There's strength in mutual support

Annual Report & Accounts 2020

Nationwide
Building Society

Welcome
to our Annual Report and Accounts 2020

This year, we've truly proved the strength that comes from being a mutual. From the smaller, everyday things, to working through the recent challenging times, we've supported each other. Our colleagues have gone above and beyond what we could ever ask of them, and our members have stood beside them.

We are stronger together. And we are still building society, nationwide.

Strategic report

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

Governance

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

Risk report

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

Financial statements

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

Other information

Including our annual business statement.

Strategic report

The Strategic report has been approved by the Board of directors and signed on its behalf by:
Joe Garner
28 May 2020

Charlie and **Harrison**, members since 2016

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What your Society has achieved this year

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

UK's most trusted financial brand[2]

Banking Brand of the Year 2019
for the third year

16.3 million members
2019: 15.9 million

Helped more than **1 in 6**
first-time buyers into a home of their own
2019: 1 in 5

More than **1 in 6**
current account switchers came to us[3]
2019: 1 in 5

£469 million
underlying profit
2019: £788 million

£466 million
statutory profit
2019: £833 million

£715 million
member financial benefit,
from incentives and better pricing than the market average[4]
2019: £705 million

4.7%
UK leverage ratio
2019: 4.9%

Made a
£1 billion
loan fund available to incentivise greener homes[5]

We awarded
£5.5 million
in grants to 135 charitable housing projects across the UK

We will help members
stay in their homes
where they are in financial difficulty caused by Covid-19[6]

[1] Lead at March 2020: 5.4%pts, March 2019: 4.8%pts. © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2020 and 12 months ending 31 March 2019. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. 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).
[2] Nationwide Brand Guidance Study compiled by an independent research agency, based on customer and non-customer responses for the 12 months ending March 2020. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, TSB and Santander.
[3] Pay.UK monthly CASS data. 12 months to March 2020: 17.2%; 12 months to March 2019: 21.5%.
[4] See page 43 for more information on member financial benefit.
[5] See page 12 for more information on our green strategy.
[6] Nationwide has committed not to repossess any homes over the next 12 months.

Our mutual difference is our business model

Our building society was founded to help people save and buy homes of their own.

We continue to be driven by this same social purpose – to build society, nationwide. Our mutual difference is what defines us, our values and how we do business. We're here to support our members – people who have their mortgages, savings or current accounts with us – with their financial goals, wherever they are in life, whether that's:

- owning a home – this year, we helped one in six first-time buyers into a home;
- saving for the future – we look after almost £1 in every £10 saved in the UK;
- helping with their day-to-day finances – one in ten of the UK's current accounts are with us[1] and more than one in six switchers came to us this year[2]; or
- helping them live better in retirement – we were the first high street provider to offer a comprehensive range of later life mortgages.

We also support those who rely on the private rental sector for their long-term housing needs, and are taking positive action to improve this sector (see page 29). Our specialist buy to let lending business diversifies our income streams and supports better savings rates for our members.

Being owned by and run for our members, we can make decisions differently from our competitors, and we consider our members in every decision we make:

- we don't have shareholders and so we don't need to pursue profits to pay them dividends. Instead, we balance our need to retain sufficient profit to remain a safe and secure home for our members' money, with choosing to forgo some of our profits to:
  - give better long-term rates and service to our members; and
  - invest so that our services and product propositions continue to meet the needs and expectations of our existing and prospective members;
- we have a low-risk approach to lending;
- we measure our success on things that matter to our members: service, value and financial strength (see page 11); and
- we're committed to giving 1% of each year's pre-tax profits to charitable activities.

We're also committed to acting responsibly and in a sustainable way to support our future members and wider society. For more information on how we're doing this, see pages 12 and 27 to 36.

We're different. And we do business differently.

[1] CACI (February 2020).
[2] Pay.UK monthly CASS data. 12 months to March 2020: 17.2%; 12 months to March 2019: 21.5%.

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A letter from David Roberts

Your Society's Chairman

Dear fellow member,

At the time of writing in May 2020, the spread of the coronavirus has upended lives and communities, both through its direct impact on the health of our fellow citizens, and through the measures taken by the government to prevent its spread.

We have responded by implementing a range of measures to help our 16 million members.

By the end of April, we had supported over 280,000 borrowers with payment holidays and interest free periods on overdrafts, and we have put in place a support package to help mortgage members to keep their homes if they are in financial difficulty.

Our colleagues have responded fabulously, maintaining an essential service often in very difficult circumstances. Our members' support and understanding, such as only contacting us for essential business and using our digital services more, have helped us protect stretched resources. I would like to thank everyone for their amazing efforts.

In these challenging times, we are reminded of the human ties that ultimately bind us all. As we emerge from the crisis, I hope this spirit of mutual kindness and consideration will continue, as the country will need to support the many individuals, families and communities for whom life after the coronavirus will undoubtedly be very challenging.

Although the coronavirus emerged in the UK towards the end of our 2019/20 financial year, it impacted our results for the year and will impact how we think about the future. I would like to give the Board's perspective on all the Society has achieved in the last 12 months and what we will focus on over the next year.

The Board is responsible for the long-term sustainability of the Society, for protecting our culture and values, and for governance.

At the heart of our long-term sustainability is the strategic plan which we put in place three years ago. This affirmed our strong belief in our mutuality, reinforced our desire to put the interests of members at the heart of our decision making, and outlined how the Society would evolve to remain relevant to members in our fast-changing world.

Our strategy put us on a growth path – we have more members, higher mortgage balances and higher retail deposits. We have continued to provide great service and value to our members, while investing in our future and communities.

Being member-owned, and having built significant capital strength in recent years, we have been able to choose to forgo higher levels of profit so we could deliver enhanced service to members and invest in our future.

We are proud of what we have achieved. However, since we set our strategy in 2016, the outlook for the UK has changed radically. Bank base rate has fallen to a historic low, we have left the EU and we face major uncertainties over the economic impact of the coronavirus.

Maintaining financial strength

The unprecedented low interest rates and the difficult economic environment places significant pressure on all retail financial services businesses and Nationwide is no exception.

In our 2019/20 financial results, lower profits reflected active choices to deliver more value to members, investment in the long-term future of the Society, the costs of settling legacy PPI

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claims, and the initial impact of the coronavirus. We recognised £101 million to cover the increase in expected credit losses associated with the impacts of the coronavirus as the economy enters a challenging period.

As a result, the Board has adjusted its priorities for the Society over the next year.

We will continue to focus on keeping our finances strong and building operational resilience. Our UK leverage ratio and our Common Equity Tier 1 ratio are comfortably above regulatory requirements.

As the interest rates on mortgages have fallen, we have had to take the painful decision to adjust downwards the interest we are able to pay to our savings members in order to protect our interest margin.

In addition, the Board is clear we will have to reduce our costs if we are to be able to sustain our market leading proposition.

In the current economic environment, the profit considerations in our financial performance framework that guided past decisions are no longer appropriate. By focusing instead on maintaining a strong capital position and liquidity through the economic cycle, we will be able to continue to provide competitive products and excellent service, and to support our members through the difficult times ahead.

Protecting our culture and values

Our culture of mutuality, and our values, remain at the heart of our Society. We continue to be driven by our social purpose, to *build society, nationwide*, and are committed to doing this in a responsible and sustainable way. This has never been more important as we seek to support our members as the United Kingdom recovers from the scourge of the pandemic.

We established a Responsible Business Committee last year and have included our latest update on page 27.

With climate issues in the spotlight, we have taken further steps to reduce our own impact and we have also made available a £1 billion loan fund for preferential rate mortgages and additional borrowing for new energy efficient properties and green home improvements.

Governance and oversight

The Board continues to maintain its strong governance and oversight of the Society.

We have always considered the impact of our decisions on our members, colleagues, and wider society because we believe this is good business practice. For many years, we have hosted Member TalkBacks to listen to the views of our members. We also have an extensive programme to listen to the views of our employees. This year, we are required to report on how we fulfil our responsibilities under section 172 of the Companies Act and you can read about this on page 25.

While we have had to suspend our TalkBacks as a result of the coronavirus, we will reinstate them as soon as practicable. In the meantime, members can still connect with us online, via Member Connect. As a result of the ongoing outbreak of Covid-19, physical attendance in person will not be possible at this year's AGM on 16 July. We nonetheless encourage members to participate by voting online or by post and by submitting questions in advance. This year's AGM will be live streamed online on the day of the meeting. For further details please refer to the Notice of AGM 2020 which will be published on **nationwide.co.uk** on 10 June 2020.

Pay policy: We continued to balance pay restraint with our duty to attract people with the right expertise to run a major financial business. In these challenging times our CEO, Joe Garner has voluntarily taken a 20% cut in combined base salary and pension for 2020/21, and the non-executive directors have volunteered to donate 20% of their net fees from June to December of this year to Shelter, to help support vulnerable people impacted by Covid-19. Given the impact of the pandemic on our members and broader society, we have also decided not to pay any executive performance-related variable pay for the 2019/20 financial year.

We continue to harmonise our pension arrangements. Pension contributions for executive directors are being brought into line with those available to the remainder of our people. In the long-term interests of the Society, we have made the difficult decision to close our final salary pension scheme to new contributions on 31 March 2021, given the increasing costs and risks of maintaining the scheme. Scheme members will retain all the benefits they have built up in the scheme, and future contributions will go into our market-leading defined contribution scheme.

Board changes: We have a strong Board, with a mix of established and newer directors providing the right combination of continuity and challenge to the Society. In the last year, and after over 8 years on the Board, Lynne Peacock retired as Senior Independent Director (SID), as did Mitchell Lenson, who had served as a non-executive director for a similar period. Mark Rennison also retired after 12 years as the Society's Chief Financial Officer and Tony Prestedge, our deputy CEO, resigned to take up a senior post elsewhere after 12 years with the Society.

I would like to thank them all for their commitment and wise counsel to the Society. Baroness Usha Prashar will retire from the Board at the AGM, but we are very pleased she has agreed to continue to work with the Society supporting our diversity and community programmes.

We are delighted that Kevin Parry, a director since 2016, has succeeded Lynne as Senior Independent Director, and that Chris Rhodes, an experienced accountant and an executive director since 2009 succeeded Mark as Chief Financial Officer. We were also pleased to welcome Phil Rivett, a very experienced former PwC partner specialising in financial services, as a non-executive director.

Mutual support: a thriving membership and strong Society

We are in a period where we, our members and society more generally are facing significant challenges, as we have done periodically throughout our 136-year history.

We face them from a position of strength: with record membership, strong finances and a talented and committed workforce. We will continue to deliver value to our members and communities, supporting people through financial hardship, and helping them realise their dreams of home ownership and financial security.

Thank you for your continued support for our Society.

David Roberts
Chairman

A review from Joe Garner

Your Society's Chief Executive

Dear fellow member,

The last month of our financial year was overshadowed by the coronavirus. We have prioritised protecting the health and wellbeing of our colleagues from this terrible disease, supporting those members in financial difficulty, and maintaining essential services. I would like to thank our employees who have gone to extraordinary lengths to serve our members through this time.

The pandemic has shown how dependent we are on each other, and how important it is that we work together. As a mutual, Nationwide is founded on the belief that we can achieve more by acting together than we can alone, and this principle is guiding our response to the pandemic.

We are helping members in financial difficulty with interest-free periods for overdrafts, payment holidays on mortgages and loans, and a promise that no mortgage member will lose their home over the next 12 months as a result of the coronavirus. We've taken steps to protect our employees' physical and mental health so we can maintain essential services to our members, and we've promised that everyone's job is safe in 2020. We are paying our suppliers early, especially smaller ones, to help them stay in business. We've also increased our support for charitable partners, like Shelter, to help protect their vital services during the pandemic. We believe that the character of any organisation comes very much to the fore in times like these, and we have been making our decisions very much with this in mind. You can read more about our support on pages 37 to 38.

The impacts of the pandemic will be felt over an extended period, but we face into this scenario from a position of considerable strength. Since we implemented our *building society, nationwide* strategy over three years ago, the Society has grown significantly: we have attracted 1 million new members, an additional £15 billion in retail deposits and £18 billion in mortgage balances since 4 April 2017.

We achieved a great deal in 2019/20, and met or are on track to meet the key targets for service, value and strength that we set ourselves.

Financially strong

Keeping our members' money safe and secure has always been our priority. That means making sure we are financially strong enough to weather challenging economic times, such as that caused by the coronavirus pandemic. A key measure of our financial strength is our UK leverage ratio, and this has exceeded our target in each of the last three years. We have also built our Common Equity Tier 1 capital ratio to 31.9%, materially higher than required by regulation.

The coronavirus affected the last few weeks of a year in which we made active choices to deliver more value to members through competitive pricing and to invest for the long term. Underlying profit for the year of £469 million (2019: £788 million) reflected these choices, as well as provisions for legacy PPI claims in the first half of the year. In the last few weeks of the year, it also became clear that the coronavirus would have a significant financial impact. We have made an additional provision for credit losses which are expected to rise as a result of the deteriorating economic conditions, and net interest income has fallen as a result of the bank base rate cuts. In addition, we have recognised costs associated with halting our plans to launch a small business account, for which the business case is no longer viable (see Q&A below).

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Building legendary service

We met both of our service key performance indicators (KPIs), ranking 4th in the all-sector UK Customer Satisfaction Index[1], and being no.1 for customer satisfaction among our peer group[2]. In 2019, we were proud to be named *Which? Banking Brand of the Year* for the third year running.

Delivering value to members and communities

Members benefited from £715 million (2019: £705 million) in member financial benefit, much higher than our target of at least £400 million. Committed members – those who have more than one product with us – grew to almost 3.6 million in the last year and we are on track to meet our 2022 target of 4 million. We awarded £9.5 million to charitable activities in our communities, including £5.5 million in grants to support charitable housing projects chosen by our members. We have also made a £1 billion loan fund available to help make Britain's homes greener.

As the full impact of the coronavirus on our business becomes clearer, some of the targets we set ourselves may not be achieved in the short term. In particular, exceptionally low interest rates mean we are unlikely to meet our member financial benefit target in the next financial year. With bank base rate at 0.1%, paying savings rates significantly higher than this would not be financially sustainable, nor in the long-term interests of our members or the Society.

Strength in mutual support

Today we, like our members, face the challenges of dealing with the social and economic impacts of the coronavirus.

In our 136-year history, we have supported our members and communities through many crises and challenges. Looking ahead, we will continue to manage our Society in our members' short- and long-term interests, which means we will focus on maintaining our financial strength, managing our business sustainably, and prioritising the needs of our current members, as we have always done.

Joe Garner
Chief Executive Officer

Your questions answered

We regularly hear from members at our live TalkBack events and through our online forum, Member Connect. Here are some of the questions our members ask us.

Q **Why are you no longer planning to offer a business account?**

A The medium-term interest rate outlook for the UK has fundamentally changed, with rates forecast to be even lower, for even longer. Entering the business banking market is therefore no longer commercially viable. We have returned the £50 million grant from the Banking Competition Remedies Fund and redeployed colleagues involved in the launch to other roles. This was a difficult decision for us, but the right one, and will allow us to focus on supporting our current members and colleagues through the immediate and longer-term impact of the pandemic.

Q **Why have you changed the way you charge for overdrafts?**

A We were the first provider to respond to the FCA's high cost of credit review, introducing a simple rate of interest for arranged overdraft borrowing and removing all unarranged overdraft fees. Along with new text alerts this gives our members greater transparency on costs and control over their borrowing. To help members through the pandemic, we halved the overdraft interest rate for all members for three months, and offered a three-month interest-free overdraft period to those struggling financially.

Q **When will you increase savings rates?**

A We are acutely aware of how difficult the last decade has been for savers. As a member-owned Society, our aim has always been to give members the best value we can afford. By keeping average deposit rates higher than the market average members benefited from an extra £505 million in deposit interest last year. However, we will always be limited by prevailing interest rates, which reached a new low after the Bank of England cut its base rate in response to the coronavirus. We continue to look for ways to make saving rewarding to our members by, for example, offering special rates for members, or including prize draws on certain accounts to encourage regular saving.

Q **How are you keeping your members safe from scams?**

A Helping members keep their money safe from fraudsters is always a priority. We use the latest technology to monitor and protect members from fraud 24/7. Our staff are all trained to be vigilant against fraud and in fact staff in branches prevented at least £3.6 million in fraud against members last year. Awareness and vigilance by our members are also important. Information on mobile and digital banking fraud, fraud scams, card fraud and identity fraud is on our website, and regularly updated as new types of fraud are uncovered, for example, during the coronavirus disruption. We also run fraud awareness sessions for members at our Member TalkBacks.

[1] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2020.
[2] Lead at March 2020: 5.4%pts, March 2019: 4.8%pts. © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2020 and 12 months ending 31 March 2019. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. 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).

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Chief Executive's review (continued)

How we're building society, nationwide

We aspire to make a positive contribution to society by delivering the benefits of mutuality to more members, both present and future, in a sustainable way. These aspirations are underpinned by five strategic cornerstones that describe what we'll do and how we'll do it.

We are yet to understand fully the impact of Covid-19 on our strategic cornerstones. However, our priorities remain to provide a safe and secure home for our members' money and to deliver legendary service to our members.

Building thriving membership

is about deepening our relationships with our members and helping more members make more of their money

because...

the more we can help our members, whether it's buying a home of their own, saving for the future, managing their everyday finances, or helping them live better in retirement, the bigger the difference we can make to their lives and to society as a whole.

To achieve this, we will...

develop our core range of products to help meet even more of our members' financial needs, enabling us to broaden and deepen our relationships with our members.

Which will mean...

more of our members will be using at least two of our products.

Our priorities next year are to...

develop our savings range to encourage more people to start to save, and support our members in buying a home of their own and making more of their money in later life.

Built to last

is about remaining resilient and safeguarding our members' money and information

because...

our members need to know that they can trust us with their money (and personal data) and that they can access their money wherever and whenever they need it.

To achieve this, we will...

use our members' money wisely and balance the profits we make with delivering value to members and investing in the future of our Society.

Which will mean...

we can continue to withstand future challenges and are profitable, resilient and sustainable for the long term.

Our priorities next year are to...

maintain our financial strength, whilst continuing to progress our technology investment to help us become more resilient and to grow, support and protect future generations of members.

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How we're building society, nationwide (continued)

Building legendary service

is about striving to serve our members better every day

because...

we value our members and they deserve the best service, with both the convenience of digital and the warmth of human service.

To achieve this, we will...

continue to invest in our service so that things work seamlessly for our members whether they are online, in a branch or on the phone to us.

Which will mean...

we are recognised as a leading brand for customer service, both amongst our peers and across all sectors in the UK.

Our priorities next year are to...

continue to support our members through the uncertainty and potential financial distress caused by Covid-19 in the best possible way, and improve our member processes, ensuring they are accessible for all.

Building PRIDE

is about creating a culture where colleagues can thrive, building skills and talent for the future and an operating model for success

because...

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

To achieve this, we will...

create a distinctive experience for our colleagues that supports their performance, learning and growth and rewards them fairly for their contribution.

Which will mean...

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

Our priorities next year are to...

attract, develop and retain the digital and technology talent we need for the future, grow our leadership capability, grow inclusion and diversity within our workforce, and ensure our operating model is fit for the future and able to deliver with pace and agility.

Building a national treasure

is about making a difference in our communities and society; and being recognised as a responsible and caring provider of financial services

because...

we have a social purpose - we believe everyone deserves a place fit to call home, and that we should act in a positive and sustainable way for our future members.

To achieve this, we will...

demonstrate our brand difference by serving members' needs in new and market-leading ways consistent with our values, using our position to influence on issues our members care about, and investing in local communities.

Which will mean...

consumers think of and trust us to meet their financial needs, and we contribute positively towards improving housing standards (including in the rental sector) and incentivising greener homes.

Our priorities next year are to...

continue our social investment to support local housing projects via our Community Boards and through the Oakfield housing project, and develop our green financing initiatives.

Measuring our mutual difference

Nationwide is different from its competitors – our mutual difference means we measure our performance on the things that matter most to our members: great service, long-term value and financial strength. We seek to strike the right balance between retaining sufficient profit to maintain our financial strength, delivering value to our members now, and investing so that we can continue to meet the needs and expectations of members in the future. We are yet to understand fully the impact of Covid-19 on the coming year's targets. However, our priorities remain to provide a safe and secure home for our members' money and to deliver legendary service to our members. We report more broadly on our five cornerstones, that underpin how we manage our business, on pages 13 to 23. In addition to the key performance indicator (KPI) measures below, we're committed to giving at least 1% of pre-tax profits to charitable activities, helping to make a positive difference in the communities we serve. In 2019/20, we awarded £9.5 million to charitable activities (2019: £10.6 million)[1].

Service

Giving our members the best service possible.

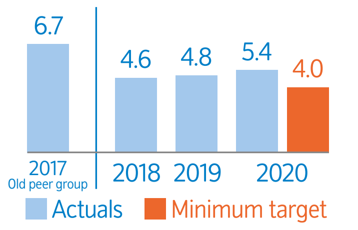
We aim to be the best for customer satisfaction in our peer group as measured by the FRS survey, with a lead of at least 4%pts against our closest competitor.

Our lead of 5.4%pts[2] exceeded our 2020 target.

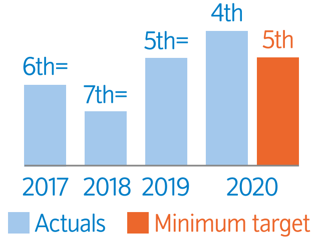
We also want to be among the top five organisations across all sectors for customer satisfaction, as measured by the Institute of Customer Service's UK Satisfaction Index.

We were 4th in January 2020[3], exceeding our 2020 target.

Core products satisfaction
lead, %pts[2]



UK CSI
rank



Value

Helping more members achieve their financial goals and providing them with better value products.

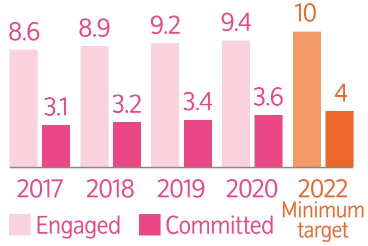
We're aiming to have 10 million engaged members by 2022, with 4 million committed members who use at least two of our products[4].

We are broadly on track to achieve our 2022 targets.

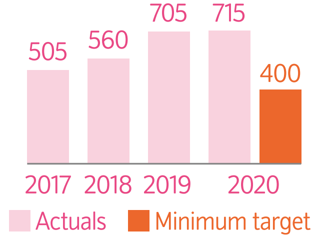
We aim to share at least £400 million of value with our members through incentives and better pricing than the market average[5].

We were able to share £715 million of benefit with our members in 2020.

Engaged and committed members
million



Member financial benefit
£ million



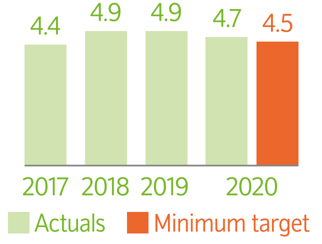
Strength

Keeping our members' money safe and secure.

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

Our UK leverage ratio of 4.7% exceeded our 2020 target.

UK Leverage ratio
%



[1] The 1% is calculated based on average pre-tax profits over the past three years. Of the £9.5 million, £2.4 million was committed to Nationwide Foundation and £7.1 million to other social investment activities, which includes multiple programmes as well as internal costs of managing this investment. For more information on these activities, see page 24.

[2] © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2017 to 12 months ending 31 March 2020. Each data point contains customer feedback relating to the previous 12 months. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. 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). Prior to April 2017, peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest and Santander).

[3] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January in each year.

[4] Engaged members have their main personal current account with us; a mortgage of at least £5,000; or a savings account of at least £1,000. Committed members have an engaged membership product plus at least one other product. Prior to 2018/19, the savings threshold was £5,000; prior year comparatives have been restated using the new £1,000 threshold.

[5] For more information on member financial benefit see page 43.

Supporting the change for greener homes

We have made £1 billion of loan funding available to accelerate the pace of change needed to make the housing market greener and have called on the government, housebuilders and other lenders to create meaningful incentives for greener homes.

Why is this important?

UK homes, and the energy they use, account for 15%[1] of the UK's carbon emissions. We believe that creating incentives for consumers to improve their home's energy efficiency will promote the required change in behaviour. Government has a central role to play, which could include reforming property taxation and housebuilding regulation.

Incentives for consumers are the only realistic way to help people make their homes greener – and the steps we have taken will help people reduce the carbon footprint of their homes affordably and sustainably. We want the government and housebuilders to help more people do the same.

We are taking action to support members by

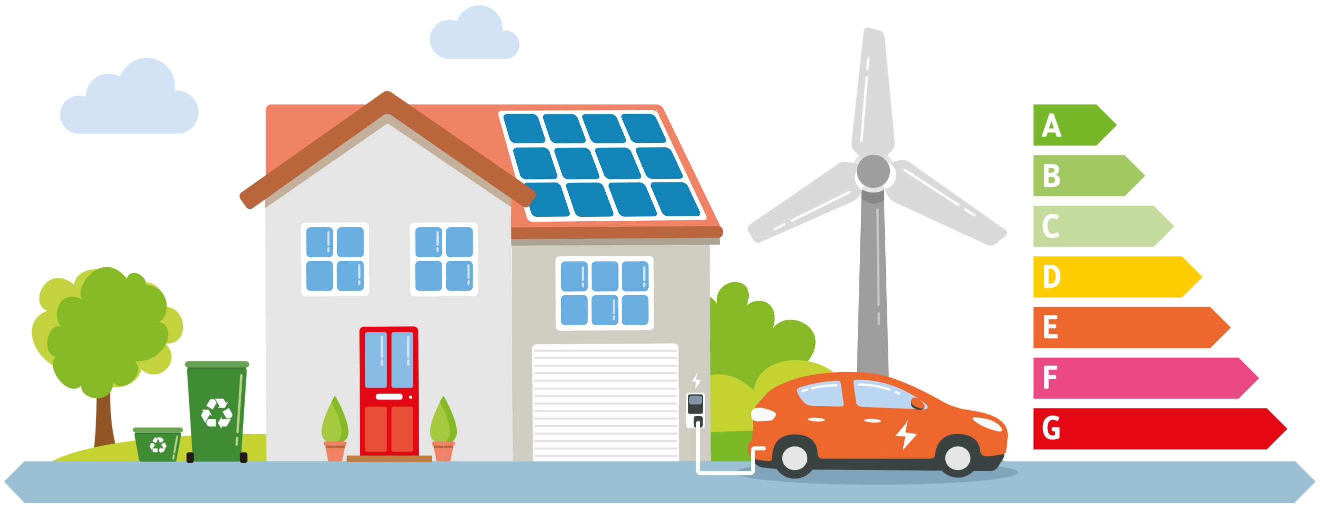
- **Making a £1 billion loan fund available to incentivise a reduction in the carbon footprint of Britain's homes** by launching a new range of green mortgages that offer members a preferential rate when buying new-build EPC A-rated homes, and offering preferential rates for borrowing up to £25,000 for green home improvements and retrofitting
- **Committing to building environmentally-friendly new homes**: the Oakfield housing development in Swindon, funded by Nationwide, aims to build homes of the highest environmental standards – with an ambition to create 239 EPC A-rated homes
- **Becoming a member of the Green Finance Institute's Coalition for the Energy Efficiency of Buildings**: working together to create a market for net-zero carbon, resilient buildings in the UK, by accelerating capital flows to retrofit existing residential buildings
- **Investing in FinTech partner, Switchd** whose app can automatically switch a user's energy supplier to ensure they are always on the best deal, including greener tariffs, and produce a home report that will recommend energy-efficient improvements.

We are also appealing to government to

- **Commission an independent review of Council Tax** to explore how linking taxation to a home's energy efficiency can incentivise green home improvements.

We have taken significant steps to reduce our carbon footprint[2]

- **Improvements in sustainability** including sending zero waste to landfill, using 100% renewable electricity, and receiving biennial accreditation of the Carbon Trust Triple Standard for progressively reducing and managing carbon, water and waste
- **Carbon neutral** from April 2020 for all energy use and emissions for all internal operations and our fleet vehicles, through the offsetting of residual carbon
- **Created an employee green fund** to help colleagues drive initiatives to reduce their carbon footprint and make a positive impact on the environment, across Nationwide sites.



[1]Office for National Statistics – February 2020.
[2]For more information on our operational journey to carbon neutral, see page 33.

Helping our members live a little better in retirement

Andy and Christine loved their jobs in the military, police force and NHS, but they always looked forward to retiring. They had big plans to buy a narrowboat – so that's exactly what they did.

"We've always loved being on the water and couldn't wait to spend time on the boat when we retired. It's just such a peaceful way of life."

As well as a narrowboat, they also bought themselves a trike.

"We got the trike because Christine wanted something a bit steadier than a normal motorbike with two wheels. It's amazing. We're looking forward to using it a lot in the future, whether it's for long weekends in the countryside or trips to see family and friends."

With a Nationwide Lifetime Mortgage, they released equity from their home so they could afford to live the life they dreamed of.

"It just meant we had the money to do things the way we wanted, like buy the boat and the trike. We love our retirement. It's so much better than we expected and life's really, really good."

Building thriving membership

As a member-owned mutual, we aspire to help our members build better lives for themselves, and to make a positive contribution to society. These aspirations are underpinned by five strategic cornerstones that describe what we'll do and how we'll do it. We are continuing to assess the impact of the coronavirus on these cornerstones; however, our priorities remain the same: providing a safe and secure home for our members' money and delivering legendary service.

We are offering members facing financial difficulty from the coronavirus payment holidays on mortgages, loans and credit cards, and interest-free periods on overdrafts. We have also pledged to keep mortgage members in financial difficulty in their homes over the next 12 months.

We work to help our members become financially secure through saving, buying a home and managing their money. In the three years since we launched our strategy, we've added one million members, grown retail deposits by £15 billion and mortgage balances by £18 billion. We have also deepened relationships with our members; we now have almost 3.6 million committed members – those who have two or more products with us – half a million more than we had in 2017.

Helping members into homes is still our core purpose

We grew mortgage lending at an intentionally slower rate, with total lending of £30.9 billion (2019: £36.4 billion) and net lending of £2.8 billion (2019: £8.6 billion). We were true to our founding purpose, helping 1 in 6 first time buyers into their first home (2019: 1 in 5), above our natural mortgage market share. Unlike others, we continued to take Help to Buy ISA applications right up to the November deadline, allowing future homeowners to earn a government 'bonus' when they buy their first home.

With the number of renters increasing, we continue to support landlords with buy to let mortgages through our subsidiary The Mortgage Works; this business also diversifies our income streams and supports better savings rates for our members.

After improving our range of mortgages last year, our buy to let lending grew rapidly.

We continue to develop new propositions to meet members' evolving housing needs, such as our comprehensive range of later life mortgages, which helps older members live better in retirement. Whilst the coronavirus meant that we had to pause offering these to our members, these remain an important part of our plans going forwards.

We are keen to play our part in helping the UK meet its ambitious green targets. As homes account for 15%[1] of UK carbon emissions, we have made a £1 billion loan fund available for preferential rate mortgages and additional borrowing for new green homes and green home improvements.

Helping people save

We look after almost £1 in every £10 saved in the UK and gained an extra £5.7 billion in deposits in the last year (2019: £6.0 billion). Members benefited from an extra £505 million in deposit interest last year compared with the market average.

Savings are a vital source of financial security, so we are working hard to encourage saving through, for example, our Pay Day Save Day campaign and by introducing prize draws on our Start to Save and ISA accounts. We have also simplified our savings range, introducing a member-only bond available only in branches, as well as online-only products to compete with digital banks.

However, the cut in bank base rate to a new historic low, combined with the economic impact of the coronavirus, will impact the rates we can afford to pay on deposits in future.

Hassle-free money

We continue to attract more current account members, with 759,000 (2019: 794,000) new accounts opened in the year, taking us to our long-term target of achieving a 10% share of all current accounts[2]; our share of main current accounts rose to 8.1%[3] (2019: 8.0%). We were the no.1 net gainer of current accounts using the Current Account Switching Service in the nine months to December 2019[4]. We have started rolling out a new account opening journey which will give members instant access after opening accounts online.

We have a very strong student and youth account share of almost 16%[3] (2019: 14%), and 6,200 FlexStudent account holders migrated to our FlexGraduate account last year.

Our personal loans and credit cards are exclusively for members, and the great value we offer on these products has helped us grow personal lending to £3.0 billion for the first time (2019: £2.4 billion) and we increased the volume of active credit card users.

[1] Office for National Statistics – February 2020.
[2] CACI (Feb 2020).
[3] CACI (Feb 2020) and internal calculations. 'Main current accounts' includes main standard and packaged accounts.
[4] Pay.UK monthly CASS data, 9 months to December 2019.

Keeping our members' money safe and secure

We use the money our depositors save with us to lend out in mortgages and loans to other members. This is how all building societies work, and is still at the core of our business model today.

Two aspects of this model, and something you'll see lots of references to throughout this report, are **capital** and the **leverage ratio**. But what are they and why are they important?

Capital

We need to be profitable to make sure that our Society and our member's money are safe and secure. We retain certain amounts of the profits we make to support current business activity, planned growth and to remain resilient to financial stress. This is called capital. The amount will vary depending on how much money we're lending, but we need to hold onto it to make sure we're safe and sustainable. You can find out more about how we manage it on page 194.

UK leverage ratio

This compares how much capital we have to the assets on our balance sheet. Our regulator has set a minimum requirement of 3.6%, and our goal is to always stay comfortably above this.

Built to last

As our members trust us with their financial security, we will always provide a safe home for their money, today and in the future.

The Society's finances remain strong. Our UK leverage ratio of 4.7% (2019: 4.9%), which is a key measure of our ability to withstand economic shocks, such as the coronavirus pandemic, is above both regulatory requirements and our own KPI target of at least 4.5%. Over several years we have built our Common Equity Tier 1 capital ratio to a level that is materially higher than regulatory requirements, and it stood at 31.9% at 4 April 2020 (2019: 32.2%[5]).

As a member-owned mutual, we aim to make sufficient profit to maintain our financial strength and invest for the future, and we balance these longer-term priorities with delivering great value to our members through better rates, incentives and propositions. Our member financial benefit reached £715 million this year (2019: £705 million), as we chose to deliver as much value to our members as we could afford, exceeding our £400 million minimum target.

Our net interest income reduced by £105 million to £2,810 million (2019: £2,915 million) and our net interest margin moderated to 1.13% (2019: 1.22%). The reduction reflects both strong competition in the mortgage market during the year, and the unexpected bank base rate cuts in March in response to the coronavirus.

Our product volume performance was solid. We grew overall in mortgages, savings and current accounts – but at a more moderate pace, as we focused on broadening our relationships with our members and meeting more of their financial needs.

Underlying profit of £469 million (2019: £788) reflected these choices – to give value to members and invest in our future – together with the cost of legacy PPI claims, and the coronavirus pandemic. We made an additional provision of £101 million for an increase in expected credit losses, which reflects the economic impact of coronavirus. Our financial results also reflect the reduction in net interest margin caused by the bank base rate cuts in the last month of the year, and our decision to halt our planned business banking launch. The business case for entering this market is no longer commercially viable because of the low rate outlook and uncertain economic environment and, while it was a difficult decision to make, our priority must be to support our current members and colleagues through this crisis.

Total costs for the year increased by 3% to £2,312 million (2019: £2,254 million), primarily as a result of a £111 million increase in investment spend and £88 million of costs in the year associated with our business banking proposition, including the impacts of our decision to halt this activity. These were partly offset by a one-off gain of £104 million from the decision to close our final salary pension scheme to future accrual on 31 March 2021.

We continued our digital transformation, investing £360 million in 2019/20 in delivering the services and platforms that members will want and need in the future. We are simplifying our technology, replacing our legacy digital estate with a simpler set of applications to create a modular, data-powered digital platform. We are strengthening our operational resilience, building greater capacity in our payments platform and preparing to move to a modern, cloud-hosted payments hub. This will enable us to deal with our higher membership and transaction volumes, while also protecting our members' money, personal information and privacy.

As a part of our strategic technology investment in upgrading our IT infrastructure and developing our digital services and data capabilities, we have continued to review the implications of new technology development for our existing assets, leading to impairments and write-offs of technology assets of £124 million (2019: £115 million).

We have managed our members' money and the Society's finances carefully through the challenges of low rates and strong competition over the last three years. The future outlook for the economy is very uncertain, and over the medium-term our focus will be on retaining sufficient profits to maintain our strong capital position through the economic cycle, and on continuing to provide competitive products and excellent service for our members.

As the full impact of the coronavirus pandemic on our members and business becomes clearer, we may need to revise some of the targets we have set. We do not consider our financial performance framework to be appropriate in the current economic environment and will focus our efforts on maintaining our strong capital position and liquidity. Exceptionally low interest rates mean it is unlikely we will meet our member financial benefit target next year. With bank base rate at 0.1%, paying savings rates significantly higher than this would not be financially sustainable, nor in the long-term interests of our members or the Society.

To ensure that all our colleagues are focused on the financial sustainability of the Society, we are recalibrating our employee bonus scheme so that a cost measure will sit alongside measures to deliver better service and grow our committed membership in future.

[5] 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.

"Everyone is so helpful – it feels like you're speaking to a friend."

Sarah's been a Nationwide member since she got her very first pay cheque in 1987.

"I chose Nationwide because it felt like a safe place to keep my money. Back then I used the branches a lot more, but now I love using the app. It basically feels like an extension of the great service I'd get in a branch, just on my phone."

Sarah also encouraged the rest of her family to join Nationwide. She and her husband have a joint account, and her son and daughter have their savings with us.

"We opened the kids' savings accounts as soon as they were born, and now they put all their birthday and Christmas money in there. They recently wanted a trampoline for the garden, so all four of us clubbed together to buy it. It's so easy for me to keep an eye on their accounts in the app too and transfer money on their behalf.

I love the service at Nationwide, whether it's online, over the phone or when I pop into a branch. Everyone is so helpful – it feels like you're speaking to a friend."

Building legendary service

We are pleased to have had one of our best years for service, despite constantly rising expectations of service standards. In 2019, for the third year running, we were named *Banking Brand of the Year* by *Which?*. We have been ranked no. 1 for customer satisfaction among our peer group for the eighth year[6]. And this year we were ranked 4th in the all-sector UK Customer Satisfaction Index[7], meeting our KPI target of being in the top 5.

Our aim is to offer the best of human and digital interaction, so that members can switch between branches, our digital and phone services, and know that we will be able to respond to their needs seamlessly.

Evolving our branches

The role of our branches is evolving with our members' needs and usage. Having introduced a new branch design three years ago, we have now upgraded 200 branches, nearly a third of our network. This year we are also testing new branch formats. In Lichfield and Sheffield, we are testing a fully-staffed, tech-enabled, counter-free format. In small towns such as Billingshurst, West Sussex, we are testing community 'pop-up' branches. We're committed to maintaining a strong branch network, supporting our members and communities around the country.

Our branches and colleagues play a key role in protecting members from fraud, preventing at least £3.6 million in attempted frauds on members which might otherwise have cost a member their life's savings. Detailed advice on avoiding fraud ranging from romance scams to identity fraud, from card fraud to digital banking fraud, is available on our website. We have also worked hard to build awareness among members of pandemic-related fraud and scams and how to avoid them.

Supporting our members through the coronavirus pandemic is, of course, a priority. We have long had a specialist support team to help members through times of hardship and have introduced a range of measures to help members experiencing financial difficulty, including payment holidays on mortgages, credit cards and loans, overdraft interest holidays, and penalty-free access to fixed term savings accounts. We will continually review the support we can offer our members through this difficult period.

Digital banking at your fingertips

We have 3.3 million mobile-active members, up almost 7%, including almost half of current account members (2019: 41%), who typically use our app 26 times a month.

We are continually enhancing our app, which now also offers instant registration, and auto-alerts on better savings rates and overdraft usage. We have achieved record satisfaction scores on Apple iOS of 4.8/5 and 4.6/5 on Android.

The investment we have made in building capacity and resilience in our systems has meant we have been able to handle comfortably our growing transaction volumes, which reached 1.6 billion last year, up by 22% over the previous year. We also had the capacity to handle demand peaks with ease, such as on Black Friday, when we handled over 7 million transactions – 60% higher than a typical day.

[6] © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2013 to 12 months ending 31 March 2020. Each data point contains customer feedback relating to the previous 12 months. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. 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). Prior to April 2017, peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (Lloyds TSB prior to April 2015), NatWest and Santander).

[7] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2020.

"There's an amazing culture at Nationwide."

Kath works in our Marketing team here at Nationwide. And she's also a carer for her dad who has needed full-time support for seven years. As time has gone by, her mum's also needed help to care for both Kath's dad and herself.

"I help with driving them to and from appointments, do their food shopping as well as all their paperwork, bills and things like repairs around the house. And I juggle it all around looking after my two and four-year-olds.

Nationwide's approach to carers like me helps enormously. There's a carers' network which offers lots of emotional and practical support. And we're given five days of extra paid leave, that we can take in half hour blocks, to use for things like appointments and other caring duties. It means that I don't have to use up my own holiday and sacrifice time with my husband and kids, which makes a huge difference to me.

There's an amazing culture at Nationwide too. My manager trusts me to do my work around my caring, so I don't have to feel guilty about having to leave suddenly to help my family."

Building PRIDE

We believe that our colleagues are at their best when they believe in what they do, are valued and are able to grow their own careers. Our distinctive culture and the commitment of our employees are reflected in our strong employee engagement score of 77% (2019: 78%), just below the high-performing benchmark of 79%.

In the Banking Standards Board's latest cultural assessment, we moved into the first quartile for three characteristics (respect, reliability and resilience), from the second quartile in previous years. 'Honest', 'ethical' and 'trustworthy' were the top three words used by employees to describe Nationwide, and employees still consider our purpose and members to be at the heart of decision-making. They also identified priorities for us to focus on, such as encouraging employees to speak up.

In light of the coronavirus pandemic, we are conscious there is the potential for a great deal of anxiety for our employees about health and livelihoods. To reduce anxiety, and in line with our values, we've introduced a number of people promises including, notably, a commitment not to make any compulsory redundancies during 2020.

We are also redeploying colleagues who were previously engaged in developing our business banking proposition, which has been discontinued.

Career development

We're enabling our employees to invest in developing their own careers. We're piloting a new online learning platform and career pathways, both of which will help our employees grow their skills and experience.

Digital skills are at a premium in today's world, and we are recruiting and re-skilling to ensure we have the right capabilities across the Society. We recruited some 350 new technology specialists in 2019/20 and have launched an internal programme, StarTech, for employees who want to develop the skills to pursue a technology career. We opened a dynamic workspace in Swindon, and in 2020 are due to open a new workspace in London which will eventually bring together over 1,500 talented tech specialists.

Wellbeing

We ran a Society-wide campaign to encourage employees to take a proactive approach to their social, mental, physical, emotional and financial wellbeing. We took part in a workplace wellbeing index with mental health charity, Mind, supported Public Health England's *Every Mind Matters* campaign, and sponsored a unique 'Million Minds' tour to encourage young people to have a positive dialogue about mental health.

We have put stringent measures in place to protect our employees' health and wellbeing during the coronavirus, while also maintaining essential services. We have reassured our employees that their jobs are secure. Most of our office-based staff are working from home, and where homeworking is not feasible, we have implemented measures including split-site working, split shift working, social distancing and widespread, regular deep cleaning in all our buildings. More information on how we are supporting our colleagues at this time is set out on page 37.

Reward

Fair pay and reward remain an important part of our ethos. Like many large organisations, we have a defined benefit pension scheme (for employees who joined Nationwide before 2007), and a defined contribution pension scheme (for employees joining since 2007). Given the increasing costs and risks of maintaining the defined benefit scheme, following extensive discussions with our staff union and affected employees, the Board made the decision to close the scheme to future accrual on 31 March 2021. Scheme members will retain their accumulated benefits and build up future benefits in our defined contribution scheme, which offers employer contributions of up to 16% based on an employee contribution of 7% of salary.

Our Sharing in Success reward scheme continues to recognise every employee's contribution to our collective performance, focusing especially on the things that matter most to members. Further information can be found in the Report of the directors on remuneration.

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

pride

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Building PRIDE (continued)

Inclusion and diversity

Our aim is to build an inclusive culture where everyone can be themselves and thrive, and for our Society to reflect the diversity of the wider communities we serve. We describe this as our inclusion mission, and it provides a strong galvanising force which the leadership team is committed to driving forward.

We are tackling imbalances in our workforce, particularly at more senior levels, through a new inclusion and diversity agenda headed by our Chief Operating Officer.

We have set new diversity measures for 2028, which will be tracked and reported to our leadership team and Board. Whilst we have made some good progress, we recognise that we have more to do and will be taking more positive action to help all our employees achieve their full potential.

We're enhancing our family-friendly policies. We've increased paid parental leave and changed our premature baby policy to give extra support to parents, becoming the first financial services provider to be awarded the 'Employers with Heart' charter. We also gained Foster Friendly employer status for providing additional support to employees who foster.

We're embedding inclusion and diversity into our key processes to address unintended bias and disadvantage. For example, we've reduced 'masculine' language in our job adverts which has resulted in higher applications from women in male-dominated fields.

We're focused on improving our ethnic diversity, especially at senior levels. To do this, we've introduced a new sponsorship programme that supports the development and career progression of ethnic minorities and other under-represented groups. We're proud to support social mobility through partnerships, which last year included the Marketing Foundation and Aspiring Solicitors. We are also building a more diverse future leadership with the Black Young Professional Network and Ivy House.

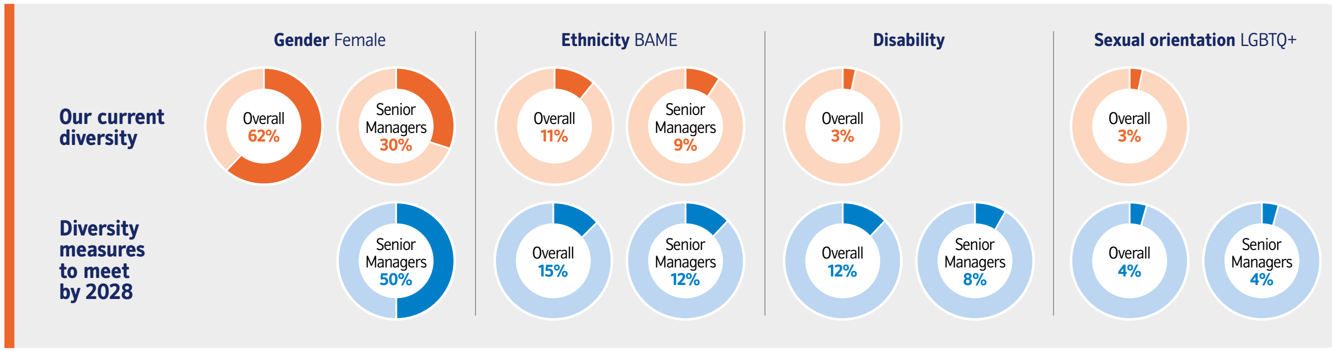
We've joined the Valuable500 movement and put disability inclusion on our Board agenda. We are also working with the British Disability Forum and our own disability network to find new ways to empower disabled colleagues.

Our eight employee-led networks play a valuable part in our work, helping us develop and launch initiatives such as our Carers' Passports which help us support employees in balancing caring responsibilities with working life. Other activities by our networks include introducing supportive lean-in circles and participating in Pride parades across the UK.

Gender and ethnicity pay gap

Our 2019 mean gender pay gap is 28%, broadly the same as in previous years. We voluntarily published our ethnicity pay gap for the first time, and our mean gap was 17%. In both cases, the gap reflects the fact that we have a higher proportion of women and ethnic minority employees in lower paid roles than we do in senior roles. As outlined above, we are working hard to address these imbalances.

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



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"Having a home lets you put down roots and be part of a community. Everyone deserves that."

Robin feels really strongly about tackling housing problems. That's why he joined our Community Board in Cambridge. Together, our colleagues and members decide which local housing projects to award grants to. They can award the projects up to £50,000 each.

"Having a home is so important. It gives you a real sense of security. And having had first-hand experience of homelessness, I want to make sure we can stop it happening to other people.

The work we're doing and the grants we're giving are so valuable. We're supporting projects right here in our local community, so we can see exactly who we're helping and the difference we're making. That means a lot."

Building a national treasure

We aim to be a force for good in our communities. Our commitment to the mutual good underpins our social investment programme. This is funded by a donation of 1% of pre-tax profits, as decided by members back in 2007. In 2019/20, this funding amounted to £9.5 million (2019: £10.6 million) and was split between our own social investment programme and the Nationwide Foundation, an independent charity that we set up and fund.

We track how well we are trusted and recognised as a brand as a proxy for our success and are proud to be the UK's most trusted financial brand[8].

Everyone deserves a place fit to call home

Housing is the main focus of our social investment, in line with our founding purpose.

Over the last three years, we've established Community Boards across the country to award grants to local housing projects. We've awarded over £5.5 million (2019: £4.2 million) in grants in the last year alone, to support 135 charitable housing projects chosen by local members.

In Swindon, where we are funding a new, not for profit sustainable housing community, we received planning permission for the development, purchased the land, appointed contractors and have broken ground. We hope the Oakfield development might in future be a blueprint for others to help find solutions to the housing crisis.

With many members living in privately rented homes, we've been successfully campaigning for several years for better rental standards. In the last year, our influence has helped end no-fault evictions and widened access to the rogue landlords' database, helping tenants avoid unscrupulous landlords. We have also launched Landlord Lifeguard, a digital information platform to help landlords understand their obligations and provide better homes to renters.

Bringing empty homes back into use would reduce the shortage of homes, so we have sponsored the campaign by Action on Empty Homes aiming to bring 226,000 empty homes back into use. We are also campaigning for a new £185 million fund to refurbish empty homes.

This year, we've also responded to the clear and urgent need to make Britain's homes greener. As housing currently accounts for around 15%[9] of the UK's carbon emissions, we have made a £1 billion loan fund available to reduce the carbon footprint of Britain's homes. Preferential rate mortgages and additional borrowing will, we hope, provide an incentive to members and developers to invest in more sustainable homes. We have also called for reforms to council tax to incentivise sustainable homes, and for other lenders to offer discounted mortgages on EPC A-rated homes. You can read more about our green strategy on page 12.

[8] Nationwide Brand Guidance Study compiled by an independent research agency, based on customer and non-customer responses for the 12 months ending March 2020. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, TSB and Santander.

[9] Office for National Statistics – February 2020.

The Nationwide Foundation

The Nationwide Foundation is an independent charity set up by the Society in 1997. Each year, we give 1% of Nationwide's pre-tax profits to good causes, of which a quarter is donated to the Nationwide Foundation – £2.4 million in 2019/20. The Nationwide Foundation believes that everyone in the UK should have access to a decent home that they can afford, so it funds and supports three programmes to help make this happen.

1 Nurturing ideas to change the housing system – supporting new and emerging solutions to help create truly affordable homes

The Nationwide Foundation funded the Affordable Housing Commission, an independent, non-partisan group, bringing together 15 key players from across the housing world. The Commission has come up with recommendations for what needs to be done to ensure that housing costs aren't out of reach, including calling for a new definition of affordable housing, linked to what people can truly afford.

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

The Nationwide Foundation supports communities to build the affordable homes they need. As a way to strengthen the case for community-led housing, the Nationwide Foundation funded the Wales Co-operative Centre to look at how living in co-operative and community-led homes improves the lives of the people living there. This research found that residents were less lonely, had better mental health and were more likely to be able to get a job.

3 Transforming the private rented sector – making sure private tenants have secure, affordable and decent homes

Too often, decisions about housing are made without the voices of tenants being heard. By funding tenants' groups across the UK, the Nationwide Foundation is making sure that tenants' voices are heard by those in power when decisions are being made that will make a difference to their lives. As part of the Nationwide Foundation's support, tenants' groups meet to share best practice and consider how they can make change happen at a local level.

How we think about our members and other stakeholders when making decisions

At the heart of our mutual purpose is the need to engage, consult and act in the needs of our members, employees and other stakeholders. This statement outlines how we do this for each stakeholder group, with examples of some key decisions made during the year and how the Board was engaged on these.

Section 172(1) statement

This section of the Strategic report forms our section 172(1) disclosure, describing how the the directors considered the matters set out in section 172(1) of the Companies Act 2006. This also forms the directors' statement required under section 414CZA of The Companies Act 2006. Although Nationwide, as a building society, is not required to follow the Companies Act 2006, we seek to apply its requirements where appropriate.

The directors have acted, in good faith, to promote the success of Nationwide for the benefit of its members as a whole. The information below summarises how the directors have engaged with key stakeholder groups, and further information is included on pages 69 to 76 of the Governance report.

How we engage with members

As a mutual organisation, members are the owners of Nationwide, and we encourage them to share their views, in person, online or via other channels, on the overall direction of the business. We recognise that in order to achieve long-term success, it is critical to understand the needs of our members, now and in the future.

We held a number of events across the country, giving members the opportunity to meet board directors and senior management. We include members in other activities, for example deciding how our community grants are allocated via our Community Boards programme. The AGM, however, is the key event at which members can have their say and vote on important issues. As a result of the ongoing outbreak of Covid-19, physical attendance in person will not be possible at this year's AGM. We nonetheless encourage members to participate by voting online or by post and by submitting questions in advance. This year's AGM will be live streamed online on the day of the meeting. We will also be hosting an online Member TalkBack on the following day.

How we engage with employees

We value our employees, their commitment and their contribution to fulfilling our purpose of building society, nationwide. To maintain Nationwide as a great place to work, we engage with employees throughout the year to understand what they really value. We provide a variety of ways to gather their insights and feedback on their experiences. These include dialogue with employees through our employee networks, the Nationwide Group Staff Union (NGSU) and external surveys such as the Mind Wellbeing Index.

Employees are critical to the services provided by the Society and employee engagement is regularly discussed, including presentations to the Board on the results of 'Viewpoint', our annual engagement survey. To further promote engagement between the Board and employees, Mai Fyfield was appointed as the designated non-executive director with specific responsibilities for the employee voice in the boardroom. In addition, we participated in the Banking Standards Board's latest cultural assessment survey, where our employees said we put our purpose and our members at the heart of our decision making, and that we are 'honest, ethical and trustworthy'.

How we engage with other stakeholders

Suppliers
We recognise the key role our suppliers play in helping us run our business and deliver quality service for our members. The Board annually reviews and approves the Society's Modern Slavery and Human Trafficking Statement which sets out the Society's efforts and actions to eliminate modern slavery in its supply chain. To support our suppliers and protect their cash flow during the Covid-19 pandemic, we have reduced the time it takes to pay them, targeting 10 working days.

Regulators
We recognise the importance of open and continuous dialogue with our regulators and seek to maintain the highest possible regulatory standards, to protect and enhance the integrity of the UK financial system and ensure fair outcomes for our members. Engagement with our regulators typically takes the form of regular and ad hoc meetings attended by Board and Nationwide Leadership Team members. Topics covered are wide-ranging and over the financial year have included operational resilience, the ability to respond to a financial stress, structural mitigation and industry-wide reviews of business continuity and incident management.

Communities
As a building society, we believe in supporting people in their communities. This includes housing, and our view is that regenerating local areas by working with local people will create real communities. In line with the member vote in 2007, the Society continues to invest at least 1% of its pre-tax profits to support good causes, focusing on the belief that 'everyone deserves a place fit to call home'. In addition, over the last three years, we have established Community Boards across the country to award grants to local housing projects.

Investors
We are active in wholesale funding markets, engaging in the issuance of debt securities and other financial instruments to wholesale investors. Certain financial instruments contribute towards the Society's loss absorbing capital, helping to ensure that Nationwide is built to last. The Society maintains an active dialogue with existing and potential investors through an extensive investor relations programme.

Other
The Board and senior management also engage with other stakeholders on certain issues. Such stakeholders include intermediaries, tax authorities and the media.

How we think about our members and other stakeholders when making decisions (continued)

Responding to Covid-19

As a business originating from a social purpose, we remain committed to doing the right thing. This has been brought to the fore with the recent Covid-19 pandemic. The impacts of Covid-19 for our key stakeholders have been significant and the repercussions will be felt for a long time to come.

You can find out out how Nationwide has supported its key stakeholders through the Covid-19 pandemic on pages 37 to 38.

Engagement in action

The Board is responsible for setting a clear strategy and direction, ensuring the long-term success and sustainability of the Society. In making decisions, the Board considers the outcome of relevant stakeholder engagement, as well as the need to maintain a reputation for high standards of business conduct, the need to act fairly and the long-term consequences of its decisions.

The following case studies provide some examples of key decisions taken by the Board, and how stakeholder interests have been taken into account.

Pension fund closure

At Nationwide, we recognise the importance of helping our employees plan for their future, and the vital role that pensions play in building a retirement income.

Nationwide maintains two main pension schemes: a defined benefit scheme called the Nationwide Pension Fund (NPF) and a defined contribution scheme. All new employees have joined the defined contribution scheme since 2007 when the NPF was closed to new joiners (currently 1 in 4 of our people remain in the NPF).

The Board constantly reviews the financial position of Nationwide and seeks to make balanced choices, delivering value to members, investing in the future and standing by our high streets. We need to make sufficient profit to protect the financial security of the Society from whatever lies ahead. As a result of intensifying economic pressures, and taking into account the long-term interests of the Society, the Board made the decision to close the Society's defined benefit scheme to future accrual on 31 March 2021. Following this, from April 2021 all employees will be offered membership of the Society's market leading defined contribution scheme.

This was an important decision for the Board to make and in doing so it consulted with a range of stakeholders over an extended period of time to ensure that the decision was made with care and consideration for the potential impact of the change. The Society sought to not only comply with regulation, market practice and employment law, but also adopted a 'Nationwide' approach to how the changes were consulted upon and would be implemented. This was evident in the long notice period before implementation, the close working arrangement with the Nationwide Group Staff Union and the support provided for affected employees.

The Board members, both individually and together, consider that they have acted in good faith, and in a way most likely to promote the success of the Society for the benefit of its members as a whole.

Later life lending proposition

Nationwide aims to support members at all life stages and in 2018, given the significant number of members in or approaching retirement, we undertook research to ascertain how their needs could be best met to support their lifestyle throughout retirement.

We identified that there was limited ability to lend to people entering retirement and there was a need to help members access the equity in their property to support their home, money and lifestyle requirements, in the approach to and through retirement. We were also aware of potential shortfalls in retirement income and easy access to advice as the market shifts from defined benefit to defined contribution pensions. With life expectancies increasing and there no longer being a clear transition from working to retirement, there was an emerging set of new and changing needs required for this underserved sector of the population. Recognising this need, a proposition that provided long-term value and good quality advice, protecting both the needs of members and Nationwide alike, was explored.

The Board, on considering the proposition and associated risks, made the decision to develop a later life proposition that would initially enable those newly retired to have access to credit and advice on the range of lending options directly through Nationwide mortgage consultants. Nationwide regularly engaged with the FCA during the development of the proposition to demonstrate how the Society was planning to meet the lending needs of members through the proposition.

In April 2019, a pilot commenced, initially for existing members looking to switch their borrowing into a later life product. The proposition was met with enthusiasm by members and research showed that many members aged over 55 wished to stay in their homes and use their properties to access funds otherwise unavailable to them. Borrowing needs included extending existing lending to ensure long-term affordability, home improvements to ensure a property was fit for purpose, gifting amounts to family members to support them in a time of need, and debt consolidation.

After a successful pilot, the Board approved the proposition to provide re-mortgage facilities for both existing and new later life members. Nationwide continues to be committed to meeting members needs throughout their lives and the proposition is continually reviewed to ensure it continues to support members in retirement.

Committed to doing the right thing

As a business originating from a social purpose and run with mutuality at its heart, responsible governance and a focus on social and environmental betterment are embedded in our core purpose.

Responsible behaviour, integrity, and contributing to society have always been integral to who we are and what we do

Over the last year, we have continued to reinforce our purpose of building society, nationwide, by enhancing our governance and approach to responsible business. Our newly formed Responsible Business Committee, chaired by our Chief Strategy Officer, focuses on the social and environmental impact we have, the way we operate, the financial support and work opportunities we offer, and the people and communities we touch. We are committed to the UN Sustainable Development Goals (SDGs), and our strong purpose aligns with several of these.

Using a materiality assessment to help inform where we focus our efforts

At our core, we are committed to actively doing good for our employees, our members and the communities we serve. There is a clear and close natural fit with some of the SDGs through the nature of our work, but we want to make the biggest difference possible to the areas that matter most to the people we serve. Feedback from our recent materiality assessment, which includes views from members, non-members, colleagues, suppliers, and investors, has been used to ensure we focus and report on those things that matter most to those we impact, and who impact on us.

Our strong purpose directly supports the global external goals

While we pay heed to all SDGs, we will continue to focus on those that are most closely aligned to our mutual purpose of building society, nationwide.

SDG 1 – No poverty
We take positive action against homelessness and actively pursue initiatives to enhance financial inclusion and support, and above all protect our members' money

SDG 10 – Reduced inequalities
We are working to reduce economic inequality and seek to ensure everyone has access to good and secure housing, finances and work opportunities

SDG 11 – Sustainable cities and communities
In addition to building new, EPC-A community homes, we have pledged to keep our branches open for a fixed period to support the high street

SDG 12 – Responsible consumption and production
We maintain the Carbon Trust Triple Standard, send no waste to landfill, recycle our office equipment and source food locally

SDG 13 – Climate action
Internally, our energy use and business miles from our own fleet are carbon neutral (scope 1 and 2), and our green propositions will help members to reduce the carbon footprint of their homes

The United Nations Global Compact

The UN Global Compact is a call to organisations to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals. As a signatory of the Global Compact, we have reinforced our commitment to social and environmental sustainability, and our shared responsibility for a better world.

Statement from Joe Garner, Chief Executive

Nationwide Building Society was founded on a social purpose, to 'improve living conditions for the industrious classes', and we are still guided by that purpose today. As a building society owned by our members, it is imperative we are striving to do the right thing in a responsible way, whether for our employees, members, wider society, or the environment. In 2019, we declared our commitment to the UN Global Compact and I am pleased to confirm we are reaffirming our support of the Ten Principles of the United Nations Global Compact which are categorised into the areas of Human Rights, Labour, Environment and Anti-Corruption. In our annual Communication on Progress set out below, we describe our actions to continually improve the integration of the Global Compact and its principles into our business strategy, culture and daily operations. We also commit to sharing this information using our primary channels of communication.

Joe Garner

UN Global Compact: Communication on Progress

We have set out the actions and strategies we are taking to advance the principles of the UN Global Compact[1]:

Human Rights:
doing the right thing for our members and the way we do business

Labour:
doing the right thing for our employees

Environment:
doing the right thing for the environment and its impact on our members

Anti-corruption:
doing the right thing to prevent crime

Human rights: doing the right thing for our members and the way we do business

The United Nations recognises human rights as 'rights inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more.'

We are committed to ensuring that the way we go about our business, and the products and services we offer, do not impinge on the rights of others. Aside from our regulatory obligation to tackle the risk of slavery and human trafficking[2], we believe everyone should have access to stable finances, a safe home and a good job. We provide training for our member-facing colleagues to equip them to identify customers who might need additional support as a result of vulnerability. And we continually look to implement initiatives to protect the financial and housing interests of our members.

[1] unglobalcompact.org.uk/the-ten-principles
[2] nationwide.co.uk - Slavery and human trafficking statement

Committed to doing the right thing (continued)

Ensuring human rights are met through our supply chain

Our procurement process: It is important that our 1,300 suppliers represent the Society and demonstrate a commitment to our mutual values, ethics, policies and standards. Nationwide's Supplier Code of Practice[3] (the Code) defines our expectations to respect the values and human rights of their employees, to never use child, forced, or involuntary labour, and to ensure working hours are within local regulations and industry practices. Employees must be free to join, or decide not to join, worker organisations, and must be provided with clear disciplinary and grievance procedures. We are currently updating this Code to ensure continued alignment with industry best practice.

Ensuring people's right to financial inclusion and security, and the right to a home

We take our responsibility to safeguard the financial stability of our members very seriously, whether wealthy, financially squeezed, or in a poverty trap. This is a responsibility we have met with a range of initiatives, from nudges to help with saving techniques, to public campaigns and social innovation programmes. Our CEO, Joe Garner, now co-chairs the 'Inclusive Economy Partnership' Financial Capability and Inclusion Steering Committee, a partnership of business, government and civil society that aims to tackle some of the UK's most pressing social and economic problems. In particular, through the '24x24' campaign the committee is seeking to improve the financial lives of the 24 million people who are financially squeezed and struggling. As a partnership, we are working together to improve the effectiveness of digital tools to improve financial capability. This includes increasing the availability of appropriate affordable credit and improving debt collection practices across multiple industries, including government.

Rented housing: Everyone has the right to a comfortable and secure home, whether they rent or own. We are taking positive action to improve the private rental sector, working with government and industry to influence changes to tenure security and the tenancy deposit process, while also helping landlords meet their responsibilities and raise standards, beginning with an easily accessible information portal[4].

IncomeMax and Careercake: We work with community interest company, IncomeMax, to help members in financial difficulty find ways to increase income, reduce bills and access charitable grants. IncomeMax can also assist members by calling government departments, helping to complete claim forms, and resolving incorrect benefit decisions. Since working with Nationwide, IncomeMax has helped members access over £1 million of extra income[5]. And our partnership with Careercake, means we can help those struggling to find employment with CV building, interview advice and help identifying roles.

Open Banking for Good: Leveraging our expertise and relationships, we convened experts from charities and government organisations to identify real challenges faced by the financially squeezed and launched and led a process with FinTech start-ups to solve these. We funded them to work alongside experts from charities and Nationwide to adopt a collaborative approach that was committed to generating learning throughout. This program has successfully delivered Open Banking powered solutions to issues relating to income and expenditure, smoothing of irregular income, support for money management and help with mental health.
We continue to work with the five FinTechs to scale their solutions for our members and the wider market. Our approach to social innovation is unique and is one we are committed to sharing with all interested parties, as we have done with government, charitable foundations and other financial services organisations committed to social responsibility.

Specialist support service: Launched in 2015 with Macmillan Cancer Support, a member who is considered in need of specialist support can be referred to our support service. The specially trained team helps members assess and manage their finances and the products they hold, to help them understand the choices available to them. Should members need other types of support, the team can guide them to the right place, such as a charity. Working with Macmillan Cancer Support, with access to their financial guidance service and grants programme, has opened the option to unlock further financial support for our members. Since its launch, the service has evolved to support over 23,000 members with many different needs, as well as providing a helpline to support colleagues with their queries.

Committed to represent and protect the rights and interests of our members for a fair and beneficial service

Responsible products and services: Our propositions are designed around our members' needs, both now and in the future. We apply our core values when designing our services and propositions: long-term value, convenience and care, recognising loyalty and building trust. This enables us to design propositions that are of mutual benefit and mutual good for all.

We want our products and services to do more than give our members fair outcomes; we want to be sure they are built to last. Our Conduct and Compliance Committee provides senior oversight of our Initiative Development Framework, the framework that governs the design of all our propositions. We have policies and clear guidance on changing and withdrawing products and services, and always carefully consider the possible outcomes for members.

To ensure we are always delivering exceptional and compliant products and services, we speak to a sample of members to follow up on outcomes using 'outcome calls', to confirm whether the products or services members signed up for are suitable and understood. We undertake regular 'deep dive' activity along member journeys, including Mystery Shops, to ensure they are well designed and operating effectively. And we assess the performance of our employees in their interactions with our members. These activities help to hold us to account for the standards we have committed to, and ensure we are demonstrating our PRIDE values. We don't allow local sales incentive schemes and regularly assess performance to ensure we are not operating detrimental sales or reward practices.

Responsible marketing: We want to ensure our members can make informed choices about their finances, so we provide balanced information about the risks, benefits and pricing of our products and services – consistently, clearly and without jargon. To assure this, the creation, approval and distribution of member communications is overseen by the Risk, Governance and Controls team. Our Chief Product and Marketing Officer is accountable for producing, controlling and distributing marketing materials and communications, and works across the Society along with our Risk, Governance and Controls team to resolve any issues.

[3] nationwide.co.uk – Nationwide supplier portal
[4] landlordlifeguard.co.uk
[5] nationwide.co.uk – IncomeMax working with Nationwide

Strategic report
Governance
Risk report
Financial statements
Other information

Committed to doing the right thing (continued)

Branch promise: We have pledged to retain a branch in any town or city where we currently have a presence until at least May 2021. We know branches are still important to our members, with around 38%[6] of current account openings still happening in a branch. To make the branch experience even better for our members, we've updated over 200 branches since 2017, combining comfortable spaces for face-to-face conversations with the latest technology, as part of our ongoing £350 million branch investment. We are confident that we are doing the right thing for our members, with a branch customer satisfaction rate of 89%[7]. In addition, 85% of surveyed members were satisfied with their telephony service interaction[7]. This is a 1% increase compared to the start of the year[8]. 71% of these members scored their interaction with the highest rating as being 'Extremely Satisfied'. Our Mobile App satisfaction remained consistent through the first quarter of 2020, most recently recording 88%[7] for customer satisfaction, with most members satisfied with how easy the app is to navigate.

Member Service and Complaints: Providing legendary service to our members is a priority, but occasionally things do not go as expected and there is a need for us to put things right. Over the last 12 months, Nationwide received, on average, 2,100 complaints a week (excluding PPI); a small increase (1%) year-on-year against a background of high levels of member-impacting activities, including new member propositions and regulatory changes. While the overall volume of complaints has increased, this is attributable to these changes. We have seen a reduction in complaints relating to normal activities, which reflects our continued focus on providing legendary service to our members. The latest FCA data (H2 2019) shows that Nationwide received fewer complaints per 1,000 accounts than our competitors. Aiming to respond to our members as quickly as possible, we resolved 75% of member complaints within 14 days during the year, with an aspiration to increase this to 85% over the next 12 months. Our Financial Ombudsman PPI uphold rate dropped to 3% in the second half of 2019, favourable against an industry average of 16%.

Labour: doing the right thing for our employees

We have a talented and engaged workforce and make every effort to protect their rights, freedoms and wellbeing.

Living wage: We are a principal partner of the Living Wage Foundation, an accredited Living Wage Employer, and an advisory board member. The Living Wage ensures access to, at a minimum, basic living costs, and applies to all colleagues, contractors and suppliers who work on our sites. We voluntarily commit to paying the 'real' living wage for our employees, going further than the Government minimum wage, as we believe a fair day's work should mean a fair day's pay. This should be based on what workers and their families need to live.

We also offer our employees one of the best defined-contribution pension schemes in the market.

Inclusion and diversity: We have updated our diversity measures to ensure the Society reflects the diversity of the UK population. They are bold and stretching and show our strong commitment to inclusion and diversity being at the core of our cultural evolution at Nationwide. Our inclusion and diversity strategy is endorsed by our Board, and our senior leaders are accountable for making progress. The strategy includes an increased focus on communication and education, as well as improved data and insight tools to monitor and measure progress. This will give us a better understanding of what is going well, and enable us to be more responsive to those areas we need to improve. This is complemented by organisation-wide programmes of activity, community-specific action plans tailored to specific business challenges, and our employee network groups who bring our employees' voices to the fore. We recently signed up to Valuable500; a global movement of 500 private sector organisations for disability inclusion. Our vision is to ensure anyone working for Nationwide who requires an adjustment has an easy and human experience.

Balance of employee contract types: We are proud of our wide and dynamic scope for personal working arrangements to suit the needs of individuals and our business. We deliver our strategy through various employment types: directly employed individuals, contractors, temporary workers and partner suppliers. We have made great progress over the last financial year, decreasing our reliance on contingent workers (such as contractors and consultants) from 10% to 7% of total headcount, and increasing our permanent capability.

We offer our directly employed workforce various contractual arrangements. Full-time employees are typically contracted for a 35-hour week, spread over a five or six-day week from Monday to Saturday. A total of 25% of our workforce have opted for part-time hours to suit their personal circumstances, 62% of whom are female[9]. Additional hours over and above contracted hours are recompensed using time off in lieu or overtime payments.

Discrimination policy: We are committed to being an inclusive employer with a supportive, equal and diverse culture for our people and third-party partners. Nationwide observes and adheres to anti-discrimination laws and wherever possible will go beyond minimum statutory requirements. Our approach covers all areas of the employment relationship, and includes ensuring discrimination doesn't arise due to age, race, sexual orientation, pregnancy, maternity or paternity, political opinion, gender, religion and belief, disability, gender reassignment, marriage or civil partnership.

Freedom of association: Nationwide recognises the importance of employee representation and, although membership of the Nationwide Group Staff Union (NGSU) is not a condition of employment, actively encourages employees to become members. NGSU directly employs 18 people and has a network that includes 20 Nationwide-employed disciplinary officers. The officers are NGSU representatives who have completed an accredited training programme to represent union members at disciplinary and grievance hearings at Nationwide. Membership is high; 59% of our permanent employees are members, which makes up 87% of NGSU membership. The other 13% of NGSU membership is made up of working and retired pensioners, temporary workers and former employees[9]. NGSU has negotiation rights over various matters including pay, overtime, holiday and family friendly leave policies.

[6] For the period 1 April 2019 to 31 March 2020
[7] As at March 2020 – 3-month data
[8] As at January 2020 – 3-month data
[9] As at March 2020

Committed to doing the right thing (continued)

Health and safety: The CEO, Board and Nationwide Leadership Team are committed to providing a working environment that fully supports the health and safety of our colleagues, members and third parties. Nationwide has implemented training, policies, procedures and governance structures to meet legislative and best-practice requirements. The NGSU, while independent, forms part of our governance structure and is consulted regularly on health and safety matters. Working for a financial services provider may expose our people to various risks and we have policies and procedures to manage such risks as stress, security, display screen equipment, road safety and fire safety. We actively monitor enforcement notices that occur in the workplace and as at 4 April 2020, the Society was within management risk appetite. The Society is also independently audited for managing health and safety every five years. In fact, the next audit is due to take place this calendar year.

Environment: doing the right thing for the environment and its impact on our members

As a building society formed with a strong underlying social purpose, we exist to improve our members' lives, and positively impact our communities and society, while minimising our impact on the environment. UK homes and the energy they use account for 15% of the UK's carbon emissions[10] and many of the homes being built today are still not energy efficient enough. Nationwide has helped people save for and buy their own homes for over 130 years. We have an important role to play in helping achieve the government-led UK net-zero carbon emissions target by 2050, and in doing so understand the risks climate change poses on our business in the future.

Aligned to the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) the following provides a summary of our understanding of the impact of climate change, how it is incorporated within our Governance model, how we manage the risks arising, our strategy and the metrics and targets we use to monitor it.

[10] Office for National Statistics – February 2020

Impact of climate change

There are two factors that shape how we consider climate change risk to our business: physical risks (which arise from weather-related events) and transition risks (which arise from adapting to a low-carbon economy).

In 2019 we undertook a review that highlighted risks to Nationwide, including:

- Increased incidence of environmental perils such as flooding, droughts and storms. This could lead to both a credit impact on security held by Nationwide and/or costs incurred by homeowners, which may impact affordability and repayment of borrowing, and an impact on our or third parties' premises, systems or data
- Increased costs incurred by members as part of the UK transitioning to a low carbon economy, which may impact on the affordability and repayment of borrowing and/or impact the value of houses. These costs could arise from, for example, government policy changes or through the adoption of new technologies.

We are completing a plan of work in response to the PRA's supervisory statement SS3/19. This plan will also ensure that Nationwide has the capability to meet the requirements of the Biennial Exploratory Scenario (BES) which is a Bank of England led industry stress test that will focus on climate change risk. This brings together work that was already in progress within Nationwide and enhances this where necessary to ensure we mature our capabilities aligned with our understanding of emerging good practice. Key deliverables over the past year are highlighted in the relevant sections below.

Governance

The Board has ultimate accountability for all climate change related matters. The Board Risk Committee and Executive Risk Committee are responsible for oversight of our climate-related risks. Over the course of the past year, the Nationwide Leadership Team (NLT) has approved the strategy, which sets Nationwide's role in supporting the UK's transition to a net-zero economy by 2050.

The Board Risk and/or Executive Risk Committee have:

- Endorsed our plan of work to mature our capabilities in managing climate related risks
- Discussed updates on progress against the plan of work
- Discussed the first iteration of a dashboard to support monitoring of climate change related risks

To support these senior committees a Responsible Business Committee and a Climate Change Risk Committee have been established. The Responsible Business Committee is charged with establishing Nationwide's responsible business agenda, including our strategic approach to address climate change and environmental targets. It is chaired by the Chief Strategy Officer, who has Senior Managers Regime (SMR) accountabilities for climate change risk. The Climate Change Risk Committee has been set up to monitor progress on how we mature our climate change risk management capabilities. Since the committees were established, they have:

- Provided oversight of delivery against the plan of work
- Endorsed the creation and monitored the outputs of a dashboard to support the continuous assessment of climate change related risks
- Reviewed the delivery of our first generation of physical risk modelling to support credit decisioning
- Reviewed and agreed the impact of the Bank of England 2021 Biennial Exploratory Scenario (BES) discussion paper.

A climate change risk team has been formed to ensure a strategic focus is applied when considering climate change risks and opportunities on our business. This team works in conjunction with other specialist teams, such as those involved in stress testing, financial risk management, credit risk and third party relationships, among others, to ensure a consistent approach is taken across the business.

Strategy

Supporting the transition to a net-zero economy is a key part of Nationwide's strategy as shown through our commitment to make £1 billion of funding available and the wider action we are taking on.

Committed to doing the right thing (continued)

To ensure our strategic decisions are informed by an understanding of the opportunities and risks arising from climate change, we are developing our forward-looking view by building capability to model the different climate pathways and how the associated physical risks impact on our own and supplier footprints and the mortgages we provide.

Our approach to lending incorporates various environmental risk analyses. The assessment of several property-related risks is considered when originating new residential mortgages, including flooding, subsidence and energy performance using data from several external/expert sources to assess the risk and the impact on the current valuation of the property.

We are developing this approach through a pilot study to better understand the impact of different climate change pathways on our mortgage securities, housing association exposures and branch network to enable us to estimate the financial impact this may have.

In addition to this we recognise how a transition to a net-zero economy may result in various political and technological shocks that could impact Nationwide. Early work is underway to understand what these could look like to enable us to then develop scenarios to better understand the risks these pose.

Risk management

As a business, we manage climate change risk in line with our risk management framework. Due to the nature of climate change risk, and the impact across all risk categories, we recognise climate change as a driver of risk (cause) which allows us to identify all the different ways the risk could materialise so that we can ensure climate change has been fully considered.

In addition to recognising climate change within our risk categorisation model, other key developments in our capability include:

- Publishing a climate change risk standard which articulates how the risk should be managed and is linked to our risk policies to ensure an integrated and consistent approach across all risk categories
- Enhancing the consideration of climate change within our new initiative development framework and our third-party sourcing and contracting process
- Partnering with academia and within the financial services industry, focused on building understanding, and creating a link between academic research, commercial implementation and building best practice.

Metrics and targets

The environment will undoubtedly remain the dominant discourse of this century. All governments and businesses must do all they can to reduce waste, pollution and use of natural resources, restore biodiversity and ecosystems, and return the planet to, at least, net-zero carbon. This means balancing emissions produced by removing the same amount of emissions, through other means, by 2050.

Our environmental sustainability strategy is intended to accelerate climate action. We have led the way for some years with some of our operational targets and initiatives. We are proud of our repeated Carbon Trust Triple Standard accreditation for our management of water use, waste and energy consumption. Carbon dioxide remains the dominant target and since April 2020, we have been carbon neutral for our internal operations' scope 1 and 2 emissions, including energy use and business miles from our own fleet. 100% of our electricity has been supplied from renewable sources since 2018 and we have offset all remaining scope 1 emissions through verified carbon offsetting projects that actively remove carbon from the atmosphere. Our focus for the coming year is to build a clearer picture of emissions produced by our employees' commute, suppliers, and products, and what scope 3 and associated science-based targets look like for the finance industry. Armed with this information, we will be able to take meaningful action.

In addition to reducing the carbon footprint of our operations we will continue to work ever closer with our suppliers, to assist them with increasingly stretching environmental objectives.

A summary of our performance is as follows:	Year to 4 April 2020	Year to 4 April 2019	Baseline year 4 April 2011
Carbon dioxide (CO_2e) in tonnes (notes i and ii)			
Scope 1 emissions			
Energy	**3,966**	3,721	4,890
Travel	**823**	2,190	2,448
Scope 2 emissions			
Electricity	**20,907**	23,446	50,802
Total Scope 1 and 2 emissions (note iii)	**25,696**	29,357	58,140
PPA carbon reduction (note iv)	**(21,367)**	(22,187)	-
Absolute carbon outturn	**4,837**	7,170	58,140
Total carbon dioxide in tonnes per FTE	**0.30**	0.39	3.46
Water use (cubic metres)	**199,547**	195,854	259,718
Water use (cubic metres) per FTE	**10.79**	10.56	15.45
Waste generated in tonnes	**2,468**	2,581	4,554
Percentage of waste recycled	**58%**	63%	43%

Notes:

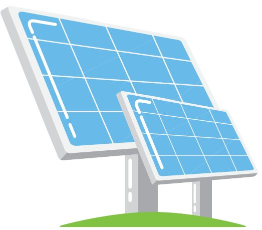
i. CO_2e is an abbreviation of 'carbon dioxide equivalent' and is the internationally recognised measure of greenhouse gas emissions.

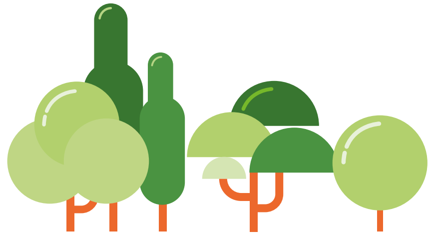
ii. When calculating our carbon emissions we have used the DEFRA 2019 conversion factors.

iii. Scope 1 covers direct combustion of fuels and company owned vehicles and Scope 2 covers emissions from electricity. Amounts presented for the year to 4 April 2020 reflect latest estimates as at May 2020.

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

Our carbon journey to 2030





2012

- Solar panels installed on our head office building in Swindon

2014

- Achieved Carbon Trust Triple Standard for water, waste and energy, which recognises organisations that follow best practice in measuring, managing and reducing their environmental impact

CARBON TRUST STANDARD
CO_2
REDUCING YEAR ON YEAR

2015

- Started carbon offsetting
- Zero waste to landfill, with all non-recyclable waste converted to energy
- Old IT equipment recycled or donated to charity
- Set 2020 carbon, water and waste reduction targets

2016

- Electricity accounts for approximately 90% of our total energy usage, and we signed a long-term solar farm Power Purchase Agreement for over 50% of our electricity use[11]

2018

- Signed up to green wind and hydro energy, meaning 100% of our electricity comes from renewable sources
- Car-share scheme introduced for colleagues' commute to work
- Renewal of Carbon Trust accreditation and awarded an additional Carbon Trust standard for Supply Chain

2019

- More than 30 electric car charging points installed and electric vehicles available on colleague car scheme
- £100K employee green fund for colleague-inspired green workplace changes
- 90% of food produce sourced within a 50 mile radius
- Food waste from admin sites converted to biogas and cooking oil returned to supplier to be used as fuel for their vans

2020

- 100% carbon neutral from April 2020 for all energy use and emissions for internal operations and Nationwide fleet vehicles by offsetting residual carbon
- 90% carbon reduction since 2010
- 46% waste reduction since 2010
- Partnered with the Woodland Trust to plant 60,000 trees in 5 years

2020+

- Develop plans to eliminate our use of single-use plastic by 2025
- Supply chain, products and commuter review to determine a plan to extend our carbon neutrality to scope 3, by 2030

[11] Gas accounts for approximately 10% of our energy; the balance is residual diesel

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Committed to doing the right thing (continued)

Responsible supply chain

We have continued to expand our Supply Chain Responsible Business Team and our efforts to manage environmental, social and governance risks and opportunities in relation to our supply base. The team sets the strategy for ensuring we have an ethical and sustainable supply chain and engages and supports our suppliers to deliver responsible improvements for the long-term.

This year, we have continued to work with Social Enterprise UK as part of the SEUK Buy Social Corporate Challenge, calling on businesses to collectively spend £1 billion with Social Enterprises. We promote this both within Nationwide, and through our supply chain, raising it at an event attended by over 50 key suppliers.

We celebrated our one-year anniversary with social business WildHearts, who provide a lower impact office supply range while equipping young people in the UK with key employability skills and tackling gender inequality in the developing world. In March 2020, they estimated that more than 3,000 lives have been changed globally as a result of our partnership alone. We also work inclusively with social enterprises as we fund the building of environmentally friendly new homes in our Oakfield development[12].

We recently co-hosted an event with Business in the Community for procurement professionals: *Sourcing to meet Global Goals: tackling the dilemmas of Responsible Procurement*. The session was attended by over 60 delegates and looked at supply chain decarbonisation, modern slavery in supply chains, and supply chain diversity and resilience. Working with external experts on these topics, we will continue to further enhance our supply chain, for the benefit of our members and the wider society.

Our employees are stepping up to the challenge

Employees, too, will be increasingly engaged to take action to reduce scope 3 emissions, as well as being encouraged to make changes in their personal lives and behaviours to help with this collective imperative. Several initiatives will be rolled out to support this over the coming year, and beyond.

Already in place, our 'green fund' is an annual pot of money available for employees to implement green initiatives in the workplace. A plan to enhance the biodiversity of the land surrounding Nationwide administration sites is already underway, with wild meadows, bird boxes, bat boxes and information signs to increase awareness and understanding of its importance. Other employee-led initiatives include a structured approach to removing all single use plastics across our administrative sites by 2025 and a drive to make Nationwide the first large financial services provider to use 100% recycled paper internally.

Responsible lending

We have also publicly committed to work with governments, housebuilders, landlords and members to do what we can to reduce carbon emissions from the UK housing stock[13]. This builds on capability we have been developing for several years.

Identifying a gap in property risk data

In 2013, Nationwide identified a gap in how and when lenders collect data regarding the mortgage security property, which impacts risk management and the customer journey. This often means that consideration of environmental risks on the property is limited and only takes place after the mortgage offer has been issued through the conveyancing process, which can be inconsistent and is reviewed by a professional who is not qualified in this area.

Recognising this needed to change, we started to develop a property hub to collect data for future decisioning and the ability to manage climate risk, in conjunction with key partners such as Airbus Defence and Space, JBA Risk Management Ltd and Ordnance Survey.

This capability went live in 2016 and started the journey to enable us to decide what is a suitable residential security for lending; how changing climate and environmental factors will impact properties over a typical mortgage term of 25 to 40 years. This was also the first step in a fundamental change to valuation methodology, moving away from a pure present-day comparable basis to incorporate new longer-term environmental data sources and models of climate change impacts.

Integrating environmental data sources

Key to this is to collect data on every property at the start of the process so the decisioning can be upfront and not impact the customer journey post-mortgage offer. Data is specific at the property-level and is available from several expert specialist providers using a Unique Property Reference Number (UPRN) to ensure consistency.

Relevant data sources considered include:

- Energy Performance Certificate rating
- Flood data (run-off, river and coastal)
- Coastal erosion data
- Ground stability data (subsidence, soil, sand, silt)
- Natural ground hazards (mining, sink holes, etc)
- Insurability (consideration given to the Government and Insurer backed Flood Re scheme, that supports the insurability of high flood risk properties)

Through the modelling of this data, we assess these property-related risks when originating a new residential mortgage, which allows different methods of valuation (Automated Valuation Model, desktop, full physical) to be mandated, and informs the current valuation of each property.

Using visualisation tools and risk modelling

Visualisation tools can be used to help us understand and assess specific risk events. For instance, recent flooding at Whaley Bridge reservoir and the River Don in Sheffield was captured with flood imagery that illustrated the individual properties impacted. Imagery such as this will enable us to identify where some of our members may need assistance, without relying on them contacting us first.

Building a hub of data on our mortgage portfolio allows scenario analysis and stress testing of various environmental perils under different climate change scenarios, for example an increase in temperature. This will allow us to model the impact of given long-term climate scenarios on the whole mortgage portfolio, to estimate the financial impact from the degradation or to mitigate the physical impact. An example of how we could use this capability is shown below, where a scenario can be set to demonstrate the potential impact of rising sea levels.

[12] Further information is available on our website at www.nationwide.co.uk/oakfield
[13] For more on our commitment to reducing the carbon impact of UK housing, see page 12

Committed to doing the right thing (continued)

Improving our understanding of potential scenarios means we can continue to make informed lending decisions in the best interests of the Society and our members, enabling us to better understand the risks that may occur over the lifetime of the mortgage.

	Residential Mortgages			Buy To Let		
	Number	Exposure £bn	% of Book	Number	Exposure £bn	% of Book
Properties in red flood risk zone (note i)	433	0.05	0%	204	0.02	0%
Properties in amber flood risk zone (note i)	25,991	3.22	2%	8,506	0.98	3%
EPC Rated D /E	371,766	51.93	33%	113,583	13.30	53%
EPC Rated F/G	23,163	3.34	2%	5,705	5.75	2%

Note:
i. Flood risk scores are weighted by risk level and type (e.g. coastal flooding) and any flood defences in place.

Understanding the EPC ratings of our mortgage book

In addition to understanding the physical risks of climate change, we have also been looking to better understand our exposure to transition risks. Within our mortgage lending, EPC data provides insight into the energy efficiency of properties on which we lend.

Understanding the distribution of EPC ratings across the country allows us to take a more holistic view of lending than one based purely on physical factors. EPC ratings currently inform some of the affordability calculations within our buy to let lending, as a driver of rental value and future maintenance expenditure. When combined with other factors such as mortgage affordability, the ratings can provide insight into otherwise hidden concentrations of risk. This is likely to become increasingly important as future regulatory and government policy action looks to decarbonise the UK housing stock.

Using a combination of our visualisation and modelling capabilities, scenario analysis and stress testing, and an analysis of EPC ratings, we track the exposure of our mortgage portfolios to flood risk and energy efficiency. The table shows the lending exposures as at 31 December 2019.

This information informs our quarterly climate change risk reporting dashboard, and is combined with other metrics such as:

- The number of UK extreme weather events
- Annual Climate Change Committee assessment of UK progress against carbon budgets
- The frequency of climate change being raised in Nationwide Investor meetings
- The number of physical risk related incidents that have impacted Nationwide's operations
- Nationwide operations green profile (tracking waste and emissions figures)

This reporting drives more informed discussions around actions we want to take, how we can help our members and how we wants to manage these exposures.

Developments planned for the next 12 months

Over the next 12 months, aligned to both work underway and the capability we will develop to meet the requirements of the 2021 Biennial Exploratory Scenario, Nationwide expects that it will be able to understand and disclose:

- The output of the pilot work underway to allow us to analyse the physical impacts of a two degree temperature increase scenario
- Our view on likely net-zero carbon transition pathways and the impact this may have on our business
- Our understanding of the operational and conduct risks that could result from climate change and the transition to a lower carbon economy
- Our understanding of scope 3 emissions, and a plan to manage this

Anti-corruption: doing the right thing to prevent crime

Criminal intent, whether a direct or indirect result of our activities, is a core concern at Nationwide and plays a central role in our strategic intent and operations.

Criminal methods are continually evolving and becoming more sophisticated and we have an obligation to maintain effective defences that combat financial crime and protect society and the integrity of the financial markets. We continue to develop our strategies and capabilities to prevent, deter and detect financial crime through ongoing enhancements to internal policies, procedures and systems. A dedicated Money Laundering Reporting Officer (MLRO) is in place to ensure we meet our money laundering requirements and help us understand and comply with regulations and individual responsibilities.

Cybersecurity: We are trusted to keep our members' money and data safe. Over the last year, the financial services industry has been subject to a concerted campaign of ever increasing and sophisticated attacks against systems worldwide, including hacks, ransomware and phishing. Approved at a Board-level committee, the Nationwide Security Strategy 2018-21 supports the sustained focus and annual multi-million-pound investment to mitigate cyber risks and to take a proactive approach to money and data security. The Society works with the wider industry and the Government's National Cyber Security Centre to share good practice and understanding on new and evolving threats.

To educate our people, improve behaviour and measure effectiveness, we regularly target groups and individuals in our business with simulated phishing campaigns. During induction and then every year, our people must complete security awareness training, reinforced with further training and engagement campaigns throughout the year. Our training covers information, physical and data security (including GDPR), and helps us protect members and colleagues from threats to their assets and information.

Bribery and corruption present a risk for organisations across the world, and a collaborative approach across governments, law enforcement agencies and businesses is taken to tackle the issue.

Nationwide is bound by the laws of the UK, including the Bribery Act 2010 which concerns conduct both at home and abroad.

Nationwide takes a zero-tolerance approach to bribery and enforces effective systems, and risk-based controls and procedures. These include a communication programme, mandatory annual staff training and awareness initiatives, a whistleblowing procedure, portal, helpline and app, and a regular review of the Anti-Bribery and Corruption policy and other related policies. This also extends to our supply chain.

Code of conduct: Nationwide has a code of conduct policy that outlines the expectations, behaviours and mandatory requirements with which employees and workers operating under our contractual terms and conditions, must comply. This is reinforced with a suite of mandatory annual training modules covering topics such as conflicts of interest, market abuse, bribery and corruption.

Non-financial information statement

We welcome the increasing focus from regulators and stakeholders on non-financial matters in order to give a more complete picture of our performance. This section constitutes non-financial information, produced in accordance with sections 414CA and 414CB of the Companies Act 2006.

We have used cross referencing to other sections of the Annual Report and Accounts or other publications, to avoid duplication.

Reporting requirement	Pages
Our business model and information on how we do business differently	4
Our KPIs set out how we are doing on service, value and strength	11
Our key risks and their management	39 to 40
Our employees	20 to 21
Social matters	23 to 24
Human rights	28 to 29
Financial crime and anti-corruption	36
Environmental matters	31 to 35

Responding to Covid-19

The way we interact with one another, manage our personal and working lives, and the pressures we face have changed rapidly – the repercussions of which will be felt for a long time to come. The spirit of communities, professions and individuals to help those in need has been phenomenal, and organisations in a position to help have a duty to do so. As a building society, we provide an important service, in a key industry, and the health, safety and wellbeing of our members and employees in protecting this service remains paramount. To ensure Nationwide's response is effective, a Covid-19 incident response team, led at Nationwide Leadership Team level, and a series of new and evolving policies and measures, have been put in place.

Taking care of our employees

Wellbeing and welfare

- **Committed to no compulsory redundancies in 2020**, to secure the financial and emotional wellbeing of our colleagues during the height of the pandemic
- **Stress tested our systems and processes prior to lockdown** by stopping all business travel and enforcing two days' homeworking wherever possible
- **#inittogether internal social media** campaign to keep colleagues connected in a fun and supportive way and recognise people for their outstanding contribution
- **Visible leadership**, including our CEO and Chairman, delivered through an extensive communications approach, utilising webcasts, blogs, all-employee videos, emails, intranet posts and site visits
- **Flexed our approach to holiday and volunteering**, increasing paid Covid-19 related volunteering in 2020 from two to five days, and increasing entitlement for annual leave to be carried over to the next year
- **Supported colleagues in adjusting to homeworking**, with advice and support, bitesize leadership development sessions and free subscription to school material
- **Additional paid leave** for vulnerable employees and those with caring responsibilities

Ensuring safety and security

- **Office-based employees work from home**, where viable, with core teams split across different sites for critical activities that cannot be managed from home
- **Widespread, regular cleaning** in all our buildings
- **Regular updates to colleagues** from the Nationwide Group Staff Union (NGSU)
- **Observance of social distancing measures** in admin centres and branches
- **Providing physical protection solutions**, with disposable gloves, face visors, hand sanitiser, and temporary Perspex screens in branches

Doing the right thing

- **Our Chief Executive requested a reduction in his base salary and pension** by 20% for 2020/21 and agreed to forfeit any variable pay that may be due to him for the 2019/20 financial year – the first leader of a major financial services organisation to do this
- **Our non-executive directors have volunteered to donate 20% of their net fees** from June to December of this year to Shelter, to help support vulnerable people impacted by Covid-19

Easing pressure from our frontline and critical operational colleagues

- **Additional resource** to frontline and critical areas and diversion of branch colleagues' efforts to support call centres and reduce call waiting times
- **Successfully engaged government**, with UK Finance and the Building Societies Association, to recognise critical financial services roles as key workers to access schooling for their children
- **Embraced innovative ways of working** that resulted in a fast-paced, agile mindset – quickly responding to the needs of our colleagues, for the benefit of our members

In the first two weeks from the lockdown announcement in March...

4,000
Colleagues were recognised internally for their **#inittogether** effort and commitment

Fewer than
11.5% of our admin staff were still working from our offices

Branch colleagues handled approximately
9,000 calls daily to help call centres with call waiting times

Taking care of our members and communities

Supporting those impacted financially

- **Three-month payment holiday** on mortgages (including landlord-owned properties), loans, credit cards and interest-free period on overdrafts
- **Automated our payment holiday request process**, making it easier for our customers to apply and to minimise service disruption
- **Commitment to mortgage members** not to repossess any homes over the next 12 months
- **Penalty free early access to savings** from fixed term accounts
- **Additional support for our charity partners**, by donating our TV advertising space to Shelter, paying our normal monthly charity donations as a single lump sum, and increasing our donations
- **Restrictions removed from community grants** so recipients could make local decisions on where best to focus spending
- **New web page** to support members looking to make travel insurance claims

Minimising service disruption

- **Additional support for existing mortgage applications** with an extended mortgage offer period and digital valuations
- **Most of our branches remained open** but with reduced opening hours, to help us focus on providing our essential weekday services in a safe and reliable way
- **Planning for the medium to longer term** by recognising the likelihood of some positive and enduring changes, and seeing how we might embed these for the benefit of members and employees
- **Redirected resource** from other areas of our business to maintain our telephone service for those members wishing to access their money remotely
- **Extended our emergency telephony payment process**, helping members who would typically make payments in branch to use our telephone channels for internal transfers and faster payment
- **Set up a 'Covid hub' website** detailing how we can support members and what they need to do
- **Death notifications now possible online**, removing the need for the paper-based solution we used in the past

Supporting the most vulnerable

- **Members urged to use digital banking channels to free up phonelines for elderly and vulnerable;** we wrote to approximately 9 million members promoting our digital channels, engaged in digital conversations to help our members with their digital interactions and developed additional digital forms to improve online experiences
- **Set up a third-party mandate process** to help those members no longer able to use our branches or manage their own finances. The mandate enables a trusted family member or friend to take out or pay in money on their behalf, in branch or over the phone
- **Created a guide of what colleagues can do to support local communities**, from helping as a Red Cross reservist, to donating to charity partners and supporting local food banks
- **Contacting cash and branch-dependent passbook members** with options for accessing and managing their money
- **Branches opened early for elderly and vulnerable members**, ringfencing time to ensure they can access their money – replaced with remote solutions after a week

Protecting health, safety and security

- **Worked with UK Finance to make the case to increase the contactless payment limit** to £45, to ensure safer hygiene for day-to-day in-shop purchases
- **Fraud and scam support** provided extra information for colleagues and members on the potential 'coronavirus twists' to the common scams

Taking care of our suppliers

- **Reduced time to pay SME suppliers**, targeting 10 working days, to protect their cash flow and survival

In the first two weeks from the lockdown announcement in March...

First time internet bank use was up

300%

Mobile banking registrations were up

200%

500%

increase in calls following the announcement of mortgage payment holidays (55,000 in just one day)

Risk overview

Nationwide adopts a prudent approach to risk management, keeping our members' money safe and secure by ensuring that the risks we take in support of our strategy are controlled through a robust risk appetite framework. To ensure risks are managed consistently and rigorously, we operate an Enterprise Risk Management Framework, which sets out the minimum standards and processes for risk management. Further detail on this framework is included on page 135 of the Risk report.

Our attitude to risk

We take prudent credit and business risks which support our core purpose of building society, nationwide:

- Over more than a century of lending in the UK mortgage market, we have developed strong expertise in credit and property risk. We utilise this experience to provide UK prime and buy to let residential mortgage lending and offer unsecured lending to retail customers;
- We remain committed to operating as a UK-focused building society. Our concentration in the UK means we are exposed to the UK economy, and our focus on the residential property market results in lower, but less volatile margins. We control this risk by managing the Society in a prudent manner and through offering an innovative set of products and propositions.

We minimise operational and conduct risks which could cause disruption or detriment to our customers, whilst providing value for money for our members:

- We operate robust controls and processes to minimise disruption to our services through our day to day business operations as we continue to invest in the transformation of our systems;
- We treat customers fairly and ensure our propositions meet customer needs, using our expertise to balance the risk and reward of our products both for our members and for the Society.

To remain safe and secure we hold sufficient financial resources to meet our obligations and manage our solvency and liquidity risks:

- We maintain sufficient capital and liquidity resources to support current business activity and planned growth, and to remain resilient to significant stress;
- We only incur market risks that are required for operational efficiency, stability of earnings or to minimise costs in support of core business activities;
- We maintain stable and diverse funding sources (primarily retail deposits from our members) to ensure a prudent funding mix and maturity concentration profile.

Further detail on how we manage each of the principal risk types to which Nationwide is exposed is included on pages 135 to 137 of the Risk report.

Later life lending – Our approach to risk in action

The later life lending proposition has been developed in response to a member need to access money locked up in their homes to support their retirement. As with any new product, there were a number of risks which needed to be managed to offer the product safely to our members. For later life lending, whilst all risks were considered and managed, the two most significant risks were credit and conduct risks.

Credit risk – Later life lending poses different challenges to our existing mortgages, with member income coming from different sources and the purpose of the loans being different. Our knowledge of the UK residential property sector allowed us to understand better the credit risks associated with lending into later life, helping to define the credit criteria of the proposition.

Conduct risk – Later life borrowers have a range of differing needs and circumstances. To protect each individual, it is crucial that we fully understand these needs and provide them with the support they need to help choose whether a later life mortgage is right for them. We considered all stages of the product, from how it is designed and how we inform customers about the options to how we train our people and whether external advice should be taken, to ensure the customers consistently receive the right outcome.

By considering how these risks impact both the customer and the Society, we were able to support more people without taking on more risk.

Developing our risk management

Over the year we have continued to improve risk management at Nationwide through the launch of the Society's new governance, risk and compliance tool, rationalising our suite of risk policies, improving our standards and guidance, and aligning to industry standard risk and control taxonomies. Further detail on these developments is included on pages 135 to 137 of the Risk report which also outlines how we have matured our classification and reporting model.

Risk overview (continued)

Top and Emerging Risks

The Board continually monitors the most significant risks to the Society. Whilst these risks remain similar to those identified last year, they have been significantly impacted by the ongoing Covid-19 outbreak, which has materially impacted the Society's risk profile. Nationwide was quick to invoke the highest level of risk management response to minimise the impact on our risk profile, while continuing to provide key services and ensuring the safety both of colleagues and customers.

Nationwide's strategic responses to its top and emerging risks are described below, together with updates on specific external and internal risks. More information on our response to these risks is shown in the Risk report, or elsewhere in the Strategic report as referenced.

Geopolitical and macro-economic environment – Nationwide is naturally exposed to any downturn in the UK's economic conditions and to the UK housing market in particular. The Covid-19 pandemic has severely impacted both the UK and global economy.

Our strategic response:

- We maintain strong capital and liquidity surpluses over regulatory minima with a CET1 ratio of 31.9%, UK leverage ratio of 4.7% and liquidity coverage ratio of 163.1%.
- We undertake robust internal and regulatory stress tests, including the Bank of England stress test in which we maintained capital ratios in excess of regulatory requirements.
- We continue to proactively respond to circumstances relating to Covid-19 as they develop.

Resilience – The way our members use our services is changing, driven by changes in technology in the longer term and by the operational challenges posed by Covid-19 in the short term. This has increased the demand on our systems, processes and staff to maintain critical member facing services.

Our strategic response:

- We continuously develop controls across new and existing processes and technologies to protect our systems and customer data.
- We are investing in our technology and infrastructure to improve services and minimise the risk of disruption to members.

Competition – The competitive environment remains intense as ring-fenced banks with cheaper funding and excess liquidity have continued to focus on our core markets and new market entrants, seeking to exploit new technologies, look to grow market share.

Our strategic response:

- We are diversifying our product range in response to specific customer needs, including initiatives such as later life lending.
- We are leveraging our branch presence; having introduced a new branch design three years ago, we have now upgraded 200 branches, nearly a third of our network. This year we are also testing new branch formats in Lichfield and Sheffield.

External Risks	Change	Page
Pandemics – The Covid-19 outbreak is having far-reaching impacts on the economy, impacting our financial performance, credit profile and the way we interact with customers and our business operations.	New	37
Climate change – The physical and transition risks of climate change are becoming ever more apparent and have the potential to pose a significant threat to Nationwide without a co-ordinated and timely response.	↗	31
Regulatory change – The regulatory environment continues to respond to the Covid-19 outbreak with regulators focused on maintaining confidence in UK financial services and ensuring that markets operate fairly for customers.	↗	214
Libor transition – Nationwide is exposed to a range of Libor linked assets, liabilities and derivatives which will be impacted by the phasing out of Libor in 2021.	→	218
Cyber – The sophistication of cyber-attacks continues to increase, at the same time as Nationwide and our members embrace new technologies, potentially leading to new or increased vulnerabilities to external threats.	→	214
Brexit – Whilst the UK has now left the European Union, uncertainty remains until the details of the relationship between the UK and the EU are finalised.	→	201

Internal Risks	Change	Page
Data – As increasing volumes of customer data are utilised to improve experience and deliver intuitive digital services, the safeguarding of customer data is becoming increasingly critical.	→	215
Transformation – The Society's technology change agenda increases the risk of service disruption or cost increases in the short term.	→	216

Key (level of risk to Nationwide)

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

Financial review

In summary

The environment in which the Society concluded its financial year was unprecedented. Covid-19 has caused extensive worldwide economic impacts, leading to government and regulatory responses, including two UK bank base rate reductions during March 2020.

Notwithstanding this, our financial performance over the course of the year has remained strong and resilient as we continue to balance the needs of our members with investing in the Society and retaining profits. The Financial Performance Framework which has guided our decisions in the past is not considered appropriate in the current environment as we instead focus our attention on maintaining our strong capital and liquidity positions through the economic cycle. Our capital position at the year end remains robust with our CET1 and UK leverage ratios at 31.9% and 4.7% respectively (4 April 2019: 32.2%[1] and 4.9% respectively), comfortably in excess of regulatory requirements. We recognise that the economic and market uncertainty is likely to persist; however, we anticipate that we will continue to maintain our strong capital position above current regulatory requirements and will remain a safe place for our members' money.

Underlying profit for the year ended 4 April 2020 was £469 million (2019: £788 million), with statutory profit before tax for the year at £466 million (2019: £833 million). Prior to the impacts of the Covid-19 pandemic, we expected a reduction to our profits as a result of our commitment to our strategic investment, which includes our technology programme, combined with continued competition in the mortgage market. During March 2020, there were material impacts to our financial performance in relation to Covid-19 following the bank base rate reductions and as we enter a more uncertain economic environment.

We have continued to offer good value products to our members with £715 million (2019: £705 million) of financial benefit provided to members[2], predominantly through mortgage and deposit products. Despite the uncertainty in the external environment and competitive market conditions, trading performance for the year has been robust. In line with expectations, total net mortgage lending has decreased during the period to £2.8 billion (2019: £8.6 billion). Our response to the sustained market competition resulted in negative net lending in prime mortgages of £0.5 billion (2019: £7.3 billion positive net lending); however our market leading proposition and strong buy to let mortgage franchise, which saw net lending of £3.3 billion (2019: £1.3 billion), has resulted in positive net lending overall for the year. Total member deposit balances grew by £5.7 billion (2019: £6.0 billion), of which £2.5 billion (2019: £1.4 billion) is growth in current account credit balances. The growth in deposit balances reflects successful retention of balances, our competitive current account proposition and the launch of our range of new savings accounts.

In light of a change to our view of the economic outlook as a result of Covid-19, we have recognised additional credit provisions of £101 million, resulting in a total charge in the year of £209 million (2019: £113 million). Underlying performance of portfolios remained broadly stable.

The conduct provisions charge of £56 million at 4 April 2020 (2019: £15 million) is predominantly due to higher than anticipated PPI claims ahead of the FCA's deadline in August 2019.

Administrative expenses have increased by £58 million compared to last year. The year-on-year growth is attributable to the impact of current and previous strategic investment, along with the costs relating to the in-year development and subsequent cessation of our business banking proposition. These are in part offset by a one-off gain from the decision to close our defined benefit pension scheme to future accrual on 31 March 2021. Achieving sustainable cost savings and embedding efficiencies remains a priority for the Society. Our continued focus on efficiency has now delivered over £400 million of sustainable run rate cost saves since commencement of our efficiency programme in 2017/18, with £90 million of sustainable cost saves delivered in 2019/20.

[1] 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 decimal place.

[2] This represents member financial benefit. Further information is provided on page 43.

Chris Rhodes

"The environment in which the Society concluded its financial year was unprecedented."

Underlying profit:
£469m
(2019: £788m)

Statutory profit:
£466m
(2019: £833m)

UK leverage ratio:
4.7%
(2019: 4.9%)

Financial review (continued)

Income statement

Underlying and statutory results	2020	2019
	£m	£m
Net interest income	**2,810**	2,915
Net other income	**236**	255
Total underlying income	**3,046**	3,170
Administrative expenses	**(2,312)**	(2,254)
Impairment losses	**(209)**	(113)
Provisions for liabilities and charges	**(56)**	(15)
Underlying profit before tax	**469**	788
Financial Services Compensation Scheme (FSCS) (note i)	**4**	9
(Losses)/gains from derivatives and hedge accounting (notes i, ii)	**(7)**	36
Statutory profit before tax	**466**	833
Taxation (note iii)	**(101)**	(197)
Profit after tax	**365**	636

Net Interest Margin:
1.13%
(2019: 1.22%)

Underlying Cost Income Ratio:
75.9%
(2019: 71.1%)

Return on Assets
0.15%
(2019: 0.27%, note iii)

Notes:
i. Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:
- FSCS costs and refunds arising from institutional failures, which are included within provisions for liabilities and charges.
- Gains or losses from derivatives and hedge accounting, which are presented separately within total income.

ii. Although we only use derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.
iii. Comparatives have been restated for the change in treatment of taxation relating to distributions on Additional Tier 1 instruments as detailed in note 1 to the financial statements.

Total income and net interest margin (NIM)

Net interest income reduced by £105 million to £2,810 million (2019: £2,915 million). Part of the reduction is due to the bank base rate cuts during March in response to Covid-19. The remainder reflects an anticipated reduction in our net interest income for the financial year, given the building competitive pressure in our core mortgage market over recent years, combined with the continued decline in legacy managed rate mortgage balances.

We have mitigated the reduction in net interest income in part through a reduction of savings rates during the summer of 2019, as we sought to manage our cost of funding through closer alignment of pricing to the wider market. Despite this, during this year our depositors have earned interest at rates on average more than 50% higher than the market average. Net interest margin of 1.13% (2019: 1.22%) reflects the reduction in net interest income and growth in the balance sheet due to higher levels of liquidity and an increase in derivative balances due to weakening sterling.

Net other income has reduced by £19 million to £236 million (2019: £255 million) predominantly as a result of a reduction to the fair value of investments held. Further information on movements in net other income is provided in notes 5 and 6 to the financial statements.

Member financial benefit

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

We quantify member financial benefit as:
Our interest rate differential + incentives and lower fees

Interest rate differential

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

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

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

Member incentives and lower fees

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

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

For the year ended 4 April 2020, this measure shows we have provided our members with a financial benefit of £715 million (2019: £705 million). This demonstrates that we have continued to offer good long-term value products to our members in both the mortgage and deposit markets, despite strong levels of competition. In the current exceptionally low interest rate environment, it is unlikely that we will be able to meet our member financial benefit target in the next financial year. With bank base rate at 0.1%, paying savings rates significantly higher than this would not be financially sustainable, nor in the long-term interest of our members or the Society.

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

Administrative expenses

Administrative expenses have increased by £58 million to £2,312 million (2019: £2,254 million). The year-on-year growth is attributable to the impact of current and previous strategic investment of £111 million, along with costs relating to the in-year development and subsequent cessation of our business banking proposition, which in aggregate total £88 million (2019: £13 million). These are in part offset by the one-off gain of £104 million from the decision to close our defined benefit pension scheme to future accrual on 31 March 2021.

Our technology investment programme has continued to develop our digital services and data capabilities, together with ensuring the resilience and simplification of our technology estate. We have continued to review the implications of new technology development for our existing assets, leading to impairments and write-offs of £124 million (2019: £115 million).

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

Impairment losses/(reversals) (note i)		
	2020	2019
	£m	£m
Residential lending	**53**	(17)
Consumer banking	**159**	114
Retail lending	**212**	97
Commercial and other lending	**(3)**	16
Impairment losses on loans and advances	**209**	113

Note:
i. 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 during the year to £209 million (2019: £113 million) largely due to the introduction of a £101 million additional provision to reflect the increased credit risk associated with the Covid-19 pandemic. The underlying performance of our portfolios has remained broadly stable during the year.

More information regarding the critical accounting judgements, and the forward-looking economic information used in our impairment calculations, is included in note 10 to the financial statements.

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 £56 million (2019: £15 million charge) primarily as a result of an additional £39 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 issues relating to the administration of customer accounts. More information is included in note 27 of the financial statements.

Taxation

The tax charge for the year of £101 million (2019: £197 million[3]) represents an effective tax rate of 21.7% (2019: 23.7%[3]) which is higher than the statutory UK corporation tax rate of 19% (2019: 19%). The effective tax rate is higher due to the 8% banking surcharge of £24 million (2019: £32 million[3]), and the tax effect of disallowable bank levy and customer redress costs of £11 million and £4 million (2019: £8 million and £8 million) respectively. This is partially offset by the tax credit on the distribution to the holders of Additional Tier 1 capital instruments of £9 million (2019: £13 million) and the tax impact of deferred tax provided at different rates of £17 million (2019: charge of £3 million). Further information is provided in note 11 to the financial statements.

[3] Comparative figures have been restated. Further details are included in note 1 to the financial statements.

Balance sheet

Total assets have increased by 4% to reach £248.0 billion at 4 April 2020 (2019: £238.3 billion). Following our robust trading performance, residential mortgage balances increased by £2.8 billion, with the remainder of the balance sheet growth predominantly due to higher holdings of cash and liquid assets, and an increase in the value of derivatives due to a weakening of sterling and the fall in interest rates.

Member deposit balance growth has been robust with balances increasing by £5.7 billion to £159.7 billion (2019: £154.0 billion). Balance growth has been supported by the launch of a new savings range in October 2019. This is combined with strong growth in current account credit balances which accounts for £2.5 billion of the growth. In combination, these have enabled us to maintain our market share of deposits at 9.9% (2019: 10.1%), with our market share of main current accounts broadly stable at 8.1%[4] (2019: 8.0%).

Assets	2020		2019	
	£m	%	£m	%
Residential mortgages (note i)	**188,839**	***94***	186,012	*93*
Commercial and other lending	**7,931**	***4***	9,118	*5*
Consumer banking	**4,994**	***2***	4,586	*2*
	201,764	***100***	199,716	*100*
Impairment provisions	**(786)**		(665)	
Loans and advances to customers	**200,978**		199,051	
Other financial assets	**43,933**		36,709	
Other non-financial assets	**3,130**		2,541	
Total assets	**248,041**		238,301	

Asset quality	%		%	
Residential mortgages (note i):				
Proportion of residential mortgage accounts more than 3 months in arrears	**0.41**		0.43	
Average indexed loan to value (by value)	**58**		58	
Consumer banking:				
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.22**		1.35	

Liquidity Coverage Ratio:
163.1%
(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 year was £30.9 billion (2019: £36.4 billion), representing a market share of 11.4% (2019: 13.4%). Despite the sustained competition in the UK mortgage market, we have maintained broadly stable prime mortgage balances at £151.1 billion (2019: £151.5 billion). Our specialist mortgage lending (being predominantly buy to let) performed strongly with our second highest ever net lending of £3.3 billion (2019: £1.3 billion); our balances grew to £37.7 billion (2019: £34.5 billion) as a result of strong performance in our core product range, supported by enhancements to our proposition, including lending to limited companies and portfolio landlords.

Arrears performance has remained stable during the year, with cases more than three months in arrears at 0.41% of the total portfolio (2019: 0.43%). Impairment provisions have increased to £252 million (2019: £206 million), which includes an additional provision of £51 million in relation to Covid-19.

[4] Source CACI (Feb 2020) and internal calculations. 'Main current accounts' refers to main standard and packaged accounts.

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Commercial and other lending

During the year, commercial and other lending balances have decreased to £7.9 billion (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 £5.4 billion (2019: £6.0 billion), and project finance with balances of £0.7 billion (2019: £0.8 billion). With a smaller book, and fewer active borrowers requiring further lending, our commercial real estate balances decreased during the year to £1.0 billion (2019: £1.4 billion).

Impairment provisions have decreased to £40 million (2019: £41 million) with a reduction in the credit risk associated with one commercial loan being offset by the introduction of a £7 million additional provision to reflect the potential impact of Covid-19.

Consumer banking

Consumer banking balances have increased to £5.0 billion (2019: £4.6 billion). Consumer banking largely comprises personal loans of £3.0 billion (2019: £2.4 billion) and credit cards of £1.6 billion (2019: £1.8 billion). Personal loan balances have grown following the extension of our lowest ever headline rate for loans up to a value of £25,000.

Provisions have increased to £494 million (2019: £418 million) due to book growth and an additional provision of £43 million for the estimated impact of Covid-19, with underlying performance remaining broadly stable.

Other financial assets

Other financial assets total £43.9 billion (2019: £36.7 billion) and comprise liquidity and investment assets held by our Treasury function amounting to £37.4 billion (2019: £32.7 billion), derivatives with positive fair values of £4.8 billion (2019: £3.6 billion) and fair value adjustments and other assets of £1.8 billion (2019: £0.4 billion). The £4.7 billion increase in cash and liquid assets holdings is driven primarily by inflows from increases in retail deposits during the year. Derivatives largely comprise interest rate and foreign exchange contracts which economically hedge financial risks inherent in core lending and funding activities.

Nationwide's average Liquidity Coverage Ratio over the 12 months ending 4 April 2020 increased to 152% (2019: 143%). Nationwide continues to manage its liquidity against internal risk appetite, which is more prudent than regulatory requirements. Further details are included in the Liquidity and funding risk section of the Risk report.

Members' interests, equity and liabilities

	2020	2019
	£m	£m
Member deposits	**159,691**	153,969
Debt securities in issue	**35,963**	35,942
Other financial liabilities	**37,817**	33,755
Other liabilities	**1,608**	1,466
Total liabilities	**235,079**	225,132
Members' interests and equity	**12,962**	13,169
Total members' interests, equity and liabilities	**248,041**	238,301

Wholesale funding ratio:
28.5%
(2019: 28.6%)

Member deposits

Member deposit balance growth of £5.7 billion (2019: £6.0 billion) represents £3.2 billion of retail savings growth and £2.5 billion of growth in current account credit balances. This has been achieved despite the continuing competitive environment by launching our new savings product range in October 2019 and offering a competitive current account proposition. We have maintained our retail deposits stock market share of 9.9% (2019: 10.1%) with our market share of main current accounts broadly stable at 8.1% (2019: 8.0%), and have achieved our long-term target of a 10% share of all current accounts.

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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 remained broadly stable at £36.0 billion (2019: £35.9 billion). Nationwide's wholesale funding ratio has also remained broadly unchanged at 28.5% (2019: 28.6%); this ratio remains well below the statutory maximum limit of 50%. Other financial liabilities have increased to £37.8 billion (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 Risk report.

Members' interests and equity

Members' interests and equity have decreased to £13.0 billion (2019: £13.2 billion) largely as a result of the redemption of £1.0 billion 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

Statement of comprehensive income (note i)	**2020** **£m**	2019 £m
Profit after tax (note ii)	**365**	636
Net remeasurement of pension obligations	**119**	153
Net movement in cash flow hedge reserve	**(14)**	328
Net movement in other hedging reserve (note iii)	**(42)**	
Net movement in fair value through other comprehensive income reserve	**(67)**	(12)
Net movement in revaluation reserve	**(11)**	(1)
Total comprehensive income	**350**	1,104

Notes:
i. Movements are shown net of related taxation.
ii. Comparatives have been restated as detailed in note 1 to the 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 1 to the financial statements.

Gross movements are set out in the financial statements on page 234. Further information on movements in the pension obligation is included in note 30 to the financial statements.

Capital structure

Our capital position remains strong, with both the Common Equity Tier 1 (CET1) ratio and UK leverage ratio comfortably above regulatory capital requirements of 12.3% and 3.6% respectively. The CET1 ratio has decreased marginally to 31.9% (2019: 32.2%[5]) while the UK leverage ratio reduced to 4.7% (2019: 4.9%[5]).

Capital structure (note i)		
	2020	2019
	£m	£m
Capital resources		
Common Equity Tier 1 (CET1) capital	**10,665**	10,517
Total Tier 1 capital	**11,258**	11,509
Total regulatory capital	**14,578**	14,485
Risk weighted assets (RWAs) (note ii)	**33,399**	32,682
UK leverage exposure (note ii)	**240,707**	235,317
CRR leverage exposure (note ii)	**254,388**	247,757
CRD IV capital ratios:	**%**	%
CET1 ratio (note ii)	**31.9**	32.2
UK leverage ratio (note iii)	**4.7**	4.9
CRR leverage ratio (note iv)	**4.4**	4.6

Notes:

i. Data in the table is reported under CRD IV on an end point basis with IFRS 9 transitional arrangements applied.
ii. 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 decimal place.
iii. The UK leverage ratio (as defined in the PRA rulebook) is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves.
iv. The 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 reduced to 31.9% (2019: 32.2%[5]) primarily as a result of a £0.7 billion increase in risk weighted assets (RWAs). This was driven primarily by the application of the Simple, Transparent, and Standardised (STS) securitisation framework per Regulation (EU) 2017/2402, which from 1 January 2020 was applicable to all securitisation positions. Securitisations that are yet to comply with the STS criteria, generally those issued prior to the introduction of the framework, now incur a higher risk weight. In addition, there was an increase in the balance sheet value of fixed assets following the change to accounting for leases on adoption of IFRS 16. CET1 capital resources increased by £0.1 billion, due to profit after tax for the financial year of £0.4 billion, partially offset by distributions.

Although the future impact of Covid-19 is not yet clear, it is likely to lead to some RWA inflation and therefore a lower CET1 ratio in the short to medium term. Nationwide is undertaking planning activities which reflect a range of potential outcomes. However, the current capital position and the published stress testing results show that Nationwide is well capitalised and positioned to meet such periods of financial stress. Nationwide expects to maintain a surplus above the Capital Requirements Directive IV (CRD IV) combined buffer requirements and the threshold at which a maximum distributable amount (MDA) would be imposed.

[5] 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 decimal place.

Capital structure (continued)

The UK leverage ratio reduced to 4.7% (2019: 4.9%[6]) with Tier 1 capital reducing by £0.3 billion, as a result of the net redemption of £0.4 billion of AT1 capital instruments. This was in conjunction with an increase in UK leverage exposure of £5.4 billion primarily as a result of net retail lending and treasury investments over the year. The CRR leverage ratio is based on the Delegated Act definition and therefore exposures include central bank reserves. This also reduced by 0.2%, closing at 4.4% (2019: 4.6%[6]).

During March 2020 the Bank of England made announcements on the measures it was taking in response to the outbreak of Covid-19. These included a delay in the expected implementation date for new residential mortgage IRB models until 2022, which incorporate the changes required by the PS13/17 Policy Statement. These changes are anticipated to increase RWAs, leading to an estimated reduction in the CET1 ratio of approximately one third, based on the current capital position. It is expected that the CET1 ratio will be impacted further by the finalised Basel III reforms which come into effect progressively between 2023 and 2028. The impact of the full implementation of this legislation will supersede the effect of the new IRB models, with an expected reduction in the reported CET1 ratio of approximately a half relative to the current capital position.

Since 4 April 2020, the European Commission has announced amendments to the treatment of IFRS 9 transitional capital relief. This is intended to provide relief for an increase in provisions as a result of the economic impacts of Covid-19. This is expected to be implemented by 30 June 2020 and as such any impacts of this change will be captured within future capital disclosures.

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

[6] 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 decimal place.

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Governance

Elizabeth, member since 1996

Board of directors

Meet your Board of directors who were in office at 4 April 2020, including Phil Rivett, who is seeking election as a non-executive director.

Key

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

David Roberts CBE

ng r

Non-executive director and Chair elect from 1 September 2014. Chair since July 2015 (independent upon appointment as Chair)

Skills and experience

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

Other current positions

- Chair, Beazley plc
- Chair, Beazley Furlonge Limited
- Vice Chair, NHS England
- Associate non-executive director, NHS Improvement
- Non-executive director, Campion Wilcocks Limited
- Advisor Board member, The Mentoring Foundation Advisory Council
- Member, Strategy Board, Henley Business School, University of Reading

Previous positions include

- Group Deputy Chair, Lloyds Banking Group plc
- Executive director, Barclays Bank plc and CEO, International Retail & Commercial Banking
- Chair and CEO, Bawag PSK AG
- Non-executive director, BAA plc
- Non-executive director, Absa Group SA

Joe Garner

Chief Executive Officer since 5 April 2016

Skills and experience

Joe's career started with Procter & Gamble and Dixons Carphone. He later took on leadership roles and in 2004 was appointed as Head of HSBC's Retail and Commercial Bank in the UK. In 2014 he became Chief Executive Officer of Openreach, BT's Infrastructure division. Joe became Nationwide Building Society's Chief Executive Officer in April 2016, inspired by the Society's principle of mutuality. Since then, the Society has grown its membership to a record 16.3 million, delivered £2.5 billion in member financial benefit and continued to lead its peers on customer service. Joe's mission continues to be to inspire colleagues to remain true to the Society's social purpose, using the power of the collective to improve people's lives.

Other current positions

- Director, UK Finance
- Member, Financial Conduct Authority Practitioner Panel
- Chair and Trustee, British Triathlon Trust
- Member, Economic Crime Strategy Board
- Co-chair, Inclusive Economy Partnership Financial Capability and Inclusion Steering Committee

Previous positions include

- CEO, Openreach
- Deputy CEO, HSBC Bank plc
- Head, HSBC's UK Retail and Commercial Business
- Non-executive director, Financial Ombudsman Service

Board of directors (continued)

Chris Rhodes

Executive director since 20 April 2009

Skills and experience

Chris was appointed Chief Financial Officer (CFO) in October 2019; he is a chartered accountant with over 30 years' experience in retail and commercial banking, holding senior leadership roles across finance, treasury, operations, retail distribution and risk management. Prior to this appointment, Chris was Nationwide's Chief Product and Propositions Officer. This broad background means he has a deep understanding of the Society and the mutual business model and he is ideally placed to oversee the long-term financial stability of the Society, ensuring the Society continues to invest for the future on behalf of its members.

Previous positions include

- Trustee, National Numeracy
- Director, Lending Standards Board Limited
- Group Finance Director, Alliance and Leicester Group
- Deputy Managing Director, Girobank
- Board Director, Visa Europe

Kevin Parry OBE

a ri ng

Non-executive director since 23 May 2016 and Senior Independent Director since 17 January 2020.

Skills and experience

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

Other current positions

- Chair, Royal London Mutual Insurance Society Limited
- Non-executive director and Chair of the Audit and Risk Committee, Daily Mail and General Trust plc

Previous positions include

- Chair, Intermediate Capital Group plc
- Trustee, Royal National Children's SpringBoard Foundation
- Chief Financial Officer, Schroders plc
- Chief Executive Officer, Management Consulting Group plc
- Managing Partner, Information Communications and Entertainment, KPMG LLP
- Senior Independent director, Standard Life Aberdeen plc

Rita Clifton CBE

a r

Non-executive director since 1 July 2012 (independent)

Skills and experience

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

Other current positions

- Chair, BrandCap
- Non-executive director, Ascential plc (previously known as EMAP plc)
- Member, Assurance and Advisory Panel, BP's carbon off-setting programme 'Target Neutral'
- Visiting Fellow, Saïd Business School, Oxford University
- Trustee, Green Alliance

Previous positions include

- Non-executive director, ASOS plc
- London CEO and Chair, Interbrand
- Vice Chair, Saatchi & Saatchi
- Non-executive director, Dixons Retail plc
- Trustee, WWF (Worldwide Fund for Nature)
- Non-executive director, Bupa
- Non-executive director, Populus Limited
- Member, the UK Government's Sustainable Development Commission

Board of directors (continued)

Mai Fyfield

r it ng

Non-executive director since 2 June 2015 (independent)

Skills and experience

Mai combines her experience as an economist and strategist with considerable commercial experience to guide the Board's strategic thinking and assessment of new opportunities and initiatives. She was Chief Strategy and Commercial Officer at Sky until October 2018, where she led strategy and commercial partnerships across the Sky Group, an organisation she joined in 1999. Mai is a champion of diversity and helping women succeed in senior management and Board positions.

Other current positions

- Non-executive director, Roku Inc
- Non-executive director, BBC Commercial Holdings Limited
- Non-executive director, ASOS plc

Previous positions include

- Director, Jupiter Entertainment
- Chief Strategy and Commercial Officer, Sky Group plc

Albert Hitchcock

it ri

Non-executive director since 2 December 2018 (independent)

Skills and experience

Albert is a leader in information technology with over 30 years in the technology industry. His experience is of huge value to the Society as we continue our ambitious transformation programme to meet the expectations of our members today and in the future.

Other current positions

- Chief Technology and Operations Officer, Pearson plc

Previous positions include

- Technology Adviser to the Board, Royal Bank of Scotland plc
- Group Chief Information Officer, Vodafone plc
- Global Chief Information Officer, Nortel Networks

Baroness Usha Prashar CBE PC

r

Non-executive director since 18 January 2017 (independent)

Skills and experience

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

Other current positions

- Member of House of Lords
- Honorary President, UK Community Foundations
- Member, the Home Building Review Panel
- Chair, Cumberland Lodge
- Chair, Federation of Indian Chambers of Commerce and Industry UK Council
- Member, International Advisory Board, ASPIDE
- Member, International Advisory Board, IE Business School
- Member, EU Internal Market Select Committee, House of Lords

Previous positions include

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

Board of directors (continued)

Phil Rivett

Non-executive director since 1 September 2019 (independent)

Skills and experience

Phil is a chartered accountant with over forty years' experience of professional accountancy and audit with a focus on banks and insurance companies. Phil has a wealth of experience advising major financial services providers in the UK and on a global basis; he has an exceptional leadership track record advocating a collaborative and inclusive approach.

Other current positions

- Non-executive director, Standard Chartered Plc

Previous positions include

- Global Chair, Financial Services Group, PricewaterhouseCoopers LLP

Tim Tookey

Non-executive director since 2 June 2015 (independent)

Skills and experience

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

Other current positions

- Non-executive director, Royal London Mutual Insurance Society Limited
- Director, Westmoreland Court Management (Beckenham) Ltd

Previous positions include

- Chief Financial Officer, Quilter plc (previously known as Old Mutual Wealth Management Limited)
- Chair, Alliance Trust Savings Limited
- Chief Financial Officer, Friends Life Group Limited
- Group Finance Director, Lloyds Banking Group
- Finance Director, Prudential plc's UK business

Gunn Waersted

Non-executive director since 1 June 2017 (independent)

Skills and experience

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

Other current positions

- Chair, Telenor ASA
- Chair, Petoro AS
- Member, Fidelity International
- Non-executive director, Saferoad Holding ASA

Previous positions include

- CEO, Wealth Management Division, CEO of Nordea Bank Norway and Executive Vice President at Nordea Bank Group
- CEO, Vital Forsikring and Executive Vice President of DnB
- Chair, Ferd and BI
- Non-executive director, Statkraft, Statoil
- CEO, SpareBank 1 Group

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Nationwide Leadership Team

The Nationwide Leadership Team derives its authority from the Chief Executive Officer and is responsible for directing and coordinating the executive management of the Society within the strategy, risk appetite, operational plans, policies, objectives, frameworks, budget and authority approved by the Board. The Committee acts as a forum to assist the Chief Executive Officer with his responsibilities. Members of the Nationwide Leadership Team lead either functional communities, or one of our Member Missions, which have responsibility for bringing together activities across our communities to serve our members.

As well as sitting on the Board of Directors, the following people are also part of the Nationwide Leadership Team:

Joe Garner

Chris Rhodes

Janet Chapman

Leader, Moments that Matter Member Mission

Janet joined Nationwide as Chief Internal Auditor in January 2017. She currently leads the Moments that Matter Mission, working across the Society to deliver solutions to support members. Prior to joining Nationwide, Janet was Chief Auditor for institutional businesses at Citigroup. Before that, she was Chief Auditor for the Americas at The Bank of Tokyo Mitsubishi.

Jane Hanson

Chief People Officer

Jane joined Nationwide in 2018 to lead on people and culture matters having previously led the people agenda at Yorkshire Building Society and First Direct. Jane also spent several years at HSBC working across HR, Customer Experience and the Retail Network.

Julia Dunn

Chief Risk Officer

Julia qualified as a chartered accountant with PwC and spent 12 years specialising in forensic accounting and litigation. She joined Nationwide in September 2013 as Chief Compliance Officer. She now leads the Risk Community, helping to keep the Society, and its members, safe and secure. Julia previously spent 13 years in supervision and enforcement with the Financial Services Authority, and latterly the Financial Conduct Authority.

Claire Tracey

Chief Strategy Officer

Claire joined Nationwide in September 2019. She was previously a Partner and Managing Director at Boston Consulting Group, for whom she spent 18 years on strategy assignments across the UK, Europe and Asia. She is responsible for Nationwide's Strategy Community, including innovation, venturing and corporate development, and chairs the Society's Responsible Business Committee.

Nationwide Leadership Team (continued)

Sara Bennison

Chief Marketing Officer

Sara started her career in advertising, working for major brands in the UK and Asia. She joined Nationwide in March 2016 having spent the previous decade at BT and then Barclays. She is responsible for leading the Propositions and Engagement Community which involves understanding what members want, developing propositions which answer member needs, managing all the products we offer and the way in which we communicate, as well as our social investment programme.

Patrick Eltridge

Chief Operating Officer

Patrick joined Nationwide as Chief Operating Officer (COO) in February 2019. He was previously Group Information Officer at Royal Bank of Scotland, where he was responsible for the successful delivery of IT and operational resilience improvement programmes. Patrick has vast experience in financial services, telecommunications and technology start-ups. As COO, Patrick's focus is on the realisation of our technology strategy to deliver value and service for members, while keeping them safe and secure.

Alison Robb OBE

Deputy Chief Financial Officer

Alison took up the role of Deputy CFO in September 2019. Prior to this she was the leader of the People and Culture Community. Alison is a qualified chartered accountant and previously worked for KPMG and WH Smith before joining Nationwide in 1996. She has worked in various roles across the Society, including in the finance and strategy functions.

Mark Chapman

Chief Legal Officer and Society Secretary

Mark joined Nationwide in March 2018 as Leader of Legal and Secretariat, delivering expert advice and guidance on legal and regulatory issues, as well as a comprehensive secretariat service. Before joining Nationwide, Mark spent a year volunteering as a teacher in South Africa. He previously served as General Counsel of Barclays UK and General Counsel at Nomura International having started his career as a litigator at Freshfields in both London and New York.

Rachael Sinclair

Leader, Homes and Dreams Member Mission

Rachael joined Nationwide in 2008 and has carried out multiple roles across the Society involving Head of Operational Strategy, Director of Channel Strategy and Operations and Director of Strategic Planning. She is currently responsible for leading the Homes and Dreams Member Mission, which involves bringing together the end to end running of the Society's Mortgage and Investment businesses. Prior to joining Nationwide, Rachael spent the previous decade working in various roles across Europe, Africa and Asia with Barclaycard.

Report of the directors on Corporate Governance

For the year ended 4 April 2020

David Roberts

Dear fellow member,

I am pleased to present the Corporate Governance report for the financial year ended 4 April 2020.

As a member-owned building society, Nationwide continues to strive towards the highest governance standards in order to ensure that the long-term decisions made are in our members' interests and continue to deliver value for members today and in the future.

The Society's Board of directors is responsible for its governance and setting a clear strategy and direction. The Board is committed to maintaining the highest standards in the way Nationwide is directed, governed and managed and we have adopted the UK Corporate Governance Code (the Code) which sets the governance standards for public listed companies. Whilst we aim to comply with the Code's ethos and principles, we do so in line with the Building Societies Association Guidance on the Code to ensure alignment with good practice and our mutual status. Further information on our governance structure and how we have applied the provisions of the revised Code, published in July 2018 and relevant to Nationwide with effect from 5 April 2019, can be found on pages 60 to 62.

The long-term success and sustainability of the Society is underpinned by good quality governance, the results of which have been brought to the fore with the recent Covid-19 pandemic and the uncertainties over its impact on our wider stakeholders and the economy as a whole. It was essential that the Board was sufficiently engaged and fully informed of the associated risks and the Society's response to this pandemic. To this end, additional Board discussions often held at short notice took place to discuss management's actions, with a focus on operational resilience, the maintenance of service to our members and the support offered to our colleagues for their safety and wellbeing through the crisis.

Our members

Members continue to be at the heart of what we do at Nationwide. At the 2019 AGM, we piloted a 'Meet the Directors' stand, giving members the opportunity to meet directors over lunch and share views on Nationwide and how we're doing. The AGM also provides members with the opportunity to vote on important issues, for example, this year members will be asked to vote on our Directors' Remuneration Policy which we submit to a vote of members on a voluntary basis every three years. The AGM also gives our members the opportunity to elect or re-elect directors to the Board. This year's AGM is scheduled to take place at our Head Office in Swindon on 16 July 2020. As a result of the ongoing outbreak of the coronavirus, Covid-19, physical attendance in person by members will not be possible at this year's AGM if the latest restrictions on public gatherings imposed by the Government continue. We nonetheless encourage your participation by voting online or by post and by submitting questions in advance. We also encourage members to watch the event which will be live streamed online on the day of the meeting.

As a member-owned Society, we will only be successful if we listen to and meet the needs of our members. We continue to host our regular Member TalkBack sessions around the country in places as diverse as Carlisle, Hackney and Eastbourne with 1,368 members attending this financial year. Whilst we've had to suspend these sessions due to the Covid-19 pandemic, we look forward to hosting further TalkBacks during the forthcoming year as soon as we're able to do so. More information on these sessions and how to take part will be on our website, **nationwide.co.uk**

Additionally, 7,000 members have engaged with us through our growing member Connect community which offers members the opportunity to get involved in discussions with other members and to take part in surveys to help shape new products and make suggestions for improvements. More information on these initiatives can also be found on our website.

Our people and culture

To support our mutual heritage, and to ensure members get the best possible service and outcomes from us, the Board is committed to the development of a workplace environment for our people to thrive and succeed. We recognise that our people are our most valuable asset in delivering our objectives and this was very evident during the Covid-19 pandemic, with our colleagues continuing to provide legendary service to our members in a difficult and uncertain period. It is therefore essential that our colleagues have the systems, skills and knowledge, and operate in the right environment to make a difference. The Society's culture depends on its leaders embedding the "tone from the top". For a better understanding of the views of our people, Mai Fyfield our designated director responsible for ensuring the voice of our employees is heard in the Boardroom, has undertaken a number of engagements with our colleagues this year. Further information on Mai's engagement activities can be found on page 71.

Our annual employee survey (ViewPoint) gives colleagues the opportunity to provide feedback about their working experience, the Society's leadership, service to members and strategy. The results tell us that we retain a strong culture and committed colleagues. We know from other independent surveys that our care for members and each other is strong and as a Board, we are committed to ensuring that our policies and practices are aligned with the values of the Society. The annual Banking Standards Board[1] culture survey, the results of which are presented to the Board, helps us understand how the Society's behaviour and capabilities compare with other UK financial service providers. The results show that the Society promotes high standards of behaviour and competence.

Nationwide promotes openness, honesty and transparency and recognises the importance of colleagues being able to raise concerns in confidence and without fear of reprisal. I am proud to say that I have continued in my role as the Whistleblowers' Champion where I have responsibility for ensuring and overseeing the integrity, independence and effectiveness of Nationwide's policies and procedures on whistleblowing. This includes measures intended to protect whistleblowers from being victimised because they have disclosed reportable concerns.

Leadership

The Board is responsible for setting the medium and long-term vision for the Society, being a guardian for its culture and values, overseeing performance and the Society's attitude to risk, and supporting and challenging management. As Chair, it is my responsibility to lead the Board and promote its effectiveness within a strong and sound governance framework. Each year, a formal evaluation of the effectiveness of the Board and its committees is conducted and this is facilitated by an independent third party every three years. In 2020, the effectiveness review was conducted internally, and we will report on the findings in next year's Annual Report. The progress made on actions taken in response to the findings of the 2019 review are detailed on pages 83 to 84.

It is important that the Board has the right blend of experience, skills and diversity required to continue to provide the appropriate level of oversight and challenge for the business. The Board's composition, balance, skills and experience are reviewed regularly to ensure that the Board continues to effectively discharge its responsibilities. As we reported last year, Mitchel Lenson retired from the Board as a non-executive director at our AGM in July 2019 after eight years of service. Lynne Peacock also retired as our Senior Independent Director in December 2019 after more than eight years on the Board. I would like to take this opportunity to thank Lynne on behalf of the Board and Nationwide for her contributions to the Board and the Society and wish her well for the future.

During the year, Mark Rennison retired from his role as the Society's Chief Financial Officer and was succeeded by Chris Rhodes, formerly Executive Director and Chief Product and Propositions Officer. Chris joined the Society's Board in April 2009 and is a chartered accountant and experienced finance director with a deep understanding of mutuality and the Society. The Board and I would like to pay tribute to Mark and thank him for his significant contribution to the Society.

In March 2020, Tony Prestedge resigned from his position as Deputy Chief Executive Officer after a period of 12 years on the Board of the Society. On behalf of the Board, I would like to thank Tony for the valuable contribution he has made to the continued success of the Society and wish him well in his new role. The position of Deputy Chief Executive Officer will not be replaced, and we are confident that the Society's Board and Leadership Team are well positioned to lead the Society in delivering its strategic aims and in maintaining the long-term sustainability of the Society.

After almost three and a half years on the Board, Baroness Usha Prashar will be stepping down as a non-executive director at the Society's AGM on 16 July 2020. Baroness Prashar will continue working with the Board in an advisory capacity. We have commenced the search for a new non-executive director who will bring diverse experience to complement the existing skills and experience on the Board.

Mai Fyfield succeeded Lynne Peacock as Chair of the Remuneration Committee in September 2019 and Kevin Parry was appointed as the Society's Senior Independent Director in January 2020. We were pleased to announce the appointment of Phil Rivett to the Board as a non-executive director in September 2019. He also became a member of the Audit, Board IT and Resilience and Board Risk committees. Phil has a deep understanding of retail banking having worked with major banking institutions over a number of years. His forty years' experience of professional accountancy with PricewaterhouseCoopers, including thirty years as a partner specialising in financial services, will prove invaluable to the Board.

[1] This is an annual survey undertaken by the Banking Standards Board covering 29 firms, including 8 systemically important institutions in the UK (of which Nationwide is one) plus a range of other mid-sized and small banks and building societies. It aims is to raise standards across the sector. Over 2,500 of the Society's colleagues participated in the last assessment.

The Nomination and Governance Committee continues to focus on leadership changes at executive management level and the development of a succession pipeline. Alison Robb, formerly Chief People Officer, who joined the Society in 1996 was appointed Deputy Chief Financial Officer from September 2019. Alison, a chartered accountant, held various roles across the Society in finance and strategy prior to her appointment as Chief People Office in 2016. Alison is succeeded as Chief People Officer by Jane Hanson, who has been with the Society since January 2018 as Director of Community Partnering. Jane has over 20 years' experience as a senior HR leader across retail banking and in the mutual sector.

Sara Bennison, Chief Marketing Officer, who joined the Society in 2016, took up an expanded role to include products and propositions as well as marketing and engagement. She is an experienced group marketing director with over 25 years' experience predominantly in the financial services sector and has had significant involvement with developing new propositions at Nationwide.

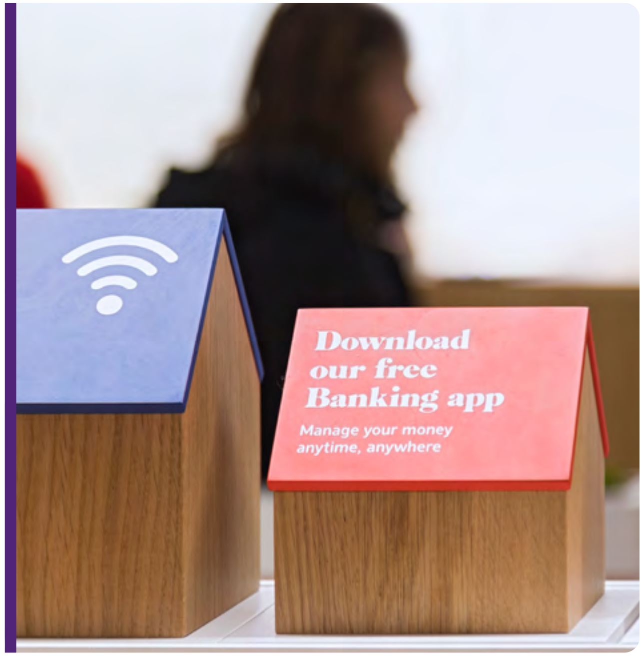
Inclusion and diversity

The Board benefits from the diversity of views, backgrounds and experience of its directors and we remain committed to increasing the diversity of our Board and the Society. Whilst Nationwide is a building society and not a listed company, the Board continues to meet or exceed all of the benchmarks set for listed companies with regard to gender and ethnic diversity. We have already achieved the Hampton-Alexander review 2020 target for a minimum of 33% female representation on the boards of FTSE 350 companies. We have also achieved the Parker review 2021 target of each FTSE 100 company having at least one director from an ethnic background. We recognise, however, that across the Society there is more work to be done to ensure that the Society reflects the communities it serves. In December 2019, we published our first ethnicity pay gap report alongside our annual gender pay gap report, and as a Board, we continue to support initiatives to enhance inclusion and diversity in the Society's recruitment process and in colleagues' development and career progression. As Board sponsor of the Society's inclusion and diversity agenda Baroness Usha Prashar has been responsible for ensuring that initiatives to promote the Society's commitment and support for diversity are represented at the Board, and will continue to support the Board after she steps down as a non-executive director. More information on our inclusion and diversity strategy and measures across the Society can be found on page 21.

The year ahead

The Board remains committed to serving the requirements of the Society in delivering strong governance whilst retaining our mutual values. We will continue to focus on the long-term sustainability of the Society to deliver the best possible outcomes for our members, communities, colleagues and our wider stakeholders.

David Roberts
Chair



Governance at Nationwide

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

Everyone in Nationwide has a role to play in governance:

The Board
Sets the strategy and tone and promotes ethical leadership, leads on culture, embodies the Society's values, encourages good governance, monitors controls and manages risk.

Chief Executive Officer
Derives authority from the Board and cascades standards and principles agreed by the Board to the business.

Nationwide's people
Everyone at Nationwide is responsible for good governance and adhering to the standards and tone set by the Board.

UK Corporate Governance Code – statement of compliance

Nationwide is committed to high standards of corporate governance and has continued to adopt the relevant parts of the UK Corporate Governance Code 2018, which is available at **www.frc.org.uk** (the Code). The Board believes that throughout the year ended 4 April 2020 Nationwide has complied with the principles of the Code in line with the Building Societies Association guidance of July 2018. Details of the principles, including where you can read more about how Nationwide complied with them, are set out below:

Section	Code principles[2]	Where to read more on how Nationwide Building Society has complied	Page
Board leadership and company purpose	A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Strategic report Role of the Board	2-49 63
	The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Strategic report Role of the Board	2-49 63
	The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Strategic report – KPIs Board Risk Committee report Risk report (Principal risks)	11 95-98 138
	In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Engagement with stakeholders	69-76
	The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Building Pride Culture, whistleblowing Role of the Board	20-21 63-64 63

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

UK Corporate Governance Code – statement of compliance (continued)

Section	Code principles[2]	Where to read more on how Nationwide Building Society has complied	Page
Division of responsibilities	The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	Role of the Chair / Chair's letter How the Board operates Nomination and Governance Committee report Information and advice	5 and 77 68 103-107 81
	The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	Board composition Tenure and independence Roles on the Board	82 81-82 77-78
	Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Attendance chart – How the Board operates Time commitment	68 80
	The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	Information and advice Induction, training and development	81 81
Composition, succession and evaluation	Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	Nomination and Governance Committee report	103-107
	The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	Board composition Board of directors	82 51-54
	Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	Board effectiveness review	83-84

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

UK Corporate Governance Code – statement of compliance (continued)

Section	Code principles[2]	Where to read more on how Nationwide Building Society has complied	Page
Audit, Risk and Internal Control	The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	Audit Committee report	86-94
	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	Audit Committee report Directors' report	86-94 130-133
	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	Audit Committee report Board Risk Committee report	86-94 95-98
Remuneration	Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	Remuneration report	108-129
	A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	Remuneration report	108-129
	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	Remuneration report	108-129

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

Board leadership and Society purpose

The role of the Board

At Nationwide we aspire to make a positive contribution to society by delivering the benefits of mutuality to more members both present and in the future. We are driven by this social purpose to help our members achieve their financial goals. More information on the Society's purpose can be found on pages 9 to 10.

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

When setting the Society's strategy, the Board considers the impact that its decisions might have on various stakeholders such as members, workforce, suppliers and the community. It is accountable for ensuring that as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. The Board is also responsible for providing leadership to the Society on culture, values and ethics. The powers of the Board are set out in the Society's Memorandum and Rules which are available on the Society's website **nationwide.co.uk**

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

Culture

Nationwide's culture plays a pivotal role in the Society's success and leading the development of the Society's culture remains a key focus of the Board to support the organisation's purpose, and the delivery of its strategic ambitions. The Society's cultural assessment tool, the Culture Mosaic, provides the Board with a holistic understanding of the evolution of the Society's culture which helps inform and shape the strategic priorities to manage, drive and accelerate the pace of culture change in the Society. Along with the Society's employee engagement survey and the Banking Standards Board report, it helps the Board and management develop aspects of the Society's culture to meet the changing needs of employees and members in the future. The impact and effectiveness of the Society's initiatives, including the pace and progress of the culture evolution, can also be tracked through the mosaic.

Several priorities have been identified that now form part of the Society's agenda on culture over the next few years. This includes developing leadership and talent potential and creating a learning organisation, as well as evolving the Society's approach to reward and recognition. To address each of these priorities, the Society will put in place a number of initiatives such as investing in developing skills and capabilities, focusing particularly on creating opportunities to build technology talent and investing in employee experience and wellbeing. The Society will also adopt a refreshed approach to rewarding and recognising employees in a way that is meaningful and valuable to them, helping to motivate the behavioural shifts needed to deliver the Society's strategy. The Board will continue to sponsor and monitor progress in all these areas in the coming year.

Whistleblowing

Nationwide has arrangements in place for employees, contractors and temporary workers to raise concerns confidentially and anonymously (if they prefer), about possible misconduct, wrongdoing and behaviour towards others, including those related to non-financial matters. To make anonymous reporting easier and to provide employees with an additional degree of surety around raising concerns, two additional reporting channels were introduced in 2019, enabling concerns to be reported via an independent third party.

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

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

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Board leadership and Society purpose (continued)

Having effective and trusted confidential whistleblowing arrangements is a key priority for the Board in supporting the Society's open and honest culture. The Board receives an Annual Whistleblowing Report and has reviewed the adequacy and effectiveness of the arrangements in place for the proportionate and independent investigation of concerns raised, including any required follow-up action taken.

Conflicts of interest

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

If any potential conflict arises, the Society's Directors' Conflicts of Interest Policy permit the Board to authorise the conflict, subject to such conditions or limitations as the Board may determine. The Board has considered the current external appointments of all directors which may give rise to a situational conflict and has authorised potential conflicts where appropriate. Directors are required to notify the Board of any change in circumstances relating to an existing authorisation and are required to review and confirm their external interests annually.

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

Details of the Society's directors' other directorships can be found in the Annual business statement on page 322.

An all-encompassing Conflicts of Interest Policy is also applicable to all other employees which covers the need to appropriately identify and robustly manage all institutional and personal conflicts of interest.

What the Board did this year

Board leadership and Society purpose (continued)

Throughout the year, the Board focused its activity on supporting management in the delivery of the Society's strategic aims, reviewing and approving the Society's strategy and financial plans, and considering governance and regulatory matters.

The Board regularly received updates on business progress and the issues and challenges faced by management. Board activities were regularly structured to support and review the Society's strategy, focusing on the strategic cornerstones as outlined on pages 9 to 10, and an in depth review of the progress of the strategy was considered by the Board at its annual strategy day in October 2019.

The Society continues to develop and invest in new products and services which are assessed to be within the Board's risk appetite.

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

The following pages set out a non-exhaustive list of the matters that the Board has considered during the year.

During the year, the Board focused on a number of specific areas in line with the Society's cornerstones and principal risks.

Cornerstones

1. **Building a National Treasure**
2. **Building Thriving Membership**
3. **Building Legendary Service**
4. **Built to Last**
5. **Building PRIDE**

Principal Risks

- **P** **Prudential risks** (including credit, model, liquidity and funding, market, solvency and pension risks)
- **O** **Operational and conduct risks**
- **E** **Enterprise risk** (including business risk)

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Board leadership and Society purpose (continued)

Board activity – Strategic development and performance	Strategic Cornerstone	Principal Risk
Discussed regular updates from the CEO on progress against the Society's purpose to build society, nationwide, including provision of external insights on key factors affecting the business. As part of this, the Board reviewed key performance metrics to assess progress made in the implementation of the Society's strategy.	Building a National Treasure, Building Thriving Membership, Building Legendary Service, Built to Last, Building PRIDE	P O E
Debated and considered the expansion of the Society's membership by developing the later life proposition. Approved the development of a range of initiatives designed to broaden the products and services offered to Nationwide members. Debated and approved the closure of the Nationwide for Business proposition.	Building Thriving Membership	P O
Continued to build on the Society's technology agenda by reviewing progress on the delivery of the technology strategy and considering joint venture opportunities. Focused on developing the Society's digital capabilities in line with its technology strategy, with the key theme at the annual strategy conference being the rise of digital intermediaries.	Building Thriving Membership, Building Legendary Service	O
Received an update on the progress made on the Society's social investment strategy which focuses on providing decent and affordable homes. The Board also reviewed the Society's approach to tackling key societal challenges in the areas of housing, thriving high streets and financial wellbeing.	Building a National Treasure	O E
Reviewed the impact of the Society's brand in relation to market conditions and its competitors.	Building a National Treasure, Building Thriving Membership	E

Board activity – Finance	Strategic Cornerstone	Principal Risk
Considered the Society's five year plan for 2020-25 (the Plan), including providing input, guidance and advice to the senior management team. As part of this, the Board reviewed the latest view of profitability of the Society for 2019/20 and 2020/21 and considered strategic actions required. It approved the strategic investment spend for Q1 of the 2020/21 financial year. Due to the volatility and changes in economic assumptions generated by Covid-19, the Plan will be reviewed by the Board in Q2 of the 2020/21 financial year.	Built to Last	P O E
Regularly assessed financial performance and capital position of the Society via business performance reports from the Chief Financial Officer.	Built to Last	P E
Reviewed and approved the Society's interim and full year financial results prior to publication. Approved the Society's Annual Report and Accounts prior to publication with consideration given to the viability of the business over a three-year horizon and the preparation of the accounts on a going concern basis.	Built to Last	P E
Reviewed the Society's position in respect of cost efficiency and discussed the strategic cost levers required to deliver the cost plan.	Built to Last	P E

Key: Building a National Treasure, Building Thriving Membership, Building Legendary Service, Built to Last, Building PRIDE
P Prudential risks, O Operational and conduct risks, E Enterprise risk

Board leadership and Society purpose (continued)

Board activity – Governance	Strategic Cornerstone	Principal Risk
Received and considered regular reports from the General Counsel and Society Secretary on emerging changes to legislation and regulation impacting the Society's business.	Built to Last	P O
Received an update on the 2019 Annual General Meeting (AGM) provisional voting results. Approved the Notice of the 2020 AGM and associated documentation. Reviewed the Society's contingency plans for the 2020 AGM in light of the Covid-19 pandemic.	Building Thriving Membership	P O E
Carried out, and received the report of, a review into the effectiveness of the Society's Board including developing and monitoring an action plan designed to remedy areas needing improvement.	Built to Last	O E
Approved the Society's 2019 Responsible Business Report, which looks at aspects of the Society's sustainability with regard to its social and environmental impact, and how the Society is responsibly and ethically managed.	Building a National Treasure, Built to Last	O E

Board activity – People, culture and remuneration	Strategic Cornerstone	Principal Risk
Reviewed and discussed the People Strategy including the Society's remuneration strategy and how this is aligned with achieving the Society's overall strategic aims.	Building Legendary Service, Building PRIDE	O E
Reviewed and approved the closure to future accrual of the Nationwide Pension Fund on 31 March 2020 – further details can be found on page 26.	Built to Last, Building PRIDE	P O
Considered the Society's Gender and Ethnicity Pay Gap and Equal Pay Audit results, including discussing ways of closing the gap.	Building PRIDE	O
Reviewed the progress made on the development of Nationwide's culture and discussed the results of the 2019 Viewpoint employee engagement survey, and the Banking Standards Board survey on the Society's culture. Reviewed the Annual Whistleblowing Report and the Society's whistleblowing arrangements.	Building PRIDE	O

Board activity – Risk and regulatory matters including external outlook	Strategic Cornerstone	Principal Risk
Assessed the Society's overall risk profile and emerging risk themes, including receiving direct reports from the Chief Risk Officer and Chair of the Board Risk Committee. The Board also approved revisions to the Board Risk Appetite.	Built to Last	P O E
Approved the Society's 2020 Recovery and Resolution Plan to ensure that adequate provisions and processes are in place to protect the Society's business and its members and ensure business continuity.	Built to Last	P O
Assessed the economic and market conditions affecting the Society's business and, as part of this, reviewed in detail and approved the Society's Brexit planning preparations.	Built to Last	P O

Key: Building a National Treasure; Building Thriving Membership; Building Legendary Service; Built to Last; Building PRIDE
P Prudential risks; O Operational and conduct risks; E Enterprise risk

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Board leadership and Society purpose (continued)

How the Board operates

The Board meets regularly and holds a strategy meeting annually to review strategic options open to the Society in the context of the economic, regulatory and competitive environment. The Board also meets when necessary to discuss important emerging issues that require consideration between scheduled Board meetings. There were ten scheduled Board meetings this year including the annual strategy day. During the year, a Board meeting was held at Nationwide's Administrative Centre in Northampton. This gave the Directors the opportunity to meet colleagues for a greater insight into business activities at this location and challenges faced by colleagues. The Board meetings are structured to ensure that the Board covers a range of items (as detailed on pages 66 to 67) relating to the Society's business, strategy, culture and performance through open debate. Members of the Nationwide Leadership Team and other senior executives are invited to attend meetings as required to present and discuss matters relating to their business areas. The Chair meets with the non-executive directors, without executive directors present, at least once a year.

Where directors are unable to attend meetings, they are encouraged to give the Chair their views in advance, on the matters to be discussed. The attendance record for Board members during the period is set out below. The table shows the actual number of meetings attended with the number of meetings for which directors were eligible to attend shown separately.

In addition to scheduled meetings, Board members were given the opportunity to join more informal conference calls in the months where formal Board meetings did not take place. These were led by management to discuss the monthly Chief Executive's Report and Business Performance Report. The documents were circulated to all Board members regardless of whether they were able to join the conference call.

Board attendance








	Rita Clifton	Mai Fyfield	Joe Garner	Albert Hitchcock[1]	Mitchel Lenson[2]	Kevin Parry	Lynne Peacock[3]	Usha Prashar
Meetings attended / (eligible to attend)	10 / (10)	10 / (10)	10 / (10)	9 / (10)	3 / (3)	10 / (10)	7 / (7)	10 / (10)







	Tony Prestedge[4]	Mark Rennison[5]	Phil Rivett[6]	Chris Rhodes	David Roberts	Tim Tookey	Gunn Waersted
Meetings attended / (eligible to attend)	8 / (8)	3 / (3)	7 / (7)	10 / (10)	10 / (10)	10 / (10)	10 / (10)

[1] Unable to attend a meeting called at short notice due to prior commitments [2] Retired from the Board on 18 July 2019 [3] Retired from the Board on 31 December 2019
[4] Resigned from the Board on 10 March 2020 [5] Retired from the Board on 13 September 2019 [6] Joined the Board on 1 September 2019

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Board leadership and Society purpose (continued)

Engaging with stakeholders

The Board recognises the impact the business has on its diverse range of stakeholders and therefore understands the importance of engaging with them at all levels. The Board takes into consideration the interests of these stakeholders as part of its discussion and decision-making processes. The detail below provides an insight into the Society's engagement with its principal stakeholders.

Members

We listen to our members

As a mutual organisation, members are also the owners of Nationwide, and we want our members to be able to share their views on the overall direction of the business, so that we can continue to meet their needs now and in the future. To help them do this, we aim to:

- **make it as easy as** possible for our members to have their say, whether that's in person, online or via our other contact channels
- **hold a number of events** across the country, giving members the opportunity to meet Board directors and senior management face to face and in their local communities
- **listen and respond** to member suggestions and comments, building products and services based around their needs
- **include members** in other activities they'd like to join us in, for example deciding how our community grants are allocated via our Community Boards programme (see page 23 for details)

Strategic report
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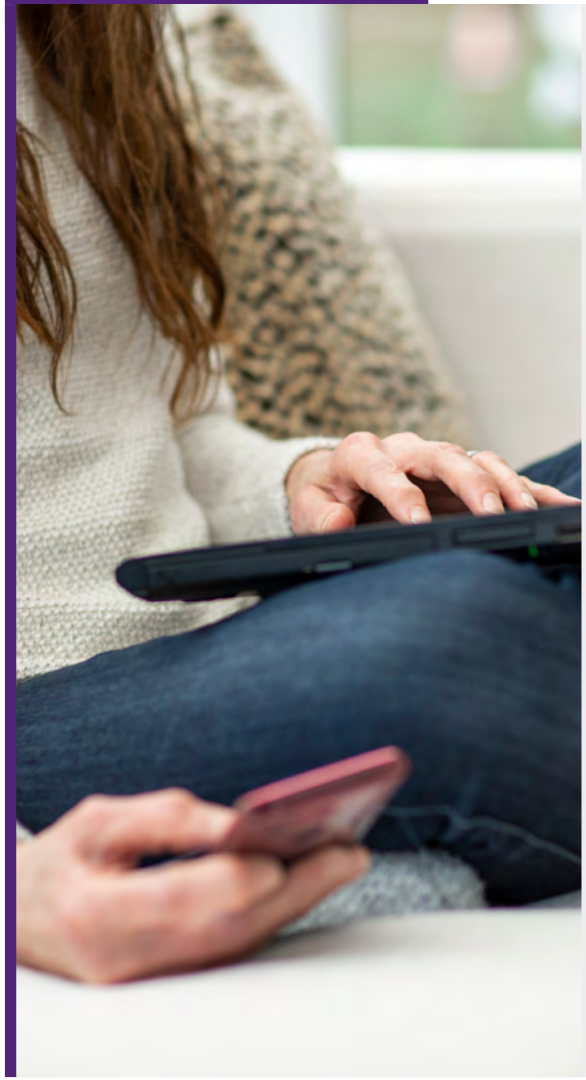
Board leadership and Society purpose (continued)

Members



Our AGM

The AGM is the key event at which members can have their say on the way the Society is run and hear first-hand from our directors. Every year we ask our members to take part in our AGM and vote on a number of key issues, such as the election or re-election of the directors who run the Society.

Last year, we saw more votes cast online than ever before, with 53% of voters choosing to vote in this way. Although overall turnout at meetings continues to decline, both at Nationwide's AGM and across the building society sector, the event was live streamed for the first time in 2019, meaning more members could access it.

The live stream was viewed by 908 people, of which 598 were not employees of Nationwide. We hold the meeting at a different venue across the UK each year, and the 2020 AGM will be live streamed from our Head Office, Nationwide House in Swindon on Thursday 16 July 2020.

Face to face

Our Member TalkBack programme gives members the opportunity to meet the Society's Board and senior management in person. Members can ask the panel questions and share their views on the Society and its performance.

This year, 15 Member TalkBacks were held in towns and cities across the UK, with over 1,300 members joining us at one of these events. In 2020/21 we'll resume our face-to-face Member TalkBack programme as soon as we are able to do so, allowing us to meet even more members.

Our branch teams have also been out and about sharing their expertise and experience within their local communities. They attended or held 283 events in 2019/20, ranging from supporting local fêtes, carnivals and Pride parades, through to offering advice on protection against fraud, educating children on money and helping people to understand the world of mortgages.

Members were also able to engage with Nationwide colleagues at seven agricultural shows and festivals across the UK, including CarFest South, and the Great Yorkshire and Royal Welsh shows. These events help us to reach a broader audience and bring the brand into local communities. From painting piggy banks to helping the next generation start their savings journey, to a personal poem written by one of our TV poets, these events offer a fun and educational experience for both children and adults.

Online

Our online research community, Member Connect, is made up of 7,000 members who take part in surveys, discussions and polls on a variety of subjects. This year the panel gave their views on topics such as savings bonds, credit card offerings and standard rate mortgages, providing us with valuable insight on what our members want to see from Nationwide.

Social media

Social media is a growing channel of engagement with the number of followers on the Society's main social media channels (Facebook, Twitter, LinkedIn and YouTube) increasing by 10% over the last 12 months to almost 259,000 followers. Content relating to fraud awareness, community stories and social investment news generated the most engagement and advocacy.

Board leadership and Society purpose (continued)

Employees

We value our colleagues

At Nationwide, we value our people, their commitment to the Society and their contribution to fulfilling our purpose of building society, nationwide. To ensure Nationwide is a great place to work we engage with colleagues throughout the year to understand what they really value.

We provide a variety of ways and channels to gather insights and employee feedback on their experiences and expectations as part of our employee listening strategy. These include dialogue with colleagues through employee networks, the Nationwide Group Staff Union and external surveys such as the Mind Wellbeing Index. Employees are critical to the services provided by the Society and employee engagement is regularly discussed, including presentations to the Board on the results of Viewpoint, our employee engagement survey, and the results of the Banking Standards Board survey.

During the year, the General Secretary of the Nationwide Group Staff Union attended a Board meeting and a Remuneration Committee meeting to discuss the relationship of the Union with Nationwide and the alignment of interests between the Union and the Society. The CEO also engages directly with employees via the Society's intranet and Employee Connect on topics of interest and to receive comments and views directly back from the workforce.

To further promote engagement between the Board and Society colleagues, Mai Fyfield is appointed as the designated non-executive director with specific responsibilities for the employee voice in the boardroom. This role has been successfully embedded with a programme of engagement activity conducted over the past year. This included visits to regional office locations, meeting with various groups of employees, enabling them to share their views and experiences, and liaising with the Nationwide Group Staff Union. Ms Fyfield, who is also the Chair of the Remuneration Committee, hosted a podcast for colleagues, which provided an opportunity to increase colleagues' understanding of executive remuneration and the link to remuneration in the wider Society.

From these engagements, themes and lessons learnt were presented to the Nomination and Governance Committee who discussed the outputs. Over the next year, further enhancements will be made to this programme of work, including developing a closer relationship with the Nationwide Group Staff Union, improving two-way insights sharing to identify emerging themes and building visibility and awareness of the programme across the Society. Insights from engagement were that Nationwide employees are generally very satisfied, being proud to work for Nationwide, valuing the Society's unique status and culture and being committed to making Nationwide a success. Our branch colleagues were keen to stress the importance of being included in new initiatives at an early stage. We heard that our employees wanted more help in building career paths within the Society, and of the importance of making employees across our network feel equally valued and included regardless of location.

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

In addition to this, the Board actively seeks opportunities to engage further with the workforce to keep abreast of colleague views. For example, the Board visited the Society's Northampton Administrative Centre in June 2019 and held sessions for colleagues to engage with the Board. These included breakfast and lunch 'meet and greet' sessions, and panel events which gave employees a chance to meet the directors and ask them a range of questions in an open and honest discussion on a variety of topics. These panel events run throughout the year and are a way to engage, empower and inspire the workforce.

More information on employee engagement metrics can be found on page 20.

Board leadership and Society purpose (continued)

Employees

Employee voice in the Boardroom: colleagues' experiences of attending Board meetings during 2019.

"It's not every day you can share the real experiences and voices of our employees directly with the Board. They were very welcoming and genuinely open to hearing what we had to say, that was special." **Tulsi**

"The experience was not as intense as I thought it would be, there was appreciation as well as challenge from both sides which was positive and encouraging, making me feel that feedback was taken on board. There have been snippets of cross collaboration on the topics we talked about in the meeting in terms of strategy and I have seen first-hand cross communities working together to align the Society's goals." **Taiba**

"Feeding back to the Board was a liberating experience. Not only were we made to feel welcome and put at ease, it was clear straight away that the Board was very interested in our perspective and intended to act on it." **Ed**

"The Board appreciated us being there on the day. They listened and welcomed our suggestions on the need for cross-community collaboration and overcoming the issue of communities/teams working in silos. The engagement was really powerful, and we all felt empowered to make a difference based on their responses. Our views were not dismissed by the Board and we left feeling that something was going to be done about the feedback and concerns we raised." **Godfred**

"I have always advocated having employees of all levels attend the Board meeting in some capacity, as decisions made by them will impact the lower levels. As such if you have the chance why would you not help them understand how they impact your job. On a personal note it was enlightening, and I felt far calmer and more comfortable then I thought I would. That is largely due to the way that the Board welcomed us." **Rebecca**

"It was a great opportunity to represent our colleagues and share where we felt improvements could be made at Nationwide. The Board were really engaged and committed to implementing changes to address the challenges we raised." **Emily**

Board leadership and Society purpose (continued)

Communities

We support our local communities

As a building society, Nationwide believes in supporting people in their communities. This belief includes housing, and Nationwide's view is that regenerating local areas by working with local people will create real communities.

In line with the member vote in 2007, the Society has continued to invest at least 1% of its pre-tax profits to support good causes, focusing on the belief that 'Everyone deserves a place fit to call home'. By 2023 our members will have directed £22 million worth of grants to housing related causes within their local communities.

The Society has continued its approach to socially responsible housing through the Oakfield development project, and throughout the project has engaged with local residents, businesses and community groups to engage the local community network. Involving the communities closest to the brownfield site being developed in the east of Swindon in the planning process has been a foundation to our approach to socially responsible housing. We hope our learnings from employing a community organiser to involve the community in the evolution of the designs will not only have a lasting impact on the new neighbourhood of 239 homes but will inspire other house builders to consider how they can meaningfully engage local residents, businesses and community groups to create homes that people want and need. We're creating a new neighbourhood with community at its roots. A place where people can support each other to thrive. Through clever design and a focus on neighbourliness young people can put down roots. And with some homes designed to be easily adapted, older people can remain in their homes throughout later life too. The Board regularly receives updates on progress made.

The Board is engaged in broader community activity and receives updates on the Society's Social Investment Strategy and on Community Board activities. The Board encouraged the ongoing work being undertaken to promote the role of Community Boards with a focus on ambassador and champion networks.

More information on the Society's community activities can be found on page 23.

Board leadership and Society purpose (continued)

Investors

We engage actively with our investors

Nationwide is active in wholesale funding markets, engaging in the issuance of instruments. Wholesale investors contribute towards the Society's loss absorbing capital, helping to ensure that Nationwide is built to last.

The Society maintains an active dialogue with the investors in its instruments through a comprehensive investor relations (IR) programme. During a typical year the IR team will host around 500 meetings, providing current and potential investors with the opportunity to meet senior managers and executive directors of the Society. At least twice a year, Board members engage with a number of London based investors, providing an update on the Society's most recent financial performance.

The Society's investors are focused on a wide range of topics, from the strength of the Society's regulatory capital and liquidity to the role of technology in banking and competition within UK financial services. The Society engages with investors and external rating agencies to assess whether changes should be made to non-financial disclosures. The Society's Responsible Business Report, published in 2019, was in part a response to a desire from investors, agencies and analysts for more disclosure.

The investor relations team draws upon the Society's subject matter experts to provide investors with answers to technical questions. The investor relations website (https://www.nationwide.co.uk/about/investor-relations/introduction) also provides a source of information for investors on the Society's funding programmes, credit ratings, Pillar 3 disclosures and historic financial publications.

Wholesale market participants invest across Nationwide's capital structure, providing support for core capital deferred shares (CCDS), Additional Tier 1 capital instruments, Tier 2 instruments, unsecured funding and secured funding programmes.

Board leadership and Society purpose (continued)

Suppliers

We work closely with our suppliers

Nationwide works with over 1,300 third party suppliers who provide a range of goods and services to the Society, helping us run and improve our business and deliver quality service for our members. Our suppliers are an extension of our business, they help us operate safely and securely, they help us learn and improve, and importantly they help each other where it matters too.

It is important to Nationwide that all suppliers represent the Society in a manner that enhances its reputation and relationships with its stakeholders. As a result, the Society endeavours to partner with organisations that demonstrate a commitment to its mutual values, ethics, policies and standards. This is also embedded in the Code of Practice that we ask suppliers to commit to. The Nationwide Supplier Portal (https://www.nationwide.co.uk/suppliers/suppliers-home) is designed to provide any new, potential or existing suppliers with all the information they need to know about supplying goods and services to Nationwide. The Board annually reviews and approves the Society's Modern Slavery and Human Trafficking Statement which sets out the Society's efforts and actions to eliminate modern slavery in its supply chain. As part of this, we subscribe to the Financial Supplier Qualification System (FSQS), a tool used to assess potential suppliers across a number of areas. As part of the FSQS, suppliers are asked to provide evidence of processes and procedures for assessing and complying with relevant human rights legislation and standards, including the Modern Slavery Act. The Society also has in place, internal policies and procedures to ensure that we operate responsibly, ethically and in compliance with UK legislation and regulation. More information on the Society's Modern Slavery and Human Trafficking Statement can be found on pages 28 to 29. During the year, the Board approved the Society's Procurement and Operational Vendor Management Policy which defines the Society's principles, responsibilities and processes in relation to all procurement, including outsourced services.

We work closely with our suppliers to help them understand our mutual values and our emerging priorities, and to outline where we need their support and collaboration. Each year we hold a series of webcasts and an Annual Partner Conference where leaders from our key suppliers hear from members of the Nationwide Leadership Team about the key opportunities and challenges we face together, and hold open discussion around how we can all work together for the benefit of our members.

It is important to us that these events are a dialogue and not simply a download from Nationwide. We understand that often the answers to some of our biggest challenges can be addressed by simply asking those we work closely with how we can help make it easier for them.

At our last Partner Conference, we were joined by our top 50 suppliers to share a detailed update on our performance and outlook, our strategic investments, and together with members of the Nationwide Leadership Team we explored themes of agile partnerships, collaboration, and introducing social enterprise and social value through our supply chains. As a mutual we believe in the value of bringing people together to achieve more, and we see this same value in how we work with our suppliers.

Board leadership and Society purpose (continued)

Regulators

We seek an open relationship with regulators

Nationwide is committed to complying with all legislation and regulatory rules applicable to its business. The Society is supportive of the objectives of the Prudential Regulation Authority, the Financial Conduct Authority and other applicable regulatory bodies. As a consequence, Nationwide seeks to maintain the highest possible regulatory standards, to protect and enhance the integrity of the UK financial system and ensure fair outcomes for our members.

Nationwide seeks an open and transparent relationship with its regulators, in order to ensure that potential and actual issues are explored and addressed fully and efficiently, and that opportunities to engage in discussion regarding proposed new rules and guidance are maximised. The Board receives regular quarterly reports from our Regulatory Relations team detailing the changing regulatory landscape and how this impacts Nationwide.

Nationwide's engagement with its regulators typically takes the form of regular and ad hoc meetings attended by Board and Nationwide Leadership Team members, themed meetings attended by the Society's subject matter experts, involvement in Nationwide-specific and industry-wide regulatory reviews, submission of regular and ad hoc reports, responding to consultation papers and day-to-day correspondence in answer to regulator requests.

Topics in which Nationwide engages with its regulators are wide-ranging. Over the financial year these have included operational resilience, the ability to respond to a financial stress, structural mitigation and industry-wide reviews of business continuity and incident management. Nationwide also has a number of discussions with its regulators about the Society's products, notably its mortgages, savings and current accounts.

Division of responsibilities

Leadership structure

An overview of the Board structure and its committees as at 4 April 2020 is set out below.

Further information on the role of the Board and its committees can be found on pages 63 to 79 of this report and in the individual committee reports.

The Board

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

Role	Responsibilities
Chair **David Roberts**	Leads the Board, ensuring it operates effectively in setting the strategic direction of the Society, including shaping the culture in the Boardroom; Sets the tone from the top and epitomises the Society's culture by fostering open and honest debates in the Boardroom; Fosters a culture of open dialogue and mutual respect between executive and non-executive directors, both in and outside of the Boardroom, including ensuring that each non-executive director provides valuable contributions; Together with the other members of the Board, promotes the long-term success of the Society and ensures the accountability to its members; Provides support and advice to the Chief Executive Officer while respecting executive responsibility.
Senior Independent Director **Kevin Parry**	Provides a sounding board for the Society Chair, providing him with support in the delivery of his objectives; Available to directors if they have concerns when contact through the usual channels (Chair, Chief Executive Officer or other executive directors) has failed to resolve the issue or for which such contact may not be appropriate; Acts as a trusted intermediary for other directors when necessary; Leads the annual review of the Chair's performance by the Board and is responsible, in conjunction with the Nomination and Governance Committee, for the succession process for the Society Chair.

Division of responsibilities (continued)

Role	Responsibilities
Non-executive directors Rita Clifton Mai Fyfield Albert Hitchcock Usha Prashar Phil Rivett Tim Tookey Gunn Waersted	Collectively set the tone from the top, in relation to culture and governance – holding management to account for embedding and maintaining the Society's culture and values; Contribute to the development of the strategy and risk appetite, exercising effective oversight over risk management and controls; Monitor performance and constructively challenge as appropriate using their skills and expertise to engage in honest debate; Promote the long-term success of the Society for the benefit of members and ensure that the Society meets its obligations as a regulated firm.
Chief Executive Officer Joe Garner	Responsible for the day to day running of the business and accountable to the Board for the Society's financial and operational performance; Responsible for providing leadership and direction to implement the Society's strategy having regard to the duty to promote the success of the Society in the interests of members, colleagues and Nationwide's public and social responsibilities within the wider community; Embodies the Society's culture and values and develops policies for the Society's people that drive the right behaviour; Implements and monitors systems for the apportionment and oversight of responsibilities, controls and best practices within the Society, which maintain its operational efficiency and high standards of business conduct.
Executive director Chris Rhodes	As a member of the Board, collectively with the non-executive directors, sets the strategy, risk appetite and culture and values; Ensures that the Board is kept informed of all significant matters, escalating issues on a timely basis; Accountable to the Board for the execution of the strategy and the performance of the business; Holds specific management responsibilities in the day to day running of the business.
Society Secretary Mark Chapman	Advises the Board through the Chair on all governance related matters; Provides support to the Board in managing good information flows between the Board and the rest of the Society to ensure that high quality and timely information is provided to the Board; Assists the Chair in ensuring that adequate resources are allocated to developing the directors' knowledge and capabilities in order to enhance Board and Committee effectiveness; Assists the Chair in establishing the policies and processes required to enable the Board to function effectively.

Division of responsibilities (continued)

Board Committees

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

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

Division of responsibilities (continued)

Nationwide Leadership Team

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

Committee	Responsibilities
Nationwide Leadership Team	The purpose of the Nationwide Leadership Team is to direct and coordinate the executive management of the Society within the strategy, risk appetite, operational plans, policies, objectives, frameworks, budget and authority approved by the Board, and to act as a forum to assist the Chief Executive Officer (CEO) with his responsibilities. The Committee considers all matters of strategic importance to the Society, guided by its purpose and the Society's strategic cornerstones. More information on the Nationwide Leadership Team can be found on page 55.

Time commitment

To discharge their responsibilities effectively, non-executive directors must commit sufficient time to their role. The time the Society's non-executive directors are expected to commit to their role at Nationwide is agreed individually, as part of the appointment process, and depends upon their responsibilities. For example, additional time commitment will often be required of the Senior Independent Director and Chairs of the board committees in order to fulfil their extra responsibilities. The Chair and non-executive directors are expected to allocate sufficient time to understanding the business, through meetings with management and undergoing training to ensure ongoing development. The Chair and non-executive directors are also expected to attend meetings with the Society's regulators to foster and maintain an open and transparent working relationship. This time is in addition to that spent preparing for, and attending, Board and board committee meetings. Time commitments are reviewed annually, or more regularly if needed, as Nationwide recognises the need to take account of changes in best practice – for example any revisions to the Code recommending different or expanded roles of board committees.

Non-executive directors are expected to commit a minimum of 30 days per year for core activities and membership of Board committees. The Senior Independent Director and Committee Chairs are expected to commit a minimum of 40-60 days per annum. The Chair will spend a minimum of an average of 2 days per week on Nationwide business. For this year, the Chair has individually confirmed with each non-executive director that they have been able to allocate sufficient time to fulfilling their duties. Externally, there has been no increase in the other significant commitments of the Chair during the year which would impact the time he has to fulfil the role.

During the year and on the recommendation of the Nomination and Governance Committee, the Board gave approval to the following significant additional external appointments taken by non-executive directors of the Society: The Board approved the appointment of Mai Fyfield as a non-executive director of ASOS plc with effect from November 2019. The additional appointment was not considered to impair her ability to serve as a Director of the Society in view of the time commitment. Including Nationwide, Ms Fyfield holds four non-executive roles which is the maximum limit set by the Capital Requirements Directive IV (CRD IV) on non-executive directorships in commercial ventures to be held at the same time by any individual director.

The Board, on the recommendation of the Nomination and Governance Committee, also approved the appointment of Phil Rivett as a non-executive director of Standard Chartered Plc with effect from May 2020. It was considered that this appointment would not impair Mr Rivett's ability to perform his role as a non-executive director of the Society in view of the anticipated time commitment. Following this appointment, Mr Rivett is a non-executive director of two commercial ventures including Nationwide.

In addition to the above, the Board, on the recommendation of the Nomination and Governance Committee, approved the proposed appointment of Tim Tookey as a non-executive director of The Royal London Mutual Insurance Society Limited with effect from April 2020 subject to regulatory approval. Following this appointment, Mr Tookey would be a non-executive of two commercial ventures including Nationwide. It was considered that his appointment to The Royal London Mutual Insurance Society Limited Board would not impair his ability to perform his role at Nationwide in view of the anticipated time commitment.

Division of responsibilities (continued)

Director independence

The Nomination and Governance Committee considers the independence of each non-executive director on an annual basis. In reaching its determination of independence, the Committee considers factors such as length of tenure and relationships or circumstances which are likely to affect or appear to affect the director's judgement. On the recommendation of the Committee, all non-executive directors have been assessed by the Board to be independent as to character and judgement and to be free of relationships and other circumstances which could materially affect the exercise of their judgement. In reviewing the independence of each non-executive director, the Committee examined the cross directorships of Rita Clifton and Mai Fyfield who both sat on the Board of ASOS plc. The Committee was satisfied that the cross directorships did not impact their independence or their ability to carry out their role as directors of the Society. Rita Clifton stepped down from the Board of ASOS in March 2020. In considering Tim Tookey's appointment to the Board of The Royal London Mutual Insurance Society (Royal London), the Committee considered the cross directorship with Kevin Parry who also sits on the Board of Royal London. Tim Tookey joined the Board of Royal London in April 2020. The Committee was satisfied that the cross directorships will not impact their independence or their ability to carry out their role as directors of the Society.

The Committee also considered Phil Rivett's independence and was satisfied that he is independent notwithstanding his past relationship with PricewaterhouseCoopers LLP (PwC), the Society's former auditor. PwC ceased to be the Society's auditor in July 2019 following a competitive tender for external audit in accordance with auditor rotation requirement. Phil Rivett retired as a partner of PwC in 2018. He had no personal engagement with any business of the Society prior to his appointment to the Board of the Society in September 2019. The Code requires the Chair to be independent on appointment. Thereafter, the test of independence no longer applies to this role. David Roberts, Chair of the Society, was deemed to be independent upon his appointment to the role of non-executive director and Chair Elect. Following the assessment, all directors eligible for re-election (save for Baroness Usha Prashar who will be retiring from the Board) will be recommended to members for re-election at the AGM in July 2020.

Information and advice

The Board has full and timely access to all relevant information to enable it to perform its duties effectively. The Society Secretary ensures appropriate and timely information flows between the Board, its Committees and senior management, enabling the Board to exercise its judgement and make fully informed decisions when discharging its duties. The Society Secretary supports the Chair in setting the Board agenda. Board papers are distributed to all directors in advance of Board meetings via a secure electronic system allowing directors to access information in a timely manner. Regular management updates are sent to directors to keep them informed of events between board meetings and to ensure that they are advised of the latest issues affecting the Society.

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

Induction, training and development

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

The Chair, with support from the Society Secretary, has overall responsibility for ensuring that the directors receive suitable training to enable them carry out their duties. The directors are regularly provided with the opportunity for ongoing training and professional development to ensure they have the necessary knowledge and understanding of the Society's business. Training opportunities are provided through internal meetings, presentations and briefings by internal as well as external advisers. During the year, the directors attended briefing sessions on subjects including conduct rules, blockchain technology, as well as environmental and sustainability strategy and risk. They are encouraged to continually update their professional skills and knowledge of the business and to identify any additional training requirements that would assist them in carrying out their role. The Chair has conversations with each non-executive director on a regular basis during the year and at the end of the year to review performance and development needs. The Senior Independent Director is responsible for the evaluation of performance and development needs for the Chair. Executive board directors continue to undertake performance and development review and planning activity as part of the annual performance management cycle.

Composition, succession and evaluation

Board composition

The Nomination and Governance Committee is responsible for reviewing Board composition, considering succession plans for both the Board and senior executives, selecting and appointing new directors and considering the results of the Board effectiveness review. More information on the work of this Committee during the year can be found on pages 103 to 107.

In order to maintain a balanced Board, the skills and experience of individual Board members are regularly reviewed. Ensuring the right mix of director competencies is vital for constructive discussion and, ultimately, effective Board decisions. The individual biographies of the directors, which include their relevant skills and experience, can be found on pages 51 to 54.

All directors are subject to conduct rules laid down by regulators and must satisfy requirements relating to their fitness and propriety. In addition, the Chair, the Senior Independent Director and Chairs of the key board committees are subject to all aspects of the Senior Managers Regime.

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

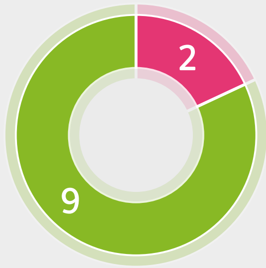
Board tenure

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

Member nominations

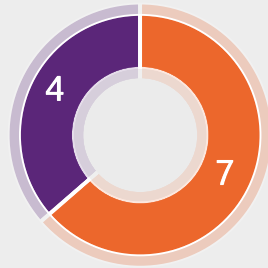
Members of Nationwide have the right to nominate candidates for election to the Board, subject to the Society's Memorandum and Rules and compliance with PRA and FCA requirements. No such nominations had been received by 4 April 2020, this being the deadline for election to the Board at the 2020 Annual General Meeting (AGM).

Board composition and diversity



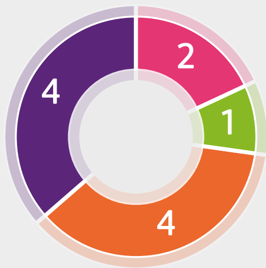
Executive and non-executive directors

- Executive directors
- Non-executive directors



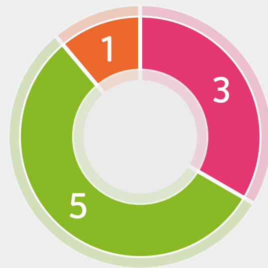
Gender

- Male
- Female



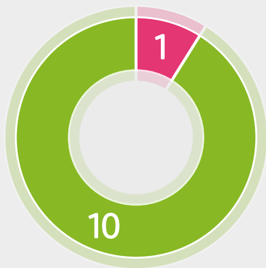
Age of board members

- 45-50
- 51-55
- 56-60
- 61+



Non-executive directors' tenure

- 0-3 years
- 3-6 years
- 6+ years



Ethnicity

- BAME
- Non-BAME

Strategic report
Governance
Risk report
Financial statements
Other information

Composition, succession and evaluation (continued)

Board effectiveness

2019 Board evaluation

To be effective as a Board, directors must function cohesively as a group and individually. A key mechanism that the Board uses to review its effectiveness and set its future development plans and objectives is the annual Board and Committee Evaluation. In 2019, the Board engaged in an internally led process, facilitated by the Society Secretary. This provided the Board with the opportunity to identify and optimise its strengths as well as highlighting areas for further focus and development. The process included an assessment of the effectiveness of each Board committee.

The evaluation of the performance and contribution of each director was conducted by the Society Chair. The approach was designed to ensure that all directors, both executive and non-executive, contributed effectively to the good governance of Nationwide given that the contribution of individuals is one of the factors considered when deciding whether individual directors will offer themselves for election or re-election at the Society's AGM. The reviews concluded that each director continues to perform effectively and demonstrate commitment to the role.

Led by Lynne Peacock, the former Senior Independent Director, a review of the Chair's performance, ongoing fitness and propriety was carried out by the Board. The review concluded that the Chair continues to perform effectively and demonstrate commitment to his role.

Form of the 2019 Board evaluation

Stage 1. Agreement of form and scope of the Board evaluation

In January 2019, the Board agreed that following the external review undertaken in 2018, the 2019 Board evaluation would be conducted internally. The Society Secretary met with the Chair to agree the purpose, scope and practicalities of the evaluation. A proposal, outlining the arrangements for the review was submitted to the Nomination and Governance Committee in March 2019. It was agreed that the 2019 Board evaluation would focus on actions from the previous year to ensure that these had been implemented and embedded successfully.

Stage 2. Information gathering

The board members carried out a self-assessment of the effectiveness of the Board by completing a questionnaire. The questionnaire covered general areas of effectiveness as well as the actions in response to the 2018 performance review. A review of the Board committees was included as part of the overall board performance review questionnaire.

Stage 3. Feedback and report findings

The Chair discussed responses with individual directors. A report of the findings and feedback from the review of the Board was presented and discussed at the Board meeting in May 2019. Feedback in regard to the effectiveness of Board committees was discussed at each relevant committee meeting.

Stage 4. Findings and action plan

Overall, the results of the review endorsed the belief that the Board and its committees are performing and operating effectively, directors hold the view that, generally, the culture and tone set by the Board displays the values and behaviours it expects of others, particularly in terms of integrity, professionalism and concern for members. It was observed, however, that the Board should keep challenging itself to focus on the high level strategic and cultural issues and avoid being drawn into operational details. On Board committees, the directors were generally satisfied with the reporting of committee activities to the Board and agreed that the areas and activities currently delegated by the Board to its committees were appropriate.

Composition, succession and evaluation (continued)

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

Following the review, a number of changes to board processes have been made. The progress made on the key recommendations from the 2019 evaluation process is described below.

Area of focus and key recommendations	Action Taken
The Board has an effective range of skills but should continuously review its composition in response to emerging developments and priorities.	The Nomination and Governance Committee continues to consider the composition and succession plans for the Board. Consideration is to be given to additional skill sets in the areas of digital technology and retail banking.
Continuous improvements to management reports and papers with a focus on key strategic issues to ensure high quality and relevant information flows to the Board.	The production of high quality board papers and management information has continued to evolve, with the production of revised paper guidance and templates. The structure of agendas has been revised to ensure an increased focus on strategic matters.
Increase the opportunities for Board engagement outside the boardroom, including targeted training sessions and dinner discussions.	An action plan for board training sessions was implemented ensuring a mixed range of subjects and speakers. This prioritised the use of external experts and colleague engagement events to provide a forum for advisory and informal conversations outside of the boardroom.

2020 Board evaluation

The 2020 Board evaluation process was also an internal review led by the Society Secretary. The review took place in April 2020.

The process took the form of a questionnaire completed covering general areas of effectiveness and was followed by one to one meetings between the Chair and individual directors to provide feedback and expand on particular aspects, for example culture and performance of the Board.

The results of the questionnaire and feedback will be presented to the Board for discussion and will form the basis of an action plan for completion during 2020. A similar process will be followed for Board committees.

Further information on the outcomes and actions identified will be presented in the Annual Report and Accounts 2021.

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

Led by Kevin Parry, the Senior Independent Director, a review of the Chair's performance was carried out by the Board. Feedback on the Chair's performance was obtained from all the directors. The results were collated and were discussed at a meeting without the Chair present. The review concluded that the Chair continues to perform effectively and demonstrate commitment to the role.

Audit, risk and internal control

The Board is responsible for determining the nature and extent of the risks the Society is willing to take in order to achieve its long-term strategic objectives. This is detailed in the Society's Risk Appetite Statement. The Board is also responsible for ensuring that management maintain an effective system of risk management and internal control and for assessing its effectiveness. More information on this can be found on pages 86 to 98.

Remuneration

The responsibility for determining the Society's remuneration policies and practices, including executive and senior management remuneration, has been delegated to the Remuneration Committee. Information on this Committee and the Report of the directors on remuneration can be found on pages 108 to 129.

Audit Committee report

Dear fellow member,

I am pleased to present the Audit Committee report describing the work undertaken by the Committee over the past year.

The last few months have turned out to be challenging for accounting and auditing judgements and have required focus on the maintenance of a robust control framework, as the Society has adapted its ways of working. We have not only had to take account of record low interest rates but also the impact of the nation's health and the extensive government interventions to alleviate the adverse impact on the economy. A number of the interventions have required support and execution by the retail financial services industry and Nationwide has worked tirelessly to play its part in the support of its members.

Further detail of the judgements that the Audit Committee debated is set out in this report and cross referenced to the extensive disclosures in the Annual Report and Accounts. It is my opinion that there is an unusually high range of plausible outcomes, particularly in respect of loan loss provisioning. In our challenge of management, the Audit Committee has sought to report prudently in a balanced manner, but impacts on the UK economy remain unclear at this stage. It is therefore likely that emerging information over the next few months will lead to some changes in our forward-looking view of economic conditions with a consequent impact on loan loss provisions.

The Committee has reviewed the Society's financial reporting, ensuring that the financial statements published by the Society are fairly presented and are prepared using appropriate judgements. The Committee has also monitored and reviewed internal and external audit arrangements and the effectiveness of the Society's internal controls, and reviewed the Society's procedures relating to fraud and financial crime. Additionally, the Committee has monitored the external environment to ensure that reporting and controls respond to developments and external risks.

This year, we welcomed Ernst & Young LLP as the Society's external auditor, following member approval at the July 2019 Annual General Meeting. The Committee has overseen and monitored their approach to the audit and ensured a smooth transition from the outgoing external auditor. I should like to thank EY and our previous auditors PwC for their mutual co-operation that ensured that smooth transition.

During the reporting period, we have considered in detail the key judgements made by management in preparing the Annual Report and Accounts and reviewed updates to accounting policies. We have continued to prioritise monitoring the development of the control environment, including the increasing maturity of control ownership across the Society, and controls in important business activities such as cyber security, physical security and digital services.

If any member has feedback on this report, I should be pleased to receive their comments.

Kevin Parry Chair – Audit Committee

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

How the Committee works

The Audit Committee comprises independent non-executive directors who bring a diverse range of experience in business, finance, auditing, risk and controls, with particular depth of experience in the financial services sector. The Committee is therefore able to challenge and scrutinise the work of management. The Committee also draws on the expertise of key advisers and control functions, including the internal and external auditors. The Board has confirmed that the members of the Audit Committee have the financial, risk, control and commercial expertise required to provide effective challenge to management. As required by the Code, the Board considers that Kevin Parry, Tim Tookey and Phil Rivett have recent and relevant financial experience and accounting competence and that the Committee as a whole is appropriately competent in the sector in which the Society operates.

Who sits on the Committee

In addition to the members, regular attendees of the Committee include: Chair of the Board, Chief Executive Officer, Chief Internal Auditor, Chief Financial Officer, Chief Risk Officer, Director of Financial Reporting and representatives of the external audit firm.

Committee members	Kevin Parry (Chair)	Rita Clifton	Lynne Peacock Retired from the Board on 31 December 2019	Phil Rivett Joined the Board in September 2019	Tim Tookey
Meetings attended (eligible to attend)	6 / (6)	6 / (6)	4 / (4)	4 / (4)	6 / (6)

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

The Committee works closely with the Board Risk Committee, as some matters are relevant to both committees. A joint meeting was held in March 2020 to discuss emerging risks and to review the 2020/21 assurance plans for Risk and Compliance Oversight and Internal Audit.

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

The Committee reviewed its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference. The Committee's effectiveness is reviewed annually. In 2019, the review was carried out internally as part of the overall review of the effectiveness of the Board and its committees. The review focused on the effectiveness of actions taken in response to the findings of the 2018 externally-facilitated Committee review. Overall, there was general satisfaction with the reporting of the Committee's activities to the Board, and it was agreed that the areas and activities currently delegated by the Board to the Committee remained appropriate. Prior to Covid-19, the Committee requested management to expedite the closure of internal audit issues in accordance with pre-determined timescales. In the latter part of the year, some relaxations of deadlines for the less material recommendations and efficiency related recommendations were permitted to allow management to concentrate on responding to operational issues connected to the health and economic conditions that arose from the Covid-19 pandemic. The 2019 effectiveness review process is described on page 83.

How the Committee spent its time in the year

Report on the year

Preparation of the financial statements and external financial reporting

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

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

Key areas/matters considered by the Committee during the year

The main areas of focus of, and actions taken by the Committee in relation to the Annual Report and Accounts 2020 are outlined below. Each of these matters was discussed with the external auditor during the year and, where appropriate, have been addressed as an area of audit focus in the Auditor's report.

Area of focus	Committee's response
Accounting policies, including the implementation of the micro hedge accounting provisions of IFRS 9 (accounting for financial instruments) and IFRS 16 (leases)	The Committee reviewed the Society's accounting policies and confirmed they were appropriate to be used in the financial statements. It also considered changes to policies and processes required by new accounting standards. The Committee considered reports from management on the impact of implementing the hedge accounting provisions of IFRS 9 for individual hedges for the 2019/20 financial year. Hedge accounting income statement volatility was low during the year and adoption of these provisions has enabled management to simplify hedge accounting arrangements and processes. The Committee also approved the revised accounting policy for leases following implementation of IFRS 16.
Alternative performance measures and disclosure of member financial benefit Details of member financial benefit are shown on page 43	The Committee continues to consider that certain non-GAAP measures, such as underlying profit, aid an understanding of the Society's results. Following a change to the definition of underlying profit in the previous financial year, only gains and losses from hedge accounting and an amount received from the FSCS relating to earlier institutional failures were excluded from underlying profit. The Committee considered this treatment to be appropriate. The other performance disclosure considered carefully by the Committee was the value for member financial benefit presented in Nationwide's financial reporting. This metric shows the benefit provided to members in the form of differentiated pricing and incentives, representing Nationwide's interest rate differential, lower fees and higher member incentives compared with market averages and is considered a key performance indicator. The Committee was satisfied with the approach.
Going concern and business viability statement The business viability and going concern statements are included in the Directors' report pages 131-132	The Committee reviewed the going concern basis of preparation of the financial statements and the statement of business viability for recommendation to the Board for approval. As a deposit taking institution, liquidity management and viability are core requirements for the Society and there is substantial oversight by the Board through the Board Risk Committee and the Audit Committee. Information scrutinised by the Committee in drawing conclusions included assessment of levels of capital and availability of funding and liquidity, together with output of stress tests and reverse stress tests. It also considered risks from business activities, technology change and economic factors such as the impact of the Covid-19 pandemic which may affect future development, performance and financial position, together with the implications of principal risks including operational resilience and cyber security. The Committee considered whether a longer period than three years should be covered in the viability statement, concluding that, as in the prior year, a period of three years was appropriate, particularly when taking into account changes in the economic, technological and regulatory environment. The Committee concluded that it remained appropriate to prepare the accounts on a going concern basis and recommended the viability statement to the Board for approval.
Fair, balanced and understandable report and accounts	The Society's Annual Report and Accounts, taken as a whole, must be fair, balanced and understandable. The Committee considered the overall presentation of the financial statements and was satisfied that the reporting, including the disclosures in the notes to the accounts, fairly represented the results and business performance for the year ended 4 April 2020. During finalisation of the Annual Report and Accounts the Committee scrutinised carefully the disclosures made of the impact of Covid-19. This included specific focus on credit loss provisions, as set out under 'Impairment provisions for loan portfolios and related disclosures' below, and also narrative regarding wider impacts on business performance in the Financial review.

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

Area of focus	Committee's response
Fair, balanced and understandable report and accounts (continued)	The Committee considered the Annual Report and Accounts against a number of hallmarks of 'fair, balanced and understandable', including whether the overall portrayal of Nationwide was open and honest, setting out both successes and challenges, and whether language was used that a person with reasonable knowledge of financial sector financial reporting could understand. The Committee also considered whether the reporting was relevant in the context of the Society's strategy. The Committee considered a report by management setting out the review processes used to assess the overall presentation of the Annual Report and Accounts. This included an independent management review by members of executive management covering a wide range of business responsibilities. This concluded that the reporting was clear, consistent, balanced and open, as well as being appropriately focused on material items, and consistent with management's internal evaluation of performance. The Committee reviewed the draft Report of the directors on corporate governance and was satisfied that it presented an accurate view of the work of the Board and its committees. After consideration of management's report and the Committee's own review, the Committee concluded that it could inform the Board that, in its opinion, the Annual Report and Accounts were fair, balanced and understandable.
Climate change risk and related disclosures Disclosures are set out on page 31 of the Strategic report	The Committee discussed with management progress in developing disclosures regarding climate change risks and impacts, working towards comprehensive disclosures by 2022 in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures. The disclosures in the Annual Report and Accounts were reviewed carefully to ensure that they gave a fair presentation of management's assessment of risks and how climate-related risk is being governed and managed. The Committee requested more work to be undertaken during the next financial year to assess the short and medium-term impact on members emanating from climate change and the Society's response to it.

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

Area of focus	Committee's response
Impairment provisions for loan portfolios and related disclosures Information on credit risk and assumptions relating to expected credit losses is included in note 10 to the financial statements	Given the materiality of Nationwide's loan portfolios, understanding the Society's exposure to credit risk and ensuring that impairment provisions are appropriate remain key priorities for the Committee, but took on even greater significance in the light of the public health and economic conditions existing before, at, and after the year end and, in particular, the need for expert judgement on the impact on loan loss provisions. The selection of, and probabilities applied to, a range of economic scenarios for the purpose of modelling expected credit losses have a material impact on loan loss provisions and the Committee challenged management to demonstrate that provisions appropriately reflected uncertainty in the economic outlook and the potential for an economic downturn from the benign environment experienced in recent years. Discussions took into account most recent economic data and management's forward-looking view of the economy in the period after Brexit and in light of the pandemic. Following detailed review and discussion, assumptions for central, upside and downside scenarios, as well as for a severe economic downturn, were agreed. The Committee concurred with management that the scenarios used reflected an appropriate range of assumptions, and agreed the inclusion of a new central economic scenario to reflect the impact of Covid-19. Following discussion, scenario probability weights were also revised so that the upside scenario weight was 5%, central Covid-19 scenario 50%, downside scenario 35% and the severe downside scenario 10%.

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

Area of focus	Committee's response
Impairment provisions for loan portfolios and related disclosures (continued) Information on credit risk and assumptions relating to expected credit losses is included in note 10 to the financial statements	At the year end, the level of estimation uncertainty was heightened by the impacts of the economic conditions and uncertain outlook resulting from Covid-19. The Committee challenged management to demonstrate that all relevant risks had been taken into account in the expected credit loss models, and that post model adjustments that rely on expert judgement were recognised, in particular for tail risks which could not be modelled due to an absence of historical data. Specific matters discussed included recognition of credit risk in respect of borrowers in persistent debt, and latest available data regarding the performance of interest only loans at maturity. A particular area of focus was the impact of Covid-19 on expected credit losses. The Committee held two additional meetings post the 2019/20 year end to evaluate in detail management's assessment of the impact of Covid-19, including determination of appropriate economic assumptions to use in modelling losses over the period judged to be impacted. In addition, the Committee considered carefully the analysis of credit risk in respect of borrowers requesting payment holidays as a result of being affected by Covid-19. This included reflecting the fact that the granting of such a payment holiday in these circumstances did not necessarily constitute a significant increase in credit risk, although in a proportion of cases, borrowers would experience financial difficulty. The Committee also evaluated management's work to assess the implications for provisions against commercial property lending in relation to valuation uncertainties expressed in specialist property valuations. The Committee was satisfied that available evidence supported the level of provisioning and that the disclosures and sensitivities set out in the accounts were comprehensive, to allow readers to understand the unusually high level of judgement associated with the provision at the year end. Overall, disclosures in respect of credit risk and provisions were considered carefully to ensure that they were transparent and gave insight into Nationwide's credit risk profile, taking into account the most recent recommendations of the industry disclosure task force and the aims of the Prudential Regulation Authority and industry to improve consistency. The Committee was satisfied with the overall level of provisioning and related disclosures.
Provisions for customer redress Information on provisions is included in note 27 to the financial statements	The Committee received updates on a number of conduct-related matters during the year and considered whether provisions for customer redress were appropriate. Assumptions used in calculating provisions for customer redress require judgements in relation to the number of cases and value of redress required, and in addition, judgement is applied to assessing the likelihood of potential conduct issues crystallising to evaluate whether a provision, or alternatively disclosure of a contingent liability, is required. The Committee reviewed judgements and estimates for a number of conduct-related issues, discussing with management matters including administration of customer accounts, non-compliance with consumer credit legislation and other issues subject to ongoing remediation, including the historic sale of Payment Protection Insurance (PPI) and the related Plevin legal case in respect of undisclosed commission. Discussions included the criteria for recognition of new provisions or provision releases, as well as the estimation of liabilities. Following the FCA's August 2019 deadline for submission of PPI complaints, the Committee reviewed latest data showing progress in assessing cases and completing remediation activity. While the volume of complaints was established following the deadline, judgements remained significant in assessing the level of redress payments and these were considered by the Committee. Provisions for other conduct matters were reviewed and the basis for assumptions challenged, including the potential outcomes for those matters where less historic experience is available. The Committee concluded that the provisions held by the Society were appropriate.

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

Area of focus	Committee's response
Capitalisation and impairment of intangible assets	Nationwide's significant investment in technology, together with fast-moving technology development and new techniques for delivery such as agile methodologies, increase the importance of detailed assessment of the nature of assets capitalised, the useful lives of assets and implications of new investment for the existing technology estate. The Committee scrutinised management's work to review both existing assets and ongoing capitalisation of development costs to ensure that the value of assets held on the balance sheet was appropriate, including the recognition of impairments arising from changes in the year. The Committee concurred with management's conclusions that only appropriate costs were capitalised, carrying values remained appropriate and that asset lives were reasonable.
Pension scheme accounting	Nationwide's defined benefit scheme assets and liabilities are material to the financial statements, and the valuation of liabilities involves making a number of assumptions. The Committee reviewed carefully assumptions made by management in calculating the deficit relating to the scheme, including reviewing benchmarking information to ensure that assumptions were appropriate in comparison with market trends. Pension asset valuations were also considered in light of current market conditions. Following the decision made by the Board to close the fund to future accrual on 31 March 2021, the Committee considered the approach to the calculation of the gain recognised as a result, including the timing of recognition of the gain and associated mitigation costs.

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

Area of focus	Committee's response
Controls	**Control environment** The Committee continued to monitor the overall effectiveness of the Society's control environment, including work to strengthen and enhance controls. The Committee was updated regularly on the status of important work to streamline the approach to control ownership, including management accountability for key controls and declarations of control effectiveness. **Financial controls** The Committee reviewed reporting by management on the effectiveness of the financial control framework. The Committee also discussed the potential impact of the introduction of a UK version of a Sarbanes Oxley control framework following publication of the Kingman and Brydon Reports. The Committee received regular reports on the plan of activity to support the demonstrable embedding of the Operational and Conduct Risk Management Framework. Furthermore, the Committee discussed the effectiveness of regulatory and critical reporting controls, including the work that was being undertaken across the three lines of defence to further enhance control standards and at the same time gain efficiencies across the Society.

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

Area of focus	Committee's response
Controls (continued)	**Security, IT controls and operational resilience** The Committee closely monitored the work that has continued on strengthening further aspects of security management, with quarterly updates received from the Chief Security and Resilience Officer. Internal Audit also completed several related audits during the year, and the Committee discussed with the external auditors their view on controls over privileged access to IT systems. These reports, together with reporting by management, demonstrated the progress made in the year and informed priorities going forward. The Committee will continue to monitor this important aspect of control. **Financial crime** Financial crime is a broad term that includes bribery and corruption, money laundering, fraud (including fraud scams), theft from customers' accounts and card related thefts. The Committee received a number of reports on each of these areas. The Committee received two reports from the Group Anti-Money Laundering Officer and noted the improvements made to the control environment since the prior year and the associated positive impact that this had on members. The Committee emphasised the importance of the Society being able to identify proactively the risk of money laundering and apply enhanced due diligence measures. The Committee reviewed a detailed report on anti-fraud controls, which noted the Society's fraud performance against risk appetite and key areas of focus for the forthcoming year. The Committee considered the continued external threat and was satisfied with the steps being taken to reduce losses from financial crime. **First line controls** During the year the Committee introduced a series of deep dives into key aspects of first line controls, which included physical security, cyber controls and controls in digital services. This enabled the Committee to engage directly with relevant executive management to ensure that risks are fully understood, and the effectiveness of controls is monitored and improved as necessary. The Committee was satisfied that controls are being developed, enhanced and then embedded in important business areas where development is fast paced; and it is critically important to ensure that controls keep pace.

As part of the Committee's wider responsibilities, other matters considered during the year were:

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

Internal Audit

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

The Audit Committee approved the annual audit plan and all changes to the plan during the year, which were reviewed quarterly. The scope of work took account of the function's own assessment of risks, and the input of first and second line management and the Audit Committee itself. The Committee also approved the risk-based frequency of audit coverage to be used in planning internal audit activities. The annual assurance plan of second line oversight and third line audit activities was presented at a joint meeting of the Audit and Risk Committees held in March 2020 where the Committees reviewed materials setting out the co-ordination and combined coverage of these plans. Given that the plan had been prepared prior to the Covid-19 pandemic, it was recognised that it needed to be reviewed in light of new and emerging risks identified in relation to the pandemic. The Joint Committee met shortly after the year end, at which stage it reviewed and approved a revised plan in response to the Covid-19 pandemic.

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

The Committee reviewed the resourcing of the audit function each quarter and was satisfied that the resources were appropriate. The Audit Committee Chair and the Chief Internal Auditor reviewed progress against planned activities on a monthly basis.

The Committee also considered the new organisational structure of the internal audit function, which recognises the changing focus of its activities as business priorities and risks develop, concluding that it was appropriate.

The quality of internal audit's work was monitored by a quality control function which reported findings directly to the Audit Committee Chair. No major issues were reported although there was continued focus on improving the quality of documentation.

The effectiveness of the internal audit function was also assessed by means of an External Quality Assessment conducted by KPMG LLP. The findings were presented by KPMG LLP to the Committee in October 2019 and showed that Internal Audit continues to be effective, independent and objective. The review concluded that overall Internal Audit 'generally conforms' to both the IIA Standards and FS Code. Priorities for continued improvement included ensuring continued embedding of the revised Internal Audit function structure and increasing the frequency of internal audits in some areas.

Subsequent to the year end, the Committee was pleased to support the move of the Chief Internal Auditor to a new role. There were well developed, pre-existing succession plans in place for that, and other eventualities, and following the approval of the Committee, Mr Stephen Evenden was appointed as the Interim Chief Internal Auditor shortly following the year end date. A full selection exercise for the permanent Chief Internal Auditor role will be overseen by the Chair of the Audit Committee.

External Audit

The Audit Committee is responsible for overseeing the relationship with the external auditor, and for the effectiveness of the audit process. Ernst & Young LLP (EY) has acted as the Society's external audit firm following appointment at the Annual General Meeting in July 2019. Nationwide's policy for auditor rotation and audit tender follows regulatory requirements, and the audit firm will be required to be rotated after no more than 20 years, with an audit tender to be held after no more than 10 years. EY's report can be found on pages 220-232.

Senior statutory auditor

Mr Javier Faiz of EY became Nationwide's senior statutory auditor for the financial year 2019/20 following EY's appointment as Nationwide's external auditor at the Annual General Meeting in July 2019. Under regulation Mr Faiz's term as senior statutory auditor cannot normally exceed a maximum duration of five years. The previous statutory auditor, Ms Hemione Hudson of PwC was due for rotation following the 2019 year end audit which coincided with the audit firm rotation date.

Audit quality and materiality

The Committee has responsibility for reviewing the quality and effectiveness of the external audit. The Committee approved the scope of the audit plan and materiality level in advance of the annual audit. Materiality is the level at which the auditor considers that a misstatement would compromise the truth or fairness of the financial statements. For 2019/20, overall Group audit materiality was set at £31.2 million (2019: £42.3 million).

Audit outputs

During the year, the Committee reviewed the following reports from PwC prior to their resignation:

- Year end report for the 2018/19 financial year and statutory audit opinion in respect of the year. The report set out the auditors' work and conclusions in respect of key areas of audit focus;
- Private report to the Prudential Regulation Authority (PRA), which focused on key areas as specified by the PRA, covering expected credit losses under IFRS 9 and balance sheet substantiation controls; and
- Internal Controls Report.

Early in the 2018/19 financial year EY commenced planning for the 2019/20 audit, including engaging widely with management, shadowing the PwC audit, obtaining a detailed understanding of key areas of audit focus and management judgement, and observing Audit Committee meetings. Following their appointment in July 2019, EY attended all Audit Committee meetings in their capacity as external auditor, and the Committee received the following reports from EY:

- Audit Planning Report for the financial year, including the audit fee proposal;
- Interim Review report for the 2019/20 Interim Results and statutory opinion in respect of the interim period;
- Initial parts of PRA Written Auditor Reporting; and
- Letter of Representation for the statutory audit.

Auditor independence

EY has confirmed that it has complied with relevant regulatory and professional requirements and its objectivity is not impaired. The Committee is satisfied that EY remained independent throughout the year.

The Board has an established policy setting out the non-audit services that can be provided by the external auditor. The aim of the policy, which is reviewed annually, is to safeguard the independence and objectivity of the external auditors and comply with the ethical standards of the Financial Reporting Council (FRC).

The policy specifies non-audit services provided by the external auditor that are either permitted or prohibited, and requires all non-audit work to be approved by the Audit Committee following a detailed assessment of the nature of the work, availability of alternative suppliers and implications for auditor independence.

Audit and non-audit fees

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

Under the Society's non-audit fees policy, all non-audit work is approved by the Audit Committee where the fee is over £50,000, or by the Audit Committee Chair and the Chief Financial Officer with ratification at the next Audit Committee meeting where the fee is below £50,000. Where aggregate non-audit fees reach 50% of the statutory audit fee in any given year, all non-audit work must be approved by the Audit Committee in advance.

During the year, the Committee considered a number of proposals from management to use the external auditors for non-audit services, ensuring that management had considered alternative suppliers and scrutinising analysis of any potential threats to auditor independence.

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

The fees paid to EY for the year ended 4 April 2020 totalled £4.0 million (2019 PwC: £6.8 million), of which £0.5 million (2019 PwC: £2.8 million) were for non-audit services. In addition, £1.2 million of fees for non-audit work were paid to PwC in the year ended 4 April 2020, in the period before their resignation as auditors. Total non-audit services represented 41% (2019: 67%) of the statutory audit fee. Within this, non-audit services provided by EY represented 10% of their statutory audit fee.

Fees paid to PwC in the period before their resignation as auditor for individual non-audit services where the expenditure was more than £100,000 were:

- Assurance on work to enhance privileged access management: fees of £131,000; and
- Assurance over the Society's technology strategy implementation: fees of £720,000.

No fees were paid to EY for individual services with an expenditure of more than £100,000. Non-audit services provided by EY relate to treasury assurance work, funding issuances and programme updates, and audit assurance services, including quarterly profit verification activities and half year review.

The value of audit and non-audit fees in respect of the financial year are disclosed in note 8.

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

Auditor effectiveness

The Committee reviews the effectiveness of the external audit process annually. The Committee received a report on audit effectiveness based on a questionnaire to Audit Committee members and those members of management who interact with the auditors, regarding the PwC audit of the 2018/19 financial statements. It showed that the external auditor was performing its duties in an independent and effective manner, with an improvement from the prior year, particularly in respect of providing value and communication.

Regulatory engagement

The Chair of the Audit Committee has regular meetings with regulators, including the tripartite meetings with the audit firm.

Following the completion of PwC's 2019 audit, the Committee was informed that the Audit Quality Review (AQR) function of the Financial Reporting Council had chosen the Society's audit for its review. At the date of this report we have not received the formal outcome of the review.

The year ahead

In 2020/21 the Audit Committee will continue to focus on its oversight of the financial reporting and internal controls of Nationwide, including in particular key judgements in credit loss provisions relating to forward-looking economic assumptions.

Following publication of the Brydon review into the quality and effectiveness of external audit in December 2019, the Committee will continue to monitor developments, including forthcoming government proposals for changes to reporting, audit and audit regulation. The Committee will also continue to work with the Board Risk Committee to ensure that the Internal Audit and Risk Oversight functions have appropriate and co-ordinated plans in place and will monitor their progress and implementation.

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

Board Risk Committee report

Dear fellow member,

I am pleased to present the Board Risk Committee's report for the financial year ended 4 April 2020. During the year, we have continued to provide oversight and advice to the Board in relation to current and future risk exposures and strategy. Despite expectations continuing to increase and other challenges remaining in the external environment, the Society's risk profile stayed broadly stable during the year through monitoring and proactively managing risk exposures before they have crystallised. Towards the end of the year it became clear that the Covid-19 outbreak would have a material impact on the risk profile. Further information on the Society's response to Covid-19 is reported on pages 37 to 38.

Internally, the number of operational incidents has reduced despite increasing transaction volumes and delivery of complex change initiatives. The Committee has been focused on challenging management to ensure that the Society's systems are built to last, that conduct matters are proactively identified and resolved and that our members receive the level of service they expect from Nationwide.

External challenges have included uncertainty in the macroeconomic environment relating to Covid-19 and Brexit and further competition in our core markets. Technological change has continued at pace and the nature of threats in the IT and cyber environments has continued to evolve.

Whilst the Committee retains overall responsibility for providing oversight and advice to the Board on all risk matters, the approval of risk strategies for IT-related risk categories has been delegated to the Board IT and Resilience Committee (BITRC). The Committee receives reports at every meeting from BITRC on the progress of the technology programme and the investments in technological enhancements to maintain operational resilience. Further details can be found in that Committee's report on page 99. The Committee has received in-depth reports on data controls and management, cyber vulnerability and mitigation, and disaster recovery testing.

Whilst ensuring robust management of key risks, this year has seen the Committee continue to scrutinise performance against risk appetite and to review the adequacy of the Society's systems for risk reporting, assessment and internal controls.

Tim Tookey Chair – Board Risk Committee

"As the risks facing the Society continue to evolve, your Board Risk Committee works with the Society's management team and the Board to ensure that the Society remains resilient and built to last."

How the Committee works

The Board Risk Committee comprises at least four independent non-executive directors. Details of the skills and experience of the Committee members can be found in their biographies on pages 51 to 54. The Committee is required to meet four times a year and additionally as and when required. During the year there was one scheduled joint Audit and Board Risk Committee meeting to consider matters of common interest, for example reviewing the assurance plans for Internal Audit and Risk Oversight functions. However, additional meetings of the Board Risk Committee and Joint Board Risk and Audit Committee were held at short notice before the 2019/20 financial year end to scrutinise the impact of Covid-19 on the Board Risk Appetite and assurance plans.

Report of the directors on corporate governance (continued)

Who sits on the Committee

Regular attendees of the Committee include the Chair of the Board, Chief Executive Officer, Chief Marketing Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Internal Auditor, and representatives of the Society's auditors, Ernst & Young.

						
Committee members	Tim Tookey (Chair)	Albert Hitchcock[1]	Mitchel Lenson Retired from the Board on 18 July 2019	Kevin Parry[1]	Lynne Peacock[2] Retired from the Board on 31 December 2019	Phil Rivett Joined Committee on 1 September 2019
Meetings attended (eligible to attend)	7 / (7)	5 / (7)	2 / (2)	6 / (7)	3 / (4)	5 / (5)

[1] Unable to attend a meeting called at short notice due to prior commitments. [2] Unable to attend a meeting due to prior commitments.

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

The Board Risk Committee oversees the Executive Risk Committee, which is the management committee responsible for ensuring a co-ordinated risk management approach across all the Society's risks. The oversight and challenge of the day-to-day IT and resilience risk, control and oversight arrangements of the Society is undertaken by the Board IT and Resilience Committee. This includes the effectiveness of the relevant aspects of the control environment. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee's effectiveness is reviewed annually, along with its terms of reference and its activities over the previous year to confirm that its activities are in line with its remit. In 2019, the effectiveness review was carried out internally as part of the overall review of the effectiveness of the Board and its committees. The review found that there was general satisfaction with the reporting of the Committee's activities to the Board and agreed that the areas and activities currently delegated by the Board to the Committee remained appropriate. The 2019 effectiveness review process is described on page 83.

How the Committee spent its time in the year

Report on the year

The principal purpose of the Committee is to provide oversight on behalf of, and advice to, the Board in relation to risk-related matters. The Committee fulfils this role by providing advice, oversight and challenge to enable management to promote, embed and maintain a strong risk awareness culture throughout the Society. The Society's approach to the management of risk is set out in more detail on pages 135 to 137.

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

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

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

- The Enterprise Risk Management Framework (ERMF) which defines what risk management is and how it works at Nationwide
- The Society's risk strategy
- Pillar 3 disclosures
- The Society's recovery plan
- The Concurrent and Reverse Stress Tests.

Key areas/matters considered by the Committee during the year

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

Area of focus	Committee's response
Prudential risk (includes credit, model, liquidity and funding, market, solvency and pension risks)	Nationwide lends in a responsible, affordable and sustainable way to ensure we safeguard members' interests and maintain financial strength through the credit cycle. It maintains sufficient capital and liquidity resources to support current business activity, including planned growth, to remain resilient to significant stress. In this context, the Committee discussed macroeconomic risks against a challenging global geopolitical backdrop and the uncertainty around Brexit. These risks and events were continually monitored and assessed to manage the impact on Nationwide's business and were considered alongside wider discussions relating to the competitive environment. During the year, the Committee reviewed a number of aspects of prudential risk as required by the PRA, including the Society's capital and liquidity adequacy (as reported in the ICAAP and ILAAP respectively), the Pillar 3 risk disclosures, the recovery plan and associated regulatory reporting. It also reviewed and approved the results of the 2019 Concurrent Stress Test and the sustainability of models used in it, and the 2019 Reverse Stress Test. The Committee considered and approved the Society's response to the 2019 Bank of England Biennial Exploratory Scenario which explored the implications of a severe and broad-based liquidity stress affecting major UK banks simultaneously. The Committee reviewed the initial estimate of the Nationwide Pension Fund (NPF) Triennial Valuation and endorsed continued negotiation with the NPF Trustees to agree the valuation. Additionally, the Committee considered the impact on the Society of the Bank of England's Financial Policy Committee initial proposal to increase the Countercyclical Capital Buffer to 2.00% with effect from 16 December 2020, and the subsequent announcement by the Bank of England to maintain this Buffer at 0% for at least 12 months. During the year the Committee continued to monitor the risk impact of Brexit on the Society's wholesale funding risk profile and credit rating. The Committee also reviewed the implications for Nationwide of the transition from London Inter Bank Offered Rate (Libor) to Sterling Over Night Index Average (Sonia) and reviewed the impact of Covid-19 on the Society's Board risk appetite.
Operational and conduct risk	Nationwide minimises member and customer disruption, financial loss and reputational damage through providing sustainable services and resilient systems. In addition to receiving regular reports on IT-related risk, resilience issues, IT-related risk decisions taken and other important matters from the Board IT and Resilience Committee, the Committee reviewed key areas of operational risk exposure during the year, including: • Data controls and management. The Board Risk Committee's terms of reference were amended to move the oversight of data from the Board IT and Resilience Committee to the Board Risk Committee. A Member Data Management Programme has been introduced with the aim of improving the safety, security and accuracy of data and the Committee received regular updates on the work of the programme; • Receiving the annual Data Protection Officer's Report, detailing the adequacy of data protection policies, procedures and governance arrangements to mitigate data protection risks and comply with data protection legislation, including the General Data Protection Regulation; • Receiving regular updates from the Board IT and Resilience Committee on the risks associated with cyber vulnerability and disaster recovery testing and scenarios.

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

Area of focus	Committee's response
Operational and conduct risk (continued)	The Society treats members and customers fairly, before, during and after the sales process through offering products and services which meet their needs and expectations, perform as represented and provide value for money. The Committee has continued to champion the Society's approach to the ongoing management of conduct risk, meaning that the Society's products and processes are focused on delivering good customer outcomes and minimising regulatory non-compliance. The Committee received updates on vulnerable members and customers and Payment Protection Insurance provisioning. The Committee also challenged management and received an update on Nationwide's capability to operate within an economic downturn, with a focus on collections and recoveries risk, controls, governance and future planning.
Enterprise risk (includes business risk)	The Committee has challenged the Society's business model in the current 'lower for longer' interest rate environment to ensure its mutual business model is sustainable and remains within the constraints of the Building Societies Act 1986 in a stress. In this context, the Committee has: • Endorsed the Board's risk appetite which clearly sets out the amount and type of risk that the Board is comfortable with the Society taking. This is to ensure that it remains sustainable in the long term for all members' benefit. Within the parameters set by the Board's risk appetite, the Committee performed a regular review of the Society's risk performance to ensure that appropriate action was being taken and to inform the Remuneration Committee's consideration of any potential risk adjustments to executive remuneration. • Approved the results of the review of the Society's Enterprise Risk Management Framework – the system of risk management and internal annual controls which the Society operates within. The review concluded that the Society's system of risk management and internal control was adequate when assessed against the Board's risk appetite. • Approved the Society's risk strategy which had been updated based on enhancements to controls management capability, encouraging a risk culture that considers both risk and reward in decision making, and maturing the Society's approach to measuring risks associated with climate change. • Received assurance that the Society was now compliant with the BCBS239 regulation on principles for effective risk data aggregation and risk reporting. During the year, the Committee received regular updates from the Society's second line oversight functions. It satisfied itself that the Society's segregation of duties between the first, second and third lines of defence is sufficiently robust to ensure that the Society's operational decisions receive appropriate, timely and sufficient challenge. The Committee also approved changes to the Terms of Reference of the Executive Risk Committee.

The year ahead

Over the next 12 months, the Society will continue with its ambitions to broaden and deepen member relationships, ensure its costs are controlled effectively, consider the risks associated with the Covid-19 pandemic, ensure that it considers the risk implications of the evolving expectations of members, stakeholders, employees and regulators in relation to climate change risk, and continue to monitor the challenging macroeconomic outlook. The Committee will continue to support and challenge management in addressing these challenges to ensure that the Society is built to last.

Board IT and Resilience Committee report

Dear fellow member,

I am pleased to present the Board IT and Resilience Committee's report for the financial year ended 4 April 2020. An increasing number of our members are accessing our services digitally; Nationwide saw 220 million more mobile log-ins last year and our mobile app now has over 3.3 million active users – over one and a half times the number two years ago. Technology is enabling new services such as the launch of later life mortgages; this brings new opportunities but also creates a new set of challenges we must rise to.

In September 2018, we announced plans for additional technology investment to enhance our existing technology programme, and we have invested an extra £550 million to date. Our technology investment is helping us deliver increased resilience, stronger security and better member outcomes through improved digital capabilities and better use of data, whilst also driving down ongoing and future costs. Towards the end of the financial year it became clear that the Covid-19 pandemic would have significant financial implications as we enter a period of economic uncertainty and prolonged low interest rates. As a result, we are now looking hard at our plans, to balance priorities for technology investment with the need to ensure that Nationwide is financially secure for the future, and we expect to scale back some of this activity in the short term.

Over the past year, members will have seen a series of improvements in day to day interactions with the branches and contact centres, as well as digitally through internet banking and the mobile app. We will continue to deliver improvements to enhance the quality of the service we can offer, while prioritising the security and resilience our members expect, and the Society's ethos of mutuality.

Gunn Waersted Chair – Board IT and Resilience Committee

Gunn Waersted

"It is my privilege to chair this Board Committee following Mitchel Lenson's departure, as it oversees the future technology roadmap to deliver legendary service for current and future members of the Society."

Who sits on the Committee

The Board has assessed that the members of the Board IT and Resilience Committee have the financial, risk, control and commercial expertise required to provide effective challenge to management. Regular attendees of the Committee include the Chair of the Board, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Information Officer, Chief Internal Auditor; and the Society's external advisers Conrad Prince and Oliver Bussmann. The Society's other external advisers partner business areas and attend the Committee where their specific expertise is relevant and valuable to the Committee.






Committee members	Gunn Waersted Chair	Mai Fyfield	Albert Hitchcock	Tim Tookey	Mitchel Lenson Retired from the Board on 18 July 2019	Phil Rivett Joined Committee 1 September 2019
Meetings attended (eligible to attend)	6 / (6)	6 / (6)	6 / (6)	6 / (6)	2 / (2)	4 / (4)

How the Committee works

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

The Committee comprises non-executive directors whose attendance record is set out above. Mitchel Lenson resigned from the Committee in July 2019 and Phil Rivett became a member of the Committee in September 2019. The Committee is supported by five external experts who help the Society keep up to date with digital innovation, payments, data, security and resilience.

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

The Committee reviewed its activities over the previous 12 months to confirm that they were in line with its remit as set out in its terms of reference (available at **nationwide.co.uk**). The Committee's effectiveness is reviewed annually. In 2019, the review was carried out as part of the overall review of the effectiveness of the Board and its committees. Moving forwards, the Committee will continue to focus on IT-related issues, combining an operational day-to-day focus with a medium to longer term strategic view. In addition, the Committee will also oversee the development of a dynamic framework for decisions linked to the strategic priorities of the business, as well as oversight of all technology related strategic investment costs. The 2019 effectiveness review process is described on page 83.

How the Committee spent its time in the year

Report on the year

This year has seen the Committee's remit extended to include oversight of all technology related strategic investment costs.

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

Key areas/matters considered by the Committee during the year

Area of focus	Committee's response
Service delivery and operational resilience	The Committee regularly reviewed the Society's IT service provision throughout the year, considering incidents and root causes, as part of a standing agenda item, the Chief Operating Officer's Report. The Committee has placed a greater focus on improving operational resilience. In May 2019, the Operational Resilience Strategy was approved, and a subsequent progress update was received in November 2019, which allowed management to highlight key improvements including increased mobile log-in and payments capacity to ensure service on peak processing days, and improved stand-in processing to enable members to view balances during planned outages. The Society has seen a steady increase in the number of transactions processed with a 22% rise year on year from 2018. There were over a billion transactions during 2019/20 representing an incremental increase of 31% on last year. The Society' Disaster Recovery capability remains an area of internal and external focus. Several improvements to the Society's disaster recovery provisions have been made by management, including enhanced testing approaches, increased testing volumes, improved management reporting and the introduction of more challenging targets. In order to meet these targets a new Disaster Recovery Strategy was developed by management and reviewed by the Committee in November 2019.
Technology programme	Following Board approval of the Society's technology programme in late 2018, Nationwide mobilised a number of teams to simplify its IT estate over a five-year plan period. The technology programme will be transformative for the Society, enabling a lower cost of technology, greater agility and ensuring future resilience as digital services grow. This year has seen the Committee's focus shift from mobilisation to review, delivery and follow-up, and a foundational capability has been delivered. A key goal of the Board IT and Resilience Committee this year has been to ensure that the entire Board has a measured understanding of the technology programme, its risks, execution progress and benefits. The technology programme can be split thematically into several initiatives (all under common management control) across Digital, Payments, Security, Service Integration, Technology Talent, Simplification and Automation and Data and Analytics. The programme set a path to progressively simplify and modernise technology – to improve resilience, agility and security, increase efficiency and accelerate innovation. With support from the Committee, a technology hub will be created in The Post Building, London which was acquired in 2019 as a dedicated workspace for technologists and is due to open in 2020. To date, over 340 employees have been hired for the technology programme. Throughout the course of the year, the Committee has regularly received dedicated updates to chart progress of the technology programme against key outcomes and track operational performance and delivery achievements against milestones. PricewaterhouseCoopers (PwC) have continued to provide external independent assurance over the delivery of the technology programme to the Committee and Board. PwC, together with the Society's Oversight and Internal Audit functions, form part of a combined, multi-faceted and Society-wide assurance approach.
Cyber and security	The current cyber-threat environment continues to present a challenge. Throughout the course of 2019, the Society has seen an increase in the sophistication and complexity of cyber-attacks which it has monitored and fully mitigated. This is a common observation reflected throughout the financial services industry which has been subject to a supranational campaign of cyber-attacks including ransomware and phishing attacks.

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

Area of focus	Committee's response
Cyber and security (continued)	The Committee has received regular updates from management throughout the course of the year, including a cyber security maturity update which highlighted that the Society's overall security position continues to improve. The delivery of the technology programme provides additional opportunities to further improve security within our IT estate and across the Society. The Society, supported by the Committee, continues to provide focus and investment to support and enable the continual improvement of its security capability, through sustained management of evolving threats and by taking a proactive approach to help keep members' money and data safe. The Committee regularly receives expert advice from an industry-leading external adviser. Additionally, the Society continues to collaborate with the wider industry and the Government's National Cyber Security Centre and National Crime Agency to share good practice and inform understanding about new and evolving threats.
Transformation	The Committee has continued to review management's progress against key transformation delivery objectives, some of which are enabled by change activity. The Committee regularly received insight on change programmes including: • The successful transformation of 200 branches into the new 4C experience (four zones within the branch for conversation, consultation, convenience and community) design to date; • The successful upgrade to payments capabilities to support the resilience of member facing system outages or upgrades; • The Society's commitment to comply with industry standards on Open Banking, BCBS 239 and most recently Strong Customer Authentication; • Assessing whether critical delivery milestones are met in line with planned timetables; and • The efforts to improve the devices and Windows 10 software used by Head Office, Administration and Retail colleagues.
IT risk and controls oversight	The Committee is routinely provided with independent reviews from the Society's Oversight and Internal Audit functions. This activity complements the Society's first line risk management by business areas and processes have been improved by initiatives to encourage first line risk teams to become more proactive in identifying and managing risk across the Society.

The year ahead

The year ahead will be an exciting but challenging one as we continue to deliver technology change which will ultimately be transformative for the Society, instrumental in safeguarding future resilience and a key enabler to continuing to meet Nationwide's core purpose in years to come. The Committee will provide oversight of management's prioritisation of technology change, given the reduced capacity for investment spend in a challenging economic environment and the need to strike a balance between the enablement of operational continuity and security, meeting new regulatory requirements and delivering improvements for members.

Strategic report
Governance
Risk report
Financial statements
Other information

Nomination and Governance Committee report

Dear fellow member,

The Nomination and Governance Committee continues to oversee all matters within its terms of reference, with increased focus on Board composition, senior management leadership, including resourcing and succession, and the need to maintain a diverse workforce at all levels across the Society.

In overseeing the Society's approach to resourcing the needs of the business, and developing our colleagues, the Committee continued to focus on strengthening the Society's leadership to ensure it has the talent needed for the future. The Committee noted the strategic importance of the success of the 'leadership pathways' programme in stretching and developing broad leadership skills in the competitive environment in which it operates.

Succession at Board and senior management levels is a key aspect of the Committee's agenda, and during the year we conducted a full review of talent and succession in the development of a diverse pipeline for succession at Board and executive leadership level.

The Committee is responsible for ensuring that the Society has the right mix of knowledge, skills and behaviours on the Board for it to be effective in delivering its responsibilities to provide oversight and governance of the Society and to safeguard the interests of its members. The Committee regularly reviews the composition of the Board and its committees. During the year, the Committee strengthened the Board's succession plans with the appointment of Phil Rivett as a non-executive director and oversaw a number of changes and appointments at the executive leadership level. More information on this can be found on page 106.

The Board continues to sponsor the Society's inclusion and diversity agenda and in its oversight role, the Committee received a full update on the Society's progress in building a workforce which reflects the diversity of the communities we serve.

As part of its remit, the Committee continues to monitor the Society's governance arrangements to ensure they are in line with best practice.

In the coming year, the Committee will focus on promoting inclusion through key people processes such as talent management, performance management and resourcing, as well as developing a programme of sponsorship and mentoring for its diverse talent.

David Roberts Chair – Nomination and Governance Committee

David Roberts

"The Committee continues to focus on ensuring that the Society is led by individuals with the right skills and experience, whilst ensuring plans are in place for orderly succession to the Board and senior management."

Who sits on the Committee

In addition to the members, regular attendees of the Committee include: Baroness Usha Prashar (non-executive director) Chief Executive Officer, Chief People Officer, Chief Legal Officer and Society Secretary and Director of Secretariat.





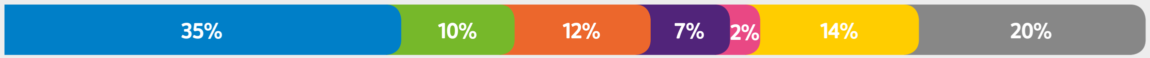
Committee members	David Roberts (Chair)	Mai Fyfield Joined the Committee 17 September 2019	Kevin Parry	Lynne Peacock Retired from the Board on 31 December 2019	Tim Tookey
Meetings attended (eligible to attend)	7 / (7)	4 / (4)	7 / (7)	5 / (5)	7 / (7)

How the Committee works

The Chair of the Board chairs the Committee and the members are independent non-executive directors. Their attendance record is set out above. Details of the skills and experience of the Committee members can be found in their biographies on pages 51 to 54. The Committee meets at least twice a year and otherwise as required. The number of meetings held in the year can be found in the table on page 68. Following each meeting, the Chair of the Committee provides updates to the Board, summarising activities undertaken, and key decisions taken.

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

How the Committee spent its time in the year



- Leadership, talent and succession
- Executive resourcing
- Inclusion and diversity
- Board composition and effectiveness
- Individual accountability regimes
- Governance and regulatory requirements
- Other (including meeting administration)

The Committee's effectiveness is reviewed annually. In 2019, the review was carried out as part of the overall review of the effectiveness of the Board and board committees. The results of the review indicate that Committee members are satisfied with the performance and effectiveness of the Committee. The Committee will continue to ensure that the Society's governance practices are in line with the UK Corporate Governance Code and those of FTSE 100 companies where appropriate and represent leading practice among the building society sector. The 2020 effectiveness review process is described on page 83 and a report on the findings will be disclosed in next year's Annual Report.

Report on the year

During the year the Committee oversaw a number of changes at the Board and executive management levels. More information on Board and executive management changes can be found on page 106.

The Committee, with the sponsorship of non-executive director Baroness Usha Prashar, monitored the progress made against the Society's inclusion and diversity agenda and its revised diversity measures.

Recognising that leadership is a key lever for future organisational culture, the Committee continued to oversee and monitor progress on the Society's 'leadership pathways' work which was initiated in January 2019, creating the right career pathways for leaders to develop.

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Key areas/matters considered by the Committee during the year

Area of focus	Committee's response
Leadership, talent and succession	The Committee provided oversight for the implementation of the Society's 'leadership pathways' programme which is designed to identify opportunities that provide stretching roles and experiences for leaders to grow their capability and potential for the future and to strengthen leadership succession. As part of this, the Committee reviewed and discussed the skills, capabilities and experience needed for enterprise leadership roles. The Committee reviewed the progress of the programme alongside key indicators of internal/external hiring ratios and diversity statistics which are expected to be positively impacted by the pathways programme over the longer term. Linked to the above, the Committee also reviewed the leadership flow of internal and external appointments, promotions, stretch and planned appointments for the Nationwide Leadership Team and direct reports of members of this team. The Committee approved the Nationwide Leadership Team succession plan.
Executive resourcing	The Committee received updates on the resourcing status of vacant leadership roles, noting that attrition was low at all levels in the organisation. Diversity continues to be a key focus for all recruitment processes and the Committee supported the Society's initiative of developing strategic partnerships with specially selected search partners due to their market leading success in the delivery of diverse shortlists and appointments and to access market insights. Following the regulators' extension of the Senior Managers Regime to include more firms, the Committee endorsed specific appointments and associated changes to the Society's responsibilities map to the extent applicable to the Society's subsidiaries.
Inclusion and diversity	As part of its remit, the Committee oversees the implementation of the Society's inclusion and diversity strategy and objectives. One of the key areas of activity overseen by the Committee was strengthening the 'tone from the top' by supporting the initiatives to engage senior leaders to ensure accountability for progress on the Society's inclusion and diversity agenda. This has led to the development of bespoke local action plans across the business that are targeted at the areas of focus or areas that need the greatest improvement. During the year, the Committee sponsored and supported the creation and agreement of the Society's new inclusion and diversity mission and measures. More information on the Society's diversity mission and measures and can be found on page 21. With the Committee's support of management efforts to gain deeper, richer insights into some of the Society's inclusion and diversity challenges, there is now a better understanding of what the Society is doing well and the areas requiring more focus. Identifying the lack of Black, Asian and Minority Ethnic (BAME) representation in the Society, and especially at senior levels, the Committee has endorsed the initiatives and actions proposed by management to address this. These include a number of positive actions to review how the Society identifies talent and creates its succession plan and to improve the experience of BAME colleagues by working with the Society's ethnic minority network and other groups to ensure the voice of BAME colleagues is being heard. The Committee supported Nationwide's response to Gender Pay Gap and Women in Finance reporting and with the Committee's support and endorsement, Nationwide was one of the first organisations to publish voluntarily an ethnicity pay gap report. The Society is signed up to the BiTC Race at Work charter and continues to play an active membership role in the 30% Club and Mentoring Foundation.

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

Area of focus	Committee's response
Board composition and effectiveness	The remit of the Nomination and Governance Committee includes ensuring the Society has the right mix of knowledge, skills and behaviours on the Board for it to be effective in delivering its responsibilities to provide oversight and governance of the Society and to safeguard the interests of its members. The recruitment process for directors is designed to ensure the Board collectively possess a range of skills and appropriate objectivity. The Committee, supported by an independent search firm, prepares a detailed candidate specification which considers the desired skills, knowledge, experience and personal characteristics required for the role. From the specification, a list of potential candidates is identified for initial discussions with the Chairman. Following this, a short list of candidates is produced and after a series of interviews with executive directors and Committee members, the Committee recommends the appointment to the Board. The recruitment process involves detailed referencing and other checks to establish the candidate's credentials, including suitability, fitness and propriety. Regulatory approval is also required for certain Board roles. During the year, the Committee oversaw and recommended to the Board the appointment of Phil Rivett as a non-executive director. JCA, an executive search firm which has no other connection with the Society, was engaged to assist with the search. Phil's appointment fulfils and strengthens the Board succession plans. The Committee also oversaw the appointment of Kevin Parry as Senior Independent Director to replace Lynne Peacock who retired at the end of 2019 and the appointment of Mai Fyfield as Chair of the Remuneration Committee. The Committee recommended to the Board the appointment of Chris Rhodes as Chief Financial Officer to replace Mark Rennison who retired in September 2019. The Committee also oversaw a number of changes at executive management level. Alison Robb, formerly Chief People Officer, who joined the Society in 1996, was appointed Deputy Chief Financial Officer from September 2019. Alison was succeeded as Chief People Officer by Jane Hanson, who has been with the Society since January 2018 as Director of Community Partnering. Sara Bennison, Chief Marketing Officer who joined the Society in 2016 took up an expanded role to include Products and Propositions. The Committee oversaw the 2019 Board effectiveness review and examined the progress of the action plan arising out of that review. It endorsed the approach to be taken for the 2020 Board effectiveness review. More information on the effectiveness review can be found on page 83.
Corporate governance	Throughout the year the Committee has exercised oversight of the Society's governance arrangements on behalf of the Board. Among other things, it reviewed the corporate governance disclosures in the 2019 and 2020 Annual Reports. The Committee received an update from Mai Fyfield, the designated director for employee engagement, on the Employee Voice activity over the last year which included colleague views and lessons learnt from the engagement. It endorsed the plans to enhance the value of the interactions and conversations for the future.
Individual accountability regimes	The Committee continued to focus on regulatory requirements to ascertain suitability, fitness and propriety of relevant individuals and ensure Senior Managers Regime responsibilities were allocated appropriately through the Society's well-established mapping process. As part of its oversight role, the Committee received an update on the Society's continued response to the regimes and noted that the interventions and processes put in place for the Senior Managers Regime, including handovers and fitness and propriety checks, were working well. The annual certification process was completed, and all individuals were deemed as 'fit' to continue in their certified roles. The Committee was also satisfied that Conduct Rules were embedded with Conduct Rules training completion during the year across the Society at over 95%. The Committee also concluded that employee relations policies and processes were sufficiently robust to handle any breaches of the Conduct Rules.

Phil joined the Board in September 2019 and shares his experiences so far

What attracted you to Nationwide, and what skills and attributes do you bring to the Board and Nationwide?

I was attracted by a number of things, one of the main ones being my interest in the building society mutual model and how this can be used to benefit members. Joining the Board of the largest building society at a time of considerable change in retail financial services from the impact of technology and changing demands of members enabled me to see this from 'the inside'. Having joined the Board I can see how the focus on members drives and influences the decision making and more importantly the behaviour of the people in Nationwide that serve the members. I had also been told by many that the people at Nationwide were great to work with and this has certainly been borne out in practice as I visit the offices and meet the staff.

I bring to Nationwide over 40 years of experience in most areas of financial services in the UK and worldwide from my roles at PwC in particular leading the audit of two of the major banks based in London. I also have a good understanding of risk management and of course accounting.

What are your first impressions of Nationwide and its culture?

I have found all at Nationwide friendly, supportive, very helpful and open in their dealings with me from the moment I walked through the door. The Nationwide culture is one of seeking to help each other and members and being open to challenge and new ideas.

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

Continuing to seek out how the service to members can be improved through all the distribution channels in a joined up way. It should not matter if you are in a branch, on a mobile device/the internet or on the telephone – we will know who the member is and can quickly address their needs with a market leading service, or if it is a problem, quickly resolve it. This would help Nationwide to continue to stand out in the area of service which will become ever more important.

What has been the single most engaging moment since you joined Nationwide?

Attending employee focused events. In particular, attending Board hosted events where the Board meets with groups of employees and gets the chance to listen to their views and ideas is incredibly insightful.

The year ahead

In the coming year, the Committee will continue to provide oversight on the execution of the leadership pathways programme and will also increase its focus on Board and senior management succession planning and the development of a diverse pipeline of talent and workforce to support the Society's strategic ambitions. It will also continue to strengthen senior leadership voice in the prioritisation of inclusion and diversity, and the embedding of the Society's mission and measures in this regard.

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Report of the directors on remuneration

For the year ended 4 April 2020

Dear fellow member,

I am pleased to present my first Remuneration Committee report since taking on the role of Committee Chair in September 2019. I would like to personally thank Lynne Peacock for her contribution as the previous Committee Chair. This report includes details of our directors' pay for the year to 4 April 2020, together with our new forward-looking directors' remuneration policy, on which an advisory vote will be sought at the 2020 AGM.

As set out by the Chairman, David Roberts, we are in unprecedented times as we witness the impact of the Covid-19 global pandemic. This is an incredibly challenging time for people and businesses, including the Society. Our primary priority is the safety of our employees and members, and we continue to put our members' needs at the heart of our decision making.

The onset of Covid-19 has presented a unique set of challenges for the Committee. Although the virus emerged in the UK towards the end of our 2019/20 financial year, it has significantly impacted our 2019/20 results and meant that we must think differently about the year ahead. The difficult decisions we have already taken, and may need to take in the future, continue to be firmly guided by our social purpose – *building society, nationwide*.

In this report we have set out how we performed against the measures we set ourselves at the start of the year under the Directors' Performance Award (DPA), our performance pay plan. The CEO and CFO and broader Nationwide Leadership Team asked the Remuneration Committee to consider not awarding any performance pay which they may have otherwise been due for 2019/20. Taking into account this request, together with the impact of the pandemic on member saving rates, the Committee determined that no performance pay awards would be made for this population and that a flat variable pay award of £1,200 should be given to all other employees. In March we also agreed with the Prudential Regulatory Authority's request for the Society not to pay any performance pay in cash to senior employees during 2020, including all Material Risk Takers.

We believe it is important to provide certainty for our people, and we have made a commitment that we will not make any compulsory redundancies for permanent employees in 2020. However, in our current economic circumstances, this will impact decisions both for 2019/20 and looking ahead to next year.

Mai Fyfield

"Having the same goals helps ensure that all our people work together"

I would therefore like to thank Joe Garner, the CEO, for voluntarily requesting that his combined base salary and pension be reduced by 20% for 2020/21, a reduction of £227,560 from the current position. We were the first UK financial services firm to announce such a reduction. I also note that for 2019/20 Joe made a significant personal contribution to the cost of his taxable benefits, which would otherwise have been borne by the Society. More details on Joe's remuneration for 2020/21 are set out in this report. Chris Rhodes, the CFO, has voluntarily reduced his pension allowance to 16% of salary from 2020/21 to align with the maximum benefit available to the wider employee population. In addition, the non-executive directors have volunteered to donate 20% of their net fees from June to December of this year to Shelter, to help support vulnerable people impacted by Covid-19. We also decided that there will be no general pay increases for directors or senior employees across the Society in 2020/21, nor any increases for the Chairman and non-executive directors.

Report of the directors on remuneration (continued)

As we look ahead to 2020/21, while we remain financially strong enough to weather challenging economic times, our pay approach must echo our responsibility to ensure the long-term sustainability of the Society and protect our culture and values. Reflecting the current challenging environment, performance pay will be scaled back for 2020/21 across the Society. Awards for executive directors for the coming year will be set at around one-third of the normal performance pay opportunities, in line with the approach for all employees. These awards will continue to be aligned to measures which are important to our members, which for 2020/21 will be customer service satisfaction, committed members and total costs, and in determining any awards under the plan, the Committee will consider the overall performance of the Society over the year and our economic circumstances at that time.

Combining the change to base salary, pension and performance pay results in a very significant reduction in the CEO's overall maximum pay opportunity for 2020/21, a reduction of over 40%. More details on our approach are set out in this report.

Our core principles

Our heritage and our unique position as a member-owned organisation means our approach to remuneration is aligned to the needs of our members and is designed to drive the behaviours consistent with our wider purpose, values and strategy. Our remuneration framework for all employees is simple, comprising fixed pay and a single performance related pay plan with performance assessed based on three measures that apply for everyone.

A single set of goals helps ensure all our people work together and are focused to deliver sustainable success and good outcomes for members. For our senior leaders, performance pay also reflects their individual contribution, where we measure not only what they have delivered but also have an equal focus on their conduct and behaviours. The Board will only pay any performance related pay if it is sure that the Society is financially secure.

Performance payments for senior leaders are paid in instalments, over seven years in the case of our executive directors. This way, if one of our leaders leaves the Society, then some of the performance payments already awarded may be forfeited. The Committee also has the discretion to cancel all, or part of, previously awarded performance pay in the event of misconduct or if the Society's performance deteriorates significantly. A substantial proportion therefore remains 'money at risk' which may be reduced or cancelled at the Committee's discretion, taking into account the Society's and the individual's performance over the seven-year period.

We aim to be transparent with our members and voluntarily disclose details of our executive pay arrangements, including as required under the UK Corporate Governance Code, where it is relevant for us to do so as a mutual.

Our policy

Our remuneration policy was last approved by members at the 2017 AGM, receiving strong support. We are committed to continue demonstrating best practice in corporate governance and alignment with legislation on executive pay which applies to listed companies, so we are submitting our policy report to an advisory vote of our members this year.

During the year the Committee undertook a detailed review of our approach to remuneration across the Society, including executive directors. The Committee engaged with and listened to the views of our key stakeholders, as well as reflecting on feedback received from members in previous years and the evolving external environment.

The Committee also paid close attention to the relationship between pay policies and practices for executive directors and other employees. We believe the principles and approach to pay should be consistent for everyone, including the executive directors, and we have taken steps to address any key areas of difference, for example on pensions. We also think it is vital the Committee understands the wider employee perspective when considering pay decisions and therefore the Committee regularly invites the General Secretary of the Nationwide Group Staff Union to attend our meetings to provide valuable insight on the views of their members and to allow a two-way dialogue on broader employee pay matters. In addition, in my capacity as director responsible for Voice of the Employee, this year I hosted a podcast for the Society, providing an opportunity to engage with colleagues on remuneration.

Taking all these factors into account, the Committee concluded the current approach remains appropriate to continue delivering the Society's ambitions. I am therefore pleased to confirm that no material changes to the policy are proposed, other than a reduction in pension benefit for existing and new executive directors to 16% of salary, aligning with the maximum benefit available to the wider employee population, and a change to the operation of our leaver provisions for the DPA to align with market practice. Our approach to scaling back performance pay opportunities for 2020/21 has also been reflected in the policy.

The full directors' remuneration policy is detailed in this report. We would like to invite members to vote on our proposed policy.

Board changes

As previously announced, the former Chief Financial Officer, Mark Rennison stepped down from the Board in September 2019 and Chris Rhodes was appointed to this role. Mark Rennison's leaving arrangements and the changes to Chris Rhodes' package are set out in this report together with the details for Tony Prestedge, who resigned as Deputy Chief Executive and Board member in March 2020. All arrangements are in accordance with policy.

Member voting on remuneration

A core principle of our approach is that members' views and interests are considered when we design remuneration policies and determine pay outcomes. There will therefore be two separate advisory votes from members on remuneration this year. The first will be on our Policy report and the second vote will be the annual advisory vote on our Annual report on remuneration outlining our approach during 2019/20 and how the Committee propose to implement the new policy during 2020/21.

On behalf of the Remuneration Committee, I recommend that you endorse our Policy report and Annual report on remuneration.

Mai Fyfield
Chair – Remuneration Committee

Report on the year

Composition of the Committee

The members of the Remuneration Committee are all independent non-executive directors of the Society and include a member of the Audit Committee and the Chairman who is an attendee of the Board Risk Committee.

					
Committee members	Mai Fyfield (Chair from September 2019)	Lynne Peacock (Chair to September 2019)	David Roberts	Rita Clifton	Usha Prashar
Number of meetings attended (eligible to attend)	12 / (12)	6 / (7)	12 / (12)	12 / (12)	12 / (12)

Regular attendees of the Committee include: the Chief Executive, the Leader of People and Culture, the Chief Risk Officer and the Director of Reward and Pensions. In no case is any person present when their own remuneration is discussed. Deloitte LLP, our independent external consultants also attend. Deloitte also provided tax, financial advisory, risk, internal audit and consulting services to the Society during 2019/20. Deloitte were reappointed by the Committee following a tender process during the year. The Committee assesses the performance of Deloitte annually, including the quality of advice provided, and reviews annually all other services provided by Deloitte to ensure they continue to be independent and objective. Their fees for advice provided to the Committee during 2019/20 were £220,100, typically charged on a time-and-materials basis.

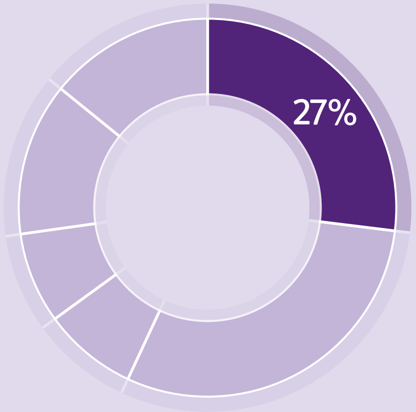
The Remuneration Committee is supported by the Board Risk Committee on risk-related matters including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls. The Remuneration Committee is also supported by and receives input from the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

How the Committee works

The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration strategy, how the strategy is reflected in remuneration policy and the specific remuneration packages for the Chairman, the executive directors and other members of the Nationwide Leadership Team, as well as any other employees who are deemed to fall within scope of the PRA / FCA Remuneration Codes. This includes approving the design of, and determining the performance targets for, any discretionary performance pay plan operated by the Society for the benefit of these employees. The Committee also approves the outcomes of any performance pay plan and reviews the year-end pay outcomes for all these employees.

The Committee reviewed and updated its terms of reference during the year. It also reviewed its activities over the previous year as part of an annual update to confirm that they were in line with its remit and the duties and responsibilities which can be found within its terms of reference at **nationwide.co.uk**

How the Committee spent its time in the year



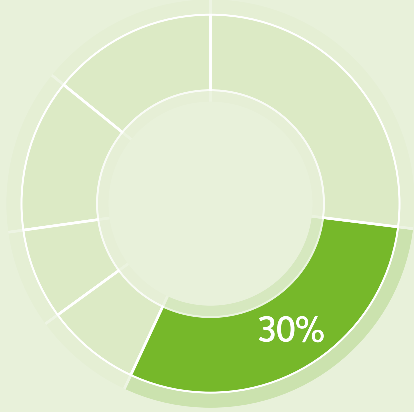
Pay strategy and approach

April - May 2019
Agreed Nationwide Leadership Team and wider pay review for 2019/20.

November 2019
Strategic review of remuneration across the Society including the appropriateness of current practice and directors' remuneration policy, including alignment of executive and wider employee pension contribution rates.

March 2020
Set performance measures and targets for 2020/21 year. Agreed approach for Nationwide Leadership Team pay review and Chairman's fee for 2020/21.

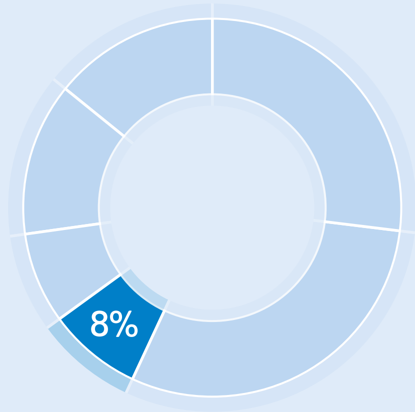
April 2020
Approved approach to executive director pay for 2020/21 in response to Covid-19.



Performance award outcomes

April 2019
Taking into account input from the Board Risk and Audit committees, the Committee reviewed and approved the outcome of the DPA to be paid in respect of the year.

April and November 2019
Approved deferred payments in respect of prior years due for payment.



Oversight of remuneration across the Society

May 2019
Reviewed reward governance across the Society.

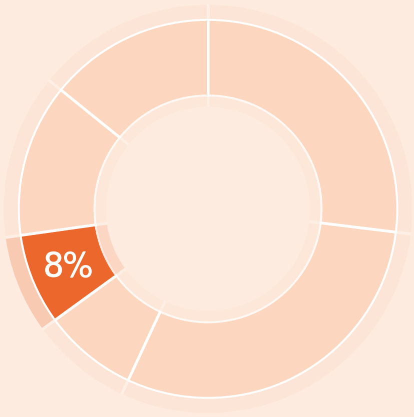
September 2019
Reviewed the Society's gender and ethnicity pay reporting.

November 2019
Reviewed pay policies and practices and reward governance across the Society.

January 2020
Met with the Nationwide Group Staff Union.

March 2020
Considered changes to the defined benefits pension scheme.

How the Committee spent its time in the year (continued)



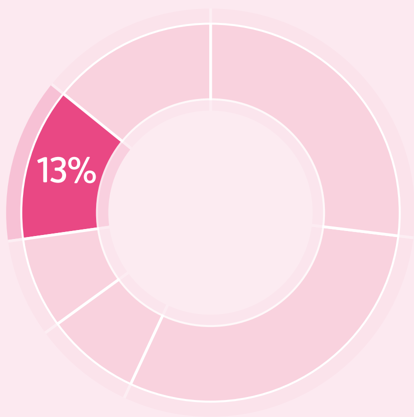
Regulatory reporting

Throughout the year the Committee receives updates on key regulatory matters.

September 2019 and February 2020
Reviewed and approved the identification approach and list of employees who fall within the scope of the PRA/FCA Remuneration Codes.

November 2019
Agreed the Society's annual Remuneration Statement and provided this to the PRA/FCA.

March 2020
Agreed the approach to pay for impacted individuals in response to the PRA's letter regarding the restriction on the payment of cash bonuses for 2020.



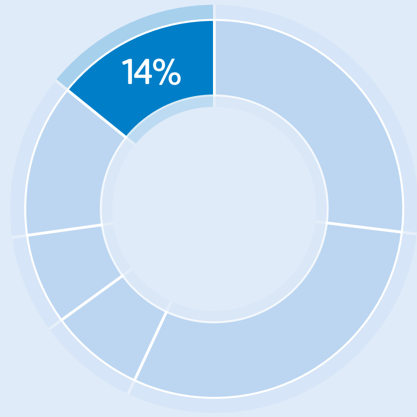
Procedural matters

The Committee agrees remuneration arrangements for all employees within the scope of the PRA/FCA Remuneration Codes.

April 2019
Reviewed adviser's consultancy arrangements and confirmed continued independence.

July 2019
Agreed leaving arrangements for the Chief Financial Officer and remuneration arrangements for his successor.

March 2020
Agreed leaving arrangements for the Deputy Chief Executive.



Governance

March - May 2019
Reviewed and approved the Report of the directors on remuneration for 2018/19.

April and September 2019
Reviewed the Committee's effectiveness against Terms of Reference for 2018/19.

September 2019
Approved updated Terms of Reference.

September 2019 and February 2020
Reviewed market trends in executive pay.

January 2020
Re-appointed Deloitte as Committee advisers following tender process.

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How our approach to remuneration aligns with our strategic cornerstones for 2020/21

Building thriving membership

Number of committed members built into the DPA for 2020/21

Built to last

Total costs built into the DPA for 2020/21

Building legendary service

Customer service satisfaction rating built into the DPA for 2020/21

Building PRIDE

Nationwide values and behaviours recognised and rewarded through individual element of reward for senior roles

Building a national treasure

Approach to remuneration remains cognisant of external debate and public sentiment on pay and equality

Policy report

The following tables set out our proposed remuneration policy for our executive directors and non-executive directors. We will seek member approval at the AGM in July 2020, and if approved, the policy is intended to apply for three years to the end of the AGM in 2023. It is intended that no payments to directors will be made outside of this policy unless as a result of regulatory change.

Remuneration policy for executive directors

It is proposed that the policy remains broadly unchanged from the previous policy approved in 2017, other than to reflect the reduction to the level of pension benefit for existing and new executive directors to 16% of salary to align with the maximum level of benefit available to the wider employee population. We have also made a change to the operation of our leaver provisions for the DPA to align with market practice.

As described in the Committee Chair's statement, reflecting the current challenging environment, performance pay opportunities across the Society will be scaled back for 2020/21, with the most significant impact for our senior employees. Awards for executive directors for the coming year will be set at around one-third of normal performance pay opportunities, in line with the approach for all employees. This has been reflected in policy set out below. In line with our policy, these awards will continue to be aligned to measures which are important to our members.

Other minor changes have also been made to improve the operation and effectiveness of the policy.

Remuneration policy for executive directors – Fixed pay

Element	Operation	Opportunity	Performance metrics
Base salary Provides base salary that is market competitive and reflects the size and complexity of the role	Base salary is normally reviewed on an annual basis. Any changes are normally effective from 1 April.	Whilst there is no maximum, base salaries are set taking into account market data for similar roles in comparable organisations. Other factors considered include the individual's skills, experience and performance and the approach being taken on salaries in the wider organisation.	Not applicable
Benefits Provides a market competitive and cost-effective benefits package as part of fixed remuneration	Benefits may include a car allowance, access to drivers when required, healthcare and insurance benefits. Other benefits may be provided to enable recruitment/retention or relocation.	Whilst there is no maximum value to the benefits provided, benefits are reviewed regularly to ensure they remain appropriate to role and location to assist individuals in carrying out their duties effectively. The value of benefits may vary depending on service providers, cost and market conditions.	Not applicable
Pension Provides post-retirement benefits for participants in a cost-efficient manner	Executive directors receive a cash allowance in lieu of pension.	Cash allowances are set as a percentage of base salary. The maximum pension allowance payable is set at a level in line with the wider employee population (currently 16% of base salary). This approach will apply to current executive directors from April 2020 (a reduction from the previous level of 24% of salary for the CEO and 20% for the CFO).	Not applicable

Remuneration policy for executive directors – Variable pay

Element	Operation	Opportunity	Performance metrics
Directors' Performance Award (DPA) Rewards achievement of stretching Society, team and individual targets for a single financial year, with payment spread over the longer term Comprises two elements: (i) an all-employee element (ii) an element in which the most senior leaders participate subject to deferral provisions	*All-employee element* Awards are normally paid in cash following the end of the financial year based on Society performance achieved in the year. This element operates on the same basis for all employees. *Senior leaders' element* At the end of the one-year performance period an award is made to reflect achievement against performance measures. The award is normally paid in cash across six payment dates. No more than 40% of the total performance pay award is paid after the end of the performance period and at least 60% is deferred for between three and seven years in line with regulatory requirements.	The targets reflected in the Society's Plan need to be achieved to generate a 'target' award against the Society measures, and considerably exceeded to generate the maximum award. Under the all-employee element, all employees, including our executive directors, receive the same percentage of salary award. The overall maximum opportunity including both elements varies by role (see below). The actual amount awarded in respect of any year is subject to the limit laid down by regulatory standards (note ii).	The gateway and Society performance measures selected for both elements of the DPA are set on an annual basis by the Committee. These will normally reflect a mix of financial measures, measures relating to the strategic performance of the Society as well as regulatory obligations. Individual performance (including conduct and behaviours) will also be assessed.

Report of the directors on remuneration (continued)

Remuneration policy for executive directors – Variable pay (continued)

Element	Operation	Opportunity	Performance metrics
Directors' Performance Award (DPA) Rewards achievement of stretching Society, team and individual targets for a single financial year, with payment spread over the longer term Comprises two elements: (i) an all-employee element (ii) an element in which the most senior leaders participate subject to deferral provisions	A minimum of 50% of both the upfront and deferred elements is delivered in or linked to the value of the Society's core capital deferred shares (CCDS) and subject to a twelve-month retention period in line with regulatory requirements. Participants will be entitled to CCDS distributions during the retention period. The Remuneration Committee may reduce or cancel payments under the DPA if it believes that the plan outcomes are not representative of the overall performance of the Society (note i).	*Normal policy (for performance years other than 2020/21)* The normal maximum variable pay opportunities (i.e. including both elements) are: • 152% of base salary for the Chief Executive • 112% of base salary for other executive directors Normally, 98% and 78% of base salary is payable for target performance for the Chief Executive and other executive directors respectively. *Policy for 2020/21* For awards made in respect of 2020/21, the maximum variable pay opportunities (including both elements) have been reduced to: • 51% of base salary for the Chief Executive • 37% of base salary for other executive directors For these awards, 37% and 29% of base salary is payable for target performance for the Chief Executive and other executive directors respectively. In the event that the Society's financial performance in 2020/21 materially exceeds expectations, the Committee retains the discretion to make an award above these levels (subject to the overall limits within this policy).	

Notes to the policy table:

i. **Discretion, risk adjustment and malus and clawback:** In determining variable pay awards, the Committee has the ability to apply independent judgement to ensure that the outcome is a fair reflection of the performance of the Society and the individual over the relevant period. In applying this judgement, the Committee has scope to consider any such factors it deems relevant.
The Committee takes into account performance against a broad set of financial and non-financial performance measures and considers performance on a risk-adjusted basis, evaluating progress against defined measures within the context of our risk appetite. This is a formalised process, which also includes input and feedback from the Audit and Board Risk committees. In this manner, the Committee has discretion to reduce an employee's performance pay in relation to risk-related matters.
In certain circumstances, the Committee has the discretion to operate malus and clawback provisions under the DPA. Such circumstances may include, but are not limited to: participation in, or responsibility for, conduct that results in significant losses; failure to meet appropriate standards of fitness and propriety; employee misbehaviour or material error; a material downturn in financial performance; a material failure of risk management; and other circumstances required by regulatory obligations. Clawback can be applied for a period of seven years from the date of award. This may be extended to 10 years in the event of ongoing internal/regulatory investigation at the end of the seven-year period.

ii. **Regulatory maximum limit on variable pay:** Any payments under the DPA are subject to an overall maximum limit such that the ratio between the variable and fixed components of remuneration for any year does not exceed the applicable regulatory individual maximum at the time of payment. This limit is currently set such that variable remuneration does not exceed 100% of fixed remuneration. For the purpose of calculating the value of variable pay for this ratio, a discount can be applied to up to 25% of the variable pay element to take account of the payment timescale, provided it is awarded in instruments (for example, the Society's CCDS) that are deferred for at least five years. Details of how the discount factor may be calculated can be found at **www.eba.europa.eu**

iii. **Regulatory changes:** In the event that regulatory standards change, the Remuneration Committee has discretion to make such changes as to ensure regulatory compliance, even if a revised policy has not been put to members for an advisory vote. Any such changes would be included in the policy report at the next AGM.

iv. **Prior arrangements:** The Committee reserves the right to honour remuneration payments (including payments for loss of office), notwithstanding that they are not in line with the policy set out in this report, where the terms of the payment were agreed in accordance with any previous member-approved policy, before the Society's first member-approved policy came into effect, or at a time when the relevant individual was not a director of Nationwide and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of Nationwide.

v. **Decision-making process:** In determining the new remuneration policy, the Remuneration Committee followed a robust process. The Committee discussed the detail of the policy over a series of meetings in 2019 and early 2020. The Committee considered the strategic priorities of the business and evolving market practice. Input was sought from management, while ensuring that conflicts of interests were suitably mitigated. An external perspective was provided by our independent advisers. The Committee also assessed the policy against the principles of clarity, simplicity, risk management, predictability, proportionality and alignment to culture.

Choice of performance measures and targets

The gateway and performance measures for the Society element of both parts of the DPA are set on an annual basis by the Remuneration Committee to reflect the priorities of the Society, providing a clear link with members' interests, our financial and strategic aims, as well as our regulatory obligations. The weighting of performance measures will be reviewed annually, with the Committee having the ability to adjust the weighting from year to year to recognise particular financial and strategic priorities. However, no less than 60% of the element in which our senior leaders participate will be based on Society performance measures.

The Committee sets targets based on those measures at a level which it considers appropriately stretching in relation to the Society's Plan and overall risk appetite, taking into account a number of wider factors, including our strategic priorities, the economic environment, and market conditions and expectations. Maximum performance will only be achieved for exceptional performance across all measures including individual performance. The Remuneration Committee has discretion to adjust performance targets to reflect significant one-off items which occur during the performance period.

What our executive directors could earn based on performance

The charts below illustrate the amounts that each of the executive directors would be paid under different performance scenarios. For the purposes of these charts, given the voluntary reduction in the CEO's base salary and pension for 2020/21, in addition to the scale back of performance pay opportunities for 2020/21, two illustrations are provided for each scenario:

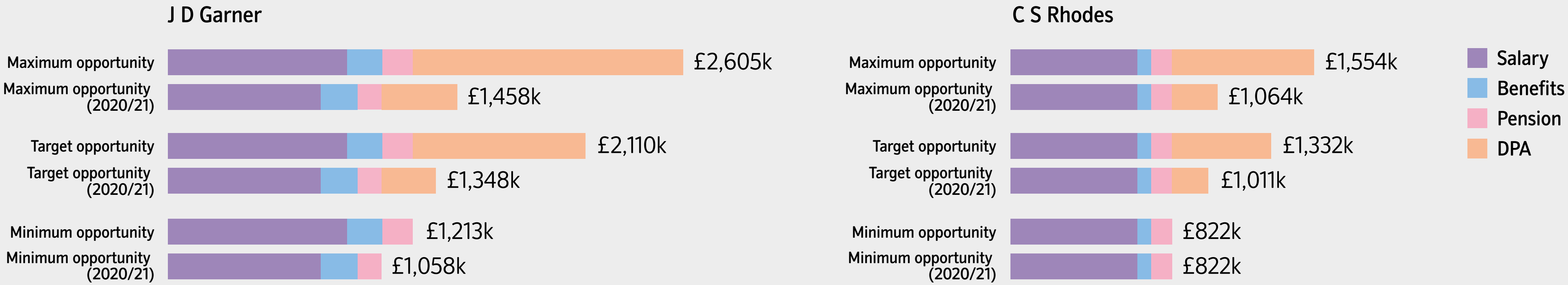
- One reflecting our normal ongoing policy, showing base salary and pension contribution levels from 1 April 2020, prior to the voluntary reduction in the CEO's base salary for 2020/21, and using normal maximum and target performance pay opportunities under the policy as set out above; and
- One reflecting the actual amounts our executive directors could earn in 2020/21, taking into account the voluntary reduction in the CEO's base salary, and using scaled back maximum and target performance pay opportunities for the year under the policy as set out above.

As set out above, the actual amount awarded in respect of any year would be subject to the limit laid down by regulatory standards, which is currently set such that variable remuneration does not exceed 100% of fixed remuneration.

In both scenarios, the value of benefits is based on the benefits paid in respect of 2019/20, as set out in the single total figure of remuneration table.

The charts are based on the following assumptions:

Pay scenario	Basis of calculation
Maximum opportunity	At this level fixed pay elements and maximum variable pay levels are payable
Target opportunity	At this level fixed pay elements and target variable pay levels are payable
Minimum opportunity	At this level only the fixed pay elements are payable (base salary, pension and benefits)



Remuneration arrangements throughout the Society

The remuneration policy for our executive directors is designed to align with the remuneration philosophy and principles that underpin remuneration for the wider Society. Within this framework, whilst there are differences in reward opportunity depending on level of seniority, everyone is focused towards achievement of the same business goals and objectives. The all-employee element of the DPA operates with the same performance measures and same opportunity levels (as a percentage of salary) for all employees, including executive directors.

Recruitment policy

On the appointment of a new executive director, the Committee will as far as possible determine the ongoing remuneration package in accordance with the policy described in the policy table above. It would aim not to pay more than necessary to secure the right candidate.

As part of any new recruitment, the Committee would consider whether it was necessary to offer a higher maximum award level under our performance pay plan in order to secure the desired candidate. Any such increase would remain within the overall limit laid down by regulatory standards and would only be applicable for the period of twelve months following appointment.

The Committee may also consider whether it is necessary to offer any one-off arrangements on the recruitment of a new executive director to 'buy out' performance pay and any other remuneration arrangements forfeited on leaving a previous employer. In making any such offer, the Committee will seek to ensure that the 'buy-out' is on materially similar terms to the arrangements being forfeited in terms of their value and vesting dates and take into account the extent to which performance conditions applied to the original awards. Where possible, any 'buy-out' will be structured within the parameters of our existing performance pay plan. If there is not sufficient scope to compensate the individual through our existing performance plan, an individual tailored plan would be put in place. In line with regulatory requirements, 'buy-out' awards may continue to be subject to malus and clawback provisions at the discretion of the individual's previous employer.

Although our intention would be to offer any new director benefits in line with the policy set out in the policy table, if individual circumstances required this, the Committee would consider offering a new recruit such additional benefits as might be required to secure their services. This may include travel allowances or relocation expenses for a limited period following appointment.

On the appointment of a new non-executive director, fees will be as far as possible on similar terms to those of the existing non-executive directors and in accordance with the policy table set out in this report.

Service contracts and policy on payments to departing directors

Executive director	J D Garner	C S Rhodes
Service contract effective from	5 April 2016	20 April 2009
Date first appointed to the Board	5 April 2016	20 April 2009

Executive directors' terms and conditions of employment are detailed in their individual contracts which include a notice period of 12 months from the Society to the individual and a notice period of six months from the individual to the Society, which will increase to nine months for any new executive directors. The terms set out in the service contracts for the current executive directors do not provide for any payments that are not in line with this policy. Service contracts include a provision for a termination payment in lieu of notice, which will normally be subject to mitigation, up to a maximum of 12 months' base salary.

The Chairman and non-executive directors are appointed for fixed terms not exceeding three years, which may be renewed subject to their re-election by members at AGMs. There are no obligations in the non-executive directors' letters of appointment that could give rise to remuneration payments or payments for loss of office. The dates of appointment to the Board for the Chairman and non-executive directors are set out in the Governance report.

Leaver provisions for executive directors

If an executive director leaves in 'good leaver' circumstances (defined as redundancy, retirement, ill health, death or by mutual consent, e.g. for redundancy/succession planning purposes), they would, subject to approval by the Committee on an individual basis, normally be offered a payment in lieu of notice covering 12 months' base salary. Such a payment might also cover benefits and pension allowance. All such payments will be subject to mitigation, as described below.

For awards under the DPA from 2020/21:

- Where an executive director leaves during the performance year in good leaver circumstances they may, at the Committee's discretion, receive a pro-rata performance award for the period of time served during the current performance period in accordance with the plan rules. Such awards would be subject to deferral, malus and clawback as normal.

- Where an executive director leaves in certain defined good leaver circumstances (retirement, redundancy, ill health or death), they will normally be eligible to receive the deferred portion of any outstanding award in full.
- In other good leaver circumstances, the treatment of outstanding deferred payments will normally be subject to time-prorating for months served in continued employment over the first four years of the plan cycle, including the initial performance period.
- The Remuneration Committee retains the discretion to adjust the proportion of the deferred payments that are retained by a leaver based on the facts and circumstances of the departure. Furthermore, following departure, the Remuneration Committee may still also reduce or cancel payments if it believes that the plan outcomes are not representative of the overall performance of the Society.
- Retained awards and deferred plan payments are paid at the usual payment date although the Remuneration Committee will have discretion to accelerate any payments to the leaving date in exceptional circumstances.

The treatment of good leavers for DPA awards in respect of performance years prior to 2020/21 will be in accordance with the relevant policy.

Individuals who leave in other circumstances (e.g. resignation) would receive only contractual payments to which they are entitled and would not receive any payment in respect of performance pay plans, unless the Remuneration Committee determines there is a due case for discretion.

Depending on individual circumstances, the Committee may also make a payment in respect of outplacement costs, legal fees and costs of settling any potential claim where appropriate.

Mitigation

The Remuneration Committee's policy is that payments in lieu of notice should be made in monthly instalments and subject to mitigation (where contractually enforceable), although the Committee has discretion to waive this if this is considered appropriate in individual circumstances. All of the current executive director contracts allow for mitigation. This means that after leaving Nationwide, should they start employment elsewhere, any outstanding payments in lieu of notice due from Nationwide may be reduced or lapse altogether.

Consideration of employment conditions elsewhere in the Society

The pay and conditions of all employees are taken into account when determining executive remuneration and the Committee appreciates the importance of this relationship. The Committee reviews base salary levels, other elements of fixed remuneration and details of performance pay plans offered to all employees each year and is always mindful of ensuring that the pay policy for senior roles is consistent with the culture and values of the Society as a whole. Our policy is to offer packages which are competitive with the financial services market in which we operate and to reward individuals for delivering value to members. The individual elements of remuneration, for example, benefits provision, offered may vary between the different roles, reflecting typical market practice.

Whilst there was no formal consultation, a copy of the policy was shared with the Nationwide Group Staff Union in advance of publication. Those employees who are also members of the Society will be able to vote on the Policy report and the Annual report on remuneration.

Consideration of member views

At recent AGMs we have received a significant majority vote in favour of our remuneration reports. We are also mindful of views expressed by individual members regarding specific aspects of the policy. When taking decisions on remuneration policy, the Remuneration Committee is also always conscious of the need to ensure executives are motivated and rewarded to deliver value for our members.

Remuneration policy for non-executive directors

Remuneration policy for non-executive directors		
Element	**Operation**	**Opportunity**
Chairman and non-executive director fees Provide a market competitive fee level for the role at Nationwide	The Chairman's fee is normally reviewed and approved by the Remuneration Committee on an annual basis. Non-executive director fees are normally reviewed and approved by the executive directors and the Chairman on an annual basis. Any changes are typically effective from 1 April. Non-executive directors are paid a basic fee, with an additional supplement paid for additional roles or responsibilities, including in respect of the Senior Independent Director or Voice of the Employee role, or for serving on or chairing a Board Committee. The Chairman and non-executive directors do not take part in any performance pay plans or in any pension arrangements. Benefits may be provided if considered appropriate including reimbursement of any reasonable expenses (together with any tax thereon where these are deemed to be taxable benefits).	Whilst there is no maximum level, fees are set taking into account practice at other organisations as well as the time commitment for the role at Nationwide.

Annual report on remuneration for 2019/20

Base salary

As disclosed in last year's report, base salaries were increased with effect from 1 April 2019. J D Garner received an increase of 3.5%, T P Prestedge 7.63%, M M Rennison 2.99% and C S Rhodes 2.54%.

C S Rhodes replaced M M Rennison as CFO in September 2019. On appointment, C Rhodes' base salary was increased to £654,000 to reflect his additional responsibilities, in line with the level paid to M M Rennison. At the same time, his pension allowance was reduced from 24% to 20% of salary, in line with the commitment made last year to reduce pension allowances for executive directors to maximum benefit available to the wider employee population level by 2021/22. As set out in the Committee Chair's letter, the pension levels for both executive directors have been further reduced on a voluntary basis to 16% of salary from 1 April 2020.

Directors' Performance Award (DPA) 2019/20

A significant proportion of the overall remuneration for executive directors is dependent on the performance achieved in the year against a number of key measures. Details of the operation of the plan, together with the targets set and performance achieved are included in this section; however, as set out in the Committee's Chair's letter, the Committee decided not to make any DPA awards to executive directors in respect of 2019/20.

The DPA has two elements: an all-employee element and an element for our most senior leaders. Performance under both elements of the DPA reward the attainment of challenging strategic and financial measures drawn from the Society's Plan and for 2019/20 reflected three of the five strategic cornerstones, as set out below. These measures ensure that we are focused on delivering benefits to our members. The senior element also incorporates an amount based on individual performance and behaviours.

Building thriving membership – Number of committed members

Building legendary service – Customer service satisfaction rating

Built to last – Sustainable cost savings

+

Individual performance

Objectives reflecting each individual's contribution towards the delivery of the Society's plan as well as individual conduct and behaviours

The maximum potential award level for 2019/20 was 152% of salary for the Chief Executive and 112% of salary for other executive directors, which was unchanged from 2018/19. For the Chief Executive, 28% of the maximum award was based on individual performance. For the other executive directors, this was 36% of the maximum award for 2019/20.

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

The illustration below shows how any awards under the plan would be released to executive directors over the long-term:

Performance year (PY)	Following the PY	PY + 1	PY + 2	PY + 3	PY + 4	PY + 5	PY + 6	PY + 7
Award determined based on the value delivered for members in the year	**Upfront element**		**Deferred element – delivered in instalments over three to seven years**					
	20%	20%		12%		12%	12%	24%

Payments remain "at risk" and may be reduced or cancelled during the seven year deferral period (clawback provisions may apply for up to ten years in certain circumstances)

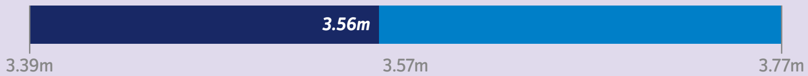
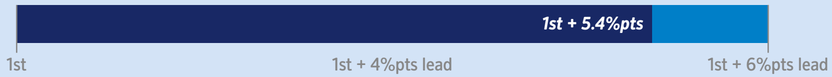
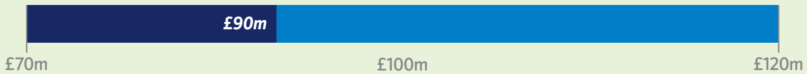
Report of the directors on remuneration (continued)

Outcomes for DPA 2019/20

Audited information

Three ‘gateways’ must be passed before any payment is made under the plan, based on measures of statutory profit, leverage ratio and conduct risk. These gateways were passed in 2019/20, although the outcome for the statutory profit gateway resulted in the amounts payable under the plan being scaled back. In reviewing performance under the DPA during 2019/20, the Committee assessed the Society’s performance against three equally weighted measures.

The Committee must also be satisfied that there are no significant conduct, risk, reputational, financial, operational or other reasons why awards should not be made, taking into account input from the Board Risk and Audit committees. Overall, as set out below, the Committee exercised its discretion to reduce 2019/20 performance pay outcomes to zero.

Cornerstone	Measure	Performance target range: threshold, target and maximum and actual performance achieved	Performance pay achieved (% of salary)		
			J D Garner	C S Rhodes	M M Rennison
Building thriving membership	Number of committed members		23%	16%	16%
Building legendary service	Customer service satisfaction rating (note i)		32%	22%	22%
Built to last	Sustainable cost savings (note ii)		20%	14%	14%
Individual performance element (see further detail below)			34%	33%	28%
Total performance pay achieved based on Society and individual performance			109%	85%	80%
Total performance pay following application of profit gateway scale back			**17%**	**14%**	**13%**
Remuneration Committee discretionary performance and risk assessment – In addition to the measures above, in determining overall award levels, the Committee considered a broad range of factors. The Committee decided to apply a downward adjustment in relation to risk events arising during the period, equivalent to the value of 5% of DPA awards in respect of 2018/19. The Committee also considered the impact of Covid-19 on underlying business performance and, acknowledging the request from the CEO and CFO not to be considered for any performance pay which they may have been due in respect of 2019/20, subsequently decided to reduce the total value of performance pay outcomes to zero.					
Total performance pay due for the year			**0%**	**0%**	**0%**
Out of a maximum opportunity (as a % of salary) of:			**152%**	**112%**	**112%**

Notes:

i. © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2020. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. 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).

ii. Subject to remaining within an adjusted cost position of £2,258 million after excluding costs of incremental investment relating to our efficiency programme.

iii. T P Prestedge resigned from the Board as Deputy Chief Executive on 10 March 2020 and is therefore not included in the above table.

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For the element based on individual performance, performance was assessed against both the delivery of the collective performance scorecard for the leadership team as well as individual goals, conduct and behaviours. The table below provides an overview of the individual performance 2019/20 achieved by each executive director based on their objectives.

J D Garner

- The Society delivered strong performance under Joe's leadership with good progress made, despite increasingly difficult external trading conditions.
- Continued leadership through Covid-19 to prioritise the health and wellbeing of employees, continued support for members in financial difficulties and maintained essential services.
- Underlying profits have been impacted by planned investment as well as competitive factors, with further impacts as a result of the change in the external environment towards the year end.
- Achieved both customer service key performance indicators (KPIs), ranking 4th in the all-sector UK Customer Satisfaction Index[1], and remained in first position for customer satisfaction amongst our peer group (note i).
- Members benefited from £715 million in member financial benefit. £5.5 million has also been invested into wider communities.
- Strong employee engagement scores which reflect the Society's distinctive culture.
- Disappointingly, the Society halted plans to launch a business banking service. The rate and economic outlook meant the business case for launching an account was no longer commercially viable.
- Good risk and compliance management in the context of Board Risk Appetite.
- Improved operational resilience with good progress being made to simplify the technology estate.

C S Rhodes

- Despite increasingly difficult external trading conditions, made a significant contribution to the overall outcome.
- Made a fast start into the role of CFO, quickly taking hold of matters at hand.
- Held a strong capital position, reflected in the Society's UK leverage ratio of 4.7% which has exceeded our target for the last three years.
- Led the Society's development of new propositions including the launch of later life mortgages.
- While in previous role, significantly contributed to a strong trading performance including growth in retail deposits and mortgages balances, and achieved a 10% share of all current accounts.
- Strong performance in the latest Bank of England stress testing.
- Excellent contribution to the Society's leadership team, balancing the complexities of member value, profitability and conduct priorities.

M M Rennison

- Despite increasingly difficult external trading conditions, on target outcomes against many measures and good focus on risk and conduct management.
- Underlying profits have been impacted by planned investment as well as competitive factors, with further impacts as a result of the change in the external environment towards the year end.
- Held a strong capital position, reflected in the Society's UK leverage ratio of 4.7% which has exceeded our target for the last three years.
- Built a strong team in the Finance and Efficiency community and helped build a strong cost focus.
- Oversaw a good contribution from Society's Treasury function.

Note:

i. © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 31 March 2020 and 12 months ending 31 March 2019. c.51,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.60,000 adults (aged 16+) per annum. Interviews were conducted face to face and online, and weighted to reflect the overall profile of the adult population. 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).

[1] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2020.

Executive directors' remuneration

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

These disclosures are included in compliance with the Building Societies Act 1986 and other mandatory reporting regulations, as well as the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which the Society has voluntarily adopted. The table below shows the total remuneration for each executive director for the years ended 4 April 2020 and 4 April 2019.

Single total figure of remuneration for each executive director *(Audited)*

	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay package
Executive directors 2020	**Salary £'000**	**Pension allowance £'000**	**Directors' Performance Award (note iii) £'000**	**Travel and other taxable benefits (note iv) £'000**	**£'000**
J D Garner	**916**	**220**	**-**	**150**	**1,286**
T P Prestedge (note i)	**601**	**144**	**-**	**144**	**889**
M M Rennison (note ii)	**306**	**73**	**-**	**59**	**438**
C S Rhodes	**634**	**137**	**-**	**63**	**834**
Total	**2,457**	**574**	**-**	**416**	**3,447**

	Fixed remuneration		Variable remuneration	Taxable benefits	Total pay package
Executive directors 2019	Salary £'000	Pension allowance £'000	Directors' Performance Award (note iii) £'000	Travel and other taxable benefits (note iv) £'000	£'000
J D Garner	885	292	1,010	185	2,372
T P Prestedge	590	195	522	141	1,448
M M Rennison	635	210	511	141	1,497
C S Rhodes	590	195	499	67	1,351
Total	2,700	892	2,542	534	6,668

Notes:
i. T P Prestedge resigned from the Board on 10 March 2020.
ii. M M Rennison stepped down from the Board on 13 September 2019. Details of his departure terms are set out in the payments for loss of office section.
iii. Variable remuneration consists of the awards under the DPA. A substantial proportion of any awards under this plan are subject to deferral with payments spread over the following seven years.
iv. This value is included as fixed remuneration for the calculation of the bonus cap in meeting our regulatory requirements. A full description of the taxable benefits is set out below.

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

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Executive directors' pensions

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

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

Executive directors	Accrued pension at 13 September 2019 (a)	Accrued pension at 4 April 2019 (b)	Transfer value at 13 September 2019 (c)	Transfer value at 4 April 2019 (d)	Change in transfer value (note i) (c)-(d)	Additional pensions earned in period (e)	Transfer value of the increase	Directors' contributions in period
M M Rennison	**65**	62	**2,230**	1,965	**265**	-	-	-

Notes:
i. The transfer value basis is set by the Nationwide Pension Fund Trustee and is based on financial market conditions at the calculation date. The differences in transfer values reflects these financial market changes in addition to the fact that the executive directors are older and thus closer to normal retirement age.
ii. No additional pension benefits have been accrued during the year other than inflationary increases required by legislation for deferred pensions.
iii. M M Rennison stepped down from the Board on 13 September 2019. Columns (a) and (c) are therefore effective at this date.

Explanations:
(a) and (b) show deferred pension entitlement at 13 September 2019 and 4 April 2019 respectively.
(c) is the transfer value of the deferred pension in (a) calculated at 13 September 2019.
(d) is the transfer value of the deferred pension in (b) calculated at 4 April 2019.
(e) is the increase in pension built up during the year. A zero figure means that, after allowing for inflation, no additional pension was built up.

Chairman and non-executive directors

The fees for the Chairman and non-executive directors were reviewed in March 2020 at which point no changes were made.

Fee Policy

	Annual fees for 2020/21 £'000	Annual fees for 2019/20 £'000
Chairman	**405**	405
Basic fee (note i)	**69**	69
Senior Independent Director (note ii)	**40**	40
Chairman of the Audit, Board Risk or Remuneration Committee	**35**	35
Member of the Audit, Board Risk or Remuneration Committee	**15**	15
Member of the Nomination and Governance Committee	**6**	6
Chairman of the IT Strategy and Resilience Committee	**25**	25
Member of the IT Strategy and Resilience Committee	**10**	10
Voice of the Employee	**10**	10

Notes:
i. The basic fee is £68,500.
ii. The Senior Independent Director fee is inclusive of committee membership fees. Committee Chair fees will continue to be paid.

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

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

Single total figure of remuneration for non-executive directors *(Audited)*

	2020			2019		
	Society and Group fees £'000	**Travel and other taxable benefits (note vi) £'000**	**Total fees and taxable benefits £'000**	Society and Group fees £'000	Travel and other taxable benefits (note vi) £'000	Total fees and taxable benefits £'000
D L Roberts (Chairman)	**405**	**2**	**407**	395	2	397
R Clifton	**98**	**7**	**105**	97	8	105
M Fyfield	**119**	**4**	**123**	92	9	101
A Hitchcock (note i)	**94**	**7**	**101**	28	5	33
M A Lenson (note ii)	**28**	**1**	**29**	106	4	110
K A H Parry	**129**	**6**	**135**	123	6	129
L M Peacock (Senior Independent Director) (note iii)	**96**	**3**	**99**	142	4	146
U K Prashar	**83**	**5**	**88**	82	11	93
T Tookey	**134**	**3**	**137**	131	6	137
G Waersted	**94**	**7**	**101**	78	10	88
P Rivett (note iv)	**63**	**1**	**64**	-	-	-
Total	**1,343**	**46**	**1,389**	1,274	65	1,339
Pension payments to past non-executive directors (note v)			**248**			243

Notes:

i. A Hitchcock joined the Board on 2 December 2018.

ii. M Lenson stepped down from the Board on 18 July 2019.

iii. L Peacock stepped down from the Board on 31 December 2019.

iv. P Rivett joined the Board on 1 September 2019.

v. The Society stopped granting pension rights to non-executive directors who joined the Board after January 1990.

vi. Taxable benefits for non-executive directors relate to expenses incurred in connection with travel and attendance at Board meetings. HMRC deem these expenses to be taxable where the meetings take place at the Society's main offices and the Society settles the tax on behalf of the non-executive directors.

Additional disclosures

Chief Executive remuneration for the past ten years

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

Financial year	Total remuneration £'000	Annual performance pay earned as % of maximum available %	Medium term performance pay earned as % of maximum available (note i) %
2019/20	1,286	0.0	-
2018/19	2,372	75.1	-
2017/18	2,317	69.5	-
2016/17	3,386 (note ii)	71.9	-
2015/16	3,413 (note iii)	75.8	80.8
2014/15	3,397 (note iii)	74.4	84.5
2013/14	2,571	83.3	74.9
2012/13	2,258	60.6	41.7
2011/12	2,251	60.6	40.7
2010/11	1,961	75.4	76.9

Notes:

i. Medium term performance pay ceased at the end of 2015/16.

ii. J D Garner commenced his role as Chief Executive on 5 April 2016. His total remuneration for 2016/17 included the value of buy-out awards on joining (2017: £1,070,752). These awards do not form part of ongoing remuneration. If this amount is excluded, the figure for 2016/17 would be £2,315,047.

iii. The Chief Executive in 2015/16 and all previous financial years shown in the table above was G J Beale. His total remuneration for 2015/16 and 2014/15 includes awards under the DPA as well as legacy payouts under the directors' previous medium term pay plan as a result of the transition period between plans.

Change in remuneration of Chief Executive

The change in remuneration (base salary, benefits (including pension) and annual performance pay) for the Chief Executive from 2018/19 to 2019/20 compared to the average for all other employees is shown in the table.

	Salary	Benefits	Annual performance pay
Chief Executive	3.50%	-22.45%	-100%
Average employee	3.60%	1.79%	-62.44%

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Relative importance of spend on pay

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

	2019/20	2018/19
	£m	£m
All-employee remuneration	**662**	826
Retained earnings	**215**	460

Payroll costs represent 28.63% (2019: 36.65%) of total administrative expenses. Nationwide's profit after tax for the year was £365 million, of which £150 million was paid as distributions and the remaining £215 million is held as retained earnings.

Other directorships

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

Payments for loss of office

As previously announced, M M Rennison stepped down from the Board as Chief Financial Officer on 13 September 2019.

The Committee agreed that he was a good leaver for the purposes of the performance pay plan. As such, he was eligible for an award under the DPA in respect of his service during 2019/20, although in line with other senior leaders, no award was made.

He will remain entitled to receive a portion of the retained and deferred element of his unvested awards made in respect of previous years' service. In accordance with our current remuneration policy, such awards will be reduced to reflect his period of service. Payments will be paid on the normal payment dates and will remain subject to risk adjustment, malus and clawback terms in the same way as if M M Rennison had remained in employment. The full value of these awards has been disclosed in the single total figure of remuneration for prior years, although, as set out above, the value he will actually receive will be lower as a result of not meeting the full service requirement for these awards.

In addition to the above, he will receive a payment of £838,452 in respect of his contractual notice period, which includes twelve months' salary (£654,000), benefits (£27,492), and pension (£156,960). Such payments will be phased over his notice period and may be subject to mitigation. M M Rennison received a contribution towards legal fees of £6,800 in connection with his departure.

T P Prestedge resigned from the Board as Deputy Chief Executive on 10 March 2020. He will remain an employee of the Society until 28 August 2020 during which time he will receive salary, pension and contractual benefits. His pension will be reduced for the portion of 2020/21 he will serve, to 16% of base salary. He did not receive an award under the DPA for 2019/20 and all of his outstanding deferred awards from prior years lapsed.

Payments to past directors

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

Pay gap reporting

The Society is fully committed to promoting a diverse and inclusive workplace. The gender pay gap measures the difference in earnings between women and men across all roles. Our latest report was published in December 2019 and can be found at **nationwide.co.uk**, together with an update of progress on our Women in Finance Charter commitments. We have also voluntarily published our first ethnicity pay gap, comparing the pay of individuals who have self-declared as BAME (black, Asian and minority ethnic) with those who are non-BAME.

As at 5 April 2019, our mean average gender pay gap was 28% (unchanged on the previous year) and our mean ethnicity pay gap was 17%.

Pay gaps are not the same as equal pay. We carry out regular equal pay audits, checking the pay of people with different characteristics (such as gender and ethnicity) doing the same or similar roles. Our audits continue to show that our pay policies are operating fairly.

Report of the directors on remuneration (continued)

CEO pay ratio reporting

The table below compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles). This reporting will build annually to cover a rolling 10-year period.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019/20	Option A	53:1	41:1	26:1
2018/19	Option A	99:1	77:1	48:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2019/20 are:

	25th percentile	Median	75th percentile
Total remuneration	£24,095	£31,488	£49,925
Salary	£20,010	£23,665	£40,871

Notes:

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

ii. Employee data includes full time equivalent total remuneration for all UK employees as at 1 March 2020. For each employee, remuneration was calculated based on all components of pay including base pay, performance pay for 2019/20, core benefits and pension payments.

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

iv. The Committee has considered the pay data for the three individuals identified for 2019/20 and confirms that the ratios reasonably represent the Society's approach to pay and reward for employees taken as a whole.

Voting at AGM

A resolution to approve the 2018/19 'Report of the directors on remuneration' was passed at the 2019 AGM. The Remuneration Policy was last approved by members at the 2017 AGM. In each case votes were cast as follows:

	Report of the directors on remuneration	Remuneration Policy
Votes in favour	511,752 (91.06%)	550,109 (92.04%)
Votes against	50,240 (8.94%)	47,552 (7.96%)
Votes withheld	9,544	10,261

The year ahead

In applying the proposed policy, the Committee is guided by the need to ensure executives are appropriately motivated and rewarded to deliver demonstrable value for our members.

As set out in the Committee Chair's letter, J D Garner voluntarily requested that his combined base salary and pension be reduced by 20% for 2020/21, and C S Rhodes voluntarily reduced his pension allowance to 16% of salary from 2020/21 to align with the maximum benefit available to the wider employee population. Reflecting the current challenging environment, performance pay opportunities across the Society will be scaled back for 2020/21. Awards for executive directors for the coming year will be set at around one-third of the normal performance pay opportunities in line with the approach for all employees. Details for our executive directors are set out opposite.

Awards under the DPA will continue to be aligned to measures which are most important to our members. For 2020/21, we have updated the *Built to last* cornerstone measure to one based on total costs. Targets are commercially sensitive and so will be disclosed, along with performance achieved, in next year's report. Gateway measures will continue to have to be met before any payments are made under the plan. For 2020/21 these gateways will be based on profit before tax, leverage ratio and conduct.

Remuneration policy implementation for 2020/21

Element	Implementation in 2020/21 for executive directors
Base salary	The executive directors will not receive any base salary increase for 2020/21. J D Garner requested to reduce his salary. Base salaries for 2020/21 are therefore as follows: • J D Garner £783,000 (includes voluntary reduction for 2020/21) • C S Rhodes £654,000
Benefits	No change for 2020/21.
Pension	Cash allowance of 16% of salary to align with the maximum benefit available to the wider employee population.
Directors' Performance Award (DPA) Comprises two elements: (i) an all-employee element (ii) an element in which the most senior leaders participate subject to deferral provisions	For awards made in respect of 2020/21, the maximum variable pay opportunities including both elements are as follows: • 51% of base salary for the Chief Executive • 37% of base salary for other executive directors For these awards, 37% and 29% of base salary is payable for target performance for the Chief Executive and other executive directors respectively. In the event that the Society's financial performance in 2020/21 materially exceeds expectations, the Committee retains the discretion to make an award above the levels above (subject to the overall limits within the policy). Performance measures: • Gateway measures based on profit before tax, leverage ratio and conduct matters • Society performance, subject to minimum performance thresholds, assessed against the following cornerstones: – Building thriving membership – Number of committed members – Building legendary service – Customer service satisfaction rating – Built to last – Total costs A portion of the award assessed is based on individual contribution and behaviours including in relation to conduct matters (28%/27% of the award for the Chief Executive and Chief Financial Officer respectively).
Chairman and non-executive director fees	No change in the fees for the Chairman or non-executive directors for 2020/21.

Directors' report for the year ended 4 April 2020

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

Content	Section	Pages
Business objectives and future plans	Strategic report	7 to 24
Nationwide results and key performance indicators	Strategic report – Chief Executive's review including performance updates	11
Charitable donations	Strategic report – Measuring our mutual difference	23 to 24
Employee involvement, engagement, development, inclusion and diversity	Strategic report – Building PRIDE	20 to 21
Directors' remuneration	Governance – Report of the directors on remuneration	108 to 129
Mortgage arrears	Risk report	157 to 158
Risk management	Risk report	135 to 137
Principal, top and emerging risks	Strategic report – Risk overview	40 and 138
Directors' share options	Annual business statement	322 to 323
CRD IV country-by-country reporting	Published online – **www.nationwide.co.uk/about/corporate-information/results-and-accounts**	-
Distributions on CCDS instruments	Financial statements – note 31	310
Business Relationships	Strategic report – section 172(1) statement	25 to 26
Financial Instruments	Financial statements – note 15	284 to 287
Corporate Governance statement	Corporate governance report	57 to 85

Board of directors

The names of the directors of the Society who were in office at the date of signing the financial statements, along with their biographies, are set out on pages 51 to 54.

The changes in the year and up to the date of signing the financial statements are as follows:

- the retirement of Mitchel Lenson (non-executive director) in July 2019;
- the retirement of Lynne Peacock (non-executive director) in December 2019;
- the retirement of Mark Rennison (Chief Financial Officer) in September 2019;
- the resignation of Tony Prestedge (Deputy Chief Executive Officer) in March 2020;
- the appointment of Phil Rivett (non-executive director) in September 2019;
- the appointment of Chris Rhodes as Chief Financial Officer in September 2019 from his previous role as Executive Director, Product and Propositions.

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

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

Political donations

The Society is politically neutral and does not support, or seek to influence public support for, any political party nor make donations, contributions or pay subscriptions to any party. However, the Society will from time to time make payments to third parties to participate in events organised by them at party conferences and which are related to matters of interest to the

Society and its members so as to communicate its position and understand that of others. These activities are not intended or considered to be in the nature of party political campaigning, activity or support.

Participation in the unclaimed assets scheme

The Society participates in the Government-backed unclaimed assets scheme, whereby savings accounts that have been inactive for 15 years, and where the account holder cannot be traced, are eligible to be transferred into a central reclaim fund. The central reclaim fund has the responsibility for retaining sufficient monies to meet the costs of future reclaims for any previously transferred dormant account balances, and to transfer any surplus to the Big Lottery Fund for the benefit of good causes which have a social or environmental purpose. On 4 October 2019 Nationwide made a transfer of £3,644,473 to the Reclaim Fund Limited, the administrators of the unclaimed assets scheme. This follows the previous transfer the Society made in December 2018 (£12,143,551). The total contributions from inception to October 2019 are £73,286,816.

Creditor payment policy

The Group's policy is to agree the terms of payment with suppliers at the start of trading, ensure that suppliers are aware of the terms of payment, and pay in accordance with its contractual and other legal obligations. The Group's policy is to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms. The Society's creditor days, calculated based on year end creditor balances and total spend, were 9 days at 4 April 2020 (2019: 9 days).

Environment

The Society reports its greenhouse gas emissions (GHG), within the Strategic report, as set out by the Companies Act 2006. For more information on the Society's environmental sustainability performance, see page 32.

New activities

There were no new activities in which the Society or any of its subsidiaries engaged during the financial year of a different nature from those in which the Society previously engaged.

Research and development

In the ordinary course of business, the Society regularly develops new products and services.

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

The following statement, which should be read in conjunction with the Independent auditor's report on pages 220 to 232, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, the directors' emoluments disclosures within the Report of the directors on remuneration, the Annual business statement and the Directors' report.

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

A copy of the Annual Report and Accounts can be found on Nationwide Building Society's website at **nationwide.co.uk** (Results and accounts section). The directors are responsible for the maintenance and integrity of statutory and audited information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Building Societies Act 1986 (the Act)

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

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

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

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

Going Concern

The Group's business activities, along with its financial position, capital structure, risk management approach and factors likely to affect its future performance are described in the Strategic report and the Risk report.

The Group's forecasts and projections, taking account of possible changes in trading performance and funding retention, and including stress testing and scenario analysis, show that the Group will be able to operate at adequate levels of both liquidity and capital for the next 12 months. Furthermore, the Group's capital ratios and its total capital resources are comfortably in excess of PRA requirements.

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

Business viability statement

In addition to the going concern statement above, the directors have an obligation in accordance with provision C.2.2 of the UK Corporate Governance Code to confirm that they believe that both the Society and the Group will be able to continue in operation, and to meet their liabilities as they fall due. This assessment is made over a time period considered appropriate by reference to the Society's financial planning.

Assessment of prospects

The recent economic developments caused by the coronavirus pandemic, including the monetary and fiscal measures taken by the Bank of England to control the economic fallout, have a material impact on Nationwide's future financial performance.

In response, the directors have considered a wide range of sources including: the principal and emerging risks which could impact the performance of the Group; a range of economic scenarios produced in light of the pandemic; and, internal stress testing carried out over the past twelve months. These materials include forecasts of detailed financial, capital, funding and customer information, together with an assessment of the relevant risks.

The Group's process for creating financial forecasts considers strategic objectives, the risks required in order to meet those objectives and the risk appetite limits in place to ensure that the Group remains safe and secure for its members. The Group's planning process involves the following key steps:

- The Board reviews the Group's strategic objectives in the context of the market environment.
- Economic and market assumptions for the next five years are prepared. These are then used to develop financial, propositional pricing, funding and capital projections.
- In addition to core projections, a range of plausible economic scenarios are prepared to ensure that the Group would continue to remain profitable if the assumptions included in the central scenario were different. The scenarios are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions. This enables the Group to develop actions to mitigate these scenarios, should they occur.
- The Board also obtain independent assurance from the Group's Risk Oversight function that the central scenario aligns with the Group's strategic ambitions and risk appetite. This assessment also identifies the key risks to delivery, and any relevant adjustments are made to ensure that we remain within our risk appetite.
- These projections, including the plausible scenarios, are then reviewed and challenged by the Board to confirm that they fully reflect Nationwide's strategic ambitions, whilst ensuring that they are based on sound assumptions and remain within the Group's risk appetite. Once approved by the Board, they form the basis of the Group's targets for the following year.

Assessment of viability

Given that the impact of the coronavirus pandemic on the global economy is expected to be significant, the directors have considered the financial impact of a wide range of different scenarios as described above, ahead of completing detailed modelling for selected economic outcomes.

Compared to prior expectations, profitability is forecast to reduce in all plausible outcomes, which as a mutual creates a risk to a key source of capital growth. However, due to the Group's robust business model and strong financial position at the end of 2019/20, capital and liquidity metrics are forecast to remain comfortably above Board Risk Appetite and regulatory buffers. As demonstrated in our 2019 internal stress tests, we can withstand severe economic and competitive stresses.

The Group has also developed policies and processes for monitoring and managing its top and emerging risks. Further details on this are described in the Risk report (pages 135 to 137).

Assessment period used for reviewing Nationwide's viability

Based on the above, the directors have a reasonable expectation that the Society and Group will be able to continue its operations, and to meet its liabilities as they fall due, over the next three years to 4 April 2023. The directors have specifically assessed the prospects of the Society and Group over the first three years because:

- There is always going to be difficulty in predicting, with any degree of precision, what the future path of the UK or the wider global economy will take. We believe that an assessment over the next three years is appropriate as it strikes the right balance between assessing likely outcomes with the current information we have, whilst minimising uncertainty. Notwithstanding this, there is no information contained within the outer years of our financial forecasts which would cause the directors to conclude that the Group would not remain viable in the longer term.
- It is within the period covered by the Group's future projections of profitability, cash flows, capital requirements and capital resources. It is also within the period covered by both the Bank of England's Concurrent Stress Tests and our own internal alternative downside scenarios.

Fair, balanced and understandable

The directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, business model and strategy.

Details of the governance procedures that have been embedded to support this can be found in the Audit Committee report.

Enhanced Disclosure Task Force (EDTF)

The EDTF established by the Financial Stability Board, published its report 'Enhancing the Risk Disclosures of Banks' in October 2012, with an update in November 2015 covering IFRS 9 expected credit losses. All EDTF recommendations are reflected in the Annual Report and Accounts and Pillar 3 Disclosure.

Directors' statement pursuant to the disclosure and transparency rules

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the directors have included a fair review of the business and a description of the principle risks and uncertainties facing the Group. The directors confirm that, to the best of each director's knowledge and belief:

- The Chief Executive's review and the Financial review contained in the Strategic report include a fair review of the development and performance of the business and the position of the Group and Society. In addition, the Strategic report contains a description of the principal risks and uncertainties.
- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society.
- In addition to the Annual Report and Accounts, as required by the Act, the directors have prepared an Annual business statement and a Directors' report, each containing prescribed information relating to the business of the Society and its connected undertakings.

Directors' responsibilities in respect of accounting records and internal control

The directors are responsible for ensuring that the Society and its connected undertakings:

- Keep accounting records which disclose with reasonable accuracy the financial position of the Society and the Group and which enable them to ensure that the Annual Report and Accounts comply with the Building Societies Act 1986.
- Take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to the Society.

The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The auditors

Due to audit firm rotation regulations PricewaterhouseCoopers LLP resigned as the Society's auditors with effect from 18 July 2019, at the Society's Annual General Meeting. From that date Ernst & Young LLP (EY) were appointed as external auditors for the year ended 4 April 2020.

David Roberts

Chairman

28 May 2020

Risk report

Dave, member since 1972

Risk report

Introduction

Risk management is at the heart of our business and has an important part to play in delivering our shared purpose of *building society, nationwide* by making sure we are safe and secure for the future.

Whilst it is accepted that all business activities involve some degree of risk, Nationwide seeks to protect its members by appropriately managing the risks that arise from its activities. Nationwide's risk management processes ensure it is built to last by:

- identifying risks through a robust assessment of principal risks and uncertainties facing the Society, including those that would threaten its business model, future performance, solvency or liquidity
- robust decision making, ensuring we take the right risks, in a way that is considered and supports the strategy
- ensuring the risks we do take are understood, controlled and managed appropriately
- maintaining an appropriate balance between delivering member value and remaining a prudent and responsible lender.

Managing risk

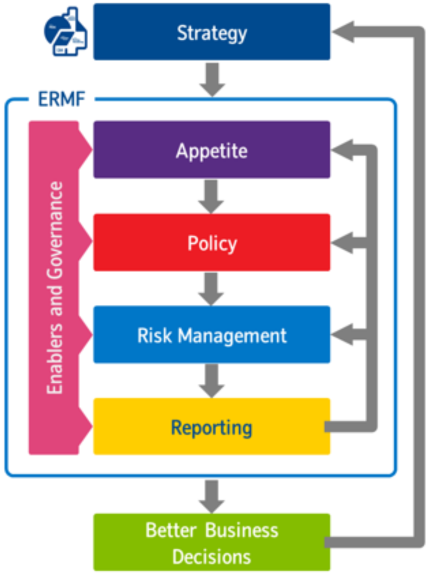
Enterprise risk management framework (ERMF)

Nationwide operates an Enterprise Risk Management Framework (ERMF) which articulates the Society's approach to risk management. The structure is based on eight principal risk categories, establishing risk appetite and implementing risk management through the three lines of defence model. The ERMF is underpinned by processes, policies and standards that are specific to individual risk categories and focus on the responsibilities of key executives and risk practitioners. The outputs of the ERMF, are governed through Nationwide's risk committee structure.

The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. On the basis of this year's review, the Board is satisfied that the ERMF provides an adequate system of risk management and internal control.

Managing risk (continued)

The structure of the ERMF is summarised below:



Appetite - articulates the amount of risk the Society is willing to accept on behalf of members in pursuit of its strategy;

Policy - articulates the principles and requirements that must be met to manage Nationwide's key risks and support the governance of the Society;

Risk Management - is the structure, processes, tools and systems which support effective day to day identification and management of risks across the Society;

Reporting – contains the risk and control reporting standards, processes and tools that ensure that information regarding key risks, loss events and controls is considered by our Board, risk committees, and other key stakeholders for effective decision making.

Over the last three years, significant progress has been made to deliver material enhancements to the way we do risk management at Nationwide. In 2020 we launched the Society's new Governance, Risk and Compliance tool. This will provide the risk and control capabilities and data needed to help us optimise our controls, including plugging control gaps, de-duplicating controls, and rationalising the control estate.

In addition to the delivery of improved tooling, Nationwide has:

- rationalised the number and uplifted the content of our risk policies, providing more clarity in helping the business to make more effective decisions;
- simplified the ERMF standards and guidance to support day to day risk management;
- simplified the risk committee structure to enable more efficient decision-making;
- changed our risk and control categorisation to be simpler, aligned to industry standards (Basel) and reflect the external environment (i.e. inclusion of climate change into the causal categorisation).

Managing risk (continued)

Three lines of defence

The Society adopts a Three Lines of Defence (3LoD) model in the way it structures its risk management activities. We have tailored this approach to reflect our size, complexity, and business model. Though everyone has a role to play in risk management, the overall responsibilities and accountabilities are outlined through this 3LoD model, which are:

Line of defence	First line Risk and control ownership	Second line Oversight, support, challenge and advice	Third line Assurance
Responsibilities	Designing and running business operations, owning and operating most controls to manage the Society's risks and meet regulatory requirements.	Overseeing, through support, challenge and the provision of advice, the effectiveness of risk management by the first line.	Providing assurance to the Board on the effectiveness of our control environment.
Accountabilities	• Setting business objectives • Defining management risk appetite • Identifying, owning and managing risks • Defining, operating and testing controls • Implementing and maintaining regulatory compliance • Adhering to the Society's minimum standards for risk management and associated policies • Identifying future threats and risks	• Providing expert advice on business initiatives • Advising the Board on setting risk appetite • Reporting aggregate enterprise level risks to the Board • Conducting independent and risk-based assurance • Interpreting material regulatory change • Setting the Society's minimum standards for risk management and associated policies • Identifying future threats and risks	• Performing independent audits of the effectiveness of first line risk and control and second line risk oversight, support, challenge and advice • Taking a risk-based approach to the programme of audit work • Preparing an annual opinion on the risk management and controls framework across the Society to present to the Audit Committee

Risk report (continued)

Principal risks and uncertainties

The principal risks set out below are the key risks relevant to Nationwide's business model and achievement of its strategic objectives. These principal risks are further broken down into lower level categories to support day to day management. The principal risk categories remain largely unchanged from last year (with one amalgamation noted below) and are managed through the Society's Enterprise Risk Management Framework.

The Board continually monitors the most significant risks to the Society. The Covid-19 outbreak has materially impacted the Society's risk profile, and may accelerate the realisation or increase the severity of risks across a number of risk categories. Nationwide's top and emerging risks are detailed on page 40.

Principal Risk	Definition	Risk Committee	Further Risk detail
Credit risk	The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations.	Credit Committee	Page 141
Liquidity and funding risk	Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and other stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage excessive concentration of funding types.	Assets and Liabilities Committee	Page 183
Solvency risk	The risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and to maintain the confidence of current and prospective members, investors, the Board and regulators.	Assets and Liabilities Committee	Page 194
Market risk	The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes. As Nationwide does not have a trading book, market risk only arises in the banking book.	Assets and Liabilities Committee	Page 200
Pension risk	The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit.	Assets and Liabilities Committee	Page 207
Business risk	The risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, regulatory or other external events.	Executive Risk Committee	Page 209
Model risk	The risk of an adverse outcome (incorrect or unintended decision or financial loss) that occurs as a direct result of weaknesses or failures in the development, implementation or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to Nationwide's reputation.	Model Risk Oversight Committee	Page 210
Operational and conduct risk (note i)	The risk of Society impact(s) resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events.	Operational Risk Committee and Conduct and Compliance Committee	Page 212

Note
i. In 2020, two principal risks, "Operational" and "Conduct & compliance" merged into a new "Operational & conduct" principal risk category.

Principal risks and uncertainties (continued)

Risk appetite

Board risk appetite articulates how much risk the Board is willing to accept on behalf of its members in the delivery of the strategy. The following statements articulate Nationwide's approach to taking risk responsibly in the interests of our members and inform our strategy for managing risk. The Society:

- lends in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle;
- maintains sufficient capital and liquidity resources to support current business activity and planned growth and to remain resilient to significant stress;
- minimises customer disruption, financial loss, reputational damage and regulatory non-compliance, especially those caused by inadequate, or failures of, people, processes and systems;
- provides sustainable customer services over resilient systems;
- treats customers fairly before, during and after the sales process;
- offers products and services which meet customer needs and expectations, perform as represented and provide value for money;
- operates a mutual business model which is sustainable and remains within the constraints of the Building Societies Act in a stress;
- ensures that key models are developed, governed and maintained to a high quality so they meet internal standards;
- is only permitted to incur market risks that are required for operational efficiency, stability of earnings or cost minimisation in supporting core business activities. We do not take trading book risks.

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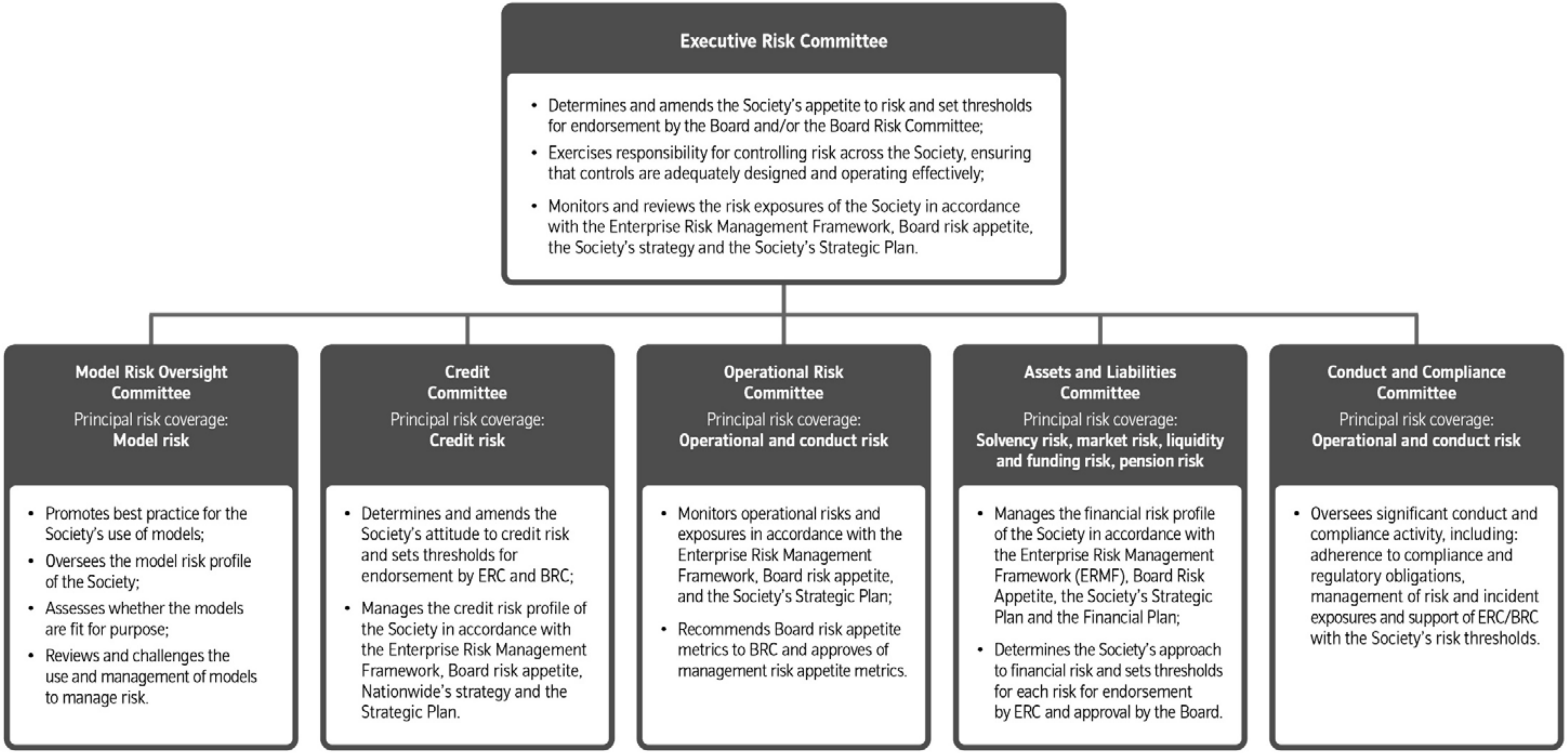
Principal risks and uncertainties (continued)

Risk committee structure

The Board Risk Committee (BRC), Board IT & Resilience Committee and Audit Committee provide oversight and advice to the Board. Further details are set out in the Governance report.

The Executive Risk Committee (ERC), chaired by the Chief Risk Officer, sits below these and ensures a co-ordinated management approach across all risks and provides regular updates to the Board Risk Committee on areas where the Committee has challenged management and key decisions. All principal risks are covered within the ERC and the committee structure leading to ERC (including the committee's purpose), is shown below.



Risk report (continued)

Credit risk – Overview

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk encompasses:

- borrower/counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay the interest or principal on a loan, or on a financial product, or for a service, on time;
- security/collateral risk – the risk of loss arising from deteriorating security/collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification;
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

Nationwide manages credit risk for the following portfolios:

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

Management of credit risk

At Nationwide, we lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of the Society's strategy, which is articulated as Board risk appetite statements and underlying principles:

We safeguard our members by lending responsibly

- We will only lend to members, customers or counterparties who demonstrate that they can afford to borrow.
- We will support members and customers buying mortgageable houses of wide-ranging types and qualities.
- We will work with members, customers and counterparties to recover their financial position should there be a delay, or risk of delay, in meeting their financial obligations.

We safeguard the Society's financial performance, strength and reputation

- We will manage asset quality so that losses through an economic cycle will not undermine profitability, financial strength and our standing with internal/external stakeholders.
- We will ensure that no material segment of our lending exposes the Society to excessive loss.
- We will proactively manage credit risk and comply with regulation.

We operate with a commitment to responsible lending and a focus on championing good conduct and fair outcomes. In this respect, we formulate appropriate credit criteria and policies which are aimed at mitigating risk against individual transactions and ensuring that the Society's credit risk exposure remains within risk appetite. The Board Risk Committee and, under a governed delegated mandate structure, the Credit Committee, the Executive Sanctioning Committee and individual Material Risk Takers make credit decisions, based on a thorough credit risk assessment, to ensure that customers are able to meet their obligations.

At a portfolio level, we measure and manage our risk profile and the performance of our credit portfolios on an ongoing basis, through a formal governance structure. Compliance with Board risk appetite is measured against absolute limits and risk metrics and is reported to the Society's Credit Committee monthly, with adverse trends being investigated and corrective action taken to mitigate the risk and bring performance back on track.

Credit risk – Overview (continued)

Nationwide is committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. This is the case for residential mortgages, consumer banking and commercial lending. Accounts in financial difficulty/arrears are managed by specialist teams within Nationwide to ensure an optimal outcome for our members, customers and the Society.

Forbearance

Forbearance occurs when concessions are made to the contractual terms of a loan when the customer is facing or about to face difficulties in meeting their financial commitments. A concession is where the customer receives assistance, which could be a modification to the previous terms and conditions of a facility or a total or partial refinancing of debt, either mid-term or at maturity. Requests for concessions are principally attributable to:

- temporary cash flow problems;
- breaches of financial covenants; or
- an inability to repay at contractual maturity.

In addition, we are supporting borrowers financially affected by the Covid-19 pandemic with payment holidays and other concessions.

Consistent with the European Banking Authority reporting definitions, loans that meet the regulatory forbearance exit criteria are not reported as forborne. The concession events used to classify balances subject to forbearance for residential mortgages, consumer banking and commercial lending are described in the relevant sections of this report.

Impairment provision

Impairment provisions on financial assets are calculated on an expected credit loss (ECL) basis for assets held at amortised cost and at fair value through other comprehensive income (FVOCI). ECL impairment provisions are based on an assessment of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted to give a net present value.

Impairment provisions are calculated using a three stage approach depending on changes in credit risk since original recognition of the assets:

- an asset which is not credit impaired on initial recognition and has not subsequently experienced a significant increase in credit risk is categorised as being within stage 1, with a provision equal to a 12 month ECL (losses arising on default events expected to occur within 12 months);
- where a loan's credit risk increases significantly, it is moved to stage 2. The provision recognised is equal to the lifetime ECL (losses on default events expected to occur at any point during the life of the asset);
- if a loan meets the definition of credit impaired, it is moved to stage 3 with a provision equal to its lifetime ECL.

For loans and advances held at amortised cost, the stage distribution and the provision coverage ratios are shown in this report for each individual portfolio. The provision coverage ratio is calculated by dividing the provisions by the gross balances for each main lending portfolio. Loans remain on the balance sheet, net of associated provisions, until they are deemed no longer recoverable, when such loans are written off.

Governance and oversight of impairment provisions

The models used in the calculation of impairment provisions are governed in accordance with the Society's Model Risk Framework (described in the 'Model risk' section of this report). PD, EAD and LGD models are subject to regular monitoring and back testing and are independently reviewed annually. Where necessary, post model adjustments ('PMAs') are approved for risks not captured in model outputs, for example where insufficient historic data exists. The economic scenarios used in the calculation of impairment provisions and associated probability weightings are proposed by our Chief Economist. Details of these economic assumptions and material PMAs are included in note 10 to the financial statements.

Credit risk – Overview (continued)

A monthly provision meeting including the Chief Financial Officer and the Chief Risk Officer oversees these and all other aspects of impairment provisioning to ensure that impairment provisions are appropriate. Impairment provisions are regularly reported to the Audit Committee, which reviews and challenges the key judgements and estimates made by management.

Performance overview

Overall credit performance for the year has remained strong, with mortgage and unsecured arrears at a low level and broadly stable. Towards the end of the financial year it became clear that Covid-19 would have a significant impact on the UK economy. The UK is likely to experience a significant contraction in economic activity during 2020 as a result of the pandemic and associated government intervention to reduce the spread of the virus. In response to this crisis, the Bank of England has taken significant measures, including a reduction in bank base rate to 0.1%, and regulators have issued guidance to lenders asking them to act in the best interests of their customers to ease the financial impact on them.

The Society is working with Government and the wider industry in response to the threat posed by Covid-19. We recognise that the pandemic is having a significant impact on our members, and we are offering them help and support in these challenging times. This includes offering payment holidays to impacted borrowers. In accordance with regulatory guidance, these payment concessions are not recorded as forbearance and do not automatically have an impact on the reported staging of balances.

An additional provision for credit losses has been recognised in the financial statements to reflect the estimated impact of the Covid-19 pandemic on expected credit losses. Revised economic forecasts have been used to model losses in the residential mortgage, consumer banking and commercial portfolios. This provision also takes account of the credit risk associated with support measures provided to borrowers, recognising that in some cases borrowers will experience longer term financial difficulty as a result of the pandemic. The total additional provision is as follows:

Additional provisions	
2020	**£m**
Residential mortgages	**51**
Consumer banking	**43**
Commercial lending	**7**
Total	**101**

Further details regarding the concession measures being offered and the impact for residential mortgages, consumer banking and commercial lending are described in the relevant sections of this report.

Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk has increased to £256 billion (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 83% (2019: 85%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 94% (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.

Credit risk – Overview (continued)

Maximum exposure to credit risk 2020 *(Audited)*	Gross balances £m	Impairment provisions £m	Carrying value £m	Commitments (note i) £m	Maximum credit risk exposure £m	% of total credit risk exposure %
Amortised cost loans and advances to customers:						
Residential mortgages	188,768	(252)	188,516	10,734	199,250	78
Consumer banking	4,994	(494)	4,500	40	4,540	2
Commercial and other lending	7,133	(40)	7,093	642	7,735	3
Fair value adjustment for micro hedged risk (note ii)	741	-	741	-	741	-
	201,636	(786)	200,850	11,416	212,266	83
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	71	-	71	-	71	-
Commercial and other lending	57	-	57	-	57	-
	128	-	128	-	128	-
Other items:						
Cash	13,748	-	13,748	-	13,748	5
Loans and advances to banks and similar institutions	3,636	-	3,636	-	3,636	1
Investment securities – FVOCI	18,367	-	18,367	-	18,367	7
Investment securities – Amortised cost	1,625	-	1,625	-	1,625	1
Investment securities – FVTPL	12	-	12	-	12	-
Derivative financial instruments	4,771	-	4,771	-	4,771	2
Fair value adjustment for portfolio hedged risk (note ii)	1,774	-	1,774	-	1,774	1
	43,933	-	43,933	-	43,933	17
Total	245,697	(786)	244,911	11,416	256,327	100

Risk report (continued)

Credit risk – Overview (continued)

Maximum exposure to credit risk 2019 (Audited)	Gross balances £m	Impairment provisions £m	Carrying value £m	Commitments (note i) £m	Maximum credit risk exposure £m	% of total credit risk exposure %
Amortised cost loans and advances to customers:						
Residential mortgages	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 revocable commitments of £10,139 million (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.

Commitments

Irrevocable undrawn commitments to lend are within the scope of provision requirements. The commitments in the table above consist of overpayment reserves and separately identifiable irrevocable commitments for the pipeline of residential mortgages, personal loans, commercial loans and investment securities. These commitments are not recognised on the balance sheet, and the total associated provision of £0.4 million (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 (BTL) mortgages originated under The Mortgage Works (UK) plc (TMW) brand, together with smaller legacy portfolios in run-off. Over the year, as we continued to grow our lending in line with established credit criteria, the credit performance of our residential mortgages has remained stable and credit quality continues to be strong.

Residential mortgage gross balances				
	2020		2019	
(Audited)	**£m**	**%**	£m	%
Prime	**151,069**	**80**	151,445	82
Specialist:				
Buy to let (note i)	**35,539**	**19**	32,012	17
Other (note ii)	**2,160**	**1**	2,483	1
	37,699	**20**	34,495	18
Amortised cost loans and advances to customers	**188,768**	**100**	185,940	100
FVTPL loans and advances to customers	**71**		72	
Total residential mortgages	**188,839**		186,012	

Notes:
i. Buy to let mortgages originated under the TMW brand are £34,031 million (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 year to £189 billion (2019: £186 billion), which relates solely to the specialist portfolio, as we continue to support the buy to let sector.

Credit risk – Residential mortgages (continued)

Impairment losses for the year

Impairment losses/(reversals) for the year		
	2020	2019
(Audited)	**£m**	£m
Prime	**13**	(1)
Specialist	**40**	(16)
Total	**53**	(17)
	%	%
Impairment charge as a % of average gross balance	**0.03**	(0.01)

Due to the high quality of residential mortgage portfolios and continued low levels of arrears, impairment losses remain low. The impairment losses for the year include an additional provision of £51 million, which has been included to reflect the expected impact of Covid-19. The level of this provision reflects the estimated impact on expected credit losses based upon a revised central economic scenario and the credit risk associated with payment holidays granted in response to Covid-19.

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									
2020	**Stage 1**	**Stage 2 total**	**Stage 2 Up to date (note i)**	**Stage 2 1 – 30 DPD (note i)**	**Stage 2 >30 DPD (note i)**	**Stage 3**	**POCI (note ii)**	**Covid-19 additional provision (note iii)**	**Total**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross balances									
Prime	**148,355**	**1,953**	**998**	**698**	**257**	**761**	**-**	**-**	**151,069**
Specialist	**29,399**	**7,642**	**7,115**	**270**	**257**	**503**	**155**	**-**	**37,699**
Total	**177,754**	**9,595**	**8,113**	**968**	**514**	**1,264**	**155**	**-**	**188,768**
Provisions									
Prime	**27**	**8**	**2**	**3**	**3**	**10**	**-**	**11**	**56**
Specialist	**13**	**117**	**87**	**11**	**19**	**27**	**(1)**	**40**	**196**
Total	**40**	**125**	**89**	**14**	**22**	**37**	**(1)**	**51**	**252**
Provisions as a % of total balance	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Prime	**0.02**	**0.41**	**0.22**	**0.46**	**1.02**	**1.30**	**-**	**-**	**0.04**
Specialist	**0.05**	**1.53**	**1.23**	**3.93**	**7.22**	**5.33**	**-**	**-**	**0.52**
Total	**0.02**	**1.30**	**1.11**	**1.42**	**4.12**	**2.90**	**-**	**-**	**0.13**

Credit risk – Residential mortgages (continued)

Residential mortgages staging analysis								
2019	Stage 1	Stage 2 total	Stage 2 Up to date (note i)	Stage 2 1 – 30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	POCI (note ii)	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m
Gross balances								
Prime	148,639	2,048	1,086	695	267	758	-	151,445
Specialist	27,384	6,431	5,947	271	213	513	167	34,495
Total	176,023	8,479	7,033	966	480	1,271	167	185,940
Provisions								
Prime	22	12	5	4	3	10	-	44
Specialist	15	115	91	10	14	32	-	162
Total	37	127	96	14	17	42	-	206
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Prime	0.01	0.57	0.38	0.62	1.19	1.38	-	0.03
Specialist	0.06	1.80	1.53	3.83	6.78	6.15	-	0.47
Total	0.02	1.50	1.35	1.52	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 shown net of the lifetime ECL of £6 million (2019: £6 million).

iii. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million has been added to the impairment provisions for residential mortgages. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

At 4 April 2020, 94% (2019: 95%) of the residential mortgage portfolio is in stage 1, reflecting the portfolio's underlying strong credit quality. During the year there has been an increase in stage 2 balances to £9,595 million (2019: £8,479 million). The increase is within the specialist portfolio, and is due to refinance risk associated with interest only loans, together with an increase in lifetime probability of default (PD) compared to the PD at origination, resulting partially from changes in the macroeconomic assumptions used. The stage 2 provision as a percentage of stage 2 balances has reduced as the average quality of loans in the portfolio continues to improve, partly through maturity of older higher risk loans.

Stage 3 loans in the residential mortgage portfolio equate to 1% (2019: 1%) of the total residential mortgage exposure. Of the total £1,264 million (2019: £1,271 million) stage 3 loans, £679 million (2019: £705 million) is in respect of loans with amounts which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeness to pay such as forbearance or the bankruptcy of the borrower. For loans subject to forbearance, accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months; £244 million (2019: £226 million) of the stage 3 balances in forbearance are in this probation period.

Credit risk – Residential mortgages (continued)

The table below summarises the movements in the Group's residential mortgages held at amortised cost, including the impact of ECL impairment provisions. The movements within the table are an aggregation of monthly movements over the year.

Reconciliation of movements in gross residential mortgage balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
(Audited)	**£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	**(15,257)**	**(15)**	**15,257**	**15**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(315)**	**-**	**(779)**	**(31)**	**1,094**	**31**	**-**	**-**
Transfers from Stage 2 to Stage 1	**12,923**	**66**	**(12,923)**	**(66)**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**199**	**1**	**539**	**13**	**(738)**	**(14)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(52)**		**72**		**(12)**		**8**
Net movement arising from transfer of stage	**(2,450)**	**-**	**2,094**	**3**	**356**	**5**	**-**	**8**
New assets originated or purchased	**30,501**	**5**	**-**	**-**	**-**	**-**	**30,501**	**5**
Further lending/(repayments)	**(8,230)**	**(3)**	**(140)**	**1**	**(45)**	**(2)**	**(8,415)**	**(4)**
Changes in risk parameters in relation to credit quality	**-**	**4**	**-**	**3**	**-**	**3**	**-**	**10**
Other items impacting income statement charge/(reversal) (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**
Redemptions	**(18,090)**	**(3)**	**(838)**	**(9)**	**(295)**	**(1)**	**(19,223)**	**(13)**
Additional provision for Covid-19 (note ii)								**51**
Income statement charge for the year								**53**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(35)**	**(11)**	**(35)**	**(11)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
4 April 2020 (note ii)	**177,754**	**40**	**9,595**	**125**	**1,419**	**36**	**188,768**	**252**
Net carrying amount (note ii)		**177,714**		**9,470**		**1,383**		**188,516**

Credit risk – Residential mortgages (continued)

Reconciliation of movements in gross residential mortgage balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	156,647	17	19,072	171	1,395	47	177,114	235
Stage transfers:								
Transfers from Stage 1 to Stage 2	(27,661)	(8)	27,661	8	-	-	-	-
Transfers to Stage 3	(294)	-	(837)	(30)	1,131	30	-	-
Transfers from Stage 2 to Stage 1	35,956	141	(35,956)	(141)	-	-	-	-
Transfers from Stage 3	185	1	547	13	(732)	(14)	-	-
Net remeasurement of ECL arising from transfer of stage		(131)		120		(8)		(19)
Net movement arising from transfer of stage	8,186	3	(8,585)	(30)	399	8	-	(19)
New assets originated or purchased	35,279	6	-	-	-	-	35,279	6
Further lending/(repayments)	(7,459)	(3)	(293)	(1)	(43)	(1)	(7,795)	(5)
Changes in risk parameters in relation to credit quality	-	16	-	1	-	5	-	22
Other items impacting income statement charge/(reversal) (including recoveries)	1	-	-	-	1	(4)	2	(4)
Redemptions	(16,631)	(2)	(1,715)	(14)	(273)	(1)	(18,619)	(17)
Income statement charge for the year								(17)
Decrease due to write-offs	-	-	-	-	(41)	(16)	(41)	(16)
Other provision movements	-	-	-	-	-	4	-	4
4 April 2019	176,023	37	8,479	127	1,438	42	185,940	206
Net carrying amount		175,986		8,352		1,396		185,734

Notes:
i. Gross balances of credit impaired loans include £155 million (2019: £167 million) of POCI loans, which are presented net of lifetime ECL impairment provisions of £6 million (2019: £6 million).
ii. An additional provision for credit losses has been recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. For residential mortgages, the additional provision at 4 April 2020 is £51 million. This additional provision has not been allocated to underlying loans or attributed to stages but is shown in the total column of the table. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Gross balances increased by £2,828 million over the year as a result of positive net lending in specialist residential mortgages.

The stage 2 gross balance increased by £1,116 million, primarily due to net transfers from stage 1 to stage 2 for specialist residential mortgages. The value of transfers between stages 1 and 2 was lower as the prior year values included changes to staging criteria and model assumptions. As the stage of individual loans is assessed monthly, the gross movements between stages 1 and 2 include transfers caused by relatively small changes in PD leading to their breaching the threshold for transferring assets to stage 2 and vice versa.

Credit risk – Residential mortgages (continued)

Total impairment provisions increased by £46 million. The main driver of this increase is the £51 million of additional provision related to Covid-19, offset by the impact of redemptions and write-offs.

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 14 to the financial statements.

Reason for residential mortgages being included in stage 2 (notes i, ii)

2020	**Prime**		**Specialist**		**Total**	
	Gross balances	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Quantitative criteria:						
Payment status (greater than 30 DPD)	**257**	**3**	**257**	**19**	**514**	**22**
Increase in PD since origination (less than 30 DPD)	**1,509**	**5**	**2,697**	**27**	**4,206**	**32**
Qualitative criteria:						
Forbearance (less than 30 DPD)	**165**	**-**	**5**	**-**	**170**	**-**
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**-**	**-**	**4,678**	**71**	**4,678**	**71**
Other qualitative criteria	**22**	**-**	**5**	**-**	**27**	**-**
Total Stage 2 gross balances	**1,953**	**8**	**7,642**	**117**	**9,595**	**125**

Reason for residential mortgages being included in stage 2 (note i)

2019	Prime		Specialist		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m
Quantitative criteria:						
Payment status (greater than 30 DPD)	267	3	213	14	480	17
Increase in PD since origination (less than 30 DPD)	1,613	8	2,186	24	3,799	32
Qualitative criteria:						
Forbearance (less than 30 DPD)	148	1	7	-	155	1
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	4,018	77	4,018	77
Other qualitative criteria	20	-	7	-	27	-
Total Stage 2 gross balances	2,048	12	6,431	115	8,479	127

Notes:
i. Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.
ii. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million has been added to the impairment provisions for residential mortgages. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Credit risk – Residential mortgages (continued)

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 year is 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 £514 million (2019: £480 million). This category includes all loans greater than 30 days past due (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% (2019: <0.1%) of total stage 2 balances.

The primary quantitative indicators are the outputs of internal credit risk assessments. For retail exposures, PDs are derived using modelled scorecards, which use external information such as that from credit reference agencies, as well as internal information such as known instances of arrears or other financial difficulty. While different approaches are used within each portfolio, current and historical data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default.

The credit risk of each loan is evaluated at each reporting date by calculating the residual lifetime PD of each loan. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime probability of default (PD) exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD has increased by at least 75bps and a 4x multiple of the original lifetime PD.

Qualitative indicators are also used to complement the above. These indicators include the increased risk associated with interest only loans which may not be able to refinance at maturity. Also included are forbearance events where full repayment of principal and interest is still anticipated, on a discounted basis. In addition, loans will be moved to stage 2 when certain "backstop" events occur, including arrears of greater than 30 DPD.

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 (notes i and ii)

2020 *(Audited)*	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
PD Range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to < 0.15%	168,240	5,124	103	173,467	33	40	-	73	0.04
0.15 to < 0.25%	4,756	945	23	5,724	3	9	-	12	0.20
0.25 to < 0.50%	2,317	477	35	2,829	2	7	-	9	0.29
0.50 to < 0.75%	1,227	287	12	1,526	1	5	-	6	0.37
0.75 to < 2.50%	1,109	866	54	2,029	1	18	-	19	0.96
2.50 to < 10.00%	105	1,102	111	1,318	-	19	-	19	1.51
10.00 to < 100%	-	794	203	997	-	27	2	29	2.97
100% (default)	-	-	878	878	-	-	34	34	3.80
Total	177,754	9,595	1,419	188,768	40	125	36	201	0.11

Credit risk – Residential mortgages (continued)

Loan balance and provisions by PD (note i)									
2019	Gross balances				Provisions				Provision coverage
(Audited)	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
PD Range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to < 0.15%	165,949	4,278	88	170,315	30	43	-	73	0.04
0.15 to < 0.25%	4,631	731	23	5,385	3	9	-	12	0.23
0.25 to < 0.50%	2,471	490	34	2,995	2	8	-	10	0.33
0.50 to < 0.75%	1,689	270	16	1,975	1	5	-	6	0.29
0.75 to < 2.50%	1,157	879	57	2,093	1	18	-	19	0.93
2.50 to < 10.00%	126	1,057	129	1,312	-	18	1	19	1.45
10.00 to < 100%	-	774	189	963	-	26	3	29	3.00
100% (default)	-	-	902	902	-	-	38	38	4.18
Total	176,023	8,479	1,438	185,940	37	127	42	206	0.11

Notes:
i. Includes POCI loans of £155 million (2019: £167 million).
ii. The £51 million additional Covid-19 provision has not been allocated to underlying loans or attributed to stages and is therefore excluded from this table. The additional provision increases the total provision coverage to 0.13%.

Over the year, the PD distribution has remained stable, reflecting the high quality of the residential mortgage portfolios. At 4 April 2020, 98% (2019: 98%) of the portfolio had a PD of less than 2.5%. 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 year 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)		
	2020	2019
	%	%
Prime:		
First time buyers	**33**	35
Home movers	**24**	25
Remortgages	**20**	25
Other	**1**	1
Total prime	**78**	86
Specialist:		
Buy to let new purchases	**6**	3
Buy to let remortgages	**16**	11
Total specialist	**22**	14
Total new business	**100**	100

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

Credit risk – Residential mortgages (continued)

New business by borrower type remains diversified. During the year there has been a shift in the distribution of new business from prime to specialist lending, reflecting TMW's strong presence in the buy to let market, including lending to limited companies, recognising that landlords are increasingly using these as a vehicle for their investment.

In October 2014, the Financial Policy Committee (FPC) introduced a 15% limit on the proportion of new lending for residential mortgages, excluding buy to let, that may be written at income multiples of 4.5 and above. The proportion of new lending at income multiples of 4.5 or higher was 7.8% in the year (2019: 7.7%). This is closely monitored and controlled to remain within risk appetite and FPC limits.

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)

	2020	2019
	%	%
0% to 60%	**22**	25
60% to 75%	**34**	33
75% to 80%	**7**	7
80% to 85%	**11**	10
85% to 90%	**22**	22
90% to 95%	**4**	3
Over 95%	**-**	-
Total	**100**	100

Average LTV of new business (by value) (note i)

	2020	2019
	%	%
Prime	**74**	73
Specialist (buy to let)	**65**	60
Group	**72**	71

Average LTV of loan stock (by value) (note ii)

	2020	2019
	%	%
Prime	**58**	57
Specialist	**59**	58
Group	**58**	58

Notes:

i. The LTV of new business excludes further advances and product switches.

ii. The average LTV of loan stock includes both amortised cost and FVTPL balances. There have been no new FVTPL advances during the year.

Over the year, the maximum LTV for new prime residential borrowers has remained 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 60% to 65% following a shift towards business on longer terms at higher LTVs. The average indexed LTV of total loan stock has remained stable at 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 2020 *(Audited)*	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	22,883	10,946	7,695	8,033	5,713	3,040	1,606	913	60,829	
50% to 60%	10,973	6,151	4,726	4,051	3,080	1,715	1,004	373	32,073	
60% to 70%	10,701	6,871	6,552	4,180	3,418	2,351	1,386	412	35,871	
70% to 80%	9,018	5,659	5,593	3,795	3,030	2,466	1,085	419	31,065	
80% to 90%	8,360	4,047	3,665	3,448	2,375	1,574	666	346	24,481	
90% to 100%	764	562	249	386	503	269	46	91	2,870	
	62,699	34,236	28,480	23,893	18,119	11,415	5,793	2,554	187,189	99.1
Not fully collateralised										
Over 100% LTV	5	5	16	2	3	6	-	123	160	0.1
Collateral value	*4*	*4*	*13*	*2*	*2*	*6*	*-*	*106*	*137*	
Negative equity	*1*	*1*	*3*	*-*	*1*	*-*	*-*	*17*	*23*	
Total stage 1 and 2 loans	62,704	34,241	28,496	23,895	18,122	11,421	5,793	2,677	187,349	99.2
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	214	81	70	66	40	20	12	11	514	
50% to 60%	109	48	46	32	26	13	9	4	287	
60% to 70%	52	61	53	31	29	19	8	4	257	
70% to 80%	27	48	55	16	20	17	14	6	203	
80% to 90%	16	13	44	7	5	8	8	3	104	
90% to 100%	2	1	15	-	-	3	1	5	27	
	420	252	283	152	120	80	52	33	1,392	0.8
Not fully collateralised										
Over 100% LTV	-	1	4	1	-	1	1	19	27	-
Collateral value	*-*	*1*	*3*	*1*	*-*	*1*	*1*	*16*	*23*	
Negative equity	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*3*	*4*	
Total stage 3 and POCI loans	420	253	287	153	120	81	53	52	1,419	0.8
Total residential mortgages	63,124	34,494	28,783	24,048	18,242	11,502	5,846	2,729	188,768	100.0
Total geographical concentrations	34%	18%	15%	13%	10%	6%	3%	1%	100%	

Risk report (continued)

Credit risk – Residential mortgages (continued)

Residential mortgage gross balances by LTV and region										
2019	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	24,171	10,927	7,408	8,286	5,833	3,104	1,439	970	62,138	
50% to 60%	11,296	6,122	4,382	4,221	3,143	1,714	814	382	32,074	
60% to 70%	10,060	6,743	6,434	3,928	3,385	2,458	1,285	413	34,706	
70% to 80%	8,078	5,498	5,682	3,480	2,757	2,516	1,172	428	29,611	
80% to 90%	5,876	3,331	3,679	2,595	2,019	1,488	744	282	20,014	
90% to 100%	2,645	705	543	916	517	208	167	84	5,785	
	62,126	33,326	28,128	23,426	17,654	11,488	5,621	2,559	184,328	99.1
Not fully collateralised										
Over 100% LTV	5	3	17	1	2	6	2	138	174	0.1
Collateral value	*4*	*3*	*14*	*1*	*1*	*6*	*1*	*118*	*148*	
Negative equity	*1*	-	*3*	-	*1*	-	*1*	*20*	*26*	
Total stage 1 and 2 loans	62,131	33,329	28,145	23,427	17,656	11,494	5,623	2,697	184,502	99.2
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	233	83	61	61	39	23	11	11	522	
50% to 60%	115	50	39	35	25	15	9	5	293	
60% to 70%	54	58	56	31	25	20	9	5	258	
70% to 80%	15	48	57	17	21	17	11	4	190	
80% to 90%	9	14	50	4	3	13	10	4	107	
90% to 100%	3	1	22	1	1	3	3	5	39	
	429	254	285	149	114	91	53	34	1,409	0.8
Not fully collateralised										
Over 100% LTV	-	1	6	-	-	1	1	20	29	-
Collateral value	-	*1*	*5*	-	-	*1*	*1*	*17*	*25*	
Negative equity	-	-	*1*	-	-	-	-	*3*	*4*	
Total stage 3 and POCI loans	429	255	291	149	114	92	54	54	1,438	0.8
Total residential mortgages	62,560	33,584	28,436	23,576	17,770	11,586	5,677	2,751	185,940	100
Total geographical concentrations	34%	18%	15%	13%	10%	6%	3%	1%	100%	

Over the year, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 34% of the total (2019: 34%).

In addition to balances held at amortised cost shown in the table above, there are £71 million (2019: £72 million) of residential mortgages held at FVTPL which have an average LTV of 39% (2019: 40%). The largest geographical concentration within the FVTPL balances is in Greater London, at 49% (2019: 44%).

Credit risk – Residential mortgages (continued)

Arrears and possessions

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

Number of cases more than 3 months in arrears as % of total book (note i)		
	2020	2019
	%	%
Prime	**0.33**	0.35
Specialist	**0.74**	0.82
Total	**0.41**	0.43
UK Finance (UKF) industry average	**0.74**	0.78

Note:
i. 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 monthly contractual payment.

Number of properties in possession as % of total book				
	2020		2019	
	Number of properties	**%**	Number of properties	%
Prime	**98**	**0.01**	78	0.01
Specialist	**150**	**0.05**	153	0.05
Total	**248**	**0.02**	231	0.01
UKF industry average		**0.03**		0.02

During the year, arrears levels have reduced in both the prime and specialist portfolios.

The number of specialist cases more than 3 months in arrears as a percentage of total book includes both TMW (buy to let) and other cases in smaller legacy portfolios which are in run-off. For TMW alone, the number of cases more than 3 months in arrears is 0.27% of the total TMW book (2019: 0.32%).

The reduction in the number of specialist cases more than 3 months in arrears as a percentage of the total book to 0.74% (2019: 0.82%), is 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. If the full contractual payment is not received during the period of the concession the account is classed as forborne and is not considered to be past due.

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	2020				2019			
	Prime	Specialist	Total		Prime	Specialist	Total	
(Audited)	£m	£m	£m	%	£m	£m	£m	%
Not past due	149,387	36,684	186,071	98.5	149,771	33,468	183,239	98.5
Past due 0 to 1 month	1,062	356	1,418	0.8	1,038	392	1,430	0.8
Past due 1 to 3 months	311	307	618	0.3	318	265	583	0.3
Past due 3 to 6 months	177	142	319	0.2	177	159	336	0.2
Past due 6 to 12 months	112	109	221	0.1	122	121	243	0.1
Past due over 12 months	82	81	163	0.1	84	69	153	0.1
Possessions	9	20	29	-	7	21	28	-
Total residential mortgages	151,140	37,699	188,839	100	151,517	34,495	186,012	100

The proportion of loans in arrears has remained stable at 1.5% (2019: 1.5%) and arrears levels remain low across prime and specialist lending, reflecting the low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending. In total, £352 million (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 £352 million (2019: £370 million), £220 million (2019: £233 million) relates to legacy portfolios in run-off.

As at 4 April 2020, the mortgage portfolios include 1,556 (2019: 1,491) mortgage accounts, including those in possession, where payments were more than 12 months in arrears. The total principal outstanding in these cases was £181 million (2019: £165 million), and the total value of arrears was £22 million (2019: £20 million) or 0.01% (2019: 0.01%) of total mortgage balances.

We are providing support to customers who have been financially affected by Covid-19. Payment holidays granted in this respect will suppress the impact of the pandemic on arrears in the short term. Details of payment holidays are given below.

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 (2019: 89%).

Credit risk – Residential mortgages (continued)

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
2020	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Prime	**68**	**258**	**370**	**1,412**	**7,726**	**9,834**	**6.5**
Specialist	**134**	**211**	**334**	**1,236**	**31,737**	**33,652**	**89.3**
Total	**202**	**469**	**704**	**2,648**	**39,463**	**43,486**	**23.0**
2019	£m	£m	£m	£m	£m	£m	%
Prime	69	278	329	1,532	9,288	11,496	7.6
Specialist	133	166	272	1,281	28,785	30,637	88.8
Total	202	444	601	2,813	38,073	42,133	22.7

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 balances from three months after the maturity date.

Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. In addition, we are supporting borrowers financially affected by the Covid-19 pandemic. Further details of this support are provided at the end of this forbearance section.

The Group applies the European Banking Authority (EBA) definition of forbearance.

The following concession events are included within the forbearance reporting for residential mortgages:

Past term interest only concessions

Nationwide works with borrowers who are unable to repay the capital at term expiry of their interest only mortgage. Where a borrower is unable to renegotiate the facility within six months of maturity, but no legal enforcement is pursued, the account is considered forborne. Should another concession event such as a term extension occur within the six month period, this is also classed as forbearance.

Interest only concessions

Where a temporary interest only concession is granted the loans do not accrue arrears for the period of the concession and are not categorised as impaired, unless already impaired, provided the revised interest only repayment amount is maintained.

Credit risk – Residential mortgages (continued)

Capitalisation

When a borrower emerges from financial difficulty and provided they have made at least six full monthly instalments, they are offered the option to capitalise arrears. This results in the account being repaired and the loans are categorised as not impaired provided contractual repayments are maintained.

Capitalisation – temporary suspension of payments following notification of death of borrower

When we are notified of the death of a borrower, we offer a 12 month capitalisation concession to allow time for the estate to redeem the account. The loan does not accrue arrears for the period of the concession although interest will continue to be added. Accounts subject to this concession will be classed as forborne if the full contractual payment is not received.

Term extensions (within term)

Customers in financial difficulty may be allowed to extend the term of their mortgage. On a capital repayment mortgage this will reduce their monthly commitment; interest only borrowers will benefit by having a longer period to repay the capital at maturity.

Permanent interest only conversions

In the past, some borrowers in financial difficulty were granted a permanent interest only conversion, normally reducing their monthly commitment. This facility was withdrawn in March 2012.

The table below provides details of residential mortgages held at amortised cost subject to forbearance. Accounts that are currently subject to forbearance are assessed as in either stage 2 or stage 3:

Gross balances subject to forbearance (note i)	**2020**			2019		
	Prime £m	**Specialist £m**	**Total £m**	Prime £m	Specialist £m	Total £m
Past term interest only (note ii)	**117**	**120**	**237**	122	134	256
Interest only concessions	**533**	**48**	**581**	525	59	584
Capitalisation	**75**	**42**	**117**	42	51	93
Capitalisation – notification of death of borrower	**156**	**60**	**216**	150	-	150
Term extensions (within term)	**34**	**13**	**47**	35	13	48
Permanent interest only conversions	**2**	**35**	**37**	3	33	36
Total forbearance (note iii)	**917**	**318**	**1,235**	877	290	1,167
Impairment provisions on forborne loans	**5**	**12**	**17**	5	11	16

Notes:

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

ii. Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.

iii. For loans subject to concession events, accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months.

Credit risk – Residential mortgages (continued)

Over the year, total balances subject to forbearance have increased to £1,235 million (2019: £1,167 million), which includes an increase in the level of prime mortgage capitalisations agreed for those borrowers who would benefit from this concession, and 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 prior year comparative has been restated to include the accounts impacted by this change to the treatment of deceased accounts. The forborne balances as a percentage of total residential mortgage lending have also increased to 0.65% (2019: 0.62%).

In addition to the amortised cost balances above, there are £71 million FVTPL balances (2019: £72 million), of which £9 million (2019: £4 million) are forborne.

Support for borrowers impacted by Covid-19

We recognise that the impact of Covid-19 is a concern for our borrowers and we are offering them help and support in these challenging times. One way in which we are providing this support is by offering three-month mortgage payment holidays. These are a temporary break from mortgage payments that gives borrowers a period of flexibility where they are experiencing or reasonably expect to experience payment difficulties caused by Covid-19. These payment holidays have no negative impact on the customer's credit file, and in accordance with regulatory guidance, have not been included within the forbearance population and do not automatically have an impact on the reported staging balances.

The following table shows the value of residential mortgages with a payment holiday related to Covid-19 as used in the calculation of the Covid-19 additional provision. Further information is included in note 10 to the financial statements.

Gross balances subject to a payment holiday due to Covid-19			
2020 **(Audited)**	**£m**	**% of gross balance** **%**	**Weighted Average LTV** **%**
Prime	**23,541**	**16**	**63**
Specialist	**5,037**	**13**	**61**
Total	**28,578**	**15**	**62**

The balances included in the table above represent 13% of our prime mortgage lending and 9% of our specialist mortgage lending when calculated on a volume basis.

We are continuing to support borrowers financially affected by the impact of Covid-19. At 30 April, 15% of our prime lending, representing 17% of prime mortgage balances, and 12% of our specialist lending, representing 14% of specialist mortgage balances, have received temporary concessions.

Credit risk – Consumer banking

Summary

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. Over the year, total balances across these portfolios have grown by £408 million to £4,994 million (2019: £4,586 million), equating to 9% growth, and credit quality has remained stable. During the year, personal loan balances have increased by 24% to £3,030 million (2019: £2,449 million), due to a combination of competitive pricing and increased personal loan lending to existing members.

Consumer banking gross balances				
	2020		2019	
(Audited)	**£m**	**%**	£m	%
Overdrawn current accounts	**280**	**5**	324	7
Personal loans	**3,030**	**61**	2,449	53
Credit cards	**1,684**	**34**	1,813	40
Total consumer banking	**4,994**	**100**	4,586	100

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

Impairment losses for the year		
	2020	2019
(Audited)	**£m**	£m
Overdrawn current accounts	**21**	9
Personal loans	**82**	38
Credit cards	**56**	67
Total	**159**	114
	%	%
Impairment charge as a % of average gross balance	**3.27**	2.65

The impairment losses for the year include an additional provision of £43 million, which has been included to reflect the expected impact of Covid-19. The level of this provision reflects the estimated impact on expected credit losses based upon a revised central economic scenario and the credit risk associated with concessions granted in response to Covid-19. The losses also include the impact of continued personal loan book growth.

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

	2020					2019			
(Audited)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Covid-19 additional provision (note i) £m**	**Total £m**	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross balances									
Overdrawn current accounts	**149**	**89**	**42**	**-**	**280**	187	100	37	324
Personal loans	**2,597**	**296**	**137**	**-**	**3,030**	2,140	186	123	2,449
Credit cards	**1,111**	**442**	**131**	**-**	**1,684**	1,211	475	127	1,813
Total	**3,857**	**827**	**310**	**-**	**4,994**	3,538	761	287	4,586
Provisions									
Overdrawn current accounts	**2**	**17**	**37**	**3**	**59**	2	18	33	53
Personal loans	**15**	**33**	**119**	**23**	**190**	11	22	107	140
Credit cards	**15**	**91**	**122**	**17**	**245**	14	92	119	225
Total	**32**	**141**	**278**	**43**	**494**	27	132	259	418
Provisions as a % of total balance	**%**	**%**	**%**		**%**	%	%	%	%
Overdrawn current accounts	**1.75**	**19.06**	**87.02**	**-**	**21.21**	1.30	17.42	89.92	16.37
Personal loans	**0.56**	**11.15**	**86.78**	**-**	**6.27**	0.53	12.11	86.58	5.74
Credit cards	**1.33**	**20.67**	**92.86**	**-**	**14.55**	1.12	19.33	93.61	12.38
Total	**0.82**	**17.09**	**89.39**	**-**	**9.90**	0.77	17.32	90.12	9.11

Note:
i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million has been added to the impairment provisions for consumer banking. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Total gross balances increased to £4,994 million, primarily due to book growth in personal loans. The decreases in overdrawn current account and credit card balances are due to reduced transaction volumes at year end. As at 4 April 2020, 77% (2019: 77%) of the consumer banking portfolio is in stage 1. Over the year, consumer banking balances in stages 2 and 3 have increased in absolute terms, reflecting the growth of the portfolio. The combined stage 2 and 3 proportion of total balances has, however, remained stable at 23% (2019: 23%), reflecting stable underlying credit performance. The majority of the portfolio growth has been in the personal loan portfolio, where the proportion of balances by stage and provisions as a percentage of total balances have remained broadly stable. The increase in the overdrawn current account and credit card provisions as a percentage of balances is a result of additional provisions to reflect the estimated impact of the Covid-19 pandemic on expected credit losses, combined with lower overall gross balances as transaction volumes reduced towards the end of the year.

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 provisions as a percentage of total balances is 5.7% (2019: 5.0%).

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Credit risk – Consumer banking (continued)

The table below summarises the movements in the Group's consumer banking balances held at amortised cost, including the impact of ECL impairment provisions. The movements within the table are an aggregation of monthly movements over the year.

Reconciliation of movements in gross consumer banking balances and impairment provisions

	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2019	3,538	27	761	132	287	259	4,586	418
Stage transfers:								
Transfers from Stage 1 to Stage 2	**(1,505)**	**(25)**	**1,505**	**25**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(15)**	**-**	**(141)**	**(79)**	**156**	**79**	**-**	**-**
Transfers from Stage 2 to Stage 1	**1,334**	**160**	**(1,334)**	**(160)**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**2**	**2**	**14**	**10**	**(16)**	**(12)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(132)**		**189**		**29**		**86**
Net movement arising from transfer of stage	**(184)**	**5**	**44**	**(15)**	**140**	**96**	**-**	**86**
New assets originated or purchased	**2,248**	**26**	**-**	**-**	**-**	**-**	**2,248**	**26**
Further lending/(repayments)	**(1,123)**	**(23)**	**77**	**(11)**	**(27)**	**(16)**	**(1,073)**	**(50)**
Changes in risk parameters in relation to credit quality	**-**	**(3)**	**-**	**38**	**-**	**28**	**-**	**63**
Other items impacting income statement charge/(reversal) (including recoveries)	**1**	**-**	**-**	**-**	**(1)**	**(4)**	**-**	**(4)**
Redemptions	**(623)**	**-**	**(55)**	**(3)**	**(2)**	**(2)**	**(680)**	**(5)**
Additional provision for Covid-19 (note i)								**43**
Income statement charge for the year								159
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(87)**	**(87)**	**(87)**	**(87)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
4 April 2020	**3,857**	**32**	**827**	**141**	**310**	**278**	**4,994**	**494**
Net carrying amount		**3,825**		**686**		**32**		**4,500**

Note:

i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million has been added to the impairment provisions for consumer banking. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Credit risk – Consumer banking (continued)

Reconciliation of movements in gross consumer banking balances and impairment provisions								
	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	3,264	25	575	103	268	237	4,107	365
Stage transfers:								
Transfers from Stage 1 to Stage 2	(1,332)	(22)	1,332	22	-	-	-	-
Transfers to Stage 3	(12)	-	(121)	(76)	133	76	-	-
Transfers from Stage 2 to Stage 1	1,130	125	(1,130)	(125)	-	-	-	-
Transfers from Stage 3	2	2	16	11	(18)	(13)	-	-
Net remeasurement of ECL arising from transfer of stage		(105)		167		19		81
Net movement arising from transfer of stage	(212)	-	97	(1)	115	82	-	81
New assets originated or purchased	1,787	23	-	-	-	-	1,787	23
Further lending/(repayments)	(761)	(15)	126	(8)	(19)	(17)	(654)	(40)
Changes in risk parameters in relation to credit quality	-	(6)	-	41	-	31	-	66
Other items impacting income statement charge/(reversal) (including recoveries)	2	-	-	-	(1)	(13)	1	(13)
Redemptions	(542)	-	(37)	(3)	(2)	-	(581)	(3)
Income statement charge for the year								114
Decrease due to write-offs	-	-	-	-	(74)	(74)	(74)	(74)
Other provision movements	-	-	-	-	-	13	-	13
4 April 2019	3,538	27	761	132	287	259	4,586	418
Net carrying amount		3,511		629		28		4,168

Gross balances increased by £408 million over the year as a result of personal loan lending.

The stage 2 gross balance increased by £66 million reflecting the book growth in personal loans. The stage 2 balance at 4 April 2020 as a proportion of the total balance is consistent with the prior year at 16.6%. As the stage of individual loans is assessed monthly, the gross movements between stages 1 and 2 include transfers caused by relatively small changes in PD leading to their breaching the threshold for transferring assets to stage 2 and vice versa.

Credit risk – Consumer banking (continued)

Total impairment provisions increased by £76 million. £43 million of the increase relates to the additional provision related to Covid-19, with the majority of the remaining increase reflecting the growth in personal loans. Excluding the additional Covid-19 amount, total provisions as a percentage of total gross balances at 4 April 2020 is 9.0%, in line with the prior year (2019: 9.1%).

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 14 to the financial statements.

Reason for consumer banking balances being included in stage 2 (note i)

2020	**Overdrawn current accounts**		**Personal loans**		**Credit cards**		**Total**	
	Gross balances	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Quantitative criteria:								
Payment status (greater than 30 DPD) (note ii)	**4**	**3**	**12**	**5**	**7**	**5**	**23**	**13**
Increase in PD since origination (less than 30 DPD)	**74**	**13**	**278**	**28**	**399**	**78**	**751**	**119**
Qualitative criteria:								
Forbearance (less than 30 DPD) (note iii)	**2**	**-**	**-**	**-**	**-**	**-**	**2**	**-**
Other qualitative criteria (less than 30 DPD)	**9**	**1**	**6**	**-**	**36**	**8**	**51**	**9**
Total Stage 2 gross balances	**89**	**17**	**296**	**33**	**442**	**91**	**827**	**141**

Reason for consumer banking balances being included in stage 2

2019	Overdrawn current accounts		Personal loans		Credit cards		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
Quantitative criteria:								
Payment status (greater than 30 DPD) (note ii)	3	2	9	4	6	4	18	10
Increase in PD since origination (less than 30 DPD)	84	14	172	18	414	76	670	108
Qualitative criteria:								
Forbearance (less than 30 DPD) (note iii)	2	1	-	-	-	-	2	1
Other qualitative criteria (less than 30 DPD)	11	1	5	-	55	12	71	13
Total Stage 2 gross balances	100	18	186	22	475	92	761	132

Notes:

i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million has been added to the impairment provisions for consumer banking. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

ii. 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.

iii. Stage 2 forbearance relates to cases where full repayment of principal and interest is still anticipated, on a discounted basis.

Credit risk – Consumer banking (continued)

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. Of the £827 million stage 2 balances (2019: £761 million), only 3% (2019: 2%) are in arrears by 30 days or more, with the majority of balances in stage 2 due to an increase in PD since origination. For the personal loan portfolio, the increase in PD since origination includes the impact of the annual recalibration of the model. 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 regulatory requirements.

The primary quantitative indicators are the outputs of internal credit risk assessments. For retail exposures, PDs are derived using modelled scorecards, which use external information such as that from credit reference agencies as well as internal information such as known instances of arrears or other financial difficulty. While different approaches are used within each portfolio, current and historic data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default.

The credit risk of each loan is evaluated at each reporting date by calculating its residual lifetime PD. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD has increased by at least 75 basis points and a 4x multiple of the original lifetime PD.

Qualitative criteria include both forbearance events and, within the credit card portfolio, recognition of the risk related to borrowers in persistent debt. In addition, loans are moved to stage 2 when certain "backstop" events occur, including arrears of greater than 30 days past due.

Credit quality

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

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

Consumer banking gross balances and provisions by PD (note i)

2020 *(Audited)*	**Gross balances**				**Provisions**				**Provision coverage**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
PD range	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
0.00 to <0.15%	934	4	-	938	3	-	-	3	0.36
0.15 to < 0.25%	479	6	-	485	2	-	-	2	0.40
0.25 to < 0.50%	719	19	-	738	3	1	-	4	0.61
0.50 to < 0.75%	376	26	-	402	2	2	-	4	1.05
0.75 to < 2.50%	970	205	-	1,175	11	18	-	29	2.44
2.50 to < 10.00%	371	378	1	750	10	54	-	64	8.47
10.00 to < 100%	8	189	4	201	1	66	3	70	34.51
100% (default)	-	-	305	305	-	-	275	275	90.28
Total	**3,857**	**827**	**310**	**4,994**	**32**	**141**	**278**	**451**	**9.02**

Note:

i. The £43 million additional Covid-19 provision has not been allocated to underlying loans or attributed to stages and is therefore excluded from this table. The additional provision increases the total provision coverage to 9.90%.

Credit risk – Consumer banking (continued)

Consumer banking gross balances and provisions by PD									
2019 *(Audited)*	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
PD range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to <0.15%	1,016	5	-	1,021	3	-	-	3	0.29
0.15 to < 0.25%	364	9	-	373	1	1	-	2	0.48
0.25 to < 0.50%	542	24	-	566	2	2	-	4	0.74
0.50 to < 0.75%	332	26	-	358	2	2	-	4	1.19
0.75 to < 2.50%	911	190	-	1,101	9	21	-	30	2.71
2.50 to < 10.00%	366	349	1	716	9	53	-	62	8.74
10.00 to < 100%	7	158	4	169	1	53	2	56	33.19
100% (default)	-	-	282	282	-	-	257	257	90.98
Total	3,538	761	287	4,586	27	132	259	418	9.11

The credit quality of the consumer banking portfolio has remained broadly stable, benefiting from the continued low interest rate environment, with 90% of the portfolio (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.

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										
	2020					2019				
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**		Overdrawn current accounts	Personal loans	Credit cards	Total	
(Audited)	**£m**	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
Not past due	**226**	**2,830**	**1,528**	**4,584**	**91.8**	279	2,282	1,667	4,228	92.2
Past due 0 to 1 month	**11**	**53**	**23**	**87**	**1.7**	8	37	18	63	1.3
Past due 1 to 3 months	**5**	**12**	**13**	**30**	**0.6**	4	11	12	27	0.6
Past due 3 to 6 months	**4**	**11**	**9**	**24**	**0.5**	3	8	11	22	0.5
Past due 6 to 12 months	**3**	**14**	**2**	**19**	**0.4**	3	15	2	20	0.4
Past due over 12 months	**3**	**12**	**-**	**15**	**0.3**	3	14	-	17	0.4
Charged off (note i)	**28**	**98**	**109**	**235**	**4.7**	24	82	103	209	4.6
Total	**280**	**3,030**	**1,684**	**4,994**	**100**	324	2,449	1,813	4,586	100

Note:

i. Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

Credit risk – Consumer banking (continued)

Total balances subject to arrears, excluding charged off balances, have increased to £175 million (2019: £149 million). The largest increase is in personal loans, reflecting the growth of this portfolio over the year. Balances on accounts in arrears excluding charged off balances have remained broadly stable at 3.8% (2019: 3.4%).

Payment holidays which have been granted in respect of Covid-19 will suppress the impact of the pandemic on arrears in the short term.

Forbearance

Nationwide is committed to supporting customers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. In addition, we are supporting borrowers financially affected by the Covid-19 pandemic. Further details of this support are provided at the end of this forbearance section.

The Group applies the European Banking Authority definition of forbearance.

The following concession events are included within the forbearance reporting for consumer banking:

Payment concession

This concession consists of reduced monthly payments over an agreed period and may be offered to customers with an overdraft or credit card. For credit cards subject to such a concession, arrears do not increase provided the payments are made.

Interest suppressed payment arrangement

This temporary interest payment concession results in reduced monthly payments and may be offered to customers with an overdraft, credit card or personal loan. Interest payments and fees are suppressed during the period of the concession and arrears do not increase. Cases subject to this concession are classified as impaired.

Balances re-aged/re-written

As customers repay their debt in line with the terms of their new arrangement, we will restate their accounts, bringing them into an up-to-date and performing position. For personal loans we will re-write their account over a longer term, to maintain a reduced monthly payment. For credit cards we re-age the account and set the payment status to ‘up-to-date’, at which point the customer is treated in the same way as any other performing account.

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

Credit risk – Consumer banking (continued)

Gross balances subject to forbearance (note i)

	2020				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
Payment concession	**14**	**-**	**1**	**15**	16	-	2	18
Interest suppressed payment concession	**7**	**39**	**15**	**61**	6	34	15	55
Balance re-aged/re-written	**-**	**1**	**3**	**4**	-	1	3	4
Total forbearance	**21**	**40**	**19**	**80**	22	35	20	77
Impairment provisions on forborne loans	**12**	**27**	**13**	**52**	12	29	14	55

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

Over the year, total balances subject to forbearance have increased slightly to £80 million (2019: £77 million), with forborne balances as a percentage of the total consumer banking lending improving to 1.6% (2019: 1.7%), largely as a result of book growth.

Support for borrowers impacted by Covid-19

We recognise that the impact of Covid-19 is a concern for our consumer banking customers, and we are offering them help and support in these challenging times by introducing several additional concession tools intended to support borrowers who have been financially affected by the coronavirus pandemic. These include the creation of payment holidays on credit cards and personal loans, allowing borrowers to temporarily reduce payments to a nominal amount for 3 months following successful application. Overdraft charges have been reduced for a period of 3 months from 39.9% APR to 18.9% and all customers with current accounts can also apply for an interest free overdraft for 3 months. There will be no negative impacts on the customer's credit file as a result of these measures, and in accordance with regulatory guidance, these concessions are not included within the forbearance population above and do not automatically impact the reported staging balances.

The following table shows the value of consumer credit products with a payment holiday or using an interest free period related to Covid-19 as used to calculate the Covid-19 additional provision. Further information is included in note 10 to the financial statements.

Gross balances subject to a payment or interest holiday due to Covid-19

2020 ***(Audited)***	**£m**	**% of gross balance %**
Payment Holiday		
Personal Loans	**225**	**7**
Credit Cards	**64**	**4**
Interest Holiday		
Current Accounts	**8**	**3**
Total	**297**	**6**

During April, we have continued to support those borrowers financially affected by the impact of Covid-19 and at 30 April the balances subject to a payment or interest holiday represented 7.7% of gross balances.

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.

Commercial and other lending gross balances		
	2020	2019
(Audited)	**£m**	£m
Registered social landlords (note i)	**5,425**	5,980
Commercial real estate (CRE)	**996**	1,383
Project finance (note ii)	**712**	807
Other lending	**-**	8
Commercial and other lending balances at amortised cost	**7,133**	8,178
Fair value adjustment for micro hedged risk (note iii)	**741**	883
Commercial lending balances – FVTPL	**57**	57
Total	**7,931**	9,118

Notes:
i. Loans to registered social landlords are secured on residential property.
ii. Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts under the Private Finance Initiative.
iii. Micro hedged risk relates to loans hedged on an individual basis.

Over the year, total balances across the commercial portfolios have reduced, reflecting run-off of the closed CRE and project finance books, with borrowers repaying loans at or before loan maturity. As the portfolio balances have reduced, the quality and performance of the portfolios has remained stable. In the registered social landlord portfolio, reductions are due to early repayments and amortisation, and reflect that there has been no material new lending.

Impairment (reversals)/losses for the year for commercial and other lending		
	2020	2019
(Audited)	**£m**	£m
Total	**(3)**	**16**

The £3 million impairment reversal for the year primarily relates to a single credit exposure, where an improved outlook has driven a positive reassessment of potential future losses, offset by a £7 million additional provision to reflect the expected impact of Covid-19 on credit losses. The level of this additional provision reflects the estimated impact based upon a revised central economic scenario and the extent of concessions granted in response to Covid-19.

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

	2020					2019			
	Stage 1	**Stage 2**	**Stage 3**	**Covid-19 additional provision (note i)**	**Total**	Stage 1	Stage 2	Stage 3	Total
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross balances									
Registered social landlords	**5,385**	**40**	**-**	**-**	**5,425**	5,923	57	-	5,980
CRE	**791**	**155**	**50**	**-**	**996**	1,122	213	48	1,383
Project finance	**616**	**73**	**23**	**-**	**712**	754	29	24	807
Other lending	**-**	**-**	**-**	**-**	**-**	8	-	-	8
Total	**6,792**	**268**	**73**	**-**	**7,133**	7,807	299	72	8,178
Provisions									
Registered social landlords	**1**	**-**	**-**	**-**	**1**	1	-	-	1
CRE	**2**	**2**	**18**	**7**	**29**	2	2	18	22
Project finance	**-**	**1**	**9**	**-**	**10**	1	-	17	18
Other lending	**-**	**-**	**-**	**-**	**-**	-	-	-	-
Total	**3**	**3**	**27**	**7**	**40**	4	2	35	41
Provisions as a % of total balance	**%**	**%**	**%**	**%**	**%**	%	%	%	%
Registered social landlords	**0.02**	**0.12**	**-**	**-**	**0.02**	0.02	0.18	-	0.02
CRE	**0.25**	**1.29**	**36.00**	**-**	**2.91**	0.19	0.96	37.11	1.58
Project finance	**-**	**1.37**	**39.13**	**-**	**1.40**	0.15	0.97	71.54	2.20
Other lending	**-**	**-**	**-**	**-**	**-**	-	-	-	-
Total	**0.04**	**1.12**	**36.99**	**-**	**0.56**	0.05	0.81	48.74	0.50

Note:

i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £7 million has been added to the impairment provisions for commercial lending. This additional provision has not been allocated to underlying loans and therefore has not been attributed to stages. Further detail on the calculation of the additional provision is given in note 10 to the financial statements.

Over the year, the performance of the commercial portfolio has remained stable, with 95% (2019: 95%) of balances remaining in stage 1. Of the £268 million (2019: £299 million) stage 2 loans, which represent 3.8% (2019: 3.7%) of total balances, less than £1 million (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% (2019: 1%) of the exposure is in stage 2.

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 £50 million (2019: £48 million) equating to 5% (2019: 3%) of the total CRE exposure.

Credit risk – Commercial and other lending (continued)

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. During the year, the project finance stage 3 provisions have reduced to £9 million (2019: £17 million) reflecting an improved outlook for one impaired case.

Credit quality

Nationwide applies robust credit management policies and processes to identify and manage the risks arising from the portfolio.

The following table shows the CRE portfolio by risk grade and the provision coverage for each category. The table includes balances held at amortised cost only.

CRE gross balances by risk grade and provision coverage (note i)

	2020					2019				
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Provision coverage**	Stage 1	Stage 2	Stage 3	Total	Provision coverage
(Audited)	**£m**	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
Strong	**433**	**18**	**-**	**451**	**0.1**	676	57	-	733	0.3
Good	**289**	**67**	**-**	**356**	**0.6**	381	76	-	457	0.1
Satisfactory	**69**	**10**	**-**	**79**	**1.7**	65	8	-	73	0.4
Weak	**-**	**60**	**-**	**60**	**1.2**	-	72	-	72	1.4
Impaired	**-**	**-**	**50**	**50**	**36.2**	-	-	48	48	37.1
Total	**791**	**155**	**50**	**996**	**2.3**	1,122	213	48	1,383	1.6

Note:
i. The £7 million additional Covid-19 provision has not been allocated to underlying loans or attributed to stages and is therefore excluded from this table. The additional provision increases the total provision coverage to 2.91%

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, principally due to early redemptions, the credit quality of the portfolio has remained broadly stable, with 89% (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 90% of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model with the major drivers being financial strength, 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 in the portfolio, the credit quality remains high, with an average 12-month PD of 0.04% across the portfolio.

In addition to the above, £57 million (2019: £57 million) of commercial lending balances are classified as FVTPL, of which £54 million (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)

	2020			2019		
	London	Rest of UK	Total	London	Rest of UK	Total
(Audited)	£m	£m	£m	£m	£m	£m
Fully collateralised						
LTV ratio (note ii):						
Less than 25%	62	59	121	89	70	159
25% to 50%	315	254	569	559	298	857
51% to 75%	167	115	282	181	175	356
76% to 90%	3	43	46	1	20	21
91% to 100%	-	-	-	1	6	7
	547	471	1,018	831	569	1,400
Not fully collateralised:						
Over 100% LTV	-	32	32	-	36	36
Collateral value	-	*19*	*19*	-	*19*	*19*
Negative equity	-	*13*	*13*	-	*17*	*17*
Total CRE loans	547	503	1,050	831	605	1,436
Geographical concentration	52%	48%	100%	58%	42%	100%

Notes:

i. 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.

ii. The approach to revaluing assets charged as security is determined by the industry sector, the loan balance outstanding and the indexed value of the most recent independent external collateral valuation, with higher risk loans subject to more frequent revaluations to determine provision requirements. The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value. The Investment Property (IPD) monthly index is used.

Changes to the regional distribution of the CRE portfolio reflect the managed reduction of the portfolio, with 52% (2019: 58%) of the CRE exposure now being secured against assets located in London. As the portfolio reduces, the LTV distribution of the CRE balances has also changed, with 93% (2019: 96%) of the portfolio now having an LTV of 75% or less, and 66% (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

The following table includes balances held at amortised cost only.

CRE lending gross balances and provisions by industry sector (note i)	2020		2019	
	Gross balances £m	**Provisions £m**	Gross balances £m	Provisions £m
Retail	**202**	**3**	274	1
Office	**222**	**12**	281	11
Residential	**419**	**1**	625	3
Industrial and warehouse	**56**	**2**	74	-
Leisure and hotel	**84**	**-**	110	1
Other	**13**	**4**	19	6
Total CRE lending	**996**	**22**	1,383	22

Note:
i. The £7 million additional Covid-19 provision has not been allocated to underlying loans and is therefore excluded from this table.

Credit risk exposure by industry sector is broadly unchanged from the prior year, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 42% (2019: 45%) of the total CRE portfolio balance. Over the year, our exposure to retail assets has reduced to £202 million (2019: £274 million), with a weighted average LTV of 53% (2019: 46%). Exposure to the leisure and hotel sector has also reduced to £84 million (2019: £110 million), with a weighted average LTV of 46% (2019: 49%).

In addition to the amortised cost balances included in the table above, there are £54 million (2019: £53 million) of FVTPL commercial lending balances, of which £42 million (2019: £42 million) relates to the office sector and £12 million (2019: £12 million) relates to the retail sector.

CRE balances by payment due status

Of the £1,050 million (2019: £1,436 million) CRE exposure, including FVTPL balances, £14 million (2019: £24 million) relates to balances with arrears. Of these, £6 million (2019: £2 million) have arrears greater than 3 months, driven principally by one case which has exceeded its contractual maturity date, and where an exit strategy is being pursued.

Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. In addition, we are supporting borrowers financially affected by the Covid-19 pandemic. Further details of this support are provided at the end of this forbearance section.

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

For commercial customers in financial difficulty, the following concession events are included within forbearance reporting:

Credit risk – Commercial and other lending (continued)

Refinance

Debt restructuring, either mid-term or at maturity, will be considered where asset sales or external refinance cannot be secured to repay facilities in full and where a restructure is considered to provide the best debt recovery outcome for both the customer and Nationwide.

Interest concession

The temporary postponement of interest or a reduction to the interest rate charged, during which period the loans do not accrue arrears, may be considered where the customer is experiencing payment difficulties.

Capital concession

Capital concessions consist of temporary suspensions to capital repayments to allow the customer time to overcome payment difficulties, the full or partial consolidation of previous payment arrears or the partial write-off of debt.

Security amendment

Where a customer seeks the release of assets charged to Nationwide as security for their commercial loan, this will be treated as forbearance where Nationwide's position is weakened in terms of either the loan to value of the remaining exposure or the level of interest cover available.

Extension at maturity

Customers who are unable to repay the loan at term expiry may be given short term maturity extensions to allow them time to negotiate the repayment of facilities in full either via asset sales or external refinance.

Breach of covenant

Where a customer is unable to comply with either financial or non-financial covenants, as specified in their loan agreement, a temporary waiver or amendment to the covenants will be considered, as appropriate.

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

Gross balances subject to forbearance (note i)		
	2020 **£m**	2019 £m
Refinance	**43**	44
Modifications:		
Payment concession	**31**	2
Security amendment	**8**	6
Extension at maturity	**19**	12
Breach of covenant	**126**	122
Total	**227**	186
Total impairment provision on forborne loans	**14**	23

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

Credit risk – Commercial and other lending (continued)

During the year, amortised cost balances subject to forbearance have increased, principally reflecting the support measures put in place as we manage the runoff of the CRE portfolio. The reduction in the total impairment provision on forborne loans to £14 million (2019: £23 million) principally reflects an improved outlook for one impaired case.

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

Support for borrowers impacted by Covid-19

We recognise the impact of Covid-19 on our commercial customers, and we are offering them help and support in these challenging times. Temporary measures granted, to give our customers a period of flexibility, include 3 month capital and interest repayment holidays, 6 month capital repayment holidays and extensions at loan maturity of up to 12 months. In accordance with regulatory guidance, these concessions are not included within the forbearance population above and do not automatically have an impact on the reported staging of balances.

No concessions have been required in the registered social landlord or project finance portfolios.

The following table shows the value of the CRE portfolio with a concession related to Covid-19 at the balance sheet date:

Gross CRE balances subject to a concession due to Covid-19 (note i)			
2020			
(Audited)		**% of book**	**Weighted Average LTV**
	£m	**%**	**%**
3 month capital and interest repayment holiday	**112**	**11.2**	**49**
6 month capital repayment holiday	**96**	**9.7**	**41**
Extension at maturity	**1**	**0.1**	**29**
3 month capital and interest repayment holiday and extension	**1**	**0.1**	**38**
6 month capital repayment holiday and extension	**4**	**0.4**	**37**
Total	**214**	**21.5**	**45**

Note:
i. Where a concession is granted on a commercial loan, the total exposure to the borrower is reported in the table above.

Balances subject to Covid-19 related temporary measures, at £214 million, represent 21.5% of the CRE portfolio balances and 11% of our CRE borrowers. The cases that have received these temporary concessions have a weighted average LTV of 45%, and only £2.2 million of loan balances have an LTV greater than 65%. Concessions have been agreed across all industry sectors, with a weighting towards the residential sector, which accounts for 47% of the balances subject to a concession due to Covid-19, reflecting the portfolio concentration to this industry sector.

We are continuing to support borrowers financially affected by the impact of Covid-19 and at 30 April 2020, 21% of our CRE borrowers, representing 40% of CRE portfolio balances, had received temporary concessions.

Credit risk – Treasury assets

Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 4 April 2020 treasury assets represented 17.0% (2019: 15.2%) of total assets. There are no exposures to emerging markets, hedge funds or credit default swaps.

Investment activity remains restricted to high quality liquid assets, including assets eligible for central bank operations. The size of the portfolio has increased, predominantly from higher government bond holdings that now include exposure to Japan and several Canadian issuers; no changes in policy or risk appetite are proposed as a result of Covid-19. Derivatives are used to economically hedge financial risks inherent in core lending and funding activities and are not used for trading or speculative purposes.

This table shows the classification of treasury asset balances:

Treasury asset balances

(Audited)	Classification	2020 £m	2019 £m
Cash	Amortised cost	**13,748**	12,493
Loans and advances to banks and similar institutions	Amortised cost	**3,636**	4,009
Investment securities	FVOCI	**18,367**	14,500
Investment securities	FVTPL	**12**	78
Investment securities	Amortised cost	**1,625**	1,656
Liquidity and investment portfolio		**37,388**	32,736
Derivative instruments (note i)	FVTPL	**4,771**	3,562
Treasury assets		**42,159**	36,298

Note:
i. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. As at 4 April 2020, derivative liabilities were £1,924 million (2019: £1,593 million).

Managing treasury credit risks

Credit risk within the treasury portfolio arises primarily from the instruments held and transacted by the Treasury function for operational, liquidity and investment purposes. In addition, counterparty credit risk arises from the use of derivatives to reduce exposure to market risks; these are only transacted with highly rated organisations and are collateralised under market standard documentation. The treasury credit risk function manages all aspects of credit risk in accordance with the Society's risk governance frameworks, under the supervision of the Credit Committee.

A monthly review is undertaken of the current and expected future performance of treasury assets that determines expected credit loss (ECL) provision requirements. There were no impairment losses for the year ended 4 April 2020 (2019: £nil). For financial assets classified as FVTPL, no provisions are calculated as credit risk is reflected in the carrying value of the asset; no additional provision information is therefore disclosed in respect of these assets. For financial assets held at amortised cost or at FVOCI, reflecting the credit quality of treasury assets, all exposures within the table below are classified as stage 1. There are no assets in stage 2 (2019: £1.5 million) or stage 3.

Credit risk – Treasury assets (continued)

Impairment provisions on treasury assets				
	2020		2019	
	Gross balances	**Provisions**	Gross balances	Provisions
(Audited)	**£m**	**£m**	£m	£m
Loans and advances to banks and similar institutions	**3,636**	**-**	4,009	-
Investment securities – FVOCI	**18,367**	**-**	14,500	-
Investment securities – amortised cost	**1,625**	**-**	1,656	-

Liquidity and investment portfolio

The liquidity and investment portfolio of £37,388 million (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)									
2020		**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Other**
(Audited)	**£m**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Liquid assets:									
Cash and reserves at central banks	**13,748**	**-**	**100**	**-**	**-**	**100**	**-**	**-**	**-**
Government bonds (note ii)	**14,914**	**34**	**58**	**8**	**-**	**47**	**25**	**16**	**12**
Supranational bonds	**983**	**87**	**13**	**-**	**-**	**-**	**-**	**-**	**100**
Covered bonds (note iii)	**1,583**	**100**	**-**	**-**	**-**	**68**	**-**	**16**	**16**
Residential mortgage backed securities (RMBS)	**483**	**100**	**-**	**-**	**-**	**72**	**-**	**28**	**-**
Asset backed securities (other)	**351**	**100**	**-**	**-**	**-**	**59**	**-**	**41**	**-**
Liquid assets total	**32,062**	**26**	**70**	**4**	**-**	**70**	**11**	**9**	**10**
Other securities (note iv):									
RMBS FVOCI	**17**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**
RMBS amortised cost	**1,625**	**83**	**12**	**5**	**-**	**100**	**-**	**-**	**-**
Other investments (note v)	**48**	**-**	**62**	**-**	**38**	**38**	**-**	**62**	**-**
Other securities total	**1,690**	**81**	**13**	**4**	**2**	**98**	**-**	**2**	**-**
Loans and advances to banks and similar institutions	**3,636**	**-**	**79**	**20**	**1**	**92**	**3**	**4**	**1**
Total	**37,388**	**26**	**69**	**5**	**-**	**73**	**10**	**9**	**8**

Credit risk – Treasury assets (continued)

Liquidity and investment portfolio by credit rating (note i)									
2019		AAA	AA	A	Other	UK	US	Europe	Other
(Audited)	£m	%	%	%	%	%	%	%	%
Liquid assets:									
Cash and reserves at central banks	12,493	-	100	-	-	100	-	-	-
Government bonds (note ii)	11,581	29	71	-	-	63	23	14	-
Supranational bonds	725	100	-	-	-	-	-	-	100
Covered bonds (note iii)	1,202	100	-	-	-	59	-	18	23
Residential mortgage backed securities (RMBS)	556	100	-	-	-	54	-	46	-
Asset backed securities (other)	258	100	-	-	-	49	-	51	-
Liquid assets total	26,815	23	77	-	-	78	10	8	4
Other securities (note iv):									
RMBS FVOCI	142	35	20	45	-	100	-	-	-
RMBS amortised cost	1,656	84	6	8	2	100	-	-	-
Other investments (note v)	114	-	29	52	19	19	52	29	-
Other securities total	1,912	75	9	13	3	95	3	2	-
Loans and advances to banks and similar institutions	4,009	-	51	49	-	86	7	6	1
Total	32,736	24	70	6	-	80	9	8	3

Notes:
i. Ratings used are obtained from Standard & Poor's (S&P) and from Moody's or Fitch if no S&P rating is available. For loans and advances to banks and similar institutions, internal ratings are used.
ii. Balances classified as government bonds include government guaranteed and agency bonds.
iii. Prior year ratings have been restated to be consistent with the current year presentation.
iv. Includes RMBS (UK buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).
v. Includes investment securities held at FVTPL of £12 million (2019: £78 million).

Credit risk – Treasury assets (continued)

Country exposures

This table summarises the exposure (shown at the balance sheet carrying value) to institutions outside the UK. None of the exposures were in stage 2 or 3 as at 4 April 2020:

Country exposures 2020	**Government bonds**	**Mortgage backed securities**	**Covered bonds**	**Supranational bonds**	**Loans and advances to banks and similar institutions**	**Other assets**	**Total**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Austria	**369**	**-**	**-**	**-**	**-**	**-**	**369**
Belgium	**390**	**-**	**-**	**-**	**-**	**-**	**390**
Finland	**381**	**-**	**25**	**-**	**-**	**-**	**406**
France	**265**	**-**	**22**	**-**	**-**	**30**	**317**
Germany	**639**	**-**	**31**	**-**	**162**	**144**	**976**
Ireland	**44**	**-**	**-**	**-**	**-**	**-**	**44**
Netherlands	**194**	**133**	**-**	**-**	**-**	**-**	**327**
Spain	**-**	**-**	**-**	**-**	**1**	**-**	**1**
Total Eurozone	**2,282**	**133**	**78**	**-**	**163**	**174**	**2,830**
USA	**3,703**	**-**	**-**	**-**	**94**	**-**	**3,797**
Rest of world (note i)	**1,958**	**-**	**424**	**983**	**43**	**-**	**3,408**
Total	**7,943**	**133**	**502**	**983**	**300**	**174**	**10,035**

Country exposures 2019	Government bonds	Mortgage backed securities	Covered bonds	Supranational bonds	Loans and advances to banks and similar institutions	Other assets	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m
Belgium	208	-	-	-	-	-	208
Finland	244	-	24	-	-	-	268
France	185	-	-	-	24	33	242
Germany	673	-	15	-	190	132	1,010
Netherlands	178	255	-	-	-	-	433
Spain	-	-	-	-	18	-	18
Total Eurozone	1,488	255	39	-	232	165	2,179
USA	2,642	-	-	-	265	59	2,966
Rest of world (note i)	140	-	455	725	60	-	1,380
Total	4,270	255	494	725	557	224	6,525

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 year. The fair value of derivative assets as at 4 April 2020 was £4.8 billion (2019: £3.6 billion) and the fair value of derivative liabilities was £1.9 billion (2019: £1.6 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. Market standard CSA collateral allows GBP, EUR and USD cash, and in some cases, extends to high grade sovereign debt securities; both cash and securities are currently held as collateral by the Society.

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

Under the terms of CSA netting agreements, outstanding transactions with the same counterparty can be offset and settled on a net basis following a default, or another predetermined event. Under these arrangements, netting benefits of £1.6 billion (2019: £1.4 billion) were available and £3.0 billion of collateral (2019: £2.1 billion) was held.

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

Derivative credit exposure								
	2020				2019			
Counterparty credit quality	**AA**	**A**	**BBB**	**Total**	AA	A	BBB	Total
(Audited)	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross positive fair value of contracts as reported on the balance sheet	**1,470**	**3,291**	**10**	**4,771**	1,096	2,460	6	3,562
Netting benefits	**(481)**	**(1,157)**	**(10)**	**(1,648)**	(350)	(1,007)	(6)	(1,363)
Net current credit exposure	**989**	**2,134**	**-**	**3,123**	746	1,453	-	2,199
Collateral (cash)	**(982)**	**(1,924)**	**-**	**(2,906)**	(732)	(1,398)	-	(2,130)
Collateral (securities)	**-**	**(91)**	**-**	**(91)**				
Net derivative credit exposure	**7**	**119**	**-**	**126**	14	55	-	69

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Liquidity and funding risk

Summary

Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and external stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage excessive concentrations of funding types.

Liquidity and funding risks are managed within a comprehensive risk framework which includes policies, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that Nationwide maintains stable and diverse funding sources and a sufficient holding of high quality liquid assets such that there is no significant risk that liabilities cannot be met as they fall due.

Liquidity and funding levels continued to be within Board risk appetite and regulatory requirements throughout the year. This includes the Liquidity Coverage Ratio (LCR), which ensures that sufficient high-quality liquid assets are held to survive a short term severe but plausible liquidity stress. Nationwide's average LCR over the 12 months ending 4 April 2020 increased to 152% (2019: 143%). The LCR as at 4 April 2020 was 163% (2019: 150%). Nationwide continues to manage its liquidity against its 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 4 April 2020 was 134% (2019: 130%) which exceeds the expected 100% minimum future requirement.

Funding risk

Funding strategy

Nationwide's funding strategy is to remain predominantly retail funded, as set out below.

Funding profile

Assets (note i)	**2020 £bn**	2019 £bn	**Liabilities**	**2020 £bn**	2019 £bn
Retail mortgages	**188.6**	185.8	Retail funding	**159.7**	154.0
Treasury assets (including liquidity portfolio)	**37.4**	32.7	Wholesale funding	**62.3**	61.2
Commercial lending	**7.9**	9.1	Other liabilities	**3.5**	3.0
Consumer lending	**4.5**	4.2	Capital and reserves (note ii)	**22.5**	20.1
Other assets	**9.6**	6.5			
	248.0	238.3		**248.0**	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 4 April 2020, Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 122.4% (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 enough contingent funding capacity is retained in the event of a stress.

Wholesale funding has increased by £1.1 billion to £62.3 billion during the year. The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) was 28.5% at 4 April 2020 (2019: 28.6%).

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

Wholesale funding by currency	2020						2019					
	GBP £bn	**EUR £bn**	**USD £bn**	**Other £bn**	**Total £bn**	**% of total**	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total
Repos	**0.5**	**0.1**	**-**	**-**	**0.6**	**1**	0.4	0.3	0.1	-	0.8	1
Deposits	**6.2**	**1.2**	**1.3**	**-**	**8.7**	**14**	6.0	1.2	0.1	-	7.3	12
Certificates of deposit	**1.5**	**0.4**	**0.1**	**-**	**2.0**	**3**	3.2	1.1	0.5	-	4.8	8
Commercial paper	**-**	**-**	**1.6**	**-**	**1.6**	**3**	-	0.3	2.9	-	3.2	5
Covered bonds	**5.0**	**13.4**	**0.8**	**0.6**	**19.8**	**31**	3.8	12.9	-	0.1	16.8	28
Medium term notes	**1.9**	**2.5**	**2.2**	**0.6**	**7.2**	**12**	2.0	3.0	1.9	0.6	7.5	12
Securitisations	**2.2**	**0.9**	**1.1**	**-**	**4.2**	**7**	0.7	1.1	1.2	-	3.0	5
Term Funding Scheme (TFS)	**17.0**	**-**	**-**	**-**	**17.0**	**27**	17.0	-	-	-	17.0	28
Other	**0.2**	**0.8**	**0.2**	**-**	**1.2**	**2**	0.2	0.6	-	-	0.8	1
Total	**34.5**	**19.3**	**7.3**	**1.2**	**62.3**	**100**	33.3	20.5	6.7	0.7	61.2	100

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 2020	**Not more than one month £bn**	**Over one month but not more than three months £bn**	**Over three months but not more than six months £bn**	**Over six months but not more than one year £bn**	**Subtotal less than one year £bn**	**Over one year but not more than two years £bn**	**Over two years £bn**	**Total £bn**
Repos	**0.6**	**-**	**-**	**-**	**0.6**	**-**	**-**	**0.6**
Deposits	**5.2**	**1.6**	**1.9**	**-**	**8.7**	**-**	**-**	**8.7**
Certificates of deposit	**0.1**	**1.7**	**0.2**	**-**	**2.0**	**-**	**-**	**2.0**
Commercial paper	**-**	**0.9**	**0.7**	**-**	**1.6**	**-**	**-**	**1.6**
Covered bonds	**-**	**-**	**0.9**	**2.6**	**3.5**	**2.6**	**13.7**	**19.8**
Medium term notes	**-**	**-**	**-**	**0.2**	**0.2**	**0.7**	**6.3**	**7.2**
Securitisations	**0.3**	**-**	**0.5**	**0.4**	**1.2**	**0.7**	**2.3**	**4.2**
TFS	**-**	**-**	**-**	**6.0**	**6.0**	**11.0**	**-**	**17.0**
Other	**-**	**-**	**-**	**-**	**-**	**0.2**	**1.0**	**1.2**
Total	**6.2**	**4.2**	**4.2**	**9.2**	**23.8**	**15.2**	**23.3**	**62.3**
Of which secured	**0.9**	**1.2**	**1.4**	**9.0**	**12.5**	**14.5**	**16.8**	**43.8**
Of which unsecured	**5.3**	**3.0**	**2.8**	**0.2**	**11.3**	**0.7**	**6.5**	**18.5**
% of total	**10.0**	**6.7**	**6.7**	**14.8**	**38.2**	**24.4**	**37.4**	**100.0**

Wholesale funding – residual maturity 2019	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than one year £bn	Subtotal less than one year £bn	Over one year but not more than two years £bn	Over two years £bn	Total £bn
Repos	0.8	-	-	-	0.8	-	-	0.8
Deposits	4.5	0.6	2.2	-	7.3	-	-	7.3
Certificates of deposit	-	2.3	2.3	0.2	4.8	-	-	4.8
Commercial paper	-	2.0	1.2	-	3.2	-	-	3.2
Covered bonds	0.8	0.9	-	-	1.7	3.3	11.8	16.8
Medium term notes	-	0.6	0.4	0.9	1.9	0.1	5.5	7.5
Securitisations	0.4	-	0.1	0.3	0.8	1.0	1.2	3.0
TFS	-	-	-	-	-	6.0	11.0	17.0
Other	-	-	-	-	-	0.2	0.6	0.8
Total	6.5	6.4	6.2	1.4	20.5	10.6	30.1	61.2
Of which secured	2.0	0.9	0.1	0.3	3.3	10.5	24.6	38.4
Of which unsecured	4.5	5.5	6.1	1.1	17.2	0.1	5.5	22.8
% of total	10.6	10.5	10.1	2.3	33.5	17.3	49.2	100.0

At 4 April 2020, cash, government bonds and supranational bonds included in the liquid asset buffer represented 122% of wholesale funding maturing in less than one year, assuming no rollovers (2019: 120%).

Liquidity and funding risk (continued)

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 Society's risk appetite, as set by the Board, defines the size and mix of the liquid asset buffer, and is translated into a set of liquidity risk limits. The buffer composition is also influenced by other relevant considerations such as stress testing and regulatory requirements.

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 and for other purposes.

Liquid assets

	2020					2019				
	GBP	**EUR**	**USD**	**Other (note i)**	**Total**	GBP	EUR	USD	Other	Total
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	£bn	£bn	£bn	£bn	£bn
Cash and reserves at central banks	**13.7**	**-**	**-**	**-**	**13.7**	12.4	0.1	-	-	12.5
Government bonds (note ii)	**6.8**	**2.3**	**3.8**	**1.5**	**14.4**	7.8	0.7	2.8	-	11.3
Supranational bonds	**0.3**	**0.4**	**0.2**	**-**	**0.9**	0.5	-	0.2	-	0.7
Covered bonds	**0.5**	**1.0**	**0.1**	**-**	**1.6**	0.4	0.7	-	-	1.1
Residential mortgage backed securities (RMBS) (note iii)	**0.5**	**0.1**	**0.1**	**-**	**0.7**	0.6	0.3	0.1	-	1.0
Asset-backed securities and other securities	**0.2**	**0.1**	**-**	**-**	**0.3**	0.1	0.1	0.1	-	0.3
Total	**22.0**	**3.9**	**4.2**	**1.5**	**31.6**	21.8	1.9	3.2	-	26.9

Notes:
i. Other currencies primarily consist of Japanese Yen and Canadian dollars.
ii. Balances classified as government bonds include government guaranteed and agency bonds.
iii. Balances include all RMBS held by the Society which can be monetised through sale or repo.

The average combined month end balance during the year of cash and reserves at central banks, and government and supranational bonds, was £29.3 billion (2019: £27.8 billion).

Nationwide also holds a portfolio of high quality, central bank eligible covered bonds, RMBS and asset-backed securities. Other securities are held that are not eligible for central bank operations but can be monetised through repurchase agreements with third parties or through sale.

Liquidity and funding risk (continued)

Nationwide undertakes securities financing transactions in the form of repurchase agreements. This demonstrates the liquid nature of the assets held in its liquid asset buffer as well as satisfying regulatory requirements. Cash is borrowed in return for pledging assets as collateral and because settlement is on a simultaneous 'delivery versus payment' basis, the main credit risk arises from intra-day changes in the value of the collateral. This is largely mitigated by Nationwide's collateral management processes.

Repo market capacity is regularly assessed and tested to ensure there is sufficient capacity to monetise the liquid asset buffer rapidly in a stress.

For contingent purposes, Nationwide pre-positions unencumbered mortgage assets at the Bank of England which can be used in the Bank of England's liquidity operations if market liquidity is severely disrupted.

Residual maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the final contractual maturity date (residual maturity):

Residual maturity (note i)									
2020	**Due less than one month (note ii) £m**	**Due between one and three months £m**	**Due between three and six months £m**	**Due between six and nine months £m**	**Due between nine and twelve months £m**	**Due between one and two years £m**	**Due between two and five years £m**	**Due after more than five years £m**	**Total £m**
Financial assets									
Cash	13,748	-	-	-	-	-	-	-	13,748
Loans and advances to banks and similar institutions	2,832	-	-	-	-	-	-	804	3,636
Investment securities	18	495	376	107	137	373	4,715	13,783	20,004
Derivative financial instruments	33	77	347	35	212	862	978	2,227	4,771
Fair value adjustment for portfolio hedged risk	25	65	124	150	122	388	554	346	1,774
Loans and advances to customers	2,856	1,395	2,067	2,152	2,129	8,629	23,624	158,126	200,978
Total financial assets	**19,512**	**2,032**	**2,914**	**2,444**	**2,600**	**10,252**	**29,871**	**175,286**	**244,911**
Financial liabilities									
Shares	139,870	1,205	1,905	2,003	1,932	5,219	6,377	1,180	159,691
Deposits from banks and similar institutions	3,610	1,202	-	2,000	4,000	11,000	-	-	21,812
Of which repo	*638*	-	-	-	-	-	-	-	*638*
Of which TFS	-	-	-	*2,000*	*4,000*	*11,000*	-	-	*17,000*
Other deposits	2,164	377	1,881	17	23	10	10	-	4,482
Fair value adjustment for portfolio hedged risk	5	2	1	2	-	7	12	-	29
Secured funding – ABS and covered bonds	242	26	1,475	548	2,474	3,425	10,062	6,703	24,955
Senior unsecured funding	150	2,673	824	-	117	750	3,866	2,628	11,008
Derivative financial instruments	152	95	12	33	44	29	266	1,293	1,924
Subordinated liabilities	32	-	729	2	-	-	2,577	5,977	9,317
Subscribed capital (note iii)	1	1	1	-	-	-	-	250	253
Total financial liabilities	**146,226**	**5,581**	**6,828**	**4,605**	**8,590**	**20,440**	**23,170**	**18,031**	**233,471**
Off-balance sheet commitments (note iv)	11,416	-	-	-	-	-	-	-	11,416
Net liquidity difference	**(138,130)**	**(3,549)**	**(3,914)**	**(2,161)**	**(5,990)**	**(10,188)**	**6,701**	**157,255**	**24**
Cumulative liquidity difference	**(138,130)**	**(141,679)**	**(145,593)**	**(147,754)**	**(153,744)**	**(163,932)**	**(157,231)**	**24**	**-**

Risk report (continued)

Liquidity and funding risk (continued)

Residual maturity (note i) 2019	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	12,493	-	-	-	-	-	-	-	12,493
Loans and advances to banks and similar institutions	3,363	-	-	-	-	-	-	646	4,009
Investment securities	16	20	114	284	78	971	5,558	9,193	16,234
Derivative financial instruments	18	127	29	33	70	535	1,183	1,567	3,562
Fair value adjustment for portfolio hedged risk	(2)	4	11	26	26	132	71	143	411
Loans and advances to customers	3,024	1,393	1,982	2,003	1,974	8,303	23,549	156,823	199,051
Total financial assets	18,912	1,544	2,136	2,346	2,148	9,941	30,361	168,372	235,760
Financial liabilities									
Shares	131,451	3,039	4,070	1,482	1,475	3,926	7,386	1,140	153,969
Deposits from banks and similar institutions	3,026	1	122	-	-	6,000	11,000	-	20,149
Of which repo	*849*	-	-	-	-	-	-	-	*849*
Of which TFS	-	*1*	-	-	-	*6,000*	*11,000*	-	*17,001*
Other deposits	2,295	625	2,094	25	19	4	12	-	5,074
Fair value adjustment for portfolio hedged risk	-	(1)	(1)	-	(1)	(2)	(12)	-	(17)
Secured funding – ABS and covered bonds	1,183	887	132	141	148	4,367	7,754	5,777	20,389
Senior unsecured funding	43	4,890	3,979	512	466	99	2,297	3,267	15,553
Derivative financial instruments	36	118	21	10	12	127	69	1,200	1,593
Subordinated liabilities	18	-	54	3	-	662	756	5,213	6,706
Subscribed capital (note 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:
i. The analysis excludes certain non-financial assets (including property, plant and equipment, intangible assets, other assets, deferred tax assets and accrued income and prepaid expenses) and non-financial liabilities (including provisions for liabilities and charges, accruals and deferred income, current tax liabilities and other liabilities). The retirement benefit surplus/deficit and lease liabilities have also been excluded.
ii. Due less than one month includes amounts repayable on demand.
iii. The principal amount for undated subscribed capital is included within the due after more than five years column.
iv. Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower can draw down the amount overpaid, and commitments to acquire financial assets.

In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid earlier. This gives rise to funding mismatches on the balance sheet. The balance sheet structure and risks are managed and monitored by Nationwide's Assets and Liabilities Committee (ALCO). Judgement and past behavioural performance of each asset and liability class are used to forecast likely cash flow requirements. As part of its response to Covid-19, as at 4 April 2020 the Group offered penalty-free early access to savings from fixed term accounts. Additionally, as a result of interest rate reductions prior to the balance sheet date, commercial notice accounts also became notice-free for a temporary period. These changes may result in a portion of customers accessing their savings before the contractual maturity date.

Liquidity and funding risk (continued)

Financial liabilities – gross undiscounted contractual cash flows

The tables below provide an analysis of gross contractual cash flows. The totals differ from the analysis of residual maturity as they include estimated future interest payments, calculated using balances outstanding at the balance sheet date, contractual maturities and appropriate forward-looking interest rates.

Amounts are allocated to the relevant maturity band based on the timing of individual contractual cash flows.

Gross contractual cash flows 2020 (Audited)	Due less than one month (note i) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Shares	139,870	1,260	1,958	2,052	1,977	5,358	6,597	1,180	160,252
Deposits from banks and similar institutions	3,610	1,206	4	2,004	4,003	11,005	-	-	21,832
Other deposits	2,164	382	1,883	17	23	10	10	-	4,489
Secured funding – ABS and covered bonds	247	34	1,506	581	2,644	3,589	10,526	6,609	25,736
Senior unsecured funding	151	2,681	871	4	182	890	4,145	2,621	11,545
Subordinated liabilities	36	-	806	43	96	276	3,188	6,304	10,749
Subscribed capital (note ii)	1	1	4	3	4	13	40	255	321
Total non-derivative financial liabilities	**146,079**	**5,564**	**7,032**	**4,704**	**8,929**	**21,141**	**24,506**	**16,969**	**234,924**
Derivative financial liabilities:									
Gross settled derivative outflows	(1,124)	(967)	(791)	(165)	(665)	(427)	(6,495)	(5,915)	(16,549)
Gross settled derivative inflows	1,101	928	771	142	621	387	6,146	5,605	15,701
Gross settled derivatives – net flows	(23)	(39)	(20)	(23)	(44)	(40)	(349)	(310)	(848)
Net settled derivative liabilities	(70)	(175)	(174)	(258)	(300)	(865)	(1,373)	(1,224)	(4,439)
Total derivative financial liabilities	**(93)**	**(214)**	**(194)**	**(281)**	**(344)**	**(905)**	**(1,722)**	**(1,534)**	**(5,287)**
Total financial liabilities	**145,986**	**5,350**	**6,838**	**4,423**	**8,585**	**20,236**	**22,784**	**15,435**	**229,637**
Off-balance sheet commitments (note iii)	11,416	-	-	-	-	-	-	-	11,416
Total financial liabilities including off-balance sheet commitments	**157,402**	**5,350**	**6,838**	**4,423**	**8,585**	**20,236**	**22,784**	**15,435**	**241,053**

Liquidity and funding risk (continued)

Gross contractual cash flows 2019 *(Audited)*	Due less than one month (note i) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Shares	131,451	3,098	4,121	1,525	1,514	4,063	7,605	1,141	154,518
Deposits from banks and similar institutions	3,026	32	153	31	31	6,102	11,119	-	20,494
Other deposits	2,295	630	2,096	25	19	4	12	-	5,081
Secured funding – ABS and covered bonds	1,199	835	172	185	186	4,313	7,493	5,901	20,284
Senior unsecured funding	43	4,670	4,270	518	524	252	2,656	3,486	16,419
Subordinated liabilities	20	-	123	28	75	888	607	6,412	8,153
Subscribed capital (note ii)	1	1	4	3	4	13	68	217	311
Total non-derivative financial liabilities	138,035	9,266	10,939	2,315	2,353	15,635	29,560	17,157	225,260
Derivative financial liabilities:									
Gross settled derivative outflows	(439)	(2,565)	(1,243)	(76)	(71)	(1,951)	(2,840)	(5,349)	(14,534)
Gross settled derivative inflows	427	2,485	1,185	58	45	1,783	2,595	5,086	13,664
Gross settled derivatives – net flows	(12)	(80)	(58)	(18)	(26)	(168)	(245)	(263)	(870)
Net settled derivative liabilities	(28)	(125)	(101)	(130)	(119)	(368)	(579)	(916)	(2,366)
Total derivative financial liabilities	(40)	(205)	(159)	(148)	(145)	(536)	(824)	(1,179)	(3,236)
Total financial liabilities	137,995	9,061	10,780	2,167	2,208	15,099	28,736	15,978	222,024
Off-balance sheet commitments (note iii)	12,956	-	-	-	-	-	-	-	12,956
Total financial liabilities including off-balance sheet commitments	150,951	9,061	10,780	2,167	2,208	15,099	28,736	15,978	234,980

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. The principal amount for undated subscribed capital is included within the due more than five years column.
iii. Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid and commitments to acquire financial assets.

Asset encumbrance

Encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise the Covered Bond and securitisation programmes (further information is included in note 14 to the financial statements) and from participation in the Bank of England's Term Funding Scheme (TFS). The increase in encumbrance as a result of securitisation reflects additional collateral added to the Group's Silverstone secured funding programme during the year to provide future funding capacity.

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.

Liquidity and funding risk (continued)

An analysis of Nationwide's encumbered and unencumbered on-balance sheet assets is set out below. This disclosure is not intended to identify assets that would be available in the event of a resolution or bankruptcy.

Asset encumbrance

2020	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					Total
						Assets not positioned at the central bank				
	As a result of covered bonds	As a result of securitisations	Other	Total	Assets positioned at the central bank (i.e. prepositioned plus encumbered)	Readily available for encumbrance	Other assets that are capable of being encumbered	Cannot be encumbered	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash	600	657	-	1,257	-	12,193	-	298	12,491	13,748
Loans and advances to banks and similar institutions	-	-	1,555	1,555	1,355	-	-	726	2,081	3,636
Investment securities	-	-	2,506	2,506	-	16,006	-	1,492	17,498	20,004
Derivative financial instruments	-	-	-	-	-	-	-	4,771	4,771	4,771
Loans and advances to customers	28,003	15,177	-	43,180	42,217	65,687	49,894	-	157,798	200,978
Non-financial assets	-	-	-	-	-	-	-	3,130	3,130	3,130
Other financial assets	-	-	-	-	-	-	-	1,774	1,774	1,774
Total	**28,603**	**15,834**	**4,061**	**48,498**	**43,572**	**93,886**	**49,894**	**12,191**	**199,543**	**248,041**

2019	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash (note i)	590	660	-	1,250	-	10,999	-	244	11,243	12,493
Loans and advances to banks and similar institutions	-	-	1,352	1,352	1,276	-	-	1,381	2,657	4,009
Investment securities	-	-	1,694	1,694	30	13,043	-	1,467	14,540	16,234
Derivative financial instruments	-	-	-	-	-	-	-	3,562	3,562	3,562
Loans and advances to customers	22,656	6,936	-	29,592	39,558	82,561	47,340	-	169,459	199,051
Non-financial assets	-	-	-	-	-	-	-	2,541	2,541	2,541
Other financial assets	-	-	-	-	-	-	-	411	411	411
Total	23,246	7,596	3,046	33,888	40,864	106,603	47,340	9,606	204,413	238,301

Note:

i. The prior year comparative for cash not positioned at the central bank, readily available for encumbrance, has been restated by £140 million to £10,999 million. The £140 million was previously shown under assets positioned at the central bank (i.e. prepositioned plus encumbered).

Liquidity and funding risk (continued)

Managing liquidity and funding risk

Nationwide's management of liquidity and funding risks aims to ensure that there are sufficient liquid assets at all times, both as to amount and quality, to:

- cover cash flow mismatches and fluctuations in funding
- retain public confidence
- meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows, and through the translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high-quality liquid assets and appropriate encumbrance levels are maintained.

The liquidity and funding risk framework is reviewed by the Board as part of the annual Internal Liquidity Adequacy Assessment Process (ILAAP). ALCO is responsible for managing the balance sheet structure, including the Funding Plan, and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

A Liquidity Contingency Plan (LCP), which is part of the wider recovery plan framework, is maintained which describes early warning triggers for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust. Nationwide's Recovery Plan describes potential actions that could be utilised in a more extreme stress.

Liquidity stress testing

To mitigate liquidity and funding risks generated by its business activities, Nationwide aims to maintain a liquid asset buffer of at least 100% of the anticipated outflows seen under internal stress test scenarios and the regulatory-prescribed LCR.

Potential contractual and behavioural stress outflows are assessed across a range of liquidity risk drivers over 30 calendar days, with the key assumptions shown below. An assessment over three months is also performed against which LCP capacity is assessed. Internal stress assumptions are reviewed regularly with changes approved by ALCO and approved annually by the Board as part of the ILAAP.

Liquidity risk driver	Modelling assumptions used
Retail funding	Significant unexpected outflows are experienced with no new deposits received.
Wholesale funding	Following a credit rating downgrade: • zero roll-over of maturing long-term wholesale funding; • zero roll-over of maturing short-term funding received from financial counterparties and partial roll-over from non-financial counterparties; and • no new wholesale funding received.
Off-balance sheet	Contractual outflows occur in relation to secured funding programmes due to credit rating downgrades. Lending commitments continue to be met. Collateral outflows arise due to adverse movements in market rates. Expected inflows from mortgages or retail and commercial loans are recognised.
Intra-day	Liquidity is needed to pre-fund outgoing payments.
Liquid assets	Asset values are reduced in recognition of the stressed conditions assumed.

Liquidity and funding risk (continued)

At 4 April 2020, under the most severe internal 30 calendar day stress test (a combined market-wide and Nationwide-specific stress scenario), the liquid asset buffer as a percentage of stressed net outflows equated to 140% (2019: 119%).

External credit ratings

The Group's long-term and short-term credit ratings are shown in the table below. The long-term rating for both Standard & Poor's (S&P) and Moody's is the senior preferred rating. The long-term rating for Fitch is the senior non-preferred rating.

Credit ratings	Senior preferred	Short-term	Senior non-preferred	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	**A**	**A-1**	**BBB+**	**BBB**	**April 2020**	**Stable**
Moody's	**A1**	**P-1**	**Baa2**	**Baa2**	**April 2020**	**Negative**
Fitch	**A+**	**F-1**	**A**	**BBB+**	**April 2020**	**Negative**

In April 2020 S&P revised Nationwide's outlook to stable from positive based on the economic impact of Covid-19 and affirmed the ratings 'A/A-1' long- and short-term issuer credit ratings (ICRs). This follows S&P's previous affirmation in January 2020 which took into account Nationwide's increase of loss-absorbing capacity, principally through senior non-preferred debt issuance. S&P therefore raised the additional loss-absorbing capacity (ALAC) uplift in the long-term issuer credit ratings to two notches from one. S&P offset the additional notch, however, by introducing a negative adjustment notch based on a rating comparison with global peers.

In April 2020, Moody's downgraded Nationwide's long-term rating from Aa3 to A1 citing their expectation that the decline in the Society's profitability in recent years is now unlikely to be reversed. Nationwide's short-term rating of P-1 was affirmed. The outlook remains on negative and reflects uncertainties embedded in Moody's forward-looking view on the loss given failure of the Society's senior debt.

In April 2020, Fitch revised the outlook on Nationwide's Long Term Issuer Default Rating (IDR) to negative, along with five other UK building societies and affirmed the IDRs. The rating actions reflected the economic and financial market fallout from the Covid-19 outbreak. Previously in March 2019, Fitch placed the IDR of Nationwide, along with eighteen other UK banking groups, on Ratings Watch Negative. The Ratings Watch Negative reflected the heightened uncertainty over the ultimate outcome of the Brexit process and the increased risk that a disruptive 'no-deal' Brexit could result in negative action on the UK banks, with the likelihood that negative outlooks will be assigned. Fitch reaffirmed this in September 2019. In December 2019, Fitch removed the Ratings Watch Negative and revised Nationwide's Outlook to Stable.

The table below sets out the amount of additional collateral Nationwide would need to provide in the event of a one and two notch downgrade by external credit rating agencies.

	Cumulative adjustment for a one notch downgrade	Cumulative adjustment for a two notch downgrade
	£bn	£bn
2020 (note i)	**0.2**	**3.8**
2019	3.0	3.4

Note:
i. The impact of a one notch downgrade has reduced in 2020 as a result of contractual changes in secured funding programme agreements.

The contractually required cash outflow would not necessarily match the actual cash outflow as a result of management actions that could be taken to reduce the impact of the downgrades.

Solvency risk

Solvency risk is the risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators. Capital is held to protect members, cover inherent risks, provide a buffer for stress events and support the business strategy. In assessing the adequacy of capital resources, risk appetite is considered in the context of the material risks to which Nationwide is exposed and the appropriate strategies required to manage those risks.

Managing solvency risk

A number of tools are employed to support the management of solvency risk. The Board is responsible for setting risk appetite with respect to solvency risk, which is articulated through its risk appetite statements, and it defines minimum levels of capital, including leverage, that it is willing to operate with. These are translated into specific risk metrics, which are monitored by the Board Risk Committee (BRC), Assets and Liabilities Committee (ALCO) and other internal management reviews.

The capital structure is managed to ensure that Nationwide continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, strong capital ratios are targeted relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the fair value through other comprehensive income reserve and defined benefit pension deficit) are all considered.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. With general reserves forming the majority of capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which forms part of the Society's Board risk appetite metrics as well as forming part of the performance monitoring activity for individual product segments. In recent years, Nationwide's ability to supplement retained earnings through the issuance of Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 capital instruments has been demonstrated.

Capital is held to meet Pillar 1 requirements for credit, operational and market risks. In addition, the PRA requires firms to hold capital to meet Pillar 2A requirements, which form an Individual Capital Requirement (ICR). This is a point in time estimate, set by the PRA on an annual basis based on the submission of the results of the annual Internal Capital Adequacy Assessment Process (ICAAP). This process confirms the amount of capital required to be held to meet risks partly covered by Pillar 1 such as credit concentration and operational risk, and risks not covered by Pillar 1 such as pension and interest rate risk. The combination of Pillar 1 and Pillar 2A requirements form Nationwide's Total Capital Requirement (TCR). The ICR and TCR replace the former Individual Capital Guidance (ICG).

Nationwide's latest Pillar 2A ICR and TCR were received in October 2019. The ICR equates to £2.6 billion, of which at least £1.4 billion must be met by CET1 capital. The ICR was equivalent to 7.6% of risk weighted assets (RWAs) as at 4 April 2020 (2019: 7.4%), largely reflecting the low average risk weight, given that approximately 76% (2019: 78%) of total assets are in the form of secured residential mortgages.

To protect against the risk of consuming Pillar 1 and Pillar 2A requirements (thereby breaching TCR), firms are subject to regulatory capital buffers which are set out in Capital Requirements Directive IV (CRD IV). The PRA may set an additional firm-specific PRA buffer based upon supervisory judgement informed by the results of the Bank of England's stress testing scenarios. This assessment will consider the impacts on a firm's capital requirements and resources and take into account other factors including leverage, systemic importance and any weaknesses in firms' risk management and governance procedures. The ICAAP process also considers appropriate internal capital buffers to ensure that the impact of a severe but plausible stress can be absorbed.

Regular stress tests are undertaken, covering Nationwide and its subsidiaries, to enhance the understanding of potential vulnerabilities and how management actions might be deployed in the event of stressed conditions developing. These stress tests project capital resources and requirements over a multi-year period, during severe but plausible scenarios that cover a range of macro-economic or market-wide stresses, and idiosyncratic scenarios that test particular risks to Nationwide's business model. Stress test results are reported to the Board Risk Committee.

Nationwide aims to be in a position where it would maintain strong capital and leverage ratios in the event of a severe but plausible economic or idiosyncratic stress. Embedded in the risk appetite framework is an expectation to maintain the CET1 and leverage ratios in excess of regulatory minima under stressed conditions.

Solvency risk (continued)

Nationwide maintains a Recovery Plan under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD). This contains a set of management actions that would be available to support our capital position in the event of a breach of one or more of our risk metrics. In addition, reverse stress testing is carried out using extreme, highly improbable scenarios to further test the viability of our business model.

During 2019, the major UK banks and building societies, including Nationwide, took part in the PRA's annual concurrent stress test (CST), which included two scenarios. The main scenario, the Annual Cyclical Scenario (ACS), assessed firms' resilience to a severe economic downturn, characterised by an increase in the Bank of England base rate to 4%, a 33% fall in UK house prices and a 4.7% fall in UK GDP. The Financial Policy Committee (FPC) uses these results to assess the resilience of participating firms to periods of severe but plausible stress.

Despite the severity of the ACS, the results illustrate the strength and resilience of Nationwide, with low point CET1 and UK leverage ratios of 13.1% and 4.8% respectively after the application of management actions. Whilst the leverage ratio remained relatively stable, risk weighted assets increased significantly causing a reduction in the CET1 ratio, largely due to the use of Point in Time (PiT) modelling approaches for secured portfolios.

As part of the Bank of England announcement on 20 March 2020 in relation to Covid-19, the planned concurrent stress testing activities for 2020 were cancelled. This was intended to aid participants in their continued focus on the provision of services during the Covid-19 pandemic, where the Bank of England and PRA noted that the 2019 stress test showed that the UK banking system was resilient to periods of stress that are more severe overall than that caused by the 2007-08 global financial crisis.

Whilst it is not clear how the impacts relating to Covid-19 will play out in the future, it is likely to lead to some RWA inflation and therefore a lower CET1 ratio in the short to medium term. Nationwide is undertaking planning activities which reflect a range of potential outcomes. However, the current capital position and the published stress testing results show that Nationwide is currently well capitalised and well positioned to meet such periods of financial stress.

Capital position

The capital disclosures included in this report are on a 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		
	2020	2019
Solvency	**%**	%
Common Equity Tier 1 (CET1) ratio (note i)	**31.9**	32.2
Total Tier 1 ratio (note i)	**33.7**	35.2
Total regulatory capital ratio (note i)	**43.6**	44.3
Leverage	**£m**	£m
UK leverage exposure (note i,ii)	**240,707**	235,317
CRR leverage exposure (note i,iii)	**254,388**	247,757
Tier 1 capital	**11,258**	11,509
	%	%
UK leverage ratio	**4.7**	4.9
CRR leverage ratio	**4.4**	4.6

Notes:

i. The figures for 4 April 2019 have been restated in respect of counterparty credit risk exposures; this increased total 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 decimal place.

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

iii. The 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.

Solvency risk (continued)

The CET1 ratio reduced to 31.9% (2019: 32.2%[1]) primarily as a result of a £0.7 billion increase in risk weighted assets (RWAs). This was driven primarily by the application of the new securitisation framework per Regulation (EU) 2017/2401, which from 1 January 2020 was applicable to all securitisation positions. Securitisations that are yet to comply with the Simple, Transparent, and Standardised (STS) criteria, generally those issued prior to the introduction of the framework, incur a higher risk weight. In addition, there was an increase in the balance sheet value of fixed assets following the change to accounting for leases on adoption of IFRS 16. CET1 capital resources increased by £0.1 billion, due to profit after tax for the financial year of £0.4 billion, partially offset by distributions.

On 11 March 2020 the Bank of England made an announcement regarding its responses to the impacts of Covid-19. This included reducing the UK countercyclical buffer rate from 1% to 0%, which is intended to release capital to support the banks and building societies operating in the UK, to lend to individuals and businesses. This reduced Nationwide's CRD IV combined capital buffer requirement by 1% to 3.5% of RWAs.

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio of 31.9% (2019: 32.2%[1]) above Nationwide's CET1 capital requirement of 12.3%. This includes a minimum CET1 capital requirement of 8.8% (Pillar 1 and Pillar 2A) and the CRD IV combined buffer requirements of 3.5% of RWAs.

The economic impacts relating to Covid-19 are also likely to lead to some RWA inflation and therefore a lower CET1 ratio in the short to medium term. However, based on the Bank of England's published stress testing results, Nationwide expects to maintain a surplus above the CRD IV combined buffer requirements and the threshold at which a maximum distributable amount would be imposed.

The CET1 ratio is expected to be impacted by future regulatory developments. The implementation of new IRB models is expected to cause an increase in RWAs which will lead to an estimated reduction in the CET1 ratio of approximately one third based on the current capital position. The implementation of these models has been delayed by the Bank of England by one year from January 2021 to January 2022, as part of its response to the impacts of Covid-19. It is expected that the CET1 ratio will be impacted further by the finalised Basel III reforms which come into effect progressively between 2023 and 2028. Further details are given in the regulatory developments section below.

CRD IV requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The UK leverage ratio of 4.7% (2019: 4.9%) remains in excess of Nationwide's capital requirement of 3.6%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.35%. This reflects a 0% countercyclical leverage ratio buffer due to the impact of the Bank of England Covid-19 announcement noted above.

Nationwide's UK leverage ratio reduced to 4.7% (2019: 4.9%) with Tier 1 capital reducing by £0.2 billion, as a result of the net redemption of £0.4 billion of AT1 capital instruments. This was in conjunction with an increase in UK leverage exposure of £5.4 billion primarily as a result of net retail lending and treasury investments over the year. The CRR leverage ratio is based on the Delegated Act definition and therefore exposures include central bank reserves. This also reduced by 0.2%, closing at 4.4% (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 UK leverage ratio is negligible. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

Further details on the leverage exposure can be found in the Group's annual Pillar 3 Disclosure 2020 at **nationwide.co.uk**

[1] 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 decimal point.

Solvency risk (continued)

The table below reconciles the general reserves to total regulatory capital on an end-point basis and so does not include non-qualifying instruments.

Total regulatory capital		
	2020	2019
(Audited)	**£m**	£m
General reserve	**10,749**	10,418
Core capital deferred shares (CCDS)	**1,325**	1,325
Revaluation reserve	**48**	64
FVOCI reserve	**(17)**	50
Regulatory adjustments and deductions:		
Foreseeable distributions (note i)	**(61)**	(68)
Prudent valuation adjustment (note ii)	**(54)**	(50)
Own credit and debit valuation adjustments (note iii)	**(3)**	-
Intangible assets (note iv)	**(1,200)**	(1,274)
Goodwill (note iv)	**(12)**	(12)
Defined-benefit pension fund assets (note iv)	**(190)**	-
Excess of regulatory expected losses over impairment provisions (note v)	**-**	(2)
IFRS 9 transitional arrangements (note vi)	**80**	66
Total regulatory adjustments and deductions	**(1,440)**	(1,340)
Common Equity Tier 1 capital	**10,665**	10,517
Additional Tier 1 capital securities (AT1)	**593**	992
Total Tier 1 capital	**11,258**	11,509
Dated subordinated debt (notes vii)	**3,265**	2,976
Excess of impairment provisions over regulatory expected losses (note v)	**113**	46
IFRS9 transitional arrangements (note vi)	**(58)**	(46)
Tier 2 capital	**3,320**	2,976
Total regulatory capital	**14,578**	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. Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in our own credit standing and risk, in accordance with CRD IV rules.
iv. Intangible, goodwill and defined-benefit pension fund assets are deducted from capital resources after netting associated deferred tax liabilities.
v. Where capital expected loss exceeds accounting impairment provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where impairment provisions exceed capital expected loss, the excess balance is added back to Tier 2 capital, gross of tax. This calculation is not performed for equity exposures, in line with Article 159 of CRR. The expected loss amounts for equity exposures are deducted from CET1 capital, gross of tax.
vi. The transitional adjustments to capital resources apply scaled relief for the impact of IFRS 9, over a five-year transition period. Further detail regarding these adjustments is provided in the Annual Pillar 3 disclosures at nationwide.co.uk
vii. 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, Nationwide was subject to a requirement to hold twice the minimum capital requirements (6.5% of UK leverage exposure), plus the applicable capital requirement buffers, which amount to 0.35% of UK leverage exposure. In order to meet this requirement, Nationwide issued a further £1.6 billion of MREL eligible senior non-preferred notes during the year.

At 4 April 2020, total MREL resources were equal to 8.4% (2019: 7.8%[2]) of UK leverage ratio exposure above the 2020 loss-absorbing requirement of 6.85% 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	**2020**			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	**14,498**	**3,145**	**17,643**	14,072	3,393	17,465
Retail unsecured lending	**6,029**	**887**	**6,916**	5,581	778	6,359
Commercial loans	**3,183**	**143**	**3,326**	3,604	176	3,780
Treasury	**1,541**	**304**	**1,845**	779	152	931
Counterparty credit risk (note iii, iv)	**1,619**	**-**	**1,619**	1,708	-	1,708
Other (note v)	**1,783**	**267**	**2,050**	2,095	344	2,439
Total	**28,653**	**4,746**	**33,399**	27,839	4,843	32,682

Notes:
i. 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.
ii. RWAs have been allocated according to the business lines within the standardised approach to operational risk, as per article 317 of CRR.
iii. Counterparty credit risk relates to derivative financial instruments, securities financing transactions and exposures to central counterparties.
iv. The figures for 4 April 2019 have been restated in respect of counterparty credit risk exposures, increasing total RWAs by 0.5%.
v. Other relates to equity, fixed and other assets.

RWAs increased by £0.7 billion, primarily due to the new securitisation framework which increased treasury credit risk RWAs. Retail mortgage credit risk RWAs also increased due to an increase in net mortgage balances.

More detailed analysis of RWAs is included in the Group's annual Pillar 3 Disclosure 2020 at nationwide.co.uk

[2] The figure for 4 April 2019 has been restated in respect of counterparty credit risk exposures, leading to a 0.1% reduction in MREL

Solvency risk (continued)

IRB model risk

The performance and accuracy of IRB models is critical to the calculation of credit risk capital requirements. The effectiveness of the models is achieved through clear allocation of roles and responsibilities covering model ownership, approval and governance, ongoing model monitoring, review and independent validation. Further information can be found in the 'model risk management of IRB risk ratings systems' section of the Group's annual Pillar 3 Disclosure 2020 at **nationwide.co.uk**

Regulatory developments

Key areas of regulatory change are set out below. Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any change.

New residential mortgage IRB models have been submitted to the PRA for approval with the expectation that these models will be implemented by January 2022. This is in line with the revised deadline set by the Bank of England on 20 March 2020 which delays implementation by 1 year from the original January 2021 implementation date set out in PS13/17. The new models will also need to reflect the PRA's approach 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 PS 11/20. It is currently estimated that the impact of these models will reduce the reported CET1 ratio by approximately one third from the current level, given the material increase in risk weighted assets.

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 revised transitional period from 2023 to 2028. These reforms will lead to a significant increase in the Group's risk weights over time. Nationwide currently expect the consequential impact on the reported CET1 ratio to ultimately be a reduction of approximately a half relative to the current 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 is expected to remain in excess of the pro forma levels implied by this change. 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.

Since 4 April 2020, the European Commission has announced amendments to the treatment of IFRS9 transitional capital relief. This is intended to provide relief for an increase in provisions as a result of the economic impacts of Covid-19. This is expected to be implemented by 30 June 2020 and as such any impacts of this change will be captured within future capital disclosures.

Market risk

Summary

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates, currency rates or equity prices. Nationwide has limited appetite for market risk and does not have a trading book. Market risk is closely monitored and managed to ensure the level of risk remains within appetite. Market risks are not taken unless they are essential to core business activities and they provide stability of earnings, minimise costs or enable operational efficiency.

The principal market risks, linked to Nationwide's balance sheet assets and liabilities, are listed in the table below, irrespective of materiality.

Market risk linkage to the balance sheet

	2020	Market risk				
	£bn	Interest rate risk	Basis risk	Swap spread risk	Currency risk	Product option risk
Assets						
Cash	13.7	●	●			
Loans and advances to banks	3.6	●	●		●	
Investment securities	20.0	●	●	●	●	
Derivative financial instruments	4.8	●	●	●	●	●
Loans and advances to customers	201.0	●	●		●	●
Other assets (note i)	4.9	●	●		●	
Total assets	**248.0**					
Liabilities						
Shares (customer deposits)	159.7	●	●			●
Deposits from banks	21.8	●	●		●	
Other deposits	4.5	●	●		●	
Due to customers	0.0	●	●		●	●
Debt securities in issue	36.0	●	●		●	
Derivative financial instruments	1.9	●	●	●	●	●
Subordinated liabilities	9.3	●	●		●	
Other liabilities	1.8	●	●		●	
Total liabilities	**235.0**					

Note:

i. Other assets include the difference between the assets and liabilities of the Nationwide Pension Fund (a defined benefit pension scheme). Nationwide's obligations to the Nationwide Pension Fund result in Pension risk, which includes exposure to market risk factors such as interest rate risk, inflation risk, and equity risk (share prices). Pension risk is managed separately from the market risk arising from Nationwide's core business. For further details, see the 'Pension risk' section of this report.

Market risk (continued)

Global market conditions

During the year, general market conditions have been dominated by the uncertainty primarily caused by Brexit and at the end of the financial year the uncertain impact of the Covid-19 pandemic and the responses to it. At 4 April 2020, sterling was below its 2019 peak against the dollar in December, and swap rates fell by approximately 80% over the year, approaching historic lows. The Bank of England (BoE) reduced the bank base rate twice in quick succession by 0.5% and then 0.15% to 0.1% in March, primarily in response to the Covid-19 pandemic.

Globally, economies continued to report low levels of growth through the last year, including the UK and Eurozone, with significant economic uncertainty ahead from the Covid-19 pandemic. As at the year end, the global response to Covid-19 has led to central bank rate cuts, the introduction of further monetary easing, and the announcement of significant support for the broader UK economy from the UK Government.

Regulation

The UK regulators have reiterated their intention to transition from Libor to alternative benchmark rates by the end of 2021. Nationwide is directly impacted through exposure to Libor-linked assets, liabilities and derivative transactions. Nationwide is closely engaged with the Bank of England's Working Group on Sterling Risk-Free Reference Rates and other industry bodies, and activity is underway to progress and manage the impacts of this transition.

The European Banking Authority's (EBA) final guidelines on Interest Rate Risk in the Banking Book (IRRBB) became effective in June 2019, Nationwide monitors its exposures against the prescribed shocks, as well as against internally generated shock scenarios. Final standardised market disclosures for IRRBB are expected to be implemented through ongoing revisions to the CRDV and CRR2.

Market risk appetite

Nationwide's market risk exposure arises in the banking book; it does not have a trading book. Most of the exposure to market risk arises from fixed rate mortgages or savings and changes in the market value of the liquidity portfolio. There is a limited amount of currency risk on non-sterling financial assets and liabilities held.

The Board is responsible for setting market risk appetite and the Assets and Liabilities Committee (ALCO) is responsible for managing Nationwide's market risk profile within this defined risk appetite. Market risk is managed within a comprehensive risk framework which includes policies, limit setting and monitoring, stress testing and robust governance controls. Relevant market risk metrics are reported monthly to ALCO.

Market risk management

The principal market risks that affect Nationwide are listed below together with the types of risk reporting measures used:

Market risk (continued)

Market risk exposure	Definition	Reporting measure
Interest rate risk	The impact of market movements in interest rates, which affects the interest rate margin realised from lending and borrowing activities. Volatility in short term interest rates can also impact the net income contribution from rate insensitive liabilities.	Value sensitivity / Value at risk / Net interest Income sensitivity / Economic value of equity sensitivity
Basis risk	The impact on earnings of relative changes in short term interest rate benchmarks, for example between bank base rate and LIBOR	Earnings sensitivity
Swap spread risk	The impact on the market value of treasury investments arising from changes in the spread between bond yields and swap rates	Value at risk
Currency risk	The impact on earnings due to changes in exchange rates	Value sensitivity / Value at risk
Product option risk	The impact from changes to hedging which may be required when customer behaviour deviates from expectations, principally resulting from early repayment of fixed rate loans	Value at risk

Nationwide has a capital requirement for each of the above market risks. In addition, stress analysis is used to evaluate the impact of more extreme, but plausible events. These analytical techniques are described below with a review of the exposures during the year.

Value and earning sensitivities

Sensitivity analysis is used to assess the change in value of the net exposure to defined parallel and non-parallel shifts in interest rates. For example, a one basis point (0.01%) shift is measured using PV01. This analysis is performed daily by currency. Earning sensitivity metrics are used to measure and quantify exposure to interest rate risks, including basis risk. These techniques assess the impact on earnings when rate shocks are applied to the rates paid on liabilities and to the rates earned on assets.

Nationwide also measures interest rate risk through net interest income (NII) and economic value of equity (EVE) measures, under a range of shock scenarios which include behavioural assumptions for retail products as interest rates change. These measures are assessed based on the standard shocks prescribed by European Banking Authority (EBA) guidelines, as well as against internally generated shock scenarios.

- NII sensitivities assess the impact to earnings in different interest rate shocks over a one-year period. Sensitivities are calculated based on a static balance sheet, where all assets and liabilities maturing within the year are reinvested in like for like products. The sensitivity also includes the impact arising from off-balance sheet exposures.
- EVE sensitivities measure the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks. Sensitivities are calculated on a run-off balance sheet basis.

Both NII and EVE sensitivities are measured monthly, with risk limits set against the various shocks.

Value at risk (VaR)

VaR is a technique that estimates the minimum potential losses that could occur from risk positions because of future movements in market rates and prices, over a specified time horizon, to a given level of statistical confidence. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This considers inter-relationships between different markets and rates.

Market risk (continued)

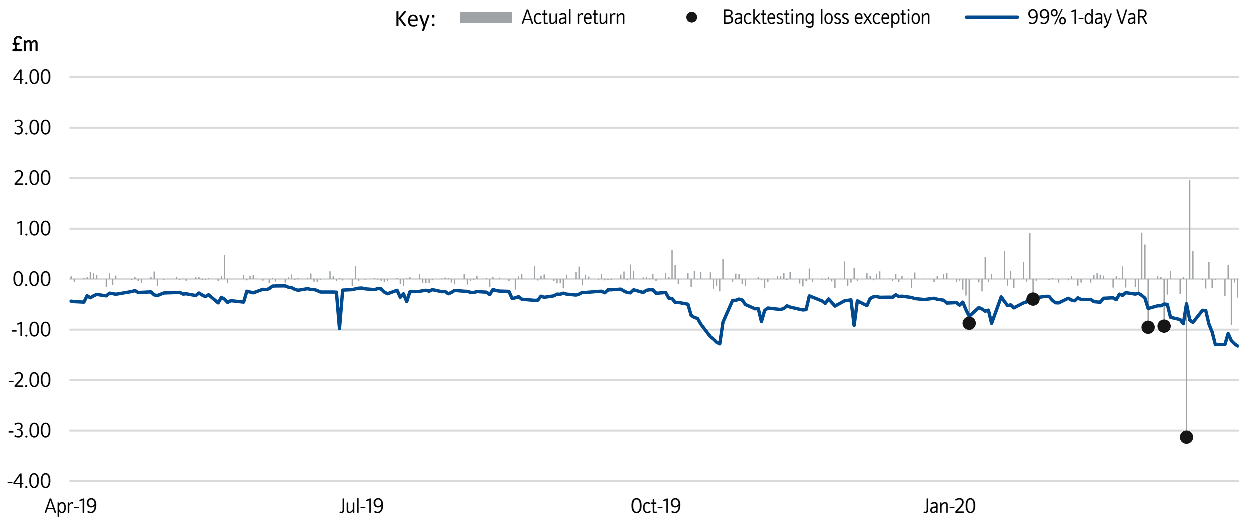
The VaR model incorporates risk factors based on historic interest rate and currency movements. A 10-day horizon and a 99% confidence level is typically used in day to day VaR monitoring. VaR is used to monitor interest rate, swap spread, currency and product option risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by management to test the validity of the assumptions and factors used in the VaR calculation. The values reported below are on the same basis as those used internally.

Although VaR is a valuable risk measure, it needs to be viewed in the context of the following limitations which may mean that exposures could be higher than modelled:

- The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence;
- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of offsetting positions in those extreme events;
- The VaR model uses historical data to predict future events. Extreme market moves outside of those used to calibrate the model will deliver exceptions. In periods where volatility is increasing, the model is likely to under-predict market risks and in periods where volatility is decreasing it is likely to over-predict market risks;
- Historical data may not adequately predict circumstances arising from government interventions and stimulus packages, which increase the difficulty of evaluating risks.

To seek to mitigate these limitations, backtesting of the VaR model is undertaken regularly to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss occurs that is greater than the VaR on any given day. The chart below shows the results of this backtesting. The loss exceptions seen were all driven by significant movements in market rates, most notably in the period leading up to year end with the unprecedented events causing three exceptions in as many weeks. The dynamic recalibration of the VaR model has increased the VaR model output following the incorporation of the period of heightened market volatility caused by Covid-19. In 2019/20, the backtesting and broader model governance did not highlight any model deficiencies.

VaR backtesting 99%/1-day



Market risk (continued)

The model will continue to be subject to an annual review process to ensure it remains appropriate for risk reporting. The types of risks not captured in VaR include:

- Market liquidity risk – this has a limited impact because, whilst Nationwide requires an appropriate level of market liquidity to manage market risk, it does not have a high ongoing dependency on liquidity for market risk purposes as it does not operate a trading book;
- Level 3 asset valuation uncertainty – only a very small portfolio of these assets is held so the impact is limited. Any valuation uncertainty is included within the Prudent Valuation Adjustment reflected in capital resources; and
- Interest rate movements that can impact credit/debit valuation adjustments (CVA/DVA). These are not captured in the VaR or sensitivity analysis but are negligible.

Stress analysis

To evaluate the potential impact of more extreme but plausible events or movements in a set of financial variables, the standard VaR metric is supported with sensitivity and stress analysis. For example, for interest rate risk exposures, the standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily. In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two-year period and on a 99% 10-day basis, but uses market data from a period of significant financial stress.

Interest rate risk

Nationwide's main market risk is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities. To reduce the impact of such movements, hedging activities are undertaken by Nationwide's Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO. In addition to primary lending and borrowing activities, income volatility arising from certain rate insensitive products (including reserves and CCDS) are structurally hedged. Nationwide's interest rate risk is measured using a combination of value-based assessments and earnings sensitivity assessments.

The table below demonstrates Nationwide's limited exposure to interest rate risk, shown against a range of value-based assessments. The risk exposure is calculated each day and summarised over the financial year:

Interest rate risk	**2020**			2019		
	Average £m	**High £m**	**Low £m**	Average £m	High £m	Low £m
VaR (99%/10-day) *(audited)*	**1.3**	**4.2**	**0.4**	1.1	3.1	0.4
Sensitivity analysis (PV01) *(audited)*	**0.0**	**0.1**	**0.0**	0.0	0.1	(0.1)
Stress testing (PV200: all currencies)	**6.1**	**22.6**	**(14.1)**	6.1	21.4	(23.4)

The interest rate sensitivities in the table above do not include retail product behavioural changes, which are captured by other measures.

Market risk (continued)

Net interest income (NII)

Earnings sensitivity assessments measure the risk that income is adversely affected by changes in interest rates. The sensitivity of earnings to changes in interest rates is measured monthly using a forecasting model and potential interest rate scenarios.

The table below sets out the sensitivity of pre-tax future earnings over a one-year period to instantaneous parallel rises and falls in interest rates.

Potential favourable/(adverse) impact on annual earnings		
(Audited)	**2020**	2019
	£m	£m
+200 basis points shift	**124**	132
+100 basis points shift	**64**	64
-25 basis points shift	**(70)**	(26)

The following key judgements should be noted in respect of the table above:

- the interest rate sensitivities set out above are illustrative only and are based on a static balance sheet; all assets and liabilities maturing within the year are assumed to reinvest in like for like products;
- the reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, market conditions, and strategic changes to the balance sheet mix, and should not therefore be considered a guide to future performance;
- the sensitivity analysis includes all financial assets and liabilities held at balance sheet date;
- the model assumes that changes in interest rates are fully passed through to managed variable rate products, unless a 0% floor is reached; and
- the sensitivities do not take account of any management actions.

The increase in sensitivity in the -25 basis point shift in 2020 reflects the lower bank rate environment and resulting negative rate environment within the modelled shock. Most of Nationwide's NII sensitivity arises from its managed rate savings portfolio and its ability to pass through rate changes. To provide an illustrative example, for every 0.01% of interest rate change not passed through to managed rate savings products, a £12 million change in NII would occur.

Economic value of equity (EVE)

Nationwide also measures interest rate risk through EVE sensitivity which identifies the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks prescribed by EBA guidelines. This measure includes behavioural assumptions using a run-off balance sheet basis. EVE is managed against internal and regulatory risk limits and is monitored monthly at ALCO.

Market risk (continued)

Basis risk

Basis risk arises where variable rate assets and liabilities re-price with reference to differing short term interest rate benchmarks. The primary interest rates that Nationwide is exposed to are the Bank of England base rate, Sterling Overnight Index Average (Sonia) and three-month sterling Libor. If the difference between these interest rates changes over time, this may impact earnings.

Assets and liabilities are offset when their reference rate, or 'basis' type, is matched. Exposure to the net mismatch is mitigated, where required, by transacting basis swaps to ensure Nationwide remains within internally agreed risk limits.

Swap spread risk

A liquidity portfolio is held to manage Nationwide's liquidity risk. These assets are predominantly fixed rate sovereign debt securities. Interest rate swaps are used to hedge the interest rate risk associated with these assets. However, there remains a residual risk associated with the possible movement in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects the fact that the market value of the liquidity portfolio assets can change due to movements in bond yields and the swaps due to movements in swap rates. In economic terms, this risk is only realised if a bond is sold and the swap is cancelled ahead of maturity.

Swap spread risk is monitored using a historical VaR metric and the risk is controlled via internal limits linked to capital requirements. Exposures are monitored daily and are reported monthly to ALCO.

Currency risk

Currency exposure is managed through natural offsetting on the balance sheet, with derivatives used to maintain the net exposures within limits. ALCO sets and monitors limits on the net currency exposure. The table below sets out the limited extent of the residual exposure to currency risk:

Currency risk

	2020			2019		
	Average	**High**	**Low**	Average	High	Low
(Audited)	**£m**	**£m**	**£m**	£m	£m	£m
VaR (99%/10-day)	**0.0**	**0.3**	**0.0**	0.1	2.4	0.0

Product option risk

Market risk also arises when customers exercise options contained within fixed rate products which can require changes to hedging. The key product risks are prepayment risk (early redemption or under- or over-payment of fixed rate mortgages), access risk (early withdrawal of fixed rate savings), and take-up risk (higher or lower completions of fixed rate mortgages than expected). These risk exposures are quantified under a range of stress scenarios using models that predict customer behaviour in response to changes in interest rates. The potential impacts are then closely monitored. These stressed risk measures are subject to a set of limits and are reported to ALCO, along with proposed management actions where necessary to bring the exposures within limits. This approach is also used to assess internal capital requirements for product option risks.

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Pension risk

Summary

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

Nationwide has funding obligations to a number of defined benefit pension schemes, the largest of which is the Nationwide Pension Fund (the Fund) which represents over 99% of the Society's pension obligations. The Fund has over 29,000 participants (Fund members), the majority of whom are deferred members (former employee members, not yet retired). The Fund is closed to new employees, although some employees continue to accrue benefits. A decision has been made during 2019/20 to close the Fund to future accrual on 31 March 2021. Further detail is set out below and in note 30 to the financial statements.

In accordance with UK legislation, the assets of the Fund are held in a legally separate trust from Nationwide's assets and are administered by a board of trustees (the Trustee) which has fiduciary responsibilities to Fund members.

Nationwide has a responsibility to ensure that Fund members are paid the pension they have been promised. To support this aim, Nationwide has a specialist pensions team to ensure that pension risk is appropriately monitored and managed, whilst helping to educate and engage Fund members about their pension benefits.

Risk factors

Volatility in investment returns from the assets and the value of the liabilities both cause volatility in the Fund's net deficit or surplus position. The key risk factors which impact this position are set out below. These factors can have a positive or negative effect on the position.

Asset performance

The Fund's liabilities are calculated using a discount rate set with reference to high quality bond yields. This creates a risk that the Fund's assets perform worse than those bond yields, resulting in the Fund's net position being volatile or worsening.

The Fund holds a significant proportion of return-seeking assets, including equities and credit investments. Return seeking assets are expected to outperform liabilities in the long-term, but they are risky and volatile in the short to medium-term. Investments in return-seeking assets are monitored by both the Trustee and Nationwide to ensure they remain appropriate given the Fund's long-term objectives. Further details are set out in note 30 to the accounts.

Liabilities

There is a risk that the Fund's liabilities increase to a level which is not supported by asset performance, whether through discount rate changes, increases in long-term inflation expectations, or increases in the life expectancy (longevity) of Fund members.

Actuarial assumptions

There is a risk that a change in the methodology used to derive key actuarial assumptions (for example, the discount rate or longevity assumptions) results in a step change in the assessment of the liabilities and therefore the net surplus or deficit (potentially impacting Nationwide's capital and/or deficit funding requirements). The ultimate cost of providing pension benefits over the life of the Fund will depend on actual future events, rather than assumptions made.

Pension risk (continued)

Changes in the year

During the year, £61 million of employer deficit contributions were paid. These deficit contributions are included in employer contributions in the table below, together with employer contributions in respect of employee benefit accrual during the period. Following the 31 March 2016 Triennial Valuation, which was completed in 2017, annual employer deficit contributions of £61 million are payable over the years 2018 to 2021, in line with an agreed Deficit Recovery Plan, and employer contributions in respect of employee benefit accrual will be paid in line with an agreed Schedule of Contributions. Nationwide can cease paying deficit contributions in certain circumstances, such as the Fund reaching a funding surplus. The 31 March 2019 Triennial Valuation of the Fund is underway. The Society and Trustee are negotiating, among other things, a new Schedule of Contributions and Deficit Recovery Plan, and this is expected to be agreed in 2020.

On 17 February 2020, Nationwide announced that it would be closing the Nationwide Pension Fund to future accrual from 31 March 2021, following a formal consultation in late 2019. This will result in current active members' benefits being linked to CPI before retirement rather than RPI and salary increases. More detail on this is shown in the case study in the Strategic Report. The one-off reduction in the liabilities is included within the Pension credit shown below.

The retirement benefit position on the balance sheet as at 4 April 2020 is a £294 million surplus within assets, (£105 million deficit as at 4 April 2019 in liabilities), as set out below:

Changes in the present value of net defined benefit asset/(liability)		
	2020 £m	2019 £m
At 5 April	**(105)**	(345)
Pension credit/(charge)	**74**	(98)
Net interest credit/(cost)	**3**	(6)
Benefits paid directly by the Group	**-**	3
Actuarial remeasurement	**195**	210
Employer contributions (including deficit contributions)	**127**	131
At 4 April	**294**	(105)

The movement in the retirement benefit obligation is primarily as a result of an increase in credit spreads (due to a perceived increase in risk associated with the Covid-19 outbreak) which reduces the liabilities relative to the assets, as well as the impact of the decision to close the Fund to future accrual on 31 March 2021. This has been partially offset by a fall in the value of equities and illiquid assets held by the Fund, due to market volatility driven by Covid-19.

A pension credit of £74 million (2019: £98 million pension charge) was recognised in the income statement, mainly driven by the one-off reduction in the liabilities as a result of the decision to close the Fund to future accrual on 31 March 2021.

The actuarial remeasurement quantifies the impact on the deficit from updating financial assumptions (e.g. discount rate and long-term inflation), demographic assumptions (e.g. longevity), reflecting up-to-date membership data, and the return on Fund assets being greater than expected. Further details can be found in the retirement benefit obligation note 30 to the financial statements.

Pension risk (continued)

Outlook

Regular analysis, insight and monitoring supports pension risk management and helps Nationwide to anticipate any management actions that may be required. This includes risk appetite articulation and regular reporting to governance committees. In addition, pension risk is embedded into Nationwide's Enterprise Risk Management Framework and stress testing processes. Nationwide monitors all pension regulation and legislation change which may impact Nationwide's obligations to the Fund.

Over the long term, the Trustee intends to further reduce the Fund's risk, and Nationwide actively engages with the Trustee to ensure broad alignment on investment objectives and implementation. This is supported by Nationwide's representation at the Trustee's Investment and Funding Committee and investment working groups, and the sharing of management information between Nationwide and the Trustee in order to consider specific risk management initiatives.

Potential risk management initiatives include, but are not limited to, adjusting the asset allocation (for example reducing the allocation to equities and increasing the allocation to bonds), implementing derivative hedging strategies and adjusting contribution levels.

A consultation on the future of RPI (the measure of UK inflation most widely used in financial markets) was announced by the Government in early September 2019 and commenced in March 2020, with a response to be published in Autumn 2020. An expected reduction in the gap between RPI and CPI has been reflected in the year ended 4 April 2020.

Business risk

Summary

Nationwide defines business risk as the risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy, due to external or internal factors. We actively manage this risk so that we continue to benefit our current and future members, with a focus on long-term sustainability rather than short-term metrics. Nationwide ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value commensurate with risk appetite. The Society monitors this risk as part of ongoing business performance reporting to senior management and the Board.

Nationwide's business model is reliant upon generating net interest margin, primarily the difference between the interest rate paid to savers and that paid to mortgage customers. In the current competitive and low interest rate environment, this margin is being squeezed. In response, the Society is looking to diversify its income streams through the introduction of new products and propositions.

Managing business risk

Business risks are identified as part of the Society's strategy and financial planning processes. These risks inform potential areas of strategy development and are assessed using a range of sensitivities to the financial plan. This activity is complemented by ongoing financial forecasting and monitoring as well as a range of stress testing activity to consider tail risks or longer-term risks to the Society. Ongoing strategy development ensures that the strategy and associated plans continue to evolve to address risks to the business model by considering changes in the external environment including new technology, consumer behaviour, regulation or market conditions.

Business risk (continued)

These risks are assessed against Board risk appetite, and our approach to ensure we have the right balance between distributing value to members, investing in the business and maintaining financial strength. Business risk is managed and mitigated through a range of measures which include:

- **Financial forecasting –** As part of the financial planning process Nationwide forecasts income and costs over a five year period with an updated forecast reviewed by management regularly, taking into consideration the key risks and sensitivities.
- **Monitoring of financial and business performance –** The various components of financial performance are monitored monthly against internal forecasts, limits and triggers across a variety of committees and forums, which consider potential risks and possible mitigating actions. In addition, business areas monitor the demand for products and services to ensure we continue to provide propositions that our members want and need.
- **Stress testing and sensitivity analysis –** Business risk is regularly stress tested as part of internal management reporting such as the financial plan downside and upside scenarios, Internal Capital Adequacy Assessment Process and reverse stress tests. In addition, the Prudential Regulatory Authority's Concurrent Stress Test scenarios provide a test of the business model and the risks it is exposed to.

As an output from these activities the Society identifies potential actions that can be taken if risks crystallise. To effectively manage more extreme events the Society maintains a Recovery Plan, in line with regulatory guidance, that contains a range of strategic actions that could be taken if necessary to protect the Society from severe stresses and ensure it remains sustainable over the long term.

Outlook

Business risks are closely intertwined with the top and emerging risks outlined on page 40. The Covid-19 outbreak, and the global response to it, has materially impacted the economic environment. Whilst stress testing results demonstrate that Nationwide is resilient against significant short-term economic shocks, the pandemic is likely to cause interest rates to remain at historically low levels for the foreseeable future, and will result in longer term economic effects, which will have an impact on the Society's financial performance. The external environment is expected to remain competitive, heightening the level of business risk for Nationwide. The Society's strong capital position and low risk lending portfolios mean that it is well-placed to respond to these risks.

Model risk

Summary

Model risk is the risk of an adverse outcome as a direct result of weaknesses or failures in the development, implementation or use of a model. A model is defined as 'a simplification of a business system using assumptions and mathematical concepts to help describe, predict or forecast' and may include approaches which are partially or wholly qualitative, or based on expert judgement. There is an inherent risk associated with models because, by their very nature, they are imperfect and incomplete representations that rely on assumptions and theoretical methodologies, and use historic data which may not represent future outcomes, leading to the potential for errors and uncertainty.

Model errors can arise when models are implemented incorrectly or misused, for instance when applied to uses that they were not designed for, or where there is a failure to update key assumptions where appropriate. Model errors and uncertainty are the primary sources of model risk and, if crystallised, could result in poor lending decisions, holding inappropriate levels of capital or provisions, inappropriate pricing decisions, financial loss or inadequate reporting.

Nationwide relies on models to support a broad range of business and risk management activities across the Society. Key examples include the use of model outputs in the credit approval process, capital and liquidity assessments, stress testing, financial planning, loss provisioning, regulatory reporting, and pricing strategies.

Model risk (continued)

Managing model risk

Nationwide manages model risk at an enterprise level through the Model Risk Framework, which provides the foundation for the management of model risk within defined risk appetite set by the Board. The framework prescribes Society-wide requirements including roles and responsibilities, governance, independent oversight, risk appetite, monitoring and independent assurance.

The framework is supported by model risk policies and standards covering documentation, development, implementation, validation, change processes, and monitoring. This ensures that all models are developed consistently, are of sufficient quality, adequately maintained and controlled to support effective business decisions, and meet regulatory requirements where applicable.

Responsibility for oversight of model risk is delegated from the Executive Risk Committee to the Model Risk Oversight Committee (MROC). MROC assesses whether models are fit for purpose and monitors model risk exposure on a Society-wide aggregated basis.

Model risk appetite is expressed through assessments of the most material risk models. This considers the percentage of models that have been independently assessed as meeting internal standards. Issues are escalated to the Executive Risk Committee when necessary, or where a breach of risk appetite has occurred.

Responsibilities under the three lines of defence

Each model is required to have a first line model owner who is responsible for ensuring that their models comply with the requirements of the framework. Responsibility for approving the use of material models resides with first line risk committees, such as the Asset & Liability Committee and Credit Committee. The role of these committees is to review and approve all material aspects of the models within their remit, including monitoring reports.

The second line oversight of model risk is performed by the Model Risk Oversight (MRO) function which provides independent validation, development of model standards, reporting of the model risk profile and maintenance of the Society's model inventory.

The scope of independent validation includes a review of model inputs, model design and model outputs. This is further broken down into detailed dimensions covering areas such as data, methodology, performance, use and documentation. The outcome of the validation is a report which includes a model risk score, key risks, model capabilities, conditions for use, limitations, validation findings and a recommendation for approval or rejection.

While all material models are reviewed and re-approved for continued use each year, the validation frequency and level of challenge applied by MRO is tailored to the materiality and complexity of each model. Once validated and correctly implemented, models are subject to regular monitoring. A central model inventory is used to maintain data on models and validation issues raised by MRO are tracked through to resolution. An annual model universe assessment is used ensure the completeness and accuracy of the model inventory.

Nationwide's Internal Audit function, the third line of defence, considers model risk to be an area of focus and the Model Risk Framework is subject to review through a cyclical programme of audits that assess the appropriateness of its design and overall effectiveness, and may assess how specific models used in Nationwide comply with it. The findings of the audit reviews are reported to model owners, senior management, first line committees and appropriate stakeholders.

Model risk (continued)

Developments in the year

Over the past year, Nationwide has been implementing improvements in the management of model risk and significant progress has been achieved across several areas including:

- Enhanced model risk reporting provided to the Board Risk Committee to support their understanding of the key capabilities and limitations of material models; areas covered include models used to support the Concurrent Stress Testing exercise and the operational risk capital model.
- Development of a centralised model information management system that consolidates Nationwide's model inventory, model risk reporting and model issue tracking, resulting in an improved ability to identify and resolve potential areas of control weakness.
- Development of the model risk taxonomy to enable better understanding and management of the key sources of model error risk, the types of controls that can be used in mitigation and the key sources of model uncertainty to support quantification of model risk.
- Redevelopment and validation of a number of key models, particularly those used in credit loss provisioning, operational risk and Internal Rating Based (IRB) systems.

Outlook

The emergence of the Covid-19 pandemic has increased model risk across Nationwide as the historical relationships used to calibrate the models have become less representative in the current environment. To assess and mitigate the risk, model monitoring has been enhanced across key models and analysis of the most recent data is being used to inform adjustments to ensure the model outputs remain robust.

The Society remains subject to ongoing significant levels of regulatory change and scrutiny relating to models. The impact of upcoming changes in regulation continues to be a significant factor driving model development, validation and model risk management activity. The IRB models, used in credit risk capital calculations, are undergoing significant regulatory reform with a view to bringing more consistency across financial services firms. Nationwide is well advanced through the programme of work designed to redevelop all the IRB models to ensure compliance with the new regulations when they come into force from 2022. Model redevelopments are also underway to comply with the new regulations on interest risk management on the banking book. More broadly, there is scope to further improve the measurement and understanding of the uncertainty inherent in models, such as quantifying the impact of choosing one type of model over another.

Operational and conduct risk

Summary

Operational and conduct risk is the risk of loss resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. Nationwide manages operational and conduct risk across a number of sub-categories, which include cyber, IT resilience and security, business continuity, payments, fraud, financial crime and regulatory compliance.

Nationwide operates a three lines of defence model to manage operational risk. Details on this approach are set out in the Managing risk section on page 135. The operational and conduct risk profile is informed by risk assessments from across the business, and by review and challenge by both management and the Risk Oversight function, which operates as a second line of defence. Risk Oversight supports management in managing the risks it faces in its normal day-to-day activities and when implementing change programmes. Nationwide continues to enhance and embed its operational and conduct risk framework, expanding the use of techniques such as scenario analysis to support the understanding of current and future risks and to optimise risk-based decision making.

Operational and conduct risk (continued)

Our strategy recognises that the environment in which Nationwide operates is continuously evolving. Digital technologies are influencing how our members manage their money and also how and when they communicate with Nationwide. Increasingly our members demand an always-on, constantly developing and improving digital service. To ensure we keep meeting our members' needs in the future, we have committed to building a more reliant, simpler, more agile and innovative organisation that's fit to compete in a digital world. Member impact and the potential for member harm are considered as a matter of course throughout the Society as we deliver our strategy. This gives us the confidence that our strategy will be successfully delivered with the management of risk, especially risks with the potential to harm members, at its core.

Additionally, Nationwide monitors and reports on the operational and conduct risk events which have occurred, to better understand those exposures and drive sustainable mitigation to prevent recurrence. For the purposes of this report, operational risk events include only those where a financial loss arises from an operational risk incident. Operational risk events are recorded against causal categories, as well as reporting them against the operational risk categories defined by the Basel Committee on Banking Supervision in Basel II. This allows comparison of operational risk experience with its peer group.

Operational and conduct risk experience

A significant proportion of operational and conduct risk events were recorded against three of the Basel categories: 'Clients, Products & Business Practices', 'External Fraud' and 'Execution, Delivery and Process Management'. These categories account for 99.9% by value, and 99.0% by number, of Nationwide's operational risk events (2019: 99.6 % by value and 98.2% by number).

Whilst the highest losses are against the Clients, Products and Business Practices (C,P&BP) category, this is where Nationwide records the cost of administration and customer redress for Payment Protection Insurance (PPI) claims, however due to treating these losses as a single event, this does not represent a high volume of reported instances. During the year, the Financial Conduct Authority continued its PPI awareness campaign up to the complaints deadline of 29 August 2019. Nationwide maintained its programme of activity to respond to the increase in complaints arising from the campaign. In line with the industry higher than expected increases in PPI enquiries and complaints were seen 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 claims will take longer than normal to process, but this will not disadvantage those with successful claims. Nationwide continues to experience a high volume of events with relatively low individual loss amounts in the External Fraud category. This is in line with other financial institutions and predominantly relates to Card Not Present fraud.

Operational risk events by Basel risk category, % of total events by value (note i)	2020	2019 (note ii)
	%	%
Clients, products and business practices (note iii)	59.4	72.7
External fraud	10.9	10.7
Execution, delivery and process management (note iv)	29.6	16.2
Internal fraud	0.0	0.1
Business disruption and system failure	0.0	0.0
Damage to physical assets	0.0	0.3
Employment practices and workplace safety	0.1	0.0
Total	100.0	100.0

Operational risk events by Basel risk category, % of total events by number (note i)	2020	2019 (note ii)
	%	%
Clients, products and business practices (note iii)	1.7	2.8
External fraud	90.6	84.6
Execution, delivery and process management	6.7	10.8
Internal fraud	0.2	0.7
Business disruption and system failure	0.0	0.2
Damage to physical assets	0.1	0.8
Employment practices and workplace safety	0.7	0.1
Total	100.0	100.0

Notes:
i. Risk events with losses over £5,000; multiple losses relating to the same event are only counted once.
ii. Comparatives were restated to include additional historic data where more information has been received.
iii. Includes the costs of administration and customer redress in relation to ongoing payment protection insurance claims.
iv. Increase in execution, delivery and process management relates to payments in connection with customer redress matters. Further information on customer redress is included in note 27 to the financial statements.

Operational and conduct risk (continued)

Current environment

Nationwide's operational and conduct risk profile has been impacted by Covid-19. Nationwide was quick to invoke the highest level of risk management response to minimise the impact on our risk profile while continuing to provide the services customers expect, in a way that considered the safety of colleagues and customers alike.

Notwithstanding the impact of Covid-19, over the course of the year, the operational and conduct risks profile has remained relatively stable, with the main risks continuing to relate to IT resilience and cyber security; Nationwide continues to meet the high standards expected by members with regards to management of these risks. There is a focus on being safe, secure and dependable in order to ensure that service availability and customer data are protected. Active monitoring of the external environment ensures where possible Nationwide is able to learn from other organisations.

The regulatory environment remains challenging, with a variety of complex regulatory changes to be embedded, as regulators continue to drive an agenda committed to rebuilding trust and confidence whilst increasing competition by encouraging digital innovation in the UK financial services market.

As the UK government negotiates the terms under which it will continue its relationship with the European Union, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) are working to ensure a robust regulatory system is in place by the end of the transitional period. Working with government, the 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 to ensure we continue to provide reliable services to our members once the transition period comes to an end.

Nationwide 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. To comply with the Directions, Nationwide has submitted a PPI action plan to the CMA and has carried out the required improvements following the independent audit of the 'text alerts' procedures, processes and 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. Nationwide took the decision to introduce the single interest rate for arranged overdrafts and remove all fees for unarranged overdrafts from 11 November 2019, ahead of the new rules to coming in to force on 6 April 2020.

Cyber security

The impact which a successful cyber attack could have on our members and their ability to access and manage their funds remains a very significant focus of attention, as we both manage our current IT systems and also plan to deliver new technology for the future. Nationwide continually reviews the external threat landscape and our ability to combat the rapidly changing threat environment we face. In line with advice from Government and alongside other financial institutions, Nationwide not only continues to invest in the ability to prevent and detect cyber attacks, but also practice how we should respond to attacks in order to protect our members' interests should an attack be successful.

Ransomware and Distributed Denial of Service (DDOS) attacks across the UK, alongside malicious e-mails, phishing attacks and network access compromises, are a concern, in common with other Financial services organisations, Nationwide remains a high profile, high impact target for criminals, activists or hostile nations. The last year has seen an increase in cyber security compromises across the UK in supply chains, including new Cloud services. These services represent both a route which attackers may use to get past defences, and a means of improving our defences by virtue of the investment made in security by large cloud providers. For this reason, security standards are carefully reviewed when adopting new member services supported by third parties.

Operational and conduct risk (continued)

Significant effort is put into testing cyber risk management capabilities, learning lessons from this process and applying those lessons to our ongoing investment in new technology and processes to manage this risk effectively. In the last year, this has included testing of our multi layered approach to protecting our information by the Bank of England which has allowed us to keep on top of the challenges financial institutions face, by better understanding how future attacks could be prevented.

Working closely with the National Cyber Security Centre and other government bodies as well as the wider industry helps Nationwide to remain vigilant and informed about both the potential threats and responses, whilst sharing best practice to help combat cyber crime. Nationwide remains committed to a programme of increasing cyber security awareness across both its member and employee landscape, as well as continuing to build its resilience to cyber attacks.

Data

The continued expansion of data used in digital services increases the complexity and cost of managing data securely and effectively. There is a steady flow of regulation impacting how data is managed. Monitoring these developments and continuing to be agile and react to the evolving requirements is an important component of managing data.

Nationwide is committed to protecting customer data and has a dedicated programme of work in place to ensure there is a holistic view of customer data. The scope of the programme includes: the processes and architecture used in change, to govern and store customer data; the training and support given to its employees; how Nationwide ensures compliance with requirements such as the General Data Protection Regulation; and how products are designed. This joined up view will help to protect customer data now and help future proof our data as the expansion of data and digital services continues

IT and operational resilience

Members rightly expect services to be available when they want to use them. Continued investment in technology ensures that Nationwide remains resilient and secure, whilst also delivering new features and services to our members more quickly. Members have experienced fewer impacts of outages in the last year as ways to allow members to view accounts via the Mobile Application and Internet bank were developed, even if some other features such as making a payment are unavailable for a short period of time. During planned and unplanned outages, members are now able to carry out more transactions than previously possible. We continue to invest in new systems and processes to make further improvements to member experience, and continue to test internal capability through a series of resilience exercises. This will ensure that Nationwide can respond effectively to incidents when they occur.

As the focus of IT and operational resilience continues to evolve, it will be necessary for Nationwide, as well as other firms, to develop its approach for when, not if, systems fail. There is significant regulatory focus in this area with nine consultation papers from the Bank of England, FCA and PRA in the last year emphasising this. The focus of recent consultation papers will drive a move away from an understanding of how long it takes to return to normal operation, and developing service level agreements, to understanding better the impact on members and the services they consume for example: making payments, withdrawing cash and viewing account balance, rather than the background systems and processes which support them.

People risk

Nationwide relies on the talent and dedication of its people to deliver its strategy, provide first class service and operate a strong risk and control culture. Attracting, retaining and developing the right people remains a key focus, particularly in specialist areas such as technology, where the appropriate skill sets are scarce or in high demand. Nationwide continues to monitor and closely manage the impact on its people requirements as it delivers the products, services and experience members want, to ensure the required levels of skill, knowledge and engagement are maintained.

Operational and conduct risk (continued)

In September 2018 a significant investment in IT infrastructure was announced to ensure Nationwide remains resilient and secure and has increased agility to deliver new features and services to our members. An important enabler to facilitate this investment is having the right people with the right skills. Further steps were taken in August 2019 to support delivery of this when we announced plans for expansion of our offices in Swindon as well as a new location in London. This will help attract the talent needed for the future, build on the existing skills of the workforce with internal staff development programmes as well as address risks associated with scarcity of resource in specialist technology areas.

Pace of change

Nationwide is committed to responding to the varied and evolving needs of its members, making it easier for them to transact through a range of channels, and making sure we are able to meet our members' needs now and in the future. The scale and pace of change this creates brings its own challenges; such challenges have the potential to disrupt Nationwide's operating environment and negatively impact the service experienced by members. These operational risks are managed through a strong focus on service management, transformation governance and programme management disciplines. Further enhancements have been made to the way change is delivered, taking advantage of an agile methodology, tools and ways of thinking. This includes operating a more devolved approach to delivering change, where the business areas responsible for the changes have more direct control and accountability over delivery. This approach also supports the development of in-house capabilities, reducing reliance on third parties and contingent workers. There remains a high volume of change driven by regulation; this is outlined further below.

External fraud

Nationwide recognises the impact fraud has on its members and is committed to raising awareness of fraud scams, as well as working closely with the Payments Service Regulator and UK Finance to combat customer losses. The increased authentication requirements introduced in September 2019 with the EU Payments Services Directive (PSD2) should help protect our members from Card Not Present fraud and are a welcome change. Debit and credit card fraud remains the largest driver of fraud losses, driven by increasing transaction volumes as a result of business growth and customer behaviour. Developments continue to be made in fraud detection and prevention capabilities. Losses incurred through the digital channels remain low; however, in common with the industry there is an increasing sophistication of attacks. It is vital to keep pace with the increases in digital capability and sophistication of attacks by investing in fraud defences.

Nationwide is one of nine firms which have signed up to the Lending Standards Board's Contingent Reimbursement Model (CRM) code. This voluntary code provides extra protection for our members who are victims of Authorised Push Payments (APP) scams; where members are tricked into authorising a payment to an account they believe to belong to a legitimate payee, but which in fact belongs to a fraudster. The code sets out increased consumer protection standards, which will help reduce the number of APP scams.

Use of third parties

Nationwide relies on a network of third parties to provide both core and non-core services covering IT infrastructure, back office systems and customer facing services. Nationwide is committed to ensuring that while we may outsource activities to our partners, we maintain responsibility for all services provided to both the wholesale markets and our members. Significant work has been undertaken to focus resource on our most critical suppliers including increased site visits and evaluations, uplifting our risk assessment processes as well as tightening our contractual arrangements to meet enhanced regulatory requirements under the European Banking Association's Guidelines on Outsourcing. These improvements have helped the Society to deliver resilience across the supply chain.

The use of cloud-based solutions is a key strategic enabler and offers the potential to reduce aspects of the operational risk profile, for example the opportunity to improve operational resilience in a controlled way. Significant progress has been made in addressing the associated risks in this area. This includes the creation of a Cloud Control Framework, which details control expectations for business areas looking to utilise cloud services. Cloud surgeries, to share best practice and challenge assumptions, and a cloud governance board, bring a higher level of scrutiny and governance to cloud adoption. The use of cloud services is an area of focus for the regulators, and the risks associated with increasing reliance on cloud services must clearly be properly understood and managed.

Operational and conduct risk (continued)

Climate Change

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 sector, and how this transition relates to the regulators' respective statutory objectives. The PRA has set 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. Further information on climate change is included on page 32.

Strong Customer Authentication

The FCA has delayed the implementation of certain requirements under new Strong Customer Authentication rules, which increase security of electronic payments, 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.

Open Banking to Open Finance

Open Banking aims to increase innovation and competition in banking and payment services for the benefit of consumers through the sharing of customer data and provision of third party access to payment accounts. While huge industry progress has been made in delivering Open Banking, consumer take up levels were disappointingly low, causing participating firms to question the costs against the benefits case. Against this backdrop, the FCA has made it a priority to open a debate around the evolution of Open Banking into 'Open Finance' and took the first step in December 2019 by issuing a call for input on the topic. Open Finance could bring all financial service products into a single ecosystem, enabling consumers to compare and switch products with ease. After taking a leading industry role in the implementation of Open Banking, Nationwide will respond to the call for input to influence the FCA's Open Finance strategy. While there are consumer benefits from Open Finance, the delivery costs and implementation challenges of this for the industry will be important factors to consider before any legal and/or regulatory compulsion to adopt Open Finance can be agreed.

Vulnerable Customers

Continuing its focus on vulnerable consumers, the FCA published draft guidance for consultation in July 2019, which set the expectation that vulnerable consumers receive 'at least as good' outcomes from their financial services provider as non-vulnerable consumers. While not a radical departure from the FCA's previous papers on the topic, the guidance provides greater detail on expectations from firms at all stages of the product lifecycle. A further round of consultation on the guidance is expected in spring 2020, with finalised guidance due by the end of the year. Nationwide welcomes the draft guidance. Our strategic focus is on embedding consideration of the additional needs of vulnerable consumers into our culture, making it the responsibility of all colleagues whose work impacts our member products and services.

Resolvability Assessment Framework

Since the last financial crisis, significant steps were taken to ensure that banks and building societies are fully resolvable, an outcome which the PRA and Bank of England are required to achieve by 2022. The Resolvability Assessment Framework is the final major piece of this work. Work is underway to ensure Nationwide is resolvable and compliant with the incoming rules. In due course, we will perform an assessment of our resolvability and make a subsequent public disclosure of this assessment.

Operational and conduct risk (continued)

The transition away from Libor

In the light of the planned discontinuation of Libor beyond 2021, work has been undertaken across Nationwide to prepare for this. Nationwide has a number of retail and commercial loans which reference Libor; work is underway to explore proactive solutions to manage the impact on Nationwide and our customers. We are also engaged with both the PRA and FCA, and with industry bodies, to work towards an industry solution.

Nationwide will actively engage with the regulators to respond to these complex regulatory changes. We will continue to prioritise resilience across the organisation to provide a secure and dependable variety of products and services which are designed to meet the needs of our customers.

Outlook

Nationwide's operational and conduct risk outlook is impacted by the environment it operates in and its strategy. The drivers of operational and conduct risk are expected to remain broadly consistent, with the main themes being:

- the ongoing volume of complex regulatory change impacting the financial services industry
- the scale and pace of change, particularly in a digital environment, partly driven by the Society's technology strategy
- IT resilience, the continued increase in the sophistication of cyber security threats and external fraud
- the continued reliance on strategic third-party partners, including increased adoption of cloud-based solutions
- operational challenges for Nationwide and its suppliers as a result of Brexit, and the pandemic, which will need to be closely monitored.

Nationwide continues to invest in all these areas to maintain and develop appropriate controls to ensure residual risk exposures are managed within appetite.

Financial statements

Tyler, member since 2016

Independent Auditor's report to the members of Nationwide Building Society

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements:

- Give a true and fair view, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, of the state of the Group's and the Society's affairs as at 4 April 2020 and of the Group's and the Society's income and expenditure for the year then ended; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts 2020 (the "Annual Report") of Nationwide Building Society which comprise:

Group	Society
Consolidated income statement for the year ended 4 April 2020	Income statement for the year ended 4 April 2020
Consolidated statement of comprehensive income for the year ended 4 April 2020	Statement of comprehensive income for the year ended 4 April 2020
Consolidated balance sheet as at 4 April 2020	Balance sheet as at 4 April 2020
Consolidated statement of movements in members' interests and equity for the year ended 4 April 2020	Statement of movements in members' interests and equity for the year ended 4 April 2020
Consolidated cash flow statement for the year ended 4 April 2020	Cash flow statement for the year ended 4 April 2020
Related notes 1 to 38 to the financial statements, including a statement of accounting policies	Related notes 1 to 38 to the financial statements, including a statement of accounting policies
Information identified as 'audited' in the Report of directors on remuneration	
Information identified as 'audited' in the Risk report	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC)'s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Performing a first-year audit

In preparation for our first-year audit of the 4 April 2020 financial statements, we performed a number of transitional procedures.

Following our selection, we undertook procedures to establish our independence of the Group. This involved considering previous commercial relationships and personal financial arrangements and confirming that all staff who work on the audit are independent of the Group. We held discussions with the Group's predecessor auditor and reviewed their 2019 financial statement audit work papers, where available, to obtain evidence regarding the opening balances. We performed alternative procedures where required. We gained an understanding of the Group's processes, including the risk assessment and key judgements made by the predecessor auditors. At the outset of our audit we gained an understanding of the business issues and met with executive and key management of the Group.

We used the understanding the audit team had formed to establish our audit base and assist in the formulation of our audit strategy for the 2020 Group audit.

Conclusions relating to principal risks, going concern and viability statement

The directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority (FCA) and provided a statement in relation to going concern, required for companies with a premium listing on the London Stock Exchange.

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 138 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 138 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 239 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 132 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditor's report to the members of Nationwide Building Society (continued)

Overview of our audit approach

Key audit matters	• Impact of Covid-19 • IFRS 9 expected credit losses • Recoverability of capitalised software costs • Customer redress provisioning • Risk of fraud in revenue recognition relating to effective interest rate (EIR) accounting • Closure of Nationwide's defined benefit pension scheme to future accrual • IT Privileged access
Audit scope	• We performed an audit of the complete financial information of two entities within the Nationwide group and audit procedures on specific balances for a further three entities. • The entities where we performed audit procedures over complete financial information or over specific balances accounted for 99% of the adjusted PBT measure used to calculate materiality, 93% of revenue, and 89% of total assets.
Materiality	• Overall Group materiality of £31.2 million and Society materiality of £13.3 million, which represents in both cases 5% of adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole and in our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	Our response to the key audit matter
Impact of Covid-19 *Group and Society; Refer to the Audit Committee Report (page 86); Accounting policies (page 239); and note 10 of the consolidated financial statements (page 264)* The Covid-19 pandemic and government measures taken in response will have a significant economic impact on the UK, but as of the date of our audit report, the precise extent of that impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of the financial statements, in the following areas: **Going concern:** The directors have assessed the Group's ability to continue as a going concern in light of the downturn in the UK's economic condition. They have further considered the potential impacts of stress tests on the Group's liquidity and solvency ratios, as well as considering reverse stress tests on the Society's resources. The directors have assessed the Group's viability by reviewing the financial plan over the forthcoming three-year period, adjusting economic and trading volume assumptions as well as considering the above noted stress testing results.	**Going concern:** We evaluated whether the directors' going concern assessment appropriately considered the impacts arising from Covid-19. We first confirmed the opening position in the Group forecast agreed to the audited balances as of 4 April. We reviewed the reasonableness of the Group's revised financial plan. We used EY financial modelling specialists to assist the core audit team in assessing the assumptions used to develop forecasted results using relevant peer and sector comparatives. We challenged the trading volume assumptions and assessed the refinancing risk of wholesale funding maturing in the 12 months from the date of our opinion. We used economic specialists to assist the core audit team in assessing the macroeconomic assumptions in the plan through benchmarking to institutional forecasts, HMT consensus and Bank of England fan charts.

Independent auditor's report to the members of Nationwide Building Society (continued)

The duration and impact of the Covid-19 pandemic remain highly uncertain. There is a risk that the directors' going concern analysis has not appropriately considered the full effect of Covid-19 on the Group. There is a risk that the disclosures in the financial statements related to going concern are not in compliance with reporting requirements.	We reviewed the results of management's stress testing, including its reverse stress testing exercise, to assess the reasonableness of the economic assumptions in light of the impact of Covid-19 and their impact on the Group's solvency and liquidity. We separately considered the reasonableness of the viability statement disclosure in the financial statements, using the work described above on the medium-term financial plan, as adjusted for the impacts of Covid-19. We assessed the reasonableness of the economic and trading assumptions for this period and again considered the results of stress tests on the Group's solvency and liquidity.
IFRS 9 expected credit losses: There is increased risk of material misstatement of expected credit losses (ECL) due to the degree of judgement and inherent uncertainty in the assumptions underlying the Covid-19 related additional provision. Management modelled an additional provision to capture the economic impact of Covid- 19. This comprised a reassessment of the economic scenarios and their respective weightings; an assessment of the significant increase in credit risk and expected credit loss impact of customer payment holiday requests, and a review of individual provision assessments in light of declining collateral values. Management further considered the appropriateness of disclosures, including the provision of further sensitivity analysis to support the assumptions made at 4 April 2020.	**IFRS 9 expected credit losses:** We reviewed management's modelled output, which was used to generate the additional provision. We assessed the reasonableness of the economic assumptions underlying the Covid-specific forward-looking scenario, and the probability weightings applied in calculating the additional provision. We tested the completeness and existence of payment holiday requests and assessed management's approach in performing risk assessment of the cohort requesting payment holidays and its application in the modelling of the additional provision. We further assessed the collateral valuation estimates of management's expert in reviewing the individual provision assessments. We reviewed the adequacy of credit related disclosures in respect of Covid-19, including the sensitivity of key assumptions in the additional provision.
Significant judgement related to fair value: The volatility in financial markets as a result of Covid-19 impacted the availability of observable valuation inputs for certain asset classes. The increased risk in valuation primarily related to fair value adjustments within the Society's pension assets, as they relate to the pension surplus, where for certain asset classes, particularly property holdings and private equity exposures, the economic conditions have reduced the availability of current and observable inputs to these asset valuations. In addition to their established valuation procedures, management undertook a review of the asset valuations for those portfolios where availability of observable inputs was more prevalent, stratifying the portfolio by sector as well as by the nature of the investment held. Management used this analysis to inform valuation adjustments to the portfolio and adjusted the valuation of pension assets in the defined benefit scheme accordingly.	**Significant judgement related to fair value:** We reviewed the fair value adjustments made by management to reflect the impacts of Covid-19 on the impacted pension asset portfolios. We established our own independent range of reasonable valuations and then reviewed the results of management's analysis and associated valuation adjustments in the context of our range. We tested the underlying calculation of these estimates and their related journal postings to ensure they were correctly applied.

Events after the balance sheet date: Covid-19 was an evolving crisis as of the 4 April 2020 year end. As a result, judgements were made by management to determine and evidence the conditions that existed at the balance sheet date, and in concluding whether events occurring after that date were adjusting or non-adjusting events. Management undertook a review of events that had occurred after the balance sheet date and concluded that there were none that required adjustment to the year-end position as at 4 April 2020. They also considered the adequacy of disclosure and determined there were no events occurring after the balance sheet date which warranted disclosure in the financial statements.	**Events after the balance sheet date:** We reviewed all available, relevant management information, as well as key meeting minutes, and held discussions with management. We also reviewed and assessed the implications for the Society and Group of external market pronouncements. We evaluated the completeness and appropriateness of the financial statement disclosures as they pertain to events after the balance sheet date and the disclosures provided in relation to Covid-19 impacts on all aspects of the financial statements for appropriateness in the context of the above information.
Key observations communicated to the Audit Committee As a result of our procedures, we concluded on the matters described above as follows: *Going concern:* The directors have an appropriate basis on which to conclude that there is no material uncertainty relating to going concern. We have reviewed the disclosures relating to going concern and determined that they are appropriate. *IFRS9 expected credit losses:* Management's IFRS9 expected credit loss additional provision in response to the Covid-19 pandemic is reasonably stated and appropriate related disclosures have been made. *Significant judgement related to fair value:* We were satisfied that management's valuation adjustments, which were within our range of expected outcomes, were reasonable. *Events after the balance sheet date:* We were satisfied that the disclosure in the financial statements captured the significant items which had been considered by management and the directors, and that additional subsequent events disclosure was not required based on information available to us up to the date of our report.	
Measurement of IFRS 9 expected credit losses *Group and Society; Refer to the Audit Committee Report (page 86); Accounting policies (page 239); and note 10 of the consolidated financial statements (page 264)* In addition to the Covid-19 additional provision described above, we assessed the following aspects of management's ECL provision: Staging: The risk that management's qualitative and quantitative criteria applied do not adequately identify significant increases in credit risk (stage 2) or credit impairments (stage 3) on a timely basis. Modelling: The risk that the Group's ECL, probability of default (PD), loss given default (LGD) and exposure at default (EAD) models are inaccurate due to modelling and data complexities. Multiple Economic Scenarios (MES): The risk that the Group's forward-looking elements are not incorporated into the ECL appropriately. Post Model Adjustments (PMAs): The risk that management apply inappropriate adjustments to base model outputs.	We developed a thorough understanding of management's overall approach and accounting policies to ensure compliance with the requirements of IFRS9. We further assessed the appropriateness of the staging criteria and their logical application through the modelled environment. We reperformed the staging for all of the retail portfolio by redeveloping the staging model code and re-running the results in our own environment. We obtained model documentation and governance, including implementation and validation for all significant models. Our specialist credit risk review team substantively tested a sample of higher risk models to confirm their accuracy. We also tested the accuracy of loan data lineage from source systems to the expected credit loss models. Our specialist EY economics team evaluated the reasonableness of the MES used in the estimate and their ascribed weightings, comparing them to consensus forecasts, and confirmed their appropriate application in the models. They similarly assessed the adjustment in weightings and the Covid-19 scenario which were applied to the year-end ECL calculation.

Independent auditor's report to the members of Nationwide Building Society (continued)

Individual assessment: The risk that impairment recorded on individually assessed assets is not complete and reasonably measured.	We assessed whether the inventory of PMAs was complete and whether each was appropriate. In performing our desktop review of each model, we considered whether there were any shortcomings that could require further PMA. We reviewed risk registers and governance meeting materials to identify potential risk not captured in existing models, and we performed a benchmarking exercise between management's model adjustment register and those seen in the market. We also evaluated the appropriate application and independently re-calculated the PMAs to confirm they were properly recorded. We assessed the completeness and reasonableness of impairment recorded for individually assessed loans by selecting a sample to recalculate the expected credit loss.
Key observations communicated to the Audit Committee Based on the work we performed, we were satisfied that the staging, modelling, MES, PMAs, including the Covid-19 addition to modelled outputs, and individually assessed loans were reasonably measured. Accordingly, we were satisfied that the expected credit loss impairments were reasonably stated.	
Recoverability of capitalised software costs *Group and Society; Refer to the Audit Committee Report (page 86); Accounting policies (page 239); and note 25 of the consolidated financial statements (page 298)* The Group capitalises software and IT costs associated with serving its members where the economic benefits are established and amortises them over their useful economic lives. Management undertakes bi-annual impairment assessments to assess whether the capitalised costs should be written down to lower recoverable amounts. We identified the following risks associated with capitalised software costs: Newly capitalised costs: Whether project costs being capitalised are appropriate for newly created software; and Impairment of currently capitalised software: Whether amortisation is appropriate, including whether the length of the useful economic lives being set for newly capitalised software are suitable, and whether the impairment assessment of existing assets is reasonable.	We reviewed the software capitalisation policy, ensured its compliance with the requirements of IFRS, and obtained an understanding of its application to individual projects. We tested the key controls in the Group's new asset capitalisation process. We assessed the appropriateness of capitalised costs for a sample of asset additions during the year, including both externally generated and internally generated costs. We assessed the reasonableness of the amortisation charge by testing and validating the underlying calculations. We reviewed the impairment assessment at both the individual project level and the Cash Generating Unit level, taking into account the impacts of the technology strategy and likely future use. We reviewed and recalculated the impairment charge for those assets deemed to be impaired and challenged completeness of impairments taken and the rationale for impairment, ensuring the judgements made were reasonable and appropriate. We reconciled the calculated asset additions, amortisation charges, impairment charges and resultant closing asset balance to the underlying accounting records.
Key observations communicated to the Audit Committee Based on the procedures performed, we were satisfied that Nationwide's policy on capitalisation of new assets was in accordance with accounting rules, that existing capitalised costs were appropriate, that the amortisation of these assets during the year was appropriately recorded, and that management's conclusions over impairment were supported by the evidence obtained.	
Customer redress provisioning *Group and Society; Refer to the Audit Committee Report (page 86); Accounting policies (page 239); and note 27 of the consolidated financial statements (page 301)* Management has recognised provisions for certain customer redress projects.	We tested the completeness and accuracy of the customer populations identified as eligible for redress. We reconciled this relevant population to that used in management's models to measure the provision.

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Independent auditor's report to the members of Nationwide Building Society (continued)

In our risk assessment, we considered those projects which would have a material impact on the financial statements on account of the risks not being fully known or where there was uncertainty over the full customer population impacted. This risk is solely focused on those projects. We considered the risk within the impacted provisions to constitute the completeness and accuracy of data used in provision calculations, and the reasonable measurement of the redress and associated administration costs.	We reviewed a sample of redress payments to ensure they were reasonably stated and in line with the policy. We involved EY conduct risk specialists to help assess compliance with relevant financial conduct requirements, with all assumptions being included within management's provisioning model. We analysed the provision model and focused our testing on the data inputs, the assumptions applied within the model and the underlying calculations supporting the provision in the financial statements.
Key observations communicated to the Audit Committee Based on the procedures performed and evidence obtained, we found the judgements applied to calculate the provision for customer redress to be appropriate.	
Risk of fraud in revenue recognition relating to effective interest rate (EIR) accounting *Group and Society; Refer to the Audit Committee Report (page 86); Accounting policies (page 239); and note 3 of the consolidated financial statements (page 255)* We assessed two elements of the EIR calculation as most critical and requiring increased audit focus. These comprise the nature of the fees and expenses eligible to be deferred as a result of being integral to the yield of the products; and the period over which deferred upfront fees and expenses are amortised into earnings, which is determined based on analysis of historic customer behaviours and future outlook.	We reviewed the appropriateness of the accounting policy and the types of fees and expenses being deferred and amortised. For those fees and expenses that were deferred, we assessed the reasonableness of the period over which they were being amortised by assessing the behavioural loan lives with reference to historical behaviour as well as the future economic outlook. We reviewed the clerical accuracy of the amortisation models and confirmed its inputs, and we recalculated a sample of the amortisation profiles used to amortise the fees and expenses. We confirmed the amounts posted from the model into the general ledger.
Key observations communicated to the Audit Committee Based on the procedures performed and the evidence obtained, we were satisfied that the fees and expenses being deferred were reasonable, and that they were being amortised appropriately.	
Closure of Nationwide's defined benefit pension scheme to future accrual *Group and Society; Refer to the Audit Committee Report (page 86); Accounting policies (page 239); and note 30 of the consolidated financial statements (page 305)* In February 2020, the Board approved the closure of the Group's defined benefit pension scheme to future accrual on 31 March 2020, resulting in a gain from the plan amendment of £164 million. The Group will also provide impacted employees with a payment for mitigation, payable in March 2021. We identified a risk of material misstatement in measuring Nationwide's defined benefit obligations, in particular over the gain arising from the decision in February 2020 to close the scheme to future accrual on 31 March 2021.	We reviewed and assessed the accounting treatment applied to the decision to close the pension scheme to future accrual, including presentation in the financial statements. We reviewed the underlying documentation and confirmed that there was evidence of approval by all parties to the closure of the scheme to future accrual. We involved EY actuarial specialists in the audit to help assess the valuation assumptions within the pension scheme, with particular consideration of the liability valuation assumptions, in order to evaluate the gain and the overall net surplus. We assessed the reasonableness of recognition and measurement of the provision for employee mitigation costs, payable in March 2021.
Key observations communicated to the Audit Committee Based on the procedures performed and the evidence obtained, we were satisfied with the recognised gain on the closure of the scheme to future accrual and associated mitigation cost as well as the recognition of the year end actuarial assumptions.	

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IT privileged access *Group and Society; Refer to the Audit Committee Report (page 86) and Accounting policies (page 239)* In previous years, management recognised that there were a number of issues with privileged user accounts across the IT landscape. During 2019, the Society commenced a privileged access management (PAM) remediation programme. The project, which consisted of onboarding systems onto a suite of enhanced PAM controls, has continued to run into the 2020 financial year. Controls over access to accounts with elevated IT privileges are critical to the audit in order to determine appropriateness of data and system functionality.	We tested the design and operating effectiveness of those key controls identified that manage IT privileged access across the in-scope IT platforms. We assessed the inventory of privileged access accounts and tested whether they were appropriately controlled on the privileged access management tool. For systems where we deemed unmitigated privileged access risks still existed, we considered the existence of compensating controls in mitigating the underlying risk. Where necessary, we developed bespoke, incremental procedures to address these risks.
Key observations communicated to the Audit Committee Based on the procedures performed and the evidence obtained, we noted no inappropriate changes to systems during our testing.	

Independent auditor's report to the members of Nationwide Building Society (continued)

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size and risk profile, when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements of the Group, we selected five entities, which represent the principal business units within the Group.

Of the five entities selected, we performed an audit of the complete financial information of two entities ("full scope entities") which were selected based on their size or risk characteristics. For the remaining three entities ("specific scope entities"), we performed audit procedures on specific accounts within each entity that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £31.2 million which is 5% of adjusted profit before tax, and 0.24% of net assets. We determined materiality for the Society to be £13.3 million, which is 5% of adjusted profit before tax, and 0.13% of net assets.

We assessed adjusted profit before tax, which is normalised to take into account estimated impacts of Covid-19 in the last 6 weeks of the year, an appropriate basis for materiality given the users of the financial statements, including the Society's members and regulators, focus on pre-tax profit in assessing the Society's performance.

In 2019, the predecessor auditor adopted materiality of £42.3 million for the Group, and £18 million for the Society, determined with reference to a benchmark of profit before tax.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was £15.6 million, being 50% of our planning materiality. We have set performance materiality at this percentage since this is a first-year audit.

Audit work for underlying entities for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative scale and risk of the entity to the Group as a whole and our assessment of the risk of misstatement at that entity. In the current year, the range of performance materiality allocated to entities was £3 million to £11 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1 million, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

Other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

The directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and prepare a Corporate Governance Statement in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ("FCA").

The directors have requested that we review the parts of the Corporate Governance Statement relating to the Society's compliance with the Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) as if the Society were a premium listed company.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 132 – the statement given by the directors that they consider the Annual Report and financial statements taken as a whole to be fair, balanced and understandable and to provide the information necessary for members to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on page 86 – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the Code set out on page 131 – the parts of the directors' statement required under the Listing Rules relating to the Society's compliance with the Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the Code.

Independent auditor's report to the members of Nationwide Building Society (continued)

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:
- The Annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- The information given in the Annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The Group or Society's financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

Other voluntary reporting matters

Report of the directors on remuneration

The Society voluntarily prepares a Report of the directors on remuneration in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Report of the directors on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 133, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Building Societies Act 1986 and the Consumer Credit Act 1974.
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's Operational Risk Framework and internal control processes.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing, as referred to in the Key audit matters section above.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates, and testing year-end adjustments and other targeted journal entries.
- The Group operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Society at the Annual General Meeting in July 2019 and engaged on 2 August 2019 to audit the financial statements for the year ending 4 April 2020 and subsequent financial periods.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent auditor's report to the members of Nationwide Building Society (continued)

Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

28 May 2020

Notes:

i. The maintenance and integrity of the Nationwide Building Society's web site 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 statements since they were initially presented on the web site.
ii. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statements

For the year ended 4 April 2020		Group		Society	
		2020	2019 (note i)	**2020**	2019 (note i)
	Notes	**£m**	£m	**£m**	£m
Interest receivable and similar income/(expense):					
Calculated using the effective interest rate method	3	**5,157**	5,141	**4,792**	4,827
Other	3	**(27)**	(23)	**(27)**	(31)
Total interest receivable and similar income	3	**5,130**	5,118	**4,765**	4,796
Interest expense and similar charges	4	**(2,320)**	(2,203)	**(2,412)**	(2,313)
Net interest income		**2,810**	2,915	**2,353**	2,483
Fee and commission income	5	**439**	449	**435**	446
Fee and commission expense	5	**(270)**	(248)	**(270)**	(248)
Other operating income	6	**67**	54	**105**	80
(Losses)/gains from derivatives and hedge accounting	7	**(7)**	36	**19**	(7)
Total income		**3,039**	3,206	**2,642**	2,754
Administrative expenses	8	**(2,312)**	(2,254)	**(2,309)**	(2,251)
Impairment losses on loans and advances to customers	10	**(209)**	(113)	**(170)**	(129)
Provisions for liabilities and charges	27	**(52)**	(6)	**(53)**	(6)
Profit before tax		**466**	833	**110**	368
Taxation	11	**(101)**	(197)	**(30)**	(96)
Profit after tax		**365**	636	**80**	272

Note:
i. Comparatives have been restated as detailed in note 1.

The notes on pages 239 to 319 form part of these financial statements.

Statements of comprehensive income

For the year ended 4 April 2020	Notes	Group 2020 £m	Group 2019 (note i) £m	Society 2020 £m	Society 2019 (note i) £m
Profit after tax		**365**	636	**80**	272
Other comprehensive (expense)/income					
Items that will not be reclassified to the income statement					
Remeasurements of retirement benefit obligations:					
Retirement benefit remeasurements before tax	30	**195**	210	**195**	210
Taxation	11	**(76)**	(57)	**(76)**	(57)
		119	153	**119**	153
Revaluation of property:					
Revaluation before tax	26	**(13)**	(2)	**(13)**	(2)
Taxation	11	**2**	1	**2**	1
		(11)	(1)	**(11)**	(1)
		108	152	**108**	152
Items that may subsequently be reclassified to the income statement					
Cash flow hedge reserve (note ii):					
Fair value movements taken to members' interests and equity		**56**	540	**64**	434
Amount transferred to income statement		**(65)**	(100)	**(12)**	(249)
Taxation	11	**(5)**	(112)	**(16)**	(47)
		(14)	328	**36**	138
Other hedging reserve (note ii):					
Fair value movements taken to members' interests and equity		**(57)**		**(21)**	
Taxation	11	**15**		**15**	
		(42)		**(6)**	
Fair value through other comprehensive income reserve:					
Fair value movements taken to members' interests and equity		**(51)**	12	**(51)**	13
Amount transferred to income statement		**(40)**	(28)	**(40)**	(27)
Taxation	11	**24**	4	**23**	3
		(67)	(12)	**(68)**	(11)
Other comprehensive (expense)/income		**(15)**	468	**70**	279
Total comprehensive income		**350**	1,104	**150**	551

Notes:
i. Comparatives have been restated as detailed in note 1.
ii. 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 1.

The notes on pages 239 to 319 form part of these financial statements.

Balance sheets

At 4 April 2020

		Group		Society	
		2020	2019	**2020**	2019
	Notes	**£m**	£m	**£m**	£m
Assets					
Cash		**13,748**	12,493	**13,748**	12,493
Loans and advances to banks and similar institutions		**3,636**	4,009	**3,617**	3,994
Investment securities	13	**20,004**	16,234	**19,996**	16,232
Derivative financial instruments	15	**4,771**	3,562	**3,636**	2,614
Fair value adjustment for portfolio hedged risk		**1,774**	411	**1,774**	411
Loans and advances to customers	14	**200,978**	199,051	**163,206**	164,447
Investments in Group undertakings	33	**-**	-	**35,207**	32,220
Intangible assets	25	**1,239**	1,324	**1,227**	1,312
Property, plant and equipment	26	**1,172**	889	**1,172**	887
Accrued income and prepaid expenses		**205**	184	**1,660**	1,299
Deferred tax	11	**76**	53	**62**	39
Current tax assets		**65**	-	**62**	-
Other assets		**79**	91	**69**	87
Retirement benefit assets	30	**294**	-	**296**	-
Total assets		**248,041**	238,301	**245,732**	236,035
Liabilities					
Shares		**159,691**	153,969	**159,691**	153,969
Deposits from banks and similar institutions	16	**21,812**	20,149	**20,636**	19,091
Other deposits	17	**4,482**	5,074	**6,024**	6,619
Fair value adjustment for portfolio hedged risk		**29**	(17)	**29**	(17)
Debt securities in issue	18	**35,963**	35,942	**30,894**	32,354
Derivative financial instruments	15	**1,924**	1,593	**3,673**	2,959
Other liabilities		**915**	583	**4,513**	2,857
Provisions for liabilities and charges	27	**176**	199	**176**	198
Accruals and deferred income		**310**	346	**307**	346
Subordinated liabilities	19	**9,317**	6,706	**9,317**	6,706
Subscribed capital	20	**253**	250	**253**	250
Deferred tax	11	**207**	144	**108**	33
Current tax liabilities		**-**	89	**-**	49
Retirement benefit obligations	30	**-**	105	**-**	103
Total liabilities		**235,079**	225,132	**235,621**	225,517
Members' interests and equity					
Core capital deferred shares	31	**1,325**	1,325	**1,325**	1,325
Other equity instruments	32	**593**	992	**593**	992
General reserve		**10,749**	10,418	**8,102**	8,056
Revaluation reserve		**48**	64	**48**	64
Cash flow hedge reserve		**306**	320	**61**	25
Other hedging reserve (note i)		**(42)**		**(6)**	
Fair value through other comprehensive income reserve		**(17)**	50	**(12)**	56
Total members' interests and equity		**12,962**	13,169	**10,111**	10,518
Total members' interests, equity and liabilities		**248,041**	238,301	**245,732**	236,035

The notes on pages 239 to 319 form part of these financial statements.

Approved by the Board of directors on 28 May 2020.

D L Roberts Chairman
J D Garner Chief Executive Officer
C S Rhodes Chief Financial Officer

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 1.

Group statement of movements in members' interests and equity

For the year ended 4 April 2020	**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 year	-	-	365	-	-	-	-	365
Net remeasurements of retirement benefit obligations	-	-	119	-	-	-	-	119
Net revaluation of property	-	-	-	(11)	-	-	-	(11)
Net movement in cash flow hedge reserve	-	-	-	-	(14)	-	-	(14)
Net movement in other hedging reserve	-	-	-	-	-	(42)	-	(42)
Net movement in FVOCI reserve	-	-	-	-	-	-	(67)	(67)
Total comprehensive income	-	-	484	(11)	(14)	(42)	(67)	350
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	-	-	(108)	-	-	-	-	(108)
Distribution to the holders of Additional Tier 1 capital	-	-	(42)	-	-	-	-	(42)
At 4 April 2020	**1,325**	**593**	**10,749**	**48**	**306**	**(42)**	**(17)**	**12,962**

For the year ended 4 April 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 2018	1,325	992	9,802	68	(8)		62	12,241
Profit for the year	-	-	636	-	-		-	636
Net remeasurements of retirement benefit obligations	-	-	153	-	-		-	153
Net revaluation of property	-	-	-	(1)	-		-	(1)
Net movement in cash flow hedge reserve	-	-	-	-	328		-	328
Net movement in FVOCI reserve	-	-	-	-	-		(12)	(12)
Total comprehensive income	-	-	789	(1)	328		(12)	1,104
Reserve transfer	-	-	3	(3)	-		-	-
Distribution to the holders of core capital deferred shares	-	-	(108)	-	-		-	(108)
Distribution to the holders of Additional Tier 1 capital (note ii)	-	-	(68)	-	-		-	(68)
At 4 April 2019	1,325	992	10,418	64	320		50	13,169

Notes:

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 1.

ii. Comparatives have been restated as detailed in note 1.

The notes on pages 239 to 319 form part of these financial statements.

Society statement of movement in members' interests and equity

For the year ended 4 April 2020	**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	8,056	64	25	-	56	10,518
Profit for the year	**-**	**-**	**80**	**-**	**-**	**-**	**-**	**80**
Net remeasurements of retirement benefit obligations	**-**	**-**	**119**	**-**	**-**	**-**	**-**	**119**
Net revaluation of property	**-**	**-**	**-**	**(11)**	**-**	**-**	**-**	**(11)**
Net movement in cash flow hedge reserve	**-**	**-**	**-**	**-**	**36**	**-**	**-**	**36**
Net movement in other hedging reserve	**-**	**-**	**-**	**-**	**-**	**(6)**	**-**	**(6)**
Net movement in FVOCI reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(68)**	**(68)**
Total comprehensive income	**-**	**-**	**199**	**(11)**	**36**	**(6)**	**(68)**	**150**
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	**-**	**-**	**(108)**	**-**	**-**	**-**	**-**	**(108)**
Distribution to the holders of Additional Tier 1 capital	**-**	**-**	**(42)**	**-**	**-**	**-**	**-**	**(42)**
At 4 April 2020	**1,325**	**593**	**8,102**	**48**	**61**	**(6)**	**(12)**	**10,111**

For the year ended 4 April 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 2018	1,325	992	7,804	68	(113)		67	10,143
Profit for the year	-	-	272	-	-		-	272
Net remeasurements of retirement benefit obligations	-	-	153	-	-		-	153
Net revaluation of property	-	-	-	(1)	-		-	(1)
Net movement in cash flow hedge reserve	-	-	-	-	138		-	138
Net movement in FVOCI reserve	-	-	-	-	-		(11)	(11)
Total comprehensive income	-	-	425	(1)	138		(11)	551
Reserve transfer	-	-	3	(3)	-		-	-
Distribution to the holders of core capital deferred shares	-	-	(108)	-	-		-	(108)
Distribution to the holders of Additional Tier 1 capital (note ii)	-	-	(68)	-	-		-	(68)
At 4 April 2019	1,325	992	8,056	64	25		56	10,518

Notes:
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 1.
ii. Comparatives have been restated as detailed in note 1.

The notes on pages 239 to 319 form part of these financial statements.

Cash flow statements

For the year ended 4 April 2020					
		Group		Society	
		2020	2019 (note i)	**2020**	2019 (note i)
	Notes	**£m**	£m	**£m**	£m
Cash flows generated from/(used in) operating activities					
Profit before tax		**466**	833	**110**	368
Adjustments for:					
Non-cash items included in profit before tax	36	**933**	735	**875**	804
Changes in operating assets and liabilities	36	**2,264**	(334)	**2,581**	(29)
Taxation		**(252)**	(135)	**(139)**	(41)
Net cash flows generated from/(used in) operating activities		**3,411**	1,099	**3,427**	1,102
Cash flows (used in)/generated from investing activities					
Purchase of investment securities		**(13,162)**	(9,227)	**(13,180)**	(9,225)
Sale and maturity of investment securities		**10,138**	6,324	**10,138**	6,324
Purchase of property, plant and equipment		**(264)**	(156)	**(267)**	(156)
Sale of property, plant and equipment		**27**	12	**27**	12
Purchase of intangible assets		**(403)**	(371)	**(403)**	(371)
Net cash flows (used in)/generated from investing activities		**(3,664)**	(3,418)	**(3,685)**	(3,416)
Cash flows generated from/(used in) from financing activities					
Distributions paid to the holders of core capital deferred shares		**(108)**	(108)	**(108)**	(108)
Distributions paid to the holders of Additional Tier 1 capital		**(42)**	(68)	**(42)**	(68)
Issuance of Additional Tier 1 capital		**593**	-	**593**	-
Redemption of Additional Tier 1 capital		**(1,000)**	-	**(1,000)**	-
Issue of subordinated liabilities		**1,603**	1,029	**1,603**	1,029
Interest paid on subordinated liabilities		**(202)**	(161)	**(202)**	(161)
Redemption of subscribed capital		**-**	(13)	**-**	(13)
Interest paid on subscribed capital		**(5)**	(5)	**(5)**	(5)
Repayment of lease liabilities (note ii)		**(27)**		**(27)**	
Net cash flows generated from/(used in) financing activities		**812**	674	**812**	674
Effect of exchange rate changes on cash and cash equivalents		**41**	9	**42**	5
Net increase/(decrease) in cash and cash equivalents		**600**	(1,636)	**596**	(1,635)
Cash and cash equivalents at start of year		**13,874**	15,510	**13,859**	15,494
Cash and cash equivalents at end of year	36	**14,474**	13,874	**14,455**	13,859

Notes:
i. Comparatives have been restated as detailed in note 1.
ii. Disclosed on adoption of IFRS 16 as detailed in note 1.

The notes on pages 239 to 319 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB, as adopted by the European Union. These financial statements have also been prepared in accordance with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) applicable to organisations reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, branches and non-specialised buildings, financial assets measured at fair value through other comprehensive income (FVOCI), and derivatives and certain other financial assets and liabilities measured at fair value through profit and loss (FVTPL). As stated in the Directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts.

A summary of the Group's accounting policies is set out below. The accounting policies have been consistently applied, except for changes arising from adoption of new and revised IFRSs and certain voluntary changes in accounting policy, as described below.

Further information about judgements in applying accounting policies and critical accounting estimates is provided in note 2.

Adoption of new and revised IFRSs

The Group has adopted the following standards with effect from 5 April 2019:

- 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 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.

Amendments to IFRS 9, IAS 39 and IFRS 7 were also issued in September 2019 which modified specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform. These amendments are applicable to the Group from 5 April 2020 with early adoption permitted. The Group has adopted the applicable amendments from 5 April 2019. Further information is included in note 15.

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 and recognise a lease liability for the present value of contractual payments.

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 which was 2.8% 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 £181 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, accruals and onerous lease provisions 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.

The recognition of lease liabilities totalling £192 million upon adoption of IFRS 16 exceeds the total operating lease commitments disclosed under IAS 17 as at 4 April 2019 of £189 million. Lease liabilities recognised on the balance sheet include reasonably certain extensions to the lease term, whereas the disclosure of operating lease commitments included payments only to the point of contractual break clauses. This increase was almost entirely offset by the impact of discounting, as lease liabilities are recognised on the balance sheet at their present value and the previous IAS 17 disclosure was made on an undiscounted basis.

1. Statement of accounting policies (continued)

The Group has taken advantage of the following practical expedients upon transition:

- Relied upon the previous assessment under IAS 17 and IFRIC 4 as to whether contracts entered into prior to the date of adoption represented a lease.
- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of adoption as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of remaining lease term.
- Excluded initial direct costs from measuring the right-of use asset at adoption.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

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 4 April 2020 was a cumulative loss of £42 million (Society: £6 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 the income statement rather than directly in members' interests and equity. Comparative information has been restated as shown below.

Income statements and statements of comprehensive income extracts for the year ended 4 April 2019

	Previously published £m	Adjustment £m	Restated £m
Group			
Taxation	(215)	18	(197)
Profit after tax	618	18	636
Society			
Taxation	(114)	18	(96)
Profit after tax	254	18	272

Statement of movements in members' interests and equity extracts for the year ended 4 April 2019

	Previously published £m	Adjustment £m	Restated £m
Group			
Profit after tax	618	18	636
Distribution to the holders of Additional Tier 1 capital	(50)	(18)	(68)
Society			
Profit after tax	254	18	272
Distribution to the holders of Additional Tier 1 capital	(50)	(18)	(68)

For the year ended 4 April 2020, adoption of this amendment resulted in reducing the taxation charge and increasing profit after tax for the Group and Society by £13 million. This change has had no impact on the Group's or Society's net assets or members' interests and equity.

1. Statement of accounting policies (continued)

Changes to the cash flow statements

The presentation of the cash flow statement involves judgement by management as to the categorisation of different transactions between operating, financing and investing activities in a manner which is most appropriate to the business. To provide a better representation of the Group's cash flows from operating, investing and financing activities, a number of reclassifications and adjustments have been made relating to the following areas:

- Reclassification of certain balances out of cash equivalents due to restrictions on the ability to withdraw the funds.
- Separate presentation of the effects of foreign exchange differences on cash and cash equivalents.
- Adjustments to the classification of cash flows between operating, investing and financing activities to better reflect the nature of the cash flows and, where relevant, associated hedging impacts.
- Reclassifications within the components of cash flows from operating activities.

Comparatives for the year ended 4 April 2019 have been restated as shown opposite.

Comparatives included within the disclosure of the components of cash flows (used in)/generated from operating activities in note 36 have also been restated accordingly.

These changes had no impact on the Group's or Society's net assets or members' interests and equity at 4 April 2019.

Cash flow statement extract for the year ended 4 April 2019

Group	Previously published £m	Adjustment £m	Restated £m
Cash flows generated from/(used in) operating activities			
Non-cash items included in profit before tax (notes i-iv)	1,401	(666)	735
Changes in operating assets and liabilities (notes i-vi)	(2,514)	2,180	(334)
Cash flows (used in)/generated from investing activities			
Purchase of investment securities (note ii)	(9,020)	(207)	(9,227)
Sale and maturity of investment securities (notes ii and iv)	6,298	26	6,324
Cash flows generated from/(used in) financing activities			
Issue of debt securities (note i)	27,956	(27,956)	-
Redemption of debt securities in issue (note i)	(25,970)	25,970	-
Interest paid on debt securities in issue (note i)	(592)	592	-
Interest paid on subordinated liabilities (note iv)	(222)	61	(161)
Interest paid on subscribed capital (note iv)	(14)	9	(5)
Cash and cash equivalents			
Effect of exchange rate changes on cash and cash equivalents (note v)	-	9	9
Cash and cash equivalents at start of period (note vi)	17,510	(2,000)	15,510
Cash and cash equivalents at end of period (note vi)	15,856	(1,982)	13,874

1. Statement of accounting policies (continued)

Cash flow statement extract for the year ended 4 April 2019			
Society	Previously published £m	Adjustment £m	Restated £m
Cash flows generated from/(used in) operating activities			
Non-cash items included in profit before tax (notes i-iv)	1,409	(605)	804
Changes in operating assets and liabilities (notes i-vi)	(2,874)	2,845	(29)
Cash flows (used in)/generated from investing activities			
Purchase of investment securities (note ii)	(9,018)	(207)	(9,225)
Sale and maturity of investment securities (notes ii and iv)	6,298	26	6,324
Cash flows generated from/(used in) financing activities			
Issue of debt securities (note i)	27,956	(27,956)	-
Redemption of debt securities in issue (note i)	(25,288)	25,288	-
Interest paid on debt securities in issue (note i)	(552)	552	-
Interest paid on subordinated liabilities (note iv)	(222)	61	(161)
Interest paid on subscribed capital (note iv)	(14)	9	(5)
Cash and cash equivalents			
Effect of exchange rate changes on cash and cash equivalents (note v)	-	5	5
Cash and cash equivalents at start of period (note vi)	17,494	(2,000)	15,494
Cash and cash equivalents at end of period (note vi)	15,841	(1,982)	13,859

Notes:

i. Reclassification of gross cash inflows and outflows arising from the issuance, disposal and interest on debt securities in issue from financing activities to present a net cash movement within operating activities, reflecting the use of these securities as part of the Group's day to day operations.
ii. Adjustments to cash flows on acquisition and disposal of investment securities within investing activities to appropriately reflect the proceeds paid or received, inclusive of the effects of premiums, discounts and gains/(losses) on disposal.
iii. Reclassifications within cash flows from operations between categories of non-cash items and changes in operating assets and liabilities.
iv. Presentation of cash flows associated with derivative contracts hedging investing and financing activities in the same category as the cash flows of the hedged items.
v. Separate presentation of the effects of exchange rate changes on cash and cash equivalents.
vi. Reclassification of certain collateral balances from cash equivalents to loans and advances to banks and similar institutions.

Change in presentation of intercompany services

To better reflect the nature of services provided by the Society to its subsidiaries, administrative expenses relating to such services and the corresponding amounts recharged are now presented on a gross basis within administrative expenses and other operating income respectively. Previously, recharges were netted within administrative expenses.

Comparatives for the year ended 4 April 2019 have been restated as shown below:

Income statement extract for the year ended 4 April 2019			
Society	Previously published £m	Adjustment £m	Restated £m
Other operating income	52	28	80
Administrative expenses	(2,223)	(28)	(2,251)

This change had no impact on the Society's net assets or members' interests and equity, or cash and cash equivalents at 4 April 2019.

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs that are effective from 1 January 2020, some of which have been endorsed for use in the EU. These amendments are not expected to have a significant impact for the Group.

IFRS 17 'Insurance Contracts' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 is effective for accounting periods beginning on or after 1 January 2021 and has not yet been endorsed for use by the EU. The requirements of IFRS 17 are currently being assessed; however, it is not expected that the new standard will have a significant impact for the Group.

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1. Statement of accounting policies (continued)

Basis of consolidation

The assets, liabilities and results of the Society and its undertakings, which include subsidiaries and structured entities, are included in the financial statements on the basis of accounts made up to the reporting date.

The Group consolidates an entity from the date on which the Group: (i) has power over the entity; (ii) is exposed to, or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through the exercise of its power. The assessment of control is based on all facts and circumstances. The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Group ceases to consolidate subsidiaries from the date that control ceases.

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control. The Group considers factors such as the purpose and design of the entity, size and exposure to variability of returns and nature of the relationship.

Upon consolidation, all intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated.

Investments in subsidiary undertakings are stated in the Society accounts at cost less provisions for any impairment in value. The directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Adjustment is made for individually significant transactions arising between 31 March and the Society's year end.

Securitisation transactions

The Group has securitised certain mortgage loans by the transfer of the loans to structured entities controlled by the Group. The securitisation enables a subsequent issuance of debt, either by the Society or the structured entities, to investors who gain the security of the underlying assets as collateral. Those structured entities are fully consolidated into the Group accounts.

The transfers of the mortgage loans to the structured entities are not treated as sales by the Society. The Society continues to recognise the mortgage loans on its own balance sheet after the transfer because it retains their risks and rewards through the receipt of substantially all of the profits or losses of the structured entities. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the structured entities.

The Group has also entered into self-issuances of debt to be used as collateral for repurchase ('repo') and similar transactions. Investments in self-issued debt and the related obligation, together with the related income, expenditure and cash flows, are not recognised in the Society's or Group's financial statements. This avoids the 'grossing-up' of the financial statements that would otherwise arise.

To manage interest rate risk, the Society enters into derivative transactions with the structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans are not derecognised. All other derivatives relating to securitisations are treated as explained in the derivatives and hedge accounting policy below.

Interest receivable and interest expense

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example early redemption penalty charges) and anticipated customer behaviour but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts above or below market rates.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e net of the allowance for expected credit losses (ECLs)). Where loans are credit impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. For these assets the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest receivable and similar income/(expense) calculated using the effective interest rate method also includes interest on financial assets classified as fair value through other comprehensive income, and on derivatives in qualifying hedge relationships.

1. Statement of accounting policies (continued)

Interest income not calculated using the effective interest rate method, including interest on financial assets classified as fair value through profit or loss and derivatives not in qualifying hedge relationships, is presented as other interest receivable and similar income/(expense).

Fees and commissions

Fees and commission income and expense includes fees other than those that are an integral part of EIR. Fees and commissions relating to current accounts, mortgages and credit cards are either:

- transaction-based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to the provision of services over a period of time and therefore recognised on a systematic basis over the life of the agreement as services are provided.

The transaction prices and provision of services are defined within the product terms and conditions.

Trail commission relating to investments under administration, general insurance and protection products sold on behalf of third parties may include variable consideration. Where this is the case the trail commission is recognised either on the accruals basis over the period to which the commission relates or, if the uncertainties are more significant, once the uncertainties are resolved.

Fee and commission income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

Segmental reporting

The Nationwide Leadership Team (NLT) is responsible for allocating resources and assessing the performance of the business and is therefore identified as the chief operating decision maker.

The Group has determined that it has one reportable segment as the NLT reviews performance and makes decisions based on the Group as whole. No segmental analysis is required on geographical lines as substantially all of the Group's activities are in the United Kingdom. As a result, no segmental disclosure is provided.

Intangible assets

Intangible assets held by the Group consist primarily of externally acquired and internally developed computer software which is held at cost less accumulated amortisation and impairment. In accordance with IAS 38 'Intangible Assets', software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Web development costs are capitalised where the expenditure is incurred on developing an income generating website.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Computer software intangible assets are amortised using the straight-line method over their estimated useful lives which generally range between 3 and 10 years. Amortisation commences when the assets are ready for their intended use. Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Intangible assets, including computer software, are reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Property, plant and equipment

Freehold and long leasehold properties comprise mainly branches and office buildings.

Branches and non-specialised buildings are stated at revalued amounts, being the fair value, determined by market-based evidence at the date of the valuation, less any subsequent accumulated depreciation and subsequent impairment. Valuations are completed annually, as at 4 April, by external, independent and qualified surveyors who have recent experience in the location and type of properties. Valuations are performed in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards and are performed on a vacant possession basis, using a comparative method of valuation with reference to sales prices and observable market rents for similar properties in similar locations.

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1. Statement of accounting policies (continued)

Increases in the valuations of branches and non-specialised buildings are credited to other comprehensive income except where they reverse decreases for the same asset previously recognised in the income statement, in which case the increase in the valuation is recognised in the income statement. Decreases in valuations are recognised in the income statement except where they reverse amounts previously credited to other comprehensive income for the same asset, in which case the decrease in valuation is recognised in other comprehensive income.

The Group holds a small number of investment properties comprising properties held for rental. These are stated at fair value, determined by market-based evidence at the date of the valuation. Valuations are completed annually, as at 4 April, by independent surveyors. Changes in fair value are included in the income statement. Depreciation is not charged on investment properties.

Other property, plant and equipment, including specialised administration buildings, are included at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Land is not depreciated. The depreciation of other assets commences when the assets are ready for their intended use and is calculated using the straight-line method to allocate their cost or valuation over the following estimated useful lives:

Branches and non-specialised buildings	60 years
Specialised administration buildings	up to 60 years
Plant and machinery	5 to 15 years
Equipment, fixtures, fittings and vehicles	3 to 10 years

Estimated useful lives and residual values are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Assets are reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

Gains and losses on disposals are included in other operating income/(expense) in the income statement.

Leases

Accounting for leases under IFRS 16 (for the year ended 4 April 2020)

At inception, the Group assesses whether a contract is or contains a lease. This assessment involves exercising judgment as to whether the contract conveys the right to control the use of an identified asset, and the right to obtain substantially all of the economic benefits from this asset, for a period of time. The leases held by the Group as a lessee consist primarily of property contracts for branches and office buildings.

The Group recognises a right-of-use (RoU) asset and a lease liability at the commencement of the lease, except 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 generally recognised in the income statement on a straight-line basis.

The lease liability is initially measured at the present value of the payments over the lease term, with the rate used to discount the payments reflecting the rate implicit in the lease or, if this is not readily determinable, the Group's incremental borrowing rate. The lease term includes the non-cancellable period of the lease, together with an assessment of any extension or termination options which are reasonably certain to be exercised. The lease liability is subsequently measured at amortised cost using the effective interest method and remeasured (with a corresponding adjustment to the RoU asset) when there is a change in future lease payments due to renegotiation, changes to an index or rate, or a reassessment of options.

The RoU asset is initially measured based on the value of the corresponding lease liability, plus any initial direct costs and any lease payments made at or before the commencement, less any incentives received. The RoU asset is subsequently measured at cost less depreciation and any accumulated impairment. Assets are depreciated over the shorter of the lease term or the useful life of the underlying asset. The Group applies IAS 36 to determine whether a RoU asset is impaired, as described in the property, plant and equipment accounting policy. RoU assets are included in the 'Property, plant and equipment' balance sheet line item and the lease liabilities are included in the 'Other liabilities' line item.

All leases where the Group is lessor are classified as operating leases, as substantially all risks and rewards of ownership have been retained. Rental income is recognised on a straight-line basis over the term of the lease.

Accounting for leases under IAS 17 (for the year ended 4 April 2019)

Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership to the lessee. Operating lease payments and receipts are charged or credited to the income statement on a straight-line basis over the life of the lease.

1. Statement of accounting policies (continued)

Taxation including deferred tax

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Tax related to the fair value remeasurement of financial assets measured at FVOCI, which is charged or credited to other comprehensive income and accumulated in the FVOCI reserve, is also credited or charged to other comprehensive income and is subsequently reclassified from other comprehensive income to the income statement together with the associated deferred loss or gain.

Tax related to movements in the fair value of derivatives that are subject to cash flow hedge accounting, which are charged or credited to other comprehensive income and accumulated in the cash flow hedge reserve, is also credited or charged to other comprehensive income and is subsequently reclassified from other comprehensive income to the income statement together with the associated deferred loss or gain from cash flow hedge accounting.

Tax related to movements in the valuation of property, which are charged or credited to other comprehensive income and accumulated in the revaluation reserve, is also credited or charged to other comprehensive income and accumulated in the revaluation reserve.

Tax related to remeasurements of retirement benefit obligations, which are charged or credited to other comprehensive income and accumulated in the general reserve, is also credited or charged to other comprehensive income.

Employee benefits

(a) Pensions

The Group operates a number of defined benefit and defined contribution pension arrangements.

Defined benefit pension arrangements

A defined benefit plan is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.

The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where a net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and assumptions agreed with the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows derived from yields of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in forward looking actuarial assumptions. Actuarial remeasurements are recognised in full, in the year they occur, in other comprehensive income.

Past service costs are recognised immediately in the income statement.

Defined contribution pension arrangements

A defined contribution arrangement is one into which the Group and the employee pay fixed contributions, without any further obligation to pay additional contributions. Payments to defined contribution schemes are charged to the income statement as they fall due.

(b) Other post-retirement obligations

The Group provides post-retirement healthcare to a small number of former employees. The Group recognises this obligation and the actuarial remeasurement in a similar manner to the defined benefit pension plans.

1. Statement of accounting policies (continued)

(c) Other long-term employee benefits

The cost of bonuses payable 12 months or more after the end of the year in which they are earned is accrued over the period from the start of the performance year until all relevant criteria have been met.

(d) Short-term employee benefits

The cost of short-term employee benefits, including wages and salaries, social security costs and healthcare for current employees, is recognised in the year of service.

Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled, and it can be reliably estimated. This includes management's best estimate of amounts payable for customer redress.

The Group has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised, to the extent that it can be reliably estimated, when the levy is legally enforceable, in line with IFRIC 21 'Levies'. The amount provided is based on information received from the FSCS and the Group's historic share of industry protected deposits.

Financial assets

Financial assets comprise cash, loans and advances to banks and similar institutions, investment securities, derivative financial instruments and loans and advances to customers.

Recognition and derecognition

All financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all the risks and rewards of ownership have been transferred.

The fair value of a financial instrument on initial recognition is normally the transaction price (plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss). On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. Any difference between the fair value at initial recognition and the transaction price is recognised immediately as a gain or loss in the income statement where the fair value is based on a quoted price in an active market or a valuation using only observable market data. In all other cases, any gain or loss is deferred and recognised over the life of the transaction, or until valuation inputs become observable.

Modification of contractual terms

An instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms (such as renegotiations of commercial loans). Residential mortgages reaching the end of a fixed interest deal period are deemed repricing events, rather than a modification of contractual terms, as the change in interest rate at the end of the fixed rate period was envisaged in the original mortgage contract.

Where an instrument is renegotiated and not derecognised (for example forbearance), the change is considered a modification of contractual terms. Where this arises, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate. Any gain or loss on recalculation is recognised immediately in the income statement.

Classification and measurement

The classification and subsequent measurement of financial assets is based on an assessment of the Group's business models for managing the assets and their contractual cash flow characteristics. Financial assets are classified into the following three categories:

(a) Amortised cost

Financial assets held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified as amortised cost. This category of financial assets includes cash, loans and advances to banks and similar institutions, the majority of the Group's residential and commercial mortgage loans, all unsecured lending, and certain investment securities within a 'hold to collect' business model.

1. Statement of accounting policies (continued)

Financial assets within this category are recognised on either the receipt of cash or deposit of funds into one of the Group's bank accounts (for cash and loans and advances to banks and similar institutions), when the funds are advanced to borrowers (for residential, commercial and unsecured lending) or on the trade date for purchases of investment securities. After initial recognition, the assets are measured at amortised cost using the effective interest rate method, less provisions for expected credit losses.

(b) Fair value through other comprehensive income

Debt instruments held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where contractual terms comprise solely payments of principal and interest (SPPI), are classified and measured at FVOCI. This category of financial assets includes most of the Group's investment securities which are held to manage liquidity requirements.

Financial assets within this category are recognised on trade date. The assets are measured at fair value using, in the majority of cases, market prices or, where there is no active market, prices obtained from market participants. In sourcing valuations, the Group makes use of a consensus pricing service, in line with standard industry practice. In cases where market prices or prices from market participants are not available, discounted cash flow models are used

Interest on FVOCI assets is recognised in interest receivable and similar income in the income statement, using the effective interest rate method.

Unrealised gains and losses arising from changes in value are recognised in other comprehensive income. Provisions for expected credit losses and foreign exchange gains or losses are recognised in the income statement.

Cumulative gains or losses arising on sale are recognised in the income statement within other operating income/(expense), net of any credit or foreign exchange gains or losses already recognised.

(c) Fair value through profit or loss

All other financial assets are measured at FVTPL. Financial assets within this category include derivative instruments and a small number of residential and commercial loans and investment securities with contractual cash flow characteristics which do not meet the SPPI criteria. The contractual terms for these cash flows include contingent or leverage features, or returns based on movements in underlying collateral values such as house prices.

Fair values are based on observable market data, valuations obtained by third parties or, where these are not available, internal models. Gains or losses arising from changes in the fair value of these instruments and on disposal are recognised in the income statement within other operating income.

Hedge accounting is not applied to assets classified as FVTPL; however, hedging may be applied for economic purposes. Gains or losses arising from changes in the fair value of derivatives economically hedging FVTPL financial assets is also included within other operating income.

Impairment of financial assets

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at either amortised cost or FVOCI. These include cash, loans and advances to banks and similar institutions, and the majority of investment securities and loans and advances to customers. Also within scope are irrevocable undrawn commitments to lend and intra-group lending (the latter being eliminated on consolidation in the Group accounts).

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument, including any undrawn commitment. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are typically calculated from initial recognition of the financial asset for the maximum contractual period that the Group is exposed to the credit risk. However, for revolving credit loans such as credit cards and overdrafts, the Group's credit risk is not limited to their contractual period and therefore the expected life of the loan and associated undrawn commitment is calculated based on the behavioural life of the loan.

1. Statement of accounting policies (continued)

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the balance sheet is net of impairment provisions. For financial assets classified as FVOCI, any credit losses recognised are offset against cumulative fair value movements within the other comprehensive income reserve. For separately identifiable irrevocable loan commitments, where the related financial asset has not yet been advanced, the provision is presented in provisions for liabilities and charges in the balance sheet.

Forward looking economic inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases. To capture any non-linear relationship between economic assumptions and credit losses, a minimum of three scenarios is used. This includes a central scenario which reflects the Group's view of the most likely future economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability.

Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: no significant increase in credit risk since initial recognition
On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

Whether a significant increase in credit risk has occurred is ascertained by comparing the probability of default at the reporting date to the probability of default at origination, based on quantitative and qualitative factors. Quantitative considerations take into account changes in the residual lifetime probability of default (PD) of the asset. As a backstop, all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in stage 2.

Qualitative factors that may indicate a significant change in credit risk include concession events where full repayment of principal and interest is envisaged, on a discounted basis.

Further information about the identification of significant increases in credit risk is provided in note 10.

Stage 3: credit impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cash flows; or
- the loan is otherwise considered to be in default.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

Purchased or originated credit impaired (POCI) loans

Where loans are credit impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. Thereafter, any subsequent change (favourable or unfavourable) in the lifetime ECL is recognised in the income statement. POCI loans are separately disclosed as credit impaired loans and cannot be transferred out of the POCI designation, even if there is a significant improvement in credit quality.

Transfers between stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above.

For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met. For loans subject to concession events such as forbearance, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months.

1. Statement of accounting policies (continued)

Write-off

Loans remain on the balance sheet, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

Financial liabilities

Borrowings, including shares, deposits, debt securities in issue, subordinated liabilities and permanent interest-bearing shares (subscribed capital) are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

Derivative financial liabilities are measured at FVTPL. Borrowings that are designated as hedged items are subject to measurement under the hedge accounting requirements described in the derivatives and hedge accounting policy below.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired. The financial liabilities of dormant shares and deposit accounts are extinguished when balances have been transferred to the Government-backed unclaimed asset scheme under the terms of the Dormant Accounts and Building Society Accounts Act 2008 with no impact on the income statement.

Fair value of assets and liabilities

IFRS 13 ‘Fair Value Measurement’ requires an entity to classify assets and liabilities held at fair value, and those not measured at fair value but for which the fair value is disclosed, according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

Level 1 – Valuation using quoted market prices

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm’s length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forward rate agreements which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (‘unobservable inputs’). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

Derivatives and hedge accounting

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk, and are not used for speculative purposes.

(a) Derivative financial instruments

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from third parties. For collateralised positions the Group uses discount curves based on overnight indexed swap rates such as Sonia, and for non-collateralised positions the Group uses discount curves based on term Libor rates.

1. Statement of accounting policies (continued)

In the first instance fair values are calculated using mid prices. An adjustment is then made to derivative assets and liabilities to value them on a bid and offer basis respectively. The bid-offer adjustment is calculated on a portfolio basis and reflects the costs that would be incurred if substantially all residual net portfolio market risks were closed out using available hedging instruments or by disposing of or unwinding actual positions. The methodology for determining the bid-offer adjustments involves netting between long and short positions and the grouping of risk by type, in accordance with hedging strategy. Bid-offer spreads are derived from market sources such as broker data and are reviewed periodically.

In measuring fair value, separate credit valuation and debit valuation adjustments are made for counterparty or own credit risk to the extent not already included in the valuation. From the year ended 4 April 2020, funding valuation adjustments are also made to reflect an estimate of the adjustment a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal right and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks and similar institutions. Similarly, where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks and similar institutions. Where securities collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

(b) Embedded derivatives

Some complex contracts may be hybrid in nature, in that a derivative element is included within a non-derivative host contract, in which case the derivative is termed an embedded derivative. If the host contract is an asset within the scope of IFRS 9' the entire contract has its accounting classification assessed under IFRS 9. If the host contract is a liability or an asset which does not fall within the scope of IFRS 9, the embedded derivative is separated and treated as a standalone derivative instrument if:

- its economic characteristics are not closely related to the host,
- a separate instrument with the same terms would meet the definition of a derivative, and
- the hybrid contract is not already being fair valued through the income statement.

(c) Hedge accounting

The Group adopted the general hedge accounting requirements of IFRS 9 from 5 April 2019 but has continued to apply the scope exception which allows ongoing application of IAS 39 for fair value hedge accounting for a portfolio (macro) hedge of interest rate risk. When transactions meet the criteria specified in IFRS 9, the Group can apply two types of hedge accounting: either hedges of the changes in fair value of the financial asset or liability (fair value hedge accounting) or hedges of the variability in cash flows of the financial asset or liability (cash flow hedge accounting). The Group does not have hedges of net investments.

At inception each hedge relationship is formally documented, including a description of the hedged item (a financial asset or liability which is being economically hedged) and the hedging instrument (a derivative), as well as the methods which will be used to assess the effectiveness of the hedge. Hedges accounted for under IFRS 9 are required to be effective on a prospective basis, in line with risk management strategy. Macro hedges which continue to be accounted for under IAS 39 are required to be highly effective on both a retrospective and a prospective basis.

Fair value and cash flow hedges may have residual hedge ineffectiveness. This is the degree to which the change in fair value of the hedging instrument does not offset the change in fair value of the hedged item. This ineffectiveness is recognised in the income statement and typically arises from:

i) differences in the magnitude or timing of future expected cash flows in the hedged item and hedging instrument;
ii) differences in the market curves used to value the hedged item and hedging instrument;
iii) unexpected adjustments to either the hedged item or hedging instrument, due to early repayments or disposals;
iv) the ongoing amortisation of any existing balance sheet mismatch between the fair value of the hedged item and hedging instrument.

The Group discontinues hedge accounting when:

i) it is evident from testing that a hedging instrument ceases to meet the hedge effectiveness requirements;
ii) the hedging instrument expires, or is sold, terminated or exercised;
iii) the hedged item matures or is sold or repaid or, in the case of a forecasted item, is no longer deemed to be highly probable to occur.

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1. Statement of accounting policies (continued)

For macro hedges which continue to be accounted for under IAS 39, the Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge. For hedges accounted for under IFRS 9, the Group is unable to voluntarily de-designate hedging relationships, unless there has been a change to risk management objectives.

Fair value hedge accounting

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the risk being hedged. This creates an offset to the fair value movements of the hedging instrument. Changes in the fair value of the hedged items and hedging instruments are recorded in the income statement, except for changes in the fair value of hedging instruments accounted for under IFRS 9 which are attributable to foreign currency basis spreads. Where foreign currency basis spreads are excluded from hedge designation, this element of fair valuation of the hedging instrument is instead recognised directly within equity within the 'other hedging reserve'.

For larger and distinctively identifiable assets and liabilities, such as investment securities and debt securities in issue, a single or small number of hedging instruments may be used. This is referred to as a micro fair value hedge. If the hedge is effective, the Group adjusts the carrying value of that specific asset or liability to reflect changes in its fair value due to movements in the designated benchmark rate, such as Libor or Sonia. This creates an offset to the fair value movement of the hedging instruments.

For hedged items which are classified as FVOCI, such as investment securities, there is no further need to adjust their carrying value as they are already held at fair value. Instead, hedge accounting results in an amount being removed from the FVOCI reserve and instead reported in the income statement, to create an offset to the change in fair value of the hedging instrument.

For balances within portfolios of homogeneous instruments, such as mortgages, savings and commercial loans, derivatives may be used to hedge risks on a portfolio basis. The Group creates separate portfolio (macro) hedges for assets and liabilities. The Group determines the hedged item by identifying portfolios of similar assets or liabilities and scheduling the expected future cash flows from these items into repricing time buckets, based on expected rather than actual repricing dates. A portion of the total cash flow from each time bucket is then included in the hedged item. The size of this portion is set so that it is expected to create a highly effective fair value offset to the equivalent future cash flows from the hedging instruments. If the hedge is highly effective the Group records an adjustment in the fair value adjustment for portfolio hedged risk category on the balance sheet. Macro hedges are frequently rebalanced to include new business.

In fair value hedge accounting relationships, if the hedging instrument no longer meets the criteria for hedge accounting, the cumulative fair value hedge adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the hedged item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Cash flow hedge accounting

In a cash flow hedge accounting relationship, the portion of the hedging instrument's fair value movement that is deemed to be an effective hedge is deferred to the cash flow hedge reserve, instead of being immediately recognised in the income statement. The ineffective portion of the derivative fair value movement is recognised immediately in the income statement.

Amounts deferred to the cash flow hedge reserve are subsequently recycled to the income statement. This recycling occurs when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised. In cash flow hedge accounting relationships, if the derivative no longer meets the criteria for hedge accounting, the cumulative gain or loss from the effective portion of the movement in the fair value of the derivative remains in other comprehensive income until the cash flows from the underlying hedged item are recognised in the income statement. If the hedged item is sold or repaid, the cumulative gain or loss in other comprehensive income is immediately recognised in the income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

1. Statement of accounting policies (continued)

Sale and repurchase agreements (including securities borrowing and lending) and collateralised total return swaps

Investment and other securities may be lent or sold subject to a commitment to repurchase them at a pre-determined price (a repo) or a right to continue to receive all future cash flows and changes in capital value on collateral pledged (a total return swap). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership (typically, the interest rate risk and credit risk on the asset) remain within the Group, and the counterparty liability is included separately on the balance sheet within deposits from banks and similar institutions as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a reverse repo) or settle all future cash flows and changes in capital value to a third party on collateral held (a reverse total return swap) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans within loans and advances to banks and similar institutions, and the securities are not included on the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

Equity instruments

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments. Where the Group does have a present obligation, the instrument is classified as a financial liability.

The proceeds of the issuance of equity instruments are included in equity. Costs incurred that are incremental and directly attributable to the issuance are deducted from the proceeds (net of applicable tax).

Distributions to holders of equity instruments are recognised when they become irrevocable and are deducted from the general reserve.

Foreign currency translation

The consolidated financial statements are presented in sterling, which is the functional currency of the Society. Items included in the financial statements of each of the Group's entities are measured using sterling which is also the functional currency of each entity. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement as disclosed in note 7.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, included within cash and loans and advances to banks and similar institutions on the balance sheet.

Contingent liabilities

Contingent liabilities are possible obligations whose existence is dependent on the outcome of uncertain future events, or those where the outflow of resources is uncertain or cannot be measured reliably.

During the ordinary course of business, the Group may be subject to threatened or actual legal proceedings. Any such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote or where such disclosure could be seriously prejudicial to the conduct of the claims.

Grants

Grants are initially recognised on the balance sheet at the point where it is clear that the Group will comply with the conditions attaching to them and the grants will be received. The grants are then recognised in the income statement as a reduction to expense on a systematic basis that matches them with the related costs that they are intended to compensate.

IFRS disclosures

The audited sections in the Risk report and the Report of the directors on remuneration form an integral part of these financial statements. These disclosures (where marked as 'audited') are covered by the Independent auditor's report for this Annual Report and Accounts.

2. Judgements in applying accounting policies and critical accounting estimates

The preparation of the Group's financial statements in accordance with IFRS involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 4 April 2020, this evaluation has considered the potential impacts of Covid-19.

The most significant sources of estimation uncertainty made by management in applying the Group's accounting policies, which are deemed critical to the Group's results and financial position, are disclosed in the following notes, including any additional information relating to Covid-19 where relevant. These accounting estimates include areas of significant judgement.

Area with significant judgements or estimates	Note
Impairment losses and provisions on loans and advances to customers	10
Provisions for customer redress	27
Retirement benefit obligations (pensions)	30

3. Interest receivable and similar income

	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
On financial assets measured at amortised cost:				
Residential mortgages	**4,553**	4,469	**3,407**	3,377
Connected undertakings	**-**	-	**798**	783
Other loans	**655**	656	**642**	644
Other liquid assets	**152**	137	**148**	137
Investment securities	**27**	27	**27**	27
On investment securities measured at FVOCI	**172**	167	**172**	166
On financial instruments hedging assets in a qualifying hedge accounting relationship	**(402)**	(315)	**(402)**	(307)
Total interest receivable and similar income calculated using the effective interest rate method	**5,157**	5,141	**4,792**	4,827
Interest on net defined benefit pension asset (note 30)	**3**	-	**3**	-
Other interest and similar expense (note i)	**(30)**	(23)	**(30)**	(31)
Total	**5,130**	5,118	**4,765**	4,796

Note:

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

4. Interest expense and similar charges

	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
On shares held by individuals	**1,361**	1,335	**1,361**	1,335
On subscribed capital	**14**	14	**14**	14
On deposits and other borrowings:				
Subordinated liabilities	**309**	238	**309**	238
Connected undertakings	**-**	-	**54**	48
Other	**240**	207	**241**	210
On debt securities in issue	**745**	673	**678**	612
Net income on financial instruments hedging liabilities	**(349)**	(270)	**(245)**	(150)
Interest on net defined benefit pension liability (note 30)	**-**	6	**-**	6
Total	**2,320**	2,203	**2,412**	2,313

5. Fees and commission income and expense

Group	2020 Income £m	2020 Expense £m	2020 Net £m	2019 Income £m	2019 Expense £m	2019 Net £m
Current account and savings	**266**	**(217)**	**49**	261	(202)	59
General insurance	**50**	**-**	**50**	65	-	65
Protection and investments	**59**	**-**	**59**	63	-	63
Mortgage	**15**	**(6)**	**9**	13	(1)	12
Credit card	**44**	**(43)**	**1**	43	(39)	4
Other fees and commissions	**5**	**(4)**	**1**	4	(6)	(2)
Total	**439**	**(270)**	**169**	449	(248)	201

The Society's fee and commission income and expense is as shown above for the Group, except that it excludes £4 million (2019: £3 million) of mortgage income.

6. Other operating income

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Gains on financial assets measured at FVTPL	**17**	23	**17**	22
Gains on disposal of FVOCI investment securities	**40**	27	**40**	27
Recharges for services to connected undertakings (note i)	**-**	-	**38**	28
Other income	**10**	4	**10**	3
Total	**67**	54	**105**	80

Note:
i. Comparatives have been restated as detailed in note 1.

Other income includes gains in relation to 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. There were no gains or losses on disposal of financial assets measured at amortised cost in the year ended 4 April 2020 (2019: £nil).

7. Losses/gains from derivatives and hedge accounting

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

Note 1 describes how fair value and cash flow hedge accounting affect the financial statements and the main sources of the residual hedge ineffectiveness remaining in the income statement. Further information on the current derivative portfolio and the allocation to hedge accounting types is included in note 15. 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 and immediately replaced these hedges with a number of new fair value hedge accounting relationships.

	Group		**Society**	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Gains from fair value hedge accounting	**61**	24	**24**	8
(Losses)/gains from cash flow hedge accounting	**(2)**	23	**(1)**	(34)
Fair value (losses)/gains from other derivatives (note i)	**(74)**	(18)	**(13)**	8
Foreign exchange retranslation (note ii)	**8**	7	**9**	11
Total	**(7)**	36	**19**	(7)

Notes:

i. This category includes derivatives used for economic hedging purposes, but which are not currently in a hedge accounting relationship, as well as valuation adjustments which are applied at a portfolio level and so are not allocated to individual hedge accounting relationships.

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

Gains of £61 million (2019: £24 million) from fair value hedge accounting include gains of £53 million (2019: losses of £9 million) from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts, and gains of £8 million (2019: £33 million) relating to micro hedges which arise due to a combination of hedge ineffectiveness, disposals and restructuring, and the amortisation of existing balance sheet amounts. Losses of £74 million (2019: £18 million) from other derivatives include a loss of £51 million (2019: £3 million) from adverse movements in bid-offer spreads, the majority of which occurred in the more volatile financial markets observed at the end of the financial year. There were also losses of £18 million (2019: £8 million) on swaps economically hedging the pipeline of new mortgage business.

7. Losses/gains from derivatives and hedge accounting (continued)

Fair value hedge accounting

The Group's risk management approach is to use interest rate and currency derivatives to economically hedge the fair value of fixed rate assets and liabilities. The market risk from fixed rate assets and liabilities may be netted down before deciding to use derivatives. The derivatives used are predominantly interest rate swaps, which convert fixed rate cash flows to a benchmark floating rate such as Libor or Sonia, and cross currency swaps which convert foreign currency cash flows to GBP cash flows. In addition, bond forwards are used to reduce swap spread risk within the investment securities portfolio and inflation swaps are used to economically hedge contractual inflation risk within investment securities. The table below provides further information on the Group's fair value hedges:

Fair value hedge accounting 2020 Group			**Change in fair value used for determining hedge ineffectiveness**		**Hedge ineffectiveness recognised in the income statement**	**Carrying amount of the hedged item**	**Of which: accumulated fair value adjustment**
Hedged item balance sheet classification	**Hedging instrument**	**Risk category**	**Hedged item**	**Instrument (note i)**			
			£m	**£m**	**£m**	**£m**	**£m**
Assets:							
Loans and advances to customers (note ii)	Interest rate swaps	Interest rate	**1,220**	**(1,169)**	**51**	**106,163**	**2,514**
Investment securities	Interest rate swaps, bond forwards	Interest rate	**158**	**(159)**	**(1)**	**6,322**	**406**
Investment securities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	**277**	**(291)**	**(14)**	**8,439**	**352**
Investment securities	Inflation swaps	Interest rate and inflation	**39**	**(41)**	**(2)**	**2,427**	**58**
Total assets			**1,694**	**(1,660)**	**34**	**123,351**	**3,330**
Liabilities:							
Shares (note iii)	Interest rate swaps	Interest rate	**(46)**	**48**	**2**	**4,562**	**29**
Debt securities in issue	Interest rate swaps,	Interest rate	**(11)**	**19**	**8**	**3,309**	**191**
Debt securities in issue	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	**(503)**	**508**	**5**	**22,961**	**965**
Subordinated liabilities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	**(598)**	**611**	**13**	**9,304**	**635**
Subscribed capital	Interest rate swaps	Interest rate	**(3)**	**2**	**(1)**	**243**	**43**
Total liabilities			**(1,161)**	**1,188**	**27**	**40,379**	**1,863**
Total fair value hedges			**533**	**(472)**	**61**		

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7. Losses/gains from derivatives and hedge accounting (continued)

Fair value hedge accounting 2019 Group			Change in fair value used for determining hedge ineffectiveness		Hedge ineffectiveness recognised in the income statement	Carrying amount of the hedged item	Of which: accumulated fair value adjustment
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item £m	Instrument £m	£m	£m	£m
Assets:							
Loans and advances to customers (note ii)	Interest rate swaps	Interest rate	396	(406)	(10)	94,635	1,294
Investment securities	Interest rate swaps, bond forwards	Interest rate	230	(193)	37	13,292	323
Investment securities	Inflation swaps	Interest rate and inflation	16	(15)	1	1,439	19
Total assets			642	(614)	28	109,366	1,636
Liabilities:							
Shares (note iii)	Interest rate swaps	Interest rate	(37)	38	1	4,131	(17)
Debt securities in issue	Interest rate swaps	Interest rate	(31)	28	(3)	4,662	642
Subordinated liabilities	Interest rate swaps	Interest rate	(3)	4	1	2,407	37
Subscribed capital	Interest rate swaps	Interest rate	-	(3)	(3)	240	40
Total liabilities			(71)	67	(4)	11,440	702
Total fair value hedges			571	(547)	24		

Notes:

i. The Group does not include cross currency basis spreads within its hedge accounting relationships. The change in fair value is instead deferred to an 'other hedging reserve' and so is not included in the change in value of the hedging instrument.

ii. Some of the Group's loans and advances to customers have been included as hedged items in macro fair value hedges of interest rate risk. £1,774 million (2019: £411 million) of the accumulated fair value hedge adjustment is recognised in the separate balance sheet asset 'Fair value adjustment for portfolio hedged risk.' The remaining amount relates to the fair value adjustment to commercial loans in a micro fair value hedge accounting relationship and is included in the carrying value of these loans as shown in note 14.

iii. Some of the Group's shares have been included as hedged items in macro fair value hedges of interest rate risk. All of the accumulated fair value hedge adjustment has been recognised in the separate balance sheet liability for 'Fair value adjustment for portfolio hedged risk.'

7. Losses/gains from derivatives and hedge accounting (continued)

Cash flow hedge accounting

The Group's risk management approach may involve creating future cash flow certainty. The Group uses cross currency interest rate swaps to hedge non-sterling debt securities in issue and subordinated liabilities. A portion of the interest rate flows within these derivatives has been included as a hedging instrument in cash flow hedges. In addition, inflation swaps are used to hedge RPI-linked debt securities in issue. The table below provides further information on the Group's cash flow hedges:

Cash flow hedge accounting 2020 Group			**Change in fair value used for determining hedge ineffectiveness**		**Changes in instrument fair value reported as**			**Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation)**	
Hedged item balance sheet classification	**Hedging instrument**	**Risk category**	**Hedged item**	**Hedging instrument**	**Hedge ineffectiveness recognised in the income statement**	**Foreign exchange retranslation recycled to the income statement (note i)**	**Net amounts deferred to other comprehensive income (note ii)**	**Continuing hedges**	**Discontinued hedges**
			£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets:									
Loans and advances to customers	Interest rate swaps	Interest rate	**2**	**(3)**	**(1)**	**-**	**(2)**	**-**	**-**
Total assets			**2**	**(3)**	**(1)**	**-**	**(2)**	**-**	**-**
Liabilities:									
Debt securities in issue	Inflation swaps	Interest rate and inflation	**8**	**(7)**	**1**	**-**	**(8)**	**(2)**	**-**
Debt securities in issue	Cross currency interest rate swaps	Interest rate and foreign exchange	**(11)**	**9**	**(2)**	**-**	**11**	**11**	**318**
Subordinated liabilities	Cross currency interest rate swaps	Interest rate and foreign exchange	**(55)**	**55**	**-**	**-**	**55**	**55**	**37**
Total liabilities			**(58)**	**57**	**(1)**	**-**	**58**	**64**	**355**
Total cash flow hedges			**(56)**	**54**	**(2)**	**-**	**56**	**64**	**355**

7. Losses/gains from derivatives and hedge accounting (continued)

Cash flow hedge accounting

2019 Group Hedged item balance sheet classification	Hedging instrument	Risk category	Change in fair value used for determining hedge ineffectiveness: Hedged item £m	Change in fair value used for determining hedge ineffectiveness: Hedging instrument £m	Changes in instrument fair value reported as: Hedge ineffectiveness recognised in the income statement £m	Changes in instrument fair value reported as: Foreign exchange retranslation recycled to the income statement (note i) £m	Changes in instrument fair value reported as: Net amounts deferred to other comprehensive income (note ii) £m	Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation): Continuing hedges £m	Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation): Discontinued hedges £m
Assets:									
Loans and advances to customers	Interest rate swaps	Interest rate	(2)	2	-	-	2	2	-
Total assets			(2)	2	-	-	2	2	-
Liabilities:									
Debt securities in issue	Inflation swaps	Interest rate and inflation	(10)	10	-	-	10	6	-
Debt securities in issue	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	(49)	85	10	(190)	265	357	19
Subordinated liabilities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	(308)	335	13	159	163	44	-
Total liabilities			(367)	430	23	(31)	438	407	19
Total cash flow hedges			(369)	432	23	(31)	440	409	19

Notes:
i. The foreign exchange retranslation recycled to the income statement offsets foreign exchange retranslation on the hedged item. No amounts have been recognised in the year ended 4 April 2020 due to the migration of existing cash flow hedges to fair value hedges as at 5 April 2019.
ii. The net deferral to other comprehensive income of gains before tax of £56 million (2019: £440 million) is shown within the cash flow hedge reserve section of the statements of comprehensive income. The cash flow hedge reserve also includes amounts previously deferred on instruments which have since been migrated to fair value hedges. Amortisation of these amounts of £65 million (2019: £nil) is presented within the fair value hedge accounting table within the change in fair value of the hedging instrument.

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8. Administrative expenses

		Group		Society	
		2020	2019	**2020**	2019 (note i)
	Notes	**£m**	£m	**£m**	£m
Employee costs:					
Wages and salaries		**561**	525	**561**	525
Bonuses		**21**	55	**21**	55
Social security costs		**65**	65	**65**	65
Pension costs (note ii)	30	**15**	181	**15**	181
		662	826	**662**	826
Other administrative expenses:					
Other staff related costs (note ii)		**178**	129	**178**	129
Property lease rental		**9**	31	**9**	31
Other property running costs		**96**	91	**96**	91
Printing, postage and stationery		**32**	32	**32**	32
IT and communications		**323**	264	**323**	264
Marketing and advertising		**71**	63	**71**	63
Product operating costs		**48**	58	**47**	57
Legal, professional and consultancy		**95**	108	**94**	108
Other operating costs		**77**	60	**76**	58
		929	836	**926**	833
Bank levy	27	**55**	43	**55**	43
Depreciation, amortisation and impairment		**666**	549	**666**	549
Total		**2,312**	2,254	**2,309**	2,251

Notes:

i. Comparatives have been restated as detailed in note 1.

ii. In the year ended 4 April 2020, pension costs include a gain of £164 million and other staff related costs include an expense of £60 million relating to the closure of the Nationwide Pension Fund to future accrual from 31 March 2021. Further information is included in note 30.

The bonus expense within employee costs in the above table includes £4 million (2019: £6 million) of long-term bonuses which will be paid more than one year from the balance sheet date.

Executive directors and certain senior executives are entitled to bonus payments under the Directors' Performance Award (DPA) scheme. Under this scheme, awards are based on current year results but are paid over a period of up to seven years, with part of the awards linked to the value of Nationwide's core capital deferred shares (CCDS). The payment of deferred elements remains subject to further discretion by the Remuneration Committee. These bonuses are recognised in the income statement over the period from the start of the performance year until all relevant criteria have been met. For the 2019/20 performance year the Renumeration Committee has exercised discretion to award no long-term bonuses.

8. Administrative expenses (continued)

The table below shows actual and expected charges to the income statement in respect of all DPA bonuses for each relevant scheme year:

Income statement charge for long-term bonuses	Group and Society			
	Actual 2018/19	**Actual 2019/20 (note i)**	Expected 2020/21 (note ii)	Expected 2021/22 and beyond (note ii)
	£m	**£m**	£m	£m
Directors Performance Award:				
2017/18 and previous years	6.1	**4.1**	1.5	1.5
2018/19	8.8	**3.7**	1.3	2.0
2019/20	-	**-**	-	-
Income statement charge for long-term bonuses	14.9	**7.8**	2.8	3.5

Notes:
i. In the year ended 4 April 2020, £4 million (2019: £5 million) was recognised in the income statement in relation to awards linked to share based payments, being amounts dependent on the performance of the Group's CCDS. This payment is deferred and therefore included in accruals and deferred income on the balance sheet.
ii. The amount expected is an estimate based on past performance together with current assumptions of future leaver rates and future CCDS performance.

Directors' emoluments, including details of the bonus scheme, are shown in the Report of the directors on remuneration in accordance with Schedule 10A, paragraphs 1 to 9 of the Building Societies Act 1986.

PricewaterhouseCoopers LLP (PwC) stepped down as auditor to the Group at the AGM in July 2019 and were succeeded by Ernst & Young LLP (EY). The figures shown in the table below for 2020 relate to fees paid to PwC until July 2019, and to EY as external auditor to the Group for the full financial year. The figures for 2019 relate exclusively to fees paid to PwC.

External auditors' remuneration	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Audit fees for the Group and Society statutory audit (note i)	**3.5**	3.6	**3.5**	3.6
Fees payable for other services:				
Audit of Group subsidiaries	**0.3**	0.4	**-**	-
Audit-related assurance services (note ii)	**0.8**	0.7	**0.8**	0.7
Total audit and audit-related assurance services	**4.6**	4.7	**4.3**	4.3
Other non-audit services (note iii)	**0.8**	2.1	**0.8**	2.1
Total	**5.4**	6.8	**5.1**	6.4

Notes:
i. In the year ended 4 April 2020, audit fees of £3.5 million include £0.3 million relating to the PwC audit for the year ended 4 April 2019.
ii. Audit-related assurance services fees of £0.8 million include £0.3 million relating to services provided by PwC for the year ended 4 April 2020.
iii. Other non-audit services of £0.8 million relate to services provided by PwC for the year ended 4 April 2020.

Fees for 'other non-audit services' for the year ended 4 April 2020 are primarily for assurance work undertaken in relation to the delivery of the Group's technology investment.

9. Employees

	Group		Society	
	2020	2019	**2020**	2019
The average number of persons employed during the year was:				
Full time	**13,980**	13,841	**13,973**	13,834
Part time	**4,594**	4,444	**4,594**	4,444
Total	**18,574**	18,285	**18,567**	18,278
Society:				
Central administration (note i)	**11,810**	11,296	**11,810**	11,296
Branches	**6,757**	6,982	**6,757**	6,982
Subsidiaries	**7**	7	**-**	-
Total	**18,574**	18,285	**18,567**	18,278

Note:
i. Includes employees engaged in direct customer facing operations in administrative centres.

10. Impairment losses and provisions on loans and advances to customers

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

Impairment losses/(reversals)	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Prime residential	**13**	(1)	**13**	(1)
Specialist residential	**40**	(16)	**1**	-
Consumer banking	**159**	114	**159**	114
Commercial and other lending	**(3)**	16	**(3)**	16
Total	**209**	113	**170**	129

Impairment provisions	Group		Society	
	4 April 2020	4 April 2019	**4 April 2020**	4 April 2019
	£m	£m	**£m**	£m
Prime residential	**56**	44	**55**	44
Specialist residential	**196**	162	**4**	3
Consumer banking	**494**	418	**494**	418
Commercial and other lending	**40**	41	**40**	41
Total	**786**	665	**593**	506

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

The values in the tables above include an additional provision to reflect the estimated impact of the Covid-19 pandemic on expected credit losses (ECLs) (Group: £101 million, Society: £62 million). Additional detail on the calculation of this value is included in the 'Impact on expected credit losses of Covid-19' section below.

Provisions are based on a probability-weighted application of multiple economic scenarios (MES). The impact of applying MES is to increase provisions by £123 million (2019: £133 million), compared with provisions based on the new central economic scenario. Further information is set out in the 'Use of forward-looking information' section below.

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the Group uses outputs from statistical models, incorporating a number of estimates and judgements to determine the Probability of Default (PD), the Exposure at Default, and the Loss Given Default (LGD) for each loan.

The most significant areas of estimation uncertainty are:

- the impact on expected credit losses of Covid-19
- the use of forward-looking information
- the performance of interest only mortgages at maturity
- the level of future recoveries for consumer banking

The most significant area of judgement is:

- the approach to identifying significant increases in credit risk and impairment (and therefore transfers between IFRS 9 stages)

The Group's approach to each of these estimates and judgements is described in more detail below. The allowance for the severe downside economic scenario and the impact of Covid-19 are both calculated as additional provisions. In both cases therefore, the Group has considered the consequences of changes to staging in quantifying the additional provision, but has not reflected these changes in the reported staging outcomes and analyses in the Credit risk section of the Risk report.

Impact on expected credit losses of Covid-19

An additional provision for credit losses has been recognised in the financial statements to reflect the estimated impact of the Covid-19 pandemic on ECLs. Due to the limited observable data available at the reporting date, this additional provision is subject to significant levels of estimation. The analysis and estimates set out below were all subject to full internal governance at management and Board committee level. The additional provision at 4 April 2020 is £101 million.

A revised Covid-19 central economic scenario has been modelled to estimate additional losses in the residential mortgage, consumer banking and commercial portfolios (the impact on expected losses within the treasury portfolio is immaterial). This scenario takes into account the significant impact of the pandemic and also the government support measures announced in advance of the year end. Further information regarding the assumptions for, and ECL associated with, this scenario is included in the forward-looking economic information section below. As a result of the pandemic, probability weights for the central and upside scenarios were also changed with the upside scenario now allocated a 5% weighting (30 September 2019: 15%, 4 April 2019: 20%) and the central scenario allocated a weighting of 50% (30 September 19: 40%, 4 April 2019: 50%).

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

Critical accounting estimates and judgements (continued)

Retail lending

The estimation of losses relating to Covid-19 was performed using the latest IFRS 9 models and data, and has been recognised as an additional provision. Together, the revised scenario and probability weightings increased reported provisions by £55 million for retail lending.

In addition, the Group has estimated the credit losses associated with payment holidays granted to borrowers as a result of Covid-19, recognising that in some cases borrowers will experience longer term financial difficulty as a result of the pandemic. Payment holidays or other similar concessions have been offered on all retail products. Unlike other concessions granted to borrowers in financial difficulty, these payment holidays have not been subject to detailed affordability assessments, and therefore the level of financial difficulty of the members and customers who apply for them requires estimation in a number of areas.

Analysis of the risk characteristics of the payment holiday population was carried out to estimate the proportion of these loans judged to have increased credit risk. This proportion varies between 20% and 30% of the highest risk loans (measured by PD) by product. For these loans the modelled PD was then uplifted by a multiple of 2.5 or 3.0, based on experience of the performance of lending with similar concessions granted following the previous financial crisis (where available) or on more recent performance of other types of forbearance. The increase in expected credit loss includes the impact of loans transferring to stage 2 as a result of the higher PD, as well as the impact of the PD increase itself. The increase in reported provisions to reflect the risk associated with borrowers who requested payment holidays as a result of Covid-19 is £39 million.

A 10% change in the number of payment holidays would increase/decrease the additional provision by £4 million. Inclusion of a further 10% of the higher risk loans with payment holidays would increase provisions by £5 million. If the payment holiday PDs were uplifted by a multiple of 3.0 or 3.5 rather than 2.5 or 3.0 respectively, the increase in provisions would be £12 million.

The analysis of portfolios by stage in the 'Credit risk' section of the Risk report has not been updated to include this revised staging for loans with payment holidays. If the staging was updated to reflect the staging of the balances as used in the calculation of the additional provision, reflecting the PD uplift, the proportion of balances in stage 2 would be increased as shown below:

Proportion of total gross balance in stage 2 at 4 April 2020

2020	As reported %	If PD uplifts applied %
Prime mortgages	1.3	1.9
Specialist mortgages	20.3	20.6
Personal loans	9.8	10.5
Credit cards	26.2	26.3

Commercial lending

Similar analysis was carried out for the commercial lending portfolio. Revised modelling of the alternative economic scenario together with evaluation of a small number of higher risk and impaired loans increased provisions by £7 million.

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

Critical accounting estimates and judgements (continued)

Use of forward-looking economic information

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of multiple scenarios. The economic scenarios are reviewed and updated on a quarterly basis. The provision recognised is the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and associated probability weights are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions. The Group continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes. As noted above, the scenario assumptions were changed at year end to reflect the impact of Covid-19 through an additional provision. The tables below therefore show the revised Covid-19 central scenario economic assumptions used in determining this additional provision, as well as the previous central scenario.

At 4 April 2020, the probability weightings for each scenario were reviewed and the probabilities allocated to the upside and downside scenarios were revised due to the impact of Covid-19, as noted above. Changes made to probability weightings applied to the scenarios over the year are shown in the table below:

Scenario probability weighting (%)

	Upside scenario	Previous central scenario	Covid-19 central scenario	Downside scenario	Severe downside scenario
4 April 2020	**5**	**0**	**50**	**35**	**10**
30 September 2019	15	40		35	10
4 April 2019	20	50		20	10

The impact of the severe downside scenario is calculated as an additional provision separately from the other three scenarios, using information from internal stress testing models to estimate the non-linear impacts that could arise from severe scenarios.

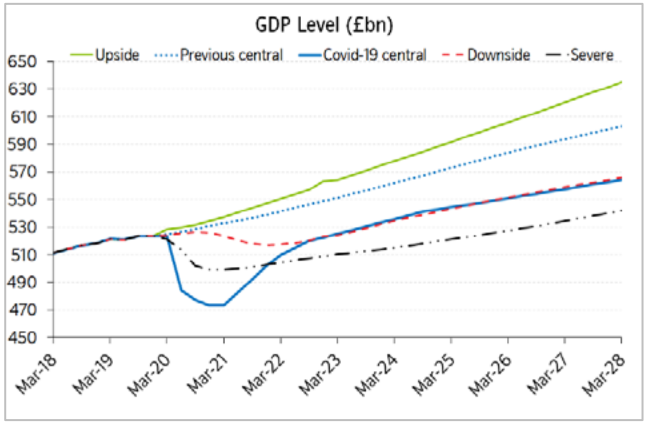
In the Covid-19 scenario, both GDP and house prices fall sharply during 2020, and unemployment rises significantly, though less than if government measures had not been in place. Economic recovery takes place from early 2021, reverting to longer term trends by 2024, reflecting an assumption that the pandemic impact will be severe but temporary. The downside scenario reflects a weak economy during 2020 and 2021, accompanied by a fall in house prices during this period, followed by gradual recovery in subsequent years and reversion to a lower long-term growth rate by 2029. The upside scenario reflects stable economic growth over the projection period. The severe downside scenario continues to be aligned with internal stress testing and reflects a severe non-linear impact arising from disruption to the UK economy. Whilst the Covid-19 scenario shows a severe but temporary decline in the key economic variables over the first 12 months, the key variables of house price index (HPI) and unemployment are less severe than the downside and severe downside scenarios from 2022 onwards, due to an assumed recovery from 2021.

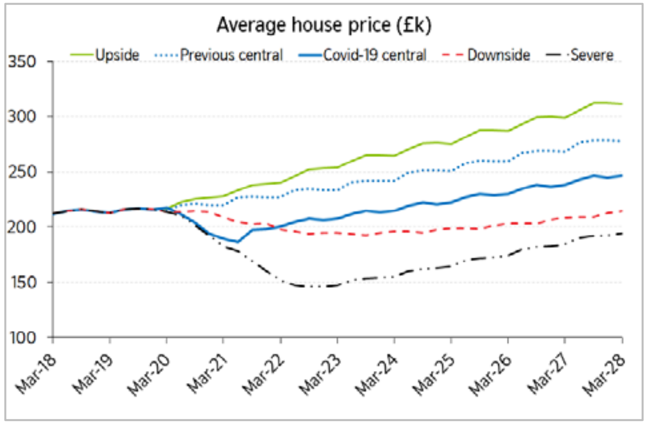
Notes to the financial statements (continued)

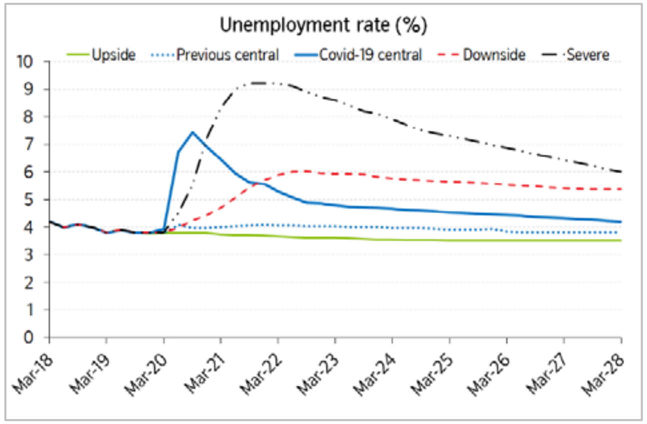
10. Impairment losses and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The graphs below show the historical and forecasted GDP level, average house price and unemployment rate for the Group's economic scenarios, including the new central scenario used in calculating the additional provision for Covid-19.







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

Economic variables (five-year average)				
2020	**GDP growth %**	**HPI %**	**Unemployment %**	**BoE base rate %**
Upside scenario	**2.2**	**4.8**	**3.7**	**1.7**
Previous central scenario	**1.6**	**2.9**	**4.0**	**1.0**
Covid-19 central scenario	**0.8**	**0.6**	**5.3**	**0.1**
Downside scenario	**0.6**	**(1.8)**	**5.4**	**0.2**
Severe downside scenario	**(0.1)**	**(5.3)**	**8.0**	**3.5**
2019	%	%	%	%
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

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

Critical accounting estimates and judgements (continued)

Economic variables (from reporting date to peak/trough)				
2020	**GDP growth (note i) %**	**HPI (note i) %**	**Unemployment (note ii) %**	**BoE base rate (note ii) %**
Upside scenario	**12.3**	**27.9**	**3.5**	**2.75**
Previous central scenario	**8.9**	**16.4**	**4.1**	**1.50**
Covid-19 central scenario	**(9.6)**	**(13.8)**	**7.4**	**0.10**
Downside scenario	**(1.2)**	**(10.7)**	**6.0**	**0.10**
Severe downside scenario	**(4.7)**	**(32.9)**	**9.2**	**4.0**
2019	%	%	%	%
Upside scenario	12.5	27.9	3.6	3.50
Central scenario	9.5	13.9	3.9	1.75
Downside scenario	5.6	(12.0)	6.3	0.75
Severe downside scenario	(4.7)	(32.3)	9.5	4.00

Notes:
i. GDP growth and HPI are shown as the largest cumulative growth/fall from 4 April 2020 over the forecast period.
ii. Unemployment and BoE base rate are shown as the highest/lowest rate over the forecast period.

Economic variables (average annual rate in the 12 months to March)					
	2021 %	**2022 %**	**2023 %**	**2024 %**	**2025 %**
GDP growth					
Upside scenario	**1.8**	**2.3**	**2.6**	**2.3**	**2.4**
Previous central scenario	**1.3**	**1.5**	**1.8**	**1.9**	**2.0**
Covid-19 central scenario	**(8.8)**	**4.2**	**4.8**	**2.1**	**1.9**
Downside scenario	**0.5**	**(1.4)**	**0.6**	**1.7**	**1.8**
Severe downside scenario	**(2.1)**	**(1.6)**	**1.2**	**1.0**	**1.0**
HPI					
Upside scenario	**5.0**	**5.5**	**5.7**	**4.1**	**4.2**
Previous central scenario	**2.5**	**3.0**	**3.0**	**3.5**	**3.6**
Covid-19 central scenario	**(13.0)**	**6.0**	**3.5**	**3.5**	**3.5**
Downside scenario	**(2.5)**	**(5.0)**	**(1.5)**	**0.5**	**1.6**
Severe downside scenario	**(11.1)**	**(16.4)**	**(8.9)**	**5.5**	**5.7**
Unemployment					
Upside scenario	**3.8**	**3.7**	**3.6**	**3.6**	**3.5**
Previous central scenario	**4.0**	**4.1**	**4.0**	**4.0**	**3.9**
Covid-19 central scenario	**6.9**	**5.6**	**4.9**	**4.7**	**4.6**
Downside scenario	**4.3**	**5.5**	**6.0**	**5.9**	**5.7**
Severe downside scenario	**6.4**	**9.2**	**8.8**	**8.2**	**7.5**

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

Critical accounting estimates and judgements (continued)

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

Sensitivity analysis impact of multiple economic scenarios

	ECL				
	Upside scenario	Previous central scenario	Covid-19 central scenario	Downside scenario	Severe downside scenario
2020	**£m**	**£m**	**£m**	**£m**	**£m**
Residential mortgages	**136**	**118**	**149**	**254**	**674**
Consumer banking	**432**	**410**	**438**	**466**	**736**
Commercial and other lending	**37**	**30**	**37**	**40**	**55**
Total	**605**	**558**	**624**	**760**	**1,465**
2019	£m	£m	£m	£m	£m
Residential mortgages	99	112	n/a	242	714
Consumer banking	381	383	n/a	400	684
Commercial and other lending	37	37	n/a	37	80
Total	517	532	n/a	679	1,478

The increase in ECLs by applying the new Covid-19 scenario (weighted at 100%) instead of the previous central scenario is £66 million. In estimating ECLs under the upside and downside scenarios above it is assumed that the economic impact of the pandemic has a similar impact on ECLs as in the central scenario. Therefore, when probability weights are applied across the scenarios, the provision impact of the Covid-19 economic assumptions is 90% of £66 million, the 90% representing the total weightings of the upside, central and downside scenarios. The table does not include the additional provision calculated for the impact of payment holidays granted due to Covid-19.

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.

For prime and specialist residential mortgages, the estimate of future HPI movements is a key assumption in estimating the eventual loss. The table below shows the sensitivity of provisions, in the Covid-19 central scenario only, to a decrease/increase in LGD as a result of an immediate decrease/increase in house prices, with no change to subsequent house price inflation or to other assumptions. As this is single-factor sensitivity analysis, it should not be extrapolated due to the likely non-linear effect:

Residential mortgages change in key assumptions

	Increase/(decrease) in provision
2020	**£m**
10% decrease in HPI	**43**
10% increase in HPI	**(28)**

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

Critical accounting estimates and judgements (continued)

Performance of interest only mortgages at maturity

An additional key area of management estimation is the allowance for the risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Buy to let mortgages are typically advanced on an interest only basis. Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis has been agreed. The impact of the allowance for unredeemed interest only mortgages at contractual maturity in the Covid-19 central scenario amounts to £44 million (2019: £47 million), and has also been calculated for the other modelled scenarios, with an additional impact of £28 million (2019: £24 million) included in the impact of forward looking economic information above. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2.

Consumer banking future recoveries

For consumer banking, the estimate of future recoveries is a key source of estimation uncertainty. The Group uses a combination of both historical data and management judgement in estimating the level and timing of future recoveries. If the rate of future recoveries was reduced in absolute terms by 10%, provisions would increase by £48 million.

Identifying significant increases in credit risk (stage 2)

Loans are allocated to stage 1 or stage 2 according to whether there has been a significant increase in credit risk. The Group has used judgement to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place. The primary quantitative indicators are the outputs of internal credit risk assessments. While different approaches are used within each portfolio, the intention is to combine current and historical data relating to the exposure with forward-looking macroeconomic information to determine the probability of default (PD) at each reporting date. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD has increased by at least 75bps and a 4x multiple of the original lifetime PD.

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk. The sensitivity of ECLs to stage allocation is such that a transfer of 1% of current stage 1 balances to stage 2 would increase provisions by £8 million for residential mortgages, and £5 million for consumer banking.

Identifying credit impaired loans (stage 3)

The identification of credit impaired loans is an important judgement within the IFRS 9 staging approach. A loan is credit impaired where it has an arrears status of more than 90 days past due, is considered to be in default or it is considered unlikely that the borrower will repay the outstanding balance in full, without recourse to actions such as realising security.

11. Taxation

Tax charge in the income statement	Group		Society	
	2020	2019 (note i)	**2020**	2019 (note i)
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax	**168**	126	**86**	113
Adjustments in respect of prior years	**(4)**	(12)	**(4)**	(12)
Total current tax	**164**	114	**82**	101
Deferred tax:				
Current year (credit)/charge	**(48)**	50	**(35)**	(9)
Adjustments in respect of prior years	**2**	9	**2**	9
Effect of deferred tax provided at different tax rates	**(17)**	24	**(19)**	(5)
Total deferred taxation	**(63)**	83	**(52)**	(5)
Tax charge	**101**	197	**30**	96

Note:
i. Comparatives for the Group and Society have been restated to reduce the tax charge for the effects of distributions to the holders of Additional Tier 1 capital, as detailed in note 1. In addition, £65 million has been reclassified between current and deferred taxation for the Group, related to cash flow hedging, with no impact on the total tax charge previously reported.

11. 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	Group		Society	
	2020	2019 (note i)	**2020**	2019 (note i)
	£m	£m	**£m**	£m
Profit before tax:	**466**	833	**110**	368
Tax calculated at a tax rate of 19%	**89**	158	**21**	70
Adjustments in respect of prior years	**(2)**	(3)	**(2)**	(3)
Tax credit on distribution to the holders of Additional Tier 1 capital (note i)	**(9)**	(13)	**(9)**	(13)
Banking surcharge (note i)	**24**	32	**24**	32
Expenses not deductible for tax purposes/(income not taxable):				
Depreciation on non-qualifying assets	**3**	3	**3**	3
Bank levy	**11**	8	**11**	8
Effect of results of LLP structured entity (note ii)	**-**	-	**(7)**	(6)
Customer redress	**4**	8	**4**	8
Other	**(2)**	1	**1**	-
Effect of deferred tax provided at different tax rates	**(17)**	3	**(16)**	(3)
Tax charge	**101**	197	**30**	96

Notes:

i. Comparatives have been restated as set out in note 1 to reduce the tax charge by £18 million, through the £13 million of tax credit on distributions to the holders of Additional Tier 1 capital and a £5 million credit to the banking surcharge.

ii. The Society is liable for tax on the results of Nationwide Covered Bonds LLP, the profit or loss of which is reported within that entity.

The tax on items through other comprehensive income is as follows:

Tax (credit)/charge on items through other comprehensive income	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Relating to:				
FVOCI investment securities	**(24)**	(4)	**(23)**	(3)
Cash flow hedges	**5**	112	**16**	47
Other hedging	**(15)**		**(15)**	
Property revaluation	**(2)**	(1)	**(2)**	(1)
Retirement benefit obligations	**76**	57	**76**	57
Total	**40**	164	**52**	100

The Group tax credit through the fair value through other comprehensive income (FVOCI) reserve of £24 million (2019: £4 million) is made up of a charge of £3 million (2019: £4 million) for current tax and a credit of £27 million (2019: £8 million) for deferred tax.

11. Taxation (continued)

Deferred tax

Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised or deferred tax liability is settled based on rates enacted or substantively enacted at the balance sheet date, including the banking surcharge where applicable. The main rate of corporation tax of 19% was announced in the Budget on 11 March 2020 and was substantively enacted on 17 March 2020.

The movements on the deferred tax account are as follows:

Movements in deferred taxation

	Group		Society	
	2020	2019 (note i)	**2020**	2019
	£m	£m	**£m**	£m
At 5 April	(91)	95	6	104
Deferred tax (charge)/credit in the income statement:				
Accelerated capital allowances	**10**	4	**10**	4
Effect of deferred tax provided at different tax rates	**17**	(24)	**19**	5
Other items	**36**	(63)	**23**	(4)
Taxation on items through the income statement	**63**	(83)	**52**	5
Deferred tax (charge)/credit in other comprehensive income:				
FVOCI investment securities	**18**	6	**18**	6
Cash flow hedges	**1**	(41)	**-**	(35)
Property revaluation	**3**	1	**3**	1
Retirement benefit obligations	**(76)**	(45)	**(76)**	(45)
Effect of deferred tax provided at different tax rates	**(49)**	(24)	**(49)**	(30)
Taxation on items through other comprehensive income	**(103)**	(103)	**(104)**	(103)
At 4 April	**(131)**	(91)	**(46)**	6

Note:
i. Comparatives have been restated to reclassify £65 million between current and deferred taxation for the Group, relating to cash flow hedging, with no impact on the total tax charge previously reported.

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets and liabilities

	Group		Society	
	2020	2019 (note i)	**2020**	2019
	£m	£m	**£m**	£m
Deferred tax assets				
Accelerated capital allowances	**13**	(2)	**13**	(5)
IFRS 9 transition	**39**	41	**26**	28
Property revaluation	**1**	1	**-**	-
Cash flow hedges	**(24)**	-	**(24)**	-
Other hedging	**15**	-	**15**	-
FVOCI assets	**4**	(22)	**4**	(22)
Retirement benefit obligations	**-**	28	**-**	27
Other provisions	**28**	7	**28**	11
	76	53	**62**	39
Deferred tax liabilities				
Property revaluation	**(6)**	(10)	**(6)**	(10)
Cash flow hedges	**(98)**	(119)	**-**	(9)
Retirement benefit obligations	**(104)**	-	**(104)**	-
Other provisions	**1**	(15)	**2**	(14)
	(207)	(144)	**(108)**	(33)
Net deferred tax (liability)/asset	**(131)**	(91)	**(46)**	6

Note:
i. Comparatives have been restated to reclassify £11 million between cash flow hedges and other provisions for the Group, relating to cash flow hedging, with no impact on the total deferred tax balances previously reported.

The majority of deferred tax assets are anticipated to be recoverable after one year. The Group considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

12. Classification and measurement

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in this note and notes 21 to 24 are on a consolidated basis. The following table summarises the classification of carrying amounts of the Group's financial assets and liabilities.

Classification of financial assets and liabilities

	2020				2019			
	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Total
Group	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets								
Cash	13,748	-	-	13,748	12,493	-	-	12,493
Loans and advances to banks and similar institutions	3,636	-	-	3,636	4,009	-	-	4,009
Investment securities	1,625	18,367	12	20,004	1,656	14,500	78	16,234
Derivative financial instruments	-	-	4,771	4,771	-	-	3,562	3,562
Fair value adjustment for portfolio hedged risk	1,774	-	-	1,774	411	-	-	411
Loans and advances to customers	200,850	-	128	200,978	198,922	-	129	199,051
Total financial assets	221,633	18,367	4,911	244,911	217,491	14,500	3,769	235,760
Other non-financial assets				3,130				2,541
Total assets				248,041				238,301
Financial liabilities								
Shares	159,691	-	-	159,691	153,969	-	-	153,969
Deposits from banks and similar institutions	21,812	-	-	21,812	20,149	-	-	20,149
Other deposits	4,482	-	-	4,482	5,074	-	-	5,074
Fair value adjustment for portfolio hedged risk	29	-	-	29	(17)	-	-	(17)
Debt securities in issue	35,963	-	-	35,963	35,942	-	-	35,942
Derivative financial instruments	-	-	1,924	1,924	-	-	1,593	1,593
Subordinated liabilities	9,317	-	-	9,317	6,706	-	-	6,706
Subscribed capital	253	-	-	253	250	-	-	250
Lease liabilities	265	-	-	265				
Total financial liabilities	231,812	-	1,924	233,736	222,073	-	1,593	223,666
Other non-financial liabilities				1,343				1,466
Total liabilities				235,079				225,132

As at 4 April 2020, the Group had no financial assets or liabilities (2019: none) for which it had taken the option to designate at FVTPL. Further information on the fair value of financial assets and liabilities is included in notes 21 to 23.

13. Investment securities

	Group 2020 £m	Group 2019 £m	Society 2020 £m	Society 2019 £m
Government and supranational investment securities	**15,897**	12,306	**15,897**	12,306
Other debt investment securities	**4,094**	3,909	**4,092**	3,909
Investments in equity shares	**13**	19	**7**	17
Total	**20,004**	16,234	**19,996**	16,232

The Group may use its investment securities as collateral. No investment securities have been pledged as collateral for UK payment schemes at 4 April 2020 (2019: £30 million). Investment securities with a fair value of £2,506 million (2019: £1,694 million) have been used as collateral in short term repurchase agreements. The Group also holds £1,824 million (2019: £1,333 million) of investment securities as collateral under reverse repurchase agreements which are not recognised in the table above. Further information on investment securities is included in the 'Credit risk - Treasury assets' section of the Risk report.

14. Loans and advances to customers

	2020						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		
Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Prime residential mortgages	**151,069**	**(56)**	**-**	**151,013**	**71**	**151,084**	151,445	(44)	-	151,401	72	151,473
Specialist residential mortgages	**37,699**	**(196)**	**-**	**37,503**	**-**	**37,503**	34,495	(162)	-	34,333	-	34,333
Consumer banking	**4,994**	**(494)**	**-**	**4,500**	**-**	**4,500**	4,586	(418)	-	4,168	-	4,168
Commercial and other lending	**7,133**	**(40)**	**741**	**7,834**	**57**	**7,891**	8,178	(41)	883	9,020	57	9,077
Total	**200,895**	**(786)**	**741**	**200,850**	**128**	**200,978**	198,704	(665)	883	198,922	129	199,051

	2020						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		
Society	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Prime residential mortgages	**150,740**	**(55)**	**-**	**150,685**	**71**	**150,756**	151,073	(44)	-	151,029	72	151,101
Specialist residential mortgages	**526**	**(4)**	**-**	**522**	**-**	**522**	590	(3)	-	587	-	587
Consumer banking	**4,994**	**(494)**	**-**	**4,500**	**-**	**4,500**	4,586	(418)	-	4,168	-	4,168
Commercial and other lending	**6,682**	**(40)**	**741**	**7,383**	**45**	**7,428**	7,703	(41)	883	8,545	46	8,591
Total	**162,942**	**(593)**	**741**	**163,090**	**116**	**163,206**	163,952	(506)	883	164,329	118	164,447

Note:

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

14. Loans and advances to customers (continued)

The tables below summarise the movements in gross loans and advances to customers held at amortised cost, including the impact of ECL impairment provisions and excluding the fair value adjustment for micro hedged risk. The lines within the tables are an aggregation of monthly movements over the year. Residential mortgages represent the majority of the Group's loans and advances to customers. Additional tables summarising the movements for the Group's residential mortgages and consumer banking are presented in the Credit risk section of the Risk report.

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Group	**£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	**(16,930)**	**(39)**	**16,930**	**39**	**-**	**-**	**-**	**-**
Transfers to Stage 3	**(330)**	**-**	**(938)**	**(110)**	**1,268**	**110**	**-**	**-**
Transfers from Stage 2 to Stage 1	**14,397**	**226**	**(14,397)**	**(226)**	**-**	**-**	**-**	**-**
Transfers from Stage 3	**202**	**2**	**554**	**23**	**(756)**	**(25)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(184)**		**262**		**18**		**96**
Net movement arising from transfer of stage (note ii)	**(2,661)**	**5**	**2,149**	**(12)**	**512**	**103**	**-**	**96**
New assets originated or purchased (note iii)	**34,049**	**31**	**-**	**-**	**-**	**-**	**34,049**	**31**
Further lending/repayments (note iv)	**(9,947)**	**(24)**	**(77)**	**(10)**	**(81)**	**(21)**	**(10,105)**	**(55)**
Changes in risk parameters in relation to credit quality (note v)	**-**	**(1)**	**-**	**42**	**-**	**26**	**-**	**67**
Other items impacting income statement charge/(reversal) including recoveries	**-**	**-**	**-**	**-**	**(1)**	**(11)**	**(1)**	**(11)**
Redemptions (note vi)	**(20,406)**	**(4)**	**(921)**	**(12)**	**(302)**	**(4)**	**(21,629)**	**(20)**
Additional provision for Covid-19 (note vii)								**101**
Income statement charge for the year								**209**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(123)**	**(99)**	**(123)**	**(99)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**11**	**-**	**11**
4 April 2020 (note vii)	**188,403**	**75**	**10,690**	**269**	**1,802**	**341**	**200,895**	**786**
Net carrying amount (note vii)		**188,328**		**10,421**		**1,461**		**200,109**

The reasons for key movements shown in the table above are as follows:

- The movement in gross balances is principally a result of £34,049 million of new lending, offset by a reduction of £31,734 million from repayments and redemptions. The majority of these movements relate to residential mortgages.
- Of the £99 million of write-offs, £87 million relates to unsecured lending, £11 million to residential mortgages and £1 million to commercial and other lending.
- Impairment provisions increased by £121 million in the period to £786 million. This increase includes an additional £101 million provision for Covid-19. Further detail on the impairment provisions and losses by portfolio is shown in note 10.

14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Group	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	169,049	48	20,012	284	1,700	297	190,761	629
Stage transfers:								
Transfers from Stage 1 to Stage 2	(29,278)	(30)	29,278	30	-	-	-	-
Transfers to Stage 3	(305)	(1)	(1,022)	(113)	1,327	114	-	-
Transfers from Stage 2 to Stage 1	37,282	266	(37,282)	(266)	-	-	-	-
Transfers from Stage 3	187	3	573	24	(760)	(27)	-	-
Net remeasurement of ECL arising from transfer of stage		(237)		287		20		70
Net movement arising from transfer of stage (note ii)	7,886	1	(8,453)	(38)	567	107	-	70
New assets originated or purchased (note iii)	38,717	30	-	-	-	-	38,717	30
Further lending/repayments (note iv)	(8,835)	(17)	(199)	(10)	(63)	(13)	(9,097)	(40)
Changes in risk parameters in related to credit quality (note v)	-	8	-	42	-	42	-	92
Other items impacting income statement charge/(reversal) including recoveries	2	-	-	-	(1)	(19)	1	(19)
Redemptions (note vi)	(19,451)	(2)	(1,821)	(17)	(285)	(1)	(21,557)	(20)
Income statement charge for the year								113
Decrease due to write-offs	-	-	-	-	(121)	(96)	(121)	(96)
Other provision movements	-	-	-	-	-	19	-	19
4 April 2019	187,368	68	9,539	261	1,797	336	198,704	665
Net carrying amount		187,300		9,278		1,461		198,039

Notes:

i. Group gross balances of credit impaired loans include £155 million (2019: £167 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (2019: £6 million).

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

iii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in Stage 1.

iv. This 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.

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

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

vii. An additional provision for credit losses has been recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. For the Group, the additional provision at 4 April 2020 is £101 million. This additional provision has not been allocated to underlying loans nor has it been attributed to stages, but is shown in the total column of the table. Additional detail on the calculation of this value is included in note 10.

14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				Credit impaired			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Society	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2019	159,592	54	3,243	148	1,117	304	163,952	506
Stage transfers:								
Transfers from Stage 1 to Stage 2	(7,137)	(27)	7,137	27	-	-	-	-
Transfers to Stage 3	(226)	-	(568)	(85)	794	85	-	-
Transfers from Stage 2 to Stage 1	6,480	176	(6,480)	(176)	-	-	-	-
Transfers from Stage 3	120	2	302	13	(422)	(15)	-	-
Net remeasurement of ECL arising from transfer of stage		(147)		209		28		90
Net movement arising from transfer of stage (note i)	(763)	4	391	(12)	372	98	-	90
New assets originated or purchased (note ii)	27,441	30	-	-	-	-	27,441	30
Further lending/repayments (note iii)	(9,575)	(23)	(42)	(11)	(60)	(20)	(9,677)	(54)
Changes in risk parameters related to credit quality (note iv)	-	-	-	37	-	24	-	61
Other items impacting income statement charge/(reversal) including recoveries	-	-	-	-	(1)	(7)	(1)	(7)
Redemptions (note v)	(18,083)	(3)	(409)	(5)	(180)	(4)	(18,672)	(12)
Additional provision for Covid-19 (note vi)								62
Income statement charge for the year								170
Decrease due to write-offs	-	-	-	-	(101)	(89)	(101)	(89)
Other provision movements	-	-	-	-	-	6	-	6
4 April 2020 (note vi)	158,612	62	3,183	157	1,147	312	162,942	593
Net carrying amount (note vi)		158,550		3,026		835		162,349

Notes to the financial statements (continued)

14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				Credit impaired			
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Society	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2018	146,762	37	9,471	146	1,021	262	157,254	445
Stage transfers:								
Transfers from Stage 1 to Stage 2	(19,307)	(24)	19,307	24	-	-	-	-
Transfers to Stage 3	(207)	-	(600)	(88)	807	88	-	-
Transfers from Stage 2 to Stage 1	24,327	189	(24,327)	(189)	-	-	-	-
Transfers from Stage 3	105	2	297	14	(402)	(16)	-	-
Net remeasurement of ECL arising from transfer of stage		(168)		218		27		77
Net movement arising from transfer of stage (note i)	4,918	(1)	(5,323)	(21)	405	99	-	77
New assets originated or purchased (note ii)	33,751	28	-	-	-	-	33,751	28
Further lending/repayments (note iii)	(8,570)	(15)	(167)	(10)	(48)	(12)	(8,785)	(37)
Changes in risk parameters related to credit quality (note iv)	-	6	-	38	-	38	-	82
Other items impacting income statement charge/(reversal) including recoveries	1	-	-	-	(1)	(14)	-	(14)
Redemptions (note v)	(17,270)	(1)	(738)	(5)	(164)	(1)	(18,172)	(7)
Income statement charge for the year								129
Decrease due to write-offs	-	-	-	-	(96)	(82)	(96)	(82)
Other provision movements	-	-	-	-	-	14	-	14
4 April 2019	159,592	54	3,243	148	1,117	304	163,952	506
Net carrying amount		159,538		3,095		813		163,446

Notes:

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

ii. 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.

iii. 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.

iv. 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.

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

vi. An additional provision for credit losses has been recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. For the Society, the additional provision at 4 April 2020 is £62 million. This additional provision has not been allocated to underlying loans nor has it been attributed to stages, but is shown in the total column of the table. Additional detail on the calculation of this value is included in note 10.

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14. Loans and advances to customers (continued)

Maturity analysis

The following table shows the residual maturity of loans and advances to customers, based on their contractual maturity:

Residual maturity of loans and advances to customers	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Repayable:				
On demand	**1,965**	2,146	**1,965**	2,146
In not more than three months	**2,302**	2,285	**2,137**	2,099
In more than three months but not more than one year	**6,371**	5,976	**6,182**	5,836
In more than one year but not more than five years	**32,352**	31,919	**30,669**	30,234
In more than five years	**158,033**	156,507	**122,105**	123,755
	201,023	198,833	**163,058**	164,070
Impairment provision on loans and advances	**(786)**	(665)	**(593)**	(506)
Fair value adjustment for micro hedged risk	**741**	883	**741**	883
Total	**200,978**	199,051	**163,206**	164,447

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

Notes to the financial statements (continued)

14. 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) and other short-term liquidity facilities. 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

	2020					2019				
		Notes in issue					Notes in issue			
	Mortgages pledged (note i)	Held by third parties (note ii)	Held by the Group Drawn (note iii)	Held by the Group Undrawn (note iv)	Total notes in issue	Mortgages pledged (note i)	Held by third parties (note ii)	Held by the Group Drawn (note iii)	Held by the Group Undrawn (note iv)	Total notes in issue
Group	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Covered bond programme	**28,003**	**20,740**	**-**	**-**	**20,740**	22,656	17,339	-	-	17,339
Securitisation programme	**15,177**	**4,215**	**-**	**2,533**	**6,748**	6,936	3,051	-	339	3,390
Whole mortgage loan pools	**23,570**	**-**	**18,183**	**-**	**18,183**	24,117	-	17,001	-	17,001
Total	**66,750**	**24,955**	**18,183**	**2,533**	**45,671**	53,709	20,390	17,001	339	37,730

Notes:

i. Mortgages pledged include £14.3 billion (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.

ii. Notes in issue which are held by third parties are included within debt securities in issue (note 18).

iii. Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn with the BoE under the TFS and US dollar (USD) funding operations. At 4 April 2020 the Group had outstanding TFS drawings of £17.0 billion (2019: £17.0 billion) and USD funding operations of £1.2 billion (2019: £nil).

iv. 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 the Nationwide Covered Bond programme provide security for issues of covered bonds made by the Society. During the year ended 4 April 2020, £4.3 billion (sterling equivalent) of notes were issued, and £1.6 billion (sterling equivalent) of notes matured.

The securitisation programme notes are issued by Silverstone Master Issuer plc and the issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Society and are consolidated into the accounts of the Group. The remaining beneficial interest in the pledged mortgages of £8.2 billion (2019: £3.9 billion) stays with the Society and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2020, £2.0 billion (sterling equivalent) of notes were issued, and £1.0 billion (sterling equivalent) of notes matured.

14. Loans and advances to customers (continued)

The securitisation programme notes are issued by Silverstone Master Issuer plc and are not included in the accounts of the Society. Silverstone Master Issuer plc is fully consolidated into the accounts of the Group.

The whole mortgage loan pools are pledged at the BoE Single Collateral Pool. Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. At 4 April 2020, £23.6 billion (2019: £24.1 billion) of pledged collateral supported £17.0 billion (2019: £17.0 billion) of TFS drawdowns and £1.2 billion (2019: £nil) of USD Funding Operations.

In accordance with accounting standards, notes in issue and held by the Group are not recognised in the Group's or Society's balance sheets. Mortgages pledged are not derecognised from the Group or Society balance sheets as the Group has retained substantially all the risks and rewards of ownership. The Group and Society continue to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

The following table sets out the carrying value and fair value of the transferred assets and liabilities for the Silverstone Master Trust:

	Carrying value			Fair value		
	Transferred assets	Associated liabilities	Total	Transferred assets	Associated liabilities	Total
	£m	£m	£m	£m	£m	£m
At 4 April 2020	**15,177**	**(6,748)**	**8,429**	**15,210**	**(6,604)**	**8,606**
At 4 April 2019	6,936	(3,390)	3,546	6,743	(3,418)	3,325

The Society holds cash deposited by the Nationwide Covered Bond programme of £0.6 billion (2019: £0.6 billion) and by the Silverstone programme of £0.7 billion (2019: £0.7 billion).

15. Derivative financial instruments

All of the Group's derivative financial instruments are used to manage economic risk, although not all of the derivatives are subject to hedge accounting. Note 7 sets out the link between economic risk management and the hedge accounting applied by the Group. The table below provides an analysis of the notional amount and fair value of derivatives by both hedge accounting type and instrument type. The amount of ineffectiveness recognised for each hedge type is shown in note 7. Contract/notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

Derivatives by instrument and hedge type

	2020						2019					
	Group			**Society**			Group			Society		
	Contract/ notional amount (note i)	**Fair value**		**Contract/ notional amount**	**Fair value**		Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	**Liabilities**		**Assets**	**Liabilities**		Assets	Liabilities		Assets	Liabilities
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Micro fair value hedges:												
Interest rate swaps	**47,955**	**1,512**	**129**	**40,462**	**1,181**	**129**	12,673	68	178	17,054	171	181
Cross currency interest rate swaps	**35,392**	**2,876**	**371**	**28,024**	**1,928**	**385**	-	-	-	-	-	-
Bond forwards	**1,650**	**-**	**94**	**1,650**	**-**	**94**	2,625	-	58	2,625	-	58
Inflation swaps	**2,340**	**10**	**42**	**2,340**	**10**	**42**	1,403	1	14	1,403	1	14
	87,337	**4,398**	**636**	**72,476**	**3,119**	**650**	16,701	69	250	21,082	172	253
Macro fair value hedges:												
Interest rate swaps	**148,610**	**1**	**991**	**148,610**	**1**	**991**	128,704	2	882	128,704	2	882
	148,610	**1**	**991**	**148,610**	**1**	**991**	128,704	2	882	128,704	2	882
Cash flow hedges:												
Interest rate swaps	**-**	**-**	**-**	**-**	**-**	**-**	47,472	1,129	26	23,031	51	2
Cross currency interest rate swaps	**28,661**	**71**	**60**	**21,293**	**69**	**28**	23,860	2,023	232	7,413	139	113
Inflation swaps	**280**	**36**	**-**	**280**	**36**	**-**	280	34	-	280	34	-
	28,941	**107**	**60**	**21,573**	**105**	**28**	71,612	3,186	258	30,724	224	115
Not subject to hedge accounting:												
Interest rate swaps	**77,250**	**80**	**59**	**84,852**	**80**	**983**	63,827	72	21	85,526	724	731
Cross currency interest rate swaps	**3,534**	**58**	**118**	**11,262**	**204**	**961**	6,866	215	91	26,232	1,474	891
Foreign exchange swaps	**5,860**	**126**	**44**	**5,860**	**126**	**44**	6,037	15	80	6,037	15	80
Other derivatives	**741**	**1**	**16**	**741**	**1**	**16**	4,301	3	11	4,301	3	7
	87,385	**265**	**237**	**102,715**	**411**	**2,004**	81,031	305	203	122,096	2,216	1,709
Total	**352,273**	**4,771**	**1,924**	**345,374**	**3,636**	**3,673**	298,048	3,562	1,593	302,606	2,614	2,959

Note:

i. Where the same derivative contract has been used in more than one hedge type, for example where one risk component has been included in a fair value hedge and another risk component has been included in a cash flow hedge, the Group has included the full notional amount in both categories.

15. Derivative financial instruments (continued)

The contractual maturity of derivatives used as hedging instruments in micro fair value and cash flow hedges is provided in the table below. As described in note 1, macro fair value hedges are frequently rebalanced to include new business. As a result, these hedges have not been included in the analysis below.

Contractual maturity of hedging instruments (contract/notional amount)

2020	**Group**				**Society**			
	Less than one year	**Between one and five years**	**More than five years**	**Total**	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Micro fair value hedges								
Interest rate swaps	**5,422**	**18,422**	**24,111**	**47,955**	**3,439**	**13,794**	**23,229**	**40,462**
Cross currency interest rate swaps	**4,869**	**16,073**	**14,450**	**35,392**	**3,178**	**11,275**	**13,571**	**28,024**
Bond forwards	**1,650**	**-**	**-**	**1,650**	**1,650**	**-**	**-**	**1,650**
Inflation swaps	**-**	**716**	**1,624**	**2,340**	**-**	**716**	**1,624**	**2,340**
	11,941	**35,211**	**40,185**	**87,337**	**8,267**	**25,785**	**38,424**	**72,476**
Cash flow hedges								
Cross currency interest rate swaps	**4,755**	**14,065**	**9,841**	**28,661**	**3,065**	**9,267**	**8,961**	**21,293**
Inflation swaps	**-**	**280**	**-**	**280**	**-**	**280**	**-**	**280**
	4,755	**14,345**	**9,841**	**28,941**	**3,065**	**9,547**	**8,961**	**21,573**

Contractual maturity of hedging instruments (contract/notional amount)

2019	Group				Society			
	Less than one year	Between one and five years	More than five years	Total	Less than one year	Between one and five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Micro fair value hedges								
Interest rate swaps	358	5,722	6,593	12,673	1,866	6,276	8,912	17,054
Bond forwards	2,625	-	-	2,625	2,625	-	-	2,625
Inflation swaps	233	367	803	1,403	233	367	803	1,403
	3,216	6,089	7,396	16,701	4,724	6,643	9,715	21,082
Cash flow hedges								
Interest rate swaps	19,155	16,615	11,702	47,472	14,180	4,560	4,291	23,031
Cross currency interest rate swaps	2,017	11,474	10,369	23,860	191	2,985	4,237	7,413
Inflation swaps	-	280	-	280	-	280	-	280
	21,172	28,369	22,071	71,612	14,371	7,825	8,528	30,724

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15. Derivative financial instruments (continued)

The weighted average rates of hedging instruments which achieve fixed rates are summarised in the table below. Fair value and cash flow hedging instruments which do not achieve a fixed rate have not been included in this analysis.

Average rates achieved 2020	**Group**				**Society**			
	Less than one year	**Between one and five years**	**More than five years**	**Total**	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
Cross currency interest rate swaps								
Average EUR/GBP rate	**1.25**	**1.26**	**1.23**	**1.25**	**1.20**	**1.23**	**1.26**	**1.23**
Average USD/GBP rate	**1.36**	**1.32**	**1.35**	**1.33**	**1.36**	**1.32**	**1.35**	**1.34**
Average JPY/GBP rate	**142.20**	**137.46**	**137.62**	**138.04**	**142.20**	**137.46**	**137.62**	**138.04**
Average NOK/GBP rate	**9.19**	**10.06**	**11.23**	**10.59**	**9.19**	**10.06**	**11.23**	**10.59**
Average HKD/GBP rate	**-**	**11.89**	**11.85**	**11.85**	**-**	**11.89**	**11.85**	**11.85**
Average CHF/GBP rate	**-**	**-**	**1.24**	**1.24**	**-**	**-**	**1.24**	**1.24**
Inflation swaps								
Average fixed interest rate (GBP %)	**-**	**3.55**	**-**	**3.55**	**-**	**3.55**	**-**	**3.55**
Average inflation rate (RPI index)	**-**	**256.07**	**-**	**256.07**	**-**	**256.07**	**-**	**256.07**

Average rates achieved 2019	Group				Society			
	Less than one year	Between one and five years	More than five years	Total	Less than one year	Between one and five years	More than five years	Total
Cross currency interest rate swaps								
Average EUR/GBP rate	1.24	1.29	1.22	1.26	1.15	1.15	1.12	1.14
Average USD/GBP rate	1.50	1.35	1.38	1.38	-	1.34	1.34	1.33
Average JPY/GBP rate	-	147.50	145.41	145.83	-	147.50	145.41	145.83
Average NOK/GBP rate	-	9.19	11.05	10.59	-	-	10.88	10.88
Average HKD/GBP rate	-	11.89	11.85	11.85	-	-	-	-
Interest rate swaps								
Average fixed interest rate (GBP %)	0.76	-	-	0.76	0.76	-	-	0.76
Inflation swaps								
Average fixed interest rate (GBP %)	-	3.55	-	3.55	-	3.55	-	3.55
Average inflation rate (RPI index)	-	256.07	-	256.07	-	256.07	-	256.07

15. Derivative financial instruments (continued)

A variety of benchmark interest rates are used in global financial markets to calculate interest payments and fair values for derivative contracts. The Group's derivative portfolio includes contracts which reference GBP Libor and other benchmark rates, which are expected to either be reformed or be replaced by alternative reference rates. GBP Libor is expected to be discontinued on 31 December 2021, with the alternative benchmark rate being the reformed sterling overnight index average (Sonia). The Group is already using Sonia as the reference rate for new derivative contracts where it is possible to do so.

The Group's Libor Transition Working Group, which reports to the Assets and Liabilities Committee (ALCO), is managing the full range of transition-related issues, including the conversion of existing contracts and the impact on valuations and systems. The Group has used basis swaps, which convert one benchmark rate to another, to reduce the economic exposure to affected benchmark rates within the portfolio of existing contracts. For new transactions which mature after an expected discontinuation date, the Group is avoiding the use of affected benchmark rates.

A number of the Group's current fair value and cash flow hedge accounting structures are expected to be affected by benchmark rate reforms. As referenced in note 1, effective on 5 April 2019 the Group adopted the amendments to IFRS 9, IAS 39 and IFRS 7 which provide relief to the potential adverse hedge accounting impacts caused by benchmark reform. Significant judgement will be required in determining when uncertainty is expected to be resolved and therefore when the temporary exceptions will cease to apply. However, at 4 April 2020, the uncertainty continued to exist and so the temporary exceptions apply to all of the Group's hedge accounting relationships that reference benchmarks subject to reform or replacement.

The table below summarises the current amount of hedging instrument expected to be affected by benchmark reform. The hedged item exposure is approximate to that of the hedging instrument:

Contact/notional amount affected by benchmark reform		
Current benchmark (note i)	**Expected future benchmark**	**Hedging instruments £m**
GBP Libor	Sterling overnight index average (Sonia)	**84,591**
USD Libor	Secured overnight financing rate (Sofr)	**12,387**
GBP Libor and USD Libor (note ii)	Sonia and Sofr	**11,560**
Other benchmarks (note ii)	Various	**3,257**
Total		**111,795**

Notes:

i. The Group expects that Euribor will continue as a benchmark rate for the foreseeable future; Euribor hedging instruments and hedged items have therefore been excluded from the table.

ii. Some hedging instruments, such as cross currency swaps, may reference more than one affected benchmark rate.

16. Deposits from banks and similar institutions

Deposits from banks and similar institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Accrued interest	**-**	3	**-**	3
Repayable:				
On demand	**2,957**	2,176	**1,781**	1,118
In not more than three months	**1,855**	848	**1,855**	848
In more than three months but not more than one year	**6,000**	122	**6,000**	122
In more than one year but not more than five years	**11,000**	17,000	**11,000**	17,000
Total	**21,812**	20,149	**20,636**	19,091

For the Group and Society, deposits from banks and similar institutions include £17.0 billion (2019: £17.0 billion) drawn down against the Bank of England Term Funding Scheme (TFS) and £1.2 billion (2019: £nil) of USD Funding Operations.

Event after the reporting period

On 5 May 2020, the Society drew down £1.5 billion against the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

17. Other deposits

Other deposits are repayable from the balance sheet date in the ordinary course of business as follows:

	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Accrued interest	**1**	1	**1**	1
Repayable:				
On demand	**1,977**	2,141	**3,519**	3,686
In not more than three months	**563**	778	**563**	778
In more than three months but not more than one year (note i)	**1,921**	2,138	**1,921**	2,138
In more than one year but not more than five years	**20**	16	**20**	16
Total	**4,482**	5,074	**6,024**	6,619

Note:
i. Includes £9 million (2019: £nil) of other financial liabilities relating to contractual indemnity obligations.

Other deposits primarily comprise wholesale and commercial deposits. The Society's other deposits as at 4 April 2020 include £1,542 million (2019: £1,545 million) of deposits from subsidiary undertakings.

18. Debt securities in issue

	Group		Society	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Certificates of deposit and commercial paper	**3,613**	7,975	**3,613**	7,975
Medium term notes	**7,157**	7,535	**7,157**	7,534
Covered bonds	**19,826**	16,738	**19,832**	16,746
Asset backed securities	**4,211**	3,052	**-**	-
	34,807	35,300	**30,602**	32,255
Fair value adjustment for micro hedged risk	**1,156**	642	**292**	99
Total	**35,963**	35,942	**30,894**	32,354
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**167**	167	**156**	156
Residual maturity repayable:				
In not more than one year	**8,328**	12,205	**7,056**	11,424
In more than one year	**26,312**	22,928	**23,390**	20,675
	34,807	35,300	**30,602**	32,255
Fair value adjustment for micro hedged risk	**1,156**	642	**292**	99
Total	**35,963**	35,942	**30,894**	32,354

The total for debt securities in issue in the Group includes £24,955 million (2019: £20,390 million), and in the Society includes £19,832 million (2019: £16,746 million), secured on certain loans and advances to customers. Further information is given in note 14.

19. Subordinated liabilities

	Issuance date	Next call date	Maturity date	Group and Society 2020 £m	2019 £m
Senior non-preferred					
3.766% senior non-preferred notes (US Dollar 1 billion)	8 March 2018	8 March 2023	8 March 2024	**818**	766
1.5% senior non-preferred notes (Euro 1 billion)	8 March 2018	8 March 2025	8 March 2026	**882**	858
4.302% senior non-preferred notes (US Dollar 0.75 billion)	8 March 2018	8 March 2028	8 March 2029	**613**	575
4.363% senior non-preferred notes (US Dollar 1 billion)	1 August 2018	1 August 2023	1 August 2024	**822**	769
3.4675% senior non-preferred notes (Norwegian Kroner 1 billion)	5 October 2018		5 October 2026	**79**	90
0.805% senior non-preferred notes (Japanese Yen 1 billion)	24 October 2018	24 October 2023	24 October 2024	**7**	7
0.9925% senior non-preferred notes (Japanese Yen 4 billion)	30 October 2018	30 October 2025	30 October 2026	**30**	27
3.875% senior non-preferred notes (Norwegian Kroner 0.3 billion)	13 November 2018		13 November 2028	**23**	27
3.9% senior non-preferred notes (Norwegian Kroner 1 billion)	13 November 2018		13 November 2028	**79**	90
1.2775% senior non-preferred notes (Japanese Yen 3 billion)	14 November 2018	14 November 2028	14 November 2029	**23**	21
3.622% senior non-preferred notes (US Dollar 1 billion)	26 April 2019	26 April 2022	26 April 2023	**829**	-
3.96% senior non-preferred notes (US Dollar 1 billion)	18 July 2019	18 July 2029	18 July 2030	**822**	-
0.85% senior non-preferred notes (Japanese Yen 5 billion)	16 August 2019	16 August 2029	16 August 2030	**38**	-
Tier 2 Eligible					
6.75% subordinated notes (Euro 0.75 billion)	22 July 2010		22 July 2020	**692**	673
4% subordinated notes (US Dollar 1.25 billion)	14 September 2016		14 September 2026	**1,022**	957
2% subordinated notes (Euro 1 billion)	25 July 2017	25 July 2024	25 July 2029	**894**	867
4.125% subordinated notes (US Dollar 1.25 billion)	18 October 2017	18 October 2027	18 October 2032	**1,039**	973
				8,712	6,700
Fair value hedge accounting adjustments				**635**	37
Unamortised premiums and issue costs				**(30)**	(31)
Total				**9,317**	6,706

Senior non-preferred notes are a class of subordinated liability which rank equally with each other and behind the claims against the Society of all depositors, creditors and investing members other than holders of Tier 2 eligible subordinated notes, permanent interest-bearing shares (PIBS), Additional Tier 1 (AT1) instruments and core capital deferred shares (CCDS). The Tier 2 eligible subordinated notes rank equally with each other and ahead of claims against the Society of holders of PIBS, AT1 instruments and CCDS.

During the year the Group issued US Dollar 2 billion (£1,565 million equivalent) and Japanese Yen 5 billion (£38 million equivalent) of senior non-preferred notes as detailed above. The issuance of senior non-preferred notes will contribute to meeting the Society's minimum requirement for own funds and eligible liabilities (MREL) and loss absorbing requirements.

The interest rate and foreign exchange risks arising from the issuance of fixed rate and foreign currency subordinated liabilities have been mitigated through the use of derivatives.

20. Subscribed capital

	Notes	Next call date	Group and Society 2020 £m	2019 £m
7.25% permanent interest-bearing shares	i	5 December 2021	**34**	34
6.25% permanent interest-bearing shares	i	22 October 2024	**45**	45
5.769% permanent interest-bearing shares	i	6 February 2026	**84**	84
7.859% permanent interest-bearing shares	i	13 March 2030	**39**	39
Floating rate (6-month Libor + 2.4%) permanent interest-bearing shares	ii		**10**	10
			212	212
Fair value hedge accounting adjustments			**43**	40
Unamortised premiums and issue costs			**(2)**	(2)
Total			**253**	250

Notes:

i. Repayable, at the option of the Society, in whole on the initial call date or every fifth anniversary thereafter. If not repaid on a call date, then the interest rate is reset at a margin to the yield on the then prevailing five-year benchmark gilt rate.

ii. Only repayable in the event of winding up the Society.

All PIBS are denominated in sterling and only repayable with the prior consent of the PRA.

PIBS rank equally with each other and the Group's AT1 instruments. They are deferred shares of the Society and rank behind the claims against the Society of all noteholders, depositors, creditors and investing members of the Society, other than the holders of CCDS.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

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

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in notes 21 to 24 are on a consolidated basis. The following tables show the Group's financial assets and liabilities that are held at fair value by fair value hierarchy, balance sheet classification and product type:

	2020				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
Financial assets								
Government and supranational investments	**15,897**	**-**	**-**	**15,897**	12,306	-	-	12,306
Other debt investment securities	**1,583**	**881**	**5**	**2,469**	1,202	989	62	2,253
Investments in equity shares	**-**	**-**	**13**	**13**	-	-	19	19
Total investment securities (note i)	**17,480**	**881**	**18**	**18,379**	13,508	989	81	14,578
Interest rate swaps	**-**	**1,593**	**-**	**1,593**	-	1,271	-	1,271
Cross currency interest rate swaps	**-**	**3,005**	**-**	**3,005**	-	2,238	-	2,238
Foreign exchange swaps	**-**	**126**	**-**	**126**	-	15	-	15
Inflation swaps	**-**	**46**	**-**	**46**	-	35	-	35
Bond futures	**-**	**1**	**-**	**1**	-	-	-	-
Swaptions	**-**	**-**	**-**	**-**	-	3	-	3
Total derivative financial instruments	**-**	**4,771**	**-**	**4,771**	-	3,562	-	3,562
Loans and advances to customers	**-**	**-**	**128**	**128**	-	-	129	129
Total financial assets	**17,480**	**5,652**	**146**	**23,278**	13,508	4,551	210	18,269
Financial liabilities								
Interest rate swaps	**-**	**(1,179)**	**-**	**(1,179)**	-	(1,107)	-	(1,107)
Cross currency interest rate swaps	**-**	**(549)**	**-**	**(549)**	-	(324)	-	(324)
Foreign exchange swaps	**-**	**(44)**	**-**	**(44)**	-	(80)	-	(80)
Inflation swaps	**-**	**(52)**	**-**	**(52)**	-	(21)	-	(21)
Bond forwards	**-**	**(94)**	**-**	**(94)**	-	(58)	-	(58)
Swaptions	**-**	**(6)**	**-**	**(6)**	-	(3)	-	(3)
Total derivative financial instruments	**-**	**(1,924)**	**-**	**(1,924)**	-	(1,593)	-	(1,593)
Total financial liabilities	**-**	**(1,924)**	**-**	**(1,924)**	-	(1,593)	-	(1,593)

Note:
i. Investment securities shown here exclude £1,625 million of investment securities held at amortised cost (2019: £1,656 million).

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 using models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs. More detail on the Level 3 portfolio is provided in note 22.

Transfers between fair value hierarchies

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation, and are recognised at the date of the event or change in circumstances which caused the transfer. There were no transfers between the Level 1 and Level 2 portfolios during the year.

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

The main constituents of the Level 3 portfolio are as follows:

Loans and advances to customers

Certain loans and advances to customers have been classified as FVTPL. Level 3 assets in this category include a closed portfolio of residential mortgages and a small number of commercial loans.

During the year ended 4 April 2019, a portfolio of residential mortgages was transferred from Level 3 to Level 2 after a market price was obtained. These assets were subsequently sold.

Investment securities

The Level 3 items in this category primarily include £14 million (2019: £18 million) of investments made in Fintech companies and £4 million (2019: £62 million) of investments in industry-wide banking and credit card service operations.

Derivative financial instruments

During the year ended 4 April 2019, derivatives economically hedging a small closed portfolio of equity release mortgages were settled upon sale of the associated loans.

The tables below set out movements in the Level 3 portfolio, including transfers in and out of Level 3.

Movements in Level 3 portfolio	**2020**		2019		
	Loans and advances to customers	**Investment securities**	Loans and advances to customers	Investment securities	Derivative financial instruments
	£m	**£m**	£m	£m	£m
At 5 April	129	81	247	45	(4)
Gains/(losses) recognised in the income statement, within:					
Net interest income	**3**	**-**	8	-	-
Gains from derivatives and hedge accounting (note i)	**-**	**1**	-	4	-
Other operating income	**7**	**11**	6	15	2
(Losses)/gains recognised in other comprehensive income, within:					
Fair value through other comprehensive income reserve	**-**	**(1)**	-	-	-
Additions	**-**	**6**	-	18	-
Disposals	**-**	**(80)**	-	-	-
Settlements/repayments	**(11)**	**-**	(21)	(1)	2
Transfers out of Level 3 portfolio	**-**	**-**	(111)	-	-
At 4 April	**128**	**18**	129	81	-

Note:
i. Includes foreign exchange revaluation gains/losses.

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

Level 3 portfolio sensitivity analysis of valuations using unobservable inputs

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or significant unobservable market inputs. Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or members' interests and equity:

Sensitivity of Level 3 fair values

	2020			2019		
		Income statement			Income statement	
	Fair value £m	Favourable changes £m	Unfavourable changes £m	Fair value £m	Favourable changes £m	Unfavourable changes £m
Loans and advances to customers	128	4	(5)	129	4	(5)
Investment securities	18	2	(1)	81	36	(39)
Total	**146**	**6**	**(6)**	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. The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply. Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

Significant unobservable inputs

	2020							2019						
	Total assets £m	Valuation technique	Significant unobservable inputs	Range (note i)		Weighted average (note ii)	Units	Total assets	Valuation technique	Significant unobservable inputs	Range (note i)		Weighted average (note ii)	Units
Loans and advances to customers	128	Discounted cash flows	Discount rate	2.94	9.75	4.33	%	129	Discounted cash flows	Discount rate	2.34	9.00	4.12	%
Investment securities	18	Discounted cash flows	Discount rate	10.00	15.00	12.70	%	81	Discounted cash flows	Discount rate	10.00	12.00	11.00	%
										Share conversion	-	100.00	65.85	%

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

Notes to the financial statements (continued)

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

Discount rate

The discount rate is used to determine the present value of future cash flows. The level of the discount rate takes into account the time value of money, but also the risk or uncertainty of future cash flows. Typically, the greater the uncertainty, the higher the discount rate. A higher discount rate leads to a lower valuation and vice versa.

Share conversion

Where the fair value of a security is affected by potential conversion into another instrument, share conversion is factored into the fair value. The higher the share conversion, the higher the valuation and vice versa.

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

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

Fair value of financial assets and liabilities (note i)	2020					2019				
	Carrying value	Fair values based on			Total fair value	Carrying value	Fair values based on			Total fair value
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets										
Loans and advances to banks and similar institutions	3,636	-	3,636	-	3,636	4,009	-	4,009	-	4,009
Investment securities	1,625	-	1,594	-	1,594	1,656	-	1,651	-	1,651
Loans and advances to customers:										
Residential mortgages	188,516	-	-	190,580	190,580	185,734	-	-	186,151	186,151
Consumer banking	4,500	-	-	4,452	4,452	4,168	-	-	4,104	4,104
Commercial and other lending	7,834	-	-	8,010	8,010	9,020	-	-	8,973	8,973
Total	206,111	-	5,230	203,042	208,272	204,587	-	5,660	199,228	204,888
Financial liabilities										
Shares	159,691	-	159,891	-	159,891	153,969	-	153,989	-	153,989
Deposits from banks and similar institutions	21,812	-	21,810	-	21,810	20,149	-	20,149	-	20,149
Other deposits	4,482	-	4,474	9	4,483	5,074	-	5,074	-	5,074
Debt securities in issue	35,963	19,618	16,396	-	36,014	35,942	16,566	20,154	-	36,720
Subordinated liabilities	9,317	-	8,658	-	8,658	6,706	-	6,681	-	6,681
Subscribed capital	253	-	230	-	230	250	-	235	-	235
Total	231,518	19,618	211,459	9	231,086	222,090	16,566	206,282	-	222,848

Note:
i. The tables above exclude cash for which fair value approximates to carrying value.

23. Fair value of financial assets and liabilities measured at amortised cost (continued)

The fair values of loans and advances to customers are further analysed, between those credit-impaired and those non-credit impaired, as follows:

Fair value of loans and advances to customers

	2020								2019					
	Non-credit impaired (Stages 1 and 2)		Credit-impaired (Stage 3 and POCI) (note i)		Covid-19 additional provision (note ii)		Total		Non-credit impaired (Stages 1 and 2)		Credit-impaired (Stage 3 and POCI) (note i)		Total	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Residential mortgages	187,184	189,233	1,383	1,398	(51)	(51)	188,516	190,580	184,338	184,752	1,396	1,399	185,734	186,151
Consumer banking	4,511	4,463	32	32	(43)	(43)	4,500	4,452	4,140	4,076	28	28	4,168	4,104
Commercial and other lending	7,795	7,966	46	51	(7)	(7)	7,834	8,010	8,983	8,933	37	40	9,020	8,973
Total	199,490	201,662	1,461	1,481	(101)	(101)	200,850	203,042	197,461	197,761	1,461	1,467	198,922	199,228

Notes:
i. POCI loans are those which were credit-impaired when purchased or originated.
ii. An additional ECL provision for the impact of Covid-19 has been recognised; this has not been allocated to a provisioning stage.

Loans and advances to banks and similar institutions

The fair value of loans and advances to banks and similar institutions is estimated by discounting expected cash flows at a market discount rate.

Investment securities

The fair value of investment securities is sourced from consensus pricing or other observable market prices.

Loans and advances to customers

The fair value of loans and advances to customers is estimated by discounting expected cash flows at rates that reflect current rates for similar lending.

Consistent modelling techniques are used across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR) which, for example, in the case of the Group's residential base mortgage rate (BMR) mortgage book, generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

Shares, deposits and amounts due to customers

The estimated fair value of shares, deposits and amounts due to customers with no stated maturity, including non-interest-bearing deposits, is the amount repayable on demand. For items without quoted market prices the estimated fair value represents the discounted amount of estimated future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalisation. For variable interest rate items, estimated future cash flows are discounted using current market interest rates for new debt with similar remaining maturity. For fixed rate items, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

Debt securities in issue

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes for which quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Subordinated liabilities and subscribed capital

The fair value of subordinated liabilities and subscribed capital is determined by reference to quoted market prices of similar instruments.

24. Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis, or realise the asset and liability simultaneously. In accordance with IAS 32 'Financial Instruments: Presentation,' where the right to set off is not unconditional in all circumstances this does not result in an offset of balance sheet assets and liabilities.

In accordance with IFRS 7 'Financial Instruments: Disclosures' the following table shows the impact on financial assets and financial liabilities relating to transactions where:

- there is an enforceable master netting arrangement or similar agreement in place, an unconditional right to offset is in place and there is an intention to settle net ('amounts offset'),
- there is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied ('master netting arrangements'), and
- financial collateral is paid and received ('financial collateral').

Offsetting financial assets and financial liabilities

	2020						2019					
	Gross amounts recognised	**Amounts offset (note i)**	**Net amounts reported on the balance sheet**	**Master netting arrangements**	**Financial collateral (note ii)**	**Net amounts**	Gross amounts recognised	Amounts offset (note i)	Net amounts reported on the balance sheet	Master netting arrangements	Financial collateral (note ii)	Net amounts
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Financial assets												
Derivative financial assets	**6,376**	**(1,605)**	**4,771**	**(1,648)**	**(2,997)**	**126**	3,973	(411)	3,562	(1,363)	(2,130)	69
Reverse repurchase agreements	**1,805**	**(1,805)**	**-**	**-**	**-**	**-**	1,320	(826)	494	-	(492)	2
Total financial assets	**8,181**	**(3,410)**	**4,771**	**(1,648)**	**(2,997)**	**126**	5,293	(1,237)	4,056	(1,363)	(2,622)	71
Financial liabilities												
Derivative financial liabilities	**5,049**	**(3,125)**	**1,924**	**(1,648)**	**(161)**	**115**	2,649	(1,056)	1,593	(1,363)	(198)	32
Repurchase agreements	**2,443**	**(1,805)**	**638**	**-**	**(637)**	**1**	1,680	(826)	854	-	(853)	1
Total financial liabilities	**7,492**	**(4,930)**	**2,562**	**(1,648)**	**(798)**	**116**	4,329	(1,882)	2,447	(1,363)	(1,051)	33

Notes:

i. Amounts offset for derivative financial assets of £1,605 million (2019: £411 million) include cash collateral netted of £416 million (2019: £85 million). Amounts offset for derivative financial liabilities of £3,125 million (2019: £1,056 million) include cash collateral netted of £1,936 million (2019: £730 million).

ii. The balances presented for financial collateral on reverse repurchase agreements and repurchase agreements are less than the financial collateral balances reported in note 13, as the amounts disclosed above are limited to the net amounts reported on the balance sheet after amounts offset as shown in the table.

Master netting arrangements consist of agreements such as an ISDA Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net, either unconditionally or following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash settled, typically daily or weekly, to mitigate the credit risk on the fair value of derivative contracts. Financial collateral on repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The net amounts after offsetting under IFRS 7 presented above show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements.

25. Intangible assets

Group 2020	**Computer software**		**Total computer software**	**Goodwill**	**Total**
	Externally acquired	**Internally developed**			
	£m	**£m**	**£m**	**£m**	**£m**
Cost					
At 5 April 2019 (note i)	362	2,089	2,451	12	2,463
Additions	**80**	**307**	**387**	**-**	**387**
Disposals	**(37)**	**(134)**	**(171)**	**-**	**(171)**
At 4 April 2020	**405**	**2,262**	**2,667**	**12**	**2,679**
Accumulated amortisation and impairment					
At 5 April 2019 (note i)	217	922	1,139	-	1,139
Amortisation charge	**60**	**270**	**330**	**-**	**330**
Impairment in the year	**1**	**141**	**142**	**-**	**142**
Disposals	**(37)**	**(134)**	**(171)**	**-**	**(171)**
At 4 April 2020	**241**	**1,199**	**1,440**	**-**	**1,440**
Net book value					
At 4 April 2020	**164**	**1,063**	**1,227**	**12**	**1,239**

Group 2019	Computer software (note i)		Total computer software	Goodwill	Total
	Externally acquired	Internally developed			
	£m	£m	£m	£m	£m
Cost					
At 5 April 2018	325	1,955	2,280	12	2,292
Additions	60	319	379	-	379
Disposals	(23)	(185)	(208)	-	(208)
At 4 April 2019	362	2,089	2,451	12	2,463
Accumulated amortisation and impairment					
At 5 April 2018	188	762	950	-	950
Amortisation charge	52	235	287	-	287
Impairment in the year	-	110	110	-	110
Disposals	(23)	(185)	(208)	-	(208)
At 4 April 2019	217	922	1,139	-	1,139
Net book value					
At 4 April 2019	145	1,167	1,312	12	1,324

Note:

i. Prior year comparatives have been restated to correct the allocation of intangible assets by category. £413 million of cost and £5 million of accumulated amortisation have been reclassified from externally acquired to internally developed assets as at 4 April 2019 (5 April 2018: £434 million and £1 million). For the year ended 4 April 2019, £21 million of additions have been reclassified from internally developed to externally acquired and £4 million of amortisation and impairment have been reclassified from externally acquired to internally developed.

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25. Intangible assets (continued)

Computer software capitalised during the year primarily relates to the Group's investment in digital services and data capabilities, together with ensuring the resilience and simplification of the technology estate. The total cost at 4 April 2020 includes £216 million (2019: £369 million) of assets in the course of construction which, to the extent that they are not yet ready for use by the business, have no amortisation charged against them. For all other computer software capitalised the estimated useful life of individual assets is predominantly 5 years.

An impairment loss of £142 million (2019: £110 million) was recognised in the year, comprising £65 million related to the write off of assets associated with data analytics capabilities and the development of customer applications and technology interfaces, £26 million for assets relating to the business banking proposition which was halted during the year and £51 million in relation to other assets impacted by the Group's technology strategy. The Society's intangible assets are shown above as for the Group, except that they exclude the £12 million (2019: £12 million) of goodwill which relates to the acquisition of The Mortgage Works (UK) plc, and which is only recognised at Group level. Capital expenditure contracted for but not accrued at 4 April 2020 was £22 million (2019: £51 million).

26. Property, plant and equipment

Group 2020	Branches and non-specialised buildings £m	Specialised administration buildings £m	Investment properties £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use branches and non-specialised buildings £m	Total £m
Cost or valuation							
At 5 April 2019 (note i)	222	176	9	278	1,010	181	1,876
Additions	**2**	**-**	**-**	**16**	**225**	**93**	**336**
Revaluation	**(17)**	**-**	**-**	**-**	**-**	**-**	**(17)**
Disposals	**(12)**	**-**	**(7)**	**(3)**	**(104)**	**-**	**(126)**
At 4 April 2020	**195**	**176**	**2**	**291**	**1,131**	**274**	**2,069**
Accumulated depreciation and impairment							
At 5 April 2019	-	86	-	176	544	-	806
Depreciation charge	**-**	**3**	**-**	**24**	**127**	**25**	**179**
Impairment	**-**	**-**	**-**	**-**	**9**	**6**	**15**
Disposals	**-**	**-**	**-**	**(3)**	**(100)**	**-**	**(103)**
At 4 April 2020	**-**	**89**	**-**	**197**	**580**	**31**	**897**
Net book value							
At 4 April 2020	**195**	**87**	**2**	**94**	**551**	**243**	**1,172**

Notes to the financial statements (continued)

26. Property, plant and equipment

Group 2019	Branches and non-specialised buildings £m	Specialised administration buildings £m	Investment properties £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use branches and non-specialised buildings £m	Total £m
Cost or valuation							
At 5 April 2018	220	182	9	252	948		1,611
Additions	9	-	-	26	136		171
Transfers (note ii)	6	(6)	-	-	-		-
Revaluation	(7)	-	-	-	-		(7)
Disposals	(6)	-	-	-	(74)		(80)
At 4 April 2019	222	176	9	278	1,010		1,695
Accumulated depreciation and impairment							
At 5 April 2018	-	83	-	153	488		724
Depreciation charge	-	3	-	23	115		141
Impairment	-	-	-	-	11		11
Disposals	-	-	-	-	(70)		(70)
At 4 April 2019	-	86	-	176	544		806
Net book value							
At 4 April 2019	222	90	9	102	466		889

Notes:
i. Includes the impact of adoption of IFRS 16 as detailed in note 1.
ii. In the prior year ended 4 April 2019, a section of land adjacent to a specialised administration building was transferred to branches and non-specialised buildings following the decision to separate and market for sale.

Group property, plant and equipment at 4 April 2020 includes £2 million (2019: £2 million) of specialised administration buildings held by subsidiary undertakings.

Property, plant and equipment includes £116 million (2019: £114 million) of assets in the course of construction. Capital expenditure contracted for but not accrued at 4 April 2020 was £33 million (2019: £58 million).

As at 4 April 2020, branches and non-specialised building includes £10 million (2019: £15 million) of properties which are classified as held for sale.

Branches and non-specialised buildings are valued annually at the balance sheet date by independent surveyors. The current use of all branches and non-specialised buildings equates to highest and best use, and there have been no changes to the valuation technique during the year.

IFRS 13 requires that all assets held at fair value are classified according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. Branches and non-specialised buildings valuations are classified within Level 2 of the fair value hierarchy.

Branches and non-specialised buildings revalued annually would have a carrying value under the historic cost model of £75 million (2019: £77 million).

27. Provisions for liabilities and charges

Group	Bank levy	FSCS	Customer redress	Other provisions	Total
	£m	£m	£m	£m	£m
At 4 April 2019	21	-	159	19	199
Adoption of IFRS 16 (note i)	-	-	-	(2)	(2)
At 5 April 2019	21	-	159	17	197
Provisions utilised	**(46)**	**-**	**(101)**	**(10)**	**(157)**
Charge for the year	**55**	**-**	**75**	**26**	**156**
Release for the year	**-**	**-**	**(19)**	**(1)**	**(20)**
Net income statement charge (note ii)	**55**	**-**	**56**	**25**	**136**
At 4 April 2020	**30**	**-**	**114**	**32**	**176**
At 5 April 2018	24	15	221	14	274
Provisions utilised	(46)	(6)	(77)	(17)	(146)
Charge for the year	43	1	79	26	149
Release for the year	-	(10)	(64)	(4)	(78)
Net income statement charge (note ii)	43	(9)	15	22	71
At 4 April 2019	21	-	159	19	199

Notes:

i. On adoption of 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 £136 million (2019: £71 million), a net charge of £56 million (2019: £6 million) relating to FSCS and customer redress is included in provisions for liabilities and charges, and a net charge of £80 million (2019: £65 million) relating to bank levy and other provisions is included in administrative expenses.

In addition to amounts in the table above, provisions for liabilities and charges in the income statement includes a £4 million credit recognised in respect of additional FSCS recoveries relating to failures provided for in previous years.

The Group provisions for liabilities and charges include less than £1 million (2019: £1 million) of customer redress and expected credit loss (ECL) provisions relating to irrevocable loan commitments within its subsidiaries; all other amounts relate to the Society.

Financial Services Compensation Scheme (FSCS)

The FSCS 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.

27. Provisions for liabilities and charges (continued)

Customer redress

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

At 4 April 2020, the Group holds provisions of £114 million (2019: £159 million) in respect of the potential costs of remediation and redress in relation to past sales of PPI, issues relating to administration of customer accounts, non-compliance with consumer credit legislation and other regulatory matters.

The Group is currently investigating certain matters in connection with its quality control procedures. This investigation will conclude in the first half of 2020/21 and may result in an increase to provisions for customer redress.

Other provisions

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

Critical accounting estimates and judgements

There is significant estimation uncertainty in estimating the probability, timing and amount of any cash outflows associated with customer redress provisions.

Provision for PPI

At 4 April 2020, the Group held provisions of £51 million (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 average redress payments, referral rates to the FOS, uphold rates internally and with the FOS and complaint handling costs. The charge of £39 million for the year to 4 April 2020 brings the cumulative cost of PPI to £476 million.

The FCA's deadline for claims of 29 August 2019 has now passed, with enquiries received between 29 June 2019 and the deadline also being treated as claims received by the deadline where a PPI policy was held. This also included enquiries from the Official Receiver. The key areas of remaining uncertainty are therefore the average uphold rate and redress amounts for the claims received.

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

	Cumulative to 4 April 2020	Future expected	Sensitivity
Average uphold rate (note i)	**44%**	41%	5% = £2m
Average redress per claim (note ii)	**£1,067**	£1,060	£100 = £2m

Notes:
i. 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.
ii. Future expected average redress reflects the expected mix of future claims that will be upheld.

27. Provisions for liabilities and charges (continued)

Critical accounting estimates and judgements (continued)

Other provisions for customer redress

Provisions for other matters are in respect of issues relating to administration of customer accounts, non-compliance with consumer credit legislation and other regulatory matters, where an outflow is probable. Amounts provided are based on management's best estimate of the number of customers impacted and anticipated remediation. As any new matters emerge, an estimate is made of the outcome, although in some cases uncertainties remain as to the eventual costs given the inherent difficulties in determining the number of impacted customers and the amount of any redress applicable. In the case of provisions relating to the administration of customer accounts, if the number of customers paid redress changed by 10%, the current provision would change by £4 million. Provisions will be adjusted in future periods as further information becomes available.

28. Leasing

The Group leases various offices, branches and other premises under lease arrangements. The Group adopted IFRS 16 on 5 April 2019. Further details are included in note 1; comparatives have not been presented.

Leasing amounts recognised in the income statement

	Income statement classification	Group 2020 £m
Interest expense	Interest expense and similar charges	**(5)**
Depreciation and impairment of right-of-use assets	Administrative expenses	**(31)**
Lease expense in respect of short term and low value leases	Administrative expenses	**(6)**
Amounts receivable under leases where the Group is a lessor	Other operating income	**4**

Leasing amounts recognised at the balance sheet date

	Balance sheet classification	Group 2020 £m
Right-of-use assets	Property, plant and equipment	**243**
Lease liabilities	Other liabilities	**(265)**

In addition to the above, the Society holds a lease liability and right-of-use asset of £2 million relating to the lease of an investment property owned by one of its subsidiaries which is eliminated on consolidation.

28. Leasing (continued)

Total leasing cash outflows in the year were £34 million. £4 million of lease commitments were entered into but not yet commenced at the balance sheet date. Future undiscounted minimum payments under lease liabilities were as follows:

Leasing commitments	**Group and Society 2020 £m**
Amounts falling due:	
Within one year	**20**
Between one and two years	**26**
Between two and three years	**29**
Between three and four years	**29**
Between four and five years	**28**
After five years	**185**
Total	**317**

IAS 17 leasing commitments	Group and Society 2019 (note i) £m
Amounts falling due:	
Within one year	21
Between one and five years	86
After five years	82
Total	189

Note:
i. Amounts have been restated from £230 million previously reported primarily to exclude certain taxes paid by and reimbursed to the lessor.

At the balance sheet date £11 million (2019: £21 million) of future minimum lease payments were receivable under leases where the Group is a lessor, of which £3 million (2019: £4 million) were receivable under non-cancellable subleases.

29. Contingent liabilities

The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position.

30. Retirement benefit obligations

The Group operates two defined contribution pension schemes in the UK – the Nationwide Group Personal Pension Plan (GPP) and the Nationwide Temporary Workers Pension Scheme. New employees are automatically enrolled into one of these schemes, with both schemes being administered by Aviva. Outside of the UK, there are defined contribution pension schemes for a small number of employees in the Isle of Man.

The Group also has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day to day administration. The Group's largest pension scheme is the Nationwide Pension Fund (the Fund). This is a contributory defined benefit pension scheme, with both final salary and career average revalued earnings (CARE) sections. The Fund was closed to new entrants in 2007 and since that date employees have been able to join the GPP. In line with UK pensions legislation, a formal actuarial valuation ('Triennial Valuation') of the assets and liabilities of the Fund is carried out at least every three years by independent actuaries.

On 17 February 2020, the Group announced that it would close the Fund to future accrual on 31 March 2021, with affected employees being moved to the GPP for future pension savings. From 1 April 2021, members will move from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index (CPI). As CPI is lower than the previous assumptions which were based on the retail price index (RPI) and pay growth, a gain of £164 million has been recognised as a past service credit within administrative expenses in the year ended 4 April 2020. All affected employees who are active members of the Fund on 31 March 2021, or those who were active members at the point they were made redundant on or after 18 September 2019, will receive a one-off payment which may be taken in cash or as a contribution to their pensions. The cost of accruing for these payments of £60 million has been recognised within 'administrative expenses – other staff related costs' in the year ended 4 April 2020.

Further information on the Group's obligations to defined benefit pension schemes are set out below.

Defined benefit pension schemes

Retirement benefit obligations on the balance sheet	Group	
	2020	2019
	£m	£m
Present value of funded obligations	**6,228**	6,375
Present value of unfunded obligations	**8**	8
	6,236	6,383
Fair value of fund assets	**(6,530)**	(6,278)
(Surplus)/deficit at 4 April	**(294)**	105

Most members of the Fund can draw their pension when they reach the Fund's retirement age of 65. The level of pension benefits accrued before 1 April 2011 vary in methodology; however, most are based on 1/54th of final salary for each year of service. Pension benefits accrued after 1 April 2011 are usually based on 1/60th of average earnings, revalued to the age of retirement, for each year of service (also called CARE). As noted above, there will be no future accrual of benefits from 1 April 2021, and future indexation of previously accrued benefits will be valued on the basis of CPI.

On the death of a Fund member, benefits may be payable in the form of a spouse/dependant's pension, lump sum (paid within five years of a Fund member beginning to take their pension), or refund of Fund member contributions. Fund members are able to place redundancy severance into their pension.

30. Retirement benefit obligations (continued)

Approximately 31% of the Fund's pension obligations have been accrued in relation to current employees (active Fund members), 36% for former employees (deferred Fund members) and 33% for current pensioners and dependants. The average duration of the Fund's pension obligation is approximately 22 years, reflecting the split of the obligation between current employees (26 years), deferred Fund members (24 years) and current pensioners (15 years).

The Group's retirement benefit obligations include £2 million (2019: £2 million) recognised in a subsidiary company, Nationwide (Isle of Man) Limited. This obligation relates to a defined benefit scheme providing benefits based on both final salary and CARE, which was closed to new entrants in 2009. The Group's retirement benefit obligations also include £8 million (2019: £8 million) in respect of unfunded legacy defined benefit arrangements.

The amounts recognised in the income statement are as follows:

Retirement benefit obligations recognised in the income statement		
	Group	
	2020	2019
	£m	£m
Defined contribution cost	**89**	83
Defined benefit schemes		
Current service cost	**90**	89
Past service (credit)/cost	**(169)**	5
Administrative expenses	**5**	4
Included in employee costs (note 8)	**15**	181
Interest on net defined benefit (asset)/liability (notes 3 and 4)	**(3)**	6
Total	**12**	187

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

Movements in net defined benefit (asset)/liability		
	Group	
	2020	2019
	£m	£m
Deficit at 5 April	105	345
Current service cost	**90**	89
Past service (credit)/cost	**(169)**	5
Benefits paid directly by the Group	**-**	(3)
Interest on net defined benefit (asset)/liability	**(3)**	6
Return on assets greater than discount rate	**(141)**	(370)
Contributions by employer	**(127)**	(131)
Administrative expenses	**5**	4
Actuarial (gains)/losses on defined benefit obligations	**(54)**	160
(Surplus)/deficit at 4 April	**(294)**	105

Current service cost represents the increase in liabilities resulting from employees accruing service over the year. This includes salary sacrifice employee contributions.

30. Retirement benefit obligations (continued)

Included within the past service credit for the year ended 4 April 2020 is a gain of £164 million relating to the decision to close the Fund to future accrual on 31 March 2021. Past service (credit)/cost also includes a £2 million (2019: £3 million) increase in liabilities of the Fund arising from Fund members choosing to pay additional contributions (AVCs or pension credits), gains of £7 million (2019: £7 million) in respect of Fund members made redundant during the year and, in the year ended 4 April 2019, an additional £9 million representing the Fund's estimated Guaranteed Minimum Pensions (GMPs) equalisation obligation, following the High Court verdict on 26 October 2018 on GMP equalisation for men and women.

The interest on the net defined benefit (asset)/liability represents the interest accruing on the liabilities over the year, offset by the interest income on assets. A net interest credit of £3 million was recognised in the year ended 4 April 2020 (2019: £6 million cost), primarily as a result of reflecting the impact of favourable experience adjustments arising from the 2019 Triennial Valuation on the interest calculation for the period.

The £141 million gain relating to the return on assets greater than the discount rate (2019: £370 million) is driven by positive increases in the value of government bonds, offset by a deterioration in the value of certain assets due to market volatility, in light of Covid-19.

The £127 million of employer contributions includes deficit contributions of £61 million (2019: £61 million), with the remainder relating to employer contributions in respect of ongoing benefit accrual. The 31 March 2019 Triennial Valuation for the NPF is underway. The Society and Trustee are negotiating a new Schedule of Contributions and Deficit Recovery Plan, and this is expected to be agreed in 2020. Based upon the previous Schedule of Contributions and Deficit Recovery Plan agreed as part of the 31 March 2016 Triennial Valuation, expected contributions in the year ending 4 April 2021 would be approximately £122 million.

The £54 million actuarial gain on defined benefit obligations (2019: £160 million actuarial loss) shown above is due to:

- An experience gain of £117 million (2019: £12 million loss) reflecting the difference between estimates of long-term inflation and membership assumptions compared to actual long-term inflation and membership experience.
- A £34 million loss (2019: £206 million) from changes in financial assumptions, driven by a 0.45% decrease in the discount rate (which increases the value of liabilities), offset by a 0.65% decrease in assumed retail price index inflation (which decreases the value of the liabilities).
- A £29 million loss (2019: £58 million gain) due to updating to the latest industry standard actuarial model for projecting future longevity improvements as well as other demographic assumptions to reflect recent Fund experience.

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

Movements in defined benefit obligations		
	Group	
	2020	2019
	£m	£m
At 5 April	6,383	6,120
Current service cost	**90**	89
Past service (credit)/cost	**(169)**	5
Interest expense on retirement obligation	**148**	148
Experience (gain)/loss on plan assumptions	**(117)**	12
Changes in demographic assumptions	**29**	(58)
Changes in financial assumptions	**34**	206
Benefits paid (note i)	**(162)**	(139)
At 4 April	**6,236**	6,383

Note:
i. The year ended 4 April 2019 includes £3 million benefit paid directly by the Group.

30. Retirement benefit obligations (continued)

Changes in the fair value of plan assets for the pension schemes are as follows:

Movements in plan assets		
	Group	
	2020	2019
	£m	£m
At 5 April	6,278	5,775
Interest income on assets	**151**	142
Return on assets greater than discount rate	**141**	370
Administrative expenses	**(5)**	(4)
Contributions by employer	**127**	131
Benefits paid	**(162)**	(136)
At 4 April	**6,530**	6,278

The Group offers a salary sacrifice arrangement whereby employee contributions are deducted from pay before their salary is paid each month. Therefore, no employee contributions are reported in the table above; instead all employee contributions are reflected in contributions by employer.

The major categories of assets held for the pension schemes, stated at fair value, are as follows:

Categories of plan assets		
	Group	
	2020	2019 (note i)
	£m	£m
Listed equities (quoted)	**626**	757
Government bonds (quoted)	**4,952**	3,846
Corporate bonds and other credit investments (quoted)	**504**	608
Infrastructure (unquoted)	**198**	312
Property (unquoted)	**645**	562
Private equity investments (unquoted)	**404**	380
Private debt investments (unquoted)	**202**	157
Cash	**139**	294
Liability relating to repurchase agreement	**(1,263)**	(759)
Other assets and liabilities	**123**	121
Total	**6,530**	6,278

Note:
i. Comparatives have been restated to reclassify certain investments to conform with the current year presentation, including disaggregating private debt funds into a separate category to better reflect the different nature and risks of the underlying assets.

The defined benefit pension schemes do not invest in the Group's own financial instruments or property. Certain investments in private equity, infrastructure and property are not quoted in active markets or valued based on observable inputs. Valuation adjustments incorporating significant unobservable inputs have been made to arrive at a market participant view of fair value, including consideration in the current year of the adverse impacts of Covid-19 on market conditions which existed as at the balance sheet date.

30. Retirement benefit obligations (continued)

The Fund's liabilities are partly hedged by matching assets, primarily government bonds and corporate bonds. In addition, the Fund invests in alternative matching assets such as property ground rents and property leases (included in property above) that are expected to generate inflation linked income over the long term.

The Fund also holds return-seeking assets which are primarily listed equities. These are expected to generate a return over and above the Fund's liabilities in the long term but may create risk and volatility in the short to medium term.

During the year the Trustee has continued to reduce interest rate and inflation risk in the Fund, purchasing a number of government bonds amounting to a notional £573 million and transacting interest rate and inflation swaps amounting to a notional £805 million. These investments have been supported by the utilisation of a repurchase agreement (a loan, collateralised against the Fund's government bonds), which totals £1,263 million at 4 April 2020 (2019: £759 million), and the sale of other assets, such as corporate bonds. This will reduce volatility from changes to long-term interest rates and inflation expectations.

The investments are monitored by both the Trustee and the Group to ensure they remain appropriate given the Fund's long-term objectives.

The principal actuarial assumptions used are as follows:

Principal actuarial assumptions	2020 %	2019 %
Discount rate	**1.95**	2.40
Future salary increases	**2.65**	3.25
Future pension increases (maximum 5%)	**2.55**	3.00
Retail price index (RPI) inflation	**2.60**	3.25
Consumer price index (CPI) inflation	**1.65**	2.25

The assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancies and are adjusted to represent the Fund's membership. The assumptions made are illustrated in the table below showing how long the Group would expect the average Fund member to live for after the age of 60, based on reaching that age at 4 April 2020 or in 20 years' time at 4 April 2040.

Life expectancy assumptions (years)	2020	2019
Age 60 at 4 April 2020		
Males	**27.6**	27.9
Females	**29.3**	29.1
Age 60 at 4 April 2040:		
Males	**29.0**	29.0
Females	**30.6**	30.6

30. Retirement benefit obligations (continued)

Critical accounting estimates and judgements

Retirement benefit obligations

The key assumptions used to calculate the defined benefit obligation are the discount rate, inflation assumptions (including salary increases) and mortality assumptions. If different assumptions were used, this could have a material effect on the reported (surplus)/deficit. The sensitivity of the results to these assumptions is shown below:

Change in key assumptions at 4 April 2020	Increase/(decrease) in surplus from assumption change
	£m
0.1% increase in discount rate	136
0.1% increase in inflation assumption	(120)
1 year increase in life expectancy at age 60 in respect of all members	(199)

The above sensitivities apply to individual assumptions in isolation. The 0.1% sensitivity to the inflation assumption includes a corresponding 0.1% increase in future salary increases and future pension increases assumptions.

In the current year additional estimation uncertainty exists in relation to the valuation of certain pension assets as at the balance sheet date, including investments in private equity, infrastructure and property. Adjustments have been made to reduce the value of these assets to reflect the adverse impacts of Covid-19 on market conditions which existed as at the balance sheet date. The sensitivity of these valuation adjustments is such that a further decrease of 10% to the adjusted asset values would result in a loss of approximately £110 million recognised in other comprehensive income. An increase of 10% to the adjusted asset values, limited to the original unadjusted carrying value, would result in a gain of approximately £95 million recognised in other comprehensive income.

31. Core capital deferred shares

Group and Society	Number of shares	CCDS	Share premium	Total
		£m	£m	£m
At 4 April 2020	**10,500,000**	**11**	**1,314**	**1,325**
At 4 April 2019	10,500,000	11	1,314	1,325

Core capital deferred shares (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.

Notes to the financial statements (continued)

31. Core capital deferred shares (continued)

In the event of a winding up or dissolution of the Society and if a surplus was available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £129.24 per share.

There is a cap on the distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £16.61 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 and an interim distribution of £54 million (£5.125 per share) in respect of the period to 30 September 2019 was paid on 20 December 2019. These distributions have been recognised in the statement of movements in members' interests and equity.

Since the balance sheet date, the directors have declared a distribution of £5.125 per share in respect of the period to 4 April 2020, amounting in aggregate to £54 million. This has not been reflected in these financial statements as it will be recognised in the year ending 4 April 2021, by reference to the date at which it was declared.

32. Other equity instruments

	Group and Society	
	2020	2019
	£m	£m
At 5 April	992	992
Redemptions	**(992)**	-
Issuances	**593**	-
At 4 April	**593**	992

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 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.

An interest payment of £8 million, covering the period from 17 September to 19 December 2019, was paid on 20 December 2019. This payment has been recognised in the statement of movements in members' interest and equity. The coupon paid represented the maximum non-cumulative fixed coupon of 5.875%. A coupon payment of £18 million, covering the period to 19 June 2020, is expected to be paid on 22 June 2020 and will be recognised in the statement of movements in members' interests and equity in the financial year ending 4 April 2021.

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. 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.

33. Investments in Group undertakings

The Society's investments in Group undertakings are as follows:

	2020			2019		
	Shares £m	**Loans £m**	**Total £m**	Shares £m	Loans £m	Total £m
At 5 April	315	31,905	32,220	315	30,981	31,296
Additions	**24**	**3,426**	**3,450**	-	1,431	1,431
Disposals, redemptions and repayments	**-**	**(463)**	**(463)**	-	(507)	(507)
At 4 April	**339**	**34,868**	**35,207**	315	31,905	32,220

Subsidiary undertakings

The interests of the Society in its subsidiary undertakings as at 4 April 2020 are set out below:

Subsidiary name	Notes
Principal subsidiaries	
Derbyshire Home Loans Limited	i
E-Mex Home Funding Limited	i
Nationwide Syndications Limited	i
The Mortgage Works (UK) plc	i
UCB Home Loans Corporation Limited	i
Other subsidiaries	
Dunfermline BS Nominees Limited	ii
First Nationwide	ii
Jubilee Mortgages Limited	ii
Monument (Sutton) Limited	ii
Nationwide (Isle of Man) Limited	
NBS Ventures Management Limited	ii
NBS Ventures Limited	ii
Piper Javelin Holding Company Limited	ii
Piper Javelin No 1 Limited	
The Derbyshire (Premises) Limited	ii

Subsidiary name
Dormant subsidiaries
at.home nationwide Limited
Confederation Mortgage Services Limited
Ethos Independent Financial Services Limited
Exeter Trust Limited
LBS Mortgages Limited
Nationwide Anglia Property Services Limited
Nationwide Financial Service Limited
Nationwide Home Loans Limited
Nationwide Housing Trust Limited
Nationwide International Limited
Nationwide Investments (No.1) Limited
Nationwide Lease Finance Limited
NMC1 Limited
Nationwide Overseas (UK) Limited
Nationwide Property Services (NBS) Limited
Nationwide Trust Limited
NBS CoSec Limited
NBS Fleet Services Limited
Staffordshire Leasing Limited

Notes:

i. Audited accounts are prepared for all of the Group's principal subsidiaries. All principal subsidiaries are regulated entities with the exception of Nationwide Syndications Limited.

ii. For these companies, the Group has adopted the audit exemption for the year ended 4 April 2020 under Section 479A of the Companies Act 2006. The Society guarantees all outstanding liabilities of the exempted subsidiary undertakings.

33. Investments in Group undertakings (continued)

The Society directly or indirectly holds 100% of the ordinary share capital for each subsidiary undertaking. All of the subsidiary undertakings are limited liability companies, with the exception of First Nationwide which is an unlimited company.

The registered office for all subsidiary undertakings, other than those listed in the table below, is Nationwide House, Pipers Way, Swindon, SN38 1NW.

Subsidiary name	Registered office
Dunfermline BS Nominees Limited	Caledonia House, Carnegie Avenue, Dunfermline, KY11 8PJ
Nationwide (Isle of Man) Limited	5-11 St. Georges Street, Douglas, Isle of Man, IM99 1RN

There are no significant restrictions on any of the Society's subsidiaries in paying dividends or repaying loans, subject to their financial and operating performance and availability of distributable reserves.

The Group has no material shares in associates. Further details regarding the Group's interests in equity shares are included in note 13.

Subsidiaries by virtue of control

Details of consolidated and unconsolidated structured entities are set out in note 34.

34. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

Consolidated structured entities

Structured entities are assessed for consolidation in accordance with the accounting policy set out in note 1. The following structured entities are consolidated in the Group's results:

Structured entity name	Nature of business	Registered office
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	Nationwide House, Pipers Way, Swindon, SN38 1NW
Silverstone Master Issuer plc Silverstone Funding (No.1) Limited	Funding vehicle Funding vehicle	Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF

Further details on the activities of the above structured entities are included in note 14.

Unconsolidated structured entities

The Group has interests in structured entities which it does not sponsor or control. These largely consist of holdings of mortgage backed securities, covered bonds and CLOs issued by entities that are sponsored by other unrelated financial institutions. The entities are financed primarily by investments from investors, such as the purchase of issued notes.

34. Structured entities (continued)

The Group's direct interests in unconsolidated structured entities comprise primarily investments in asset backed securities which are reported within investment securities on the balance sheet. The total carrying value of these interests at 4 April 2020 is £4,089 million (2019: £3,847 million). Further details on the credit risk that the Group is exposed to in respect of these asset backed securities can be found in the 'Credit risk - Treasury assets' section of the Risk report.

Management has concluded that the Group has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss. During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any such support. There were no transfers to or from these unconsolidated structured entities during the year.

35. Related party transactions

Subsidiary, parent and ultimate controlling party

The Group is controlled by Nationwide Building Society, the ultimate parent, which is registered in England and Wales. Details of subsidiary undertakings are shown in note 33.

Key management personnel compensation

Members of the Nationwide Leadership Team (including executive directors), together with the non-executive directors of the Society, are considered to be the key management personnel as defined by IAS 24 'Related Party Disclosures'. Total compensation for key management personnel for the year was as follows:

Key management personnel compensation	2020 £'000	2019 £'000
Short term employee benefits	**8,511**	8,775
Other long-term benefits	**782**	1,914
Termination benefits	**1,107**	-
Share based payments	**1,736**	1,881
Total	**12,136**	12,570

Other long-term benefits include amounts relating to long-term bonus schemes, some of which will be paid in future periods. Further information on these can be found in note 8. Share based payments include amounts that are dependent on the performance of the CCDS. Further information is included in the Report of the directors on remuneration.

35. Related party transactions (continued)

Transactions with related parties

A number of transactions are entered into with related parties in the normal course of business. These include derivatives, loans, deposits and the payment and recharge of administrative expenses. The outstanding balances for these related party transactions at the year end, and the associated income and expenses for the year are as follows:

Transactions with related parties

	Society subsidiaries		Key management personnel	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Loans payable to the Society				
Loans outstanding at 5 April	31,905	30,981	1.5	2.9
Loans issued during the year	**3,426**	1,431	**0.5**	0.6
Loan repayments during the year	**(463)**	(507)	**(1.1)**	(2.0)
Loans outstanding at 4 April	**34,868**	31,905	**0.9**	1.5
Deposits payable by the Society				
Deposits outstanding at 5 April	1,545	1,417	4.3	4.7
Deposits placed during the year	**240**	280	**12.4**	8.0
Deposit repayments during the year	**-**	(152)	**(11.6)**	(8.4)
Deposits outstanding at 4 April	**1,785**	1,545	**5.1**	4.3
Net interest income				
Interest receivable	**798**	783	**-**	-
Interest expense	**54**	48	**-**	-
Other income and expenses				
Fees and expenses paid to the Society (note i)	**38**	28	**-**	-
Other balance sheet items				
Accrued income and prepaid expenses due to the Society	**1,454**	1,114	**-**	-
Other liabilities payable by the Society	**3,362**	2,282	**-**	-
Right-of-use asset leased from subsidiary	**2**	-	**-**	-
Liability for right-of-use asset leased from subsidiary	**(2)**	-	**-**	-

Note:
i. Comparatives has been restated as detailed in note 1.

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35. Related party transactions (continued)

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group. A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and directors of the Society or persons connected with directors of the Society.

The register will be available for inspection by members at the Annual General Meeting on 16 July 2020 and during normal office hours at the Society's principal office (Nationwide House, Pipers Way, Swindon, SN38 1NW) during the period of 15 days prior to the meeting.

Transactions with Group companies

Transactions with Group companies arise in the normal course of business. Interest on outstanding loans and deposits accrues at a transfer pricing rate agreed between the Society and its subsidiary undertakings. The Society does not charge the net defined benefit cost to the subsidiary undertakings that participate in the Nationwide Pension Fund. The pension cost to these subsidiary undertakings equals the contributions payable to the Fund.

36. Notes to the cash flow statements

Non-cash items included in profit before tax	**Group**		**Society**	
	2020	2019 (note i)	**2020**	2019 (note i)
	£m	£m	**£m**	£m
Net increase in impairment provisions	**121**	36	**87**	61
Net decrease in provisions for liabilities and charges	**(21)**	(75)	**(20)**	(74)
Amortisation and gains/losses on investment securities (notes ii, iii)	**18**	(26)	**18**	(26)
Depreciation, amortisation and impairment	**666**	549	**666**	549
Profit on sale of property, plant and equipment	**(4)**	(2)	**(4)**	(2)
Loss on the revaluation of property, plant and equipment	**5**	4	**6**	4
Net charge in respect of retirement benefit obligations (note iii)	**(77)**	104	**(77)**	104
Interest on subordinated liabilities (note iv)	**213**	176	**213**	176
Interest on subscribed capital (note iv)	**5**	5	**5**	5
Losses/(gains) from derivatives and hedge accounting	**7**	(36)	**(19)**	7
Total	**933**	735	**875**	804

36. Notes to the cash flow statements (continued)

Changes in operating assets and liabilities	Group		Society	
	2020	2019 (note i)	**2020**	2019 (note i)
	£m	£m	**£m**	£m
Loans and advances to banks and similar institutions (notes iii, vi)	**(282)**	(269)	**(282)**	(269)
Net derivative financial instruments (notes iii, iv, vii)	**(197)**	(400)	**471**	(408)
Loans and advances to customers (note iii)	**(2,190)**	(7,826)	**1,012**	(6,581)
Other operating assets (notes ii, iii)	**(26)**	(30)	**(3,752)**	(959)
Shares	**5,722**	5,966	**5,722**	5,966
Deposits from banks and similar institutions, customers and others (note iii)	**1,030**	137	**924**	389
Debt securities in issue (notes iii, v)	**(1,731)**	2,003	**(2,785)**	2,679
Contributions to defined benefit pension scheme (note iii)	**(127)**	(134)	**(127)**	(133)
Other operating liabilities (note iii)	**65**	219	**1,398**	(713)
Total	**2,264**	(334)	**2,581**	(29)
Cash and cash equivalents				
Cash	**13,748**	12,493	**13,748**	12,493
Loans and advances to banks and similar institutions repayable in 3 months or less (note vi)	**726**	1,381	**707**	1,366
Total	**14,474**	13,874	**14,455**	13,859

Notes:

i. Comparatives have been restated as detailed in note 1.

ii. Adjustments have been made to cash flows on acquisition and disposal of investment securities to appropriately reflect the proceeds paid or received, inclusive of the effects of premiums, discounts and gains/(losses) on disposal. This has resulted in a decrease of £69 million in total non-cash items included in profit before tax and an increase of £200 million in total changes in operating assets and liabilities for the year ended 4 April 2019 for both Group and Society.

iii. A number of reclassifications have been made within cash flows from operations between categories of non-cash items and changes in operating assets and liabilities. This has resulted in a net increase of £147 million in total non-cash items included in profit before tax and a net decrease of £147 million in total changes in operating assets and liabilities for the year ended 4 April 2019 for both Group and Society.

iv. Cash flows associated with derivative contracts hedging investing and financing activities are now presented in the same manner as the cash flows of the hedged items. This has resulted in a decrease of £71 million in total non-cash items included in profit before tax and an increase of £51 million in total changes in operating assets and liabilities for the year ended 4 April 2019 for both Group and Society.

v. Gross cash inflows and outflows arising from the issuance, disposal and interest on debt securities in issue have been reclassified from financing activities to present a net cash movement within operating activities, reflecting the use of these securities as part of the Group's day to day operations. This has resulted in a decrease of £673 million for the Group (Society: £612 million) in total non-cash items included in profit before tax to remove the adjustment for interest on the debt securities, and an increase of £2,067 million (Society: £2,728 million) in total changes in operating assets and liabilities for the year ended 4 April 2019 from inclusion of debt securities within operating activities.

vi. Certain collateral balances have been reclassified from cash equivalents to loans and advances to banks and similar institutions, resulting in an increase of £18 million in total changes in operating assets and liabilities for the year ended 4 April 2019 for both Group and Society.

vii. Separate presentation of the effects of exchange rate changes on cash and cash equivalents has resulted in a decrease in the Group of £9 million (Society: £5 million) in total changes in operating assets and liabilities for the year ended 4 April 2019, where the effects were previously reported.

36. Notes to the cash flow statements (continued)

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 4 April 2020, amounted to £1,355 million (2019: £1,276 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.

Movements in liabilities arising from financing activities are set out below.

Movements in liabilities arising from financing activities						
	2020			2019		
	Subordinated liabilities	**Subscribed capital**	**Total**	Subordinated liabilities	Subscribed capital	Total
Group	**£m**	**£m**	**£m**	£m	£m	£m
At 5 April	6,706	250	6,956	5,497	263	5,760
Issuances	**1,603**	**-**	**1,603**	1,029	-	1,029
Redemptions	**-**	**-**	**-**	-	(13)	(13)
Foreign exchange	**390**	**-**	**390**	172	-	172
Fair value and other movements	**618**	**3**	**621**	8	-	8
At 4 April	**9,317**	**253**	**9,570**	6,706	250	6,956

Movements in liabilities arising from financing activities						
	2020			2019		
	Subordinated liabilities	**Subscribed capital**	**Total**	Subordinated liabilities	Subscribed capital	Total
Society	**£m**	**£m**	**£m**	£m	£m	£m
At 5 April	6,706	250	6,956	5,497	263	5,760
Issuances	**1,603**	**-**	**1,603**	1,029	-	1,029
Redemptions	**-**	**-**	**-**	-	(13)	(13)
Foreign exchange	**390**	**-**	**390**	172	-	172
Fair value and other movements	**618**	**3**	**621**	8	-	8
At 4 April	**9,317**	**253**	**9,570**	6,706	250	6,956

37. Capital management

The Group is subject to the regulatory capital requirements applied by its regulator, the Prudential Regulation Authority (PRA). Regulatory capital comprises the Group's general reserve, fair value through other comprehensive income reserve, revaluation reserve, core capital deferred shares, other equity instruments, permanent interest-bearing shares (PIBS) and subordinated debt, subject to various adjustments and transitional arrangements required by the capital rules.

During the year the Group complied with the capital requirements applied by the PRA. Further unaudited details about the Group's capital position can be found in the 'Solvency risk' section of the Risk report.

38. Registered office

Nationwide is a building society, incorporated and domiciled in the United Kingdom. The address of its registered office is:

Nationwide Building Society
Nationwide House
Pipers Way
Swindon
SN38 1NW

Other information

Vaniya and Neena, members since 1998

Annual business statement for the year ended 4 April 2020

1. Statutory percentages

Statutory percentages	2020 %	Statutory limit %
Lending limit	**7.42**	25.00
Funding limit	**29.23**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997 and the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Group plus impairment provisions on loans and advances to customers less liquid assets, property, plant and equipment, intangible fixed assets and investment properties as shown in the Group balance sheet.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of:

i) the principal value of, and interest accrued on, shares in the Society,
ii) the principal of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society excluding offshore deposits in an EEA subsidiary, and
iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking, less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

Other percentages	2020 %	2019 %
As a percentage of shares and borrowings:		
Gross capital	**10.2**	9.4
Free capital	**9.4**	8.6
Liquid assets	**16.8**	15.2
Profit for the financial year as a percentage of mean total assets (note i)	**0.15**	0.27
Management expenses as a percentage of mean total assets	**0.95**	0.96

Note:
i. Comparative has been restated following amendments to profit after tax for 2019 as detailed in note 1 to the financial statements.

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, deposits from banks and similar institutions, other deposits and debt securities in issue
- 'Gross capital' represents the aggregate of general reserve, revaluation reserve, fair value through other comprehensive income reserve (2018: available for sale reserve), cash flow hedge reserve, CCDS, Additional Tier 1 capital, subscribed capital and subordinated liabilities
- 'Free capital' represents the aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets
- 'Liquid assets' represent the total of cash, loans and advances to banks and similar institutions and investment securities
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year
- 'Management expenses' represent administrative expenses including depreciation, amortisation and impairment of property, plant and equipment and intangible assets

Annual business statement (continued)

3. Information relating to directors at 4 April 2020

Information relating to directors at 4 April 2020			
Name and date of birth	**Occupation**	**Date of appointment**	**Other directorships**
D L Roberts CBE, BSc (Hons), MBA, PhD (Honorary), CFifs Chairman 12 September 1962	Non-executive director	1 September 2014	Campion Willcocks Limited Beazley plc (Chair) Beazley Furlonge Limited (Chair) NHS Improvement (Associate Non-executive Director) NHS England (Vice Chair)
R A Clifton CBE, MA (Cantab), FRSA 30 January 1958	Non-executive director	1 July 2012	Rita Clifton Limited Ascential plc The Green Alliance Trust
R M Fyfield MA, BA (Hons) 3 May 1969	Non-executive director	2 June 2015	Roku, Inc BBC Commercial Holdings Limited Asos plc
A Hitchcock dipMBA, CEng, FIET 16 January 1965	Non-executive director	2 December 2018	
J D Garner MA (Cantab) 23 June 1969	Executive director	5 April 2016	UK Finance British Triathlon Foundation Trust (Chairman)
K A H Parry OBE, MA (Cantab), FCA 29 January 1962	Non-executive director	23 May 2016	Daily Mail and General Trust plc K A H Parry Limited Royal London Mutual Insurance Society Limited (Chairman)
Baroness U K Prashar CBE, PC 29 June 1948	Non-executive director	18 January 2017	Cumberland Lodge (Chair) Federation of Indian Chambers of Commerce & Industry UK Council (Chair)
C S Rhodes BSc (Hons), ACA 17 March 1963	Executive director	20 April 2009	at.home Nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited NBS Ventures Management Limited First Nationwide LBS Mortgages Limited Nationwide Housing Trust Limited Nationwide Investment No.1 Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited Staffordshire Leasing Limited Silverstone Securitisation Holdings Limited Arkose Funding Limited

3. Information relating to directors at 4 April 2020 (continued)

Information relating to directors at 4 April 2020			
Name and date of birth	**Occupation**	**Date of appointment**	**Other directorships**
P G Rivett BSc (Hons), FCA 27 June 1955	Non-executive director	1 September 2019	
T J W Tookey BSc (Hons), FCA 17 July 1962	Non-executive director	2 June 2015	Westmoreland Court Management (Beckenham) Limited
G Waersted MBA 16 March 1955	Non-executive director	1 June 2017	Telenor ASA (Chair) Petoro AS (Chair) Lukris Invest AS Fidelity International Saferoad ASA

Documents may be served on any of the directors c/o Addleshaw Goddard, One St Peter's Square, Manchester M2 3DE.

Directors' service contracts

Executive directors' terms and conditions of employment are detailed in their individual contracts or service agreements which include a notice period of 12 months from the Society to the individual and a notice period of six months from the individual to the Society. The notice period offered to any new recruit would be in line with this approach.

Directors' share options

A proportion of executive directors' variable pay is linked to the value of the Society's core capital deferred shares (CCDS), details of which have been provided in the Report of the directors on remuneration. For 2019/20, the Directors' Performance Award (DPA) was the only variable pay plan in which directors participated. 20% of awards under the DPA is payable in June 2020 with 20% retained until June 2021. The remaining 60% is deferred, payable between years three and seven following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS). These CCDS linked elements are payable in cash subject to a 12 month retention period. No Directors held securities in Nationwide Building Society during the year.

Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 42. Statutory profit before tax of £466 million has been adjusted to derive an underlying profit before tax of £469 million. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across periods. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.

The financial performance framework previously developed by the society is no longer appropriate in the current economic conditions. Instead the Group is focused on maintaining a strong capital and liquidity position through the economic cycle.

Forward looking statements

Certain statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward-looking statements are reasonable, Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. The economic outlook also remains unusually uncertain due to Brexit and the impacts of Covid-19. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward-looking statements.

Nationwide undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

This document does not constitute or form part of an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by means of a prospectus that may be obtained from Nationwide and will contain detailed information about Nationwide and management as well as financial statements.

Glossary

The glossary for Annual Report and Accounts 2020 is available at:
https://www.nationwide.co.uk/about/corporate-information/results-and-accounts

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We also accept calls via BT Text Relay. Just dial **18001** followed by the full telephone number you wish to ring.

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