

# Interim Results

for the period ended  
30 September 2020



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## Introduction

Unless otherwise stated, the income statement analysis compares the period from 5 April 2020 to 30 September 2020 to the corresponding six months of 2019 and balance sheet analysis compares the position at 30 September 2020 to the position at 4 April 2020.

## Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 11. Statutory profit before tax of £361 million has been adjusted to derive an underlying profit before tax of £305 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.

## 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.

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

“As a mutual building society guided by a social purpose, our focus is helping and supporting our members, our people and our communities. Our strong financial position, bolstered by our long-term commitment to the mortgage market, has enabled us to stand by our members and colleagues during this difficult and uncertain time. To that end, we’ve provided 246,000 mortgage payment holidays, frozen reposessions and offered interest-free overdrafts. We’ve also spoken to a quarter of a million members about their individual circumstances since March.

“Despite the operational challenges presented by the pandemic, we’ve supported members who were able to buy or move home, as home ownership is so important in the social and economic fabric of society. We continued to lend responsibly and at competitive rates as we came out of lockdown and were one of the few lenders to offer higher loan to value loans for first time buyers. We continued to provide a full range of services to our members and, despite the challenges of Covid-19, we were able to consolidate on our existing strengths in current accounts, deposits and mortgages.

“Our high streets need support more than ever and so we have recently extended our branch promise to keep a branch in all the towns and cities we are in today until at least 2023. This helps preserve access to services, as well as a sense of community and the vital human connections that are so important just now.

“Looking back on the last six months I feel tremendous gratitude and appreciation for our people who have worked so hard to deliver these results, and to our members for their loyalty and understanding. I am also pleased that these efforts were again recognised by *Which?* who awarded Nationwide the Banking Brand of the Year 2020. Set against the backdrop of a stable profit performance year on year, I am very much encouraged by our ability to continue to stand by our members at this important time.”

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

“We always take a conservative approach to managing our business and you can see this clearly in today’s results. Our capital base remains strong, with a CET1 ratio of 34.5% (4 April 2020: 31.9%) and a UK leverage ratio of 5.0% (4 April 2020: 4.7%).

“Whilst the Society’s performance has clearly been impacted by the pandemic, it is pleasing to see the benefits of our conservative approach feed through into the results for the half year. Our margin has stabilised, costs have reduced and profit is stable compared to the same period last year, despite a rise in impairment charges associated with the pandemic and the current uncertain economic outlook.

“After protecting savers with average deposit rates that were higher than the market average for some years, we knew this would not be sustainable when bank base rate fell to its lowest ever rate. Our decision to reduce savings rates meant our member financial benefit reduced to £140m (H1 2019: £375m).

“The Society’s balance sheet remains very strong, with liquidity and capital ratios well in excess of regulatory requirements.”

## Headlines

- Supported homebuyers, particularly first time buyers, with responsible lending and higher loan to value mortgages for lower risk first time buyers
- In line with the industry, accepted 246,000 mortgage payment holidays and granted 91,000 payment breaks or interest-free periods on loans, credit cards and overdrafts
- *Which?* Banking Brand of the Year 2020 – awarded for 4th year running, no. 2 in all-sector UK Customer Satisfaction Index<sup>1</sup> and no.1 for customer satisfaction among our peer group<sup>2</sup>
- Backing our high streets and communities with branch promise until 2023

## Numbers at a glance

### Financial highlights

- Underlying profit steady at £305m (H1 2019: £307m), with stable income and margin and statutory profit increased to £361m (H1 2019/20: £309m)
- Well capitalised with CET1 ratio of 34.5% (4 April 2020: 31.9%) and UK leverage ratio of 5.0% (4 April 2020: 4.7%)
- Managed costs down by £92m to £1,033m (H1 2019: £1,125m)
- Set aside £139m (H1 2019: £57m) for loans that may not be repaid, although arrears remain low
- Member financial benefit of £140m (H1 2019: £375m<sup>3</sup>) tracking below our £400m minimum year end target, mainly reflecting lower savings rates

### Trading highlights

- Net lending of £1.6bn (H1 2019: £3.0bn) and gross lending of £12.7bn (H1 2019: £16.3bn), supported by demand for buy to let mortgages
- Deposits up £1.3bn (H1 2019: £2.5bn) with members holding more in current accounts
- Opened 256,000 new current accounts (H1 2019: 391,000), maintaining our stock market share at 10.1% (February 2020: 10.0%) of all current accounts, with fewer accounts opened as a result of lockdown<sup>4</sup>
- 3.55m 'committed members' (4 April 2020: 3.52m<sup>5</sup>); those with 2+ products
- Customer satisfaction lead of 3.4%pts<sup>2</sup>, slightly below 4.0%pts target

<sup>1</sup> Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at July 2020.

<sup>2</sup> © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 30 September 2020. c.49,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.54,000 adults (aged 16+) per annum. Interviews were conducted face to face, telephone 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 >3.5% as of April 2020 (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

## Our four key priorities in the last six months

### Priority 1: Easing our members' money worries and protecting their homes

We accepted 246,000 payment holidays on mortgages and granted 91,000 payment breaks or interest-free periods on loans, credit cards and overdrafts. We also pledged that, until the end of May 2021, no mortgage member will lose their home as a result of Covid-19 if they work with us to get their finances back on track – and are encouraging buy to let customers to pass on payment breaks to tenants.

### Priority 2: Lending responsibly to homebuyers, to support the housing market

We continued to lend to help people buy or move home, where they can afford to. We are one of the few lenders to support first time buyers with 90% loan to value (LTV) mortgages, lending responsibly to lower risk homebuyers. We helped 21,000 first time home-owners buy their own home (H1 2019: 33,500), one in six of all first time buyers, despite inactivity during lockdown.

### Priority 3: Promoting the wellbeing of our colleagues and communities

Our colleagues and communities have the same fears for the future as our members. We have supported colleagues with a job security promise for 2020, and offered wellbeing support and the chance to develop new skills as we reorganised to cope with Covid-19 restrictions. We have supported communities by giving charities a free hand on how to spend £10m of community funding, and we are backing high streets by promising to keep a branch in every town or city we are in currently until at least 2023.

### Priority 4: Keeping our Society and our members' money safe

We can only help our members through the economic shock of the pandemic if we are financially strong ourselves. We have a low-risk business model and manage our finances conservatively and, as a result, our profits are steady, underpinned by stable income, a strong balance sheet, and a substantial liquidity and capital cushion.

<sup>3</sup> Member financial benefit represents the value we deliver to members through better interest rates, fees and incentives than the market average. The comparative has been restated. More information is given on page 11.

<sup>4</sup> eBenchmarkers (April - September 2020 and April - September 2019). CACI's CSDB (August 2020 and February 2020).

<sup>5</sup> The comparative for committed members has been restated to reflect improved data quality since originally reported.

# Financial Summary

	Half year to 30 September 2020		Half year to 30 September 2019	
Financial performance	£m		£m	
Total underlying income	1,503		1,541	
Total underlying cost	1,033		1,125	
Underlying profit before tax (note i)	305		307	
Statutory profit before tax	361		309	

Mortgage Lending	£bn	%	£bn	%
Group residential – gross/ <i>market share</i>	12.7	12.0	16.3	12.3
Group residential – net/ <i>market share</i>	1.6	5.2	3.0	9.6
Average loan to value of new residential lending (by value)	70		72	

Deposit balances	£bn	%	£bn	%
Member deposits balance movement/ <i>market share</i> (note ii)	1.3	0.9	2.5	4.4

Key ratios	%	
Cost income ratio	68.7	72.9
Net interest margin	1.15	1.12

## Notes:

- i. Underlying profit represents management's view of underlying performance. In order to provide a more meaningful presentation of performance the following items are excluded from statutory profit to arrive at underlying profit:
  - FSCS costs arising from institutional failures.
  - Gains or losses from derivatives and hedge accounting.
- ii. Member deposits include current account credit balances.
- iii. The CET1 ratio has been calculated under CRD IV on an end point basis.
- iv. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure.
- v. The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure and is reported on an end point basis. The difference between the Capital Requirements Regulation (CRR) leverage ratio and the UK leverage ratio is driven by the exclusion of qualifying central bank claims from the UK leverage exposure measure as per the PRA Rulebook.
- vi. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations).

	30 September 2020		4 April 2020	
Balance sheet	£bn	%	£bn	%
Total assets	259.7		248.0	
Loans and advances to customers	202.0		201.0	
Member deposits/ <i>market share</i> (note ii)	161.0	9.3	159.7	9.9

Asset quality	%	
Residential mortgages		
Proportion of residential mortgage accounts more than 3 months in arrears	0.42	0.41
Average indexed loan to value (by value)	56	58
Consumer banking		
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	1.37	1.22

Key ratios	%	
<i>Capital</i>		
Common Equity Tier 1 ratio (note iii)	34.5	31.9
UK leverage ratio (note iv)	5.0	4.7
CRR leverage ratio (note v)	4.6	4.4
<i>Other balance sheet ratios</i>		
Liquidity coverage ratio	153	163
Wholesale funding ratio (note vi)	30.5	28.5

## Chief Executive's review

### Easing our members' money worries and protecting their homes

We aim to build a thriving membership by helping our millions of members manage and make more of their money. When the economic impacts of Covid-19 quickly became apparent in March, putting many people's jobs and incomes at risk, we offered members a range of support.

Our Home Support Package helped our mortgage members weather short- and medium-term financial strains. Like other providers, we have offered mortgage payment holidays, accepting 246,000 applications since March. As a mutual, we have gone further, pledging that at least until the end of May 2021 no mortgage member will lose their home as a result of Covid-19, as long as they work with us to manage their money. We are also encouraging buy to let customers to pass on payment breaks to tenants and funding more advisors for our long-term charity partner Shelter. Our specialist team who help members through financial hardship have spoken to over 250,000 members about their individual circumstances since March.

Over the last few very difficult months, being able to talk to us in branches and over the phone has been really important to members. We kept 90% of our branches open throughout the first lockdown and have renewed our pledge to keep a branch in every town or city we are in currently until 2023. When our call centres were at full stretch we diverted calls to branches, and branch colleagues have answered over 100,000 calls from members every month since March. Social distancing measures also proved a catalyst for many members to try our mobile services for the first time, with 6% growth in active mobile users in the last six months. At the same time, members need to know that their money is safe with us, which is why we continually review and enhance our fraud defences to protect members against rising levels of fraud. Our branch colleagues also play a vital role in preventing incidents of fraud while raising awareness among members to be vigilant.

Our goal is to serve our members better every day, and to deliver legendary service. It is a tribute to the hard work of all my colleagues that as well as being no. 2 in the all-sector UK Customer Satisfaction Index<sup>6</sup>, we were named *Which?* Banking Brand of the Year 2020 – awarded for the fourth year running, with special mention for our flexibility during lockdown.

<sup>6</sup> Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at July 2020.

<sup>7</sup> © Ipsos MORI 2020, Financial Research Survey (FRS), 12 months ending 30 September 2020 and 12 months ending 31 March 2020. c.49,000 adults (aged 16+) surveyed across Great Britain from a total representative sample of c.54,000 adults (aged 16+) per annum. Interviews were conducted face to face, telephone 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 >3.5% as of April 2020 (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

We were also no. 1 for customer satisfaction again among our peer group, with a lead of 3.4%pts<sup>7</sup>, although this was slightly below our target of 4%pts.

The value of having a savings 'safety net' became really clear during the pandemic and we temporarily waived fees on limited access savings accounts, so that members could use their savings freely if they needed to. Sadly, however, we couldn't protect savers any longer from the cut in the bank base rate to the lowest ever rate in the Bank of England's 325 year history and took the decision to reduce our savings rates. As a result, we saw our member financial benefit reduce to £140 million (H1 2019: £375 million<sup>8</sup>). Despite the challenge of market-leading rates from NS&I, higher balances in current accounts meant that member deposits were actually £1.3 billion higher than last year, although our share of deposit balances dipped slightly to 9.3%.

We aim to offer our savers the best rates we can afford but will always be limited by prevailing interest rates. We take seriously our role of encouraging a strong savings culture in the UK, and in the face of low interest rates we continue to look for new ways to reward members and encourage saving. Recently, for example, we've introduced our Start to Save proposition, ISA prize draws and a Mutual Reward Bond which combined a competitive fixed rate with the chance to win £10,000.

Fewer people wanted to open a new current account or switch their existing account during the last six months. Of those who opened a new account, one in seven chose Nationwide (H1 2019: one in seven). We continue to have a strong active student and youth account stock share of 16.4% (March 2020: 15.5%), with one in seven students opening an account in the period choosing Nationwide (H1 2019: one in ten)<sup>9</sup>.

Having reached our goal of achieving a 10% share of current accounts last year, we decided to pause our switching incentives and focus firmly on supporting our existing members during the pandemic, over actively seeking new ones<sup>10</sup>. While the number of people switching current accounts fell, we still attracted 12.5% of switchers (H1 2019: 18.7%), above our natural share but lower than last year<sup>11</sup>.

<sup>8</sup> Member financial benefit represents the value we deliver to members through better interest rates, fees and incentives than the market average. The comparative has been restated. More information is given on page 11.

<sup>9</sup> eBenchmarkers (April-September 2020 and April-September 2019), CACI's CSDB and Nationwide internal calculation (August 2020 and February 2020).

<sup>10</sup> CACI's CSDB (February 2020).

<sup>11</sup> Pay.UK monthly CASS data (April-September 2020 and April-September 2019).

## Chief Executive's review (continued)

### **Lending responsibly to homebuyers, to support the housing market**

If we ever needed a reminder of the importance of our homes to our wellbeing, we found it in lockdown. As the UK's second-largest mortgage lender we wanted to continue to support homebuyers once we came out of lockdown in June, at which time we saw a bounce back in demand.

We helped 21,000 first time home-owners buy their own home (H1 2019: 33,500), one in six of all first time buyers, despite inactivity during lockdown. We were one of the few lenders to carry on supporting first time homebuyers with 90% LTV mortgages while strengthening our lending rules to manage the risks for borrowers and the Society.

Our total gross mortgage lending was £12.7 billion in the first half of the year (H1 2019: £16.3 billion), lower than last year but a strong result in view of the disruption caused by the pandemic. Our market share of net lending was 5.2% (H1 2019: 9.6%), reflecting the competitive market. Lending to landlords through our buy to let specialist brand, The Mortgage Works, was strong as we remained open for business for high quality buy to let borrowers.

Looking ahead, as and when government support winds down, it is clear that many more people are likely to lose their jobs and family finances will come under strain. We have already pledged that until at least the end of May 2021 no member will lose their home as a result of the pandemic, and as we expect more members to need support from our financial hardship advice service, we have trained an additional 200 colleagues to give members practical support through any hard times that lie ahead.

### **Promoting the wellbeing of our colleagues and supporting communities**

Our colleagues have risen to the challenges with dedication and good humour over the last six months. They've stood by our 'PRIDE' values, doing the best for our members and keeping essential services going, often in challenging circumstances, while juggling their own family and health issues. They kept nearly all our branches open to serve their communities throughout lockdown, and provided extra help for vulnerable members such as cash deliveries and a dedicated phone line.

We all learnt a lot in a short time. Our office colleagues shifted to home working virtually overnight, with nine out of 10 still working remotely, supported by a 'click and collect' service for laptops and office essentials. In just a few weeks we made radical changes to how we work, for example automating processes for payment holidays, and retraining and redeploying hundreds of colleagues to support the parts of the Society where member

demand for our services was highest. A number of head office colleagues were among those answering our 'call to arms' and returning temporarily to member-facing roles.

We know our colleagues worry about the future as much as our members do and we took several steps to provide support – including a pledge that no colleague will have to leave the Society as a result of compulsory redundancy in 2020 – as well as re-skilling colleagues, particularly for new opportunities in our digital and technology business areas. We also introduced a number of wellbeing initiatives such as meeting-free times during the day and an app to support mental health.

We started some time ago to reshape the Society for an increasingly digital world and the pandemic has accelerated this shift. We are continuing to invest in growing our digital capabilities and expertise, while also maintaining a tight control on costs.

While the pandemic has dominated much of the year, we remain as determined as ever to make a difference in our communities through fulfilling our members' commitment to giving at least 1% of pre-tax profits to charity, and by taking a bolder stand on important issues affecting society.

We gave over 250 charities freedom to choose how to spend £10 million of previously agreed community grants, so that they could support those in most urgent need.

We continued to work towards a low carbon future by minimising our own impact and ring-fencing £1 billion of lending for 'greener' homes. We became carbon neutral in our energy use and emissions for all internal operations and company vehicles earlier this year, and our next goals are to eliminate single-use plastic by 2025, and to extend carbon neutrality through our business operations, supply chain and commuting by 2030. We are encouraging homeowners to 'green' their homes by offering low-rate 'green' additional mortgage borrowing, and Oakfield, the not-for-profit housing development we are funding in Swindon, aims to build 239 EPC A-rated homes.

As a building society, we've always believed that people achieve more when they work together, and are troubled by the divisions that have opened up in our communities. We have formed partnerships with the Football Association and The Diana Award that will seek to promote respect in Britain's most popular team sport and to harness the energies of 10,000 young people as anti-bullying ambassadors.



## Chief Executive's review (continued)

### Keeping our Society and our members' money safe

People trust us with their money because they are confident that, as a building society, we will look after it carefully. Like our members, we must cut our cloth according to the current economic conditions, which are undoubtedly challenging.

After the bank base rate fell to 0.1%, we took the decision to reduce interest rates across our savings range. This reduced our member financial benefit to £140 million, as paying significantly higher rates would not be financially sustainable, nor in the long-term interests of our members or the Society. This level of member financial benefit is below our target as signalled at the full year.

Our margin – the difference between the rates we charge borrowers and pay savers – was stable at 1.15% (H1 2019: 1.12%). We remain committed to giving our savers the best rates we can sustainably afford, and to finding new ways to reward saving.

Our underlying profit remains steady at £305 million (H1 2019: £307 million) and statutory profit increased to £361 million (H1 2019: £309 million), contributing to a strong capital position that allows us to support our members in challenging and uncertain conditions.

Supporting the housing market as we came out of lockdown was important, and we maintained good value rates and offered higher LTVs than most competitors, while lending in a responsible way.

We have cut our costs by £92 million to £1,033 million (H1 2019: £1,125 million) as we continue to make the Society more efficient in serving our members. The reduction is primarily the result of our planned lower spend relating to strategic investment, with business as usual costs also reducing. Restructuring costs have, however, increased in line with actions taken to reduce our future cost base.

We have strong capital ratios; our retained profits took our Common Equity Tier 1 ratio to 34.5% (4 April 2020: 31.9%) and contributed to a higher UK leverage ratio of 5.0% (4 April 2020: 4.7%).

We have put substantial support in place for members in financial difficulty, and as a result, the number of members falling into arrears has stayed about the same. This may change when job support schemes are withdrawn, which is why we have set aside £139 million (H1 2019: £57 million) in the period for loans that may not be repaid.

### Outlook

It is very hard to predict what will happen to the economy, jobs and the housing market in the near future as a result of the pandemic and Brexit. The scale of interventions to support people and jobs to date has been extensive and will limit the long-term damage, but the outlook remains unpredictable.

Activity in the housing market fell sharply in lockdown but recovered strongly afterwards with mortgage approvals in September 39% above the 2019 average, while annual house price growth rose to 5.8% in October, its highest level since January 2015.

While there are many uncertainties ahead, Nationwide faces into them from a position of considerable strength. We have steady profits, stable income, a strong balance sheet, and a strong capital position. The strength of our finances, together with our prudent approach to managing the Society, means we can continue to stand by our members through the financial challenges ahead to help them realise their dreams of home ownership and financial security.

## Financial review

### In summary

Unprecedented economic conditions have continued through this financial period, with bank base rate at a historically low level and ongoing uncertainty surrounding the future economic impacts that may arise from the Covid-19 pandemic. Notwithstanding this, we have managed our financial performance so that we continue to maintain sufficient profitability to ensure a stable leverage ratio. Our leverage ratio has been further supported by the issuance of £750 million of Additional Tier 1 capital, helping us to retain a robust capital position whilst continuing to lend to support members in buying a home.

Underlying profit for the half year to 30 September 2020 was £305 million (H1 2019/20: £307 million), with statutory profit before tax for the half year increasing to £361 million (H1 2019/20: £309 million) as a result of fair value gains from derivatives and hedge accounting. This profitability has supported us in maintaining a capital position materially above regulatory requirements, with our CET1 and UK leverage ratios at 34.5% and 5.0% respectively (4 April 2020: 31.9% and 4.7% respectively), helping to ensure we remain a safe place for our members' money.

Our net interest margin (NIM) has stabilised at 1.15% (H1 2019/20: 1.12%) largely due to mortgage margins improving, having declined for the past four years. Following the bank base rate reductions in March 2020 we took the decision to reduce interest rates across our savings range. Whilst this has not had a significant impact on our NIM during the period, it has contributed towards lower member financial benefit of £140 million (H1 2019/20: £375 million)<sup>12</sup>.

The total impairment charge in the period of £139 million (H1 2019/20: £57 million) is due to the deterioration in economic outlook reflected in the economic scenarios used to model expected credit losses. The scenarios that we have used are designed to encompass a range of outcomes that could arise as a result of the Covid-19 pandemic and the uncertainty that remained at 30 September 2020 regarding the end of the Brexit transition period. However, the underlying performance of our lending portfolios remained broadly stable, with the impacts of Covid-19 on the economy offset by government support schemes and the use of payment deferrals.

Administrative expenses reduced by £92 million to £1,033 million (H1 2019/20: £1,125 million). The period-on-period reduction is primarily attributable to the impact of lower costs relating to strategic investment spend, with business as usual costs also reducing. Restructuring costs have, however, increased in line with actions taken to reduce our future cost base; this is a trend we expect to continue as we further embed increased levels of efficiency into the Society.

We have seen net deposit growth of £1.3 billion during the period (H1 2019/20: £2.5 billion), with strong current account inflows partially offset by savings outflows. However, there was a more significant overall increase in deposit balances across the UK, primarily during the period of lockdown, which has led to a reduction in our deposit stock market share to 9.3% (4 April 2020: 9.9%). Gross mortgage lending for the half year has been robust, despite the significantly lower than normal demand during the period of lockdown. Total net mortgage lending decreased during the period to £1.6 billion (H1 2019/20: £3.0 billion), reflecting the competitive market, with the majority of our net lending being through our strong buy to let mortgage brand, The Mortgage Works (TMW).

We maintain a strong liquidity position, with a Liquidity Coverage Ratio (LCR) of 153% (4 April 2020: 163%). This has been supported by the drawdown of £6.2 billion of funding from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

Underlying profit:

**£305m**

(H1 2019/20: £307m)

Statutory profit:

**£361m**

(H1 2019/20: £309m)

UK leverage ratio:

**5.0%**

(4 April 2020: 4.7%)

<sup>12</sup> The comparative for member financial benefit has been restated. More information is given on page 11.

## Income statement

Underlying and statutory results		
	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Net interest income	1,448	1,385
Net other income	55	156
<b>Total underlying income</b>	<b>1,503</b>	<b>1,541</b>
Administrative expenses	(1,033)	(1,125)
Impairment losses	(139)	(57)
Provisions for liabilities and charges	(26)	(52)
<b>Underlying profit before tax (note i)</b>	<b>305</b>	<b>307</b>
Gains from derivatives and hedge accounting (note ii)	56	2
<b>Statutory profit before tax</b>	<b>361</b>	<b>309</b>
Taxation	(80)	(75)
<b>Profit after tax</b>	<b>281</b>	<b>234</b>

Net interest margin:

**1.15%**

(H1 2019/20: 1.12%)

Underlying cost income  
ratio:**68.7%**

(H1 2019/20: 72.9%)

Notes:

- i. Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:
  - Gains or losses from derivatives and hedge accounting, which are presented separately within total income in the consolidated interim financial statements.
  - Any FSCS costs and refunds arising from institutional failures.
- 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.

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

Net interest income increased by £63 million to £1,448 million (H1 2019/20: £1,385 million) and net interest margin stabilised at 1.15% (H1 2019/20: 1.12%), largely due to mortgage margins improving, having declined for the past four years. Following the bank base rate reductions in March 2020 we took the decision to reduce interest rates across our savings range.

Net other income has reduced by £101 million to £55 million (H1 2019/20: £156 million) partly as a result of a loss of £35 million arising from a buyback of covered bond funding, which will generate savings in future years. The decline is also attributable to material one-off gains in the prior year relating to contingent consideration recognised on previous investment disposals.

**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 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, alongside internal calculations. The value for individual members will depend on their circumstances and product choices.

We have made one change to our methodology for calculating member financial benefit, compared to that described on page 43 of the Annual Report and Accounts 2020. Instead of using market non-mortgage household lending data from the Bank of England to derive interest rate comparators for personal loans, we are now using data from CACI. This more specifically covers personal loans and provides a good level of coverage of our peer lending group, making it a more appropriate comparator. The impact is to increase our H1 2019/20 member financial benefit by £10 million compared to that previously reported, and to increase member financial benefit for the full year 2019/20 by £25 million.

## Financial review (continued)

In calculating member financial benefit using 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. Furthermore, due to data non-availability, deposits with National Savings & Investments are not included in the market benchmark for deposits. We will continue to review our methodology to ensure it remains relevant given changing market conditions, as well as to ensure it captures all the key elements of the financial benefits we provide to our members, where data is available.

For the half year ended 30 September 2020, this measure shows we have provided our members with a financial benefit of £140 million (H1 2019/20: £375 million). The decline is primarily attributable to lower interest on savings and was against the backdrop of a highly competitive mortgage market. The reduction in savings rates, following the fall in bank base rate, protected our profitability in H1 2020/21 and safeguarded the sustainability of our business. This period of exceptionally low interest rates means it is unlikely that we will meet our £400 million member financial benefit target for this financial year.

**Administrative expenses**

Administrative expenses reduced by £92 million to £1,033 million (H1 2019/20: £1,125 million). The period-on-period reduction is attributable to lower costs relating to strategic investment spend of £65 million, the non-recurrence of spend associated with the development of Nationwide for Business of £22 million in 2019/20 and a £41 million reduction in business as usual costs. These are in part offset by an increase in restructuring costs of £36 million for severance costs and property onerous leases charges, following actions taken to reduce our future cost base.

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

<b>Impairment losses/(reversals) (note i)</b>		
	<b>Half year to 30 September 2020</b>	Half year to 30 September 2019
	<b>£m</b>	<b>£m</b>
Residential lending	<b>53</b>	10
Consumer banking	<b>84</b>	58
<b>Retail lending</b>	<b>137</b>	68
Commercial and other lending	<b>2</b>	(11)
<b>Impairment losses on loans and advances</b>	<b>139</b>	57

Note:

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

The total impairment charge in the period of £139 million (H1 2019/20: £57 million) is primarily due to the deterioration in the economic outlook reflected in the economic scenarios used to model expected credit losses. The underlying arrears performance of our portfolios has remained broadly stable, with the impacts of Covid-19 on the economy offset by government support schemes and the use of payment deferrals. During the period additional payment deferrals have been granted and whilst the majority have now expired, the outlook for borrowers is still uncertain.

More information regarding the critical accounting judgements, and the forward-looking economic information used in our impairment calculations, is included in note 8 to the consolidated interim 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. The customer redress charge has reduced to £26 million (H1 2019/20: £52 million) primarily as a result of a reduction in charges relating to PPI as the deadline for claims has now passed. The charge also includes remediation costs for other redress issues, including in relation to the administration of customer accounts. More information is included in note 13 to the consolidated interim financial statements.

## Taxation

The tax charge for the period of £80 million (H1 2019/20: £75 million) represents an effective tax rate of 22.2% (H1 2019/20: 24.3%) which is higher than the statutory UK corporation tax rate of 19% (H1 2019/20: 19%). The effective tax rate is higher due to the 8% banking surcharge of £14 million (H1 2019/20: £10 million) and the tax effect of disallowable customer redress costs and other disallowable expenses of £3 million (H1 2019/20: £3 million) and £3 million (H1 2019/20: £6 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 (H1 2019/20: £4 million). Further information is provided in note 9 to the consolidated interim financial statements.

## Balance sheet

Total assets have increased by 5% to reach £259.7 billion at 30 September 2020 (4 April 2020: £248.0 billion), predominantly due to higher holdings of cash and liquid assets following an increase in short-term funding and the drawdown of funds from the Bank of England's TFSME.

Trading performance was subdued during lockdown in April and May, resulting in lower net lending, with balances increasing to £202.8 billion (4 April 2020: £201.8 billion). Member deposit balances have increased by £1.3 billion to £161.0 billion (4 April 2020: £159.7 billion) as a result of strong growth in current account credit balances due to reduced consumer spending through lockdown, which remains below expected levels since restrictions were relaxed. This is in part offset by savings outflows as a result of passing on the fall in bank base rate earlier than some other savings providers.

Assets	30 September 2020		4 April 2020	
	£m	%	£m	%
Residential mortgages (note i)	190,663	94	188,839	94
Commercial and other lending	7,418	4	7,931	4
Consumer banking	4,756	2	4,994	2
	202,837	100	201,764	100
Impairment provisions	(875)		(786)	
Loans and advances to customers	201,962		200,978	
Other financial assets	54,888		43,933	
Other non-financial assets	2,828		3,130	
<b>Total assets</b>	<b>259,678</b>		<b>248,041</b>	

Liquidity coverage ratio:

**153%**

(4 April 2020: 163%)

Asset quality	%	%
Residential mortgages (note i):		
Proportion of residential mortgage accounts more than 3 months in arrears	0.42	0.41
Average indexed loan to value (by value)	56	58
Consumer banking:		
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	1.37	1.22

Note:

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

### **Residential mortgages**

Total gross mortgage lending in the period was £12.7 billion (H1 2019/20: £16.3 billion), the reduction reflecting the impact of the lockdown in April and May, with a gross market share of 12.0% (H1 2019/20: 12.3%). Lending subsequently recovered following the relaxation of restrictions and the announcement of changes to stamp duty. Prime mortgage balances have increased to £151.4 billion (4 April 2020: £151.1 billion) and specialist mortgage balances (being predominantly buy to let) increased by £1.6 billion (H1 2019/20: £1.5 billion) to £39.3 billion (4 April 2020: £37.7 billion).

Arrears performance has remained broadly stable during the period, with cases more than three months in arrears at 0.42% of the total portfolio (4 April 2020: 0.41%). Arrears levels are likely to have been suppressed by payment deferrals and other government support measures, and in view of UK economic conditions, an increase in arrears from current levels is expected over the medium term. Impairment provision balances have increased to £302 million (4 April 2020: £252 million) due to the deterioration in the economic outlook reflected in the economic scenarios used to model expected credit losses.

### **Commercial and other lending**

During the period, commercial and other lending balances have decreased to £7.4 billion (4 April 2020: £7.9 billion). Continuing the deleveraging activity in previous financial periods, the overall portfolio remains weighted towards registered social landlords, with balances of £5.0 billion (4 April 2020: £5.4 billion). Commercial real estate balances of £1.0 billion (4 April 2020: £1.0 billion) and project finance balances of £0.7 billion (4 April 2020: £0.7 billion) are in run-off and reduced slightly during the period.

Impairment provision balances have increased to £42 million (4 April 2020: £40 million) reflecting changes to economic assumptions and a small number of increased impairments on individual borrowers driven by Covid-19 impacts.

### **Consumer banking**

Consumer banking balances have decreased to £4.8 billion (4 April 2020: £5.0 billion). Consumer banking comprises personal loan balances of £3.0 billion (4 April 2020: £3.0 billion), credit card balances of £1.6 billion (4 April 2020: £1.7 billion) and overdrawn current account balances of £0.2 billion (4 April 2020: £0.3 billion). The impact of the Covid-19 pandemic has resulted in balances declining as the market demand for consumer credit has decreased.

Provision balances have increased to £531 million (4 April 2020: £494 million) primarily due to the deterioration in economic outlook, reflected in the economic scenarios used to model expected credit losses, with underlying performance remaining broadly stable.

### **Other financial assets**

Other financial assets total £54.9 billion (4 April 2020: £43.9 billion) and comprise liquidity and investment assets held by our Treasury function amounting to £48.6 billion (4 April 2020: £37.4 billion), derivatives with positive fair values of £4.4 billion (4 April 2020: £4.8 billion) and fair value adjustments and other assets of £1.9 billion (4 April 2020: £1.8 billion). The £11.2 billion increase in cash and liquid assets holdings is driven primarily by an increase in our short-term funding book and the drawdown of funds from the Bank of England's TFSME.

Nationwide's Liquidity Coverage Ratio at 30 September of 153% (4 April 2020: 163%) remains well above regulatory requirements. 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.

<b>Members' interests, equity and liabilities</b>		
	<b>30 September 2020</b>	<b>4 April 2020</b>
	<b>£m</b>	<b>£m</b>
Member deposits	<b>160,953</b>	159,691
Debt securities in issue	<b>37,422</b>	35,963
Other financial liabilities	<b>46,183</b>	37,817
Other liabilities	<b>1,221</b>	1,608
<b>Total liabilities</b>	<b>245,779</b>	235,079
Members' interests and equity	<b>13,899</b>	12,962
<b>Total members' interests, equity and liabilities</b>	<b>259,678</b>	248,041

Wholesale funding ratio:

**30.5%**

(4 April 2020: 28.5%)

**Member deposits**

Member deposit balance growth of £1.3 billion (H1 2019/20: £2.5 billion) to £161.0 billion (4 April 2020: £159.7 billion) represents growth in current account credit balances of £4.8 billion, partially offset by £3.5 billion of retail savings outflows. Growth in current account credit balances was driven by reduced consumer spending through lockdown in April and May, which remains below expected levels since restrictions were relaxed. Savings balance outflows reflect the impact of the decision to reduce interest rates across our savings range following the bank base rate reductions in March 2020, alongside our reduced on-sale rates, with elevated flows seen to more competitively priced providers. In addition, there was a more significant overall increase in deposit balances across the UK, primarily during the period of lockdown, which has led to a reduction in our deposit stock market share to 9.3% (4 April 2020: 9.9%). Our market share of all current accounts remains stable at 10.1% (4 April 2020: 10.0%)<sup>13</sup>.

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

Debt securities in issue primarily comprise wholesale funding, excluding subordinated debt which is included within other financial liabilities. Balances have increased to £37.4 billion (4 April 2020: £36.0 billion) reflecting an increase in the short-term funding book. Nationwide's wholesale funding ratio has also increased to 30.5% (4 April 2020: 28.5%); this ratio remains well below the statutory maximum limit of 50%. Other financial liabilities have increased to £46.2 billion (4 April 2020: £37.8 billion) primarily due to a drawdown of funds from the Bank of England's TFSME. Further details are included in the Liquidity and funding risk section of the Risk report.

**Members' interests and equity**

Members' interests and equity have increased to £13.9 billion (4 April 2020: £13.0 billion) largely as a result of the issuance of £750 million Additional Tier 1 capital in June 2020.

<sup>13</sup> CACI's CSDB (August 2020 and February 2020).

## Statement of comprehensive income

Statement of comprehensive income (note i)		
	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Profit after tax	281	234
Net remeasurement of pension obligations	(35)	(50)
Net movement in revaluation reserve	(5)	-
Net movement in cash flow hedge reserve	(45)	(19)
Net movement in other hedging reserve	(1)	15
Net movement in fair value through other comprehensive income reserve	67	(37)
<b>Total comprehensive income</b>	<b>262</b>	<b>143</b>

Note:

i. Movements are shown net of related taxation.

Gross movements are set out in the consolidated interim financial statements on page 74. Further information on movements in the pension obligation is included in note 15 to the consolidated interim 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 13.1% and 3.6% respectively. The CET1 ratio increased to 34.5% (4 April 2020: 31.9%) and the UK leverage ratio increased to 5.0% (4 April 2020: 4.7%). The capital disclosures included in this report are in line with Capital Requirements Directive IV (CRD IV) and on an end point basis with IFRS 9 transitional arrangements applied.

<b>Capital structure</b>		
	<b>30 September 2020</b>	<b>4 April 2020</b>
	<b>£m</b>	<b>£m</b>
<b>Capital resources</b>		
Common Equity Tier 1 (CET1) capital	<b>11,132</b>	10,665
Total Tier 1 capital	<b>12,468</b>	11,258
Total regulatory capital	<b>15,597</b>	14,578
<b>Capital requirements</b>		
Risk weighted assets (RWAs)	<b>32,233</b>	33,399
UK leverage exposure	<b>248,391</b>	240,707
CRR leverage exposure	<b>269,343</b>	254,388
<b>CRD IV capital ratios</b>	<b>%</b>	<b>%</b>
CET1 ratio	<b>34.5</b>	31.9
UK leverage ratio (note i)	<b>5.0</b>	4.7
CRR leverage ratio (note i)	<b>4.6</b>	4.4

Note:

- i. The difference between the Capital Requirements Regulation (CRR) leverage ratio and the UK leverage ratio is driven by the exclusion of qualifying central bank claims from the UK leverage exposure measure as per the PRA Rulebook.

The CET1 ratio increased to 34.5% (4 April 2020: 31.9%) as a result of an increase in CET1 capital of £0.5 billion and a reduction in RWAs of £1.2 billion. The CET1 capital increase was driven by a £0.3 billion increase in profit after tax, a £0.1 billion increase in IFRS 9 transitional capital relief and a reduction in intangible assets deducted from capital of £0.1 billion. The reduction in RWAs was primarily driven by improving retail lending book quality, a reduction in loans and advances to banks and a reduction in risk weights for small and medium-sized enterprises (SMEs) in line with Regulation 2020/873.

Whilst the future economic impact of Covid-19 continues to be unclear, it is likely to lead to some RWA inflation and therefore a lower CET1 ratio in the medium term. Once the extended government support schemes announced in November 2020 end, we will better understand how individual members have been affected and the subsequent impact on risk-based ratios. However, the current capital position and the published stress testing results show that we are well capitalised and positioned to meet such periods of financial stress.

The UK leverage ratio increased to 5.0% (4 April 2020: 4.7%), with Tier 1 capital increasing by £1.2 billion as a result of the issuance of £0.7 billion of AT1 capital instruments in June 2020 and the CET1 capital movements. Partially offsetting the impact of this, there was an increase in UK leverage exposure of £7.7 billion primarily as a result of net retail lending and treasury investments.

The CRR leverage ratio increased by 0.2%, closing at 4.6% (4 April 2020: 4.4%). Following the finalisation of the Covid-19 banking package, the European Central Bank (ECB) exercised regulatory discretion, declaring that exceptional circumstances exist which allows firms under its direct supervision to benefit from the temporary exclusion of certain exposures to central banks from the total CRR leverage exposure measure. As Nationwide is not directly supervised by the ECB, the exclusion is not applied.

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

# Risk report

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## Risk report (continued)

## Introduction

This report provides information on developments during the period in relation to the risks Nationwide's business is exposed to, and how it manages those risks. This information supports, and should be read in conjunction with, the material found in the Risk report in the Annual Report and Accounts 2020. Where there has been no change to the approach to managing risks, or there has been no material change to the relevant risk environment from that disclosed at year end, this information has not been repeated in these Interim results.

## Top and emerging risks

The top and emerging risks are managed through the process outlined in the 'Risk overview' and 'Committed to doing the right thing' sections of the Annual Report and Accounts 2020 and remain broadly unchanged from those reported. The external environment continues to dominate the Society's most significant risks, with threats to Nationwide's strategy including, but not limited to: the Covid-19 pandemic, the geopolitical and macroeconomic environment, climate change, the UK's exit from the European Union, and regulatory change. A description of the material movements and developments to the top and emerging risks in the period is provided below:

External Risks	Change
<b>Geopolitical and macroeconomic environment</b> – The UK economy has been severely impacted by the Covid-19 pandemic despite significant government intervention. As a UK-focused building society, Nationwide is naturally exposed to any downturn in the UK's economic conditions and to the UK housing market in particular. The potential introduction of negative interest rates may place further pressure on the Society's margins. Any downturn has the potential to impact the Society's principal risks.	↗
<b>Pandemic</b> – The Covid-19 pandemic has resulted in unprecedented restrictions on individuals and businesses all around the world, and materially impacted the global economy. Nationwide was quick to invoke the highest level of risk management response to the pandemic and has taken unprecedented action to support our members with their individual needs whilst maintaining the safety of our members and colleagues and ensuring the Society remains safe and secure. The pandemic has also impacted a number of internal risks including: <ul style="list-style-type: none"> <li>• <b>People risk</b> – Throughout the Covid-19 outbreak, we have implemented measures to ensure colleagues remain safe and supported at work, including transitioning our workplace to comply with Government Covid-19 guidance and, where appropriate, enabling colleagues to work from home. We also continue to monitor the impact of any restructuring and business transformation activities to ensure that impacted colleagues are appropriately supported.</li> <li>• <b>Third parties</b> – The Covid-19 pandemic has resulted in additional constraints and risks for a number of third-party providers. Throughout the pandemic we have worked closely with our suppliers to identify and manage these risks and ensure customer services are maintained.</li> <li>• <b>Model risk</b> – The severity of the economic shock, combined with the introduction of government support measures and new regulatory requirements in response to Covid-19, highlights the importance of effective model controls and regular review of their use to reflect current circumstances. We continue to monitor model performance rigorously and to strengthen our model suite to ensure it supports key business and risk management activities.</li> </ul>	↗
<b>Resilience</b> – Covid-19 restrictions have prompted a shift both in how members use our services and in how our colleagues provide them, increasing demand on key processes and systems. As the situation evolves, the Society continues to plan for a range of potential outcomes to ensure that services can continue to operate with minimal disruption for both customers and colleagues.	↗
<b>Climate change</b> – We continue to mature and develop our response to the physical and transitional risks to minimise the potential impact both on our members and the Society's business activities as the UK transitions to net zero emissions.	→
<b>Regulatory change</b> – As we approach the revised deadlines for regulatory initiatives which were delayed due to Covid-19, and new regulatory workstreams continue to be initiated, we continue to engage with regulators to implement any relevant regulatory developments promptly and appropriately.	→
<b>Libor transition</b> – We continue to prepare for the phasing out of Libor in 2021. This will impact a range of Libor-linked assets, liabilities and derivatives to which the Society is exposed.	→
<b>Economic crime / cyber</b> – The Society's key financial crime and cyber controls have continued to operate effectively throughout the Covid-19 pandemic despite the sophistication of attacks, an increased prevalence of phishing, and greater utilisation of digital services. We have continued to improve the effectiveness of our economic crime controls to meet our regulatory obligations, and have implemented additional measures to minimise and detect fraud.	→
<b>UK withdrawal from the EU</b> – Following the UK's exit from the EU, the transition period is due to come to an end on 31 December 2020. Uncertainty over specific arrangements, and any potential business or economic impacts, remains until the details of the future relationship between the UK and the EU are finalised. The Society continues to prepare for a range of possible outcomes.	→

Key (level of risk to Nationwide)

↗ Increasing level of risk

→ Stable level of risk

↘ Decreasing level of risk

## Principal risks and uncertainties

The Society operates an Enterprise Risk Management Framework (ERMF), which continues to meet our obligations to our members to remain safe & secure and to operate effectively & efficiently. The principal risks inherent within the Society remain unchanged from those set out in the Risk Report in the Annual Report and Accounts 2020, namely:

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

Information on key developments in relation to the principal risks above are included within this report, except for business risk where there have been no significant developments which have altered the Society's outlook or approach during the period.

## 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, security/collateral risk, concentration risk and refinance risk.

Nationwide manages credit risk for the following portfolios:

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

Further detail on how Nationwide manages credit risk and what credit risk encompasses is included within the Annual Report and Accounts 2020.

## Performance overview

During the period, the UK has experienced a significant contraction in economic activity as a result of the Covid-19 pandemic and associated government intervention to reduce the spread of the virus. We recognise that the pandemic is having a significant impact on our members, and we continue to offer them help and support in these challenging times. This includes offering payment deferrals to affected borrowers, to temporarily suspend their contractual repayments. In accordance with regulatory guidance, these payment concessions are not recorded as forbearance and do not automatically have an impact on the staging of balances used in calculating provisions.

Overall credit quality and performance has remained broadly stable over the period, with residential mortgage and consumer banking arrears remaining at a low level. This performance reflects the support we have provided to our customers impacted by the pandemic, government support schemes and the low bank base rate environment. When the government support schemes are withdrawn, and in view of the current UK economic conditions, a rise in arrears from current low levels is anticipated.

At the 4 April 2020 year end, an additional provision for credit losses was recognised to reflect the increased credit risk associated with payment deferrals, which would not be adequately recognised by our expected credit loss models. In line with regulatory guidance, additional payment deferrals have been granted during the period, and in assessing the impact of this, our approach has been to identify the higher risk loans within the payment deferral population and estimate an increase in the probability of default (PD) for these loans using historical experience. During the period we have also updated our macroeconomic assumptions, including for the severe downside scenario, to reflect a deterioration in economic outlook as a result of the Covid-19 pandemic. Further details regarding the assumptions used in the credit loss provision models are detailed in note 8 to the consolidated interim financial statements.

Further details regarding the concession measures being offered and the impact on residential mortgages, consumer banking and commercial lending are described in the relevant sections of this report.

## Credit risk – Overview (continued)

## Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk has increased to £268 billion (4 April 2020: £256 billion), principally reflecting higher holdings of liquid assets.

Credit risk largely arises from loans and advances to customers, which account for 80% (4 April 2020: 83%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 94% (4 April 2020: 94%) 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.

Maximum exposure to credit risk						
30 September 2020	Gross balances	Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
	£m	£m	£m	£m	£m	%
<b>Amortised cost loans and advances to customers:</b>						
Residential mortgages	190,589	(302)	190,287	10,293	200,580	75
Consumer banking	4,756	(531)	4,225	35	4,260	2
Commercial and other lending	6,665	(42)	6,623	930	7,553	3
Fair value adjustment for micro hedged risk (note ii)	701	-	701	-	701	-
	202,711	(875)	201,836	11,258	213,094	80
<b>FVTPL loans and advances to customers:</b>						
Residential mortgages (note iii)	74	-	74	-	74	-
Commercial	52	-	52	-	52	-
	126	-	126	-	126	-
<b>Other items:</b>						
Cash	21,045	-	21,045	-	21,045	8
Loans and advances to banks and similar institutions	3,546	-	3,546	-	3,546	1
Investment securities – FVOCI	22,371	-	22,371	-	22,371	8
Investment securities – amortised cost	1,594	-	1,594	-	1,594	-
Investment securities – FVTPL	12	-	12	-	12	-
Derivative financial instruments	4,391	-	4,391	-	4,391	2
Fair value adjustment for portfolio hedged risk (note ii)	1,929	-	1,929	-	1,929	1
	54,888	-	54,888	-	54,888	20
<b>Total</b>	<b>257,725</b>	<b>(875)</b>	<b>256,850</b>	<b>11,258</b>	<b>268,108</b>	<b>100</b>

## Risk report (continued)

## Credit risk – Overview (continued)

Maximum exposure to credit risk						
4 April 2020	Gross balances	Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
	£m	£m	£m	£m	£m	%
Amortised cost loans and advances to customers:						
Residential mortgages	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	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

## Notes:

- i. In addition to the amounts shown above, Nationwide has revocable commitments of £10,407 million (4 April 2020: £10,139 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 £0.5 million (4 April 2020: £0.4 million) is included within provisions for liabilities and charges.

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

## Credit risk – Residential mortgages

### Summary

Nationwide's residential mortgages comprise both prime and specialist loans. Prime residential mortgages are mainly Nationwide-branded advances made through the branch network and intermediary channels. Specialist lending consists principally of buy to let mortgages originated under The Mortgage Works (UK) plc (TMW) brand, together with smaller legacy portfolios in run-off.

During the period, residential mortgage markets have experienced disruption as a result of the impact of the Covid-19 pandemic. At the beginning of the period, new purchase applications were limited. In recent months housing market activity has recovered strongly, with mortgage approvals returning to, and in some cases above, pre-pandemic levels. This rebound reflects the pent-up demand from the lockdown period, combined with stamp duty changes which have brought forward some purchases. Behavioural shifts are also likely to have boosted activity as people reassess their housing needs and preferences as a result of the pandemic, with increased demand for less densely populated locations and property types. This increased demand has resulted in house price growth. The economic outlook remains uncertain, especially in relation to unemployment levels and house prices over the medium term.

The pandemic is having a significant impact on our members. Payment deferrals continue to be offered to impacted borrowers in line with regulatory guidance. For borrowers who continue to need financial support after the payment deferral scheme ends, we will continue to offer concessions based on consideration of their individual circumstances.

To date arrears remain low and credit quality continues to be strong; however, this performance is supported by government intervention, payment deferrals and the low bank base rate environment.

Residential mortgage gross balances				
	30 September 2020		4 April 2020	
	£m	%	£m	%
<b>Prime</b>	<b>151,295</b>	<b>79</b>	151,069	80
<b>Specialist:</b>				
Buy to let (note i)	37,231	20	35,539	19
Other (note ii)	2,063	1	2,160	1
	<b>39,294</b>	<b>21</b>	37,699	20
<b>Amortised cost loans and advances to customers</b>	<b>190,589</b>	<b>100</b>	188,768	100
<b>FVTPL loans and advances to customers</b>	<b>74</b>		71	
<b>Total residential mortgages</b>	<b>190,663</b>		188,839	

Notes:

- i. Buy to let mortgages originated under the TMW brand are £35,794 million (4 April 2020: £34,031 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 remained broadly stable at £191 billion (4 April 2020: £189 billion). Growth has continued in the buy to let portfolio which saw 5% growth in the period since 4 April 2020.



## Credit risk – Residential mortgages (continued)

## Impairment losses for the period

Impairment losses for the period		
	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Prime	23	2
Specialist	30	8
<b>Total</b>	<b>53</b>	<b>10</b>
	%	%
<b>Impairment charge as a % of average gross balance</b>	<b>0.03</b>	<b>0.01</b>

The impairment losses for the period include the impact of updating macroeconomic assumptions and weightings to reflect the impact of the Covid-19 pandemic; further details are included in note 8 to the consolidated interim financial statements. Updates to the severe downside scenario assumptions, to reflect further impacts of Covid-19, increased provisions by £36 million during the period. Another factor in the charge for impairment losses is the number of loans with payment deferrals granted in the period; provisions against these loans total £39 million (4 April 2020: £22 million). The performance of these loans where the payment deferrals have ended remains in line with our expectations. Closing provisions have increased to £302 million (4 April 2020: £252 million).

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

Residential mortgages staging analysis									
30 September 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)	Additional provision (note iii)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Gross balances</b>									
Prime	147,668	2,938	2,093	601	244	689	-	-	151,295
Specialist	33,880	4,764	4,363	243	158	498	152	-	39,294
<b>Total</b>	<b>181,548</b>	<b>7,702</b>	<b>6,456</b>	<b>844</b>	<b>402</b>	<b>1,187</b>	<b>152</b>	<b>-</b>	<b>190,589</b>
<b>Provisions</b>									
Prime	30	35	25	5	5	11	-	2	78
Specialist	41	137	106	13	18	32	-	14	224
<b>Total</b>	<b>71</b>	<b>172</b>	<b>131</b>	<b>18</b>	<b>23</b>	<b>43</b>	<b>-</b>	<b>16</b>	<b>302</b>
<b>Provisions as a % of total balance</b>									
Prime	0.02	1.18	1.18	0.88	1.91	1.62	-	-	0.05
Specialist	0.12	2.88	2.44	5.27	11.35	6.32	-	-	0.57
<b>Total</b>	<b>0.04</b>	<b>2.23</b>	<b>2.03</b>	<b>2.14</b>	<b>5.62</b>	<b>3.60</b>	<b>-</b>	<b>-</b>	<b>0.16</b>

## Risk report (continued)

## Credit risk – Residential mortgages (continued)

Residential mortgages staging analysis									
4 April 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)	Additional provision (note iv)	Total
	£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

## Notes:

- Days past due (DPD) is a measure of arrears status.
- 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 (4 April 2020: £6 million).
- Arrears balances across residential mortgages have reduced in the period between June and September 2020, leading to a reduction in modelled provisions. Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes and an adjustment has therefore been made to recognise the underlying risk, retaining provisions of £16 million which would have otherwise been released. This adjustment has not been allocated by loan and is not incorporated into staging outcomes.
- In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 30 September 2020.

At 30 September 2020, 95% (4 April 2020: 94%) of the residential mortgage portfolio is in stage 1, reflecting the portfolio's underlying strong credit quality. During the period there has been a reduction in stage 2 balances to £7,702 million (4 April 2020: £9,595 million). The prime portfolio stage 2 balance has increased by £985 million, largely due to the movement of a higher risk segment of loans with payment deferrals to stage 2 from stage 1. The specialist portfolio stage 2 balance has reduced by £2,878 million, primarily due to a reduction in the refinance risk associated with interest only loans. The refinance assessment estimates the ability of a borrower with an interest only loan to refinance at maturity and considers both collateral values and affordability criteria. Due to the low bank base rate assumption used in the modelling of expected credit losses, a higher proportion of interest only mortgages are expected to meet the affordability criteria, so have therefore moved from stage 2 to stage 1 during the period.

Stage 3 loans in the residential mortgage portfolio equate to 1% (4 April 2020: 1%) of the total residential mortgage exposure. Of the total £1,187 million (4 April 2020: £1,264 million) stage 3 loans, £676 million (4 April 2020: £679 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 unlikelihood to pay such as forbearance or the bankruptcy of the borrower.

## Risk report (continued)

## Credit risk – Residential mortgages (continued)

For loans subject to forbearance, accounts are transferred from stage 3 to stages 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months; £249 million (4 April 2020: £244 million) of the stage 3 balances in forbearance are in this probation period.

Provisions as a percentage of balances are higher for the highest risk stage 2 loans than for stage 3 loans. Provisions incorporate changes in economic factors, such as house price falls, that are expected over the life of the loans. Losses on stage 3 loans will crystallise earlier than for loans in stage 2, and therefore anticipated house price falls in future years can lead to higher loss assumptions for stage 2 loans.

The table below summarises the movements between stages in the Group's residential mortgages held at amortised cost. The movements within the table are an aggregation of monthly movements over the period.

Reconciliation of movements in gross residential mortgage balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)		Total	
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020 (note ii)	177,754	40	9,595	125	1,419	36	188,768	252
Stage transfers:								
Transfers from Stage 1 to Stage 2	(6,688)	(7)	6,688	7	-	-	-	-
Transfers to Stage 3	(117)	-	(303)	(19)	420	19	-	-
Transfers from Stage 2 to Stage 1	8,212	39	(8,212)	(39)	-	-	-	-
Transfers from Stage 3	117	(1)	247	7	(364)	(6)	-	-
Net remeasurement of ECL arising from transfer of stage		(31)		65		(10)		24
Net movement arising from transfer of stage	1,524	-	(1,580)	21	56	3	-	24
New assets originated or purchased	12,763	4	-	-	-	-	12,763	4
Further (repayments)/lending	(3,250)	(1)	(33)	-	(12)	-	(3,295)	(1)
Changes in risk parameters in relation to credit quality	-	30	-	29	-	9	-	68
Other items impacting income statement reversal (including recoveries)	-	-	-	-	-	(1)	-	(1)
Redemptions	(7,243)	(2)	(280)	(3)	(115)	(1)	(7,638)	(6)
Removal of year-end additional provision for Covid-19 (note ii)								(51)
Additional provision adjustment (note iii)								16
Income statement charge for the period								53
Decrease due to write-offs	-	-	-	-	(9)	(4)	(9)	(4)
Other provision movements	-	-	-	-	-	1	-	1
30 September 2020	181,548	71	7,702	172	1,339	43	190,589	302
Net carrying amount		181,477		7,530		1,296		190,287

## Risk report (continued)

## Credit risk – Residential mortgages (continued)

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

## Note:

- Gross balances of credit impaired loans include £152 million (4 April 2020: £155 million) of POCI loans, which are presented net of lifetime ECL impairment provisions of £6 million (4 April 2020: £6 million).
- At 4 April 2020, an additional provision for credit losses of £51 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans, nor was it attributed to stages. During the period, this provision has been allocated to underlying loans and is reflected in the movements within the table and the 30 September 2020 position.
- At 30 September 2020, an additional provision of £16 million has been introduced to reflect challenges in estimating ECLs during the Covid-19 pandemic. 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 provision is included in note 8 to the consolidated interim financial statements.

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

## Credit risk – Residential mortgages (continued)

Reason for residential mortgages being included in stage 2 (note i and ii)						
30 September 2020	Prime		Specialist		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m
<b>Quantitative criteria:</b>						
Payment status (greater than 30 DPD)	244	5	158	18	402	23
Increase in PD since origination (less than 30 DPD)	2,517	30	2,777	52	5,294	82
<b>Qualitative criteria:</b>						
Forbearance (less than 30 DPD)	145	-	3	-	148	-
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	1,820	67	1,820	67
Other qualitative criteria	32	-	6	-	38	-
<b>Total Stage 2 gross balances</b>	<b>2,938</b>	<b>35</b>	<b>4,764</b>	<b>137</b>	<b>7,702</b>	<b>172</b>

Reason for residential mortgages being included in stage 2 (note i and ii)						
4 April 2020	Prime		Specialist		Total	
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m
<b>Quantitative criteria:</b>						
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
<b>Qualitative criteria:</b>						
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	-
<b>Total Stage 2 gross balances</b>	<b>1,953</b>	<b>8</b>	<b>7,642</b>	<b>117</b>	<b>9,595</b>	<b>125</b>

## Notes:

- Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.
- In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 30 September 2020. An additional provision of £16 million has been introduced at 30 September 2020, as outlined in the residential mortgages staging analysis table. This additional provision is not allocated to underlying loans, and therefore is not attributed to stages.

## Risk report (continued)

## 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. These indicators are consistent with those used at 4 April 2020, as described below.

The primary quantitative indicators are the outputs of internal credit risk assessments. 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 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.

The value of loans reported within stage 2 as a result of being in arrears by 30 days or more has reduced to £402 million, 0.21% of total gross balances (4 April 2020: £514 million, 0.27% of total gross balances). Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes and an adjustment has been made to recognise the underlying risk where modelled provisions would otherwise have been reduced.

Stage 2 loans include 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% (4 April 2020: <0.1%) of total stage 2 balances.

The significant stage 2 movements during the period are detailed beneath the residential mortgages staging analysis table on page 26.

## Credit quality

The residential mortgages portfolio comprises many relatively small loans which are broadly homogeneous, 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 probability of default (PD) range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

Loan balance and provisions by PD (note i and ii)									
30 September 2020	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	
PD Range									%
0.00 to < 0.15%	170,097	2,197	89	172,383	54	34	-	88	0.05
0.15 to < 0.25%	5,377	589	24	5,990	6	8	-	14	0.24
0.25 to < 0.50%	3,105	383	32	3,520	5	7	-	12	0.33
0.50 to < 0.75%	1,385	255	13	1,653	2	4	-	6	0.37
0.75 to < 2.50%	1,400	861	46	2,307	3	22	-	25	1.10
2.50 to < 10.00%	181	947	70	1,198	1	21	1	23	1.89
10.00 to < 100%	3	2,470	203	2,676	-	76	3	79	2.97
100% (default)	-	-	862	862	-	-	39	39	4.56
<b>Total</b>	<b>181,548</b>	<b>7,702</b>	<b>1,339</b>	<b>190,589</b>	<b>71</b>	<b>172</b>	<b>43</b>	<b>286</b>	<b>0.15</b>

## Risk report (continued)

## Credit risk – Residential mortgages (continued)

Loan balance and provisions by PD (note i and ii)									
4 April 2020	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	
PD Range									%
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

## Notes:

- i. Includes POCI loans of £152 million (4 April 2020: £155 million).
- ii. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans or attributed to stages and is therefore excluded from this table. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 30 September 2020. An additional provision of £16 million has been introduced at 30 September 2020, as outlined in the residential mortgage product and staging analysis table. This additional provision is not allocated to underlying loans, and therefore is not attributed to stages. The additional provision increases the total provision coverage to 0.16% at 30 September 2020 (4 April 2020: 0.13%).

The PD distribution has remained stable over the period, reflecting the high quality of the residential mortgage portfolios. At 30 September 2020, 98% (4 April 2020: 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. The increase during the period within the 10.00% to 100% band is largely a result of an increase in the PD assigned to the higher risk loans with payment deferrals within the prime portfolio. The reduction in the stage 2 balance, within the 0.00% to < 0.15% band, is due to lower risk interest only cases within the specialist portfolio moving from stage 2 to 1, as described below the residential mortgages staging analysis table on page 26.

## Risk report (continued)

## Credit risk – Residential mortgages (continued)

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

Distribution of new business by borrower type (by value) (note i)		
	Half year to 30 September 2020	Half year to 30 September 2019
	%	%
Prime:		
First time buyers	27	33
Home movers	21	24
Remortgages	27	23
Other	1	1
<b>Total prime</b>	<b>76</b>	<b>81</b>
Specialist:		
Buy to let new purchases	6	5
Buy to let remortgages	18	14
<b>Total specialist</b>	<b>24</b>	<b>19</b>
<b>Total new business</b>	<b>100</b>	<b>100</b>

Note:

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

New business by borrower type remains diversified. During the period, as a result of market dislocation due to the pandemic, there has been a movement in the distribution of new business towards remortgages and specialist (buy to let) lending. Prime house purchase sectors have seen the greatest impact to date.



## Risk report (continued)

## Credit risk – Residential mortgages (continued)

## LTV and credit risk concentration

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

LTV distribution of new business (by value) (note i)		
	Half year to 30 September 2020	Half year to 30 September 2019
	%	%
0% to 60%	27	23
60% to 75%	36	33
75% to 80%	6	7
80% to 85%	13	13
85% to 90%	15	20
90% to 95%	3	4
Over 95%	-	-
<b>Total</b>	<b>100</b>	<b>100</b>

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 period.

At the end of the period, the maximum LTV for new prime residential borrowers was 90% (H1 2019/20: 95%). The average LTV of prime new business completed in the period has reduced to 71% (H1 2019/20: 74%), reflecting the withdrawal from higher LTV lending at the start of the pandemic. In the specialist (buy to let) portfolio, the average LTV of new business increased from 65% to 66% following a shift towards business on longer terms at higher LTVs. With house price increases during the period, the average indexed LTV of total loan stock has reduced to 56% (4 April 2020: 58%).

Average LTV of new business (by value) (note i)		
	Half year to 30 September 2020	Half year to 30 September 2019
	%	%
Prime	71	74
Specialist (buy to let)	66	65
<b>Group</b>	<b>70</b>	<b>72</b>

Average LTV of loan stock (by value) (note ii)		
	30 September 2020	4 April 2020
	%	%
Prime	56	58
Specialist	57	59
<b>Group</b>	<b>56</b>	<b>58</b>

## Credit risk – Residential mortgages (continued)

## Residential mortgage balances by LTV and region

## Geographical concentration by stage

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

Residential mortgage gross balances by LTV and region										
30 September 2020	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	Provision Coverage (note i)
	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
<b>Stage 1 and 2 loans</b>										
Fully collateralised										
LTV ratio:										
Up to 50%	25,184	11,786	8,133	8,730	6,496	3,264	1,674	941	66,208	0.05
50% to 60%	11,241	6,487	4,997	4,273	3,447	1,868	1,058	366	33,737	0.09
60% to 70%	11,346	7,182	6,689	4,577	3,700	2,485	1,383	422	37,784	0.13
70% to 80%	8,858	5,631	5,629	3,707	2,898	2,383	1,122	415	30,643	0.18
80% to 90%	6,265	3,518	3,237	2,798	1,819	1,310	608	328	19,883	0.20
90% to 100%	154	198	165	77	44	102	38	73	851	1.30
	63,048	34,802	28,850	24,162	18,404	11,412	5,883	2,545	189,106	0.12
Not fully collateralised										
Over 100% LTV	5	4	15	1	2	4	-	113	144	14.54
Collateral value	4	3	12	1	2	4	-	98	124	
Negative equity	1	1	3	-	-	-	-	15	20	
<b>Total stage 1 and 2 loans</b>	<b>63,053</b>	<b>34,806</b>	<b>28,865</b>	<b>24,163</b>	<b>18,406</b>	<b>11,416</b>	<b>5,883</b>	<b>2,658</b>	<b>189,250</b>	<b>0.13</b>
<b>Stage 3 and POCI loans</b>										
Fully collateralised										
LTV ratio:										
Up to 50%	229	84	70	66	43	20	11	12	535	0.95
50% to 60%	93	52	42	28	27	12	8	4	266	1.44
60% to 70%	44	61	50	30	30	17	8	4	244	2.62
70% to 80%	20	36	52	12	9	17	14	5	165	4.65
80% to 90%	12	9	39	5	4	7	7	3	86	7.95
90% to 100%	1	1	11	-	-	2	1	5	21	19.72
	399	243	264	141	113	75	49	33	1,317	2.57
Not fully collateralised										
Over 100% LTV	-	1	3	-	1	1	-	16	22	37.48
Collateral value	-	1	2	-	1	1	-	13	18	
Negative equity	-	-	1	-	-	-	-	3	4	
<b>Total stage 3 and POCI loans</b>	<b>399</b>	<b>244</b>	<b>267</b>	<b>141</b>	<b>114</b>	<b>76</b>	<b>49</b>	<b>49</b>	<b>1,339</b>	<b>3.14</b>
<b>Total residential mortgages</b>	<b>63,452</b>	<b>35,050</b>	<b>29,132</b>	<b>24,304</b>	<b>18,520</b>	<b>11,492</b>	<b>5,932</b>	<b>2,707</b>	<b>190,589</b>	<b>0.15</b>
<b>Total geographical concentrations</b>	<b>33%</b>	<b>19%</b>	<b>15%</b>	<b>13%</b>	<b>10%</b>	<b>6%</b>	<b>3%</b>	<b>1%</b>	<b>100%</b>	

## Risk report (continued)

## Credit risk – Residential mortgages (continued)

Residential mortgage gross balances by LTV and region										
4 April 2020	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	Provision Coverage (note i)
	£m	£m	£m	£m	£m	£m	£m	£m	£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	0.03
50% to 60%	10,973	6,151	4,726	4,051	3,080	1,715	1,004	373	32,073	0.06
60% to 70%	10,701	6,871	6,552	4,180	3,418	2,351	1,386	412	35,871	0.09
70% to 80%	9,018	5,659	5,593	3,795	3,030	2,466	1,085	419	31,065	0.12
80% to 90%	8,360	4,047	3,665	3,448	2,375	1,574	666	346	24,481	0.11
90% to 100%	764	562	249	386	503	269	46	91	2,870	0.32
	62,699	34,236	28,480	23,893	18,119	11,415	5,793	2,554	187,189	0.08
Not fully collateralised										
Over 100% LTV	5	5	16	2	3	6	-	123	160	11.27
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	0.09
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	214	81	70	66	40	20	12	11	514	0.73
50% to 60%	109	48	46	32	26	13	9	4	287	1.01
60% to 70%	52	61	53	31	29	19	8	4	257	1.79
70% to 80%	27	48	55	16	20	17	14	6	203	3.51
80% to 90%	16	13	44	7	5	8	8	3	104	4.85
90% to 100%	2	1	15	-	-	3	1	5	27	15.46
	420	252	283	152	120	80	52	33	1,392	1.99
Not fully collateralised										
Over 100% LTV	-	1	4	1	-	1	1	19	27	32.00
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	2.57
Total residential mortgages	63,124	34,494	28,783	24,048	18,242	11,502	5,846	2,729	188,768	0.11
Total geographical concentrations	34%	18%	15%	13%	10%	6%	3%	1%	100%	

Note:

- i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans or attributed to stages and is therefore excluded from this table. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 30 September 2020. An additional provision of £16 million has been introduced at 30 September 2020, as outlined in the residential mortgage product and staging analysis table. This additional provision is not allocated to underlying loans, and therefore is not attributed to stages. The additional provision increases the total provision coverage to 0.16% at 30 September 2020 (4 April 2020: 0.13%).

## Risk report (continued)

## Credit risk – Residential mortgages (continued)

Over the period, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 33% of the total (4 April 2020: 34%). The highest concentration for both prime and specialist (buy to let) loans is in Greater London at 30% and 46% of their respective totals (4 April 2020: 31% and 46% respectively).

In addition to balances held at amortised cost shown in the table above, there are £74 million (4 April 2020: £71 million) of residential mortgages held at FVTPL which have an average LTV of 38% (4 April 2020: 39%). The largest geographical concentration within the FVTPL balances is also in Greater London, at 50% (4 April 2020: 49%).

## Arrears

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

Number of cases more than 3 months in arrears as % of total book (note i)		
	30 September 2020	4 April 2020
	%	%
Prime	0.34	0.33
Specialist	0.75	0.74
<b>Total</b>	<b>0.42</b>	0.41
<b>UK Finance (UKF) industry average</b>	<b>0.82</b>	0.74

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.

During the period, the proportion of cases more than 3 months in arrears has increased but remains at low levels. The arrears levels are likely to have been suppressed by the granting of payment holidays and the impact of government support schemes in the period and, when combined with the current UK economic conditions, a rise in arrears from current levels is expected over the medium term.

The number of specialist cases more than 3 months in arrears as % of total book includes both TMW and other cases in the smaller legacy portfolios in run-off. The number of cases in respect of TMW more than 3 months in arrears is 0.30% of the total TMW book (4 April 2020: 0.27%).

## Credit risk – Residential mortgages (continued)

## Residential mortgages by payment status

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

Residential mortgages gross balances by payment status								
	30 September 2020				4 April 2020			
	Prime	Specialist	Total		Prime	Specialist	Total	
	£m	£m	£m	%	£m	£m	£m	%
Not past due	149,803	38,436	188,239	98.7	149,387	36,684	186,071	98.5
Past due 0 to 1 month	913	313	1,226	0.7	1,062	356	1,418	0.8
Past due 1 to 3 months	277	192	469	0.3	311	307	618	0.3
Past due 3 to 6 months	145	130	275	0.1	177	142	319	0.2
Past due 6 to 12 months	115	109	224	0.1	112	109	221	0.1
Past due over 12 months	111	101	212	0.1	82	81	163	0.1
Possessions	5	13	18	-	9	20	29	-
<b>Total residential mortgages</b>	<b>151,369</b>	<b>39,294</b>	<b>190,663</b>	<b>100</b>	<b>151,140</b>	<b>37,699</b>	<b>188,839</b>	<b>100</b>

The proportion of loans in arrears has reduced to 1.3% (4 April 2020: 1.5%) and arrears levels remain low across prime and specialist lending. The arrears performance has benefited from Covid-19 government support schemes, payment deferrals and the low interest rate environment, and is supported by robust credit assessment and affordability controls at the point of lending. It is management's judgement that the arrears reduction is temporary and therefore this improvement in book performance has not been reflected within the provisions as at 30 September 2020.

In total, £353 million (4 April 2020: £352 million) of specialist lending balances were more than 3 months past due or in possession. Of the £353 million (4 April 2020: £352 million), £216 million (4 April 2020: £220 million) relates to legacy portfolios in run-off.

We are providing support to customers who have been financially affected by Covid-19. Payment deferrals granted in this respect will suppress the impact of the pandemic on arrears in the short term. Details of payment deferrals are given on page 39. This support, part of our Home Support Package announced in May 2020, also includes a possessions moratorium for borrowers who work with us to manage their money. This moratorium will remain in place until the end of May 2021 and is the main driver of lower possession balances during the period.

## 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 90% of the portfolio relating to interest only balances (4 April 2020: 89%).

At the end of the period interest only balances accounted for 6.2% (4 April 2020: 6.5%) of prime residential mortgages and 89.6% (4 April 2020: 89.3%) of specialist residential mortgages.

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.

## Credit risk – Residential mortgages (continued)

**Forbearance**

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. In addition, we are providing specific support for 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 Annual Report and Accounts 2020 sets out further details of concession events included within forbearance.

The table below provides details of residential mortgages held at amortised cost subject to forbearance. Accounts that are currently subject to forbearance are assessed as in either stage 2 or stage 3.

<b>Gross balances subject to forbearance (note i)</b>						
	<b>30 September 2020</b>			<b>4 April 2020</b>		
	<b>Prime</b>	<b>Specialist</b>	<b>Total</b>	<b>Prime</b>	<b>Specialist</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Past term interest only (note ii)	116	109	225	117	120	237
Interest only concessions	473	45	518	533	48	581
Capitalisation	76	40	116	75	42	117
Capitalisation – notification of death of borrower (note iii)	162	70	232	156	70	226
Term extensions (within term)	34	19	53	34	13	47
Permanent interest only conversions	2	40	42	2	35	37
<b>Total forbearance (note iv)</b>	<b>863</b>	<b>323</b>	<b>1,186</b>	<b>917</b>	<b>328</b>	<b>1,245</b>
<b>Impairment provisions on forborne loans</b>	<b>6</b>	<b>15</b>	<b>21</b>	<b>5</b>	<b>12</b>	<b>17</b>

Notes:

- Where more than one concession event has occurred, balances are reported under the latest event.
- 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.
- The prior period comparative for Capitalisation - notification of death of borrower has been restated for specialist lending, increasing the balance by £10 million to £70 million due to improvements in data quality.
- 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.

Over the period, total balances subject to forbearance have decreased to £1,186 million (4 April 2020: £1,245 million). This reduction is likely to be temporary, as borrowers have utilised payment holidays as a method of support during the pandemic, which are not reported as forbearance. The forborne balances as a percentage of total residential mortgage lending have also decreased to 0.62% (4 April 2020: 0.65%).

In addition to the amortised cost balances above, there are £74 million FVTPL balances (4 April 2020: £71 million), of which £8 million (4 April 2020: £9 million) are forborne.

## Credit risk – Residential mortgages (continued)

**Support for borrowers impacted by Covid-19**

Payment deferrals continue to be offered to impacted borrowers in accordance with regulatory guidance; in isolation these payment deferrals are not recorded as forbearance and do not automatically have an impact on the default status of borrowers. For borrowers who continue to need financial support after completion of a payment deferral period, Nationwide offers tailored concessions. Under regulatory guidance, where these concessions are not arrears-bearing they are treated as forbearance and are included, as applicable, in the reported staging balance.

The following table shows the value of residential mortgages with a payment deferral related to Covid-19, showing total deferrals granted and those still in place at 30 September 2020.

<b>Payment and interest deferrals granted due to Covid-19</b>			
	<b>30 September 2020</b>		<b>4 April 2020</b>
	<b>Payment deferrals granted to date</b>	<b>Payment deferrals outstanding (note i)</b>	<b>Payment deferrals outstanding (note i)</b>
<b>Prime</b>			
Number of properties (000s)	<b>203</b>	<b>42</b>	167
Balance (£m)	<b>£28,032</b>	<b>£6,602</b>	£23,541
Share of book, balance (%)	<b>19%</b>	<b>4%</b>	16%
Weighted average LTV (%)	<b>61%</b>	<b>62%</b>	63%
<b>Specialist</b>			
Number of properties (000s)	<b>43</b>	<b>9</b>	37
Balance (£m)	<b>£6,029</b>	<b>£1,334</b>	£5,037
Share of book, balance (%)	<b>15%</b>	<b>3%</b>	13%
Weighted average LTV (%)	<b>60%</b>	<b>61%</b>	61%
<b>Total Residential</b>			
Number of properties (000s)	<b>246</b>	<b>51</b>	204
Balance (£m)	<b>£34,061</b>	<b>£7,936</b>	£28,578
Share of book, balance (%)	<b>18%</b>	<b>4%</b>	15%
Weighted average LTV (%)	<b>60%</b>	<b>62%</b>	62%

Note:

i. Includes residential mortgages with a payment deferral related to Covid-19 as used in the calculation of expected credit losses.

The outstanding balances included in the table above represent 3% (4 April 2020: 13%) of our prime mortgage lending and 3% (4 April 2020: 9%) of our specialist mortgage lending when calculated on a volume basis. The majority of the payment deferrals which have expired to date have resumed payments.

During the period, additional payment deferrals have been granted and the payment deferral schemes were extended for a further three months. For residential mortgages the additional provision has been updated to reflect additional requests received during the period and has increased to £39 million (4 April 2020: £22 million).

At 1 November there were 12,000 outstanding cases with balances of £1,764 million.

## Credit risk – Consumer banking

## Summary

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. Over the period, total balances across these portfolios have decreased by £238 million to £4,756 million (4 April 2020: £4,994 million), equating to a 4.8% reduction. The reduction in balances reflects reduced customer demand for new products, the implementation of controls that reduce new lending to address the increased risk arising from Covid-19, and lower member spending during the Covid-19 pandemic.

Covid-19 is having a significant impact on our members, and we continue to offer them help and support in these challenging times. To date arrears remain low and credit quality is stable; however, this performance has benefited from the impact of government support schemes, payment deferrals and the low base rate environment.

Consumer banking gross balances				
	30 September 2020		4 April 2020	
	£m	%	£m	%
Overdrawn current accounts	223	5	280	5
Personal loans	2,958	62	3,030	61
Credit cards	1,575	33	1,684	34
<b>Total consumer banking</b>	<b>4,756</b>	<b>100</b>	<b>4,994</b>	<b>100</b>

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

Impairment losses for the period		
	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Overdrawn current accounts	9	14
Personal loans	59	24
Credit cards	16	20
<b>Total</b>	<b>84</b>	<b>58</b>
	%	%
<b>Impairment charge as a % of average gross balance</b>	<b>1.77</b>	<b>1.23</b>

The impairment losses for the period include the impact of updating macroeconomic assumptions and weightings to reflect the impact of the Covid-19 pandemic; further details are included in note 8 to the consolidated interim financial statements. Updates to the severe downside scenario assumptions, to reflect further impacts of Covid-19, increased provisions by £19 million during the period, primarily in relation to personal loans. Another factor in the charge for impairment losses is the number of loans with payment deferrals and interest holidays granted in the period; provisions against these loans total £25 million (4 April 2020: £17 million). The performance of those loans where the concession has ended remains in line with our expectations.



## Credit risk – Consumer banking (continued)

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

Consumer banking product and staging analysis (note i)										
	30 September 2020					4 April 2020				
	Stage 1	Stage 2	Stage 3	Additional provision (note ii)	Total	Stage 1	Stage 2	Stage 3	Additional provision (note i)	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Gross balances</b>										
Overdrawn current accounts	107	76	40	-	223	149	89	42	-	280
Personal loans	2,396	416	146	-	2,958	2,597	296	137	-	3,030
Credit cards	1,087	366	122	-	1,575	1,111	442	131	-	1,684
<b>Total</b>	<b>3,590</b>	<b>858</b>	<b>308</b>	<b>-</b>	<b>4,756</b>	<b>3,857</b>	<b>827</b>	<b>310</b>	<b>-</b>	<b>4,994</b>
<b>Provisions</b>										
Overdrawn current accounts	4	16	39	2	61	2	17	37	3	59
Personal loans	19	78	127	8	232	15	33	119	23	190
Credit cards	19	87	111	21	238	15	91	122	17	245
<b>Total</b>	<b>42</b>	<b>181</b>	<b>277</b>	<b>31</b>	<b>531</b>	<b>32</b>	<b>141</b>	<b>278</b>	<b>43</b>	<b>494</b>
<b>Provisions as a % of total balance</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Overdrawn current accounts	3.51	21.64	95.51	-	27.14	1.75	19.06	87.02	-	21.21
Personal loans	0.79	18.71	87.77	-	7.84	0.56	11.15	86.78	-	6.27
Credit cards	1.77	23.73	90.95	-	15.12	1.33	20.67	92.86	-	14.55
<b>Total</b>	<b>1.17</b>	<b>21.11</b>	<b>90.04</b>	<b>-</b>	<b>11.16</b>	<b>0.82</b>	<b>17.09</b>	<b>89.39</b>	<b>-</b>	<b>9.90</b>

## Notes:

- In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million was included in the impairment provisions for consumer banking at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 30 September 2020.
- Arrears balances across all consumer banking products have reduced in the period between June and September 2020, leading to a reduction in modelled provisions. Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes and an additional provision has therefore been made to recognise the underlying risk, retaining provisions of £31 million which would have otherwise been released. This additional provision has not been allocated by loan and is not incorporated into staging outcomes.

Total gross balances decreased by 4.8% to £4,756 million (4 April 2020 £4,994 million), with reductions across all products. The reduction in balances reflects reduced customer demand for new products, the implementation of controls over new lending to address the increased risk arising from Covid-19, and lower member spending during the Covid-19 pandemic and lockdown. As at 30 September 2020, 75% (4 April 2020: 77%) of the consumer banking portfolio is in stage 1. The proportion of total balances in stage 3 is unchanged at 6% (4 April 2020: 6%), reflecting broadly stable underlying credit performance. The increase in provisions to £531 million (4 April 2020: £494 million) is due to the deterioration in economic outlook, reflected in the economic scenarios used to model expected credit losses.

## Risk report (continued)

## Credit risk – Consumer banking (continued)

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 total provision coverage has increased to 6.9% (4 April 2020: 5.7%).

The table below summarises the movements in the Group's consumer banking balances held at amortised cost. The movements within the table are an aggregation of monthly movements over the period.

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
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020 (note i)	3,857	32	827	141	310	278	4,994	494
<b>Stage transfers:</b>								
Transfers from Stage 1 to Stage 2	(911)	(22)	911	22	-	-	-	-
Transfers to Stage 3	(4)	-	(62)	(41)	66	41	-	-
Transfers from Stage 2 to Stage 1	733	109	(733)	(109)	-	-	-	-
Transfers from Stage 3	1	1	11	8	(12)	(9)	-	-
Net remeasurement of ECL arising from transfer of stage		(83)		119		10		46
<b>Net movement arising from transfer of stage</b>	<b>(181)</b>	<b>5</b>	<b>127</b>	<b>(1)</b>	<b>54</b>	<b>42</b>	<b>-</b>	<b>46</b>
New assets originated or purchased	895	20	-	-	-	-	895	20
Further repayments	(592)	(25)	(9)	(17)	(4)	(8)	(605)	(50)
Changes in risk parameters in relation to credit quality	-	10	-	60	-	14	-	84
Other items impacting income statement reversal (including recoveries)	-	-	-	-	-	(1)	-	(1)
Redemptions	(389)	-	(87)	(2)	(3)	(1)	(479)	(3)
Removal of year-end additional provision for Covid-19 (note i)								(43)
Additional provision adjustment (note ii)								31
Income statement charge for the period								84
Decrease due to write-offs	-	-	-	-	(49)	(49)	(49)	(49)
Other provision movements	-	-	-	-	-	2	-	2
<b>30 September 2020</b>	<b>3,590</b>	<b>42</b>	<b>858</b>	<b>181</b>	<b>308</b>	<b>277</b>	<b>4,756</b>	<b>531</b>
<b>Net carrying amount</b>		<b>3,548</b>		<b>677</b>		<b>31</b>		<b>4,225</b>

## Risk report (continued)

## Credit risk – Consumer banking (continued)

Reconciliation of movements in gross consumer banking balances and impairment provisions								
	Non-credit impaired				Credit impaired		Total	
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2019	3,538	27	761	132	287	259	4,586	418
Stage transfers:								
Transfers from Stage 1 to Stage 2	(696)	(11)	696	11	-	-	-	-
Transfers to Stage 3	(5)	-	(65)	(37)	70	37	-	-
Transfers from Stage 2 to Stage 1	627	77	(627)	(77)	-	-	-	-
Transfers from Stage 3	1	1	7	5	(8)	(6)	-	-
Net remeasurement of ECL arising from transfer of stage		(64)		93		14		43
Net movement arising from transfer of stage	(73)	3	11	(5)	62	45	-	43
New assets originated or purchased	1,063	13	-	-	-	-	1,063	13
Further lending/(repayments)	(444)	(11)	59	(4)	(8)	(8)	(393)	(23)
Changes in risk parameters in relation to credit quality	-	-	-	18	-	13	-	31
Other items impacting income statement charge/(reversal) (including recoveries)	1	-	-	-	(1)	(3)	-	(3)
Redemptions	(305)	-	(23)	(2)	(1)	(1)	(329)	(3)
Income statement charge for the period								58
Decrease due to write-offs	-	-	-	-	(38)	(38)	(38)	(38)
Other provision movements	-	-	-	-	-	3	-	3
30 September 2019	3,780	32	808	139	301	270	4,889	441
Net carrying amount		3,748		669		31		4,448

## Notes:

- i. At 4 April 2020, an additional provision for credit losses of £43 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the period, this provision has been allocated to underlying loans and is reflected in the movements within the table and the 30 September 2020 position.
- ii. At 30 September 2020, an additional provision of £31 million has been introduced to reflect challenges in estimating ECLs during the Covid-19 pandemic. This additional provision has not been allocated to underlying loans and therefore was not attributed to stages, but is shown in the total column of the table. Additional detail on the calculation of this additional provision is included in note 8 to the consolidated interim financial statements.

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

## Credit risk – Consumer banking (continued)

Reason for consumer banking balances being included in stage 2 (note i)								
30 September 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
<b>Quantitative criteria:</b>								
Payment status (greater than 30 DPD) (note ii)	2	1	7	5	5	5	14	11
Increase in PD since origination (less than 30 DPD)	65	14	404	73	322	73	791	160
<b>Qualitative criteria:</b>								
Forbearance (less than 30 DPD) (note iii)	1	-	-	-	-	-	1	-
Other qualitative criteria (less than 30 DPD)	8	1	5	-	39	9	52	10
<b>Total Stage 2 gross balances</b>	<b>76</b>	<b>16</b>	<b>416</b>	<b>78</b>	<b>366</b>	<b>87</b>	<b>858</b>	<b>181</b>

Reason for consumer banking balances being included in stage 2 (note i)								
4 April 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
<b>Quantitative criteria:</b>								
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
<b>Qualitative criteria:</b>								
Forbearance (less than 30 DPD) (note iii)	2	-	-	-	-	-	2	-
Other qualitative criteria (less than 30 DPD)	9	1	6	-	36	8	51	9
<b>Total Stage 2 gross balances</b>	<b>89</b>	<b>17</b>	<b>296</b>	<b>33</b>	<b>442</b>	<b>91</b>	<b>827</b>	<b>141</b>

## Notes:

- In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million was included in the impairment provisions for consumer banking at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 30 September 2020. An additional provision of £31 million has been introduced at 30 September 2020, as shown in the consumer banking product and staging analysis table. This additional provision is not allocated to underlying loans, and therefore is not attributed to stages.
- 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.
- Stage 2 forbearance relates to cases where full repayment of principal and interest is still anticipated.

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 £858 million stage 2 balances (4 April 2020: £827 million), only 2% (4 April 2020: 3%) are in arrears by 30 days or more, with the majority of balances in stage 2 due to an increase in PD since origination. The reductions in credit cards and overdrawn current accounts are consistent with the reduction in total balances for these products in the period.

The Annual Report and Accounts 2020 sets out further details of the quantitative and qualitative indicators used to identify a significant increase in credit risk. There have been no changes to these indicators during the period.

## Risk report (continued)

## Credit risk – Consumer banking (continued)

## Credit quality

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

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

Consumer banking gross balances and provisions by PD (note i)									
30 September 2020									
PD range	Gross balances				Provisions				Provision coverage %
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	
0.00 to <0.15%	880	3	-	883	5	-	-	5	0.55
0.15 to < 0.25%	402	5	-	407	2	-	-	2	0.64
0.25 to < 0.50%	696	18	-	714	5	1	-	6	0.81
0.50 to < 0.75%	397	29	1	427	3	2	-	5	1.25
0.75 to < 2.50%	837	225	1	1,063	13	20	-	33	3.12
2.50 to < 10.00%	366	374	2	742	13	61	-	74	10.06
10.00 to < 100%	12	199	6	217	1	91	4	96	43.98
100% (default)	-	5	298	303	-	6	273	279	92.11
<b>Total</b>	<b>3,590</b>	<b>858</b>	<b>308</b>	<b>4,756</b>	<b>42</b>	<b>181</b>	<b>277</b>	<b>500</b>	<b>10.52</b>

Consumer banking gross balances and provisions by PD (note i)									
4 April 2020									
PD range	Gross balances				Provisions				Provision coverage %
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m	
0.00 to <0.15%	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
<b>Total</b>	<b>3,857</b>	<b>827</b>	<b>310</b>	<b>4,994</b>	<b>32</b>	<b>141</b>	<b>278</b>	<b>451</b>	<b>9.02</b>

Note:

- i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million was included in the impairment provisions for consumer banking at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 30 September 2020. An additional provision of £31 million has been introduced for 30 September 2020, as outlined in the consumer banking product and staging analysis table. The additional provision is not allocated to underlying loans, and therefore is not attributed to stages. The additional provision increases the total provision coverage to 11.16% at 30 September 2020 (4 April 2020: 9.90%).

The credit quality of the consumer banking portfolio has remained stable with 89% of the portfolio (4 April 2020: 90%) considered good quality with a PD of less than 10%.

## Credit risk – Consumer banking (continued)

## Consumer banking balances by payment due status

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

Consumer banking gross balances by payment due status										
	30 September 2020					4 April 2020				
	Overdrawn current accounts	Personal loans	Credit cards	Total		Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	£m	£m	£m	%	£m	£m	£m	£m	%
Not past due	176	2,765	1,440	4,381	92.1	226	2,830	1,528	4,584	91.8
Past due 0 to 1 month	7	38	14	59	1.3	11	53	23	87	1.7
Past due 1 to 3 months	2	14	9	25	0.5	5	12	13	30	0.6
Past due 3 to 6 months	4	10	7	21	0.4	4	11	9	24	0.5
Past due 6 to 12 months	5	19	2	26	0.6	3	14	2	19	0.4
Past due over 12 months	3	12	-	15	0.3	3	12	-	15	0.3
Charged off (note i)	26	100	103	229	4.8	28	98	109	235	4.7
<b>Total</b>	<b>223</b>	<b>2,958</b>	<b>1,575</b>	<b>4,756</b>	<b>100</b>	<b>280</b>	<b>3,030</b>	<b>1,684</b>	<b>4,994</b>	<b>100</b>

Note:

- i. Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

Total balances subject to arrears, excluding charged off balances, have reduced to £146 million (4 April 2020: £175 million), representing 3.2% (4 April 2020: 3.7%) of the total balance excluding charge off balances. The arrears performance has benefited from Covid-19 government support schemes and payment deferrals, as well as reduced spending on current account and credit cards. It is management's judgement that the arrears reduction is temporary and therefore this improvement in book performance has not been reflected within the provisions at 30 September 2020.

## Credit risk – Consumer banking (continued)

**Forbearance**

Nationwide is committed to supporting customers facing financial difficulty, including those impacted by Covid-19, by working with them to find a solution through proactive arrears management and forbearance.

The Group applies the European Banking Authority definition of forbearance.

The Annual Report and Accounts 2020 sets out further details of concession events included in forbearance.

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 where full repayment of principal and interest is no longer anticipated.

<b>Gross balances subject to forbearance (note i)</b>								
	<b>30 September 2020</b>				<b>4 April 2020</b>			
	<b>Overdrawn current accounts</b>	<b>Personal loans</b>	<b>Credit cards</b>	<b>Total</b>	<b>Overdrawn current accounts</b>	<b>Personal loans</b>	<b>Credit cards</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Payment concession	10	-	1	11	14	-	1	15
Interest suppressed payment concession	6	41	14	61	7	39	15	61
Balance re-aged/re-written	-	1	3	4	-	1	3	4
<b>Total forbearance</b>	<b>16</b>	<b>42</b>	<b>18</b>	<b>76</b>	<b>21</b>	<b>40</b>	<b>19</b>	<b>80</b>
<b>Impairment provisions on forborne loans</b>	<b>11</b>	<b>33</b>	<b>12</b>	<b>56</b>	<b>12</b>	<b>27</b>	<b>13</b>	<b>52</b>

Note:

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

Over the period, total balances subject to forbearance have reduced slightly to £76 million (4 April 2020: £80 million), with forborne balances as a percentage of the total consumer banking lending remaining stable at 1.6% (4 April 2020: 1.6%). This reduction is likely to be temporary, as borrowers have utilised payment deferrals as a method of support during the pandemic, which are not reported as forbearance.

## Risk report (continued)

## Credit risk – Consumer banking (continued)

**Support for borrowers impacted by Covid-19**

We recognise that the impact of Covid-19 is a concern for our consumer banking customers, and for those financially impacted we are offering additional help and continued support in these challenging times. This includes payment deferrals on credit cards and personal loans, allowing borrowers to temporarily reduce payments to a nominal amount, and overdraft interest holidays, with continued proactive contact being made to members who may be financially affected to discuss the range of support available. In line with Financial Conduct Authority (FCA) guidance during the period, no arrears or forbearance will be reported on the customer's credit file as a result of these measures. In isolation these concessions are not reported as forbearance and do not automatically impact the reported stage allocation.

The following table shows the value of consumer credit products with a payment deferral or using an interest-free period related to Covid-19.

<b>Gross balances subject to a payment deferral or interest holiday due to Covid-19</b>						
	<b>30 September 2020</b>				<b>4 April 2020</b>	
	<b>Granted to date</b>		<b>Outstanding (note i)</b>		<b>Outstanding (note i)</b>	
	<b>£m</b>	<b>Percentage of gross balance %</b>	<b>£m</b>	<b>Percentage of gross balance %</b>	<b>£m</b>	<b>Percentage of gross balance %</b>
<b>Payment deferral</b>						
Personal Loans	318	11	52	2	225	7
Credit Cards	86	5	8	1	64	4
<b>Interest holiday</b>						
Current Accounts	17	8	17	8	8	3
<b>Total</b>	<b>421</b>	<b>9</b>	<b>77</b>	<b>2</b>	<b>297</b>	<b>6</b>

Note:

i. Includes consumer credit products with a payment deferral or using an interest-free period related to Covid-19 as used in the calculation of expected credit losses.

During the period, additional concessions have been granted and the schemes were extended for a further three months. For consumer banking, provisions include £25 million (4 April 2020: £17 million) in respect of Covid-19 payment deferrals and interest holidays.



## Risk report (continued)

## Credit risk – Commercial

## 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 gross balances		
	30 September 2020	4 April 2020
	£m	£m
Registered social landlords (note i)	5,042	5,425
Commercial real estate (CRE)	925	996
Project finance (note ii)	698	712
<b>Commercial lending balances at amortised cost</b>	<b>6,665</b>	<b>7,133</b>
Fair value adjustment for micro hedged risk (note iii)	701	741
Commercial lending balances – FVTPL	52	57
<b>Total</b>	<b>7,418</b>	<b>7,931</b>

Notes:

- i. Loans to registered social landlords are secured on residential property.
- ii. Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts under the Private Finance Initiative.
- iii. Micro hedged risk relates to loans hedged on an individual basis.

Over the period, total balances across the commercial portfolios continued to reduce, most significantly in the registered social landlords portfolio where loan amortisation and prepayments exceeded new lending to this sector.

As the portfolio balances have reduced the quality and performance of the portfolios has remained stable.

Commercial impairment losses/(reversals) for the period		
	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
<b>Total</b>	<b>2</b>	<b>(11)</b>

The increase in impairment reflects changes to macroeconomic assumptions and an increase in individual borrower impairments driven by Covid-19 impacts upon collateral values and anticipated cashflows.

## Risk report (continued)

## Credit risk – Commercial (continued)

The following table shows commercial balances carried at amortised cost on the balance sheet, with the stage allocation of the exposures, impairment provisions and resulting provision coverage ratios:

Commercial product and staging analysis (note i)									
	30 September 2020				4 April 2020				
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Additional provision	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Gross balances</b>									
Registered social landlords	5,002	40	-	5,042	5,385	40	-	-	5,425
CRE	704	164	57	925	791	155	50	-	996
Project finance	602	73	23	698	616	73	23	-	712
<b>Total</b>	<b>6,308</b>	<b>277</b>	<b>80</b>	<b>6,665</b>	<b>6,792</b>	<b>268</b>	<b>73</b>	<b>-</b>	<b>7,133</b>
<b>Provisions</b>									
Registered social landlords	1	-	-	1	1	-	-	-	1
CRE	2	5	24	31	2	2	18	7	29
Project finance	-	2	8	10	-	1	9	-	10
<b>Total</b>	<b>3</b>	<b>7</b>	<b>32</b>	<b>42</b>	<b>3</b>	<b>3</b>	<b>27</b>	<b>7</b>	<b>40</b>
<b>Provisions as a % of total balance</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Registered social landlords	0.01	0.76	-	0.02	0.02	0.12	-	-	0.02
CRE	0.32	2.60	42.09	3.30	0.25	1.29	36.00	-	2.91
Project finance	0.02	2.95	38.08	1.56	-	1.37	39.13	-	1.40
<b>Total</b>	<b>0.05</b>	<b>2.43</b>	<b>40.95</b>	<b>0.64</b>	<b>0.04</b>	<b>1.12</b>	<b>36.99</b>	<b>-</b>	<b>0.56</b>

Note:

- i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £7 million was included in the impairment provisions for the CRE portfolio at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. At 30 September 2020 all provisions have been attributed to underlying loans and stages.

Over the period, the performance of the commercial portfolio has remained stable, with 95% (4 April 2020: 95%) of balances remaining in stage 1. Of the £277 million (4 April 2020: £268 million) stage 2 loans, which represent 4.2% (4 April 2020: 3.8%) of total balances, £2 million (4 April 2020: £1 million) were 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.

A number of loans have been impacted by a disruption to rental income related to Covid-19, some of which is considered temporary in nature, and short-term concessions have been applied. Loans in the CRE portfolio experiencing a more material longer-term impact have transferred to stage 2 and 3, with a small increase in stage 3 (credit-impaired) loans at £57 million (4 April 2020: £50 million) equating to 6% (4 April 2020: 5%) of the total CRE exposure.

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (4 April 2020: 1%) of the exposure is in stage 2.

## Risk report (continued)

## Credit risk – Commercial (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 period, the project finance stage 3 provisions have remained stable at £8 million (4 April 2020: £9 million).

**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.

<b>CRE gross balances by risk grade and provision coverage</b>										
	<b>30 September 2020</b>					<b>4 April 2020</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Provision coverage</b>	Stage 1	Stage 2	Stage 3	Total	Provision coverage
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	£m	£m	£m	£m	%
Strong	371	25	-	396	0.1	433	18	-	451	0.1
Good	252	44	-	296	0.7	289	67	-	356	0.6
Satisfactory	81	26	-	107	1.5	69	10	-	79	1.7
Weak	-	69	-	69	3.5	-	60	-	60	1.2
Impaired	-	-	57	57	42.1	-	-	50	50	36.2
<b>Total</b>	<b>704</b>	<b>164</b>	<b>57</b>	<b>925</b>	<b>3.3</b>	<b>791</b>	<b>155</b>	<b>50</b>	<b>996</b>	<b>2.3</b>

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, and the strength of the sponsor and the security. The credit quality of the portfolio has remained broadly stable, with 86% (4 April 2020: 89%) of the portfolio rated as satisfactory or better. There has, however, been some migration downwards to satisfactory, reflecting value and cashflow volatility driven by current market conditions.

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, evaluations of the borrower's oversight and management, and their type and size. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults in the portfolio, the credit quality remains high, with an average 12-month PD of 0.04% across the portfolio.

In addition to the above, £52 million (4 April 2020: £57 million) of commercial lending balances are classified as FVTPL.

**CRE balances by LTV and region**

Geographic concentrations have remained stable. 51% (4 April 2020: 52%) of the CRE exposure (including both amortised cost and FVTPL balances) is secured against assets located in London. Market reduction in asset values has led to a migration in LTV distribution of the CRE balances, with 90% (4 April 2020: 93%) of the portfolio now having an LTV of 75% or less, and 54% (4 April 2020: 66%) of the portfolio having an LTV of 50% or less.

## Credit risk – Commercial (continued)

**Credit risk concentration by industry sector**

Credit risk exposure by industry sector is broadly unchanged from the year end, continuing to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 43% (4 April 2020: 42%) of the total CRE portfolio balance. The exposure to retail assets has reduced to £191 million (4 April 2020: £202 million), with a weighted average LTV of 63% (4 April 2020: 53%). Exposure to the leisure and hotel sector has reduced to £69 million (4 April 2020: £84 million), with a weighted average LTV of 54% (4 April 2020: 46%).

In addition to the amortised cost balances, there are £49 million (4 April 2020: £54 million) of FVTPL CRE commercial lending balances, of which £37 million (4 April 2020: £42 million) relates to the office sector and £12 million (4 April 2020: £12 million) relates to the retail sector.

**CRE balances by payment due status**

Of the £974 million (4 April 2020: £1,050 million) CRE exposure, including FVTPL balances, £22 million (4 April 2020: £14 million) relates to balances with arrears. Of these, £6 million (4 April 2020: £6 million) have arrears greater than 3 months. The increase in arrears balances is driven principally by a single case that is being actively managed.

**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.

The table below provides details of commercial loans that are currently subject to forbearance by concession event. The Annual Report and Accounts 2020 sets out further details of concession events included within forbearance.

<b>Gross balances subject to forbearance (note i)</b>		
	<b>30 September 2020</b>	<b>4 April 2020</b>
	<b>£m</b>	<b>£m</b>
Refinance	<b>8</b>	43
Modifications:		
Payment concession	<b>81</b>	31
Security amendment	<b>4</b>	8
Extension at maturity	<b>8</b>	19
Breach of covenant	<b>112</b>	126
<b>Total</b>	<b>213</b>	227
<b>Total impairment provision on forborne loans</b>	<b>21</b>	14

Note:

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

## Risk report (continued)

## Credit risk – Commercial (continued)

The increase in payment concessions during the period reflects the measures put in place to support borrowers financially affected by the Covid-19 pandemic. The increase in the total impairment provision on forbore loans to £21 million (4 April 2020: £14 million) is reflective of a reduction in asset values and apportionment of the £7 million Covid-19 provision overlay at 4 April 2020 to individual borrowers where appropriate at 30 September 2020.

In addition to the amortised cost balances included in the table above, there are £52 million (4 April 2020: £57 million) of FVTPL commercial lending balances, none (4 April 2020: none) of which are forbore.

**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 with payment deferrals, interest only concessions and loan extensions.

No concessions have been required in the registered social landlord or project finance portfolios.

The following table shows the balances 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						
	30 September 2020			4 April 2020		
	£m	Percentage of book %	Weighted Average LTV %	£m	Percentage of book %	Weighted Average LTV %
3 month capital and interest repayment holiday	77	8.3	69	112	11.2	49
6 month capital repayment holiday	164	17.7	46	96	9.7	41
Extension at maturity	70	7.6	43	1	0.1	29
3 month capital and interest repayment holiday and extension	5	0.5	44	1	0.1	38
6 month capital repayment holiday and extension	18	2.0	67	4	0.4	37
<b>Total</b>	<b>334</b>	<b>36.1</b>	<b>52</b>	<b>214</b>	<b>21.5</b>	<b>45</b>

Balances subject to Covid-19-related temporary measures, at £334 million (4 April 2020: £214 million), represent 36.1% (4 April 2020: 21.5%) of the CRE portfolio balances and 20% (4 April 2020: 11%) of our CRE borrowers. The cases that have received these temporary concessions have a weighted average LTV of 52% (4 April 2020: 45%), and only £82 million (4 April 2020: £2.2 million) of these 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 45% (4 April 2020: 47%) of the balances subject to a concession due to Covid-19, reflecting the portfolio concentration to this industry sector.

## Credit risk - Treasury assets

## Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 30 September 2020 treasury assets represented 20.4% (4 April 2020: 17.0%) of total assets. There are no exposures to emerging markets, hedge funds or credit default swaps. This table shows the classification of treasury asset balances.

Treasury asset balances			
	Classification	30 September 2020 £m	4 April 2020 £m
Cash	Amortised cost	21,045	13,748
Loans and advances to banks and similar institutions	Amortised cost	3,546	3,636
Investment securities	FVOCI	22,371	18,367
Investment securities	FVTPL	12	12
Investment securities	Amortised cost	1,594	1,625
Liquidity and investment portfolio		48,568	37,388
Derivative instruments (note i)	FVTPL	4,391	4,771
<b>Treasury assets</b>		<b>52,959</b>	<b>42,159</b>

Note:

i. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 30 September 2020, derivative liabilities were £1,653 million (4 April 2020: £1,924 million).

Investment activity remains focused on high quality liquid assets, including assets eligible for central bank operations. The size of the portfolio has increased, predominantly in cash balances and government bond holdings, due to a net increase in funding during the period. Derivatives are used to economically hedge financial risks inherent in core lending and funding activities and are not used for trading or speculative purposes.

## Managing treasury credit risks

Credit risk within the treasury portfolio is managed and controlled by the Treasury Credit Risk function in accordance with Nationwide's risk governance frameworks, details of which are provided in the Annual Report and Accounts 2020. No changes in policy or risk appetite have been made or are proposed as a result of Covid-19.

A monthly review is undertaken of the current and expected future performance of treasury assets to determine expected credit loss (ECL) provision requirements. There were no impairment losses for the period ended 30 September 2020 (H1 2019/20: £nil). For financial assets held at amortised cost or at FVOCI, all exposures within the table below continue to be classified as stage 1, reflecting the strong and stable credit quality of treasury assets.

Impairment provisions on treasury assets				
	30 September 2020		4 April 2020	
	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m
Loans and advances to banks and similar institutions	3,546	-	3,636	-
Investment securities – FVOCI	22,371	-	18,367	-
Investment securities – amortised cost	1,594	-	1,625	-

## Risk report (continued)

## Credit risk - Treasury assets (continued)

The liquidity and investment portfolio of £48,568 million (4 April 2020: £37,388 million) comprises liquid assets and other securities. An analysis of the on-balance sheet portfolios is set out below.

<b>Liquidity and investment portfolio by credit rating (note i)</b>										
<b>30 September 2020</b>		<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Other</b>	<b>UK</b>	<b>US</b>	<b>Europe</b>	<b>Japan</b>	<b>Other</b>
	<b>£m</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Liquid assets:</b>										
Cash and reserves at central banks	21,045	-	100	-	-	100	-	-	-	-
Government bonds (note ii)	18,905	33	57	10	-	36	21	28	8	7
Supranational bonds	904	86	14	-	-	-	-	-	-	100
Covered bonds	1,756	100	-	-	-	63	-	22	-	15
Residential mortgage backed securities (RMBS)	438	100	-	-	-	71	-	29	-	-
Asset backed securities (other)	312	100	-	-	-	61	-	39	-	-
<b>Liquid assets total</b>	<b>43,360</b>	<b>22</b>	<b>73</b>	<b>5</b>	<b>-</b>	<b>68</b>	<b>9</b>	<b>13</b>	<b>4</b>	<b>6</b>
<b>Other securities (note iii):</b>										
RMBS FVOCI	16	100	-	-	-	100	-	-	-	-
RMBS amortised cost	1,594	83	12	5	-	100	-	-	-	-
Other investments (note iv)	52	-	48	-	52	52	-	48	-	-
<b>Other securities total</b>	<b>1,662</b>	<b>81</b>	<b>13</b>	<b>5</b>	<b>1</b>	<b>99</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
Loans and advances to banks and similar institutions	3,546	-	75	25	-	90	3	6	-	1
<b>Total</b>	<b>48,568</b>	<b>22</b>	<b>72</b>	<b>6</b>	<b>-</b>	<b>71</b>	<b>8</b>	<b>13</b>	<b>3</b>	<b>5</b>
<b>4 April 2020</b>	<b>£m</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>Liquid assets:</b>										
Cash and reserves at central banks	13,748	-	100	-	-	100	-	-	-	-
Government bonds (note ii)	14,914	34	58	8	-	47	25	16	7	5
Supranational bonds	983	87	13	-	-	-	-	-	-	100
Covered bonds	1,583	100	-	-	-	68	-	16	-	16
Residential mortgage backed securities (RMBS)	483	100	-	-	-	72	-	28	-	-
Asset backed securities (other)	351	100	-	-	-	59	-	41	-	-
<b>Liquid assets total</b>	<b>32,062</b>	<b>26</b>	<b>70</b>	<b>4</b>	<b>-</b>	<b>70</b>	<b>11</b>	<b>9</b>	<b>3</b>	<b>7</b>
<b>Other securities (note iii):</b>										
RMBS FVOCI	17	100	-	-	-	100	-	-	-	-
RMBS amortised cost	1,625	83	12	5	-	100	-	-	-	-
Other investments (note iv)	48	-	62	-	38	38	-	62	-	-
<b>Other securities total</b>	<b>1,690</b>	<b>81</b>	<b>13</b>	<b>4</b>	<b>2</b>	<b>98</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>
Loans and advances to banks and similar institutions	3,636	-	79	20	1	92	3	4	-	1
<b>Total</b>	<b>37,388</b>	<b>26</b>	<b>69</b>	<b>5</b>	<b>-</b>	<b>73</b>	<b>10</b>	<b>9</b>	<b>3</b>	<b>5</b>

## Notes:

- Ratings used are obtained from Standard & Poor's (S&P) and from Moody's or Fitch if no S&P rating is available. For loans and advances to banks and similar institutions, internal ratings are used.
- Balances classified as government bonds include government guaranteed and agency bonds.
- Includes RMBS (UK buy to let and UK non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).
- Includes investment securities held at FVTPL of £12 million (4 April 2020: £12 million).

## Risk report (continued)

## Credit risk - Treasury assets (continued)

## Country exposures

This table summarises the exposure (shown at the balance sheet carrying value) to institutions outside the UK.

<b>Country exposures</b>							
<b>30 September 2020</b>	<b>Government bonds</b>	<b>Mortgage backed securities</b>	<b>Covered bonds</b>	<b>Supranational bonds</b>	<b>Loans and advances to banks and similar institutions</b>	<b>Other assets</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Austria	531	-	-	-	-	-	531
Belgium	604	-	-	-	-	-	604
Finland	641	-	26	-	-	-	667
France	1,273	-	116	-	-	25	1,414
Germany	1,364	-	46	-	221	123	1,754
Ireland	123	-	-	-	-	-	123
Netherlands	514	129	-	-	-	-	643
Spain	-	-	-	-	4	-	4
<b>Total Eurozone</b>	<b>5,050</b>	<b>129</b>	<b>188</b>	<b>-</b>	<b>225</b>	<b>148</b>	<b>5,740</b>
USA	3,996	-	-	-	89	-	4,085
Japan	1,572	-	-	-	-	-	1,572
Rest of world (note i)	1,445	-	460	904	41	-	2,850
<b>Total</b>	<b>12,063</b>	<b>129</b>	<b>648</b>	<b>904</b>	<b>355</b>	<b>148</b>	<b>14,247</b>
<b>4 April 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
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
<b>Total Eurozone</b>	<b>2,282</b>	<b>133</b>	<b>78</b>	<b>-</b>	<b>163</b>	<b>174</b>	<b>2,830</b>
USA	3,703	-	-	-	94	-	3,797
Japan	1,024	-	-	-	-	-	1,024
Rest of world (note i)	934	-	424	983	43	-	2,384
<b>Total</b>	<b>7,943</b>	<b>133</b>	<b>502</b>	<b>983</b>	<b>300</b>	<b>174</b>	<b>10,035</b>

Note:

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



## Credit risk - Treasury assets (continued)

## Derivative financial instruments

Derivatives are used to manage exposure to market risks, and not for trading or speculative purposes, although the application of accounting rules can create volatility in the income statement in a given financial period. The fair value of derivative assets as at 30 September 2020 was £4.4 billion (4 April 2020: £4.8 billion) and the fair value of derivative liabilities was £1.7 billion (4 April 2020: £1.9 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 £1.5 billion (4 April 2020: £1.6 billion) were available and £2.9 billion of collateral (4 April 2020: £3.0 billion) was held.

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

Derivative credit exposure								
	30 September 2020				4 April 2020			
	AA £m	A £m	BBB £m	Total £m	AA £m	A £m	BBB £m	Total £m
<b>Counterparty credit quality</b>								
Gross positive fair value of contracts as reported on the balance sheet	1,124	3,230	37	4,391	1,470	3,291	10	4,771
Netting benefits	(382)	(1,057)	(19)	(1,458)	(481)	(1,157)	(10)	(1,648)
<b>Net current credit exposure</b>	742	2,173	18	2,933	989	2,134	-	3,123
Collateral (cash)	(733)	(2,059)	(18)	(2,810)	(982)	(1,924)	-	(2,906)
Collateral (securities)	-	(109)	-	(109)	-	(91)	-	(91)
<b>Net derivative credit exposure</b>	9	5	-	14	7	119	-	126

## 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 period. This includes the Liquidity Coverage Ratio (LCR), which ensures that sufficient high-quality liquid assets are held to survive a short term severe but plausible liquidity stress. Nationwide's average LCR over the 12 months ending 30 September 2020 increased to 153% (4 April 2020: 152%). The LCR at 30 September 2020 was 153% (4 April 2020: 163%). Nationwide continues to manage its liquidity prudently, with its internal risk appetite well within regulatory requirements.

The position against the longer-term funding metric, the Net Stable Funding Ratio (NSFR) is also monitored. Based on current interpretations of expected European regulatory requirements and guidance, the NSFR at 30 September 2020 was 135% (4 April 2020: 134%), well in excess of the expected 100% minimum future requirement.

### Funding risk

#### Funding strategy

Nationwide's funding strategy is to remain predominantly retail funded, as set out below.

<b>Funding profile</b>					
<b>Assets (note i)</b>	<b>30 September 2020</b>	<b>4 April 2020</b>	<b>Liabilities</b>	<b>30 September 2020</b>	<b>4 April 2020</b>
	<b>£bn</b>	<b>£bn</b>		<b>£bn</b>	<b>£bn</b>
Retail mortgages	<b>190.4</b>	188.6	Retail funding	<b>161.0</b>	159.7
Treasury assets (including liquidity portfolio)	<b>48.6</b>	37.4	Wholesale funding	<b>73.3</b>	62.3
Commercial lending	<b>7.4</b>	7.9	Other liabilities	<b>2.9</b>	3.5
Consumer lending	<b>4.2</b>	4.5	Capital and reserves (note ii)	<b>22.5</b>	22.5
Other assets	<b>9.1</b>	9.6			
<b>Total</b>	<b>259.7</b>	248.0	<b>Total</b>	<b>259.7</b>	248.0

Notes:

- i. Figures in the table are stated net of impairment provisions where applicable.
- ii. Includes all subordinated liabilities and subscribed capital.

At 30 September 2020 Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 119.8% (4 April 2020: 122.4%).

## Risk report (continued)

## 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 £11 billion to £73 billion during the period. The increase is primarily driven by £7 billion increase in short-term wholesale funding and £6 billion of drawings from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) was 30.5% at 30 September 2020 (4 April 2020: 28.5%).

The table below sets out Nationwide's wholesale funding by currency.

<b>Wholesale funding by currency</b>												
	<b>30 September 2020</b>						<b>4 April 2020</b>					
	<b>GBP £bn</b>	<b>EUR £bn</b>	<b>USD £bn</b>	<b>Other £bn</b>	<b>Total £bn</b>	<b>% of total</b>	<b>GBP £bn</b>	<b>EUR £bn</b>	<b>USD £bn</b>	<b>Other £bn</b>	<b>Total £bn</b>	<b>% of total</b>
Repos	0.2	0.4	1.4	-	2.0	3	0.5	0.1	-	-	0.6	1
Deposits	9.5	1.2	-	-	10.7	15	6.2	1.2	1.3	-	8.7	14
Certificates of deposit	0.6	-	0.1	-	0.7	1	1.5	0.4	0.1	-	2.0	3
Commercial paper	-	-	6.2	-	6.2	8	-	-	1.6	-	1.6	3
Covered bonds	4.4	11.6	0.7	0.6	17.3	24	5.0	13.4	0.8	0.6	19.8	31
Medium term notes	1.9	3.5	2.6	0.6	8.6	11	1.9	2.5	2.2	0.6	7.2	12
Securitisations	2.1	0.5	0.8	-	3.4	5	2.2	0.9	1.1	-	4.2	7
Term Funding Scheme (TFS) and TFSME	23.2	-	-	-	23.2	31	17.0	-	-	-	17.0	27
Other	0.2	0.8	0.2	-	1.2	2	0.2	0.8	0.2	-	1.2	2
<b>Total</b>	<b>42.1</b>	<b>18.0</b>	<b>12.0</b>	<b>1.2</b>	<b>73.3</b>	<b>100</b>	<b>34.5</b>	<b>19.3</b>	<b>7.3</b>	<b>1.2</b>	<b>62.3</b>	<b>100</b>

## Risk report (continued)

## Liquidity and funding risk (continued)

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

<b>Wholesale funding – residual maturity</b>								
<b>30 September 2020</b>								
	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Subtotal less than one year	Over one year but not more than two years	Over two years	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repos	2.0	-	-	-	2.0	-	-	2.0
Deposits	8.7	0.5	1.4	0.1	10.7	-	-	10.7
Certificates of deposit	0.4	0.3	-	-	0.7	-	-	0.7
Commercial paper	4.8	1.4	-	-	6.2	-	-	6.2
Covered bonds	0.1	0.1	2.6	-	2.8	3.5	11.0	17.3
Medium term notes	-	-	0.1	0.7	0.8	0.8	7.0	8.6
Securitisations	0.4	-	0.1	0.5	1.0	0.8	1.6	3.4
TFS and TFSME	-	2.0	4.0	3.5	9.5	7.6	6.1	23.2
Other	-	-	-	-	-	0.1	1.1	1.2
<b>Total</b>	<b>16.4</b>	<b>4.3</b>	<b>8.2</b>	<b>4.8</b>	<b>33.7</b>	<b>12.8</b>	<b>26.8</b>	<b>73.3</b>
Of which secured	2.5	2.1	6.7	4.0	15.3	12.0	19.6	46.9
Of which unsecured	13.9	2.2	1.5	0.8	18.4	0.8	7.2	26.4
<b>% of total</b>	<b>22.4</b>	<b>5.9</b>	<b>11.2</b>	<b>6.5</b>	<b>46.0</b>	<b>17.5</b>	<b>36.5</b>	<b>100.0</b>

<b>Wholesale funding – residual maturity</b>								
<b>4 April 2020</b>								
	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Subtotal less than one year	Over one year but not more than two years	Over two years	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repos	0.6	-	-	-	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
<b>Total</b>	<b>6.2</b>	<b>4.2</b>	<b>4.2</b>	<b>9.2</b>	<b>23.8</b>	<b>15.2</b>	<b>23.3</b>	<b>62.3</b>
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
<b>% of total</b>	<b>10.0</b>	<b>6.7</b>	<b>6.7</b>	<b>14.8</b>	<b>38.2</b>	<b>24.4</b>	<b>37.4</b>	<b>100.0</b>

At 30 September 2020, cash, government bonds and supranational bonds included in the liquid asset buffer represented 116% of wholesale funding maturing in less than one year, assuming no rollovers (4 April 2020: 122%).

## 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												
	30 September 2020						4 April 2020					
	GBP	EUR	USD	JPY	Other (note i)	Total	GBP	EUR	USD	JPY	Other (note i)	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and reserves at central banks	21.0	-	-	-	-	21.0	13.7	-	-	-	-	13.7
Government bonds (note ii)	7.1	4.9	2.9	1.6	0.7	17.2	6.8	2.3	3.8	1.0	0.5	14.4
Supranational bonds	0.2	0.4	0.3	-	-	0.9	0.3	0.4	0.2	-	-	0.9
Covered bonds	0.5	1.1	0.1	-	-	1.7	0.5	1.0	0.1	-	-	1.6
Residential mortgage backed securities (RMBS) (note iii)	0.6	-	-	-	-	0.6	0.5	0.1	0.1	-	-	0.7
Asset-backed securities and other securities	0.2	0.1	-	-	-	0.3	0.2	0.1	-	-	-	0.3
<b>Total</b>	<b>29.6</b>	<b>6.5</b>	<b>3.3</b>	<b>1.6</b>	<b>0.7</b>	<b>41.7</b>	<b>22.0</b>	<b>3.9</b>	<b>4.2</b>	<b>1.0</b>	<b>0.5</b>	<b>31.6</b>

Notes:

- i. Other currencies primarily consist of 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 period of cash and reserves at central banks, and government and supranational bonds, was £37.4 billion (average for 12 month ended 4 April 2020: £29.3 billion).

## Risk report (continued)

## Liquidity and funding risk (continued)

## Residual maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the final contractual maturity date (residual maturity).

<b>Residual maturity (note i)</b>									
<b>30 September 2020</b>	<b>Due less than one month (note ii)</b>	<b>Due between one and three months</b>	<b>Due between three and six months</b>	<b>Due between six and nine months</b>	<b>Due between nine and twelve months</b>	<b>Due between one and two years</b>	<b>Due between two and five years</b>	<b>Due after more than five years</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Financial assets</b>									
Cash	21,045	-	-	-	-	-	-	-	21,045
Loans and advances to banks and similar institutions	2,700	-	-	-	-	-	-	846	3,546
Investment securities	52	32	118	192	158	429	7,028	15,968	23,977
Derivative financial instruments	93	19	307	90	35	978	966	1,903	4,391
Fair value adjustment for portfolio hedged risk	23	44	144	116	105	469	688	340	1,929
Loans and advances to customers	2,719	1,477	2,160	2,276	2,190	8,536	23,790	158,814	201,962
<b>Total financial assets</b>	<b>26,632</b>	<b>1,572</b>	<b>2,729</b>	<b>2,674</b>	<b>2,488</b>	<b>10,412</b>	<b>32,472</b>	<b>177,871</b>	<b>256,850</b>
<b>Financial liabilities</b>									
Shares	141,509	1,170	2,128	2,577	3,057	4,659	4,763	1,090	160,953
Deposits from banks and similar institutions	4,996	2,009	4,000	1,750	1,700	7,550	6,220	-	28,225
<i>Of which repo</i>	2,009	-	-	-	-	-	-	-	2,009
<i>Of which TFS and TFSME</i>	-	2,005	4,000	1,750	1,700	7,550	6,220	-	23,225
Other deposits	5,718	482	1,382	38	36	10	5	-	7,671
Fair value adjustment for portfolio hedged risk	-	1	2	8	3	11	9	-	34
Secured funding – ABS and covered bonds	456	100	2,634	493	25	4,469	7,149	6,335	21,661
Senior unsecured funding	5,204	1,670	154	189	571	809	5,611	1,553	15,761
Derivative financial instruments	72	23	36	11	4	17	221	1,269	1,653
Subordinated liabilities	33	-	28	(1)	3	-	2,436	5,849	8,348
Subscribed capital (note iii)	1	1	1	-	-	-	-	249	252
<b>Total financial liabilities</b>	<b>157,989</b>	<b>5,456</b>	<b>10,365</b>	<b>5,065</b>	<b>5,399</b>	<b>17,525</b>	<b>26,414</b>	<b>16,345</b>	<b>244,558</b>
Off-balance sheet commitments (note iv)	11,258	-	-	-	-	-	-	-	11,258
<b>Net liquidity difference</b>	<b>(142,615)</b>	<b>(3,884)</b>	<b>(7,636)</b>	<b>(2,391)</b>	<b>(2,911)</b>	<b>(7,113)</b>	<b>6,058</b>	<b>161,526</b>	<b>1,034</b>
<b>Cumulative liquidity difference</b>	<b>(142,615)</b>	<b>(146,499)</b>	<b>(154,135)</b>	<b>(156,526)</b>	<b>(159,437)</b>	<b>(166,550)</b>	<b>(160,492)</b>	<b>1,034</b>	<b>-</b>

## Risk report (continued)

## Liquidity and funding risk (continued)

Residual maturity (note i)									
4 April 2020	Due less than one month (note ii)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and twelve months	Due between one and two years	Due between two and five years	Due after more than five years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>									
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
<b>Total financial assets</b>	<b>19,512</b>	<b>2,032</b>	<b>2,914</b>	<b>2,444</b>	<b>2,600</b>	<b>10,252</b>	<b>29,871</b>	<b>175,286</b>	<b>244,911</b>
<b>Financial liabilities</b>									
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
<i>Of which repo</i>	638	-	-	-	-	-	-	-	638
<i>Of which TFS</i>	-	-	-	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
<b>Total financial liabilities</b>	<b>146,226</b>	<b>5,581</b>	<b>6,828</b>	<b>4,605</b>	<b>8,590</b>	<b>20,440</b>	<b>23,170</b>	<b>18,031</b>	<b>233,471</b>
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	-

## Notes:

- 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 and lease liabilities have also been excluded.
- Due less than one month includes amounts repayable on demand.
- The principal amount for undated subscribed capital is included within the due after more than five years column.
- Off-balance sheet commitments include amounts payable on demand for 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.

## Risk report (continued)

## Liquidity and funding risk (continued)

The 30 September 2020 table above includes the impact of a debt buy-back exercise that involved the Society repurchasing seven outstanding series of covered bonds totalling £2 billion (GBP equivalent). This exercise followed the issuance of senior unsecured debt predominantly for the purpose of securing our credit rating with Moody's. The impact of unwinding associated derivative financial instruments is also reflected.

**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 set out in note 14 of our Annual Report and Accounts 2020) and from participation in the Bank of England's TFS and TFSME.

Certain unencumbered assets are readily available to secure funding or meet collateral requirements. These include prime mortgages and cash and securities held in the liquid asset buffer. Other unencumbered assets, such as non-prime mortgages, are capable of being encumbered with a degree of further management action. Assets which do not fall into either of these categories are classified as not being capable of being encumbered.

At 30 September 2020, Nationwide had £45,587 million (4 April 2020: £48,498 million) of externally encumbered assets with counterparties other than central banks. In addition, £78,079 million (4 April 2020: £43,572 million) of prepositioned and encumbered assets were held at central banks and £124,452 million (4 April 2020: £143,780 million) of assets were neither encumbered nor prepositioned but capable of being encumbered. The increase in assets prepositioned and encumbered at central banks provides Nationwide with future funding flexibility and ensures sufficient contingent funding capacity is retained in the event of a stress. Further detail on asset encumbrance is set out in the Annual Report and Accounts 2020.

**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.

<b>Credit ratings</b>						
	<b>Senior preferred</b>	<b>Short-term</b>	<b>Senior non-preferred</b>	<b>Tier 2</b>	<b>Date of last rating action / confirmation</b>	<b>Outlook</b>
Standard & Poor's	<b>A</b>	<b>A-1</b>	<b>BBB+</b>	<b>BBB</b>	<b>April 2020</b>	<b>Stable</b>
Moody's	<b>A1</b>	<b>P-1</b>	<b>Baa2</b>	<b>Baa2</b>	<b>July 2020</b>	<b>Stable</b>
Fitch	<b>A+</b>	<b>F-1</b>	<b>A</b>	<b>BBB+</b>	<b>September 2020</b>	<b>Negative</b>

In July 2020, Moody's revised Nationwide's outlook to stable from negative, following Nationwide's €1 billion senior preferred issuance.

In September 2020, Fitch affirmed Nationwide's Long-Term Issuer Default Rating and negative outlook.



## Risk report (continued)

## Solvency risk

Solvency risk is the risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators. Capital is held to protect members, cover inherent risks, provide a buffer for stress events and support the business strategy. In assessing the adequacy of capital resources, risk appetite is considered in the context of the material risks to which Nationwide is exposed and the appropriate strategies required to manage those risks.

## Capital position

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

Capital ratios		
	30 September 2020	4 April 2020
<b>Solvency</b>	%	%
Common Equity Tier 1 (CET1) ratio	34.5	31.9
Total Tier 1 ratio	38.7	33.7
Total regulatory capital ratio	48.4	43.6
<b>Leverage</b>	£m	£m
UK leverage exposure	248,391	240,707
CRR leverage exposure	269,343	254,388
Tier 1 capital	12,468	11,258
	%	%
UK leverage ratio (note i)	5.0	4.7
CRR leverage ratio (note i)	4.6	4.4

Note:

i. The difference between the CRR leverage ratio and the UK leverage ratio is driven by the exclusion of qualifying central bank claims from the UK leverage exposure measure as per the PRA Rulebook.

The CET1 ratio increased to 34.5% (4 April 2020: 31.9%) as a result of an increase in CET1 capital of £0.5 billion and a reduction in RWAs of £1.2 billion. The CET1 capital increase was driven by a £0.3 billion increase in profits after tax, a £0.1 billion increase in IFRS 9 transitional capital relief (which offsets increases in IFRS 9 provisions over regulatory expected loss) and a reduction in intangible assets deducted from capital of £0.1 billion. The reduction in RWAs was primarily driven by improving retail lending book quality, a reduction in loans and advances to banks and a reduction in risk weights for small and medium-sized enterprises (SMEs) in line with Regulation 2020/873. Further detail is included in the total regulatory capital table and risk weighted asset table on pages 67 and 68.

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio of 34.5% (4 April 2020: 31.9%) above Nationwide's CET1 capital requirement of 13.1%. This includes a minimum CET1 capital requirement of 9.6% (Pillar 1 and Pillar 2A) and the CRD IV combined buffer requirements of 3.5% of RWAs.

Whilst the future economic impact of Covid-19 continues to be unclear, it is likely to lead to some RWA inflation and therefore a lower CET1 ratio in the medium term. Any increases in RWAs would also impact the Society's capital surpluses, but we would expect to maintain a surplus above the combined buffer requirement. Once the extended government support schemes announced in November 2020 end, we will better understand how individual members have been affected and the subsequent impact on risk-based ratios. 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.

## Solvency risk (continued)

On 27 June 2020, Regulation 2020/873 came into force amending CRR and CRR II in a number of areas in response to the Covid-19 pandemic, including an extension to the IFRS 9 relief on increases in Stage 1 and Stage 2 expected credit losses from 1 January 2020 for two years.

The Covid-19 package also brings forward the implementation date of the application of certain more favourable treatments that had previously been due to apply from June 2021. This includes a reduction in risk weights for exposures to SMEs and for infrastructure lending. The EBA has also published a final draft Regulatory Technical Standard providing additional rules on how the non-deduction of intangible software assets from CET1 capital resources will apply. Subject to implementation in the UK, which is expected by December 2020, the change would lead to an improvement in Nationwide's CET1 and leverage ratios of approximately 100bps and 20bps respectively.

Also included in the package was the option to apply a temporary prudential filter to neutralise the impact of volatility of central government debt on capital ratios. This allows 100% volatility relief during 2020 on unrealised gains and losses since 31 December 2019, for holdings of central government, regional government and public sector entity (PSE) debt. Nationwide has opted to apply the temporary treatment and as an unrealised gain was recognised in the period, an £8 million deduction to CET1 capital was applied.

CRD IV requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The UK leverage ratio increased to 5.0% (4 April 2020: 4.7%) as a result of an increase in Tier 1 capital of £1.2 billion, driven by an issuance of £0.7 billion of AT1 capital instruments in June 2020 and the CET1 capital movements referenced earlier. Partially offsetting the impact of this, there was an increase in UK leverage exposure of £7.7 billion primarily as a result of net retail lending and treasury investments in the period. This position 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%. The buffer requirements reflects a 0% countercyclical leverage ratio buffer announced as part of the Bank of England responses to the impacts of Covid-19 made on 11 March 2020.

The CRR leverage ratio increased by 0.2%, closing at 4.6% (4 April 2020: 4.4%). Following the finalisation of the Covid-19 banking package, the European Central Bank (ECB) exercised regulatory discretion declaring exceptional circumstances exist, which allows firms under its direct supervision to benefit from the temporary exclusion of certain exposures to central banks from the total CRR leverage exposure measure. As Nationwide is not directly supervised by the ECB, the exclusion is not applied.

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 mortgage model changes, proposed mortgage risk weight floors 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 Interim Pillar 3 Disclosure September 2020 at **[nationwide.co.uk](https://www.nationwide.co.uk)**

## Risk report (continued)

## Solvency risk (continued)

The table below reconciles the general reserve to total regulatory capital on an end point basis and so does not include non-qualifying instruments.

<b>Total regulatory capital</b>		
	<b>30 September</b>	<b>4 April</b>
	<b>£m</b>	<b>£m</b>
General reserve	<b>10,936</b>	10,749
Core capital deferred shares (CCDS)	<b>1,329</b>	1,325
Revaluation reserve	<b>36</b>	48
FVOCI reserve	<b>44</b>	(17)
Regulatory adjustments and deductions:		
FVOCI reserve temporary relief (note i)	<b>(8)</b>	-
Foreseeable distributions (note ii)	<b>(70)</b>	(61)
Prudent valuation adjustment (note iii)	<b>(30)</b>	(54)
Own credit and debit valuation adjustments (note iv)	<b>(3)</b>	(3)
Intangible assets (note v)	<b>(1,127)</b>	(1,200)
Goodwill (note v)	<b>(12)</b>	(12)
Defined-benefit pension fund assets (note v)	<b>(150)</b>	(190)
Excess of regulatory expected losses over impairment provisions (note vi)	<b>(1)</b>	-
IFRS 9 transitional arrangements (note vii)	<b>188</b>	80
Total regulatory adjustments and deductions	<b>(1,213)</b>	(1,440)
<b>Common Equity Tier 1 capital</b>	<b>11,132</b>	10,665
Additional Tier 1 capital securities (AT1)	<b>1,336</b>	593
<b>Total Tier 1 capital</b>	<b>12,468</b>	11,258
Dated subordinated debt (notes viii)	<b>3,129</b>	3,265
Excess of impairment provisions over regulatory expected losses (note vi)	<b>140</b>	113
IFRS9 transitional arrangements (note vii)	<b>(140)</b>	(58)
<b>Tier 2 capital</b>	<b>3,129</b>	3,320
<b>Total regulatory capital</b>	<b>15,597</b>	14,578

## Notes:

- i. Includes temporary relief to mitigate the impact of volatility in central government debt on capital ratios, in line with the Covid-19 banking package.
- ii. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
- iii. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
- iv. 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, as per CRD IV rules.
- v. Intangible, goodwill and defined-benefit pension fund assets are deducted from capital resources after netting associated deferred tax liabilities.
- vi. 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.
- vii. The transitional adjustments to capital resources apply scaled relief due to the impact of the introduction of IFRS 9 and increases in expected credit losses due to the Covid-19 pandemic. Further detail regarding these adjustments is provided in the Interim Pillar 3 Disclosure September 2020 at [nationwide.co.uk](http://nationwide.co.uk)
- viii. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

## Risk report (continued)

## 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.

At 30 September 2020, total MREL resources were equal to 8.5% (4 April 2020: 8.4%) of UK leverage ratio exposure in excess of 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.

<b>Risk weighted assets</b>						
	<b>30 September 2020</b>			<b>4 April 2020</b>		
	<b>Credit Risk (note i)</b>	<b>Operational Risk (note ii)</b>	<b>Total Risk Weighted Assets</b>	<b>Credit Risk (note i)</b>	<b>Operational Risk (note ii)</b>	<b>Total Risk Weighted Assets</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Retail mortgages	14,390	3,145	17,535	14,498	3,145	17,643
Retail unsecured lending	5,683	887	6,570	6,029	887	6,916
Commercial loans	2,899	143	3,042	3,183	143	3,326
Treasury	1,375	305	1,680	1,541	304	1,845
Counterparty credit risk (note iii)	1,464	-	1,464	1,619	-	1,619
Other (note iv)	1,676	266	1,942	1,783	267	2,050
<b>Total</b>	<b>27,487</b>	<b>4,746</b>	<b>32,233</b>	<b>28,653</b>	<b>4,746</b>	<b>33,399</b>

## Notes:

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

RWAs reduced by £1.2 billion, partially due to a reduction in the Probability of Default (PD) and Loss Given Default (LGD) rates associated with existing retail mortgage and unsecured lending. In addition, there was a reduction in loans and advances to banks and a reduction in commercial loan RWAs due to the application of more favourable treatments for SME and infrastructure lending in line with Regulation 2020/873.

More detailed analysis of RWAs is included in the Group's Interim Pillar 3 Disclosure September 2020 at [nationwide.co.uk](https://www.nationwide.co.uk)

## Risk report (continued)

### Solvency risk (continued)

#### 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 resulting change.

New residential mortgage IRB models will be submitted to the PRA for approval in 2021 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 reflect the PRA's approach to implementing the European Banking Authority's (EBA's) recommendations relating to PD & 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. The PRA is currently consulting on the application of risk weight floors to mortgage assets (7% for individual loans and 10% for all UK residential mortgages to which the firm applies the IRB approach), also to be implemented in January 2022. It is currently estimated that the impact of these new model changes, together with the 7% risk weight floor, will be to 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 and will lead to a significant increase in the Group's RWAs relative to both the current position and that expected under the new mortgage IRB models, mainly due to the application of standardised floors for mortgages. Following the IRB model implementation and Basel III reforms, the ultimate impact on the reported CET1 ratio will be a reduction by half relative to the position at 30 September 2020. This impact is before organic earnings in the period to 2028 which will partly mitigate the reduction in the CET1 ratio. The Basel III 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. We are expecting the PRA to consult on the UK implementation of Basel 3.1 during the coming months.

### Market risk

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, 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 include interest rate risk, basis risk, swap spread risk, currency risk and product option risk. Nationwide's market risk appetite, risk management and reporting measures described in Annual report and Accounts 2020 are unchanged.

As part of the UK's response to Covid-19 the bank base rate has remained at a historic low of 0.1%. There is a risk that the bank base rate could be cut to zero or even negative in response to further possible economic deterioration from Covid-19 and other global market conditions. A rate cut would have an impact on Nationwide's net interest income (NII). As an illustration, a simple measure of income sensitivity over 12 months using a static balance sheet shows that a 0.25% policy rate cut could lead to a circa £100 million reduction in NII. This is mainly due to deposits that are assumed to have a floor of 0% so the full extent of a rate cut cannot be passed through to the savings members. This NII sensitivity is before management actions.

## Risk report (continued)

### Pension risk

Nationwide Building Society has funding obligations to defined benefit pension schemes, the most significant being the Nationwide Pension Fund (the Fund). Further information is set out in the Annual Report and Accounts 2020.

The Fund's net defined benefit pension surplus, which appears within assets on the balance sheet, has decreased from £294 million to £233 million since 4 April 2020. This was primarily driven by a decrease in the discount rate, which increases the liabilities relative to the assets. This was partially offset by a rise in the value of equities and illiquid assets held by the Fund, as market volatility reduced. Further information is included in note 15 to the consolidated interim financial statements.

The latest Triennial Valuation of the Fund, which has an effective date of 31 March 2019, has been concluded. A new Schedule of Contributions and Deficit Recovery Plan have been agreed with the Trustee. The next Triennial Valuation has an effective date of 31 March 2022.

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

A consultation on the future of RPI (the measure of UK inflation most widely used in financial markets) commenced in March 2020, with a response to be published in autumn 2020. An expected reduction in the gap between RPI and CPI was reflected in the calculation of the pension surplus at 4 April 2020. Any further change to the Fund's assets and liabilities will be considered as further information becomes available.

### Model risk

The Society relies on models to support a broad range of business and risk management activities. Examples include the use of model outputs in the credit approval process, capital and liquidity assessments, stress testing, financial planning, loss provisioning and pricing strategies.

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. Details of model risk can be found in the Risk report section of the Annual Report and Accounts 2020.

The consequences of Covid-19 have significantly heightened model risk across Nationwide. The historical economic data on which some models have been built and calibrated to operate has become less representative of the current environment and there are challenges regarding the relationship between economic assumptions and model outputs. In addition, some existing models were not designed to deal with the complexities arising from government support programmes and regulatory guidance on the treatment of members who have been impacted by the pandemic, such as the granting of payment holidays.

In the short term, a number of mitigating measures have been introduced, including enhanced model monitoring across key models, increased communication to ensure that management are aware of model weaknesses and limitations, and increased reliance on model adjustments based on expert judgement to ensure the models remain fit for use. There will be model changes and modifications to reflect the ongoing extreme economic shocks, but these will take time to develop and need more data on which models can be calibrated. As the pandemic and its impacts evolve, we continue to assess the extent of these changes and identify which models will require redevelopment.

## Operational and conduct risk

Nationwide's overall operational and conduct risk profile has remained relatively stable since 4 April 2020 but continues to be impacted by Covid-19. Nationwide was quick to invoke the highest level of risk management response to minimise the impact on its risk profile while continuing to provide the services members expect. We have transitioned our workplace to comply with Government Covid-19 guidance and, where appropriate, colleagues are working from home in a way which ensures the safety of colleagues and customers alike. We are also having to manage increases in demand such as those caused by payment holidays, which place increased pressure on operational controls. The main risks continue to relate to IT resilience and cyber security and, in line with other financial services organisations, we are seeing a significant increase in attempted fraud and cyber activity (in particular ransomware and phishing attacks). Nationwide continues to meet the high standards expected by members in the management of these risks. There is a focus on being safe, secure and dependable in order to ensure both service availability and customer data are protected.

In response to the financial and economic impact of Covid-19, governments and regulators have introduced a number of support measures to ensure customers are protected and markets continue to function well. The rapid introduction of these measures has a number of complex associated conduct considerations, which are likely to be heightened as support schemes are unwound. These conduct risk considerations primarily relate to the fair treatment of customers in financial difficulty. Nationwide is committed to ensuring the right customer outcomes are achieved in all circumstances.

In addition to the significant activity relating to the regulatory response to Covid-19, there continues to be a high volume of complex regulatory change impacting the financial services industry. Nationwide will actively engage with the regulators to respond to these complex regulatory changes and will continue to provide a secure and dependable variety of products and services which are designed to meet the needs of members and customers.

On 31 January 2020, the UK left the European Union and entered a 'transition period' which ends on 31 December 2020. As the UK works through this transition, both the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) are working to ensure a robust regulatory system is in place. Working with the Government, regulators have put in place a number of measures to minimise the potential for disruption, including temporary transitional powers and the temporary permissions regime. As Nationwide is a UK-domiciled and UK-focused building society, the proposals put forward by the regulators are not expected to have material implications for our business model, financial soundness, or ability to continue to provide service to our members. However, there remains a risk that we, along with some other UK-based building societies and banks, may no longer be able to provide financial services to our members living in certain EU or EEA countries. We continue to monitor both political and regulatory developments to ensure we continue to provide services to our members where possible, and we continue to prepare for all potential outcomes.

# Consolidated interim financial statements

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# Consolidated income statement

(Unaudited)

		Half year to 30 September 2020	Half year to 30 September 2019
	Notes	£m	£m
Interest receivable and similar income/(expense):			
Calculated using the effective interest rate method	3	2,010	2,559
Other	3	(4)	(15)
Total interest receivable and similar income/(expense)	3	2,006	2,544
Interest expense and similar charges	4	(558)	(1,159)
<b>Net interest income</b>		<b>1,448</b>	<b>1,385</b>
Fee and commission income		180	216
Fee and commission expense		(113)	(126)
Other operating (expense)/income	5	(12)	66
Gains from derivatives and hedge accounting	6	56	2
<b>Total income</b>		<b>1,559</b>	<b>1,543</b>
Administrative expenses	7	(1,033)	(1,125)
Impairment losses on loans and advances to customers	8	(139)	(57)
Provisions for liabilities and charges	13	(26)	(52)
<b>Profit before tax</b>		<b>361</b>	<b>309</b>
Taxation	9	(80)	(75)
<b>Profit after tax</b>		<b>281</b>	<b>234</b>

The notes on pages 78 to 101 form part of these consolidated interim financial statements.

# Consolidated statement of comprehensive income

(Unaudited)

		Half year to 30 September 2020	Half year to 30 September 2019
	Notes	£m	£m
<b>Profit after tax</b>		<b>281</b>	234
<b>Other comprehensive (expense)/income</b>			
<b>Items that will not be reclassified to the income statement</b>			
Remeasurements of retirement benefit obligations:			
Retirement benefit remeasurements before tax	15	(55)	(68)
Taxation		20	18
		(35)	(50)
Revaluation of property:			
Revaluation before tax		(10)	-
Taxation		5	-
		(5)	-
<b>Items that may subsequently be reclassified to the income statement</b>			
Cash flow hedge reserve			
Fair value movements taken to members' interests and equity		(29)	7
Amount transferred to income statement		(32)	(31)
Taxation		16	5
		(45)	(19)
Other hedging reserve			
Fair value movements taken to members' interests and equity		(1)	19
Taxation		-	(4)
		(1)	15
Fair value through other comprehensive income reserve:			
Fair value movements taken to members' interests and equity		132	(15)
Amount transferred to income statement		(40)	(34)
Taxation		(25)	12
		67	(37)
<b>Other comprehensive expense</b>		<b>(19)</b>	(91)
<b>Total comprehensive income</b>		<b>262</b>	143

The notes on pages 78 to 101 form part of these consolidated interim financial statements.

# Consolidated balance sheet

(Unaudited)

		30 September 2020	4 April 2020
	Notes	£m	£m
<b>Assets</b>			
Cash		21,045	13,748
Loans and advances to banks and similar institutions		3,546	3,636
Investment securities		23,977	20,004
Derivative financial instruments		4,391	4,771
Fair value adjustment for portfolio hedged risk		1,929	1,774
Loans and advances to customers	10	201,962	200,978
Intangible assets		1,161	1,239
Property, plant and equipment		1,107	1,172
Accrued income and prepaid expenses		194	205
Deferred tax		62	76
Current tax assets		-	65
Other assets		71	79
Retirement benefit assets	15	233	294
<b>Total assets</b>		<b>259,678</b>	<b>248,041</b>
<b>Liabilities</b>			
Shares		160,953	159,691
Deposits from banks and similar institutions		28,225	21,812
Other deposits		7,671	4,482
Fair value adjustment for portfolio hedged risk		34	29
Debt securities in issue		37,422	35,963
Derivative financial instruments		1,653	1,924
Other liabilities		648	915
Provisions for liabilities and charges	13	157	176
Accruals and deferred income		236	310
Subordinated liabilities		8,348	9,317
Subscribed capital		252	253
Deferred tax		167	207
Current tax liabilities		13	-
<b>Total liabilities</b>		<b>245,779</b>	<b>235,079</b>
<b>Members' interests and equity</b>			
Core capital deferred shares		1,329	1,325
Other equity instruments		1,336	593
General reserve		10,936	10,749
Revaluation reserve		36	48
Cash flow hedge reserve		261	306
Other hedging reserve		(43)	(42)
Fair value through other comprehensive income reserve		44	(17)
<b>Total members' interests and equity</b>		<b>13,899</b>	<b>12,962</b>
<b>Total members' interests, equity and liabilities</b>		<b>259,678</b>	<b>248,041</b>

The notes on pages 78 to 101 form part of these consolidated interim financial statements.

# Consolidated statement of movements in members' interests and equity

(Unaudited)

For the period ended 30 September 2020								
	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020	1,325	593	10,749	48	306	(42)	(17)	12,962
Profit for the period	-	-	281	-	-	-	-	281
Net remeasurements of retirement benefit obligations	-	-	(35)	-	-	-	-	(35)
Net revaluation of property	-	-	-	(5)	-	-	-	(5)
Net movement in cash flow hedge reserve	-	-	-	-	(45)	-	-	(45)
Net movement in other hedging reserve	-	-	-	-	-	(1)	-	(1)
Net movement in FVOCI reserve	-	-	-	-	-	-	67	67
<b>Total comprehensive income</b>	-	-	246	(5)	(45)	(1)	67	262
Reserve transfer	-	-	13	(7)	-	-	(6)	-
Issuance of core capital deferred shares	4	-	-	-	-	-	-	4
Issuance of Additional Tier 1 capital	-	743	-	-	-	-	-	743
Distribution to the holders of core capital deferred shares	-	-	(54)	-	-	-	-	(54)
Distribution to the holders of Additional Tier 1 capital	-	-	(18)	-	-	-	-	(18)
<b>At 30 September 2020</b>	<b>1,329</b>	<b>1,336</b>	<b>10,936</b>	<b>36</b>	<b>261</b>	<b>(43)</b>	<b>44</b>	<b>13,899</b>

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

The notes on pages 78 to 101 form part of these consolidated interim financial statements.

# Consolidated cash flow statement

(Unaudited)

		Half year to 30 September 2020	Half year to 30 September 2019 (note i)
	Notes	£m	£m
<b>Cash flows generated from/(used in) operating activities</b>			
Profit before tax		361	309
Adjustments for:			
Non-cash items included in profit before tax	17	448	389
Changes in operating assets and liabilities	17	10,656	3,647
Taxation		(11)	(181)
<b>Net cash flows generated from operating activities</b>		<b>11,454</b>	<b>4,164</b>
<b>Cash flows (used in)/generated from investing activities</b>			
Purchase of investment securities		(8,665)	(5,873)
Sale and maturity of investment securities		4,697	6,159
Purchase of property, plant and equipment		(68)	(103)
Sale of property, plant and equipment		10	23
Purchase of intangible assets		(104)	(210)
<b>Net cash flows used in investing activities</b>		<b>(4,130)</b>	<b>(4)</b>
<b>Cash flows (used in)/generated from financing activities</b>			
Distributions paid to the holders of core capital deferred shares		(54)	(54)
Distributions paid to the holders of Additional Tier 1 capital		(18)	(34)
Issue of Additional Tier 1 capital		743	593
Issue of core capital deferred shares		4	-
Redemption of Additional Tier 1 capital		-	(1,000)
Issue of subordinated liabilities		-	1,603
Redemption of subordinated liabilities		(683)	-
Interest paid on subordinated liabilities		(96)	(91)
Interest paid on subscribed capital		(3)	(3)
Repayment of lease liabilities		(14)	(13)
<b>Net cash flows (used in)/generated from financing activities</b>		<b>(121)</b>	<b>1,001</b>
Effect of exchange rate changes on cash and cash equivalents		(8)	32
<b>Net increase in cash and cash equivalents</b>		<b>7,195</b>	<b>5,193</b>
Cash and cash equivalents at start of year		14,474	13,874
<b>Cash and cash equivalents at end of year</b>	17	<b>21,669</b>	<b>19,067</b>

Note:

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

The notes on pages 78 to 101 form part of these consolidated interim financial statements.

# Notes to the consolidated interim financial statements

## 1. General information and reporting period

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

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

There were no material changes in the composition of the Group in the half year to 30 September 2020.

These condensed consolidated interim financial statements ('consolidated interim financial statements') have been prepared as at 30 September 2020 and show the financial performance for the period from, and including, 5 April 2020 to this date. They were approved for issue on 19 November 2020.

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

## 2. Basis of preparation

The consolidated interim financial statements of the Group for the half year ended 30 September 2020 have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard (IAS) 34 'Interim Financial Reporting' as adopted by the EU. The consolidated interim financial statements should be read in conjunction with the Group's annual financial statements for the year ended 4 April 2020, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

Terminology used in these consolidated interim financial statements is consistent with that used in the Annual Report and Accounts 2020. Copies of the Annual Report and Accounts 2020 and Glossary are available on the Group's website at [nationwide.co.uk](https://www.nationwide.co.uk)

## Accounting policies

The accounting policies adopted by the Group in the preparation of these consolidated interim financial statements and those which the Group currently expects to adopt in the Annual Report and Accounts 2021 are consistent with those disclosed in the Annual Report and Accounts 2020, except as outlined below.

### ***Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

In August 2020, the IASB issued amendments arising from Phase 2 of its work on Interest Rate Benchmark Reform. The amendments focus on the accounting for the replacement of existing benchmark interest rates, and provides relief allowing entities:

- not to recognise significant modification gains or losses on financial instruments if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis; and
- continue existing hedging relationships despite changes to hedge documentation for modifications required as a direct consequence of IBOR reform.

These amendments are applicable to the Group from 5 April 2021, with early adoption permitted. The Group has not adopted the amendments in these interim financial statements as they have not yet been endorsed by the EU.

## 2. Basis of preparation (continued)

### Cash flow statement presentation

As disclosed in the Annual Report and Accounts 2020, 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, a number of reclassifications and adjustments were made in the Annual Report and Accounts 2020 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.

As a result of the changes, comparatives for the half year to 30 September 2019 have been restated as shown opposite.

Comparatives included within the disclosure of the components of cash flows generated from/(used in) operating activities in note 17 have also been restated accordingly.

These changes had no impact on the Group's net assets or members' interests and equity at 30 September 2019.

Cash flow statement extract for the half year to 30 September 2019			
	Previously published	Adjustment	Restated
	£m	£m	£m
<b>Cash flows generated from/(used in) operating activities</b>			
Non-cash items included in profit before tax (notes i-iv)	806	(417)	389
Changes in operating assets and liabilities (notes i-vii)	2,001	1,646	3,647
<b>Cash flows generated from/(used in) investing activities</b>			
Sale and maturity of investment securities (notes ii and iv)	6,137	22	6,159
Purchase of property, plant and equipment (note vii)	(108)	5	(103)
<b>Cash flows generated from/(used in) financing activities</b>			
Issue of debt securities (note i)	25,770	(25,770)	-
Redemption of debt securities in issue (note i)	(23,962)	23,962	-
Interest paid on debt securities in issue (note i)	(219)	219	-
Interest paid on subordinated liabilities (note iv)	(145)	54	(91)
Interest paid on subscribed capital (note iv)	(7)	4	(3)
<b>Cash and cash equivalents</b>			
Effect of exchange rate changes on cash and cash equivalents (note v)	-	32	32
Cash and cash equivalents at start of period (note vi)	15,856	(1,982)	13,874
Cash and cash equivalents at end of period (note vi)	21,292	(2,225)	19,067

#### Notes:

- 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.
- 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 or losses on disposal.
- Reclassifications within cash flows from operations between categories of non-cash items and changes in operating assets and liabilities.
- 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.
- Separate presentation of the effects of exchange rate changes on cash and cash equivalents.
- Reclassification of certain collateral balances from cash equivalents to loans and advances to banks and similar institutions.
- In addition to the above changes, purchase of property, plant and equipment and changes in operating assets and liabilities have been restated for right-of-use assets recognised on adoption of IFRS 16.

## 2. Basis of preparation (continued)

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

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

Details of the significant judgements and estimates which are relevant to the Group, including any changes from those disclosed in the Annual Report and Accounts 2020, are disclosed in the relevant notes as follows:

- impairment provisions on loans and advances to customers (note 8)
- provisions for customer redress (note 13)
- retirement benefit obligations (pensions) (note 15).

### **Going concern**

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

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



## 3. Interest receivable and similar income

	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
On financial assets measured at amortised cost:		
Residential mortgages	2,080	2,246
Other loans	278	314
Other liquid assets	16	77
Investment securities	9	14
On investment securities measured at FVOCI	70	90
On financial instruments hedging assets in a qualifying hedge accounting relationship	(443)	(182)
<b>Total interest receivable and similar income calculated using the effective interest rate method</b>	<b>2,010</b>	<b>2,559</b>
Interest on net defined benefit pension surplus	3	-
Other interest and similar expense (note i)	(7)	(15)
<b>Total</b>	<b>2,006</b>	<b>2,544</b>

Note:

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

## 4. Interest expense and similar charges

	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
On shares held by individuals	301	678
On subscribed capital	7	7
On deposits and other borrowings:		
Subordinated liabilities	149	147
Other	27	121
On debt securities in issue	279	393
Net income on financial instruments hedging liabilities	(205)	(187)
<b>Total</b>	<b>558</b>	<b>1,159</b>

## 5. Other operating expense/income

	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
(Losses)/gains on financial assets measured at FVTPL	(1)	18
Gains on disposal of FVOCI investment securities	38	34
Other (expense)/income	(49)	14
<b>Total</b>	<b>(12)</b>	<b>66</b>

Other expense in the period to 30 September 2020 includes a £35 million loss realised from the repurchase of £2.0 billion of covered bonds that were issued under the Nationwide Covered Bond programme. Other (expense)/income for the current and prior period also includes fair value movements on balances relating to previous investment disposals, the net amount of rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialised buildings which are not recognised in other comprehensive income.

## 6. Gains from derivatives and hedge accounting

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

	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Gains from fair value hedge accounting	6	33
Losses from cash flow hedge accounting	-	(1)
Fair value gains/(losses) from other derivatives (note i)	50	(39)
Foreign exchange retranslation (note ii)	-	9
<b>Total</b>	<b>56</b>	<b>2</b>

### 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 £50 million (H1 2019/20: losses of £39 million) from other derivatives include gains of £45 million (H1 2019/20: losses of £5 million) caused by a narrowing of bid-offer spreads. These gains are largely a reversal of bid-offer spread losses reported in the Annual Report and Accounts 2020, which were caused by spreads widening at the end of the financial year as financial markets reacted to Covid-19.

## 7. Administrative expenses

	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Employee costs:		
Wages, salaries and bonuses	300	299
Social security costs	35	33
Pension costs	86	91
	421	423
Other administrative expenses	336	448
	757	871
Depreciation, amortisation and impairment	276	254
<b>Total</b>	<b>1,033</b>	<b>1,125</b>

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

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

Impairment losses/(reversals)		
	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Prime residential	23	2
Specialist residential	30	8
Consumer banking	84	58
Commercial lending	2	(11)
<b>Total</b>	<b>139</b>	<b>57</b>

Impairment provisions		
	30 September 2020	4 April 2020
	£m	£m
Prime residential	78	56
Specialist residential	224	196
Consumer banking	531	494
Commercial lending	42	40
<b>Total</b>	<b>875</b>	<b>786</b>

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

Provisions are based on a probability-weighted application of multiple economic scenarios (MES). The impact of applying MES is to increase provisions by £163 million (4 April 2020: £123 million), compared with provisions based on the central economic scenario. The economic scenarios used reflect the Group's view of the range of potential future economic conditions at the balance sheet date. We will continue to review the appropriateness of economic scenario assumptions during the second half of the year in light of the continued impact of the Covid-19 pandemic and associated government interventions. Further information is set out in the 'Use of forward-looking economic information' section below.

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

Other than the judgements and estimates detailed below, there have been no significant changes to those disclosed in the Annual Report and Accounts 2020.

#### ***Impact on expected credit losses of Covid-19***

As at 4 April 2020 an additional provision for credit losses totalling £101 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. This additional provision comprised £55 million in relation to revised economic assumptions, £39 million to reflect suppressed credit risk associated with payment deferrals, and £7 million in relation to commercial lending.

As at 30 September 2020, the economic scenarios and weightings have been updated to reflect management's latest judgement. The element of the additional provision relating to economic assumptions is now fully incorporated into the IFRS 9 model outputs. The additional provision for payment deferrals has now been refined and integrated into provision calculations. During the period, two new temporary management adjustments have been introduced to reflect the specific circumstances associated with the Covid-19 pandemic. Further information regarding these judgements is provided below.

#### *Provision for the impact of Covid-19 payment deferrals on retail lending*

Payment deferrals or other similar concessions have been offered on all retail products as a result of Covid-19. The Group recognises that in some cases borrowers will experience longer-term financial difficulty as a result of the pandemic, and additional ECLs have therefore been recognised in respect of borrowing with payment deferrals. Unlike other concessions granted to borrowers in financial difficulty, these payment deferrals have not been subject to detailed affordability assessments, and therefore the degree of financial difficulty experienced by the members and customers who apply for them requires estimation.

During the period, additional payment deferrals have been granted and the payment deferral schemes were extended for a further three months. For all retail portfolios the additional provision has been updated to reflect additional requests received during the period. Further analysis of the risk characteristics of the residential mortgage payment deferral population has been carried out using internal and external credit risk data, to estimate the proportion of loans judged to carry increased risk which may not be evident due to payment deferrals suppressing arrears. The probability of default has been increased where appropriate. For unsecured lending payment deferrals, the judgements used at 4 April 2020 remain appropriate. These changes have increased the total provision for this risk across all lending portfolios to £64 million (4 April 2020: £39 million). The extension to the payment holiday scheme and other measures announced by the Government in November 2020 has no impact on provisions at 30 September 2020 since it occurred after the reporting date, but this will be assessed for the full year results.

As a result of the approach to calculating the additional provision for payment deferrals, £1.5 billion of residential mortgages have transferred to stage 2 following an increase in the modelled probability of default. The analysis of portfolios by stage in the Credit risk section of the Risk report has been updated to include the staging outcomes for loans with payment deferrals.

#### *Management adjustments to reflect the specific circumstances of the Covid-19 pandemic*

The impact of Covid-19 on the UK economy is unprecedented, with its severity becoming increasingly observable during the period. The significant GDP fall, impact of government support and use of payment deferrals have created a unique combination of factors beyond the normal operating range of the IFRS 9 models. These factors have changed the historic relationships between economic variables, such as GDP and unemployment, and the subsequent expected defaults. Management has reviewed both modelling approaches and outcomes, with any necessary adjustments to ECL applied through the use of model adjustments or additional provisions, as outlined below. These are informed by a combination of historic experience and expert judgement.

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

### Judgements in applying accounting policies and critical accounting estimates (continued)

Firstly, the economic impacts of the pandemic have affected the interaction between GDP and consumer banking defaults. GDP is an input into our consumer banking ECL modelling, and the observed GDP fall would ordinarily be expected to result in an increase in defaults in the short term. However, due to government intervention and an element of GDP recovery, the increase in defaults is expected to be delayed. A change has therefore been made to increase the assumed time lag between GDP changes and defaults within the IFRS 9 models. Had this change not been made, the ECL on consumer banking portfolios would have been lower by £48 million. This change has been fully integrated into ECL calculations.

Furthermore, arrears balances across all products have reduced in the period between June and September 2020, leading to a reduction in modelled provisions. Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes and an adjustment has therefore been made to recognise the underlying risk, retaining provisions of £47 million (residential mortgages £16 million, consumer banking £31 million) which would have otherwise been released. This adjustment has not been allocated by loan and is not incorporated into staging outcomes or detailed credit risk disclosures and is therefore shown separately in the analysis of ECL in the Risk report.

### 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 quarterly. 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.

At 30 September 2020, the probability weightings for each scenario were reviewed and the probabilities allocated to the upside, central and downside scenarios were revised. The increase in the upside weighting reflects that this scenario now includes the impact of Covid-19, so includes more conservative economic assumptions than at 4 April 2020. The probabilities allocated to the central and downside scenarios reflect the uncertainty of the potential outcomes regarding both Covid-19 and Brexit trade negotiations. The probability weightings applied to the scenarios are shown in the table below.

Scenario probability weighting (%)				
	Upside scenario	Central scenario	Downside scenario	Severe downside scenario
30 September 2020	10	40	40	10
4 April 2020	5	50	35	10

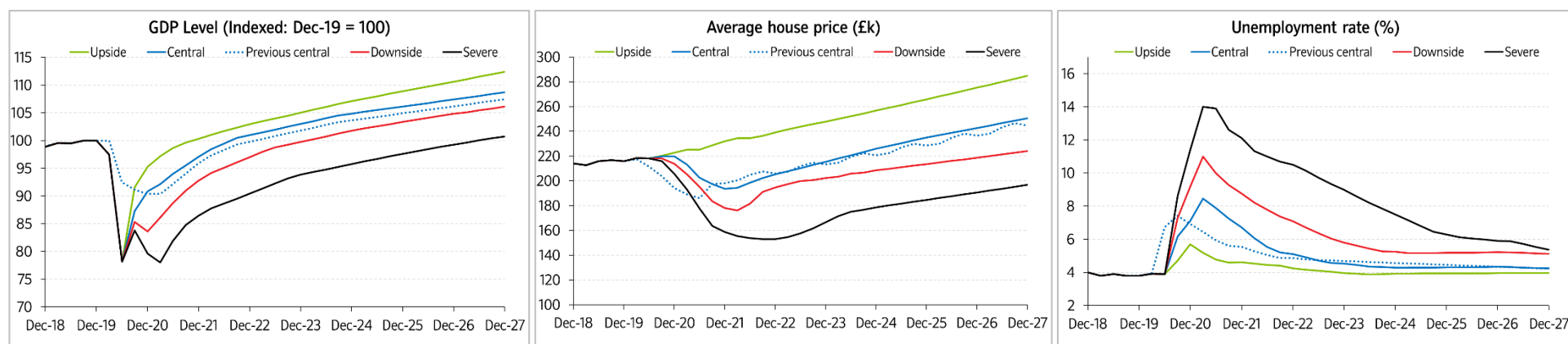
The impact of the severe downside scenario is calculated as an additional provision separately from the other three scenarios, using information from internal stress testing models to estimate the non-linear impacts that could arise from severe scenarios.

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

### Judgements in applying accounting policies and critical accounting estimates (continued)

All four economic scenarios now reflect the potential impact of Covid-19 to differing degrees, and this is particularly apparent for GDP where all scenarios now reflect the extreme falls in GDP during the first half of 2020. In the central scenario, at 30 September, GDP recovers to levels slightly higher than those used in the central scenario at 4 April 2020. For unemployment and HPI, the impacts are comparable to previous assumptions, albeit the adverse impacts are slightly delayed and the peak of unemployment is slightly higher at 8.5%. The bank base rate is forecast to remain at 0.1% across all forecast scenarios between 2020 and 2024, with the exception of the upside scenario, where an increase to 0.25% is forecast in 2024. The new downside scenario reflects both a higher peak level of unemployment and a more gradual recovery in the economy. The new severe downside scenario continues to be aligned with internal stress testing and reflects a severe and long-lasting impact on the UK economy. Both the downside and severe downside scenarios include a GDP reduction in Q4 2020.

The graphs below show the historical and forecast GDP level, average house price and unemployment rate for the Group's economic scenarios, including the previous central economic scenario.



## Notes to the consolidated interim financial statements (continued)

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

## Judgements in applying accounting policies and critical accounting estimates (continued)

The tables below provide a summary of the values of the key UK economic variables used within the economic scenarios over the first five years of the scenario.

Economic variables								
	Rate/annual growth rate at December 2020-2024					5-year average (note i) %	Start to peak (notes ii and iii) %	Start to trough (notes ii and iii) %
	2020 %	2021 %	2022 %	2023 %	2024 %			
<b>30 September 2020</b>								
<b>GDP growth</b>								
Upside scenario	(4.7)	5.3	2.6	2.0	2.0	1.4	7.2	(21.8)
Central scenario	(9.1)	6.8	4.1	2.0	1.8	1.0	4.9	(21.8)
Downside scenario	(16.4)	10.9	4.6	2.8	2.0	0.4	1.8	(21.8)
Severe downside scenario	(20.4)	8.6	4.6	3.8	2.0	(0.9)	(2.5)	(22.0)
<b>HPI growth</b>								
Upside scenario	3.1	4.3	3.0	3.7	3.5	3.5	18.9	1.1
Central scenario	1.8	(12.0)	6.1	4.9	4.9	0.9	4.6	(10.4)
Downside scenario	(0.9)	(16.8)	9.4	4.0	3.0	(0.7)	1.2	(18.4)
Severe downside scenario	(4.8)	(22.8)	(3.5)	8.8	7.2	(3.7)	1.2	(29.1)
<b>Unemployment</b>								
Upside scenario	5.7	4.6	4.2	4.0	3.9	4.4	5.7	3.9
Central scenario	7.1	6.7	5.1	4.5	4.3	5.5	8.5	4.0
Downside scenario	9.2	8.8	7.1	5.8	5.2	7.0	11.0	4.0
Severe downside scenario	11.4	12.1	10.5	9.0	7.5	9.7	14.0	4.0

	Rate/annual growth rate at December 2020-2024					5-year average (note i) %	Start to peak (notes ii and iii) %	Start to trough (notes ii and iii) %
	2020 %	2021 %	2022 %	2023 %	2024 %			
<b>4 April 2020</b>								
<b>GDP growth</b>								
Upside scenario	2.0	2.4	2.9	2.0	2.4	2.4	12.3	0.9
Central scenario	(9.6)	6.1	4.1	2.0	1.8	0.7	3.7	(9.6)
Downside scenario	0.4	(1.7)	1.2	1.6	1.7	0.7	3.4	(1.2)
Severe downside scenario	(4.7)	0.7	1.3	0.9	1.1	(0.2)	(0.4)	(4.7)
<b>HPI growth</b>								
Upside scenario	5.0	5.5	6.0	4.6	4.1	5.0	27.9	0.5
Central scenario	(10.0)	2.0	4.0	3.5	3.5	0.5	3.0	(13.8)
Downside scenario	(1.0)	(5.0)	(4.0)	0.0	1.4	(1.7)	(0.6)	(10.7)
Severe downside scenario	(11.1)	(16.4)	(8.9)	5.5	5.7	(5.5)	(1.0)	(32.4)
<b>Unemployment</b>								
Upside scenario	3.8	3.7	3.6	3.6	3.5	3.7	3.8	3.5
Central scenario	6.9	5.6	4.9	4.7	4.6	5.3	7.4	3.9
Downside scenario	4.4	5.7	6.0	5.8	5.7	5.4	6.0	3.8
Severe downside scenario	7.2	9.2	8.7	8.1	7.4	7.8	9.2	3.8

## Notes:

- The average rate for GDP and HPI is based on the cumulative annual growth rate over the forecast period. Average unemployment is calculated using a simple average using quarterly points.
- GDP growth and HPI are shown as the largest cumulative growth/fall from 31 December 2019 over the forecast period.
- The unemployment rate is shown as the highest/lowest rate over the forecast period from 31 December 2019.

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

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

<b>Sensitivity analysis impact of multiple economic scenarios</b>					
	<b>Upside scenario</b>	<b>Central scenario</b>	<b>Downside scenario</b>	<b>Severe downside scenario</b>	<b>Reported provision</b>
<b>30 September 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Residential mortgages	132	198	277	1,029	302
Consumer banking	442	474	505	922	531
Commercial lending	38	40	44	48	42
<b>Total</b>	<b>612</b>	<b>712</b>	<b>826</b>	<b>1,999</b>	<b>875</b>
<b>4 April 2020</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Residential mortgages	136	149	254	674	252
Consumer banking	432	438	466	736	494
Commercial lending	37	37	40	55	40
<b>Total</b>	<b>605</b>	<b>624</b>	<b>760</b>	<b>1,465</b>	<b>786</b>

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation 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 £61 million.



## Notes to the consolidated interim financial statements (continued)

## 9. Taxation

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

Reconciliation of tax charge		
	Half year to 30 September 2020	Half year to 30 September 2019
	£m	£m
Profit before tax:	361	309
Tax calculated at a tax rate of 19%	69	59
Tax credit on distribution to the holders of Additional Tier 1 capital	(9)	(4)
Banking surcharge	14	10
Expenses not deductible for tax purposes	8	9
Effect of deferred tax provided at different tax rates	(2)	1
<b>Tax charge</b>	<b>80</b>	<b>75</b>

## 10. Loans and advances to customers

	30 September 2020						4 April 2020					
	Loans held at amortised cost				Loans held at FVTPL	Total	Loans held at amortised cost				Loans held at FVTPL	Total
	Gross	Provisions	Other (note i)	Total			Gross	Provisions	Other (note i)	Total		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Prime residential mortgages	151,295	(78)	-	151,217	74	151,291	151,069	(56)	-	151,013	71	151,084
Specialist residential mortgages	39,294	(224)	-	39,070	-	39,070	37,699	(196)	-	37,503	-	37,503
Consumer banking	4,756	(531)	-	4,225	-	4,225	4,994	(494)	-	4,500	-	4,500
Commercial lending	6,665	(42)	701	7,324	52	7,376	7,133	(40)	741	7,834	57	7,891
<b>Total</b>	<b>202,010</b>	<b>(875)</b>	<b>701</b>	<b>201,836</b>	<b>126</b>	<b>201,962</b>	<b>200,895</b>	<b>(786)</b>	<b>741</b>	<b>200,850</b>	<b>128</b>	<b>200,978</b>

Note:

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

## Notes to the consolidated interim financial statements (continued)

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

The table below summarises the movements in loans and advances to customers held at amortised cost, excluding the fair value adjustment for micro hedged risk. The lines within the tables are an aggregation of monthly movements over the period. Residential mortgages represent the majority of the Group's loans and advances to customers. A table summarising these movements for the Group's residential mortgages is presented in the Credit risk section of the Risk report.

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)		Total	
	Subject to 12 month ECL		Subject to lifetime ECL		Subject to lifetime ECL			
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020 (note vii)	188,403	75	10,690	269	1,802	341	200,895	786
Stage transfers:								
Transfers from stage 1 to stage 2	(7,717)	(30)	7,717	30	-	-	-	-
Transfers to stage 3	(121)	-	(374)	(60)	495	60	-	-
Transfers from stage 2 to stage 1	9,031	148	(9,031)	(148)	-	-	-	-
Transfers from stage 3	118	-	258	15	(376)	(15)	-	-
Net remeasurement of ECL arising from transfer of stage		(114)		184		-		70
Net movement arising from transfer of stage (note ii)	1,311	4	(1,430)	21	119	45	-	70
New assets originated or purchased (note iii)	14,217	25	-	-	-	-	14,217	25
Further lending/repayments (note iv)	(4,040)	(26)	(43)	(14)	(16)	(9)	(4,099)	(49)
Changes in risk parameters in relation to credit quality (note v)	-	40	-	89	-	32	-	161
Other items impacting income statement charge/(reversal) including recoveries	-	-	-	-	-	(5)	-	(5)
Redemptions (note vi)	(8,445)	(2)	(380)	(5)	(119)	(2)	(8,944)	(9)
Removal of year-end additional provision for Covid-19 (note vii)								(101)
Additional provision adjustment (note viii)								47
Income statement charge for the period								139
Decrease due to write-offs	-	-	-	-	(59)	(55)	(59)	(55)
Other provision movements	-	-	-	-	-	5	-	5
At 30 September 2020	191,446	116	8,837	360	1,727	352	202,010	875
Net carrying amount		191,330		8,477		1,375		201,135

## Notes to the consolidated interim financial statements (continued)

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

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

## Notes:

- i. Gross balances of credit impaired loans include £152 million (4 April 2020: £155 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £6 million (4 April 2020: £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. At 4 April 2020, an additional provision for credit losses of £101 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans nor was it attributed to stages. During the period, this provision has been allocated to underlying loans and is reflected in the movements within the table and the 30 September 2020 position.
- viii. At 30 September 2020, an additional provision adjustment of £47 million has been introduced to reflect challenges in estimating ECLs during the Covid-19 pandemic. This additional provision adjustment 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 provision adjustment is included in note 8.

## Notes to the consolidated interim financial statements (continued)

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

IFRS 13 requires an entity to classify assets and liabilities held at fair value, and those not measured at fair value but for which the fair value is disclosed, according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined in note 1 of the Annual Report and Accounts 2020.

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

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

	30 September 2020				4 April 2020			
	Fair values based on				Fair values based on			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>								
Government and supranational investments	19,809	-	-	19,809	15,897	-	-	15,897
Other debt investment securities	1,756	791	6	2,553	1,583	881	5	2,469
Investments in equity shares	-	-	21	21	-	-	13	13
<b>Total investment securities (note i)</b>	<b>21,565</b>	<b>791</b>	<b>27</b>	<b>22,383</b>	<b>17,480</b>	<b>881</b>	<b>18</b>	<b>18,379</b>
Interest rate swaps	-	1,664	-	1,664	-	1,593	-	1,593
Cross currency interest rate swaps	-	2,586	-	2,586	-	3,005	-	3,005
Foreign exchange swaps	-	90	-	90	-	126	-	126
Inflation swaps	-	-	51	51	-	46	-	46
Bond futures	-	-	-	-	-	1	-	1
<b>Total derivative financial instruments</b>	<b>-</b>	<b>4,340</b>	<b>51</b>	<b>4,391</b>	<b>-</b>	<b>4,771</b>	<b>-</b>	<b>4,771</b>
Loans and advances to customers	-	-	126	126	-	-	128	128
<b>Total financial assets</b>	<b>21,565</b>	<b>5,131</b>	<b>204</b>	<b>26,900</b>	<b>17,480</b>	<b>5,652</b>	<b>146</b>	<b>23,278</b>
<b>Financial liabilities</b>								
Interest rate swaps	-	(1,114)	-	(1,114)	-	(1,179)	-	(1,179)
Cross currency interest rate swaps	-	(386)	-	(386)	-	(549)	-	(549)
Foreign exchange swaps	-	(37)	-	(37)	-	(44)	-	(44)
Inflation swaps	-	-	(116)	(116)	-	(52)	-	(52)
Bond forwards	-	-	-	-	-	(94)	-	(94)
Swaptions	-	-	-	-	-	(6)	-	(6)
<b>Total derivative financial instruments</b>	<b>-</b>	<b>(1,537)</b>	<b>(116)</b>	<b>(1,653)</b>	<b>-</b>	<b>(1,924)</b>	<b>-</b>	<b>(1,924)</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>(1,537)</b>	<b>(116)</b>	<b>(1,653)</b>	<b>-</b>	<b>(1,924)</b>	<b>-</b>	<b>(1,924)</b>

Note:

i. Investment securities shown here exclude £1,594 million of investment securities held at amortised cost (4 April 2020: £1,625 million).

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

### Transfers between fair value hierarchies

Instruments may move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to their valuation, and are recognised at the date of the event or change in circumstances which caused the transfer. There were no significant transfers between Level 1 and Level 2 during the period. £51 million of inflation swap derivative assets and £116 million of inflation swap derivative liabilities were transferred from Level 2 to Level 3 as detailed below.

### Level 1 and Level 2 portfolios

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

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

### Level 3 portfolio

The Group's Level 3 portfolio consists of:

- certain loans and advances to customers, including a closed portfolio of residential mortgages and a small number of commercial loans;
- certain investment securities, comprising primarily investments made in Fintech companies; and
- inflation swaps.

### Inflation swaps

Inflation swaps are used to hedge the Group's investments in index-linked government debt. Adjustments to the inflation curve to reflect seasonality in inflation index publications is required to determine a valuation; however, unlike most derivative valuation inputs, this market data is not available and therefore the input is internally derived rather than observable. During the period, the Group began transacting Euro and US Dollar inflation swaps, for which seasonality is a more significant input than for equivalent sterling swaps. As a result, seasonality has become significant to the valuation of the inflation swap portfolio as a whole, and this has therefore been transferred from Level 2 to Level 3.

## Notes to the consolidated interim financial statements (continued)

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

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 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 members' interests and equity.

Sensitivity of Level 3 fair values on inflation swaps			
	30 September 2020		
	Members' interests and equity		
	Fair value	Favourable changes	Unfavourable changes
	£m	£m	£m
Derivative financial instruments – assets (note i)	51	2	(2)
Derivative financial instruments – liabilities (note i)	(116)	37	(37)

Note:

i. These derivative financial instruments are included in hedge accounting relationships and therefore movements are generally recognised in the fair value through other comprehensive income reserve.

The following table shows the significant unobservable inputs underlying the above alternative assumptions for inflation swaps, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

Significant unobservable inputs on inflation swaps								
	2020							
	Total assets	Total liabilities	Valuation technique	Significant unobservable inputs	Range (note i)		Weighted average (note ii)	Units
	£m	£m						
Derivative financial instruments	51	(116)	Discounted cash flows	Seasonality	0.00	0.90	0.24	%

Notes:

i. The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the previous table.

ii. Weighted average represents the input values used in calculating the fair values for the above financial instruments.

### Seasonality

An inflation swap curve is built using inflation swap quotes to forecast the UK retail price index and EU and US consumer price indices. This curve is used to calculate future cash flows. While these instruments give a good indication of annual growth in inflation, monthly index fixings throughout the year tend to behave differently and so the inflation swap curve is adjusted for this seasonality accordingly. The higher the seasonality, the greater the adjustment to the inflation swap curve.

## Notes to the consolidated interim financial statements (continued)

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

Valuation methodologies employed in calculating the fair value of financial assets and liabilities measured at amortised cost are consistent with those disclosed in the Annual Report and Accounts 2020.

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

<b>Fair value of financial assets and liabilities measured at amortised cost (note i)</b>				
	<b>30 September 2020</b>		<b>4 April 2020</b>	
	<b>Carrying value</b>	<b>Fair value</b>	Carrying value	Fair value
	<b>£m</b>	<b>£m</b>	£m	£m
<b>Financial assets</b>				
Loans and advances to banks and similar institutions	<b>3,546</b>	<b>3,546</b>	3,636	3,636
Investment securities	<b>1,594</b>	<b>1,591</b>	1,625	1,594
Loans and advances to customers:				
Residential mortgages	<b>190,287</b>	<b>192,747</b>	188,516	190,580
Consumer banking	<b>4,225</b>	<b>4,185</b>	4,500	4,452
Commercial lending	<b>7,324</b>	<b>7,255</b>	7,834	8,010
<b>Total</b>	<b>206,976</b>	<b>209,324</b>	206,111	208,272
<b>Financial liabilities</b>				
Shares	<b>160,953</b>	<b>161,139</b>	159,691	159,891
Deposits from banks and similar institutions	<b>28,225</b>	<b>28,226</b>	21,812	21,810
Other deposits	<b>7,671</b>	<b>7,671</b>	4,482	4,483
Debt securities in issue	<b>37,422</b>	<b>38,071</b>	35,963	36,014
Subordinated liabilities	<b>8,348</b>	<b>8,372</b>	9,317	8,658
Subscribed capital	<b>252</b>	<b>229</b>	253	230
<b>Total</b>	<b>242,871</b>	<b>243,708</b>	231,518	231,086

Note:

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

## 13. Provisions for liabilities and charges

	Bank levy	Customer redress	Other provisions	Total
	£m	£m	£m	£m
At 5 April 2020	30	114	32	176
Provisions utilised	(29)	(30)	(10)	(69)
Charge for the period	-	26	28	54
Release for the period	-	-	(4)	(4)
Net income statement charge (note i)	-	26	24	50
<b>At 30 September 2020</b>	<b>1</b>	<b>110</b>	<b>46</b>	<b>157</b>
At 4 April 2019	21	159	19	199
Adoption of IFRS 16 (note ii)	-	-	(2)	(2)
At 5 April 2019	21	159	17	197
Provisions utilised	(21)	(43)	(8)	(72)
Charge for the period	9	54	2	65
Release for the period	-	(2)	(1)	(3)
Net income statement charge (note i)	9	52	1	62
At 30 September 2019	9	168	10	187

## Notes:

- i. Of the net income statement charge of £50 million (H1 2019/20: charge of £62 million), a charge of £26 million (H1 2019/20: net charge of £52 million) relating to customer redress is included in provisions for liabilities and charges, and a net charge of £24 million (H1 2019/20: £10 million) relating to bank levy and other provisions is included in administrative expenses.
- ii. 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.

**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, quality control issues and 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 30 September 2020, the Group held provisions of £110 million (4 April 2020: £114 million) in relation to such customer redress matters.



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

### **Critical accounting estimates and judgements**

There is significant uncertainty in estimating the probability, timing and amount of any cash outflows associated with customer redress provisions.

#### *Provision for PPI*

At 30 September 2020, the Group held provisions of £59 million (4 April 2020: £51 million) in relation to PPI, bringing the cumulative cost of PPI to £495 million.

The Financial Conduct Authority's deadline for claims, which included enquiries from the Official Receiver, has now passed. The key areas of remaining uncertainty remain the average uphold rate and redress amounts for the claims received. If the average uphold rate of outstanding claims changed by 10%, the current provision would change by £5 million. If the average redress per outstanding claim increased by £100, the current provision would change by £1 million.

#### *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 £3 million. Provisions will be adjusted in future periods as further information becomes available.

### **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.

## 14. Contingent liabilities

The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position.

## 15. Retirement benefit obligations

The Group continues to operate two defined contribution schemes and a number of defined benefit pension arrangements, the most significant being the Nationwide Pension Fund (the Fund); further details are set out in note 30 of the Annual Report and Accounts 2020.

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 defined contribution Nationwide Group Personal Pension Plan (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).

### Defined benefit pension schemes

Retirement benefit obligations on the balance sheet		
	30 September 2020	4 April 2020
	£m	£m
Fair value of fund assets	7,194	6,530
Present value of funded obligations	(6,953)	(6,228)
Present value of unfunded obligations	(8)	(8)
<b>Surplus</b>	<b>233</b>	<b>294</b>

The principal actuarial assumptions used are as follows.

Principal actuarial assumptions		
	30 September 2020	4 April 2020
	%	%
Discount rate	1.65	1.95
Retail price index (RPI) inflation	2.85	2.60
Consumer price index (CPI) inflation	1.90	1.65
Future pension increases (maximum 5%)	2.75	2.55

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

## 15. Retirement benefit obligations (continued)

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

<b>Movements in net defined benefit asset/(liability)</b>		
	<b>Half year to 30 September 2020</b>	Half year to 30 September 2019
	<b>£m</b>	£m
Surplus/(deficit) at 5 April	294	(105)
Current service cost	<b>(37)</b>	(45)
Past service cost	<b>(2)</b>	2
Interest on net defined benefit asset	<b>3</b>	-
Return on assets greater than discount rate (note i)	<b>652</b>	663
Contributions by employer	<b>33</b>	94
Administrative expenses	<b>(3)</b>	(3)
Actuarial losses on defined benefit obligations (note i)	<b>(707)</b>	(731)
<b>Surplus/(deficit) at 30 September</b>	<b>233</b>	(125)

Note:

i. The net impact before tax on the deficit of actuarial losses and return on assets is a decrease of £55 million (H1 2019/20: £68 million decrease) in other comprehensive income.

The £652 million gain relating to the return on assets greater than the discount rate (H1 2019/20: £663 million) is primarily driven by increases in the value of UK government bonds, listed equities, private equity, infrastructure and property investments.

The £33 million of employer contributions relates to employer contributions in respect of future benefit accrual. There have not been any deficit contribution payments since year end (H1 2019/20: £61 million), as agreed with the Trustee in the latest Triennial Valuation.

The £707 million actuarial loss on defined benefit obligations (H1 2019/20: £731 million) is primarily driven by a 0.30% decrease in the discount rate since 4 April 2020 and a 0.25% increase in assumed RPI inflation, both of which increase the liabilities.

## Notes to the consolidated interim financial statements (continued)

## 16. Related party transactions

There were no related party transactions during the period ended 30 September 2020 which were significant to the Group's financial position or performance. Full details of the Group's related party transactions for the year to 4 April 2020 can be found in note 35 of the Annual Report and Accounts 2020.

## 17. Notes to the consolidated cash flow statement

Non-cash items included in profit before tax		
	Half year to 30 September 2020	Half year to 30 September 2019 (note i)
	£m	£m
Net increase in impairment provisions	89	20
Net decrease in provisions for liabilities and charges	(19)	(10)
Amortisation and losses/(gains) on investment securities (notes ii, iii)	23	(18)
Depreciation, amortisation and impairment	276	254
Profit on sale of property, plant and equipment	(1)	(3)
Loss on the revaluation of property, plant and equipment	8	-
Net charge in respect of retirement benefit obligations (note iii)	39	46
Interest on subordinated liabilities (note iv)	87	99
Interest on subscribed capital (note iv)	2	3
Gains from derivatives and hedge accounting	(56)	(2)
<b>Total</b>	<b>448</b>	<b>389</b>

## Notes to the consolidated interim financial statements (continued)

## 17. Notes to the consolidated cash flow statement (continued)

<b>Changes in operating assets and liabilities</b>		
	<b>Half year to 30 September 2020</b>	Half year to 30 September 2019 (note i)
	<b>£m</b>	<b>£m</b>
Loans and advances to banks and similar institutions (notes iii, vi)	(11)	(345)
Net derivative financial instruments (notes iii, iv, vii)	(72)	(73)
Loans and advances to customers (note iii)	(1,113)	(2,862)
Other operating assets (note iii)	25	(62)
Shares	1,262	2,486
Deposits from banks and similar institutions, customers and others (note iii)	9,689	2,478
Debt securities in issue (notes iii, v)	1,224	1,895
Contributions to defined benefit pension scheme (note iii)	(33)	(94)
Other operating liabilities (notes iii, viii)	(315)	224
<b>Total</b>	<b>10,656</b>	<b>3,647</b>
<b>Cash and cash equivalents</b>		
Cash	21,045	16,686
Loans and advances to banks and similar institutions repayable in 3 months or less (note vi)	624	2,381
<b>Total</b>	<b>21,669</b>	<b>19,067</b>

## Notes:

- i. Comparatives have been restated as detailed in note 2.
- 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 £108 million in total non-cash items included in profit before tax for the period ended 30 September 2019.
- 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 £136 million in total non-cash items included in profit before tax and a net decrease of £136 million in total changes in operating assets and liabilities for the period ended 30 September 2019.
- 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 £52 million in total non-cash items included in profit before tax and an increase of £80 million in total changes in operating assets and liabilities for the period ended 30 September 2019.
- 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 £393 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 £1,982 million in total changes in operating assets and liabilities for the period ended 30 September 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 a decrease of £243 million in total changes in operating assets and liabilities for the period ended 30 September 2019.
- vii. Separate presentation of the effects of exchange rate changes on cash and cash equivalents has resulted in a decrease of £32 million in total changes in operating assets and liabilities for the period ended 30 September 2019, where the effects were previously reported.
- viii. Other operating liabilities for the period ended 30 September 2019 has been restated by £5 million in respect of right-of-use assets recognised on adoption of IFRS 16.

The Group is required to maintain balances with the Bank of England which, at 30 September 2020, amounted to £1,401 million (30 September 2019: £1,307 million). These balances are included within loans and advances to banks and similar institutions on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

## Responsibility statement

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

- the consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the EU
- the Interim Results include a fair review of the information required by Disclosure Guidance and Transparency Rules 4.2.7R and 4.2.8R, namely:
  - An indication of important events that have occurred in the first six months of the financial year and their impact on the consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - Material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the Annual Report and Accounts 2020.

Signed on behalf of the Board by

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

19 November 2020

Board of directors

**Chairman**  
David Roberts

**Executive directors**  
Joe Garner  
Chris Rhodes

**Non-executive directors**  
Rita Clifton  
Mai Fyfield  
Albert Hitchcock  
Kevin Parry  
Tamara Rajah  
Phil Rivett  
Tim Tookey  
Gunn Waersted

## Independent review report to Nationwide Building Society

### Introduction

We have been engaged by Nationwide Building Society ('the Society') and its subsidiaries (together, 'the Group') to review the consolidated interim financial statements in the Interim Results for the period ended 30 September 2020 which comprise the consolidated balance sheet as at 30 September 2020 and the related income statement, statement of comprehensive income, statement of changes in members' interests and equity and cash flow statement for the six-month period then ended and explanatory notes. We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the consolidated interim financial statements.

This report is made solely to the Group in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group, for our work, for this report, or for the conclusions we have formed.

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

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

### Directors' responsibilities

The Interim Results are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The consolidated interim financial statements included in the Interim Results have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the EU.

### Our responsibility

Our responsibility is to express to the Group a conclusion on the consolidated interim financial statements in the Interim Results based on our review.

### Scope of review

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

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial statements in the Interim Results for the period ended 30 September 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the EU and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

## Other information

The Interim Results are unaudited and do not constitute accounts within the meaning of Section 73 of the Building Societies Act 1986.

The financial information for the year ended 4 April 2020 has been extracted from the Annual Report and Accounts 2020. The Annual Report and Accounts 2020 has been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Independent Auditors' Report on the Annual Report and Accounts 2020 was unqualified.

Nationwide has continued to adopt the Code for Financial Reporting Disclosure ('the code') published by the British Bankers' Association and subsequently adopted by UK Finance in its Annual Report and Accounts 2020. The code sets out five disclosure principles together with supporting guidance. These principles have been applied, as appropriate, in the context of the Interim Results.

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

## Contacts

### Media queries:

Sara Batchelor  
Mobile: +44 (0)7785 344 137  
[Sara.Batchelor@nationwide.co.uk](mailto:Sara.Batchelor@nationwide.co.uk)

Eden Black  
Mobile: +44 (0)7793 596 317  
[Eden.Black@nationwide.co.uk](mailto:Eden.Black@nationwide.co.uk)

### Investor queries:

Charles Wood  
Mobile: +44 (0)7500 999 612  
[Charles.Wood@nationwide.co.uk](mailto:Charles.Wood@nationwide.co.uk)

Carly Thomas  
Mobile: +44 (0)7464 491 600  
[Carly.Thomas@nationwide.co.uk](mailto:Carly.Thomas@nationwide.co.uk)