives.

30. Retirement benefit obligations (continued)

The principal actuarial assumptions used are as follows:

Principal actuarial assumptions	2019 %	2018 %
Discount rate	**2.40**	2.45
Future salary increases	**3.25**	3.10
Future pension increases (maximum 5%)	**3.00**	2.90
Retail price index (RPI) inflation	**3.25**	3.10
Consumer price index (CPI) inflation	**2.25**	2.10

The assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancies and are adjusted to represent the Fund's membership. The assumptions made are illustrated in the table below showing how long we would expect the average Fund member to live for after the age of 60, based on reaching that age at 4 April 2019 or in twenty years' time at 4 April 2039.

Life expectancy assumptions	2019 %	2018 %
Age 60 at 4 April 2019		
Males	**27.9**	28.0
Females	**29.1**	29.3
Age 60 at 4 April 2039:		
Males	**29.0**	29.2
Females	**30.6**	30.8

Critical accounting estimates and judgements

Retirement benefit obligations

The key assumptions used to calculate the defined benefit obligation are the discount rate, inflation assumptions (including salary increases) and mortality assumptions. If different assumptions were used, this could have a material effect on the reported obligation. The sensitivity of the results to these assumptions are as follows:

Change in key assumptions at 4 April 2019	(Decrease)/increase in deficit *from assumption change* £m
0.1% increase in discount rate	(139)
0.1% increase in inflation assumption	123
1 year increase in life expectancy at age 60 in respect of all members	229

The above sensitivities apply to individual assumptions in isolation. *The 0.1% sensitivity to the inflation assumption includes a corresponding 0.1% increase in future salary increases and future pension increases assumptions.*

31. Core capital deferred shares

Group and Society

	Number of shares	CCDS £m	Share premium £m	Total £m
At 4 April 2019	**10,500,000**	**11**	**1,314**	**1,325**
At 4 April 2018	10,500,000	11	1,314	1,325

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

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

In the event of a winding up or dissolution of the Society and if a surplus was available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £129.24 per share.

There is a cap on the distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £16.36 per share and is adjusted annually in line with CPI.

A final distribution of £54 million (£5.125 per share) for the financial year ended 4 April 2018 was paid on 20 June 2018 and an interim distribution of £54 million (£5.125 per share) in respect of the period to 30 September 2018 was paid on 20 December 2018. These distributions have been recognised in the statement of movements in members' interests and equity.

Since the balance sheet date, the directors have declared a distribution of £5.125 per share in respect of the period to 4 April 2019, amounting in aggregate to £54 million. This has not been reflected in these financial statements as it will be recognised in the year ending 4 April 2020, by reference to the date at which it was declared.

32. Other equity instruments

Group and Society

	Total £m
At 4 April 2019	**992**
At 4 April 2018	992

Other equity instruments are AT1 capital instruments with a notional value of £1 billion. AT1 instruments rank equally to each other and to PIBS. They are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS. AT1 instruments bear interest at a fully discretionary, non-cumulative initial rate of 6.875% per annum. Interest is paid semi-annually in June and December.

An interest payment of £34 million, covering the period to 19 June 2018, was paid on 20 June 2018 and an interest payment of £34 million, covering the period to 19 December 2018, was paid on 20 December 2018. These payments have been recognised in the statement of movements in members' interests and equity. AT1 instruments have no maturity date but are repayable at the option of the Society on 20 June 2019 and every fifth anniversary thereafter.

Event after the reporting period

On 24 April 2019, the Society notified investors of its intention to redeem the outstanding AT1 capital instruments in full on 20 June 2019.

An interest payment of £34 million, covering the period to 19 June 2019, will be paid at redemption on 20 June 2019 and will be recognised in the statement of movements in members' interests and equity in the financial year ending 4 April 2020. The impact on the Group's capital is explained further in the Solvency risk section of the Business and Risk Report.

33. Investments in Group undertakings

The Society's investments in Group undertakings are as follows:

	2019			2018		
	Shares £m	Loans £m	Total £m	Shares £m	Loans £m	Total £m
At 5 April	315	30,981	31,296	313	31,444	31,757
Additions	-	1,431	1,431	3	1,018	1,021
Reversal of impairment	-	-	-	-	2	2
Disposals, redemptions and repayments	-	(507)	(507)	(1)	(1,483)	(1,484)
At 4 April	**315**	**31,905**	**32,220**	315	30,981	31,296

The reversal of impairment of *£2 million during the year ended 4 April 2018 related to a Group undertaking that held a corporate loan portfolio.*

An amount of £807 million is included within both additions and disposals, redemptions and repayments during the year ended 4 April 2018 in relation to the incorporation and subsequent liquidation of a financing subsidiary.

Subsidiary undertakings

The interests of the Society in its subsidiary undertakings as at 4 April 2019 are set out below:

Subsidiary name	Notes
Principal subsidiaries	
Derbyshire Home Loans Limited	i
E-Mex Home Funding Limited	i
Nationwide Syndications Limited	i
The Mortgage Works (UK) plc	i
UCB Home Loans Corporation Limited	i
Other subsidiaries	
Dunfermline BS Nominees Limited	ii
First Nationwide	ii
Jubilee Mortgages Limited	ii
Monument (Sutton) Limited	ii
Nationwide (Isle of Man) Limited	
NBS Ventures Management Limited	ii
NBS Ventures Limited	ii
Piper Javelin Holding Company Limited	ii
Piper Javelin No 1 Limited	
The Derbyshire (Premises) Limited	ii

Subsidiary name
Dormant subsidiaries
Ashton Employment Limited (dissolved on 10 May 2019)
at.home nationwide Limited
Confederation Mortgage Services Limited
Ethos Independent Financial Services Limited
Exeter Trust Limited
LBS Mortgages Limited
Nationwide Anglia Property Services Limited
Nationwide Financial Service Limited
Nationwide Home Loans Limited
Nationwide Housing Trust Limited
Nationwide Investments (No.1) Limited
Nationwide International Limited
Nationwide Lease Finance Limited
Nationwide Mortgage Corporation Limited
Nationwide Overseas (UK) Limited
Nationwide Property Services (NBS) Limited
Nationwide Trust Limited
NBS CoSec Limited
NBS Fleet Services Limited
Staffordshire Leasing Limited

Notes:
i. Audited accounts are prepared for all of the Group's principal subsidiaries. All principal subsidiaries are regulated entities with the exception of Nationwide Syndications Limited.
ii. For these companies, the Group has adopted the audit exemption for the year ended 4 April 2019 under Section 479A of the Companies Act 2006. The Society guarantees all outstanding liabilities of the exempted subsidiary undertakings.

The Society directly or indirectly holds 100% of the ordinary share capital for each subsidiary undertaking. NBS Ventures Management Limited was incorporated on 25 July 2018 and NBS Ventures Limited was incorporated on 24 September 2018. NBS CoSec Limited was incorporated on 7 January 2019. All of the subsidiary undertakings are limited liability companies, with the exception of First Nationwide which is an unlimited company.

33. Investments in Group undertakings (continued)

The registered office for all subsidiary undertakings, other than those listed in the table below, is Nationwide House, Pipers Way, Swindon, SN38 1NW.

Subsidiary name	Registered office
Ashton Employment Limited	39/40 Upper Mount Street, Dublin 2, 662881
Dunfermline BS Nominees Limited	Caledonia House, Carnegie Avenue, Dunfermline, KY11 8PJ
Nationwide (Isle of Man) Limited	5-11 St. Georges Street, Douglas, Isle of Man, IM99 1RN

There are no significant restrictions on any of the Society's subsidiaries in paying dividends or repaying loans, subject to their financial and operating performance and availability of distributable reserves

The Group has no material shares in associates. Further details regarding the Group's interests in equity shares are included in note 13.

Subsidiaries by virtue of control

Details of consolidated and unconsolidated structured entities are set out in note 34.

34. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control

Consolidated structured entities

Structured entities are assessed for consolidation in accordance with the accounting policy set out in note 1. The following structured entities are consolidated in the Group's results·

Structured entity name	Nature of business	Registered office
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	Nationwide House, Pipers Way, Swindon, SN38 1NW
Silverstone Master Issuer plc	Funding vehicle	Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF
Silverstone Funding (No.1) Limited	Funding vehicle	

Further details on the activities of the above structured entities are included in note 14. At 4 April 2018, the Group had a controlling interest in Cromarty CLO Limited. Following a deed of termination entered into during the year, the Society ceased to have any interests in this entity. As a result, the entity is no longer consolidated as part of the Group as a structured entity

Unconsolidated structured entities

The Group has interests in structured entities which it does not sponsor or control. These largely consist of holdings of mortgage backed securities, covered bonds and CLOs issued by entities that are sponsored by other unrelated financial institutions. The entities are financed primarily by investments from investors, such as the purchase of issued notes.

The Group's direct interests in unconsolidated structured entities comprise primarily investments in asset backed securities which are reported within investment securities on the balance sheet. The total carrying value of these interests at 4 April 2019 is £3,847 million (2018: £3,391 million). Further details on the credit risk that the Group is exposed to in respect of these asset backed securities can be found in the 'Treasury assets' section of the Business and Risk Report.

Management has concluded that the Group has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss. During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any such support. There were no transfers to or from these unconsolidated structured entities during the year.

35. Related party transactions

Subsidiary, parent and ultimate controlling party

The Group is controlled by Nationwide Building Society, the ultimate parent, which is registered in England and Wales. Details of subsidiary undertakings are shown in note 33.

Key management personnel compensation

Members of the Executive Committee (including executive directors), together with the non-executive directors of the Society, are considered to be the key management personnel as defined by IAS 24 'Related Party Disclosures'. Total compensation for key management personnel for the year was as follows:

Key management personnel compensation	2019 £'000	2018 (note i) £'000
Short term employee benefits	8,775	9,415
Other long-term benefits	1,914	2,021
Termination benefits	-	440
Share based payments	1,881	2,468
Total	12,570	14,344

Note:
i Prior year comparatives have been updated to reflect a change to the Group's definition of key management personnel, which previously included only the Society's executive and non executive directors.

Other long-term benefits include amounts relating to long-term bonus schemes, some of which will be paid in future periods. Further information on these can be found in note 8. Share based payments include amounts that are dependent on the performance of the CCDS. Further information is included in the Report of the directors on remuneration.

35. Related party transactions (continued)

Transactions with related parties

A number of transactions are entered into with related parties in the normal course of business. These include derivatives, loans, deposits and the payment and recharge of administrative expenses. The outstanding balances for other related party transactions at the year end, and the associated income and expenses for the year are as follows:

Transactions with related parties

	Society subsidiaries 2019	Society subsidiaries 2018	Key management personnel 2019	Key management personnel 2018 (note i)
	£m	£m	£m	£m
Loans payable to the Society				
Loans outstanding at 5 April	30,981	31,444	2.9	2.6
Loans issued during the year	1,431	1,018	0.6	1.2
Loan impairment release	-	2	-	-
Loan repayments during the year	(507)	(1,483)	(2.0)	(0.9)
Loans outstanding at 4 April	31,905	30,981	1.5	2.9
Deposits payable by the Society				
Deposits outstanding at 5 April	1,417	1,569	4.7	3.3
Deposits placed during the year	280	18	8.0	13.4
Deposit repayments during the year	(152)	(170)	(8.4)	(12.0)
Deposits outstanding at 4 April	1,545	1,417	4.3	4.7
Net interest income				
Interest receivable	783	756	-	0.1
Interest expense	48	34	-	-
Other income and expenses				
Fees and expenses paid to the Society	19	17	-	-
Other balance sheet items				
Accrued income and expenses prepaid due to the Society	1,114	1,370	-	-
Other liabilities payable by the Society	2,282	3,207	-	-

Note:
i. Prior year comparatives have been updated to reflect a change to the Group's definition of key management personnel, which previously included only the Society's executive and non executive directors.

Loans issued and loan repayments during the year ended 4 April 2018 included £807 million in relation to the incorporation of a new financing subsidiary which was subsequently liquidated.

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group. A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and directors of the Society or persons connected with directors of the Society

The register will be available for inspection by members at the Annual General Meeting on 18 July 2019 and during normal office hours at the Society's principal office (Nationwide House, Pipers Way, Swindon, SN38 1NW) during the period of 15 days prior to the meeting.

Transactions with Group companies

Transactions with Group companies arise in the normal course of business. Interest on outstanding loans and deposits accrues at a transfer price rate agreed between the Society and its subsidiary undertakings. The Society does not charge the net defined benefit cost to the subsidiary undertakings that participate in the Nationwide Pension Fund. The pension cost to these subsidiary undertakings equals the contributions payable to the Fund.

36. Notes to the cash flow statements

Non-cash items included in profit before tax (note i)	Group 2019 £m	Group 2018 £m	Society 2019 £m	Society 2018 £m
Net increase in impairment provisions	36	20	61	21
Net decrease in provisions for liabilities and charges	(75)	(114)	(74)	(115)
Impairment recoveries on investment securities	-	(2)	-	(2)
Depreciation, amortisation and impairment	549	397	549	397
Profit on sale of property, plant and equipment	(2)	(1)	(2)	(1)
Loss on the revaluation of property, plant and equipment	4	-	4	-
Gain on the revaluation of investment properties	-	(1)	-	(1)
Interest on debt securities in issue	673	712	612	669
Interest on subordinated liabilities	238	175	238	175
Interest on subscribed capital	14	15	14	15
(Gains)/losses from derivatives and hedge accounting	(36)	1	7	26
Total	**1,401**	1,202	**1,409**	1,184
Changes in operating assets and liabilities (note i)				
Loans and advances to banks and similar institutions	(302)	17	(302)	17
Net derivative financial instruments and fair value adjustment for portfolio hedged risk	(340)	679	(681)	569
Loans and advances to customers (note ii)	(7,666)	(4,247)	(6,421)	(4,301)
Other operating assets	(487)	970	(1,148)	1,175
Shares	5,966	3,461	5,966	3,461
Deposits from banks and similar institutions, customers and others	94	7,560	352	7,391
Debt securities in issue	(243)	(815)	(108)	(583)
Deferred taxation	186	(46)	98	-
Retirement benefit obligations	(240)	(78)	(239)	(77)
Other operating liabilities	518	(246)	(391)	160
Total	**(2,514)**	7,255	**(2,874)**	7,812
Cash and cash equivalents				
Cash	12,493	14,361	12,493	14,361
Loans and advances to banks and similar institutions repayable in 3 months or less (notes ii and iii)	3,363	3,149	3,348	3,133
Total	**15,856**	17,510	**15,841**	17,494

Notes:
i. *IFRS 9 transition adjustments (as detailed in note 37)* have been excluded from movements in balance sheet items.
ii. Comparatives have been restated as detailed in note 1.
iii. Cash equivalents include £1,982 million (2018: £2,071 million) of cash collateral posted with banking and similar counterparties.

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 4 April 2019, amounted to £570 million (2018: £344 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.

36. Notes to the cash flow statements (continued)

Liabilities arising from financing activities

Group	2019 Debt securities in issue £m	2019 Subordinated liabilities £m	2019 Subscribed capital £m	2019 Total £m	2018 Debt securities in issue £m	2018 Subordinated liabilities £m	2018 Subscribed capital £m	2018 Total £m
At 5 April	34,118	5,497	263	39,878	40,339	2,940	279	43,558
Issuances	27,956	1,029	-	28,985	22,298	3,995	-	26,293
Redemptions	(25,970)	-	(13)	(25,983)	(27,737)	(1,251)	-	(28,988)
Foreign exchange	(44)	172	-	128	(474)	(201)	-	(675)
Fair value and other movements	(118)	8	-	(110)	(308)	14	(16)	(310)
At 4 April	**35,942**	**6,706**	**250**	**42,898**	34,118	5,497	263	39,878

Liabilities arising from financing activities

Society	2019 Debt securities in issue £m	2019 Subordinated liabilities £m	2019 Subscribed capital £m	2019 Total £m	2018 Debt securities in issue £m	2018 Subordinated liabilities £m	2018 Subscribed capital £m	2018 Total £m
At 5 April	29,734	5,497	263	35,494	35,872	2,945	279	39,096
Issuances	27,956	1,029	-	28,985	21,389	3,995	-	25,384
Redemptions	(25,288)	-	(13)	(25,301)	(26,970)	(1,251)	-	(28,221)
Foreign exchange	(117)	172	-	55	(361)	(201)	-	(562)
Fair value and other movements	69	8	-	77	(196)	9	(16)	(203)
At 4 April	**32,354**	**6,706**	**250**	**39,310**	29,734	5,497	263	35,494

37. Adoption of IFRS 9

The Group has adopted IFRS 9 from 5 April 2018. As permitted by IFRS 9, comparatives have not been restated following adoption. The following tables summarise the adjustments to the Group's and the Society's balance sheet at 5 April 2018

Group

	Notes	IAS 39 category	IFRS 9 category	As at 4 April 2018 (note i) £m	Classification £m	Measurement £m	Impairment £m	As at 5 April 2018 (note i) £m
Assets								
Cash		Amortised cost	Amortised cost	14,361	-	-	-	14,361
Loans and advances to banks and similar institutions		Amortised cost	Amortised cost	3,493	-	-	-	3,493
Investment securities	ii	AFS	FVOCI	11,926	(45)	-	-	11,881
Investment securities	ii	AFS	FVTPL	-	45	-	-	45
Investment securities		Amortised cost	Amortised cost	1,120	-	-	-	1,120
Derivative financial instruments		FVTPL	FVTPL	4,121	-	-	-	4,121
Fair value adjustment for portfolio hedged risk	iii	Amortised cost	Amortised cost	(109)	-	(35)	-	(144)
Loans and advances to customers	iv, v, vi	Amortised cost	Amortised cost	191,593	(246)	(2)	(171)	191,174
Loans and advances to customers	iv, vii	Amortised cost	FVTPL	-	246	1	-	247
Assets not affected by changes arising from IFRS 9				2,495	-	-	-	2,495
Deferred tax	viii			98	-	8	38	144
Total assets				229,098	-	(28)	(133)	228,937
Liabilities								
Liabilities not affected by changes arising from IFRS 9				216,422	-	-	-	216,422
Provisions for liabilities and charges	ix			273	-	-	1	274
Total liabilities				216,695	-	-	1	216,696
Members' interests and equity								
Capital and reserves not impacted by changes arising from IFRS 9				2,377	-	-	-	2,377
General reserve	x			9,951	13	(28)	(134)	9,802
Fair value through other comprehensive income reserve	x			-	62	-	-	62
Available for sale reserve	x			75	(75)	-	-	-
Total members' interests and equity				12,403	-	(28)	(134)	12,241
Total members' interests, equity and liabilities				229,098	-	(28)	(133)	228,937

37. Adoption of IFRS 9 (continued)

Society

	Notes	IAS 39 category	IFRS 9 category	As at 4 April 2018 (note i) £m	Classification £m	Measurement £m	Impairment £m	As at 5 April 2018 (note i) £m
Assets								
Cash		Amortised cost	Amortised cost	14,361	-	-	-	14,361
Loans and advances to banks and similar institutions		Amortised cost	Amortised cost	3,477	-	-	-	3,477
Investment securities	ii	AFS	FVOCI	11,926	(45)	-	-	11,881
Investment securities	ii	AFS	FVTPL	-	45	-	-	45
Investment securities		Amortised cost	Amortised cost	1,120	-	-	-	1,120
Derivative financial instruments		FVTPL	FVTPL	3,108	-	-	-	3,108
Fair value adjustment for portfolio hedged risk	iii	Amortised cost	Amortised cost	(109)	-	(35)	-	(144)
Loans and advances to customers	iv, vi	Amortised cost	Amortised cost	158,175	(231)	3	(96)	157,851
Loans and advances to customers	iv, vii	Amortised cost	FVTPL	-	231	5	-	236
Assets not affected by changes arising from IFRS 9				35,150	-	-	-	35,150
Deferred tax	viii			95	-	8	24	127
Total assets				227,303	-	(19)	(72)	227,212
Liabilities								
Liabilities not affected by changes arising from IFRS 9				216,797	-	-	-	216,797
Provisions for liabilities and charges	ix			271	-	-	1	272
Total liabilities				217,068	-	-	1	217,069
Members' interests and equity								
Capital and reserves not impacted by changes arising from IFRS 9				2,272	-	-	-	2,272
General reserve	x			7,883	13	(19)	(73)	7,804
Fair value through other comprehensive income reserve	x			-	67	-	-	67
Available for sale reserve	x			80	(80)	-	-	-
Total members' interests and equity				10,235	-	(19)	(73)	10,143
Total members' interests, equity and liabilities				227,303	-	(19)	(72)	227,212

Notes

i. Comparatives have been restated as detailed in note 1.

ii. Includes a debt security that has been transferred from available for sale investment securities to FVTPL due to its contractual cash flow characteristics.

iii. The reduction in fair value for portfolio hedged risk relates to the removal of fair value hedge accounting adjustments for loans that have been reclassified from amortised cost to FVTPL, and which therefore no longer qualify for hedge accounting

iv. The reduction of amortised cost loans and advances to customers under IAS 39 relates to loans reclassified under IFRS 9 as FVTPL due to their contractual cash flow characteristics.

v. £2 million is the net impact of the transitional lifetime ECL adjustment on the balance sheet carrying value of POCI loans, and the adjustment to credit impaired loans to restore the carrying value to the contractual amount owed.

vi. The reduction of the amortised cost loans and advances to customers due to impairment (Group: £171 million, Society: £96 million) is the difference between IFRS 9 ECL impairment and the IAS 39 incurred loss provisions

vii. Group carrying values of FVTPL loans and advances to customers increased by £1 million (Society: £5 million) on transition to IFRS 9.

viii. The valuation of the deferred tax assets recognised on adoption of IFRS 9 reflects HMRC's legislation that the tax effect of the impact on adoption of IFRS 9 should be realised over the ten years following adoption. Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised based on rates enacted or substantively enacted at the balance sheet date, including the banking surcharge when applicable.

ix. An additional £1 million has been provided separately within provisions for liabilities and charges. This relates to provisions against separately identifiable irrevocable commitments for the pipeline of personal loans, commercial loans and mortgages. Overdrafts and credit card commitments are provided for within the ECL provision models, with allowance for future drawdowns made as part of the exposure at default (EAD) element of the ECL calculation for each account

x. The transfer from the FVOCI reserve to general reserve relates to the accumulated AFS reserve in respect of financial instruments that have been reclassified from AFS to FVTPL.

37. Adoption of IFRS 9 (continued)

The table below reconciles the opening IFRS 9 ECL provision to the increase in provision on the adoption of IFRS 9 on 5 April 2018:

Reconciliation of impairment provisions within staging bands

	12 month ECL Stage 1	Lifetime ECL – non-credit impaired Stage 2	Lifetime ECL – credit impaired Stage 3 and POCI	Total ECL	Less IAS 39 provisions	Increase in provision on adoption of IFRS 9
Group	£m	£m	£m	£m	£m	£m
Residential mortgages	17	171	47	235	(145)	90
Consumer banking	25	103	237	365	(298)	67
Commercial and other lending	6	10	13	29	(15)	14
Total	48	284	297	629	(458)	171

Reconciliation of impairment provisions within staging bands

	12 month ECL Stage 1	Lifetime ECL – non-credit impaired Stage 2	Lifetime ECL – credit impaired Stage 3	Total ECL	Less IAS 39 provisions	Increase in provision on adoption of IFRS 9
Society	£m	£m	£m	£m	£m	£m
Residential mortgages	6	33	12	51	(36)	15
Consumer banking	25	103	237	365	(298)	67
Commercial and other lending	6	10	13	29	(15)	14
Total	37	146	262	445	(349)	96

37. Adoption of IFRS 9 (continued)

IAS 39 accounting policies

The policies for financial assets and impairment of financial assets have changed from 5 April 2018, as detailed in note 1, following the adoption of IFRS 9. The following principal accounting policies applied under IAS 39 prior to 5 April 2018:

Financial assets

Financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all of the risks and rewards of ownership have been transferred.

The Group classifies its financial assets at inception into the following four categories:

(a) Financial assets at fair value through the income statement

This category consists of derivative financial assets used for risk management purposes and other financial assets that are designated at fair value through the income statement by the Group.

Assets in this category are carried at fair value The fair values of derivative instruments are calculated by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from third parties. Gains and losses arising from the changes in the fair values are recognised in the income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's residential and commercial mortgage loans, unsecured lending, loans and advances to banks and cash are classified as loans and receivables.

Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest rate method less provisions for impairment.

Loans and receivables acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. The fair value at acquisition becomes the new amortised cost for acquired loans and receivables Fair value adjustments are made to reflect both credit and interest rate risk associated with the acquired loan assets.

(c) Available for sale assets

Available for sale assets are non-derivative financial assets that are not classified into either of the two categories above. The majority of available for sale assets are measured at fair value using, in the majority of cases, market prices or, where markets have become inactive, prices obtained from market participants. In sourcing valuations, the Group makes use of a consensus pricing service, in line with standard industry practice. In cases where market prices or prices obtained from market participants are not available, discounted cash flow models are used. Further information is provided in notes 21 and 22. Investments in equities that do not have a quoted market price in an active market and whose value cannot be reliably measured are recognised at cost.

Interest on available for sale assets is recognised using the effective interest rate method.

Unrealised gains and losses arising from changes in values are recognised in other comprehensive income, except for amounts relating to impairment losses and foreign exchange gains and losses, which are recognised in the income statement. Gains and losses arising on the sale of available for sale assets are recognised in the income statement, including any cumulative gains or losses previously recognised in other comprehensive income, which are reclassified to the income statement.

(d) Held to maturity

Held to maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.

Held to maturity assets are carried at amortised cost using the effective interest rate method, less provisions for impairment.

Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include.

i) indications that the borrower or group of borrowers is experiencing significant financial difficulty
ii) default or delinquency in interest or principal payments
iii) debt being restructured to reduce the burden on the borrower.

The Group first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. For loans in a hedge relationship, the effective interest rate used for discounting is calculated using the carrying value of the loan including the hedge adjustment. The resultant provisions are deducted from the appropriate asset values on the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. If, in a subsequent period, the amount of impairment loss changes, the provision is adjusted and the amount of additional provision or reversal is recognised in the income statement.

Loans remain on the balance sheet net of associated provisions until they are deemed no longer recoverable. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

37. Adoption of IFRS 9 (continued)

Retail loans

For retail loans cash flows are estimated based on past experience combined with the Group's view of the future considering the following factors:

i) exposure to the customer
ii) based on the number of days in arrears at the balance sheet date, the likelihood that a loan will progress through the various stages of delinquency and ultimately be written off
iii) the amount and timing of expected receipts and recoveries
iv) the realisable value of any security at the estimated date of sale
v) the likely deduction of any costs involved in the recovery of amounts outstanding.

The Group's provision methodology recognises previous arrears as a driver of future possible default and therefore accounts which have either capitalised arrears or have been in arrears in the last 12 months typically attract a higher provision level.

Commercial loans

In assessing objective evidence of a loss event for commercial loans, the following key indicators are considered:

i) contractually due payments exceeding 30 days in arrears
ii) high loan to value or low interest cover ratio
iii) other covenant breaches
iv) loss of significant tenants or other decreases in tenant quality
v) the probability of the borrower entering bankruptcy
vi) restructuring of the debt relating to the borrower's financial difficulties ('forbearance')
vii) local economic conditions (for example, where this impacts on the value of underlying collateral).

Where there is objective evidence of impairment, cash flows are assessed on a case by case basis considering the following factors:

i) aggregate exposure to the customer
ii) the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations
iii) the amount and timing of expected receipts and recoveries of collateral
iv) the likely dividend available on liquidation or bankruptcy
v) the extent of other creditors' claims ranking ahead of the Group's, and the likelihood of other creditors continuing to support the borrower
vi) the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident
vii) the realisable value of security at the expected date of sale
viii) the likely deduction of any costs involved in recovery of amounts outstanding
ix) when available, the secondary market price of the debt.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due.
Where a loan is renegotiated on different terms such that it is substantially a different loan, the loan is derecognised and a new loan is recognised at its fair value.

For those loans for which no individual impairment is recognised, a collective impairment assessment is made, taking account of the following factors:

i) size of the loan
ii) arrears status
iii) historical loss experience (adjusted for current market conditions)
iv) the estimated period between impairment occurring and the loss being identified ('emergence period').

(b) *Available for sale assets*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available for sale assets, the cumulative loss, measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised, is recognised in impairment losses/recoveries on investment securities in the income statement.

A subsequent decline in the fair value of an available for sale asset is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income

If the fair value of an available for sale asset increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent it reverses the previously recognised impairment. Any gain in fair value in excess of the original impairment is recognised in other comprehensive income. On disposal, where sales proceeds exceed the carrying amount of an impaired asset, the proportion of the gain which offsets the previously recognised impairment loss is recognised as a credit in impairment losses/recoveries on investment securities in the income statement.

Impairment losses recognised in the income statement on available for sale equity shares are not reversed through the income statement.

38. Capital management

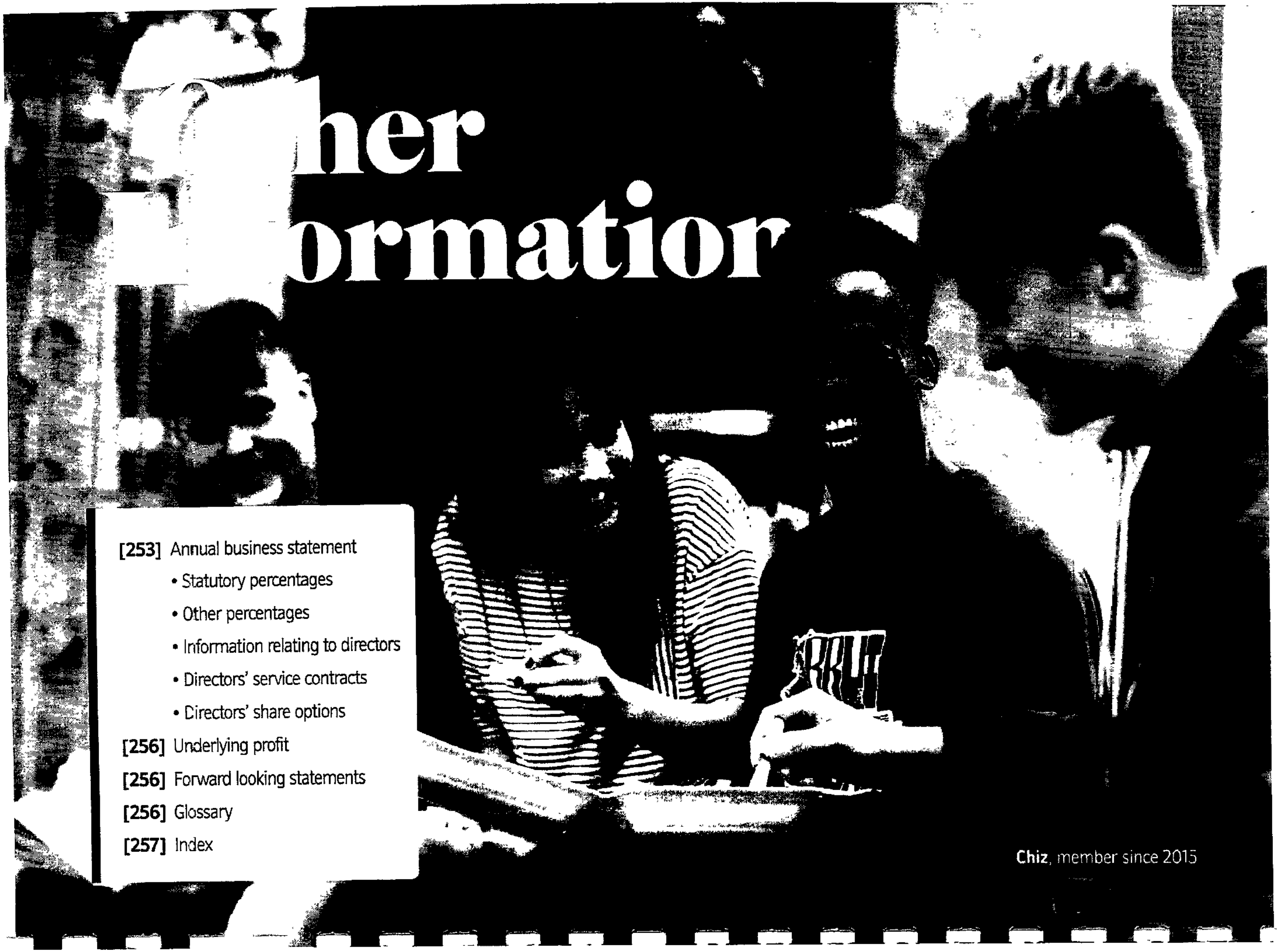
The Group is subject to the regulatory capital requirements applied by its regulator, the Prudential Regulation Authority (PRA). Regulatory capital comprises the Group's general reserve, fair value through other comprehensive income reserve, revaluation reserve, core capital deferred shares, other equity instruments, permanent interest-bearing shares (PIBS) and subordinated debt, subject to various adjustments and transitional arrangements required by the capital rules.

During the year the Group complied with the capital requirements applied by the PRA. Further unaudited details about the Group's capital position can be found in the 'Solvency risk' section of the Business and Risk Report.

39. Registered office

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



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Annual business statement for the year ended 4 April 2019

1. Statutory percentages

Statutory percentages

	2019 %	Statutory limit %
Lending limit	**6.25**	25.00
Funding limit	**29.21**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997 and the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Group plus impairment provisions on loans and advances to customers less liquid assets, property, plant and equipment, intangible fixed assets and investment properties as shown in the Group balance sheet.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of:

i) the principal value of, and interest accrued on, shares in the Society,
ii) the principal of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society excluding offshore deposits in an EEA subsidiary, and
iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking, less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

Other percentages

	2019 %	2018 %
As a percentage of shares and borrowings:		
Gross capital	**9.4**	8.8
Free capital	**8.6**	7.9
Liquid assets	**15.2**	14.9
Profit for the financial year as a percentage of mean total assets	**0.26**	0.33
Management expenses as a percentage of mean total assets	**0.96**	0.90

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, deposits from banks and similar institutions, other deposits and debt securities in issue
- 'Gross capital' represents the aggregate of general reserve, revaluation reserve, fair value through other comprehensive income reserve (2018: available for sale reserve), cash flow hedge reserve, CCDS, Additional Tier 1 capital, subscribed capital and subordinated liabilities
- 'Free capital' represents the aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets
- 'Liquid assets' represent the total of cash, loans and advances to banks and similar institutions and investment securities
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year
- 'Management expenses' represent administrative expenses including depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

3. Information relating to directors at 4 April 2019

Information relating to directors at 4 April 2019

Name and date of birth	Occupation	Date of appointment	Other directorships
D L Roberts BSc (Hons), MBA, PhD (Honorary), CFifs Chairman 12 September 1962	Non Executive Director	1 September 2014	Campion Willcocks Limited Beazley plc (Chairman) Beazley Furlonge Limited (Chairman) NHS Improvement (Associate Non Executive Director) NHS England (Vice Chairman)
R A Clifton CBE, MA (Cantab), FRSA 30 January 1958	Non Executive Director	1 July 2012	BrandCap Limited Rita Clifton Limited ASOS plc Ascential plc The Green Alliance Trust
R M Fyfield MA, BA (Hons) 3 May 1969	Non Executive Director	2 June 2015	Roku, Inc
A Hitchcock dipMBA, CEng, FIET 16 January 1965	Non Executive Director	2 December 2018	
J D Garner MA (Cantab) 23 June 1969	Executive Director	5 April 2016	UK Finance British Triathlon Foundation Trust (Chairman)
M A Lenson MBA, BA (Hons), ACIB, FSI 17 September 1954	Non Executive Director	18 July 2011	The Currency Cloud Group Limited
K A H Parry OBE, MA (Cantab), FCA 29 January 1962	Non Executive Director	23 May 2016	Daily Mail and General Trust plc Intermediate Capital Group plc (Chairman) *KAH Parry Limited* Royal London Group (Chairman)
L M Peacock BA (Hons) 26 December 1953	Non Executive Director	18 July 2011	Serco Group plc The Westminster Society for People with Learning Disabilities (Chair) Hawkins Residents Limited
Baroness U K Prashar CBE, PC 29 June 1948	Non Executive Director	18 January 2017	UK Community Foundations (Honorary President) Cumberland Lodge (Chair)
T P Prestedge 12 February 1970	Executive Director	28 August 2007	Nationwide Anglia Property Services Limited Dunfermline BS Nominees Limited Monument (Sutton) Limited NBS Ventures Limited NBS Ventures Management Limited The Derbyshire (Premises) Limited The Nationwide Foundation The Nationwide Trust Limited

3. Information relating to directors at 4 April 2019 (continued)

Information relating to directors at 4 April 2019

Name and date of birth	Occupation	Date of appointment	Other directorships
M M Rennison BA (Hons), FCA 9 August 1960	Executive Director	1 February 2007	Confederation Mortgage Services Limited Exeter Trust Limited First Nationwide LBS Mortgages Limited Nationwide Anglia Property Services Limited Nationwide Housing Trust Limited Nationwide Investments (No.1) Limited Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited NBS Fleet Services Limited NBS Ventures Management Limited Staffordshire Leasing Limited Arkose Funding Limited Piper Javelin No.1 Limited Piper Javelin Holding Company Limited Silverstone Securitisation Holdings Limited
C S Rhodes BSc (Hons), ACA 17 March 1963	Executive Director	20 April 2009	at.home Nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited The Lending Standards Board Limited NBS Ventures Management Limited
T J W Tookey BSc (Hons), FCA 17 July 1962	Non Executive Director	2 June 2015	Westmoreland Court Management (Beckenham) Limited
G Waersted MBA 16 March 1955	Non Executive Director	1 June 2017	Telenor ASA (Chair) Petoro AS (Chair) Lukris Invest AS Fidelity International Saferoad ASA

Documents may be served on any of the Directors c/o Addleshaw Goddard, One St Peter's Square, Manchester M2 3DE.

Directors' service contracts

Executive directors' terms and conditions of employment are detailed in their individual contracts or service agreements which include a notice period of 12 months from the Society to the individual and a notice period of six months from the individual to the Society. The notice period offered to any new recruit would be in line with this approach.

Directors' share options

A proportion of executive directors' variable pay is linked to the value of the Society's core capital deferred shares (CCDS), details of which have been provided in the Report of the directors on remuneration. For 2018/19, the Directors' Performance Award (DPA) was the only variable pay plan in which directors participated. 20% of awards under the DPA is payable in June 2019 with 20% retained until June 2020. The remaining 60% is deferred, payable between years three and seven following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS). These CCDS linked elements are payable in cash subject to a 12 month retention period. No Directors held securities in Nationwide Building Society during the year.

Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page [29]. Statutory profit before tax of £833 million has been adjusted to derive an underlying profit before tax of £788 million. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across periods. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities. The components of underlying profit have changed in the period to more accurately reflect underlying performance. For more information see page [29] of the Financial Review.

Nationwide has developed a financial performance framework based on the fundamental principle of maintaining its capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of Nationwide's capital. We believe that a level of underlying profit of approximately £0.9 billion to £1.3 billion per annum over the cycle would meet the Board's objective for sustainable capital growth. This range will vary from time to time, and whether our profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to provide value to members or to make investments in the business. It should not be construed as a forecast of the likely level of Nationwide's underlying profit for any financial year or period within a financial year.

Forward looking statements

Certain statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable, Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. The economic outlook also remains unusually uncertain due to Brexit. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward-looking statements.

Nationwide undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

This document does not constitute or form part of an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by means of a prospectus that may be obtained from Nationwide and will contain detailed information about Nationwide and management as well as financial statements.

Glossary

The glossary for Annual Report and Accounts 2019 is available at:
https://www.nationwide.co.uk/about/corporate-information/results-and-accounts

Index

If you have hearing or speech difficulties and are a textphone user, you can call us direct in text on **0800 37 80 01**.

We also accept calls via BT Text Relay. Just dial **18001** followed by the full telephone number you wish to ring.

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nationwide.co.uk

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Nationwide
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