

# Interim Results

for the period ended  
30 September 2019



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## Introduction

Unless otherwise stated, the income statement analysis compares the period from 5 April 2019 to 30 September 2019 to the corresponding six months of 2018 and balance sheet analysis compares the position at 30 September 2019 to the position at 4 April 2019.

## Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 10. Statutory profit before tax of £309 million has been adjusted to derive an underlying profit before tax of £307 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. For more information see the Financial review on page 10.

## 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. 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.

## Nationwide Building Society puts members first as it prioritises investment in service, value and technology over short-term profit

### Strong capital position underpins decisions to reward members and invest for the future

- Member financial benefit of £365m from better interest rates, fees and incentives than the market average (H1 2018/19: £330m);
- Net interest income of £1,385m (H1 2018/19: £1,438m) and net interest margin of 1.12% (H1 2018/19: 1.23%) in line with expectations;
- Costs of £1,125m (H1 2018/19: £1,100m) as we continue to invest for the future;
- Underlying profit of £307m (H1 2018/19: £460m) and statutory profit of £309m (H1 2018/19: £516m) reflect lower income and increased investment costs, together with additional PPI charges (as announced in September);
- Capital ratios remain strong with UK leverage ratio of 4.6% (4 April 2019: 4.9%), and CET1 ratio of 31.5% (4 April 2019: 32.2%).

### Growth in mortgages, savings and current accounts, with greater focus on deepening member relationships

- Our stock of mortgage balances continues to grow, with gross and net mortgage lending of £16.3bn (H1 2018/19: £17.3bn) and £3.0bn (H1 2018/19: £3.6bn) respectively, as we supported 33,500 first time buyers (H1 2018/19: 40,500);
- Deposit balances grew by £2.5bn (H1 2018/19: £5.1bn) as we continued to offer competitive rates;
- Opened 389,000 current accounts (H1 2018/19: 399,000), growing market share of main accounts to 8.1%<sup>1</sup> (March 2019: 8.0%) as 18.7% of switchers<sup>2</sup> chose Nationwide (H1 2018/19: 21.5%).

<sup>1</sup> Source: CACI (Aug 2019) and internal calculations. 'Main accounts' refers to main standard and packaged accounts.

<sup>2</sup> Source: Pay.UK monthly CASS data (Apr-Sep 2019)

<sup>3</sup> Committed members have two or more of our products, at least one of which is their main current account, a mortgage with a balance greater than £5,000, or a savings account with a balance greater than £1,000.

<sup>4</sup> © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 30 September 2019 and 12 months ending 30 March 2019, c.60,000 adults surveyed per annum, proportion of extremely/very satisfied

### Delivering leading service to record number of members

- Record membership, with committed members<sup>3</sup> increasing to 3.5m (31 March 2019: 3.4m);
- No. 1 for customer satisfaction among our peer group with a lead of 5.8%pts (March 2019: 4.8%pts)<sup>4</sup>, and 8<sup>th</sup> in all-sector UK Customer Satisfaction Index<sup>5</sup> (previously joint 5<sup>th</sup>);
- Named *Which?* Best Banking brand three years running, *Which?* Best Mortgage Provider, and UK's most trusted financial brand<sup>6</sup>;
- Received gold customer experience ribbons from Fairer Finance in the current accounts, credit cards, mortgages, personal loans, savings accounts and home insurance categories.

### Continuing to invest to meet members' needs today and in the future

- Transformation of IT infrastructure underway to simplify and enhance IT estate and increase capacity as our membership continues to grow;
- Upgraded 150 branches since 2017, including 28 in the last six months, combining the best of digital service with a human touch;
- Secured premises for new digital innovation hubs in London and Swindon;
- First high street provider to offer a comprehensive range of later life lending products;
- On track to serve more of our members' needs with the launch of Nationwide for Business in 2020.

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% as of April 2019 (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

<sup>5</sup> Institute for Customer Service UK Customer Satisfaction Index, July 2019 and January 2019.

<sup>6</sup> Nationwide Brand Guidance Study compiled by an independent research agency, based on all consumer responses, 12 months ending September 2019. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.

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

In line with our expectations, our profits were lower as we invested in meeting the needs of our members, in our service and in our future. As we announced in September, profits were also affected by an additional PPI charge.

Our trading performance was in line with our plans. We continued to grow our mortgages, deposits and current accounts, but at a more moderate pace, as we focus on broadening relationships with our members and helping to meet more of their financial needs.

Members benefited from £365 million in member financial benefit, as we chose to compete in the current low interest rate environment. We continue to prioritise service, maintaining our lead over our peer group for satisfaction<sup>7</sup>, and pledging to keep a branch in every town we are in until at least May 2021. We are also investing heavily in the future of our Society, by upgrading our IT estate and transforming our digital capabilities over the next few years.

As a member-owned building society we continue to make decisions in our members' interests, to give value to members and invest in the future.

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

Nationwide continues to provide a secure home for members' money. Our capital ratios remain strong. The key measure of our financial strength, our UK leverage ratio, stands at 4.6% following the issuance of £600 million of Additional Tier 1 capital in September. Our CET1 ratio is 31.5%, which is more than sufficient to absorb the impacts of the forthcoming regulatory changes and meet future capital requirements.

Net interest income of £1,385 million and net interest margin of 1.12% were in line with expectations, with the decrease in NIM from 1.23% in the first half of last year largely due to the run-off of historic lending and a larger balance sheet. We expect this margin decline to moderate in the second half of the year.

We continued to take decisions in our members' interests which impacted profits, including offering long-term good value products, our ongoing investment in simplifying our IT infrastructure, and developing innovative products and propositions to meet our members' future needs. Profits were also impacted by an additional provision for PPI, as previously announced, as PPI enquiries rose significantly ahead of the end of August claims deadline.

Our costs, excluding the impact of our strategic investment, are broadly flat.

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<sup>7</sup> © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 30 September 2019 and 12 months ending 30 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% as of April 2019 (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

## Financial summary

	Half year to 30 September 2019	Half year to 30 September 2018
Financial performance	£m	£m
Total underlying income	1,541	1,590
Underlying profit before tax (note i)	307	460
Statutory profit before tax	309	516

Mortgage lending	£bn	%	£bn	%
Residential – gross/ <i>market share</i>	16.3	12.3	17.3	12.9
Residential – net/ <i>market share</i>	3.0	9.6	3.6	13.7
Average loan to value of new residential lending (by value)	72		71	

Deposit balances	£bn	%	£bn	%
Member deposits balance movement/ <i>market share</i> (note ii)	2.5	4.4	5.1	17.9

Key ratios	%	%
Cost income ratio	72.9	67.2
Net interest margin (note iii)	1.12	1.23

### Notes:

- i. Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:
  - a. FSCS costs arising from institutional failures
  - b. Gains from derivatives and hedge accounting.
- ii. Member deposits include current account credit balances.
- iii. Net interest margin for the half year to 30 September 2018 has been restated as a result of income statement reclassifications. More information is included in note 2 to the consolidated interim financial statements.
- iv. The figure for 4 April 2019 has been restated in respect of counterparty credit risk exposures; this increased RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio. The CET1 ratio has been calculated under CRD IV on an end point basis.
- v. 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.
- vi. 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.
- vii. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations).

	30 September 2019		4 April 2019	
Balance sheet	£bn	%	£bn	%
Total assets	250.0		238.3	
Loans and advances to customers	201.8		199.1	
Member deposits/ <i>market share</i> (note ii)	156.5	9.9	154.0	10.1

Asset quality	%	%
Residential mortgages		
Proportion of residential mortgage accounts more than 3 months in arrears	0.40	0.43
Average indexed loan to value (by value)	57	58
Consumer banking		
Proportion of customer balances with amounts more than 3 months in arrears (excluding charged off balances)	1.26	1.35

Key ratios	%	%
Capital		
Common Equity Tier 1 (CET1) ratio (note iv)	31.5	32.2
UK leverage ratio (note v)	4.6	4.9
CRR leverage ratio (note vi)	4.3	4.6
Other balance sheet ratios		
Liquidity coverage ratio	140.3	150.2
Wholesale funding ratio (note vii)	30.5	28.6

## Chief Executive's review

Nationwide Building Society has grown strongly over the last few years. Our commitment to excellent service, value and financial strength has helped attract more members, and our membership today stands at a record high of close to 16 million.

As a member-owned building society, we make decisions for the long-term benefit of our members. Our half-year profits were lower, in line with expectations, as we chose to compete in the current highly competitive and low interest rate environment, and we delivered a higher member financial benefit. Profits were also affected by an additional PPI charge, as we announced in September. We continue to invest in meeting the needs of members; we are investing in our branch network, at the same time as making a significant investment in our digital services.

### Built to last – strong finances and a low risk profile

The Society's finances remain strong. Our UK leverage ratio, the key measure of our financial strength, at 4.6% (4 April 2019: 4.9%) remains above our 4.5% internal target following our issuance of £600 million of Additional Tier 1 capital in September. Our Common Equity Tier 1 ratio is 31.5% (4 April 2019: 32.2%<sup>8</sup>). We continue to take a prudent approach to how we manage the Society which is underpinned by a conservative risk profile.

Thanks to our better rates, fees and incentives, members benefited from £365 million in member financial benefit (H1 2018/19: £330 million). We have completed the first year of our five-year strategic investment programme and are making good progress with simplifying and upgrading our IT estate and increasing our capacity as our membership continues to grow. Our investment will also transform our digital capabilities, paving the way for innovations such as Nationwide for Business, our small business current account which will be launched in 2020.

Our profitability for the half year reflected these decisions, as well as an additional provision for PPI redress of £36 million, as we previously indicated, with underlying profits reducing to £307 million (2018/19: £460 million).

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<sup>8</sup> The figure for 4 April 2019 has been restated for an adjustment to counterparty credit risk exposures; this increased RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio. The CET1 ratio has been calculated under CRD IV on an end point basis.

<sup>9</sup> Nationwide Brand Guidance Study compiled by an independent research agency. 'Top choice' is most considered i.e. 'first choice' or 'seriously considered' current account provider amongst non-customers

### Building thriving membership – helping members make the most of their money

We continued to grow our mortgages, savings and current accounts. Following particularly strong growth in H1 2018/19 the pace of growth has moderated.

Helping people into homes of their own was our founding purpose and is still at the centre of what we do today. Reflecting the changing needs of people at different stages of their lives, we've expanded our mortgage range to cover everyone from first time buyers to retirees. We helped 33,500 – more than 1 in 6 – first time buyers (H1 2018/19: 40,500) into their own home in the last six months and we've become the first high street provider to offer a comprehensive range of retirement mortgages to help people make the most of their assets in later life. Our gross buy to let lending, through our subsidiary The Mortgage Works, rose to £3.2 billion (H1 2018/19: £2.1 billion). Overall, we continued to grow our mortgage book in H1 2019/20, with gross mortgage lending of £16.3 billion (H1 2018/19: £17.3 billion) and net lending of £3.0 billion (H1 2018/19: £3.6 billion).

As a building society, we always aim to offer the best rates we can sustainably afford. In the current low interest rate environment, we need to make pricing decisions which give long-term value to our membership as a whole. Our products remain competitive and members benefited from an extra £250 million in deposit interest compared with the market average. We continue to help people save regularly, launching our Pay Day Save Day campaign and offering members access to competitive rates, including our new members-only savings bond which is exclusively available in branch. Overall, our deposits increased by £2.5 billion (H1 2018/19: £5.1 billion) and we look after almost one pound in every ten of the UK's deposits.

We remain top choice for current accounts<sup>9</sup>, attracting more current account openings than any other high street brand and almost one in five switchers<sup>10</sup>. Our market share of main current accounts grew to 8.1%<sup>11</sup> (March 2019: 8.0%).

We are successfully broadening our relationships with members, with 'committed members' – those with two or more of our products – growing to 3.5 million (March 2019: 3.4 million). An increasing number of members hold both savings and current accounts with us, and more members benefited from competitive personal loans, credit cards and home insurance products that are only available to existing members.

of each brand, 12 months ending September 2019. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, Santander and TSB.

<sup>10</sup> Sources: CACI (Apr-Aug 2019), eBenchmarkers (Apr-Sep 2019), Pay.UK monthly CASS data (Apr-Sep 2019).

<sup>11</sup> Source: CACI (Aug 2019) and internal calculations. 'Main current accounts' refers to main standard and packaged accounts.

## Chief Executive's review (continued)

### Building legendary service – No. 1 for customer satisfaction

We invest in our service because we believe it's important for our members. We were ranked first for overall customer satisfaction and main current account satisfaction among our peer group<sup>12</sup>, and have been recognised by *Which?* as Banking Brand of the Year for the third year running, as well as *Which?* Best Mortgage Provider 2019. We also received gold customer experience ribbons from Fairer Finance in their bank accounts, credit cards, mortgages, personal loans, savings accounts and home insurance categories.

We are targeting a place in the top five in the Institute for Customer Service's all-sector UK Customer Satisfaction Index, where we are currently ranked eighth<sup>13</sup> (previously joint fifth).

We are investing in the branch service members value: we've upgraded 150 branches since 2017, including 28 in the last six months, and have pledged to keep a branch in every town that has one now until at least May 2021. At the same time, we are making a significant investment in our digital capabilities and have secured premises for two innovation hubs, in Swindon and London, to help us serve members better in the future.

### Building PRIDE – nurturing our member-led culture

We are committed to being an attractive and inclusive employer and we have extended our support for new parents to include extra maternity leave for parents of premature babies. This builds on our existing strong support for families, including family leave and bereavement leave. We are also supporting employee wellbeing with campaigns on mental health and financial security.

We are investing in the next generation of leaders: over 300 colleagues have taken part in our flagship Leading for Mutual Good programme since it launched in 2017. We are also broadening our technology skills base with a technology recruitment campaign and talent development programme, and an initiative to re-skill existing colleagues.

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<sup>12</sup> © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending September 2019, c.60,000 adults surveyed per annum. Overall customer satisfaction measured as proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Main current account satisfaction measured as proportion

### Building a national treasure – improving our members' communities

We aim to use our influence as well as our social investment funding to improve the lives of members and their communities. So far this year we've awarded £3 million in grants to fund another 73 housing projects, all chosen by local members and colleagues, as part of our community grants programme. We have also secured planning permission from Swindon Borough Council for our innovative Oakfield housing community of 239 homes.

We are committed to help raise private rental standards and protect tenants, and have campaigned for indefinite tenancies, removing no fault evictions, opening access to the rogue landlords' database, and removing 'No DSS' clauses in buy to let mortgages.

Building on our branch promise, Nationwide is also working with the Centre for Cities to recommend ways to revitalise high streets, after funding its report which found that skills and consumer spending power are the key to the health of high streets.

### Outlook

The UK's growth has slowed as a result of weaker global growth and Brexit uncertainty, but household spending has remained relatively solid, and housing market activity broadly stable at subdued levels. Whilst the economic outlook remains uncertain, we expect the current low interest rates and competition in our core markets to continue. As we move forward, we will continue to make decisions in our members' interests, balancing growth with a focus on broadening and deepening relationships with our members, delivering leading service and helping them make the most of their membership.

of extremely/very satisfied minus proportion of extremely/very/fairly dissatisfied main current account customers. Peer group defined as providers with main current account market share >4% as of April 2019 (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

<sup>13</sup> Institute for Customer Service UK Customer Satisfaction Index, July 2019 and January 2019.



# Financial review

## In summary

Our latest results demonstrate how Nationwide remains built to last and continues to provide a secure home for our members' money. Our capital position remains strong with our CET1 and UK leverage ratios at 31.5% and 4.6% respectively (4 April 2019: 32.2%<sup>14</sup> and 4.9% respectively), comfortably in excess of regulatory requirements. The decrease in our UK leverage ratio during the period is primarily the result of the redemption of a £1.0 billion Additional Tier 1 capital instrument in June 2019, which is partially offset by the successful issuance of £0.6 billion Additional Tier 1 capital in September 2019.

During the period, trading performance was in line with our expectations with gross mortgage lending at £16.3 billion (H1 2018/19: £17.3 billion) growing mortgage balances by £3.1 billion (H1 2018/19: £3.6 billion). We have continued to distribute value to our members through our competitive propositions and grew our member deposit balances by £2.5 billion to £156.5 billion (4 April 2019: £154.0 billion), with our market share of deposits at 9.9% (4 April 2019: 10.1%). We have continued to achieve strong current account growth, having now achieved a market share of main current accounts of 8.1%<sup>15</sup>.

We have provided our members with a financial benefit of £365 million (H1 2018/19: £330 million). This further 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.

Underlying profit for the period ended 30 September 2019 was £307 million (H1 2018/19: £460 million), with statutory profit before tax for the period at £309 million (H1 2018/19: £516 million), reflecting a reduction in net interest income as Nationwide continues to offer good value products in a competitive and low interest rate environment. This is combined with increased conduct provisions due to higher than anticipated PPI claims ahead of the FCA's deadline, and a modest increase in administrative expenses. The increased administrative expenses reflect our continued investment in the services we offer our members, including the development of our business banking proposition. Net interest margin fell during the period to 1.12% (H1 2018/19: 1.23%<sup>16</sup>) as a result of reduced net interest income and a larger balance sheet, in part reflecting increased cash and derivative balances.

Since the commencement of our efficiency programme in 2017/18 we have delivered over £300 million of sustainable saves, with more savings expected to be delivered in the period ahead. We remain on track to deliver our target of £500 million sustainable saves by 2023.

Underlying profit:

**£307m**

(H1 2018/19: £460m)

Statutory profit:

**£309m**

(H1 2018/19: £516m)

UK leverage ratio:

**4.6%**

(4 April 2019: 4.9%)

<sup>14</sup> The figure for 4 April 2019 has been restated for an adjustment to counterparty credit risk exposures; this increased RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio.

<sup>15</sup> Source CACI (Aug 2019) and internal calculations. 'Main current accounts' refers to main standard and packaged accounts.

<sup>16</sup> Net interest margin for the half year to 30 September 2018 has been restated as a result of income statement reclassifications. More information is included in note 2 to the consolidated interim financial statements.

## Financial review (continued)

## Income statement

Underlying and statutory results		
	Half year to 30 September 2019	Half year to 30 September 2018
	£m	£m
Net interest income (note i)	1,385	1,438
Net other income (note i)	156	152
<b>Total underlying income</b>	<b>1,541</b>	<b>1,590</b>
Administrative expenses	(1,125)	(1,100)
Impairment losses	(57)	(45)
Provisions for liabilities and charges	(52)	15
<b>Underlying profit before tax</b>	<b>307</b>	<b>460</b>
Financial Services Compensation Scheme (FSCS) (note ii)	-	9
Gains from derivatives and hedge accounting (notes ii, iii)	2	47
<b>Statutory profit before tax</b>	<b>309</b>	<b>516</b>
Taxation (note iv)	(75)	(120)
<b>Profit after tax</b>	<b>234</b>	<b>396</b>

Net Interest Margin:

**1.12%**(H1 2018/19: 1.23%)<sup>i</sup>

Cost Income Ratio:

**72.9%**

(H1 2018/19: 67.2%)

## Notes:

- Net interest income and net interest margin for the half year to 30 September 2018 have been restated as a result of income statement reclassification. More information is included in note 2 to the consolidated interim financial statements.
- Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:
  - FSCS costs arising from institutional failures, which are included within provisions for liabilities and charges.
  - Gains from derivatives and hedge accounting, which are presented separately within total income.
- 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.
- An amendment to IAS 12 clarifies that an entity should recognise the tax consequences of dividends in the primary statement where the transactions or events that generated the distributable profits are recognised. As a result of its application, the income tax consequences of distributions on Additional Tier 1 instruments are presented in the income statement rather than directly in members' interests and equity. Comparatives have been restated.

**Total income and net interest margin (NIM)**

In line with expectations, net interest income has reduced by £53 million to £1,385 million (H1 2018/19: £1,438 million). During the period, competitive pressure has been sustained in the mortgage market. This has resulted in a continued decline in our legacy base mortgage rate balances and lower new business margins. The decline in mortgage margins has been partially offset by a reduction in our cost of funding as we have made conscious decisions relating to our savings pricing in the continued low interest environment, balanced with our commitment to provide good long-term value for members. As a result, our depositors have continued to earn average rates more than 50% higher than the market average<sup>17</sup>.

As expected, net interest margin fell during the period to 1.12% (H1 2018/19: 1.23%) as a result of reduced net interest income and a larger balance sheet driven in part by growth in cash balances, and an increase in the value of hedging derivatives which reflect a weakening of sterling. We anticipate that the decline in net interest margin will begin to moderate in the second half of the financial year as new business margins stabilise and current levels of liquidity are maintained.

Net other income has remained broadly flat at £156 million during the period (H1 2018/19: £152 million).

<sup>17</sup> Market average interest rates are based on Bank of England whole of market average interest rates, adjusted to exclude Nationwide's balances.

## Financial review (continued)

**Member financial benefit**

We provide value to members through the highly competitive mortgage, savings and banking products that we can offer as a direct result of being a member-owned building society. The calculation method used to quantify member financial benefit is described in full in the Financial review section of the Annual Report and Accounts 2019. In summary, we quantify the financial benefit of being a member by comparing the following to industry benchmarks:

- interest rates on mortgages, unsecured lending and retail deposits; and
- the fees we charge and incentives we provide to members.

During the period, we have provided members with a financial benefit of £365 million (H1 2018/19: £330 million), including £250 million (H1 2018/19: £250 million) relating to higher interest paid to depositors. This reflects our ongoing commitment to delivering long-term value to members despite strong levels of competition in our core markets.

**Administrative expenses**

Administrative expenses have seen a modest increase of £25 million compared to the same period last year. The period-on-period growth is mainly attributable to the impact of strategic investment, which includes development of our business banking proposition. Our investment continues to support the long-term interests of our members, including improving member service and propositions, both in branch and through digital channels.

Achieving sustainable cost savings and embedding efficiencies remains a priority for the Society. Our continued focus on efficiency has now delivered over £300 million of sustainable saves since commencement of our efficiency programme in 2017/18 and we remain committed to delivering further sustainable savings in the second half of this financial year. We continue to be on track to deliver our target of £500 million sustainable saves by 2023.

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

<b>Impairment losses/(reversals)</b>		
	<b>Half year to 30 September 2019</b>	Half year to 30 September 2018
	<b>£m</b>	£m
Residential lending	<b>10</b>	4
Consumer banking	<b>58</b>	38
<b>Retail lending</b>	<b>68</b>	42
Commercial and other lending	<b>(11)</b>	3
<b>Impairment losses on loans and advances</b>	<b>57</b>	45

Note:

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

Impairment losses have increased slightly during the period to £57 million (H1 2018/19: £45 million), reflecting book growth and the impact of changes to our view of the economic outlook. The continued low level of impairment losses reflects the stable underlying performance of our portfolios.

More information regarding the critical accounting judgements, and the forward looking economic information used in our impairment calculations, is included in note 8 of the consolidated interim financial statements.

## Financial review (continued)

### 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. In line with experience across the industry, the Society received a higher than anticipated volume of PPI complaints and enquiries in the period immediately before the PPI deadline of 29 August 2019. Our customer redress charge has increased to £52 million (H1 2018/19: £15 million release) primarily as a result of an additional £36 million charge relating to PPI, which includes costs to process a large number of enquiries received where no PPI had been held. The remainder of the charge relates to remediation costs for other redress issues, including CMA Directions relating to failures in providing text alerts relating to customers' usage of overdraft facilities. More information is included in note 15 of the consolidated interim financial statements.

### Taxation

The tax charge for the period of £75 million (H1 2018/19: £120 million) represents an effective tax rate of 24.3% (H1 2018/19: 23.3%) which is higher than the statutory UK corporation tax rate of 19% (H1 2018/19: 19%). The effective tax rate is higher due to the 8% banking surcharge, equivalent to £10 million (H1 2018/19: £23 million), together with the tax effect of disallowable customer redress costs and other disallowable expenses, of £3 million and £6 million respectively, partially offset by the tax credit on the distribution to the holders of Additional Tier 1 capital instruments of £4 million (H1 2018/19: £7 million). Further information is provided in note 9 of the consolidated interim financial statements.

## Balance sheet

Total assets have increased by 5% to reach £250.0 billion at 30 September 2019 (4 April 2019: £238.3 billion). Residential mortgage balances increased by £3.1 billion, with the remainder of the balance sheet growth predominantly due to higher holdings of cash and other liquid assets, and an increase in the value of derivatives due to a weakening of sterling.

The growth in retail assets has been partially supported by retail funding flows. Member deposit balances have increased to £156.5 billion (4 April 2019: £154.0 billion) largely due to growth in current account credit balances of £1.8 billion. During the period, our market share of deposits reduced to 9.9% (4 April 2019: 10.1%). Our market share of main current accounts has grown to 8.1%<sup>18</sup> (4 April 2019: 8.0%).

Debt securities in issue have increased by £3.8 billion to £39.7 billion during the period due to additional issuance activity in the wholesale markets to support the increase in liquidity and mortgage lending.

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<sup>18</sup> Source CACI (Aug 2019) and internal calculations. 'Main current accounts' refers to main standard and packaged accounts.

## Financial review (continued)

<b>Assets</b>				
	<b>30 September 2019</b>		<b>4 April 2019</b>	
	£m	%	£m	%
Residential mortgages (note i)	<b>189,063</b>	<b>94</b>	186,012	93
Commercial and other lending	<b>8,566</b>	<b>4</b>	9,118	5
Consumer banking	<b>4,889</b>	<b>2</b>	4,586	2
	<b>202,518</b>	<b>100</b>	199,716	100
Impairment provisions	<b>(685)</b>		(665)	
Loans and advances to customers	<b>201,833</b>		199,051	
Other financial assets	<b>45,307</b>		36,709	
Other non-financial assets	<b>2,830</b>		2,541	
<b>Total assets</b>	<b>249,970</b>		238,301	

  

<b>Asset quality</b>	<b>%</b>	<b>%</b>
Residential mortgages (note i):		
Proportion of residential mortgage accounts more than 3 months in arrears	<b>0.40</b>	0.43
Average indexed loan to value (by value)	<b>57</b>	58
Consumer banking:		
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	<b>1.26</b>	1.35

Liquidity Coverage Ratio:

**140.3%**

(4 April 2019: 150.2%)

Note:

i. Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let lending.

**Residential mortgages**

Total gross mortgage lending in the period was £16.3 billion (H1 2018/19: £17.3 billion), representing a market share of 12.3% (H1 2018/19: 12.9%). Gross prime mortgage lending at £13.1 billion (H1 2018/19: £15.2 billion) has reduced compared to the particularly strong volumes in the same period last year, as we continued to lend in an increasingly competitive market. Gross buy to let mortgage lending has increased by £1.1 billion to £3.2 billion (H1 2018/19: £2.1 billion) driven by the success of extending our proposition to limited companies and a larger market overall. Total net mortgage lending has decreased during the period to £3.0 billion (H1 2018/19: £3.6 billion).

Arrears performance remained stable during the period, with cases more than three months in arrears at 0.40% of the total portfolio (4 April 2019: 0.43%). Impairment provisions have increased to £213 million (4 April 2019: £206 million) which includes an increased allowance for the refinance risk on interest only mortgages.

**Commercial and other lending**

During the period, commercial and other lending balances have decreased to £8.6 billion (4 April 2019: £9.1 billion). Continuing the deleveraging activity in previous financial years, the overall portfolio is increasingly weighted towards registered social landlords, with balances of £5.7 billion (4 April 2019: £6.0 billion), and project finance with balances of £0.8 billion (4 April 2019: £0.8 billion). With a smaller book, and fewer active borrowers requiring further lending, our commercial real estate balances decreased during the period to £1.2 billion (4 April 2019: £1.4 billion).

Impairment provisions have decreased to £31 million (4 April 2019: £41 million) due to a reduction in the credit risk associated with one commercial loan.

## Financial review (continued)

**Consumer banking**

Consumer banking balances have grown to £4.9 billion (4 April 2019: £4.6 billion). Consumer banking comprises personal loans of £2.7 billion (4 April 2019: £2.5 billion), credit cards of £1.9 billion (4 April 2019: £1.8 billion) and current account overdrafts of £0.3 billion (4 April 2019: £0.3 billion). Personal loan balances have grown to their highest ever levels following the expansion of our headline rate to higher individual loan amounts, combined with rate reductions for certain balance tiers. In addition, we have experienced record levels of growth in home insurance, with an increase of around 26,000 sales period on period reflecting the strength of our proposition.

Provisions have increased to £441 million (4 April 2019: £418 million) due to book growth, with underlying performance remaining broadly stable.

**Other financial assets**

Other financial assets total £45.3 billion (4 April 2019: £36.7 billion) and comprise liquidity and investment assets held by our Treasury function amounting to £38.8 billion (4 April 2019: £32.7 billion), derivatives with positive fair values of £5.1 billion (4 April 2019: £3.6 billion) and fair value adjustments and other assets of £1.4 billion (4 April 2019: £0.4 billion). The £6.1 billion increase in liquidity and investment assets held by our Treasury function during the period is, in part, driven by higher cash balances and an increase in derivative balances driven by a weakening of sterling. Derivatives largely comprise interest rate and foreign exchange contracts which economically hedge financial risks inherent in core lending and funding activities.

The Liquidity Coverage Ratio at 30 September 2019 of 140.3% (4 April 2019: 150.2%) reflects the profile of wholesale funding maturities and remains significantly above the regulatory minimum of 100%. Liquidity is managed against internal risk appetite, which is more prudent than regulatory requirements. Further details are included in the Liquidity and funding risk section of the Business and risk report.

<b>Members' interests, equity and liabilities</b>		
	<b>30 September 2019</b>	<b>4 April 2019</b>
	<b>£m</b>	<b>£m</b>
Member deposits	<b>156,455</b>	153,969
Debt securities in issue	<b>39,729</b>	35,942
Other financial liabilities	<b>39,228</b>	33,755
Other liabilities	<b>1,741</b>	1,466
<b>Total liabilities</b>	<b>237,153</b>	225,132
Members' interests and equity	<b>12,817</b>	13,169
<b>Total members' interests, equity and liabilities</b>	<b>249,970</b>	238,301

Wholesale funding ratio:  
**30.5%**  
 (4 April 2019: 28.6%)

**Member deposits**

Member balance growth of £2.5 billion (H1 2018/19: £5.1 billion) was lower than the prior year, which benefitted from strong inflows following the launch of our Single Access and Loyalty ISA products. Total balances at 30 September 2019 of £156.5 billion represent a market share of savings stock of 9.9% (4 April 2019: 10.1%). Of the growth in member balances, £1.8 billion is attributable to current account balances, reflecting our competitive proposition, with our market share of main current accounts increasing from 8.0% at March 2019 to 8.1%<sup>19</sup>.

<sup>19</sup> Source CACI (Aug 2019) and internal calculations. 'Main current accounts' refers to main standard and packaged accounts.

## Financial review (continued)

**Debt securities in issue and other financial liabilities**

Debt securities in issue primarily comprise wholesale funding but specifically exclude subordinated debt, which is included within other financial liabilities; balances have increased to £39.7 billion (4 April 2019: £35.9 billion) largely due to wholesale funding issuances. Wholesale funding markets have been more favourable than expected; we have chosen therefore to bring forward long-term issuances to support liquidity and mortgage lending. Consequently, our wholesale funding ratio has increased by 1.9 percentage points to 30.5%; this ratio remains well below the statutory limit of 50%. Other financial liabilities have increased to £39.2 billion (4 April 2019: £33.8 billion) primarily due to issuances of subordinated debt during the period in order to meet the minimum requirement for own funds and eligible liabilities (MREL), combined with increases in swap collateral. 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 have decreased to £12.8 billion (4 April 2019: £13.2 billion) largely driven by the £1.0 billion redemption of Additional Tier 1 capital in June 2019, partially offset by the issuance of £0.6 billion Additional Tier 1 capital in September 2019.

## Statement of comprehensive income

<b>Statement of comprehensive income</b>		
(note i)	<b>Half year to 30 September 2019</b>	Half year to 30 September 2018
	<b>£m</b>	£m
Profit after tax (note ii)	<b>234</b>	396
Net remeasurement of pension obligations	<b>(50)</b>	155
Net movement in cash flow hedge reserve	<b>(19)</b>	(65)
Net movement other hedging reserve (note iii)	<b>15</b>	
Net movement in fair value through other comprehensive income reserve	<b>(37)</b>	(10)
<b>Total comprehensive income</b>	<b>143</b>	476

## Notes:

- i. Movements are shown net of related taxation.
- ii. Comparatives have been restated as detailed in note 2 to the consolidated interim financial statements.
- iii. A new reserve has been created as a result of adopting IFRS 9 'Financial Instruments' – Hedge Accounting, effective from 5 April 2019 as detailed in note 2 to the consolidated interim financial statements.

Gross movements are set out in the consolidated interim financial statements on page 68. Further information on movements in the pension obligation is included in note 17 to the consolidated interim financial statements.

## Financial review (continued)

## Capital structure

Our capital position remains strong, with both the CET1 ratio and UK leverage ratio comfortably above the regulatory capital requirements of 13.1% and 4.0% respectively. The CET1 ratio has decreased marginally to 31.5% (4 April 2019: 32.2%<sup>20</sup>) while the UK leverage ratio reduced to 4.6% (4 April 2019: 4.9%).

<b>Capital structure (note i)</b>		
	<b>30 September 2019</b>	<b>4 April 2019</b>
	<b>£m</b>	<b>£m</b>
<b>Capital resources</b>		
Common Equity Tier 1 (CET1) capital	<b>10,532</b>	10,517
Total Tier 1 capital	<b>11,125</b>	11,509
Total regulatory capital	<b>14,346</b>	14,485
Risk weighted assets (RWAs) (note ii)	<b>33,437</b>	32,682
UK leverage exposure (note ii)	<b>240,539</b>	235,317
CRR leverage exposure (note ii)	<b>257,121</b>	247,757
<b>CRD IV capital ratios:</b>	<b>%</b>	<b>%</b>
CET1 ratio (note ii)	<b>31.5</b>	32.2
UK leverage ratio (note iii)	<b>4.6</b>	4.9
CRR leverage ratio (note iv)	<b>4.3</b>	4.6

## Notes:

- Data in the table is reported under CRD IV on an end point basis with IFRS 9 transitional arrangements applied.
- The figures for 4 April 2019 have been restated in respect of counterparty credit risk exposures; this increased RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio. There is no change to the UK or CRR leverage ratio to 1 d.p.
- 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.
- 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 decrease in the period is the result of RWAs growing more quickly than CET1 resources, where profits for the period have been partially offset by a higher deduction for intangible assets and a reduction in the FVOCI reserve. The £0.8 billion increase in RWAs was driven by lending and investment activities in the period and the impact of an increase in fixed assets, following the change in accounting for leases on adoption of IFRS 16. CET1 capital resources remained stable at £10.5 billion.

The UK leverage ratio reduction was primarily a result of the net redemption of £0.4 billion of AT1 capital instruments and flat CET1 resources. UK leverage exposure increased by £5.2 billion as a result of retail lending and treasury activities over the period. The CRR leverage ratio is based on the Delegated Act definition and therefore exposures include central bank reserves. This also reduced to 4.3% (4 April 2019: 4.6%).

We expect to implement new residential mortgage IRB models in 2020, incorporating the changes required by the PS13/17 Policy Statement. 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 30 September 2019. We expect the CET1 ratio to be impacted further by the Basel III reforms which come into effect progressively between 2022 and 2027. Overall these changes are expected to reduce the reported CET1 ratio by approximately half relative to the 30 September 2019 position; however, organic earnings through the transition will mitigate this impact and we expect leverage requirements to remain our binding constraint.

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

<sup>20</sup> The figure for 4 April 2019 has been restated in respect of counterparty credit risk exposures; this increased RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio.



# Business and risk report

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## Introduction

This report provides information on developments during the period in relation to the risks Nationwide's business is exposed to, and how it manages those risks. This information supports, and should be read in conjunction with, the material found in the Business and risk report in the Annual Report and Accounts 2019. Where there has been no change to the approach to managing risks, or there has been no material change to the relevant risk environment from that disclosed at year end, this information has not been repeated in the 2019/20 Interim results.

## Top and emerging risks

Top and emerging risks are managed through the process outlined in the 'Managing risk' section of the Annual Report and Accounts 2019. With the exception of the inclusion of risks relating to climate change, the top and emerging risks to Nationwide's strategy remain broadly unchanged from those set out in the Business and risk report in the Annual Report and Accounts 2019. A description of the key risks and any material movements or developments in the period is provided below:

<p><b>Political and Economic Environment</b> ↗</p> <p>Significant economic uncertainty remains following the decision to delay the UK's scheduled exit from the European Union in October 2019. This includes an expectation that the Bank of England base rate will remain low, impacting margin and the rates we offer to our members.</p> <p>We are currently focused on the UK General Election and the potential implications for UK economic policy and the enactment of the EU-UK Brexit agreement. We continue to monitor these and other economic and regulatory developments to ensure we remain ready to respond to any potential shocks and minimise any disruption for our members and employees.</p>	<p><b>Competition</b> ↗</p> <p>Competition in our core markets remains strong. Newly ring-fenced banks are focusing on their mortgage and savings propositions and new entrants are launching competitive propositions. In addition, the Bank of England's Term Funding Scheme (TFS) is approaching maturity, increasing competition for deposit funding across the industry.</p> <p>We are actively managing and developing our products and propositions, and managing our funding position, to remain competitive and limit the impact of this risk.</p>	<p><b>Technology</b> →</p> <p>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. Robust disaster recovery capability is an important part of managing technology risk. In addition, ever increasing volumes of data must be managed securely and reliably.</p> <p>There has been no material change in this risk or how it is managed since the publication of the Annual Report and Accounts 2019.</p>
<p><b>Regulation</b> →</p> <p>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.</p> <p>There has been no material change in this risk or how it is managed since the publication of the Annual Report and Accounts 2019.</p>	<p><b>Managing Change</b> →</p> <p>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.</p> <p>There has been no material change in this risk or how it is managed since the publication of the Annual Report and Accounts 2019.</p>	<p><b>Cyber Security</b> →</p> <p>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.</p> <p>There has been no material change in this risk or how it is managed since the publication of the Annual Report and Accounts 2019.</p>

**Key** (level of risk to Nationwide)

↗ Increasing level of risk    → Stable level of risk    ↘ Decreasing level of risk

## Top and emerging risks (continued)

In addition, the Society continues to consider its exposure to risk from climate change and the transition to a low carbon economy which have the potential to impact both our members and the Society's business activities. These risks fall into two main groups:

- physical risks (which arise from weather-related events); and
- transitional risks (which come from the adoption of a low-carbon economy).

We have established a Responsible Business Committee whose remit includes ensuring financial risk from climate change is managed effectively, including understanding and considering the financial risks within Nationwide's overall strategy and risk appetite.

## Principal risks and uncertainties

Effective risk management is fundamental to the success of Nationwide's business. Whilst it is accepted that all business activities involve some degree of risk, Nationwide seeks to protect its members by managing appropriately the risks that arise from its activities. The principal types of risk inherent within the business remain unchanged from those set out in the Business and risk report in the Annual Report and Accounts 2019, namely:

- Credit risk
- Liquidity and funding risk
- Solvency risk
- Pension risk
- Operational risk
- Model risk
- Conduct and compliance risk
- Market risk
- Business risk

Information on key developments and updated quantitative disclosures for the principal risks above are included within this report except for business risk, market risk and model risk where there have been no significant developments which have altered the Society's outlook or approach during the period.

## Managing risk – Future enhancements

As part of the continual development of the Society's approach to managing risk, several enhancements are currently in progress:

- The way we classify risk is changing, aimed at enhancing the alignment to Basel risk categories and providing greater clarity on how the Society can view cause, event and impact information as part of day to day risk management.
- Aligned to these changes, climate change will be incorporated in our classification model, reflecting its growing importance to the Society. This, aligned with other planned work, will enable the Society to better understand and manage the impact of climate change on its risk profile.

## Credit risk – Overview

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

Nationwide manages credit risk for the following portfolios:

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

Further detail on how Nationwide manages credit risk and what credit risk encompasses is included within the Annual Report and Accounts 2019.

### Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk has increased to £259 billion (4 April 2019: £249 billion), principally reflecting higher holdings of liquid assets combined with an increase in residential mortgage lending.

Credit risk largely arises from exposure to loans and advances to customers, which account for 82% (4 April 2019: 85%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 94% (4 April 2019: 93%) of total loans and advances to customers and 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.

Overall credit performance over the first half of the year remained strong, with mortgage and unsecured arrears at a low level and broadly stable in the current benign economic conditions. However, the UK economic outlook remains uncertain, including with respect to the eventual timing and nature of the UK's exit from the EU, which remained unresolved as at 30 September 2019. The economic scenarios used in IFRS 9 expected credit loss (ECL) provision calculations have been refreshed to reflect the latest available data, and the scenario probability weights updated to reflect the outlook at 30 September 2019. More information is included in note 8 to the financial statements.

## Credit risk – Overview (continued)

<b>Maximum exposure to credit risk</b>						
<b>30 September 2019</b>	<b>Gross balances</b>	<b>Impairment provisions</b>	<b>Carrying value</b>	<b>Commitments (note i)</b>	<b>Maximum credit risk exposure</b>	<b>% of total credit risk exposure</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
<b>Amortised cost loans and advances to customers:</b>						
Residential mortgages	188,986	(213)	188,773	11,070	199,843	77
Consumer banking	4,889	(441)	4,448	39	4,487	2
Commercial and other lending	7,686	(31)	7,655	786	8,441	3
Fair value adjustment for micro hedged risk (note ii)	823	-	823	-	823	-
	202,384	(685)	201,699	11,895	213,594	82
<b>FVTPL loans and advances to customers:</b>						
Residential mortgages (note iii)	77	-	77	-	77	-
Commercial and other lending	57	-	57	-	57	-
	134	-	134	-	134	-
<b>Other items:</b>						
Cash	16,686	-	16,686	-	16,686	6
Loans and advances to banks and similar institutions	5,354	-	5,354	-	5,354	2
Investment securities – FVOCI	14,930	-	14,930	-	14,930	6
Investment securities – Amortised cost	1,697	-	1,697	-	1,697	1
Investment securities – FVTPL	91	-	91	-	91	-
Derivative financial instruments	5,128	-	5,128	-	5,128	2
Fair value adjustment for portfolio hedged risk (note ii)	1,421	-	1,421	-	1,421	1
	45,307	-	45,307	-	45,307	18
<b>Total</b>	<b>247,825</b>	<b>(685)</b>	<b>247,140</b>	<b>11,895</b>	<b>259,035</b>	<b>100</b>

## Credit risk – Overview (continued)

Maximum exposure to credit risk						
4 April 2019	Gross balances	Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
	£m	£m	£m	£m	£m	%
Amortised cost loans and advances to customers:						
Residential mortgages	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	8,178	(41)	8,137	872	9,009	4
Fair value adjustment for micro hedged risk (note ii)	883	-	883	-	883	-
	199,587	(665)	198,922	12,956	211,878	85
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	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	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 ii)	411	-	411	-	411	-
	36,709	-	36,709	-	36,709	15
Total	236,425	(665)	235,760	12,956	248,716	100

## Notes:

- i. In addition to the amounts shown above, Nationwide has, as part of its retail operations, revocable commitments of £9,699 million (4 April 2019: £9,475 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by Nationwide, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.
- ii. The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (which relates to the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to credit risk through the relationship with the underlying loans covered by Nationwide's hedging programmes.
- iii. FVTPL residential mortgages include equity release and shared equity loans.

## Credit risk – Overview (continued)

### 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 (4 April 2019: £0.4 million) is included within provisions for liabilities and charges.

Revocable commitments relating to overdrafts and credit cards are included in ECL provisions, with the allowance for future drawdowns made as part of the exposure at default element of the ECL calculation.

## Credit risk – Residential mortgages

### Summary

Nationwide's residential mortgages comprise both prime and specialist loans. Prime residential mortgages are mainly Nationwide-branded advances made through the branch network and intermediary channels. Specialist lending consists principally of buy to let mortgages originated under The Mortgage Works (UK) plc (TMW) brand, together with smaller legacy portfolios in run-off. During the period, 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				
	30 September 2019		4 April 2019	
	£m	%	£m	%
<b>Prime</b>	<b>152,999</b>	<b>81</b>	151,445	82
<b>Specialist:</b>				
Buy to let (note i)	33,673	18	32,012	17
Other (note ii)	2,314	1	2,483	1
	35,987	19	34,495	18
<b>Amortised cost loans and advances to customers</b>	<b>188,986</b>	<b>100</b>	185,940	100
<b>FVTPL loans and advances to customers</b>	<b>77</b>		72	
<b>Total residential mortgages</b>	<b>189,063</b>		186,012	

Notes:

- i. Buy to let mortgages originated under the TMW brand are £32,070 million as at 30 September 2019 (4 April 2019: £30,305 million).
- ii. Other includes self-certified, near prime and sub-prime lending, all of which were discontinued in 2009.

Total balances across the residential mortgage portfolios have grown by 2% during the period to £189 billion (4 April 2019: £186 billion) as we continue to help people buy a home of their own and support the buy to let sector.

## Credit risk – Residential mortgages (continued)

## Impairment losses for the period

Impairment losses/(reversals) for the period		
	Half year to 30 September 2019 £m	Half year to 30 September 2018 £m
Prime	2	(7)
Specialist	8	11
<b>Total</b>	<b>10</b>	<b>4</b>

Note:

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

Due to the high quality of the residential mortgage portfolios and continued low levels of arrears, impairment losses remain low.

The following table shows residential mortgage lending balances carried at amortised cost, the stage allocation of the loans, impairment provisions and the resulting provision coverage ratios:

Residential mortgages staging analysis							
30 September 2019	Stage 1	Stage 2 total	Stage 2 <30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	POCI (note ii)	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Gross balances</b>							
Prime	150,290	1,958	1,701	257	751	-	152,999
Specialist	27,087	8,233	8,051	182	505	162	35,987
<b>Total</b>	<b>177,377</b>	<b>10,191</b>	<b>9,752</b>	<b>439</b>	<b>1,256</b>	<b>162</b>	<b>188,986</b>
<b>Provisions</b>							
Prime	27	8	5	3	10	-	45
Specialist	15	126	111	15	28	(1)	168
<b>Total</b>	<b>42</b>	<b>134</b>	<b>116</b>	<b>18</b>	<b>38</b>	<b>(1)</b>	<b>213</b>
<b>Provisions as a % of total balance</b>	%	%	%	%	%	%	%
Prime	0.02	0.42	0.29	1.23	1.27	-	0.03
Specialist	0.05	1.53	1.38	8.06	5.51	-	0.47
<b>Total</b>	<b>0.02</b>	<b>1.32</b>	<b>1.19</b>	<b>4.06</b>	<b>2.96</b>	<b>-</b>	<b>0.11</b>



## Credit risk – Residential mortgages (continued)

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
	£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

## Notes:

- i. Days past due (DPD) is a measure of arrears status.
- ii. POCI loans are those which were credit-impaired on purchase or acquisition. The POCI loans shown in the table above were recognised on the balance sheet when the Derbyshire Building Society was acquired in December 2008. These balances, which are mainly interest-only, were 90 days or more in arrears when they were acquired and so have been classified as credit-impaired on acquisition. The gross balance for POCI is net of a lifetime ECL of £6 million (4 April 2019: £6 million).

During the period there has been an increase in stage 2 balances to £10,191 million (4 April 2019: £8,479 million). The increase within the specialist portfolio is in respect of refinance risk associated with interest only loans, and an increase in lifetime probability of default (PD) compared to the PD at origination. Both changes result partially from changes in the macroeconomic assumptions during the period, and the impact on provisions of this change is limited. The provision coverage for stage 2 balances has reduced, as the cases transferred to stage 2 during the period have, on average, lower provision coverage than the stage 2 population at 4 April 2019. At 30 September 2019, 94% (4 April 2019: 95%) of the residential mortgage portfolio is in stage 1, reflecting the portfolio's underlying strong credit quality.

Stage 3 loans in the residential mortgage portfolio equate to 1% (4 April 2019: 1%) of the total residential mortgage exposure. Of the total £1,256 million (4 April 2019: £1,271 million) stage 3 loans, £664 million (4 April 2019: £705 million) is in respect of balances which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeliness to pay such as forbearance or the bankruptcy of the borrower.

## 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 period.

Reconciliation of movements in gross residential mortgage balances and impairment provisions								
	Non credit-impaired				Credit-impaired (note i)		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	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 2019	176,023	37	8,479	127	1,438	42	185,940	206
Stage transfers:								
Transfers from stage 1 to stage 2	(7,682)	(5)	7,682	5	-	-	-	-
Transfers to stage 3	(158)	-	(380)	(14)	538	14	-	-
Transfers from stage 2 to stage 1	5,379	30	(5,379)	(30)	-	-	-	-
Transfers from stage 3	96	-	280	7	(376)	(7)	-	-
Net remeasurement of ECL arising from transfer of stage		(26)		40		(5)		9
Net movement arising from transfer of stage	(2,365)	(1)	2,203	8	162	2	-	9
New assets originated or purchased	16,557	3	-	-	-	-	16,557	3
Further lending/repayments	(3,779)	(2)	(71)	-	(23)	-	(3,873)	(2)
Changes in risk parameters-in relation to credit quality	-	7	-	4	-	(1)	-	10
Other items impacting income statement charge/(reversal) (including recoveries)	-	-	-	-	-	(2)	-	(2)
Redemptions	(9,059)	(2)	(420)	(5)	(141)	(1)	(9,620)	(8)
Income statement charge for the period								10
Decrease due to write-offs	-	-	-	-	(18)	(5)	(18)	(5)
Other provision movements	-	-	-	-	-	2	-	2
At 30 September 2019	177,377	42	10,191	134	1,418	37	188,986	213
Net carrying amount		177,335		10,057		1,381		188,773

Note:

- i. Gross balances of credit-impaired loans include £162 million (4 April 2019: £167 million) of purchased or originated credit-impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (4 April 2019: £6 million).

## Credit risk – Residential mortgages (continued)

Reconciliation of movements in gross residential mortgage balances and impairment provisions								
	Non credit-impaired				Credit-impaired (note ii)		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	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	156,647	17	19,072	171	1,395	47	177,114	235
Stage transfers:								
Transfers from stage 1 to stage 2	(14,896)	(5)	14,896	5	-	-	-	-
Transfers to stage 3	(147)	-	(434)	(14)	581	14	-	-
Transfers from stage 2 to stage 1	13,884	51	(13,884)	(51)	-	-	-	-
Transfers from stage 3	93	-	283	7	(376)	(7)	-	-
Net remeasurement of ECL arising from transfer of stage		(48)		52		(2)		2
Net movement arising from transfer of stage	(1,066)	(2)	861	(1)	205	5	-	2
New assets originated or purchased	17,149	4	-	-	-	-	17,149	4
Further lending/repayments	(3,390)	(1)	(167)	-	(22)	-	(3,579)	(1)
Changes in risk parameters-in relation to credit quality	-	(2)	-	12	-	1	-	11
Other items impacting income statement charge/(reversal) (including recoveries)	-	-	-	-	-	(3)	-	(3)
Redemptions	(8,774)	(1)	(981)	(7)	(130)	(1)	(9,885)	(9)
Income statement charge for the period								4
Decrease due to write-offs	-	-	-	-	(21)	(8)	(21)	(8)
Other provision movements	-	-	-	-	-	3	-	3
At 30 September 2018	160,566	15	18,785	175	1,427	44	180,778	234
Net carrying amount		160,551		18,610		1,383		180,544

Note:

- ii. Gross balances of credit-impaired loans include £173 million at 30 September 2018 (5 April 2018: £180 million) of POCI loans, which are presented net of lifetime ECL impairment provisions of £6 million at 30 September 2018 (5 April 2018: £7 million).

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

## Credit risk – Residential mortgages (continued)

Reason for residential mortgages being included in stage 2 30 September 2019 (note i)						
	Prime		Specialist		Total	
	£m	%	£m	%	£m	%
<b>Quantitative criteria:</b>						
Payment status (greater than 30 DPD) (note ii)	257	13	182	2	439	4
Increase in PD since origination (less than 30 DPD)	1,547	79	3,117	38	4,664	46
<b>Qualitative criteria:</b>						
Forbearance (less than 30 DPD)	134	7	6	-	140	2
Interest only – risk of inability to refinance at maturity (less than 30 DPD)	-	-	4,924	60	4,924	48
Other qualitative criteria	20	1	4	-	24	-
<b>Total stage 2 gross balances</b>	<b>1,958</b>	<b>100</b>	<b>8,233</b>	<b>100</b>	<b>10,191</b>	<b>100</b>

Reason for residential mortgages being included in stage 2 4 April 2019 (note i)						
	Prime		Specialist		Total	
	£m	%	£m	%	£m	%
<b>Quantitative criteria:</b>						
Payment status (greater than 30 DPD) (note ii)	267	13	213	3	480	6
Increase in PD since origination (less than 30 DPD)	1,613	79	2,186	34	3,799	45
<b>Qualitative criteria:</b>						
Forbearance (less than 30 DPD)	148	7	7	-	155	2
Interest only – risk of inability to refinance at maturity (less than 30 DPD)	-	-	4,018	63	4,018	47
Other qualitative criteria	20	1	7	-	27	-
<b>Total stage 2 gross balances</b>	<b>2,048</b>	<b>100</b>	<b>6,431</b>	<b>100</b>	<b>8,479</b>	<b>100</b>

## Notes:

- Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in order in which the categories are presented above.
- This category includes all loans greater than 30 DPD, including those where the original reason for being classified as stage 2 was other than arrears over 30 DPD. The total value of loans in stage 2 due solely to payment status is less than 0.1% of total stage 2 balances.

Loans which are reported within stage 2 are those which have experienced a significant increase in credit risk since origination, determined through both quantitative and qualitative indicators. The increase in stage 2 balances during the period is primarily within the specialist portfolio and includes the impact of changes to the economic scenarios and their weightings to reflect uncertainty in the economic outlook. The value of loans reported within stage 2 as a result of being in arrears by 30 days or more remains low at £439 million (4 April 2019: £480 million).

The Annual Report and Accounts 2019 sets out further details of the quantitative and qualitative indicators used to identify a significant increase in credit risk. There have been no changes to these indicators during the period.

## 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 12 month IFRS 9 PDs at the reporting date.

Loan balance and provisions by PD (note i)									
30 September 2019									
PD Range	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	
0.00 to < 0.15%	167,665	5,758	94	173,517	35	48	-	83	0.05
0.15 to < 0.25%	4,651	993	22	5,666	3	10	-	13	0.24
0.25 to < 0.50%	2,350	503	35	2,888	2	7	-	9	0.31
0.50 to < 0.75%	1,488	302	17	1,807	1	5	-	6	0.29
0.75 to < 2.50%	1,105	875	55	2,035	1	18	-	19	0.95
2.50 to < 10.00%	118	1,016	132	1,266	-	20	1	21	1.67
10.00 to < 100%	-	744	198	942	-	26	3	29	3.12
100% (default)	-	-	865	865	-	-	33	33	3.80
<b>Total</b>	<b>177,377</b>	<b>10,191</b>	<b>1,418</b>	<b>188,986</b>	<b>42</b>	<b>134</b>	<b>37</b>	<b>213</b>	<b>0.11</b>

Loan balance and provisions by PD (note i)									
4 April 2019									
PD Range	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
	£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
<b>Total</b>	<b>176,023</b>	<b>8,479</b>	<b>1,438</b>	<b>185,940</b>	<b>37</b>	<b>127</b>	<b>42</b>	<b>206</b>	<b>0.11</b>

Note:

i. Includes POCI loans of £162 million (4 April 2019: £167 million).

## Credit risk – Residential mortgages (continued)

Over the period, the PD distribution has remained stable, reflecting the high quality of the residential mortgage portfolios and current benign economic conditions. At 30 September 2019, 98% of the portfolio had a PD of less than 2.5% (4 April 2019: 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 in the period are principally due to the continued run-off of balances in specialist legacy lending portfolios, together with the impact of updating economic assumptions.

## Distribution of new business by borrower type (by value)

Distribution of new business by borrower type (by value)		
(note i)	Half year to 30 September 2019 %	Half year to 30 September 2018 %
Prime:		
First time buyers	33	38
Home movers	24	26
Remortgagers	23	23
Other	1	1
<b>Total prime</b>	<b>81</b>	<b>88</b>
Specialist:		
Buy to let new purchases	5	3
Buy to let remortgages	14	9
<b>Total specialist</b>	<b>19</b>	<b>12</b>
<b>Total new business</b>	<b>100</b>	<b>100</b>

Note:

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

New business by borrower type remains diversified. During the period there has been a shift in the distribution of new business from prime to specialist lending, reflecting an increase in buy to let remortgage business and the embedding of our lending to limited companies, recognising that landlords are increasingly using these as a vehicle for their investment.

## Credit risk – Residential mortgages (continued)

## LTV and credit risk concentration

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

LTV distribution of new business (by value) (note i)		
	Half year to 30 September 2019	Half year to 30 September 2018 (note ii)
	%	%
0% to 60%	23	25
60% to 75%	33	33
75% to 80%	7	6
80% to 85%	13	9
85% to 90%	20	23
90% to 95%	4	4
Over 95%	-	-
<b>Total</b>	<b>100</b>	100

Notes:

- The LTV of new business excludes further advances and product switches.
- Comparatives have been restated to present information on a consistent basis with the current period.
- The average LTV of loan stock includes both amortised cost and FVTPL balances. There have been no new FVTPL advances during the period.

The maximum LTV for new prime residential borrowers remains at 95% and the average LTV of prime new business has remained broadly stable at 74%, as we continue to support first time buyers. In the specialist (buy to let) portfolio, the average LTV of new business increased from 59% to 65% following a shift towards business on longer product terms at higher LTVs. The average LTV of loan stock has reduced slightly from 58% to 57%, reflecting the higher LTV of new lending being offset 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 house prices being less certain, the short-term expectation is for a gradual rise in LTV from current levels.

Average LTV of new business (by value) (note i)		
	Half year to 30 September 2019	Half year to 30 September 2018
	%	%
Prime	74	73
Specialist (buy to let)	65	59
<b>Group</b>	<b>72</b>	71

Average LTV of loan stock (by value) (note iii)		
	30 September 2019	4 April 2019
	%	%
Prime	57	57
Specialist	58	58
<b>Group</b>	<b>57</b>	58

## Credit risk – Residential mortgages (continued)

## Residential mortgage balances by LTV and region

## Geographical concentration by stage

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

Residential mortgage gross balances by LTV and region										
30 September 2019										
	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
<b>Stage 1 and 2 loans</b>										
Fully collateralised										
LTV ratio:										
Up to 50%	24,076	11,465	7,702	8,371	6,050	3,215	1,571	965	63,415	
50% to 60%	11,223	6,381	4,620	4,155	3,209	1,779	935	382	32,684	
60% to 70%	10,407	6,897	6,516	4,084	3,411	2,490	1,379	419	35,603	
70% to 80%	8,597	5,378	5,573	3,613	2,891	2,457	1,099	426	30,034	
80% to 90%	7,579	3,668	3,753	3,191	2,239	1,426	716	308	22,880	
90% to 100%	1,184	314	358	413	231	143	65	81	2,789	
	63,066	34,103	28,522	23,827	18,031	11,510	5,765	2,581	187,405	99.1
Not fully collateralised										
Over 100% LTV	6	2	19	1	3	5	-	127	163	0.1
Collateral value	5	2	16	1	2	5	-	109	140	
Negative equity	1	-	3	-	1	-	-	18	23	
<b>Total stage 1 and 2 loans</b>	<b>63,072</b>	<b>34,105</b>	<b>28,541</b>	<b>23,828</b>	<b>18,034</b>	<b>11,515</b>	<b>5,765</b>	<b>2,708</b>	<b>187,568</b>	<b>99.2</b>
<b>Stage 3 and POCI loans</b>										
Fully collateralised										
LTV ratio:										
Up to 50%	227	86	63	65	38	23	11	11	524	
50% to 60%	110	49	43	32	28	14	10	4	290	
60% to 70%	50	56	56	34	26	19	8	4	253	
70% to 80%	20	46	54	17	19	16	12	6	190	
80% to 90%	12	11	49	6	4	9	8	4	103	
90% to 100%	3	1	16	1	0	3	2	5	31	
	422	249	281	155	115	84	51	34	1,391	0.8
Not fully collateralised										
Over 100% LTV	1	1	4	-	-	1	-	20	27	-
Collateral value	1	1	3	-	-	1	-	17	23	
Negative equity	-	-	1	-	-	-	-	3	4	
<b>Total stage 3 and POCI loans</b>	<b>423</b>	<b>250</b>	<b>285</b>	<b>155</b>	<b>115</b>	<b>85</b>	<b>51</b>	<b>54</b>	<b>1,418</b>	<b>0.8</b>
<b>Total residential mortgages</b>	<b>63,495</b>	<b>34,355</b>	<b>28,826</b>	<b>23,983</b>	<b>18,149</b>	<b>11,600</b>	<b>5,816</b>	<b>2,762</b>	<b>188,986</b>	<b>100</b>
<b>Total geographical concentrations</b>	<b>34%</b>	<b>18%</b>	<b>15%</b>	<b>13%</b>	<b>10%</b>	<b>6%</b>	<b>3%</b>	<b>1%</b>	<b>100%</b>	



## Credit risk – Residential mortgages (continued)

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	
	£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%	

Over the period, 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 (4 April 2019: 34%).

In addition to balances held at amortised cost shown in the table above, there are £77 million (4 April 2019: £72 million) of residential mortgages held at FVTPL which have an average LTV of 39% (4 April 2019: 40%). The largest geographical concentration within the FVTPL balances is in Greater London, at 47% (4 April 2019: 44%).

## Credit risk – Residential mortgages (continued)

**Arrears**

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

Number of cases more than 3 months in arrears as % of total book		
	30 September 2019	4 April 2019
	%	%
Prime	0.32	0.35
Specialist	0.75	0.82
<b>Total</b>	<b>0.40</b>	0.43
<b>UK Finance (UKF) industry average</b>	<b>0.73</b>	0.78

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.

The number of specialist cases more than 3 months in arrears as % of total book includes both TMW (buy to let) and other cases in the smaller legacy portfolio in run-off. The number of cases in respect of TMW more than 3 months in arrears is 0.26% of total book (4 April 2019: 0.32%).

During the period, the number of specialist cases more than 3 months in arrears as % of total book has fallen to 0.75% (4 April 2019: 0.82%), principally due to a change in the treatment of deceased accounts, where a 12-month non-arrears bearing concession has been applied to allow time for the estate to redeem the account.

Whilst there are no signs of deterioration in the portfolio, with the immediate economic outlook for the UK being less certain and the buy to let market facing increased costs and potentially less investor demand, a gradual rise in arrears from current low levels is expected over the medium term.

## Credit risk – Residential mortgages (continued)

## Residential mortgages by payment status

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

Residential mortgages gross balances by payment status								
	30 September 2019				4 April 2019			
	Prime	Specialist	Total		Prime	Specialist	Total	
	£m	£m	£m	%	£m	£m	£m	%
Not past due	151,451	35,030	186,481	98.6	149,771	33,468	183,239	98.5
Past due up to 3 months	1,253	611	1,864	1.0	1,356	657	2,013	1.1
Past due 3 to 6 months	172	146	318	0.2	177	159	336	0.2
Past due 6 to 12 months	110	106	216	0.1	122	121	243	0.1
Past due over 12 months	83	75	158	0.1	84	69	153	0.1
Possessions	7	19	26	-	7	21	28	-
<b>Total residential mortgages</b>	<b>153,076</b>	<b>35,987</b>	<b>189,063</b>	<b>100</b>	<b>151,517</b>	<b>34,495</b>	<b>186,012</b>	<b>100</b>

The proportion of loans in arrears has reduced to 1.4% (4 April 2019: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the current economic conditions and low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending. In total, £346 million (4 April 2019: £370 million) of specialist lending balances were more than 3 months past due or in possession, which includes the impact of the change in the treatment of arrears on deceased accounts described above. Of the £346 million (4 April 2019: £370 million), £221 million or 63.9% (4 April 2019: £233 million; 63.0%) related to legacy portfolios in run-off.

## 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 2019: 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
30 September 2019	£m	£m	£m	£m	£m	£m	%
Prime	71	261	346	1,502	8,441	10,621	6.9
Specialist	138	167	315	1,266	30,172	32,058	89.1
<b>Total</b>	<b>209</b>	<b>428</b>	<b>661</b>	<b>2,768</b>	<b>38,613</b>	<b>42,679</b>	<b>22.6</b>
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
<b>Total</b>	<b>202</b>	<b>444</b>	<b>601</b>	<b>2,813</b>	<b>38,073</b>	<b>42,133</b>	<b>22.7</b>

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. These loans are, however, treated as credit-impaired and categorised as stage 3 balance from three months after the maturity date.

## Credit risk – Residential mortgages (continued)

## Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. The Annual Report and Accounts 2019 sets out further details of concession events included within forbearance.

The table below provides details of residential mortgages held at amortised cost subject to forbearance, which are all assessed as in either stage 2 or stage 3:

<b>Gross balances subject to forbearance</b>						
<b>(note i)</b>	<b>30 September 2019</b>			<b>4 April 2019</b>		
	<b>Prime</b>	<b>Specialist</b>	<b>Total</b>	<b>Prime</b>	<b>Specialist</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Past term interest only (note ii)	121	127	248	122	134	256
Interest only concessions	521	53	574	525	59	584
Capitalisation	68	86	154	42	51	93
Term extensions (within term)	35	13	48	35	13	48
Permanent interest only conversions	2	35	37	3	33	36
<b>Total forbearance</b>	<b>747</b>	<b>314</b>	<b>1,061</b>	<b>727</b>	<b>290</b>	<b>1,017</b>
<b>Impairment provisions on forborne loans</b>	<b>4</b>	<b>11</b>	<b>15</b>	<b>5</b>	<b>11</b>	<b>16</b>

Notes:

- i. Where more than one concession event has occurred, balances are reported under the latest event.
- ii. Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.

Over the period, total balances subject to forbearance have increased to £1,061 million (4 April 2019: £1,017 million), which includes a change in the treatment of deceased accounts, where a 12-month capitalisation concession has been applied to allow time for the estate to redeem the account. The forborne balances as a percentage of total residential mortgage lending have also increased slightly to 0.56% (4 April 2019: 0.55%).

In addition to the amortised cost balances above, there are £77 million FVTPL balances (4 April 2019: £72 million), of which £6 million (4 April 2019: £4 million) are forborne.

## Credit risk – Consumer banking

### Summary

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. Over the period, total balances across these portfolios have grown by £303 million to £4,889 million (4 April 2019: £4,586 million). This equates to 7% growth, principally in relation to personal loans, whilst the credit quality of the portfolio has remained stable.

The difference in overdrawn current account balances between 4 April 2019 and 30 September 2019 is predominantly due to the different positions of the reporting dates in the calendar month.

<b>Consumer banking gross balances</b>				
	<b>30 September 2019</b>		<b>4 April 2019</b>	
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>
Overdrawn current accounts	<b>276</b>	<b>6</b>	324	7
Personal loans	<b>2,720</b>	<b>55</b>	2,449	53
Credit cards	<b>1,893</b>	<b>39</b>	1,813	40
<b>Total consumer banking</b>	<b>4,889</b>	<b>100</b>	4,586	100

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

<b>Impairment losses for the period</b>		
	<b>Half year to 30 September 2019</b>	Half year to 30 September 2018
	<b>£m</b>	<b>£m</b>
Overdrawn current accounts	<b>14</b>	5
Personal loans	<b>24</b>	19
Credit cards	<b>20</b>	14
<b>Total</b>	<b>58</b>	38

Note:

Impairment losses represent the net amount charged through the income statement, rather than amounts written off during the period.

Impairment losses for the period include the impact of continued personal loan book growth and reflect the latest observable data and economic assumptions.

## Credit risk – Consumer banking (continued)

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

Consumer banking product and staging analysis								
	30 September 2019				4 April 2019			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
<b>Gross balances</b>								
Overdrawn current accounts	133	104	39	276	187	100	37	324
Personal loans	2,374	213	133	2,720	2,140	186	123	2,449
Credit cards	1,273	491	129	1,893	1,211	475	127	1,813
<b>Total</b>	<b>3,780</b>	<b>808</b>	<b>301</b>	<b>4,889</b>	<b>3,538</b>	<b>761</b>	<b>287</b>	<b>4,586</b>
<b>Provisions</b>								
Overdrawn current accounts	3	22	35	60	2	18	33	53
Personal loans	15	24	115	154	11	22	107	140
Credit cards	14	93	120	227	14	92	119	225
<b>Total</b>	<b>32</b>	<b>139</b>	<b>270</b>	<b>441</b>	<b>27</b>	<b>132</b>	<b>259</b>	<b>418</b>
<b>Provisions as a % of total balance</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Overdrawn current accounts	1.97	21.36	90.46	21.83	1.30	17.42	89.92	16.37
Personal loans	0.62	11.30	86.53	5.65	0.53	12.11	86.58	5.74
Credit cards	1.16	18.88	92.98	12.01	1.12	19.33	93.61	12.38
<b>Total</b>	<b>0.85</b>	<b>17.19</b>	<b>89.81</b>	<b>9.02</b>	<b>0.77</b>	<b>17.32</b>	<b>90.12</b>	<b>9.11</b>

As at 30 September 2019, 77% (4 April 2019: 77%) of the consumer banking portfolio is in stage 1. Over the period, consumer banking balances in stages 2 and 3 have increased, in line with the ongoing growth of the portfolio, whilst the combined stage 2 and 3 proportion of total balances has remained stable at 23% (4 April 2019: 23%) reflecting stable underlying credit performance. The increase in the overdrawn current accounts provision coverage to 21.83% (4 April 2019: 16.37%) is largely driven by higher stage 2 provisions and lower overall gross balances.

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 4.9% (4 April 2019: 5.0%).

## Credit risk – Consumer banking (continued)

Reason for consumer banking balances being included in stage 2								
30 September 2019	Overdrawn current accounts		Personal loans		Credit cards		Total	
	£m	%	£m	%	£m	%	£m	%
<b>Quantitative criteria:</b>								
Payment status (greater than 30 DPD) (note i)	3	3	10	5	6	1	19	2
Increase in PD since origination (less than 30 DPD)	87	84	198	93	437	89	722	90
<b>Qualitative criteria:</b>								
Forbearance (less than 30 DPD) (note ii)	2	2	-	-	-	-	2	-
Other qualitative criteria (less than 30 DPD)	12	11	5	2	48	10	65	8
<b>Total stage 2 gross balances</b>	<b>104</b>	<b>100</b>	<b>213</b>	<b>100</b>	<b>491</b>	<b>100</b>	<b>808</b>	<b>100</b>

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	%
<b>Quantitative criteria:</b>								
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
<b>Qualitative criteria:</b>								
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
<b>Total stage 2 gross balances</b>	<b>100</b>	<b>100</b>	<b>186</b>	<b>100</b>	<b>475</b>	<b>100</b>	<b>761</b>	<b>100</b>

## 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 £808 million stage 2 balances (4 April 2019: £761 million), only 2% (4 April 2019: 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 Annual Report and Accounts 2019 sets out further details of the quantitative and qualitative indicators used to identify a significant increase in credit risk. There have been no changes to these indicators during the period.

## Credit risk – Consumer banking (continued)

## Credit quality

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

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

Consumer banking gross balances and provisions by PD									
30 September 2019									
PD range	Gross balances				Provisions				Provision coverage %
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	
0.00 to <0.15%	1,043	6	-	1,049	3	-	-	3	0.34
0.15 to < 0.25%	411	9	-	420	1	1	-	2	0.49
0.25 to < 0.50%	619	25	-	644	3	2	-	5	0.75
0.50 to < 0.75%	369	27	-	396	3	2	-	5	1.20
0.75 to < 2.50%	959	206	-	1,165	11	21	-	32	2.77
2.50 to < 10.00%	372	366	1	739	10	56	-	66	8.90
10.00 to < 100%	7	169	5	181	1	57	2	60	33.44
100% (default)	-	-	295	295	-	-	268	268	90.71
<b>Total</b>	<b>3,780</b>	<b>808</b>	<b>301</b>	<b>4,889</b>	<b>32</b>	<b>139</b>	<b>270</b>	<b>441</b>	<b>9.02</b>

Consumer banking gross balances and provisions by PD									
4 April 2019									
PD range	Gross balances				Provisions				Provision coverage %
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £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
<b>Total</b>	<b>3,538</b>	<b>761</b>	<b>287</b>	<b>4,586</b>	<b>27</b>	<b>132</b>	<b>259</b>	<b>418</b>	<b>9.11</b>

The credit quality of the consumer banking portfolio has remained stable, benefiting from the continued low interest rate environment, with 90% of the portfolio (4 April 2019: 90%) considered good quality with a PD of less than 10%. Changes in provision coverage for loans in different PD ranges are principally due to changes in the mix of products.



## Credit risk – Consumer banking (continued)

## Consumer banking balances by payment due status

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

Consumer banking gross balances by payment due status										
	30 September 2019					4 April 2019				
	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	227	2,541	1,745	4,513	92.3	279	2,282	1,667	4,228	92.2
Past due up to 3 months	13	51	31	95	2.0	12	48	30	90	1.9
Past due 3 to 6 months	4	11	7	22	0.5	3	8	11	22	0.5
Past due 6 to 12 months	3	16	2	21	0.4	3	15	2	20	0.4
Past due over 12 months	3	13	-	16	0.3	3	14	-	17	0.4
Charged off (note i)	26	88	108	222	4.5	24	82	103	209	4.6
<b>Total</b>	<b>276</b>	<b>2,720</b>	<b>1,893</b>	<b>4,889</b>	<b>100</b>	<b>324</b>	<b>2,449</b>	<b>1,813</b>	<b>4,586</b>	<b>100</b>

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 increased slightly to £154 million (4 April 2019: £149 million). Balances on accounts in arrears excluding charged off balances have remained broadly stable at 3.3% (4 April 2019: 3.4%).

## Credit risk – Consumer banking (continued)

## Forbearance

Nationwide is committed to supporting customers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. The Annual Report and Accounts 2019 sets out further details of concession events included within forbearance.

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

<b>Gross balances subject to forbearance</b>								
<b>(note i)</b>	<b>30 September 2019</b>				<b>4 April 2019</b>			
	<b>Overdrawn current accounts</b>	<b>Personal loans</b>	<b>Credit cards</b>	<b>Total</b>	<b>Overdrawn current accounts</b>	<b>Personal loans</b>	<b>Credit cards</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Payment concession	15	-	1	16	16	-	2	18
Interest suppressed payment concession	7	33	15	55	6	34	15	55
Balance re-aged/re-written	-	1	3	4	-	1	3	4
<b>Total forbearance</b>	<b>22</b>	<b>34</b>	<b>19</b>	<b>75</b>	<b>22</b>	<b>35</b>	<b>20</b>	<b>77</b>
<b>Impairment provisions on forborne loans</b>	<b>13</b>	<b>28</b>	<b>14</b>	<b>55</b>	<b>12</b>	<b>29</b>	<b>14</b>	<b>55</b>

Note:

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

Over the period, balances subject to forbearance have reduced to £75 million (4 April 2019: £77 million) and forborne balances as a percentage of the total consumer banking lending have reduced to 1.5% (4 April 2019: 1.7%).

## 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. The project finance and commercial real estate portfolios are closed to new business, whilst the registered social landlord portfolio was re-opened to new business in September 2018.

Commercial and other lending gross balances		
	30 September 2019	4 April 2019
	£m	£m
Registered social landlords (note i)	5,674	5,980
Commercial real estate (CRE)	1,248	1,383
Project finance (note ii)	764	807
Other lending	-	8
<b>Commercial and other lending balances at amortised cost</b>	<b>7,686</b>	<b>8,178</b>
Fair value adjustment for micro hedged risk (note iii)	823	883
Commercial lending balances – FVTPL	57	57
<b>Total</b>	<b>8,566</b>	<b>9,118</b>

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. The fair value adjustment for micro hedged risk relates to commercial loans that were previously hedged on an individual basis.

Over the period, total balances across the commercial portfolios have reduced, reflecting run-off of the closed books, with borrowers repaying loans at or before loan maturity. In the registered social landlord portfolio, reductions are due to amortisation, 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 (reversals)/losses for the period for commercial and other lending		
	Half year to 30 September 2019	Half year to 30 September 2018
	£m	£m
<b>Total</b>	<b>(11)</b>	<b>3</b>

Note:

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

The £11 million impairment reversal for the period primarily relates to a single credit exposure, where improved security has driven a positive reassessment of potential future losses.

## 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								
	30 September 2019				4 April 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Gross balances</b>								
Registered social landlords	5,620	54	-	5,674	5,923	57	-	5,980
CRE	1,014	189	45	1,248	1,122	213	48	1,383
Project finance	712	28	24	764	754	29	24	807
Other lending	-	-	-	-	8	-	-	8
<b>Total</b>	<b>7,346</b>	<b>271</b>	<b>69</b>	<b>7,686</b>	<b>7,807</b>	<b>299</b>	<b>72</b>	<b>8,178</b>
<b>Provisions</b>								
Registered social landlords	1	-	-	1	1	-	-	1
CRE	2	3	16	21	2	2	18	22
Project finance	-	-	9	9	1	-	17	18
Other lending	-	-	-	-	-	-	-	-
<b>Total</b>	<b>3</b>	<b>3</b>	<b>25</b>	<b>31</b>	<b>4</b>	<b>2</b>	<b>35</b>	<b>41</b>
<b>Provisions as a % of total balance</b>	%	%	%	%	%	%	%	%
Registered social landlords	0.01	0.18	-	0.02	0.02	0.18	-	0.02
CRE	0.17	1.37	35.53	1.63	0.19	0.96	37.11	1.58
Project finance	0.02	0.94	37.47	1.22	0.15	0.97	71.54	2.20
Other lending	-	-	-	-	-	-	-	-
<b>Total</b>	<b>0.04</b>	<b>1.09</b>	<b>36.20</b>	<b>0.40</b>	<b>0.05</b>	<b>0.81</b>	<b>48.74</b>	<b>0.50</b>

Over the period, the performance of the commercial and other lending portfolios has remained stable, with 96% (4 April 2019: 95%) of balances remaining in stage 1. Of the £271 million stage 2 loans (3.53% of balances) (4 April 2019: £299 million and 3.66% of balances), £2 million (4 April 2019: £1 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.

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (4 April 2019: 1%) of the exposure is in stage 2. With a long history of zero defaults, the risk profile of this portfolio remains low.

The CRE stage 2 and 3 balances are in respect of a small number of loans that are subject to increased risk of failure to redeem in full, at term maturity, with stage 3 (credit-impaired) loans, at £45 million (4 April 2019: £48 million), equating to 4% (4 April 2019: 3%) of the total CRE exposure.

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 these balances are in respect of fully developed assets.

## 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.

<b>CRE gross balances by risk grade and provision coverage</b>										
	<b>30 September 2019</b>					<b>4 April 2019</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Provision coverage</b>	Stage 1	Stage 2	Stage 3	Total	Provision coverage
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	£m	£m	£m	£m	%
Strong	600	56	-	656	0.3	676	57	-	733	0.3
Good	343	79	-	422	0.1	381	76	-	457	0.1
Satisfactory	71	10	-	81	1.1	65	8	-	73	0.4
Weak	-	44	-	44	2.8	-	72	-	72	1.4
Impaired	-	-	45	45	35.5	-	-	48	48	37.1
<b>Total</b>	<b>1,014</b>	<b>189</b>	<b>45</b>	<b>1,248</b>	<b>1.6</b>	1,122	213	48	1,383	1.6

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 93% (4 April 2019: 91%) of the portfolio 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 driver being financial strength, supported by evaluations of the borrower's oversight and management, alongside their type and size. 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 0.04% across the portfolio.

In addition to the above, £57 million (4 April 2019: £57 million) of commercial lending balances are classified as FVTPL, of which £54 million (4 April 2019: £53 million) relates to CRE loans with a risk grade of satisfactory.

## Credit risk – Commercial and other lending (continued)

## CRE balances by LTV and region

The following table includes both amortised cost and FVTPL CRE balances.

CRE lending gross balances by LTV and region (note i)						
	30 September 2019			4 April 2019		
	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%	73	60	133	89	70	159
25% to 50%	506	296	802	559	298	857
51% to 75%	177	133	310	181	175	356
76% to 90%	1	18	19	1	20	21
91% to 100%	1	6	7	1	6	7
	758	513	1,271	831	569	1,400
Not fully collateralised:						
Over 100% LTV	-	31	31	-	36	36
Collateral value	-	16	16	-	19	19
Negative equity	-	15	15	-	17	17
<b>Total CRE loans</b>	<b>758</b>	<b>544</b>	<b>1,302</b>	<b>831</b>	<b>605</b>	<b>1,436</b>
<b>Geographical concentration</b>	<b>58%</b>	<b>42%</b>	<b>100%</b>	<b>58%</b>	<b>42%</b>	<b>100%</b>

## Notes:

- A CRE loan may be secured on assets located in different regions, with the allocation being based upon the value of the underlying assets in each region.
- 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.

Over the period, the LTV distribution of the CRE portfolio improved slightly, with 96% (4 April 2019: 96%) of the portfolio having an LTV of 75% or less, and 72% (4 April 2019: 71%) of the portfolio having an LTV of 50% or less.

## Credit risk – Commercial and other lending (continued)

### Credit risk concentration by industry sector

Credit risk exposure by industry sector is unchanged from the year end, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, including FVTPL balances, the highest concentration is to the residential investment sector at 46% (4 April 2019: 44%). During the period, our exposure to retail assets has reduced from £286 million to £233 million.

### CRE balances by payment due status

Of the £1,302 million (4 April 2019: £1,436 million) CRE exposure, including FVTPL balances, £19 million (4 April 2019: £24 million) relates to balances with arrears. Of these £11 million (4 April 2019: £2 million) have arrears greater than 3 months, driven principally by two cases which have exceeded their contractual maturity dates, but where exit strategies are being pursued.

### Forbearance

Forbearance is recorded and reported at borrower level and applies to all commercial lending, including impaired exposures and borrowers subject to enforcement and recovery action.

The table below provides details of commercial loans that are currently subject to forbearance by concession event. The Annual Report and Accounts 2019 sets out further details of concession events included within forbearance.

<b>Gross balances subject to forbearance</b>		
<b>(note i)</b>	<b>30 September 2019</b>	<b>4 April 2019</b>
	<b>£m</b>	<b>£m</b>
Refinance	<b>44</b>	44
Modifications:		
Capital concession	<b>2</b>	2
Security amendment	<b>10</b>	6
Extension at maturity	<b>23</b>	12
Breach of covenant	<b>88</b>	122
<b>Total</b>	<b>167</b>	186
<b>Total impairment provision on forborne loans</b>	<b>13</b>	23

Note:

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

Amortised cost balances subject to forbearance have reduced, reflecting the managed run-off of the CRE portfolio.

In addition to the amortised cost balances included in the table above, there are £57 million (4 April 2019: £57 million) of FVTPL commercial lending balances, none (4 April 2019: none) of which are forborne.

## Credit risk – Treasury assets

### Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 30 September 2019 treasury assets represented 17.6% (4 April 2019: 15.2%) of total assets. The table below shows the classification of treasury asset balances:

Treasury asset balances			
	Classification	30 September 2019	4 April 2019
		£m	£m
Cash	Amortised cost	16,686	12,493
Loans and advances to banks and similar institutions	Amortised cost	5,354	4,009
Investment securities	FVOCI	14,930	14,500
Investment securities	FVTPL	91	78
Investment securities	Amortised cost	1,697	1,656
Liquidity and investment portfolio		38,758	32,736
Derivative instruments (note i)	FVTPL	5,128	3,562
<b>Treasury assets</b>		<b>43,886</b>	<b>36,298</b>

Note:

i. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 30 September 2019, derivative liabilities were £2,080 million (4 April 2019: £1,593 million).

Investment activity, in line with the Board's risk appetite, remains restricted to high quality liquid securities, including assets eligible for accessing central bank funding operations. The size of the portfolio has increased predominantly due to an increase in cash balances from strategic funding and liquidity management activity. There are no exposures to emerging markets, hedge funds or credit default swaps.

### Managing treasury credit risks

Credit risk within the treasury portfolio is managed and controlled by the Treasury Credit Risk function in accordance with Nationwide's risk governance frameworks, details of which are provided in the Annual Report and Accounts 2019.

A monthly review is undertaken of the current and expected future performance of treasury assets that determines expected credit loss (ECL) provision requirements. There were no impairment losses for the period ended 30 September 2019 (H1 2018/19: £nil). The credit quality of treasury assets continues to be low risk and stable with all exposures within the table above classified as stage 1, except for £1.4 million (4 April 2019: £1.5 million) of FVOCI investment securities in stage 2. There are no assets in stage 3.

Impairment provisions on treasury assets				
	30 September 2019		4 April 2019	
	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m
Loans and advances to banks and similar institutions	5,354	-	4,009	-
Investment securities – FVOCI	14,930	-	14,500	-
Investment securities – Amortised cost	1,697	-	1,656	-



## Credit risk – Treasury assets (continued)

The liquidity and investment portfolio of £38,758 million (4 April 2019: £32,736 million) comprises liquid assets and other securities. An analysis of the on-balance sheet portfolios is set out below.

Liquidity and investment portfolio by credit rating (note i)									
30 September 2019		AAA	AA	A	Other	UK	US	Europe	Other
	£m	%	%	%	%	%	%	%	%
<b>Liquid assets:</b>									
Cash and reserves at central banks	16,686	-	100	-	-	100	-	-	-
Government bonds	11,863	37	56	7	-	45	28	19	8
Supranational bonds	713	100	-	-	-	-	-	-	100
Covered bonds	1,428	100	-	-	-	61	-	19	20
Residential mortgage backed securities (RMBS)	506	100	-	-	-	60	-	40	-
Asset backed securities (other)	270	100	-	-	-	51	-	49	-
<b>Liquid assets total</b>	<b>31,466</b>	<b>23</b>	<b>74</b>	<b>3</b>	<b>-</b>	<b>74</b>	<b>11</b>	<b>9</b>	<b>6</b>
<b>Other securities (note ii):</b>									
RMBS FVOCI	113	40	33	27	-	100	-	-	-
RMBS amortised cost	1,697	84	6	8	2	100	-	-	-
Other investments (note iii)	128	-	25	56	19	19	56	25	-
<b>Other securities total</b>	<b>1,938</b>	<b>76</b>	<b>9</b>	<b>12</b>	<b>3</b>	<b>94</b>	<b>4</b>	<b>2</b>	<b>-</b>
Loans and advances to banks and similar institutions	5,354	-	76	24	-	92	2	5	1
<b>Total</b>	<b>38,758</b>	<b>23</b>	<b>71</b>	<b>6</b>	<b>-</b>	<b>78</b>	<b>9</b>	<b>8</b>	<b>5</b>

Liquidity and investment portfolio by credit rating (note i)									
4 April 2019		AAA	AA	A	Other	UK	US	Europe	Other
	£m	%	%	%	%	%	%	%	%
<b>Liquid assets:</b>									
Cash and reserves at central banks	12,493	-	100	-	-	100	-	-	-
Government bonds	11,581	29	71	-	-	63	23	14	-
Supra-national bonds	725	100	-	-	-	-	-	-	100
Covered bonds (note iv)	1,202	100	-	-	-	59	-	18	23
Residential mortgage backed securities (RMBS)	556	100	-	-	-	54	-	46	-
Asset backed securities (other)	258	100	-	-	-	49	-	51	-
<b>Liquid assets total</b>	<b>26,815</b>	<b>23</b>	<b>77</b>	<b>-</b>	<b>-</b>	<b>78</b>	<b>10</b>	<b>8</b>	<b>4</b>
<b>Other securities (note ii):</b>									
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	-
<b>Other securities total</b>	<b>1,912</b>	<b>75</b>	<b>9</b>	<b>13</b>	<b>3</b>	<b>95</b>	<b>3</b>	<b>2</b>	<b>-</b>
Loans and advances to banks and similar institutions	4,009	-	51	49	-	86	7	6	1
<b>Total</b>	<b>32,736</b>	<b>24</b>	<b>70</b>	<b>6</b>	<b>-</b>	<b>80</b>	<b>9</b>	<b>8</b>	<b>3</b>

## Notes:

- 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.
- Includes RMBS (UK Buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).
- Includes investment securities held at FVTPL of £91 million (4 April 2019: £78 million).
- Prior period amounts have been restated to be consistent with the current period presentation.

## 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.

<b>Country exposures</b>							
<b>30 September 2019</b>	<b>Government bonds</b>	<b>Mortgage backed securities</b>	<b>Covered bonds</b>	<b>Supra-national bonds</b>	<b>Loans and advances to banks and similar institutions</b>	<b>Other assets</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Austria	144	-	-	-	-	-	144
Belgium	362	-	-	-	-	-	362
Finland	392	-	26	-	-	-	418
France	254	-	-	-	-	32	286
Germany	711	-	32	-	299	133	1,175
Ireland	44	-	-	-	-	-	44
Netherlands	143	200	-	-	-	-	343
Spain	-	-	-	-	-	-	-
<b>Total Eurozone</b>	<b>2,050</b>	<b>200</b>	<b>58</b>	<b>-</b>	<b>299</b>	<b>165</b>	<b>2,772</b>
USA	3,321	-	-	-	89	71	3,481
Rest of world (note i)	1,109	-	499	713	30	-	2,351
<b>Total</b>	<b>6,480</b>	<b>200</b>	<b>557</b>	<b>713</b>	<b>418</b>	<b>236</b>	<b>8,604</b>

  

<b>Country exposures</b>							
<b>4 April 2019</b>	<b>Government bonds</b>	<b>Mortgage backed securities</b>	<b>Covered bonds</b>	<b>Supra-national bonds</b>	<b>Loans and advances to banks and similar institutions</b>	<b>Other assets</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
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
<b>Total Eurozone</b>	<b>1,488</b>	<b>255</b>	<b>39</b>	<b>-</b>	<b>232</b>	<b>165</b>	<b>2,179</b>
USA	2,642	-	-	-	265	59	2,966
Rest of world (note i)	140	-	455	725	60	-	1,380
<b>Total</b>	<b>4,270</b>	<b>255</b>	<b>494</b>	<b>725</b>	<b>557</b>	<b>224</b>	<b>6,525</b>

Note:

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

## Credit risk – Treasury assets (continued)

**Derivative financial instruments**

Derivatives are used to manage exposure to market risks, and not for trading or speculative purposes, although the application of accounting rules can create volatility in the income statement in a given financial period. The fair value of derivative assets at 30 September 2019 was £5.1 billion (4 April 2019: £3.6 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 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 £1.7 billion (4 April 2019: £1.4 billion) were available and £3.5 billion of collateral (4 April 2019: £2.1 billion) was held. Nationwide only accepts collateral in the form of cash.

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

<b>Derivative credit exposure</b>								
	<b>30 September 2019</b>				<b>4 April 2019</b>			
<b>Counterparty credit quality</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Total</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Gross positive fair value of contracts reported on the balance sheet	<b>1,388</b>	<b>3,729</b>	<b>11</b>	<b>5,128</b>	1,096	2,460	6	3,562
Netting benefits	<b>(483)</b>	<b>(1,164)</b>	<b>(11)</b>	<b>(1,658)</b>	(350)	(1,007)	(6)	(1,363)
<b>Net current credit exposure</b>	<b>905</b>	<b>2,565</b>	<b>-</b>	<b>3,470</b>	746	1,453	-	2,199
Collateral (cash)	<b>(905)</b>	<b>(2,558)</b>	<b>-</b>	<b>(3,463)</b>	(732)	(1,398)	-	(2,130)
<b>Net derivative credit exposure</b>	<b>-</b>	<b>7</b>	<b>-</b>	<b>7</b>	14	55	-	69

## 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.

Liquidity and funding risks are managed within a comprehensive risk framework which includes policies, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that Nationwide maintains stable and diverse funding sources and 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 period. 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. The LCR at 30 September 2019 was 140.3% (4 April 2019: 150.2%), above the regulatory minimum of 100%. On a 12-month rolling average basis using month end observations, the LCR for the 12 months ending 30 September 2019 was 148.4% (12 months ending 4 April 2019: 143.4%). Liquidity continues to be managed against internal risk appetite, which is more prudent than regulatory requirements.

The position against the longer-term funding metric, the Net Stable Funding Ratio (NSFR) is also monitored. Based on current interpretations of expected European regulatory requirements and guidance, the NSFR at 30 September 2019 was 131.8% (4 April 2019: 130.5%) 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.

<b>Funding profile</b>					
<b>Assets (note i)</b>	<b>30 September 2019</b>	<b>4 April 2019</b>	<b>Liabilities</b>	<b>30 September 2019</b>	<b>4 April 2019</b>
	<b>£bn</b>	<b>£bn</b>		<b>£bn</b>	<b>£bn</b>
Retail mortgages	<b>188.9</b>	185.8	Retail funding	<b>156.5</b>	154.0
Treasury assets (including liquidity portfolio)	<b>38.8</b>	32.7	Wholesale funding	<b>67.6</b>	61.2
Commercial lending	<b>8.5</b>	9.1	Other liabilities	<b>3.8</b>	3.0
Consumer lending	<b>4.4</b>	4.2	Capital and reserves (note ii)	<b>22.1</b>	20.1
Other assets	<b>9.4</b>	6.5			
	<b>250.0</b>	238.3		<b>250.0</b>	238.3

Notes:

- i. The figures in the above table are stated net of impairment provisions where applicable.
- ii. Capital and reserves include all subordinated liabilities and subscribed capital.

At 30 September 2019, the loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 125.0% (4 April 2019: 125.2%).

## Liquidity and funding risk (continued)

**Wholesale funding**

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

Wholesale funding has increased by £6.4 billion to £67.6 billion during the period, primarily in short-term funding instruments. This additional funding is reflected in the wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) which was 30.5% at 30 September 2019 (4 April 2019: 28.6%).

The table below sets out wholesale funding by currency.

<b>Wholesale funding by currency</b>												
	<b>30 September 2019</b>						<b>4 April 2019</b>					
	<b>GBP</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>	<b>% of total</b>	<b>GBP</b>	<b>EUR</b>	<b>USD</b>	<b>Other</b>	<b>Total</b>	<b>% of total</b>
	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>		<b>£bn</b>	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>	<b>£bn</b>	
Repos	1.0	0.4	0.8	-	2.2	3	0.4	0.3	0.1	-	0.8	1
Deposits	7.0	1.5	0.1	-	8.6	13	6.0	1.2	0.1	-	7.3	12
Certificates of deposit	3.1	0.1	1.3	-	4.5	7	3.2	1.1	0.5	-	4.8	8
Commercial paper	-	-	5.4	-	5.4	8	-	0.3	2.9	-	3.2	5
Covered bonds	4.0	13.6	-	0.6	18.2	27	3.8	12.9	-	0.1	16.8	28
Medium term notes	1.4	3.0	1.8	0.6	6.8	10	2.0	3.0	1.9	0.6	7.5	12
Securitisations	1.3	1.0	1.3	-	3.6	5	0.7	1.1	1.2	-	3.0	5
TFS	17.0	-	-	-	17.0	25	17.0	-	-	-	17.0	28
Other	0.2	1.0	0.1	-	1.3	2	0.2	0.6	-	-	0.8	1
<b>Total</b>	<b>35.0</b>	<b>20.6</b>	<b>10.8</b>	<b>1.2</b>	<b>67.6</b>	<b>100</b>	<b>33.3</b>	<b>20.5</b>	<b>6.7</b>	<b>0.7</b>	<b>61.2</b>	<b>100</b>

The residual maturity of the wholesale funding book, on a contractual maturity basis, is set out below.

## Liquidity and funding risk (continued)

Wholesale funding – residual maturity								
30 September 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	2.2	-	-	-	2.2	-	-	2.2
Deposits	5.8	0.4	2.3	0.1	8.6	-	-	8.6
Certificates of deposit	1.4	1.0	2.1	-	4.5	-	-	4.5
Commercial paper	2.4	1.3	1.7	-	5.4	-	-	5.4
Covered bonds	-	-	0.1	1.0	1.1	2.5	14.6	18.2
Medium term notes	0.5	-	0.5	-	1.0	0.8	5.0	6.8
Securitisations	0.2	-	0.2	0.8	1.2	1.0	1.4	3.6
TFS	-	-	-	-	-	9.4	7.6	17.0
Other	-	-	-	-	-	0.1	1.2	1.3
<b>Total</b>	<b>12.5</b>	<b>2.7</b>	<b>6.9</b>	<b>1.9</b>	<b>24.0</b>	<b>13.8</b>	<b>29.8</b>	<b>67.6</b>
Of which secured	2.4	-	0.3	1.8	4.5	13.0	24.6	42.1
Of which unsecured	10.1	2.7	6.6	0.1	19.5	0.8	5.2	25.5
<b>% of total</b>	<b>18.5</b>	<b>4.0</b>	<b>10.2</b>	<b>2.8</b>	<b>35.5</b>	<b>20.4</b>	<b>44.1</b>	<b>100.0</b>

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
<b>Total</b>	<b>6.5</b>	<b>6.4</b>	<b>6.2</b>	<b>1.4</b>	<b>20.5</b>	<b>10.6</b>	<b>30.1</b>	<b>61.2</b>
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
<b>% of total</b>	<b>10.6</b>	<b>10.5</b>	<b>10.1</b>	<b>2.3</b>	<b>33.5</b>	<b>17.3</b>	<b>49.2</b>	<b>100.0</b>

## Liquidity and funding risk (continued)

At 30 September 2019, cash, government bonds and supranational bonds included in the liquid asset buffer represented 118% of wholesale funding maturing in less than one year, assuming no rollovers (4 April 2019: 120%).

### Liquidity risk

#### Liquidity strategy

Sufficient liquid assets, both in terms of amount and quality, are held to meet daily cash flow needs as well as simulated stressed requirements driven by the Society's risk appetite and regulatory assessments. This includes prudent management of the currency mix of liquid assets to ensure there is no undue reliance on currencies not consistent with the profile of stressed outflows.

Liquid assets are held and managed centrally by the Treasury function. A high-quality liquidity portfolio is maintained, 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. Further details of Nationwide's policies for liquid assets are set out in the Annual Report and Accounts 2019.

#### Liquid assets

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

Liquid assets										
	30 September 2019					4 April 2019				
	GBP	EUR	USD	Other	Total	GBP	EUR	USD	Other	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and reserves at central banks	16.6	0.1	-	-	16.7	12.4	0.1	-	-	12.5
Government bonds	5.5	1.6	2.7	0.9	10.7	7.8	0.7	2.8	-	11.3
Supranational bonds	0.5	0.1	0.3	-	0.9	0.5	-	0.2	-	0.7
Covered bonds	0.3	0.9	-	-	1.2	0.4	0.7	-	-	1.1
Residential mortgage backed securities (RMBS) (note i)	0.7	0.2	0.1	-	1.0	0.6	0.3	0.1	-	1.0
Asset-backed securities and other securities	0.1	0.1	0.1	-	0.3	0.1	0.1	0.1	-	0.3
<b>Total</b>	<b>23.7</b>	<b>3.0</b>	<b>3.2</b>	<b>0.9</b>	<b>30.8</b>	<b>21.8</b>	<b>1.9</b>	<b>3.2</b>	<b>-</b>	<b>26.9</b>

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 period of cash and reserves at central banks, and government and supranational bonds, was £29.9 billion (average for 12 month ended 4 April 2019: £27.8 billion).

## 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):

<b>Residual maturity (note i)</b>	<b>Due less than one month (note ii)</b>	<b>Due between one and three months</b>	<b>Due between three and six months</b>	<b>Due between six and nine months</b>	<b>Due between nine and twelve months</b>	<b>Due between one and two years</b>	<b>Due between two and five years</b>	<b>Due after more than five years</b>	<b>Total</b>
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>30 September 2019</b>									
<b>Financial assets</b>									
Cash	16,686	-	-	-	-	-	-	-	16,686
Loans and advances to banks and similar institutions	4,606	-	-	-	-	-	-	748	5,354
Investment securities	48	143	91	322	215	233	3,357	12,309	16,718
Derivative financial instruments	132	28	111	52	300	456	1,539	2,510	5,128
Fair value adjustment for portfolio hedged risk	(28)	34	91	93	108	353	409	361	1,421
Loans and advances to customers	3,054	1,405	2,025	2,071	2,135	8,525	23,676	158,942	201,833
<b>Total financial assets</b>	<b>24,498</b>	<b>1,610</b>	<b>2,318</b>	<b>2,538</b>	<b>2,758</b>	<b>9,567</b>	<b>28,981</b>	<b>174,870</b>	<b>247,140</b>
<b>Financial liabilities</b>									
Shares	135,888	860	1,698	1,826	1,800	5,824	7,376	1,183	156,455
Deposits from banks and similar institutions	5,767	2	38	-	-	9,450	7,550	-	22,807
<i>Of which repo</i>	2,222	-	-	-	-	-	-	-	2,222
<i>Of which TFS</i>	-	-	-	-	-	9,450	7,550	-	17,000
Other deposits	2,271	390	2,245	50	36	6	17	-	5,015
Fair value adjustment for portfolio hedged risk	-	-	-	6	-	3	12	-	21
Secured funding – ABS and covered bonds	249	10	344	224	1,474	3,525	10,254	6,814	22,894
Senior unsecured funding	4,229	2,259	4,291	57	2	843	1,739	3,415	16,835
Derivative financial instruments	249	71	11	11	12	83	150	1,493	2,080
Subordinated liabilities	35	3	25	-	690	-	2,520	5,777	9,050
Subscribed capital (note iii)	1	1	1	-	-	-	-	252	255
<b>Total financial liabilities (excludes lease liabilities)</b>	<b>148,689</b>	<b>3,596</b>	<b>8,653</b>	<b>2,174</b>	<b>4,014</b>	<b>19,734</b>	<b>29,618</b>	<b>18,934</b>	<b>235,412</b>
Off-balance sheet commitments (note iv)	11,895	-	-	-	-	-	-	-	11,895
<b>Net liquidity difference</b>	<b>(136,086)</b>	<b>(1,986)</b>	<b>(6,335)</b>	<b>364</b>	<b>(1,256)</b>	<b>(10,167)</b>	<b>(637)</b>	<b>155,936</b>	<b>(167)</b>
<b>Cumulative liquidity difference</b>	<b>(136,086)</b>	<b>(138,072)</b>	<b>(144,407)</b>	<b>(144,043)</b>	<b>(145,299)</b>	<b>(155,466)</b>	<b>(156,103)</b>	<b>(167)</b>	<b>-</b>



## Liquidity and funding risk (continued)

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
	£m	£m	£m	£m	£m	£m	£m	£m	£m
4 April 2019									
Financial assets									
Cash	12,493	-	-	-	-	-	-	-	12,493
Loans and advances to banks and similar institutions	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
<i>Of which repo</i>	849	-	-	-	-	-	-	-	849
<i>Of which TFS</i>	-	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 iii)	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 iv)	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)	-

## Notes:

- 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).
- Due less than one month includes amounts repayable on demand.
- The principal amount for undated subscribed capital is included within the due after more than five years column.
- 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 earlier. This gives rise to funding mismatches on the balance sheet. The balance sheet structure and risks are managed and monitored by Nationwide's Assets and Liabilities Committee (ALCO). Judgement and past behavioural performance of each asset and liability class are used to forecast likely cash flow requirements.

## Liquidity and funding risk (continued)

### Asset encumbrance

Encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise the Covered Bond and Silverstone secured funding programmes (further information is included in note 10 to the consolidated interim financial statements) 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.

At 30 September 2019, Nationwide had £36,967 million (4 April 2019: £33,888 million) of externally encumbered assets with counterparties other than central banks. In addition, £42,613 million (4 April 2019: £41,004 million) of prepositioned and encumbered assets were held at central banks and £156,807 million (4 April 2019: £153,803 million) of assets were neither encumbered nor prepositioned but capable of being encumbered. Further detail on asset encumbrance is set out in the Annual Report and Accounts 2019.

### 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	September 2019	Positive
Moody's	Aa3	P-1	Baa1	Baa1	November 2019	Negative
Fitch	A+	F1	A	A-	September 2019	Ratings Watch Negative

Credit ratings have been re-confirmed by the rating agencies and remain unchanged since April 2019.

## 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

The capital disclosures included in this report are on a Capital Requirements Directive IV (CRD IV) end point basis with IFRS 9 transitional arrangements applied. This assumes that all CRD IV requirements are in force during the period, with no CRD IV transitional provisions permitted. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

Capital ratios		
	30 September 2019	4 April 2019
<b>Solvency</b>	%	%
Common Equity Tier 1 (CET1) ratio (note i)	31.5	32.2
Total Tier 1 ratio (note i)	33.3	35.2
Total regulatory capital ratio (note i)	42.9	44.3
<b>Leverage</b>	£m	£m
UK leverage exposure (notes i,ii)	240,539	235,317
CRR leverage exposure (notes i,iii)	257,121	247,757
Tier 1 capital	11,125	11,509
	%	%
UK leverage ratio	4.6	4.9
CRR leverage ratio	4.3	4.6

#### Notes:

- The figures for 4 April 2019 have been restated in respect of counterparty credit risk exposures; this increased RWAs by 0.5%, leading to a reduction of 0.2% in the CET1 ratio. There is no change to the UK or CRR leverage ratio to 1 d.p.
- 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.
- 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 CET1 ratio decreased to 31.5% (4 April 2019: 32.2%<sup>21</sup>), primarily as a result of a £0.8 billion increase in RWAs. This increase was driven by lending and investment activities in the period and the impact of an increase in fixed assets following a change in accounting for leases on adoption of IFRS 16. CET1 capital resources remained stable at £10.5 billion, with the increase in general reserves offset by dividends, intangible assets and the impact of changes in the fair value of assets and liabilities.

<sup>21</sup> The figure for 4 April 2019 has been restated in respect of counterparty credit risk exposures; this increased RWAs by 0.5%, leading to a reduction in the CET1 ratio.

## Solvency risk (continued)

Risk-based ratios remain in-excess of regulatory requirements with the CET1 ratio of 31.5% (4 April 2019: 32.2%<sup>22</sup>), above Nationwide's capital requirement of 13.1%. This includes a minimum CET1 capital requirement of 8.6% (Pillar 1 and Pillar 2A) and CRD IV combined buffer requirements of 4.5%. 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, which are expected to come into effect between 2022 and 2027 (see section below 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 4.6% (4 April 2019: 4.9%) remains in excess of Nationwide's capital requirement of 4.0%, which comprises of a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.75%.

The UK leverage ratio fell to 4.6% (4 April 2019: 4.9%), primarily as a result of the net redemption of £0.4 billion of AT1 capital instruments and flat CET1 resources, reducing Tier 1 resources to £11.1 billion (4 April 2019: £11.5 billion). UK leverage exposure increased by £5.2 billion, as a result of retail lending and treasury activities over the period. The CRR leverage ratio is based on the Delegated Act definition and therefore exposures include central bank reserves. This also reduced by 0.3% to 4.3% (4 April 2019: 4.6%).

Leverage requirements continue to be Nationwide's binding capital constraint, as they are in excess of risk-based requirements, and it is expected that this will continue despite the impact of IRB model changes and Basel III reforms on risk-based capital requirements. The expected impact of the Basel III reforms on Nationwide's leverage ratio is negligible. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

Further details on the leverage exposure can be found in the Group's Interim Pillar 3 Disclosure September 2019 at [nationwide.co.uk](https://www.nationwide.co.uk)

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<sup>22</sup> The figure for 4 April 2019 has been restated in respect of counterparty credit risk exposures; which increased RWAs by 0.5%, leading to a reduction in the CET1 ratio.

## 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.

<b>Total regulatory capital</b>		
	<b>30 September 2019</b>	4 April 2019
	<b>£m</b>	£m
General reserve	<b>10,511</b>	10,418
Core capital deferred shares (CCDS)	<b>1,325</b>	1,325
Revaluation reserve	<b>59</b>	64
FVOCI reserve	<b>13</b>	50
Regulatory adjustments and deductions:		
Foreseeable distributions (note i)	<b>(55)</b>	(68)
Prudent valuation adjustment (note ii)	<b>(51)</b>	(50)
Intangible assets (note iii)	<b>(1,317)</b>	(1,274)
Goodwill (note iii)	<b>(12)</b>	(12)
Excess of regulatory expected losses over impairment provisions (note iv)	<b>(2)</b>	(2)
IFRS 9 transitional arrangements (note v)	<b>61</b>	66
Total regulatory adjustments and deductions	<b>(1,376)</b>	(1,340)
<b>Common Equity Tier 1 capital</b>	<b>10,532</b>	10,517
Additional Tier 1 capital securities (AT1)	<b>593</b>	992
<b>Total Tier 1 capital</b>	<b>11,125</b>	11,509
Dated subordinated debt (notes vi)	<b>3,221</b>	2,976
Excess of impairment provisions over regulatory expected losses (note iv)	<b>40</b>	46
IFRS 9 transitional arrangements (note v)	<b>(40)</b>	(46)
<b>Tier 2 capital</b>	<b>3,221</b>	2,976
<b>Total regulatory capital</b>	<b>14,346</b>	14,485

## 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. Intangible assets and goodwill are deducted from capital resources after netting associated deferred tax liabilities.
- iv. 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.
- v. The transitional adjustments to capital resources apply scaled relief for the impact of IFRS 9, over a five-year transition period. Further detail regarding these adjustments is provided in the Interim Pillar 3 disclosures at [nationwide.co.uk](http://nationwide.co.uk)
- vi. 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.

## Solvency risk (continued)

As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and eligible liabilities (MREL) and provided firms with indicative MREL. From 1 January 2020, based on the Bank of England's published indicative requirements, Nationwide will be subject to an MREL requirement of 7.25%, based on 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.

At 30 September 2019, total MREL resources were equal to 8.2% of UK leverage ratio exposure (4 April 2019: 7.8%<sup>23</sup>), which is above the anticipated 2020 requirement of 7.25% described above.

## Risk weighted assets

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

Risk weighted assets						
	30 September 2019			4 April 2019		
	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	14,176	3,393	17,569	14,072	3,393	17,465
Retail unsecured lending	5,842	778	6,620	5,581	778	6,359
Commercial loans	3,505	176	3,681	3,604	176	3,780
Treasury	1,309	152	1,461	779	152	931
Counterparty credit risk (notes iii, iv)	1,399	-	1,399	1,708	-	1,708
Other (note v)	2,363	344	2,707	2,095	344	2,439
<b>Total</b>	<b>28,594</b>	<b>4,843</b>	<b>33,437</b>	<b>27,839</b>	<b>4,843</b>	<b>32,682</b>

## Notes:

- This column includes credit risk exposures, securitisations, counterparty credit risk exposures and exposures below the thresholds for deduction that are subject to a 250% risk weight.
- RWAs have been allocated according to the business lines within the standardised approach to operational risk, as per Article 317 of CRR.
- Counterparty credit risk relates to derivative financial instruments, securities financing transactions and exposures to central counterparties.
- The figures for 4 April 2019 have been restated in respect of counterparty credit risk exposures, increasing total RWAs by 0.5%.
- Other relates to equity, fixed and other assets.

RWAs increased by £0.8 billion, primarily due to lending and investment activities in the period and the impact of an increase in fixed assets due to the implementation of IFRS 16. This was partially offset by a reduction in counterparty credit risk RWAs, where fair value movements have been offset by a change in the exposure calculation methodology following published guidance from the European Banking Authority.

More detailed analysis of RWAs is included in the Group's Interim Pillar 3 Disclosure September 2019 at [nationwide.co.uk](http://nationwide.co.uk)

<sup>23</sup> The figure for 4 April 2019 has been restated in respect of counterparty credit risk exposures. This has increased the UK Leverage exposure, which has reduced 'MREL resources as a % of UK Leverage exposure' by 0.1 percentage points.

## Solvency risk (continued)

### Regulatory developments

Highlighted below are several 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.

New residential IRB mortgage models have been submitted to the PRA for approval with the expectation that these models will be implemented during 2020, in line with the deadline set out in PS13/17. The new models will also need to reflect the PRA's approach, once finalised, to implementing the European Banking Authority's (EBA's) recommendations relating to Probability of Default (PD) estimation, Loss Given Default (LGD) estimation and the treatment of defaulted exposures. This is as part of the IRB approach to credit risk as set out in CP21/19.

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 30 September 2019 capital position. The change relates to the application of standardised floors which override IRB model outputs. Organic earnings through the transition will mitigate this impact such that the reported CET1 ratio will remain 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 uncertain as they are subject to future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA's discretion.

## Pension risk

Nationwide has funding obligations to defined benefit pension schemes, the most significant being the Nationwide Pension Fund (the Fund). Further information is set out in the Annual Report and Accounts 2019.

The Fund's net defined benefit pension deficit, which appears within liabilities on the balance sheet, has increased from £105 million to £125 million since 4 April 2019. This is largely due to market conditions, partially offset by an employer deficit contribution of £61 million, agreed as part of the 2016 triennial valuation. Further information is included in note 17 to the financial statements.

During the period, the Fund's exposure to inflation and interest rate risk has continued to be reduced through the investment of £780 million in index-linked and conventional gilts.

The latest triennial valuation of the Fund, which has an effective date of 31 March 2019, is currently underway. Employer contributions in future years, including a new deficit recovery plan, are expected to be agreed with the Trustee during 2020.

### Proposed changes to the Fund

On 18 September 2019, Nationwide announced to employees a proposal to close the Fund to future accrual from 31 March 2021. The Society is currently consulting with employee members of the Fund. There is no impact on the Fund or amounts recognised in the Interim Results at 30 September 2019.

## Pension risk (continued)

### Potential changes to the Retail Price Index (RPI)

A consultation on the future of RPI (the measure of UK inflation most widely used in financial markets) was announced by the Government in September and is expected to commence in January 2020, with a response to be published in Spring 2020. Any potential impact on the Fund's assets and liabilities will be considered as further information becomes available.

## Operational risk

The overall profile of operational risks has remained broadly stable since 4 April 2019. The main risks continue to relate to IT resilience and cyber security. Nationwide continues to strive to meet the high standards expected by our members with regards to management of such risks. The overall profile remains stable and Nationwide continues to invest in these areas and develop appropriate controls. Other key areas of focus during the period are set out below.

In September 2018 Nationwide announced significant investment in technology to ensure it remains resilient and secure, and develops increased agility to deliver new features and services to members. Change of this scale could create its own operational risk, but we continue to deliver this change in a considered and controlled way to ensure this risk is minimised. An important enabler to facilitate this investment is having the right people with the right skills, in August 2019 Nationwide took further steps to ensure it can deliver on this when it announced plans for new technology hubs in Swindon and London. This will help attract the talent we need for the future and build on the existing skills of our workforce with internal staff development programmes, as well as address risks associated with scarcity of resource in specialist technology areas.

Nationwide is committed to protecting customer data and has a dedicated programme of work in place to ensure it has a holistic view of customer data. The scope of the programme includes the process and architecture Nationwide uses to change, govern and store customer data, the training and support it gives to employees, how it ensures compliance with requirements such as the General Data Protection Regulation and how it designs its products. This joined up view will help Nationwide to protect customer data now and help secure its data in the future, as the expansion of data and digital services continues.

The Brexit landscape continues to evolve at pace, and considerable uncertainty remains. Nationwide continues to take appropriate steps to prepare for the consequences of the potential outcomes.

## Conduct and compliance risk

Conduct and compliance risk is the risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, or an unfair outcome being created for our customers.

There have been no significant changes during the period in the way Nationwide manages and monitors its conduct and compliance risks, nor are any expected for the remaining six months of the financial year. Further detail on these risks and how they are managed is available in the Annual Report and Accounts 2019.

During the period, Nationwide continued to focus on delivering fair customer outcomes to its members, embedding conduct risk management, improving frameworks and guidance to support potentially vulnerable customers, and interpreting and implementing regulatory obligations.

Nationwide remains committed to financial crime compliance and continues to develop its capability to limit financial crime by preventing, deterring and detecting money laundering and terrorist financing, making ongoing improvements to internal policies and procedures to support this agenda.



## Conduct and compliance risk (continued)

Nationwide has received Directions from the Competition and Markets Authority (CMA) in relation to failures in providing accurate annual PPI statements, and also in relation to failures in providing text alerts relating to customers' usage of overdraft facilities. Nationwide has responded to the CMA regarding text alerts, providing an action plan to close any gaps identified following an independent review. An independent body is currently being engaged to carry out audits of the procedures, processes and outcomes which constitute compliance with the CMA requirements.

During the period, the Financial Conduct Authority continued its Payment Protection Insurance (PPI) awareness campaign up to the claims deadline of 29 August 2019. Nationwide maintained its programme of activity to respond to the increase in claims arising from the campaign. In line with the industry Nationwide has seen a higher than expected increase in PPI enquiries and claims during this period. The FCA has acknowledged the high volumes of claims received by the industry in the build up to the deadline and flagged the possibility that claims will take longer than normal to process, but this will not disadvantage those with successful claims.

### Current environment

There continues to be a significant volume of complex regulatory change impacting the financial services industry. Some of the key items relevant to Nationwide are listed below:

- As the UK prepares to leave the European Union, both the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) are working to ensure a robust regulatory system is in place on exit day. Working with the government, regulators have put in place a number of measures to minimise the potential for disruption, including Temporary Transitional Powers and the Temporary Permissions Regime. Nationwide continues to prepare for all potential outcomes.
- Following its High-Cost Credit Review, the FCA published final rules to simplify the pricing of overdrafts and to end higher prices for unarranged overdrafts. From 11 November 2019, Nationwide introduced a single interest rate for arranged overdrafts and removed all fees for unarranged overdrafts.
- Having committed to ensuring that all firms are fully resolvable by 2022, the Bank of England has finalised its Resolvability Assessment Framework, the final major piece of the UK's resolution regime. To meet the requirements of this framework, Nationwide will perform an assessment of its preparations for resolution and make a subsequent public disclosure of this assessment.
- In July 2019, the FCA opened a consultation to provide guidance for firms on the fair treatment of vulnerable customers. The proposed expectations of firms are broadly aligned with previous regulatory guidance on this topic, but provide further detail. Nationwide welcomes the proposed additional guidance from the FCA and will consider opportunities to enhance existing processes.
- Both the FCA and PRA have recognised the potential impact that climate change and the transition to a low carbon economy could have on the UK's economy and financial services, and how this transition relates to their respective statutory objectives. The PRA has introduced new expectations for how firms should identify, monitor and mitigate the financial risks from climate change, and how they disclose these. The FCA is also considering how firms intend to provide suitable consumer protection, while ensuring regulation does not stifle positive innovation in green financial services. Nationwide is planning for further expected developments in this area over the coming year.
- The FCA has delayed the implementation of certain requirements under new Strong Customer Authentication (SCA) rules to allow greater preparation across the industry due to the potentially significant impact on consumers. Nationwide is supportive of the delayed implementation and continues to gather additional customer contact data to improve the delivery of authentication options.
- Developing the supervisory approach to operational resilience is a high priority for both the PRA and FCA. A lack of resilience, financial or operational, represents a threat to each supervisory authority's specific objectives, as well as their shared goal of maintaining financial stability. In July 2018, the Bank of England, the PRA and FCA published a joint discussion paper, 'Building the UK financial sector's operational resilience'. Both regulators continue to develop their approach in this area, and we expect new requirements around both operational resilience and outsourcing.
- Implementation of the Fifth Money Laundering Directive continues with UK transposition expected in January 2020.

Nationwide will actively engage with the regulators to respond to these complex regulatory changes, and will continue to provide a secure and dependable variety of products and services which are designed to meet the needs of members and customers.

## Consolidated interim financial statements

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# Consolidated income statement

(Unaudited)

		Half year to 30 September 2019	Half year to 30 September 2018 (note i)
	Notes	£m	£m
Interest receivable and similar income/(expense):			
Calculated using the effective interest rate method	3	2,559	2,481
Other	3	(15)	(13)
Total interest receivable and similar income/(expense)	3	2,544	2,468
Interest expense and similar charges	4	(1,159)	(1,030)
<b>Net interest income</b>		<b>1,385</b>	1,438
Fee and commission income		216	214
Fee and commission expense		(126)	(121)
Other operating income	5	66	59
Gains from derivatives and hedge accounting	6	2	47
<b>Total income</b>		<b>1,543</b>	1,637
Administrative expenses	7	(1,125)	(1,100)
Impairment losses on loans and advances to customers	8	(57)	(45)
Provisions for liabilities and charges	15	(52)	24
<b>Profit before tax</b>		<b>309</b>	516
Taxation	9	(75)	(120)
<b>Profit after tax</b>		<b>234</b>	396

Note:

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

The notes on pages 72 to 97 form part of these consolidated interim financial statements.

# Consolidated statement of comprehensive income

(Unaudited)

		Half year to 30 September 2019	Half year to 30 September 2018 (note i)
	Notes	£m	£m
<b>Profit after tax</b>		<b>234</b>	396
<b>Other comprehensive (expense)/income</b>			
<b>Items that will not be reclassified to the income statement</b>			
Remeasurements of retirement benefit obligations:			
Retirement benefit remeasurements before tax	17	(68)	212
Taxation		18	(57)
		(50)	155
<b>Items that may subsequently be reclassified to the income statement</b>			
Cash flow hedge reserve (note ii):			
Fair value movements taken to members' interests and equity		7	1,013
Amount transferred to income statement		(31)	(1,099)
Taxation		5	21
		(19)	(65)
Other hedging reserve (note ii):			
Fair value movements taken to members' interests and equity		19	
Taxation		(4)	
		15	
Fair value through other comprehensive income reserve:			
Fair value movements taken to members' interests and equity		(15)	21
Amount transferred to income statement		(34)	(34)
Taxation		12	3
		(37)	(10)
<b>Other comprehensive (expense)/income</b>		<b>(91)</b>	80
<b>Total comprehensive income</b>		<b>143</b>	476

Notes:

- Comparatives have been restated as detailed in note 2.
- The Group adopted IFRS 9 'Financial Instruments' – Hedge Accounting from 5 April 2019; this resulted in the creation of a new other hedging reserve and the discontinuance of certain cash flow hedging relationships. Further information is included in note 2.

The notes on pages 72 to 97 form part of these consolidated interim financial statements.

# Consolidated balance sheet

(Unaudited)

		30 September 2019	4 April 2019
	Notes	£m	£m
<b>Assets</b>			
Cash		16,686	12,493
Loans and advances to banks and similar institutions		5,354	4,009
Investment securities		16,718	16,234
Derivative financial instruments		5,128	3,562
Fair value adjustment for portfolio hedged risk		1,421	411
Loans and advances to customers	10	201,833	199,051
Intangible assets		1,361	1,324
Property, plant and equipment		1,050	889
Accrued income and prepaid expenses		195	184
Deferred tax		63	53
Current tax assets		18	-
Other assets		143	91
<b>Total assets</b>		<b>249,970</b>	<b>238,301</b>
<b>Liabilities</b>			
Shares		156,455	153,969
Deposits from banks and similar institutions		22,807	20,149
Other deposits		5,015	5,074
Fair value adjustment for portfolio hedged risk		21	(17)
Debt securities in issue		39,729	35,942
Derivative financial instruments		2,080	1,593
Other liabilities		988	583
Provisions for liabilities and charges	15	187	199
Accruals and deferred income		317	346
Subordinated liabilities	11	9,050	6,706
Subscribed capital	11	255	250
Deferred tax		124	144
Current tax liabilities		-	89
Retirement benefit obligations	17	125	105
<b>Total liabilities</b>		<b>237,153</b>	<b>225,132</b>
<b>Members' interests and equity</b>			
Core capital deferred shares	18	1,325	1,325
Other equity instruments	19	593	992
General reserve		10,511	10,418
Revaluation reserve		59	64
Cash flow hedge reserve		301	320
Other hedging reserve (note i)		15	-
Fair value through other comprehensive income reserve		13	50
<b>Total members' interests and equity</b>		<b>12,817</b>	<b>13,169</b>
<b>Total members' interests, equity and liabilities</b>		<b>249,970</b>	<b>238,301</b>

Note:

- i. The Group adopted IFRS 9 'Financial Instruments' – Hedge Accounting from 5 April 2019; this resulted in the creation of a new other hedging reserve. Further information is included in note 2.

The notes on pages 72 to 97 form part of these consolidated interim financial statements.

# Consolidated statement of movements in members' interests and equity

(Unaudited)

For the period ended 30 September 2019								
	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve (note i)	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2019	1,325	992	10,418	64	320	-	50	13,169
Profit for the period	-	-	234	-	-	-	-	234
Net remeasurements of retirement benefit obligations	-	-	(50)	-	-	-	-	(50)
Net movement in cash flow hedge reserve	-	-	-	-	(19)	-	-	(19)
Net movement in other hedging reserve	-	-	-	-	-	15	-	15
Net movement in FVOCI reserve	-	-	-	-	-	-	(37)	(37)
<b>Total comprehensive income</b>	-	-	184	-	(19)	15	(37)	143
Reserve transfer	-	-	5	(5)	-	-	-	-
Issuance of Additional Tier 1 capital	-	593	-	-	-	-	-	593
Redemption of Additional Tier 1 capital	-	(992)	(8)	-	-	-	-	(1,000)
Distribution to the holders of core capital deferred shares	-	-	(54)	-	-	-	-	(54)
Distribution to the holders of Additional Tier 1 capital	-	-	(34)	-	-	-	-	(34)
<b>At 30 September 2019</b>	<b>1,325</b>	<b>593</b>	<b>10,511</b>	<b>59</b>	<b>301</b>	<b>15</b>	<b>13</b>	<b>12,817</b>

For the period ended 30 September 2018								
	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve (note i)	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	1,325	992	9,802	68	(8)	-	62	12,241
Profit for the period (note ii)	-	-	396	-	-	-	-	396
Net remeasurements of retirement benefit obligations	-	-	155	-	-	-	-	155
Net movement in cash flow hedge reserve	-	-	-	-	(65)	-	-	(65)
Net movement in FVOCI reserve	-	-	-	-	-	-	(10)	(10)
Total comprehensive income	-	-	551	-	(65)	-	(10)	476
Distribution to the holders of core capital deferred shares	-	-	(54)	-	-	-	-	(54)
Distribution to the holders of Additional Tier 1 capital (note ii)	-	-	(34)	-	-	-	-	(34)
At 30 September 2018	1,325	992	10,265	68	(73)	-	52	12,629

Notes:

- The Group adopted IFRS 9 'Financial Instruments' – Hedge Accounting from 5 April 2019; this resulted in the creation of a new other hedging reserve. Further information is included in note 2.
- Comparatives have been restated as detailed in note 2.

The notes on pages 72 to 97 form part of these consolidated interim financial statements.

# Consolidated cash flow statement

(Unaudited)

		Half year to 30 September 2019 £m	Half year to 30 September 2018 £m
	Notes		
<b>Cash flows generated from operating activities</b>			
Profit before tax		309	516
Adjustments for:			
Non-cash items included in profit before tax	21	806	612
Changes in operating assets and liabilities (note i)	21	2,001	3,647
Taxation		(181)	(43)
<b>Net cash flows generated from operating activities</b>		<b>2,935</b>	<b>4,732</b>
<b>Cash flows used in investing activities</b>			
Purchase of investment securities		(5,873)	(4,733)
Sale and maturity of investment securities		6,137	3,652
Purchase of property, plant and equipment		(108)	(87)
Sale of property, plant and equipment		23	4
Purchase of intangible assets		(210)	(165)
<b>Net cash flows used in investing activities</b>		<b>(31)</b>	<b>(1,329)</b>
<b>Cash flows generated from financing activities</b>			
Distributions paid to the holders of core capital deferred shares		(54)	(54)
Distributions paid to the holders of Additional Tier 1 capital		(34)	(34)
Issue of Additional Tier 1 capital		593	-
Redemption of Additional Tier 1 capital		(1,000)	-
Issue of debt securities		25,770	11,945
Redemption of debt securities in issue		(23,962)	(11,603)
Interest paid on debt securities in issue		(219)	(197)
Issue of subordinated liabilities		1,603	855
Interest paid on subordinated liabilities		(145)	(124)
Redemption of subscribed capital		-	(3)
Interest paid on subscribed capital		(7)	(7)
Repayment of lease liabilities		(13)	-
<b>Net cash flows generated from financing activities</b>		<b>2,532</b>	<b>778</b>
<b>Net increase in cash and cash equivalents</b>		<b>5,436</b>	<b>4,181</b>
Cash and cash equivalents at start of period (note i)		15,856	17,510
<b>Cash and cash equivalents at end of period</b>	21	<b>21,292</b>	<b>21,691</b>

Note:

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

The notes on pages 72 to 97 form part of these consolidated interim financial statements.

# Notes to the consolidated financial statements

## 1. General information and reporting period

Nationwide Building Society ('the Society') and its subsidiaries (together, 'the Group') provide financial services to retail and commercial customers within the United Kingdom.

Nationwide is a building society incorporated and domiciled in the United Kingdom. The address of its registered office is Nationwide Building Society, Nationwide House, Pipers Way, Swindon, SN38 1NW.

There were no material changes in the composition of the Group in the half year to 30 September 2019.

These condensed consolidated interim financial statements ('consolidated interim financial statements') have been prepared as at 30 September 2019 and show the financial performance for the period from, and including, 5 April 2019 to this date. They were approved for issue on 21 November 2019.

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

## 2. Basis of preparation

The consolidated interim financial statements of the Group for the half year ended 30 September 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as adopted by the EU. The consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 4 April 2019, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Terminology used in these consolidated interim financial statements is consistent with that used in the Annual Report and Accounts 2019. Copies of the Annual Report and Accounts 2019 and Glossary are available on the Group's website at [nationwide.co.uk](http://nationwide.co.uk)

## Accounting policies

The accounting policies adopted by the Group in the preparation of these consolidated interim financial statements and those which the Group currently expects to adopt in the Annual Report and Accounts 2020 are consistent with those disclosed in the Annual Report and Accounts 2019, except in relation to the adoption of the following new standards:

- IFRS 16 'Leases'
- IFRS 9 'Financial Instruments' – Hedge Accounting.

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 2019. Those relevant to these consolidated interim financial statements include minor amendments to IAS 12 'Income Taxes', IAS 19 'Employee Benefits', and IFRS 9 'Financial Instruments'. IFRIC 23 'Uncertainty over Income Tax Treatments' also became effective from 1 January 2019. The adoption of these amendments and interpretations had no significant impact on the Group, except for the amendment to IAS 12 which is set out further below.

### IFRS 16 'Leases'

The Group has adopted the requirements of IFRS 16 from 5 April 2019. For lessee accounting there is no longer a distinction between operating and finance leases. Lessees capitalise leases through the recognition of assets representing the contractual rights of use. The present value of contractual payments is recognised as a lease liability. Lessees recognise interest expense on the lease liability and a depreciation charge on the right-of-use asset. IFRS 16 has not resulted in a significant change to lessor accounting.

The Group has applied the recognition exemption in IFRS 16 for short-term leases (defined as leases with a lease term of less than 12 months) and leases of low value assets. Payments for short-term leases and leases of low value assets are recognised in the income statement, generally on a straight-line basis.



## Notes to the consolidated financial statements (continued)

## 2. Basis of preparation (continued)

**IFRS 16 ‘Leases’ (continued)**

The Group has adopted IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 5 April 2019. Comparative figures for the prior year have therefore not been restated.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at 5 April 2019. The balance sheet increases as a result of recognition of the lease liabilities and right-of-use assets as of 5 April 2019 were £192 million and £182 million, respectively, with no adjustment to retained earnings. The difference between the right-of-use assets and lease liabilities recognised on transition is due to existing prepayments and accruals recognised under IAS 17 ‘Leases’ as at 5 April 2019 being included in the measurement of the right-of-use assets. The assets are presented in property, plant and equipment and the liabilities are presented in other liabilities.

**IFRS 9 ‘Financial instruments’ – Hedge Accounting**

The transition requirements of IFRS 9 include an option to continue to apply the existing hedge accounting requirements of IAS 39 until the development of a separate standard on accounting for dynamic risk management (macro hedge accounting). In its financial statements for the year ended 4 April 2019, the Group continued to apply IAS 39. From 5 April 2019 the Group voluntarily adopted the micro hedge accounting provisions of IFRS 9 on a prospective basis and continues to apply IAS 39 fair value hedge accounting for portfolio hedges of interest rate risk (macro hedge accounting).

The changes resulting from adoption of the hedge accounting provisions of IFRS 9 for micro hedges, which are applicable to the Group, include:

- The ability to choose to exclude currency basis spreads from hedge designation and instead report this element of fair valuation directly in a hedge reserve within equity.
- The performance of hedge effectiveness testing on a prospective basis only, in line with risk management strategy.
- The inability to voluntarily de-designate hedging relationships, unless there has been a change to risk management objectives.

Adoption, which did not have a significant impact for the Group, has resulted in the creation of an ‘other hedging reserve’ within equity to include the impact of foreign currency basis spreads. Comparatives have not been restated.

Effective 5 April 2019, and concurrent with the adoption of the micro hedge accounting provisions of IFRS 9, the Group discontinued a number of cash flow hedge relationships, resulting in reduced activity in the cash flow hedge reserve. The Group immediately replaced these hedges with a number of new fair value hedge accounting relationships. The Group chose to exclude foreign currency basis spreads from the new hedges and instead reports the change in fair value of these spreads directly in the ‘other hedging reserve’. The value of this reserve at 30 September 2019 was £15 million.

**Amendment to IAS 12 ‘Income Taxes’**

The amendment to IAS 12 clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. As a result of its application, the income tax consequences of distributions on Additional Tier 1 instruments are presented in profit or loss rather than directly in members’ interests and equity. Comparative information has been restated as shown below.

**Consolidated income statement and consolidated statement of comprehensive income extracts for the period to 30 September 2018**

	Previously published	Adjustment	Restated
	£m	£m	£m
Taxation	(129)	9	(120)
Profit after tax	387	9	396

**Consolidated statement of movements in members’ interests and equity extract for the period to 30 September 2018**

	Previously published	Adjustment	Restated
	£m	£m	£m
Profit after tax	387	9	396
Distribution to the holders of Additional Tier 1 capital	(25)	(9)	(34)

For the period ended 30 September 2019, adoption of this amendment resulted in reducing the taxation charge and increasing profit after tax by £6 million. This change has had no impact on the Group’s net assets or members’ interests and equity.

## Notes to the consolidated financial statements (continued)

## 2. Basis of preparation (continued)

**Other changes in accounting policy*****Income statement presentation***

As disclosed in the Annual Report and Accounts 2019, 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 previous line item for interest receivable and similar income has therefore been disaggregated into two separate components for amounts:

- calculated using the effective interest rate method, and
- other.

Comparative amounts for the period to 30 September 2018 have been restated accordingly.

In addition, voluntary changes to accounting policy were made in the Annual Report and Accounts 2019 in relation to the presentation of certain income and expense relating to financial instruments.

In particular, certain items previously included in interest receivable and similar income/(expense) were reclassified to reflect better the nature of the transactions. Comparatives for the period ended 30 September 2018 have been restated as shown below:

<b>Consolidated income statement extract for the period ended 30 September 2018</b>			
	Previously published	Adjustment	Restated
	£m	£m	£m
Interest receivable and similar income	2,541	(73)	2,468
Interest expense and similar charges	(1,046)	16	(1,030)
Other operating income	2	57	59

***Balance sheet presentation***

To provide a more meaningful presentation of the Group's collateral, repurchase agreement and reverse repurchase agreement balances, comparative amounts have been reclassified from loans and advances to customers to loans and advances to banks and similar institutions as detailed in note 1 to the Annual Report and Accounts 2019. These reclassifications had no impact on the Group's net assets or members' interests and equity at 30 September 2018. Net cash flows generated from operating activities increased by £354 million for the period ended 30 September 2018, and cash and cash equivalents as at 30 September 2018 increased by £425 million as a result of the reclassifications.

**Judgements in applying accounting policies and critical accounting estimates**

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

There have been no changes to the areas with significant judgements or estimates from those disclosed in the Annual Report and Accounts 2019, which comprised:

- impairment provisions on loans and advances (note 8)
- provisions for customer redress (note 15)
- retirement benefit obligations (pensions) (note 17).

**Going concern**

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are set out in the Business and Risk Report.

The directors have assessed the Group's ability to continue as a going concern, with reference to current and anticipated market conditions. The directors confirm they are satisfied that the Group has adequate resources to continue in business and that it is therefore appropriate to adopt the going concern basis in preparing these consolidated interim financial statements.

## Notes to the consolidated financial statements (continued)

## 3. Interest receivable and similar income

	Half year to 30 September 2019	Half year to 30 September 2018 (note i)
	£m	£m
On financial assets measured at amortised cost:		
Residential mortgages	2,246	2,188
Other loans	314	322
Other liquid assets	77	64
Investment securities	14	12
On investment securities measured at FVOCI	90	69
On financial instruments hedging assets in a qualifying hedge accounting relationship	(182)	(174)
<b>Total interest receivable and similar income calculated using the effective interest rate method</b>	<b>2,559</b>	<b>2,481</b>
Other interest and similar expense (note ii)	(15)	(13)
<b>Total</b>	<b>2,544</b>	<b>2,468</b>

Notes:

- i. Comparatives have been restated 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

	Half year to 30 September 2019	Half year to 30 September 2018 (note i)
	£m	£m
On shares held by individuals	678	639
On subscribed capital	7	7
On deposits and other borrowings:		
Subordinated liabilities	147	108
Other	121	92
On debt securities in issue	393	319
Net income on financial instruments hedging liabilities	(187)	(138)
Interest on net defined benefit pension liability	-	3
<b>Total</b>	<b>1,159</b>	<b>1,030</b>

Note:

- i. Comparatives have been restated as detailed in note 2.

## Notes to the consolidated financial statements (continued)

## 5. Other operating income

	Half year to 30 September 2019	Half year to 30 September 2018 (note i)
	£m	£m
Gains on financial assets measured at FVTPL	18	23
Gains on disposal of FVOCI investment securities	34	34
Other income	14	2
<b>Total</b>	<b>66</b>	<b>59</b>

Note:

- i. Comparatives have been restated as detailed in note 2.

Other income includes contingent consideration received on previous investment disposals, 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.

## 6. Gains from derivatives and hedge accounting

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. Hedge accounting is employed by the Group to minimise the accounting volatility associated with the change in fair value of derivative financial instruments. The Group only uses derivatives for the hedging of risks; however, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not currently achievable. This volatility does not reflect the economic reality of the Group's hedging strategy. The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other market risks are continually managed.

	Half year to 30 September 2019	Half year to 30 September 2018
	£m	£m
Gains from fair value hedge accounting	33	29
(Losses)/gains from cash flow hedge accounting	(1)	23
Fair value losses from other derivatives (note i)	(39)	(15)
Foreign exchange retranslation (note ii)	9	10
<b>Total</b>	<b>2</b>	<b>47</b>

Notes:

- i. Other derivatives are those used for economic hedging purposes, but which are not currently in a hedge accounting relationship.  
ii. Gains or losses arise from the retranslation of foreign currency monetary items not subject to effective hedge accounting.

## Notes to the consolidated financial statements (continued)

## 7. Administrative expenses

	Half year to 30 September 2019	Half year to 30 September 2018
	£m	£m
Employee costs:		
Wages, salaries and bonuses	299	287
Social security costs	33	32
Pension costs	91	86
	423	405
Other administrative expenses	448	382
	871	787
Depreciation, amortisation and impairment	254	313
<b>Total</b>	<b>1,125</b>	<b>1,100</b>

## 8. Impairment losses and provisions on loans and advances to customers

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

Impairment losses/(reversals)		
	Half year to 30 September 2019	Half year to 30 September 2018
	£m	£m
Prime residential	2	(7)
Specialist residential	8	11
Consumer banking	58	38
Commercial and other lending	(11)	3
<b>Total</b>	<b>57</b>	<b>45</b>

Impairment provisions		
	30 September 2019	4 April 2019
	£m	£m
Prime residential	45	44
Specialist residential	168	162
Consumer banking	441	418
Commercial and other lending	31	41
<b>Total</b>	<b>685</b>	<b>665</b>

Provisions are based on a probability-weighted application of multiple economic scenarios (MES). The impact of applying MES is to increase provisions by £137 million (4 April 2019: £133 million), compared with the provisions based on the central economic scenario. Further information on MES is set out below.

## Notes to the consolidated financial statements (continued)

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

**Judgements in applying accounting policies and critical accounting estimates**

Other than in relation to the forward looking economic information used in the calculation of the impairment provisions, there have been no changes to the significant judgements and estimates disclosed in the Annual Report and Accounts 2019.

***Use of forward looking economic information***

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of MES. The Group continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes. In particular, the downside and severe downside scenarios are judged to reflect the non-linear impacts that could result from current UK economic uncertainty. The economic scenarios are reviewed and updated on a quarterly basis; however, the changes since year end have been relatively minor.

At 30 September 2019, the probability weightings for each scenario were reviewed and, due to the increased economic uncertainty, greater weighting assigned to the downside scenario. The probability weightings applied to the scenarios are shown in the table below:

<b>Scenario probability weighting (%)</b>				
	<b>Upside scenario</b>	<b>Central scenario</b>	<b>Downside scenario</b>	<b>Severe downside scenario</b>
<b>30 September 2019</b>				
Scenario probability weighting	<b>15</b>	<b>40</b>	<b>35</b>	<b>10</b>
<b>4 April 2019</b>				
Scenario probability weighting	20	50	20	10

The severe downside scenario is calculated separately from the other three scenarios, using information from internal stress testing models. The outputs from this scenario do not contribute to the reported stage allocation of loans, although the expected credit loss (ECL) calculation does reflect the increased proportion of loans in stage 2 in this scenario.

## Notes to the consolidated financial statements (continued)

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

The table below provides a summary of the simple average values of the key UK economic variables used within the economic scenarios over the first five years of the scenario. In order to fully reflect the variability of the assumptions over the scenario period, the peak/trough in the five-year period is also provided:

<b>Economic variables (five-year average)</b>				
<b>30 September 2019</b>	<b>GDP growth</b>	<b>HPI</b>	<b>Unemployment</b>	<b>BoE base rate</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Upside scenario	<b>2.3</b>	<b>4.6</b>	<b>3.8</b>	<b>1.9</b>
Central scenario	<b>1.7</b>	<b>2.6</b>	<b>4.1</b>	<b>1.1</b>
Downside scenario	<b>0.4</b>	<b>(2.0)</b>	<b>5.5</b>	<b>0.2</b>
Severe downside scenario	<b>(0.1)</b>	<b>(5.3)</b>	<b>8.0</b>	<b>3.5</b>
4 April 2019	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Upside scenario	2.3	5.0	3.8	2.2
Central scenario	1.8	2.4	4.3	1.1
Downside scenario	1.0	(2.4)	5.5	0.1
Severe downside scenario	(0.1)	(5.2)	8.3	3.5

<b>Economic variables (from reporting date to peak/trough)</b>				
	<b>GDP growth</b>	<b>HPI</b>	<b>Unemployment</b>	<b>BoE base rate</b>
	<b>(note i)</b>	<b>(note i)</b>	<b>(note ii)</b>	<b>(note ii)</b>
<b>30 September 2019</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Upside scenario	<b>12.7</b>	<b>27.3</b>	<b>3.6</b>	<b>3.25</b>
Central scenario	<b>9.4</b>	<b>14.3</b>	<b>4.2</b>	<b>1.75</b>
Downside scenario	<b>(2.2)</b>	<b>(12.0)</b>	<b>6.2</b>	<b>0.10</b>
Severe downside scenario	<b>(4.7)</b>	<b>(32.9)</b>	<b>9.2</b>	<b>4.00</b>

Notes:

- i. GDP growth and HPI are shown as the largest cumulative growth/fall from 30 September 2019 over the forecast period.
- ii. Unemployment and BoE base rate are shown as the highest/lowest rate over the forecast period.

## Notes to the consolidated financial statements (continued)

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

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

Sensitivity analysis impact of multiple economic scenarios				
	Upside scenario ECL	Central scenario ECL	Downside scenario ECL	Severe downside scenario ECL
30 September 2019	£m	£m	£m	£m
Residential mortgages	108	123	249	685
Consumer banking	398	402	423	736
Commercial and other lending	27	27	30	55
<b>Total</b>	<b>533</b>	<b>552</b>	<b>702</b>	<b>1,476</b>

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

The economic scenarios used reflect the Group's view of the range of potential future economic conditions at the balance sheet date. The impact of increasing/reducing the probability of a severe economic downside by 5% (and reducing/increasing the downside by a corresponding 5%) is an increase/reduction in provisions of £38 million.

## 9. Taxation

Tax charge in the income statement		
	Half year to 30 September 2019	Half year to 30 September 2018 (note i)
	£m	£m
Current tax:		
UK corporation tax	85	121
Total current tax	85	121
Deferred tax:		
Current period charge/(credit)	(10)	(1)
Total deferred taxation	(10)	(1)
<b>Tax charge</b>	<b>75</b>	<b>120</b>

Note:

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



## Notes to the consolidated financial statements (continued)

## 9. Taxation (continued)

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

Reconciliation of tax charge		
	Half year to 30 September 2019	Half year to 30 September 2018
	£m	£m
Profit before tax:	309	516
Tax calculated at a tax rate of 19%	59	98
Tax credit on distribution to the holders of Additional Tier 1 capital (note i)	(4)	(7)
Banking surcharge (note i)	10	23
Expenses not deductible for tax purposes	9	6
Effect of deferred tax provided at different tax rates	1	-
<b>Tax charge</b>	<b>75</b>	<b>120</b>

Note:

- i. Comparatives have been restated to include a £7 million tax credit on distribution to the holders of Additional Tier 1 capital and a £2 million credit to the banking surcharge. Further information is included in note 2.

## 10. Loans and advances to customers

	30 September 2019						4 April 2019					
	Loans held at amortised cost				Loans held at FVTPL	Total	Loans held at amortised cost				Loans held at FVTPL	Total
	Gross	Provisions	Other (note i)	Total			Gross	Provisions	Other (note i)	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Prime residential mortgages	152,999	(45)	-	152,954	77	153,031	151,445	(44)	-	151,401	72	151,473
Specialist residential mortgages	35,987	(168)	-	35,819	-	35,819	34,495	(162)	-	34,333	-	34,333
Consumer banking	4,889	(441)	-	4,448	-	4,448	4,586	(418)	-	4,168	-	4,168
Commercial and other lending	7,686	(31)	823	8,478	57	8,535	8,178	(41)	883	9,020	57	9,077
<b>Total</b>	<b>201,561</b>	<b>(685)</b>	<b>823</b>	<b>201,699</b>	<b>134</b>	<b>201,833</b>	<b>198,704</b>	<b>(665)</b>	<b>883</b>	<b>198,922</b>	<b>129</b>	<b>199,051</b>

Note:

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

## Notes to the consolidated financial statements (continued)

## 10. 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 period. Residential mortgages represent the majority of the Group's loans and advances to customers. A table summarising these 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)		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	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 2019	187,368	68	9,539	261	1,797	336	198,704	665
Stage transfers:								
Transfers from stage 1 to stage 2	(8,438)	(17)	8,438	17	-	-	-	-
Transfers to stage 3	(164)	-	(450)	(51)	614	51	-	-
Transfers from stage 2 to stage 1	6,065	106	(6,065)	(106)	-	-	-	-
Transfers from stage 3	98	1	288	12	(386)	(13)	-	-
Net remeasurement of ECL arising from transfer of stage		(90)		133		9		52
Net movement arising from transfer of stage (note ii)	(2,439)	-	2,211	5	228	47	-	52
New assets originated or purchased (note iii)	18,241	16	-	-	-	-	18,241	16
Further lending/repayments (note iv)	(4,435)	(11)	(23)	(5)	(33)	(10)	(4,491)	(26)
Changes in risk parameters in relation to credit quality (note v)	-	6	-	21	-	6	-	33
Other items impacting income statement charge/(reversal) including recoveries	-	-	-	-	-	(7)	-	(7)
Redemptions (note vi)	(10,233)	(2)	(456)	(6)	(147)	(3)	(10,836)	(11)
Income statement charge for the period								57
Decrease due to write-offs	-	-	-	-	(57)	(44)	(57)	(44)
Other provision movements	-	-	-	-	-	7	-	7
At 30 September 2019	188,502	77	11,271	276	1,788	332	201,561	685
Net carrying amount	-	188,425	-	10,995	-	1,456	-	200,876

## Notes to the consolidated financial statements (continued)

## 10. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	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 (note vii)	169,049	48	20,012	284	1,700	297	190,761	629
Stage transfers:								
Transfers from stage 1 to stage 2	(15,580)	(15)	15,580	15	-	-	-	-
Transfers to stage 3	(153)	-	(530)	(60)	683	60	-	-
Transfers from stage 2 to stage 1	14,518	114	(14,518)	(114)	-	-	-	-
Transfers from stage 3	93	2	300	12	(393)	(14)	-	-
Net remeasurement of ECL arising from transfer of stage		(102)		129	-	8		35
Net movement arising from transfer of stage (note ii)	(1,122)	(1)	832	(18)	290	54	-	35
New assets originated or purchased (note iii)	18,819	16	-	-	-	-	18,819	16
Further lending/repayments (notes iv, vii)	(4,174)	(8)	(107)	(5)	(34)	(8)	(4,315)	(21)
Changes in risk parameters in relation to credit quality (note v)	-	(9)	-	24	-	18	-	33
Other items impacting income statement charge/(reversal) including recoveries	-	-	-	-	-	(7)	-	(7)
Redemptions (note vi)	(10,003)	(1)	(1,046)	(9)	(140)	(1)	(11,189)	(11)
Income statement charge for the period								45
Decrease due to write-offs	-	-	-	-	(60)	(47)	(60)	(47)
Other provision movements	-	-	-	-	-	8	-	8
At 30 September 2018	172,569	45	19,691	276	1,756	314	194,016	635
Net carrying amount		172,524		19,415		1,442		193,381

## Notes:

- Gross balances of credit impaired loans include £162 million (4 April 2019: £167 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (4 April 2019: £6 million).
- The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.
- 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.
- This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.
- This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.
- For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.
- Comparatives have been restated as detailed in note 2.

## Notes to the consolidated financial statements (continued)

## 10. 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										
	30 September 2019					4 April 2019				
	Mortgages pledged (note i)	Notes in issue				Mortgages pledged (note i)	Notes in issue			
		Held by third parties (note ii)	Held by the Group		Total notes in issue		Held by third parties (note ii)	Held by the Group		Total notes in issue
			Drawn (note iii)	Undrawn (note iv)				Drawn (note iii)	Undrawn (note iv)	
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Covered bond programme	24,588	19,248	-	-	19,248	22,656	17,339	-	-	17,339
Securitisation programme	6,383	3,646	-	339	3,985	6,936	3,051	-	339	3,390
Whole mortgage loan pools	23,551	-	17,000	-	17,000	24,117	-	17,001	-	17,001
Total	54,522	22,894	17,000	339	40,233	53,709	20,390	17,001	339	37,730

## Notes:

- Mortgages pledged include £7.3 billion (4 April 2019: £7.7 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.
- Notes in issue which are held by third parties are included within debt securities in issue.
- Notes in issue, held by the Group and drawn, are whole mortgage loan pools securing amounts drawn under the TFS. At 30 September 2019 the Group had outstanding TFS drawings of £17.0 billion (4 April 2019: £17.0 billion).
- 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.

Mortgages pledged under Nationwide's covered bond programme provide security for issues of covered bonds made by the Group. During the period ended 30 September 2019 £2.5 billion of notes were issued under this programme and £1.6 billion of notes matured.

The securitisation programme notes are issued by Silverstone Master Issuer plc which is fully consolidated into the accounts of the Group. 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 £2.9 billion (4 April 2019: £3.9 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. During the period ended 30 September 2019 £1.0 billion notes were issued and £0.5 billion notes matured.

The whole mortgage loan pools are pledged at the BoE under the TFS.

## Notes to the consolidated financial statements (continued)

## 11. Subordinated liabilities and subscribed capital

	30 September 2019	4 April 2019
	£m	£m
<b>Subordinated liabilities</b>		
Senior non-preferred notes and Tier 2 eligible subordinated notes	8,698	6,700
Fair value hedge accounting adjustments	386	37
Unamortised premiums and discounts	(34)	(31)
<b>Total</b>	<b>9,050</b>	<b>6,706</b>
<b>Subscribed capital</b>		
Permanent interest-bearing shares	212	212
Fair value hedge accounting adjustments	45	40
Unamortised premiums and discounts	(2)	(2)
<b>Total</b>	<b>255</b>	<b>250</b>

The Group issued US Dollar 2 billion (£1,623 million equivalent) and Japanese Yen 5 billion (£38 million equivalent) of senior non-preferred notes during the period ended 30 September 2019.

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 Tier 2 eligible subordinated notes early. The redemption of senior non-preferred notes does not require regulatory consent.

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, 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 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 AT1 instruments and CCDS.

## Notes to the consolidated financial statements (continued)

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

IFRS 13 requires an entity to classify assets and liabilities held at fair value, and those not measured at fair value but for which the fair value is disclosed, according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined in note 1 of the Annual Report and Accounts 2019.

Details of those financial assets and liabilities not measured at fair value are included in note 14.

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

	30 September 2019				4 April 2019			
	Fair values based on				Fair values based on			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>								
Government and supranational investments	12,576	-	-	12,576	12,306	-	-	12,306
Other debt investment securities	1,428	921	75	2,424	1,202	989	62	2,253
Investment in equity shares	-	-	21	21	-	-	19	19
<b>Total investment securities (note i)</b>	<b>14,004</b>	<b>921</b>	<b>96</b>	<b>15,021</b>	<b>13,508</b>	<b>989</b>	<b>81</b>	<b>14,578</b>
Interest rate swaps	-	1,838	-	1,838	-	1,271	-	1,271
Cross currency interest rate swaps	-	3,120	-	3,120	-	2,238	-	2,238
Foreign exchange swaps	-	128	-	128	-	15	-	15
Inflation swaps	-	42	-	42	-	35	-	35
Swaptions	-	-	-	-	-	3	-	3
<b>Total derivative financial instruments</b>	<b>-</b>	<b>5,128</b>	<b>-</b>	<b>5,128</b>	<b>-</b>	<b>3,562</b>	<b>-</b>	<b>3,562</b>
Loans and advances to customers	-	-	134	134	-	-	129	129
<b>Total financial assets</b>	<b>14,004</b>	<b>6,049</b>	<b>230</b>	<b>20,283</b>	<b>13,508</b>	<b>4,551</b>	<b>210</b>	<b>18,269</b>
<b>Financial liabilities</b>								
Interest rate swaps	-	(1,499)	-	(1,499)	-	(1,107)	-	(1,107)
Cross currency interest rate swaps	-	(344)	-	(344)	-	(324)	-	(324)
Foreign exchange swaps	-	(21)	-	(21)	-	(80)	-	(80)
Inflation swaps	-	(139)	-	(139)	-	(21)	-	(21)
Bond forwards	-	(68)	-	(68)	-	(58)	-	(58)
Swaptions	-	(5)	-	(5)	-	(3)	-	(3)
Bond futures	-	(4)	-	(4)	-	-	-	-
<b>Total derivative financial instruments</b>	<b>-</b>	<b>(2,080)</b>	<b>-</b>	<b>(2,080)</b>	<b>-</b>	<b>(1,593)</b>	<b>-</b>	<b>(1,593)</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>(2,080)</b>	<b>-</b>	<b>(2,080)</b>	<b>-</b>	<b>(1,593)</b>	<b>-</b>	<b>(1,593)</b>

Note:

i. Investment securities shown here exclude £1,697 million of investment securities held at amortised cost (4 April 2019: £1,656 million).

## Notes to the consolidated financial statements (continued)

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

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

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

Further detail on the Level 3 portfolio is provided in note 13.

**Transfers between fair value hierarchies**

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to their valuation. There were no significant transfers between the Level 1, Level 2 and Level 3 portfolios during the period.

## 13. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio

Level 3 assets in this category include a closed portfolio of residential mortgages and a small number of commercial loans. The constituents of the Level 3 portfolio at 30 September 2019 are consistent with those disclosed in the Group's 2019 Annual Report and Accounts. The tables below set out movements in the Level 3 portfolio:

<b>Movements in Level 3 portfolio</b>					
	<b>Half year to 30 September 2019</b>		<b>Half year to 30 September 2018 (note i)</b>		
	<b>Investment securities</b>	<b>Loans and advances to customers</b>	<b>Investment securities</b>	<b>Derivative financial instruments</b>	<b>Loans and advances to customers</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 5 April	81	129	45	(4)	247
Gains recognised in the income statement, within:					
Net interest income	-	1	-	-	3
Gains from derivatives and hedge accounting (note ii)	4	-	4	-	-
Other operating income	9	10	12	-	7
Losses recognised in other comprehensive income, within:					
Fair value through other comprehensive income reserve	(1)	-	-	-	-
Additions	3	-	1	-	-
Settlements/repayments	-	(6)	-	-	(11)
Transfers out of Level 3 portfolio (note iii)	-	-	-	-	(123)
<b>At 30 September</b>	<b>96</b>	<b>134</b>	<b>62</b>	<b>(4)</b>	<b>123</b>

Notes:

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

ii. Includes foreign exchange revaluation gains/losses.

iii. During the prior period, a portfolio of residential mortgages was transferred from Level 3 to Level 2 due to changes in the availability of observable market prices.

## Notes to the consolidated financial statements (continued)

## 13. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

**Level 3 portfolio sensitivity analysis of valuations using unobservable inputs**

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or on significant unobservable market inputs.

Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or members' interests and equity:

<b>Sensitivity of Level 3 fair values</b>						
	<b>30 September 2019</b>			<b>4 April 2019</b>		
	<b>Income statement</b>			<b>Income statement</b>		
	<b>Favourable</b>	<b>Unfavourable</b>		<b>Favourable</b>	<b>Unfavourable</b>	
	<b>changes</b>	<b>changes</b>		<b>changes</b>	<b>changes</b>	
	<b>Fair value</b>			Fair value		
	<b>£m</b>	<b>£m</b>	<b>£m</b>	£m	£m	£m
Investment securities	<b>96</b>	<b>44</b>	<b>(43)</b>	81	36	(39)
Loans and advances to customers	<b>134</b>	<b>4</b>	<b>(5)</b>	129	4	(5)
<b>Total</b>	<b>230</b>	<b>48</b>	<b>(48)</b>	210	40	(44)

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market.



## Notes to the consolidated financial statements (continued)

## 13. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

The following table shows the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply:

<b>Significant unobservable inputs</b>						
<b>30 September 2019</b>						
	<b>Total</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Range (note i)</b>		<b>Weighted average (note ii)</b>
	<b>£m</b>			<b>%</b>	<b>%</b>	<b>%</b>
Investment securities	<b>96</b>	<b>Discounted cash flows</b>	<b>Discount rate</b>	<b>10.00</b>	<b>12.00</b>	<b>11.00</b>
			<b>Share conversion</b>	<b>-</b>	<b>100.00</b>	<b>65.62</b>
Loans and advances to customers	<b>134</b>	<b>Discounted cash flows</b>	<b>Discount rate</b>	<b>3.11</b>	<b>9.75</b>	<b>4.59</b>
<b>4 April 2019</b>						
Investment securities	81	Discounted cash flows	Discount rate	10.00	12.00	11.00
			Share conversion	-	100.00	65.85
Loans and advances to customers	129	Discounted cash flows	Discount rate	2.34	9.00	4.12

## Notes:

- i. The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the previous table.  
 ii. Weighted average represents the input values used in calculating the fair values for the above financial instruments.

Further information on significant unobservable inputs used in the fair value measurement of Level 3 assets and liabilities can be found in the Group's 2019 Annual Report and Accounts.

## Notes to the consolidated financial statements (continued)

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

Valuation methodologies employed in calculating the fair value of financial assets and liabilities measured at amortised cost are consistent with those disclosed in the Group's 2019 Annual Report and Accounts.

The following table summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet:

<b>Fair value of financial assets and liabilities measured at amortised cost (note i)</b>				
	<b>30 September 2019</b>		<b>4 April 2019</b>	
	<b>Carrying value</b>	<b>Fair value</b>	Carrying value	Fair value
	<b>£m</b>	<b>£m</b>	£m	£m
<b>Financial assets</b>				
Loans and advances to banks	5,354	5,354	4,009	4,009
Investment securities	1,697	1,692	1,656	1,651
Loans and advances to customers:				
Residential mortgages	188,773	190,598	185,734	186,151
Consumer banking	4,448	4,386	4,168	4,104
Commercial and other lending	8,478	8,935	9,020	8,973
<b>Total</b>	<b>208,750</b>	<b>210,965</b>	204,587	204,888
<b>Financial liabilities</b>				
Shares	156,455	156,598	153,969	153,989
Deposits from banks and similar institutions	22,807	22,807	20,149	20,149
Other deposits	5,015	5,016	5,074	5,074
Debt securities in issue	39,729	40,422	35,942	36,720
Subordinated liabilities	9,050	8,998	6,706	6,681
Subscribed capital	255	236	250	235
<b>Total</b>	<b>233,311</b>	<b>234,077</b>	222,090	222,848

Note:

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

## Notes to the consolidated financial statements (continued)

## 15. Provisions for liabilities and charges

	Bank levy	FSCS	Customer redress	Other provisions	Total
	£m	£m	£m	£m	£m
At 4 April 2019	21	-	159	19	199
Transition to IFRS 16 (note i)	-	-	-	(2)	(2)
At 5 April 2019	21	-	159	17	197
Provisions utilised	(21)	-	(43)	(8)	(72)
Charge for the period	9	-	54	2	65
Release for the period	-	-	(2)	(1)	(3)
Net income statement charge (note ii)	9	-	52	1	62
<b>At 30 September 2019</b>	<b>9</b>	<b>-</b>	<b>168</b>	<b>10</b>	<b>187</b>
At 5 April 2018	24	15	221	14	274
Provisions utilised	(24)	(6)	(39)	(5)	(74)
Charge for the period	-	-	2	6	8
Release for the period	-	(9)	(17)	(1)	(27)
Net income statement charge (note ii)	-	(9)	(15)	5	(19)
At 30 September 2018	-	-	167	14	181

## Notes:

- i. On transition to IFRS 16, onerous lease provisions of £2 million were transferred to right-of-use assets within property, plant and equipment in the balance sheet.
- ii. Of the net income statement charge of £62 million (H1 2018/19: release of £19 million), a charge of £52 million (H1 2018/19: release of £24 million) relating to FSCS and customer redress is included in provisions for liabilities and charges, and a charge of £10 million (H1 2018/19: £5 million) relating to bank levy and other provisions is included in administrative expenses.

**Financial Services Compensation Scheme (FSCS)**

The FSCS has confirmed that there will be no further interest costs following the sale of Bradford & Bingley plc asset portfolios and subsequent repayment of the loan to HM Treasury.

In common with other financial institutions subject to the FSCS, the Group continues to have a potential exposure to future levies resulting from the failure of other financial institutions and consequential claims which arise against the FSCS as a result of such failure.

## Notes to the consolidated financial statements (continued)

## 15. Provisions for liabilities and charges (continued)

**Customer redress**

During the course of its business, the Group receives complaints from customers in relation to past sales or ongoing administration. The Group is also subject to enquiries from and discussions with its regulators, governmental and other public bodies, including the Financial Ombudsman Service (FOS), on a range of matters. Customer redress provisions are recognised 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, where the Group considers it is probable that payments will be made as a result of such complaints and other matters.

At 30 September, the Group held provisions of £83 million (4 April 2019: £80 million) for PPI, including the expected impact of Plevin v Paragon Personal Finance Limited. This represents management's best estimate of future compensation and administrative costs associated with cases that the Group expects to uphold and the cost of processing invalid claims. The provision estimate takes into account the expected number of claims, average redress payments, referral rates to the FOS, uphold rates internally and with the FOS, complaint handling costs and response rates from customer contact activity relating to previous sales. The charge of £36 million for the half year to 30 September 2019 brings the cumulative cost of PPI to £473 million.

Although the FCA's deadline for claims of 29 August 2019 has now passed, any enquiries received between 29 June and this deadline are automatically treated as claims received where a PPI policy was held. This also includes enquiries from the Official Receiver. The ultimate number of claims therefore remains uncertain and is based on an estimated conversion rate of enquiries received in this period into claims. This rate of conversion is a key assumption in the provision. Until all claims are processed, the average uphold rate and redress amounts also remain uncertain.

The table below shows the sensitivity of the PPI provision to these assumptions:

	<b>Cumulative to 30 September 2019</b>	Future expected	Sensitivity
Average conversion rate to claims of enquiries outstanding at 30 September (note i)	<b>N/A</b>	9%	1% = £4m
Claims ('000s of policies) (note ii)	<b>492</b>	46	10 = £8m
Average uphold rate (note iii)	<b>45%</b>	43%	5% = £3m
Average redress per claim (note iv)	<b>£1,073</b>	£921	£100 = £4m

## Notes:

- i. The future expected conversion rate reflects management's best estimate based on enquiries received in the run up to the deadline and reviewed to date.
- ii. Claims include responses to proactive mailing.
- iii. The cumulative average uphold rate of claims includes responses to past proactive mailings. As a result, future expected average uphold rates are forecast to decline as no further proactive mailing activity is anticipated.
- iv. Future expected average redress reflects the expected mix of future claims upheld.

Amounts provided in respect of the administration of customer accounts, non-compliance with consumer credit legislation and other regulatory matters are based on management's best estimate of the number of customers impacted and anticipated remediation where an outflow is probable. As any new matters emerge, an estimate is made of the outcome, although in some cases uncertainties remain as to the eventual costs given the inherent difficulties in determining the number of impacted customers and the amount of any redress applicable.

## Notes to the consolidated financial statements (continued)

## 15. Provisions for liabilities and charges (continued)

**Other provisions**

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

## 16. 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.

## 17. Retirement benefit obligations

The Group continues to operate two defined contribution schemes and a number of defined benefit pension arrangements, the most significant being the Nationwide Pension Fund (the Fund); further details are set out in note 30 of the Annual Report and Accounts 2019. On 18 September 2019 the Group announced to its employees a proposal to close the Fund to future accrual from 31 March 2021, and is currently consulting with employee members of the Fund. There is no impact on amounts recognised in the net defined benefit liability at 30 September 2019.

**Defined benefit pension schemes**

<b>Retirement benefit obligations on the balance sheet</b>		
	<b>30 September 2019</b>	4 April 2019
	<b>£m</b>	<b>£m</b>
Present value of funded obligations	<b>7,153</b>	6,375
Present value of unfunded obligations	<b>8</b>	8
	<b>7,161</b>	6,383
Fair value of fund assets	<b>(7,036)</b>	(6,278)
<b>Net defined benefit liability</b>	<b>125</b>	105

The principal actuarial assumptions used are as follows:

<b>Principal actuarial assumptions</b>		
	<b>30 September 2019</b>	4 April 2019
	<b>%</b>	<b>%</b>
Discount rate	<b>1.75</b>	2.40
Future salary increases	<b>3.00</b>	3.25
Future pension increases (maximum 5%)	<b>2.85</b>	3.00
Retail price index (RPI) inflation	<b>3.00</b>	3.25
Consumer price index (CPI) inflation	<b>2.00</b>	2.25

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

## Notes to the consolidated financial statements (continued)

## 17. Retirement benefit obligations (continued)

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

<b>Movements in net defined benefit liability</b>		
	<b>30 September 2019</b>	30 September 2018
	<b>£m</b>	£m
Deficit at 5 April	105	345
Current service cost	<b>45</b>	44
Past service cost	<b>1</b>	2
Curtailment gains	<b>(3)</b>	(5)
Interest on net defined benefit liability	-	3
Return on assets greater than discount rate (note i)	<b>(663)</b>	(30)
Contributions by employer	<b>(94)</b>	(96)
Administrative expenses	<b>3</b>	2
Actuarial losses/(gains) on defined benefit obligations (note i)	<b>731</b>	(182)
<b>Deficit at 30 September</b>	<b>125</b>	83

Note:

i. The net impact before tax on the deficit of actuarial losses and return on assets is a decrease of £68 million (H1 2018/19: £212 million increase) in other comprehensive income.

The £731 million actuarial loss on defined benefit obligations (H1 2018/19: £182 million actuarial gain) is primarily driven by a 0.65% decrease in the discount rate since 4 April 2019, as a result of falls in corporate bond yields used to derive the discount rate. This has been partially offset by a 0.25% fall in assumed RPI inflation.

The £663 million gain relating to the return on assets greater than the discount rate (H1 2018/19: £30 million) is primarily driven by positive increases in the value of UK government bonds due to falling bond yields.

The £94 million of employer contributions includes deficit contributions of £61 million (H1 2018/19: £61 million), with the remainder relating to employer contributions in respect of future benefit accrual.

## Notes to the consolidated financial statements (continued)

## 18. Core capital deferred shares

	Number of shares	CCDS £m	Share premium £m	Total £m
<b>At 30 September 2019</b>	<b>10,500,000</b>	<b>11</b>	<b>1,314</b>	<b>1,325</b>
At 4 April 2019	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 were 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 2019 was paid on 20 June 2019. This distribution has been recognised in the consolidated 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 30 September 2019, amounting in aggregate to £54 million. This has not been reflected in these interim financial statements as it is recognised by reference to the date at which it was declared. The distribution will be paid on 20 December 2019.

## Notes to the consolidated financial statements (continued)

## 19. Other equity instruments

	<b>Total £m</b>
At 5 April 2019	992
Redemptions	<b>(992)</b>
Issuances	<b>593</b>
<b>At 30 September 2019</b>	<b>593</b>

Other equity instruments are Additional Tier 1 (AT1) capital instruments. The Society redeemed £1 billion (£992 million net of issuance costs) of AT1 capital instruments in full on 20 June 2019. An interest payment of £34 million, covering the period to 19 June 2019, was paid on 20 June 2019. This payment has been recognised in the consolidated statement of movements in members' interest and equity. The coupon paid represented the maximum non-cumulative fixed coupon of 6.875%.

The Society issued £600 million (£593 million net of issuance costs) of new AT1 capital instruments on 17 September 2019. The AT1 instruments rank equally to each other and are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS. The AT1 instruments pay a fully discretionary, non-cumulative fixed interest at an initial rate of 5.875% per annum. The rate will reset on 20 June 2025 and every five years thereafter to the benchmark gilt reset reference rate plus 5.39% per annum. Coupons are paid semi-annually in June and December. AT1 instruments have no maturity date but are repayable at the option of the Society from 20 December 2024 to 20 June 2025, and on every reset date thereafter.

An interest payment of £8 million, covering the period from 17 September 2019 to 19 December 2019 and representing the maximum non-cumulative fixed coupon of 5.875%, is expected to be paid on 20 December 2019. This is not reflected in these consolidated interim financial statements as it is recognised by reference to the date at which it is paid.

If the fully loaded CET1 ratio for the Society, on either a consolidated or unconsolidated basis, falls below 7% the AT1 instruments convert to CCDS instruments at the rate of one CCDS share for every £100 of AT1 holding.

## 20. Related party transactions

There were no related party transactions during the period ended 30 September 2019 which were significant to the Group's financial position or performance. Full details of the Group's related party transactions for the year to 4 April 2019 can be found in note 35 of the Annual Report and Accounts 2019.



## Notes to the consolidated financial statements (continued)

## 21. Notes to the consolidated cash flow statement

	Half year to 30 September 2019	Half year to 30 September 2018 (note i)
	£m	£m
<b>Non-cash items included in profit before tax</b>		
Net increase in impairment provisions	20	6
Net decrease in provisions for liabilities and charges	(10)	(93)
Depreciation, amortisation and impairment	254	313
Profit on sale of property, plant and equipment	(3)	(1)
Interest on debt securities in issue	393	319
Interest on subordinated liabilities	147	108
Interest on subscribed capital	7	7
Gains from derivatives and hedge accounting	(2)	(47)
<b>Total</b>	<b>806</b>	<b>612</b>
<b>Changes in operating assets and liabilities</b>		
Loans and advances to banks and similar institutions	(102)	(209)
Net derivative financial instruments and fair value adjustment for portfolio hedged risk	(2,053)	(869)
Loans and advances to customers (note i)	(2,802)	(3,177)
Other operating assets	(835)	(559)
Shares	2,486	5,068
Deposits from banks and similar institutions, and other deposits	2,599	2,059
Debt securities in issue	1,805	671
Deferred taxation	(30)	44
Retirement benefit obligations	20	(262)
Other operating liabilities	913	881
<b>Total</b>	<b>2,001</b>	<b>3,647</b>
<b>Cash and cash equivalents</b>		
Cash	16,686	18,423
Loans and advances to banks repayable in 3 months or less (notes i, ii)	4,606	3,268
<b>Total</b>	<b>21,292</b>	<b>21,691</b>

## Notes:

- i. Comparatives have been restated as detailed in note 2.
- ii. Cash equivalents include £2,225 million (30 September 2018: £1,952 million) of cash collateral posted with banking and similar counterparties.

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 30 September 2019, amounted to £748 million (30 September 2018: £553 million). These balances are included within loans and advances to banks and similar institutions on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

## Responsibility statement

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

- the consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the EU
- the Interim Results include a fair review of the information required by Disclosure and Transparency Rules 4.2.7R and 4.2.8R, namely:
  - An indication of important events that have occurred in the first six months of the financial year and their impact on the consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - Material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the Annual Report and Accounts 2019.

Signed on behalf of the Board by

**Chris Rhodes**  
**Chief Financial Officer**

21 November 2019

Board of directors

**Chairman**  
David Roberts

**Executive directors**  
Joe Garner  
Tony Prestedge  
Chris Rhodes

**Non executive directors**  
Rita Clifton  
Mai Fyfield  
Albert Hitchcock  
Kevin Parry  
Lynne Peacock  
Baroness Usha Prashar  
Phil Rivett  
Tim Tookey  
Gunn Waersted

## Report on review of the consolidated interim financial statements

*(to Nationwide Building Society)*

### **Introduction**

We have reviewed the accompanying consolidated interim financial statements of Nationwide Building Society ('the Society') and its subsidiaries (together, 'the Group') as at 30 September 2019 which comprise the consolidated balance sheet and the related income statement, statement of comprehensive income, statement of changes in members' interests and equity and cash flow statement for the six-month period then ended and explanatory notes.

Management is responsible for the preparation and presentation of this interim financial information in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as adopted by the EU. Our responsibility is to express a conclusion on this interim financial information based on our review.

The maintenance and integrity of the Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial information since it was initially presented on the website.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not prepared, in all material respects, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Ernst & Young LLP  
21 November 2019  
London

## Other information

The interim results information set out in this announcement is unaudited and does not constitute accounts within the meaning of Section 73 of the Building Societies Act 1986.

The financial information for the year ended 4 April 2019 has been extracted from the Annual Report and Accounts 2019. The Annual Report and Accounts 2019 has been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Independent Auditors' Report on the Annual Report and Accounts 2019 was unqualified.

Nationwide has continued to adopt the British Bankers' Association Code for Financial Reporting Disclosure ('the BBA code') in its Annual Report and Accounts 2019. The code sets out five disclosure principles together with supporting guidance. These principles have been applied, as appropriate, in the context of these interim results.

A copy of the Interim Results is placed on the website of Nationwide Building Society. The directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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