Nationwide Building Society

Preliminary Results Announcement
For the year ended
4 April 2019

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Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 4. 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 8 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.

Record lending, strong deposit growth and 1 in 5 current account switchers drive record membership at Nationwide Building Society

Leading service[1] at UK's most trusted[2] financial brand

- No. 1 for customer satisfaction among our peer group, with lead of 4.8% (March 2018: 4.6%)[1]; joint 5th in all-sector UK Customer Satisfaction Index[3];
- UK's most trusted financial brand, 2.3% ahead of nearest competitor (March 2018: 1.4%)[2];
- Support for high streets includes promise that every town and city with a branch will still have one until at least May 2021;
- Awarded £50m from the Capability and Innovation Fund, enhancing our entry into business banking market.

Membership reaches record high as Nationwide helps more people into a home, save for the future or manage their finances

- A record 15.9m members trust Nationwide with their money (2018: 15.5m);
- Loyalty rates on Single Access and Loyalty ISAs attracted higher member deposits[4], which grew by £6.0bn (2018: £3.5bn);
- Helped a record 77,000 first-time buyers into their own homes (2018: 76,000), and increased gross and net mortgage lending to £36.4bn (2018: £33.0bn) and £8.6bn (2018: £5.8bn) respectively;
- More than one in five switchers chose Nationwide[5], and current account openings were robust at 794,000 (2018: 816,000).

Profitability in line with expectations as Society increases investment for the future

- Members benefited from £705m in member financial benefit (2018: £560m), well above our aim of at least £400m;
- Underlying profit of £788m (2018: £977m)[6] and statutory profit of £833m (2018: £977m);
- Profits are after a charge of £227m from asset write-offs and additional technology spend as a result of the Society's £1.3bn investment over five years, to ensure we continue to excel at service;
- CET1 ratio improved to 32.4% (4 April 2018: 30.5%) and UK leverage ratio stable at 4.9% (4 April 2018: 4.9%).

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

"2018/19 was a strong year for Nationwide. More people have chosen us for their mortgages, savings or current accounts.

"I believe that the combination of excellent service and great long-term value is driving our growth. We remain ahead of our peer group on service[1] and trust[2]. Our strong performance has meant we have provided extra value to members, with member financial benefit of £705m, well above our aim of at least £400m.

"During the year, we also announced a significant boost in our technology investment over five years to ensure we continue to excel on service.

"These were conscious decisions we were able to make as a building society. As we expected, they have had an impact on profits in the short term, but these choices are in the long-term interests of our members.

"We have also taken two other decisions to serve our members better. The first is a pledge to keep a branch in every town or city that has one currently for at least the next two years. And the second is to launch a current account for small businesses, offering everyday great service and value.

"Our financial strength means we will be able to continue to support our members now and in the future as we have done for the last 135 years."

Mark Rennison, Chief Financial Officer, Nationwide Building Society, said:

"We are a secure home for our members' money during a time of political and economic uncertainty.

"Our capital position remains well ahead of regulatory requirements. This, combined with another strong performance this year, means we can invest with confidence. We announced in September a £1.3bn additional investment over five years in new technologies to help serve our members better today and in the future. Our underlying profits of £788m are after a charge of £227m for asset write offs and additional technology spend. Excluding this charge, our profitability was broadly consistent with the level reported a year ago.

"We continue to offer our members competitive mortgage and savings rates, rewarding them with better value. In line with our expectations and previous statements, our net interest margin narrowed reflecting conscious pricing decisions and competition for lending. We expect this trend to continue during the coming financial year."

[1] © 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] Source: Nationwide Brand and Advertising tracker compiled by Independent Research Agency, 12 months ending 31 March 2019 vs 12 months ended 31 March 2018. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB.
[3] Institute of Customer Service's UK Customer Satisfaction Index, January 2019.
[4] Member deposits include current account deposits.
[5] Source: Pay.UK current account switching data, 12 months to March 2019.
[6] The components of underlying profit have been changed during the year to reflect more appropriately ongoing business performance. 2018 underlying profit has been restated to reflect this change.

Financial Summary

Financial performance	Year to 4 April 2019 £m		Year to 4 April 2018 £m	
Total underlying income	**3,170**		3,132	
Underlying profit before tax (note i)	**788**		977	
Statutory profit before tax	**833**		977	
Mortgage Lending	**£bn**	**%**	£bn	%
Group residential – gross/*market share (note ii)*	**36.4**	***13.4***	33.0	*12.8*
Group residential – net/*market share (note ii)*	**8.6**	***18.7***	5.8	*13.2*
Average loan to value of new residential lending (by value)		**71**		71
Deposit balances	**£bn**	**%**	£bn	%
Member deposits balance movement/*market share* (notes ii and iii)	**6.0**	***12.2***	3.5	*6.8*
Key ratios		**%**		%
Cost income ratio – underlying basis (note i)		**71.1**		64.6
Cost income ratio – statutory basis		**70.3**		64.6
Net interest margin (note iv)		**1.22**		1.31

	4 April 2019		5 April 2018 (note v)		4 April 2018	
Balance sheet	**£bn**	**%**	£bn	%	£bn	%
Total assets	**238.3**		228.9		229.1	
Loans and advances to customers	**199.1**		191.4		191.6	
Member deposits/*market share* (notes ii and iii)	**154.0**	*10.1*	148.0	*10.0*	148.0	*10.0*
Asset quality		**%**				%
Residential mortgages						
Proportion of residential mortgage accounts 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)		**1.35**				1.56
Key ratios		**%**		%		%
Capital						
Common Equity Tier 1 ratio (note vi)		**32.4**		30.4		30.5
UK leverage ratio (note vii)		**4.9**		4.9		4.9
CRR leverage ratio (note viii)		**4.6**		4.6		4.6
Other balance sheet ratios						
Liquidity coverage ratio		**150.2**				130.3
Wholesale funding ratio (note ix)		**28.6**				28.2

Notes:

i. Underlying profit represents management's view of underlying performance. In order to provide a more meaningful presentation of performance the following items are excluded from statutory profit to arrive at underlying profit:
   - FSCS costs arising from institutional failures
   - Gains from derivatives and hedge accounting.

   The components of underlying profit have been changed during the year and comparatives have been restated. Further information can be found in the Financial review on page 8.

ii. The calculation of market share for mortgage lending and deposit balances has been refined to better reflect the position at the reporting date, with comparatives being restated accordingly. Market data is available at calendar month ends and therefore market share is for the period 1 April 2018 to 31 March 2019.

iii. Member deposits include current account credit balances.

iv. 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.

v. Balances as at 5 April 2018 reflect the impact of applying IFRS 9: Financial Instruments.

vi. The Common Equity Tier 1 (CET1) ratio has been calculated under CRD IV on an end point basis. From 5 April 2018, IFRS 9 transitional adjustments have been applied.

vii. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure. From 5 April 2018, IFRS 9 transitional adjustments have been applied.

viii. 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. From 5 April 2018, IFRS 9 transitional adjustments have been applied.

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

Chief Executive's review

As a building society, Nationwide is owned by its members. We have a deep and true member focus: we are here to serve our members' 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[7]. 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[8]. 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.

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[7] 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.

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.

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 our loyal and growing membership, for their 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.

[7] © 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 and 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).

Building thriving membership – helping more members make more of their money

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[9] – members who have two or more of our products – grew from 3.2 million to 3.4 million.

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[8].

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[10] has reached 8% for the first time. We hope to replicate this success in the small business market, with the launch of a business current account.

Built to last – keeping our Society and our members' money safe

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 interest 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.

[8] Institute for Customer Service's UK Customer Satisfaction Index, January 2019 and January 2018.
[9] 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.
[10] Source: CACI (February 2019) and internal calculations. 'Main accounts' refers to main standard and packaged accounts.

Chief Executive's review (continued)

Underlying profit was down to £788 million (2018: £977 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.

Building legendary service – striving to serve our members better every day

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[11]. We've moved up to joint fifth[12] in the all-industry UK Customer Satisfaction Index, achieving our target of being in the top five. Our current account satisfaction is also ahead of our peer group, with a lead of over 10%[13], 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.

Building PRIDE – creating the right culture to do the best for our members

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%)[14], continues to be above the high-performing benchmark[14] 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.

Building a national treasure – supporting communities and making a difference

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[15] – 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.

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.

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[11] © 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 and 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).
[12] Institute for Customer Service UK Customer Satisfaction Index, January 2019 and January 2018.
[13] © 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 main current account customers. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).
[14] 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 around the world across a range of industries. It covers more than 450,000 employees.
[15] 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 with Halifax.

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[16]. 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.

[16] 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 13.

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 9.

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%)

Assets	4 April 2019		5 April 2018 (note i)		4 April 2018	
	£m	**%**	£m	%	£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	%				%	
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 2 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.

Financial review (continued)

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.

Financial review (continued)

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 are included in note 15.

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.

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 18 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.

Business and Risk Report

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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

Business and Risk Report (continued)

Top and emerging risks (continued)

Regulation	Managing Change	Cyber Security
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.	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.	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 risks impacted • Conduct and Compliance Risk • Business Risk • Operational Risk	Key principal risk impacted • Business Risk • Operational Risk • Conduct and Compliance Risk	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.

Credit risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations.	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.	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 pages 20 to 49.

Business and Risk Report (continued)

Principal risks and uncertainties (continued)

Liquidity and funding risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
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.	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.	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 pages 50 to 59.

Solvency risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
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.	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.	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 pages 60 to 62.

Market risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
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.	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.	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.

Pension risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit.	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.	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.

Business and Risk Report (continued)

Principal risks and uncertainties (continued)

Business risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
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.	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.	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.

Model risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
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.	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.	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.

Operational risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	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.	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.

Conduct and compliance risk	Why this risk is important for Nationwide	How Nationwide manages this risk on behalf of members
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.	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.	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.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

Credit risk – Overview (continued)

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 18 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 2 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.

Business and Risk Report (continued)

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	**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	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

Business and Risk Report (continued)

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

Business and Risk Report (continued)

Credit risk – Overview (continued)

Maximum exposure to credit risk 4 April 2018 *(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 %
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 2 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.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

Credit risk – Residential mortgages (continued)

Impairment losses for the year

Impairment (reversals)/losses for the year		
	2019 (IFRS 9 basis)	2018 (IAS 39 basis)
(Audited)	**£m**	£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**

Business and Risk Report (continued)

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 28.

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.

Business and Risk Report (continued)

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 £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).

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 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 11 to the financial statements.

Business and Risk Report (continued)

Credit risk – Residential mortgages (continued)

Reason for residential mortgages being included in stage 2						
4 April 2019	Prime		Specialist		Total	
	£m	%	£m	%	£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

Note:
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 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.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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%	

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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 portfolio 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.

Business and Risk Report (continued)

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				
	4 April 2019		4 and 5 April 2018	
(Audited)	**£m**	**%**	£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		
	2019 (IFRS 9 basis)	2018 (IAS 39 basis)
(Audited)	**£m**	£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[17] 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.

[17] Borrowers are classified as being in persistent debt when they have paid more interest, fees and charges than capital over an 18-month period.

Business and Risk Report (continued)

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			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
(Audited)	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£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.

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%).

Business and Risk Report (continued)

Credit risk – Consumer banking (continued)

Reason for consumer banking balances being included in stage 2								
4 April 2019	**Overdrawn current accounts**		**Personal loans**		**Credit cards**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
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.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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 has reduced to 3.2% (4 April 2018: 3.6%) of the total portfolio as a result of overall portfolio growth.

Business and Risk Report (continued)

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 2 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.

Business and Risk Report (continued)

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	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross balances								
Registered social landlords	**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.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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			5 April 2018		
	London	Rest of UK	Total	London	Rest of UK	Total
	£m	£m	£m	£m	£m	£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 – 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				
	IFRS 9 classification	**4 April 2019**	5 April 2018 (IFRS 9)	4 April 2018 (IAS 39)
(Audited)		**£m**	£m	£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 2 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 2 to the financial statements.

Business and Risk Report (continued)

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		**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Other**
(Audited)	**£m**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
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		AAA	AA	A	Other	UK	US	Europe	Other
(Audited)	£m	%	%	%	%	%	%	%	%
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 2 to the financial statements.

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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

Business and Risk Report (continued)

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 2 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%).

Business and Risk Report (continued)

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.

Business and Risk Report (continued)

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	**EUR**	**USD**	**Total**	GBP	EUR	USD	Total
	£bn	**£bn**	**£bn**	**£bn**	£bn	£bn	£bn	£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.

Business and Risk Report (continued)

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)	Due less than one month (note ii)	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
4 April 2019	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£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)**	**-**

Business and Risk Report (continued)

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 2 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.

Business and Risk Report (continued)

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

Business and Risk Report (continued)

Liquidity and funding risk (continued)

Gross contractual cash flows 4 April 2018 *(Audited)*	Due less than one month (note i) £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
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 2 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.

Business and Risk Report (continued)

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 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 2 to the financial statements.

Business and Risk Report (continued)

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	Cumulative adjustment for a two notch downgrade
	£bn	**£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.

Business and Risk Report (continued)

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.

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.

Business and Risk Report (continued)

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		
(Audited)	**2019** **£m**	2018 £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.
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.

Business and Risk Report (continued)

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%).

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.

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.

Consolidated Financial Statements

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Consolidated income statement

For the year ended 4 April 2019	Notes	2019 £m	2018* £m
Interest receivable and similar income/(expense):			
Calculated using the effective interest rate method	3	**5,141**	4,862
Other	3	**(23)**	(51)
Total interest receivable and similar income/(expense)	3	**5,118**	4,811
Interest expense and similar charges	4	**(2,203)**	(1,807)
Net interest income		**2,915**	3,004
Fee and commission income		**449**	449
Fee and commission expense		**(248)**	(244)
Other operating income/(expense)	5	**54**	(77)
Gains/(losses) from derivatives and hedge accounting	6	**36**	(1)
Total income		**3,206**	3,131
Administrative expenses	7	**(2,254)**	(2,024)
Impairment losses on loans and advances to customers	8	**(113)**	(107)
Impairment recoveries on investment securities		**-**	2
Provisions for liabilities and charges	13	**(6)**	(25)
Profit before tax		**833**	977
Taxation	9	**(215)**	(232)
Profit after tax		**618**	745

*Comparatives have been restated as detailed in note 2.

Consolidated statement of comprehensive income

For the year ended 4 April 2019	Group	
	2019	2018*
	£m	£m
Profit after tax	**618**	745
Other comprehensive income/(expense)		
Items that will not be reclassified to the income statement		
Remeasurements of retirement benefit obligations:		
Retirement benefit remeasurements before tax	**210**	29
Taxation	**(57)**	(7)
	153	22
Revaluation of property:		
Revaluation before tax	**(2)**	2
Taxation	**1**	(1)
	(1)	1
	152	23
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)
Amount transferred to income statement	**(100)**	2,057
Taxation	**(112)**	68
	328	(191)
Fair value through other comprehensive income reserve:		
Fair value movements taken to members' interests and equity	**12**	
Amount transferred to income statement	**(28)**	
Taxation	**4**	
	(12)	
Available for sale reserve:		
Fair value movements taken to members' interests and equity		50
Amount transferred to income statement		(8)
Taxation		(11)
		31
Other comprehensive income/(expense)	**468**	(137)
Total comprehensive income	**1,086**	608

*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.

Consolidated balance sheet

At 4 April 2019	Notes	4 April 2019 £m	5 April 2018* £m	4 April 2018* £m
Assets				
Cash		**12,493**	14,361	14,361
Loans and advances to banks and similar institutions		**4,009**	3,493	3,493
Investment securities		**16,234**	13,046	13,046
Derivative financial instruments		**3,562**	4,121	4,121
Fair value adjustment for portfolio hedged risk		**411**	(144)	(109)
Loans and advances to customers	11	**199,051**	191,421	191,593
Intangible assets		**1,324**	1,342	1,342
Property, plant and equipment		**889**	887	887
Accrued income and expenses prepaid		**184**	164	164
Deferred tax		**53**	144	98
Other assets		**91**	102	102
Total assets		**238,301**	228,937	229,098
Liabilities				
Shares		**153,969**	148,003	148,003
Deposits from banks and similar institutions		**20,149**	20,436	20,436
Other deposits		**5,074**	4,693	4,693
Fair value adjustment for portfolio hedged risk		**(17)**	(53)	(53)
Debt securities in issue		**35,942**	34,118	34,118
Derivative financial instruments		**1,593**	2,337	2,337
Other liabilities		**583**	345	345
Provisions for liabilities and charges	13	**199**	274	273
Accruals and deferred income		**346**	336	336
Subordinated liabilities	12	**6,706**	5,497	5,497
Subscribed capital	12	**250**	263	263
Deferred tax		**144**	49	49
Current tax liabilities		**89**	53	53
Retirement benefit obligations	15	**105**	345	345
Total liabilities		**225,132**	216,696	216,695
Members' interests and equity				
Core capital deferred shares	16	**1,325**	1,325	1,325
Other equity instruments	17	**992**	992	992
General reserve		**10,418**	9,802	9,951
Revaluation reserve		**64**	68	68
Cash flow hedge reserve		**320**	(8)	(8)
Fair value through other comprehensive income reserve		**50**	62	
Available for sale reserve				75
Total members' interests and equity		**13,169**	12,241	12,403
Total members' interests, equity and liabilities		**238,301**	228,937	229,098

*Comparatives have been restated as detailed in note 2. Balances at 5 April 2018 have been prepared under IFRS 9 as detailed in note 18.

Consolidated 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)		62	12,241
Profit for the year	**-**	**-**	**618**	**-**	**-**		**-**	**618**
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	**-**	**-**	**-**	**-**	**328**		**-**	**328**
Net movement in FVOCI reserve	**-**	**-**	**-**	**-**	**-**		**(12)**	**(12)**
Total comprehensive income	**-**	**-**	**774**	**(4)**	**328**		**(12)**	**1,086**
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**	**10,418**	**64**	**320**		**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 18.

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).

Notes to the consolidated financial statements

1. Reporting period

These results have been prepared as at 4 April 2019 and show the financial performance for the year from, and including, 5 April 2018 to this date.

2. 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. The accounting policies adopted for use in the preparation of this Preliminary Results Announcement and which will be used in preparing the Annual Report and Accounts for the year ended 4 April 2019 were included in the 'Annual Report and Accounts 2018' document except as detailed below. Copies of these documents are available at **nationwide.co.uk/about_nationwide/results_and_accounts**

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.

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 balance sheet and members' interests and equity at 5 April 2018 are included in note 18. 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 Group'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 Interim Results for the period ended 30 September 2018, available on the Group's website at **nationwide.co.uk**

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.

Notes to the consolidated financial statements (continued)

2. Basis of preparation (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 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:

Consolidated income statement extract for the year ended 4 April 2018			
	Previously published	Adjustment	Restated
	£m	£m	£m
Interest receivable and similar income	4,818	(7)	4,811
Other operating income/(expense)	(84)	7	(77)

This reclassification has no impact on the Group's net assets or members' interests and equity at 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:

Consolidated balance sheet extract at 4 April 2018			
	Previously published	Adjustment	Restated
	£m	£m	£m
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)	-

Notes:
i. Previously 'Loans and advances to banks'.
ii. Previously 'Deposits from banks'.

These reclassifications have no impact on the Group's net assets or members' interests and equity at 4 April 2018.

Judgements in applying accounting policies and critical accounting estimates

The preparation of the Group's consolidated 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.

Going concern

The Directors have assessed the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that therefore, it is appropriate to adopt the going concern basis in preparing this preliminary financial information.

Notes to the consolidated financial statements (continued)

3. Interest receivable and similar income

	2019 £m	2018 (note i) £m
On financial assets measured at amortised cost:		
Residential mortgages	**4,469**	4,532
Other loans	**656**	677
Other liquid assets	**137**	67
Investment securities	**27**	14
On investment securities measured at FVOCI (2018: available for sale)	**167**	115
On financial instruments hedging assets in a qualifying hedge accounting relationship	**(315)**	(543)
Total interest receivable and similar income calculated using the effective interest rate method	**5,141**	4,862
Other interest and similar income/(expense) (note ii)	**(23)**	(51)
Total	**5,118**	4,811

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 2.
ii. Includes interest on financial instruments hedging assets that are not in a qualifying hedge accounting relationship.

4. Interest expense and similar charges

	2019 £m	2018 £m
On shares held by individuals	**1,335**	1,140
On subscribed capital	**14**	15
On deposits and other borrowings:		
Subordinated liabilities	**238**	175
Other	**207**	320
On debt securities in issue	**673**	712
Net income on financial instruments hedging liabilities	**(270)**	(563)
Interest on net defined benefit pension liability	**6**	8
Total	**2,203**	1,807

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.

Notes to the consolidated financial statements (continued)

5. Other operating income/expense

	2019	2018 (note i)
	£m	£m
Gains on financial assets measured at FVTPL	23	-
Gains on FVOCI investment securities (2018: available for sale investment securities)	27	33
Other income/(expense)	4	(110)
Total	**54**	(77)

Note:
i. Comparatives have been restated as detailed in note 2.

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.

6. Gains/losses from derivatives and hedge accounting

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. 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.

	2019	2018
	£m	£m
Gains/(losses) from fair value hedge accounting	24	(86)
Gains/(losses) from cash flow hedge accounting	23	17
Net gain from mortgage pipeline (note i)	-	50
Fair value (losses)/gains from other derivatives (note ii)	(18)	5
Foreign exchange retranslation (note iii)	7	13
Total	**36**	(1)

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.

Notes to the consolidated financial statements (continued)

7. Administrative expenses

	Notes	2019 £m	2018 £m
Employee costs:			
Wages and salaries		**525**	524
Bonuses		**55**	61
Social security costs		**65**	66
Pension costs		**181**	173
		826	824
Other administrative expenses		**836**	758
Bank levy	13	**43**	45
		1,705	1,627
Depreciation, amortisation and impairment		**549**	397
Total		**2,254**	2,024

8. 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)	2019 £m	2018 (note i) £m
Prime residential	**(1)**	3
Specialist residential	**(16)**	8
Consumer banking	**114**	97
Commercial and other lending	**16**	(1)
Total	**113**	107

Impairment provisions	4 April 2019 £m	5 April 2018 (note i) £m	4 April 2018 (note i) £m
Prime residential	**44**	47	36
Specialist residential	**162**	188	109
Consumer banking	**418**	365	298
Commercial and other lending	**41**	29	15
Total	**665**	629	458

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.

Notes to the consolidated financial statements (continued)

9. Taxation

Tax charge in the income statement		
	2019	2018
	£m	£m
Current tax:		
UK corporation tax	**209**	246
Adjustments in respect of prior years	**(12)**	(12)
Total current tax	**197**	234
Deferred tax:		
Current year charge/(credit)	**6**	(7)
Adjustments in respect of prior years	**9**	9
Effect of deferred tax provided at different tax rates	**3**	(4)
Total deferred taxation	**18**	(2)
Tax charge	**215**	232

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		
	2019	2018
	£m	£m
Profit before tax:	**833**	977
Tax calculated at a tax rate of 19%	**158**	186
Adjustments in respect of prior years	**(3)**	(3)
Banking surcharge	**37**	43
Expenses not deductible for tax purposes/(income not taxable):		
Depreciation on non-qualifying assets	**3**	1
Bank levy	**8**	8
Customer redress	**8**	-
Other	**1**	1
Effect of deferred tax provided at different tax rates	**3**	(4)
Tax charge	**215**	232

Notes to the consolidated financial statements (continued)

10. Classification and measurement

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 2 and adjustments made on transition to IFRS 9 are detailed in note 18.

As at 4 April 2019, the Group had no financial assets or liabilities (5 April 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 18.

Notes to the consolidated financial statements (continued)

11. 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)	
	£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

Notes:

i. 5 April 2018 balances are presented under IFRS 9. Balances have been restated as detailed in note 2 and adjustments made on transition to IFRS 9 are detailed in note 18.

ii. Loans held at amortised cost include a fair value adjustment for micro hedged risk for commercial loans hedged on an individual basis.

Notes to the consolidated financial statements (continued)

11. Loans and advances to customers (continued)

The table below summarises 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		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 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**

Notes:

i. 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.

The 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 8, 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.

Notes to the consolidated financial statements (continued)

11. Loans and advances to customers (continued)

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
	£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.
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.

The Group 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 Group. 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 Group 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 Group. The remaining beneficial interest in the pledged mortgages of £3.9 billion (2018: £5.2 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the 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. 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 consolidated balance sheet. Mortgages pledged are not derecognised from the Group consolidated balance sheet as the Group has retained substantially all the risks and rewards of ownership. The Group continues to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes to the consolidated financial statements (continued)

12. Subordinated liabilities and subscribed capital

	2019 £m	2018 £m
Subordinated liabilities		
Senior non-preferred notes and Tier 2 eligible subordinated notes	**6,700**	5,487
Fair value hedge accounting adjustments	**37**	42
Unamortised premiums and discounts	**(31)**	(32)
Total	**6,706**	5,497
Subscribed capital		
Subordinated notes	**212**	225
Fair value hedge accounting adjustments	**40**	40
Unamortised premiums and discounts	**(2)**	(2)
Total	**250**	263

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

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.

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.

Notes to the consolidated financial statements (continued)

13. Provisions for liabilities and charges

	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.

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.

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.

Notes to the consolidated financial statements (continued)

14. 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.

15. 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		
	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.

Notes to the consolidated financial statements (continued)

15. 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

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	2018
	£m	£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

Notes to the consolidated financial statements (continued)

15. Retirement benefit obligations (continued)

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.

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.

Notes to the consolidated financial statements (continued)

16. Core capital deferred shares

	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.

17. Other equity instruments

	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.

Notes to the consolidated financial statements (continued)

18. 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 consolidated 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

Notes:

i. Comparatives have been restated as detailed in note 2.
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 is the difference between IFRS 9 ECL impairment and the IAS 39 incurred loss provisions.
vii. Carrying values of FVTPL loans and advances to customers increased by £1 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.

Responsibility statement

The Directors confirm that the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and income and expenditure of the Group as required by the Disclosure and Transparency rules (DTR 4.1.12). The Chief Executive's Review and the Financial Review together include a fair review of the development and performance of the business and the Group, and taken together with the primary financial statements, supporting notes and the Business and Risk Report provide a description of the principal risks and uncertainties faced.

A full list of the board of directors will be disclosed in the Annual Report and Accounts 2019.

Signed on behalf of the Board by

Mark Rennison
Chief Financial Officer

20 May 2019

Other information

The financial information set out in this announcement which was approved by the Board on 20 May 2019 does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The Annual Report and Accounts 2018 have been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Annual Report and Accounts 2019 will be published on the website of Nationwide Building Society, **nationwide.co.uk** The report of the auditor on those accounts is unqualified and did not draw attention to any matters by way of emphasis. The Annual Report and Accounts 2019 will be lodged with the Financial Conduct Authority and the Prudential Regulation Authority following publication.

A copy of this Preliminary report is placed on the website of Nationwide Building Society, **nationwide.co.uk** from 21 May 2019. The Directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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