



**Pillar 3
Disclosure**

2017

15 million members building society, nationwide



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Certain statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable, Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. As a result, Nationwide’s actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward looking statements.

Nationwide undertakes no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

1 Executive summary

1.1 Introduction

We are a building society, a mutually-owned organisation. For over 130 years, mutuality has shaped who we are, defined what we do and informed how we do it. We were founded on the belief that ordinary people can achieve more together than they can on their own. Our first purpose was to help working people save so that they could buy their own home. It's a purpose that has been a golden thread throughout our history, and is as important today as it was when we were founded in 1884.

Our business model is straightforward: we provide a secure home for members to grow their savings, which in turn enables us to offer mortgages to buy their own homes. Complementing this, we provide current accounts enabling our members to take care of their day to day banking needs. We have a prudent attitude to risk and our business model is focused on the provision of retail financial services.

Our members are able to manage their money how they want, when they want, through our nationwide network of nearly 700 branches, by phone, online and through our mobile banking service. We believe in offering people the choice of the latest technology together with the personal touch so many value in a digital age.

We are bound by laws requiring at least 75% of lending assets to be loans secured on residential property and at least 50% of our total funding to come from members in the form of retail deposits. This requirement minimises the Society's risk exposure and ensures that our stakeholders' and members' interests are aligned.

Nationwide is the UK's second largest provider of mortgages and third largest provider of savings, with 12.9% market share of total retail mortgage balances and 10.1% market share of total retail deposit balances. Since beginning to offer current accounts in 1987, our market share of main standard and packaged current accounts has grown to 7.5% (2016: 7.1%).

In addition to our core products we offer a range of financial services to fulfil our members' needs, including a competitive range of credit cards, personal loans, home insurance, protection products and financial planning services. Following our strategic review during 2016/17 we concluded that our commercial real estate (CRE) business was not key to our members' interests and stopped new CRE lending. We continue to service existing CRE customers, registered social landlords and existing project finance customers. A strategic decision was also made to exit the Nationwide International deposit-taking business and to close our Republic of Ireland operations (Nationwide UK Ireland)

1.2 Summary of key metrics

Capital and leverage ratios have remained well in excess of regulatory requirements with a Common Equity Tier 1 (CET1) ratio of 25.4% (2016: 23.2%) and a UK leverage ratio of 4.4% (2016: 4.4%).

The CET1 ratio has increased, reflecting profit after tax for the period of £757 million, offset by an increase in the pension deficit which reduced the general reserve by £255 million. The total capital ratio increased to 36.1% (2016: 30.9%) due to the increase in profits and the issuance of \$1.25 billion of qualifying Tier 2 subordinated debt.

CRD IV requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The current regulatory threshold is set at 3%. Nationwide manages the risk of excessive leverage through regular monitoring and reporting of the leverage ratio, which forms part of its risk appetite.

Nationwide has been granted permission to report a UK leverage ratio on the basis of measurement announced by the PRA in August 2016. Minimum leverage requirements are monitored by the PRA on this basis. It is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, adjusted to exclude eligible central bank reserves.

The UK leverage ratio of 4.4% at 4 April 2017 (4 April 2016: 4.4%) and has remained stable as profits have broadly offset increases in both the pension deficit and UK leverage exposure, which was mainly driven by higher mortgage balances as a result of net lending in the year.

The CRR leverage ratio is calculated using the same definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure. The CRR leverage ratio remained at 4.2% (2016: 4.2%) as profits have broadly offset the increase in the pension deficit and the higher CRR leverage exposure, which was driven by increased mortgage balances and liquid assets.

At 4 April 2017, the Society's Liquidity Coverage Ratio (LCR) was 124.0% (4 April 2016: 142.6%). This LCR exceeds the current UK regulatory minimum requirement of 90% and reflects the Society's strategy of maintaining a LCR above 100%.

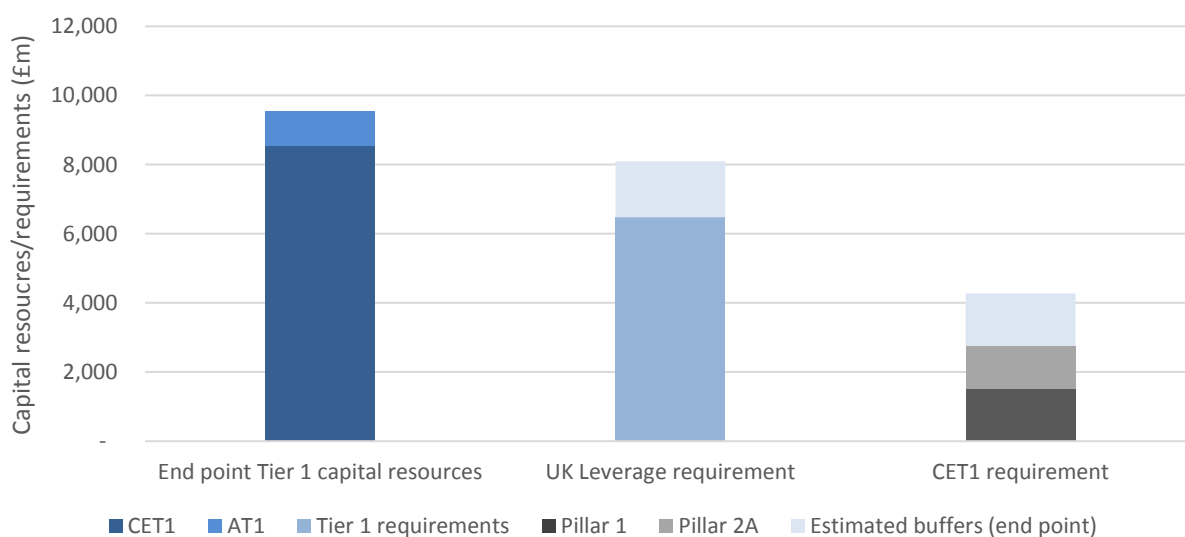
Full details concerning Nationwide's overall financial position can be found within the Annual Report and Accounts 2017, while a summary of the changes in our key capital ratios are illustrated on the following pages.

Table 1. Key metrics

	2017	2016
	£m	£m
Available capital		
Common Equity Tier 1 (CET1)	8,555	8,013
Tier 1	9,547	9,005
Total capital	12,129	10,654
	£m	£m
Total risk-weighted assets	33,641	34,475
	%	%
Risk-based capital ratios as a percentage of RWA		
Common Equity Tier 1 ratio	25.4	23.2
Tier 1 ratio	28.4	26.1
Total regulatory capital ratio	36.1	30.9
	£m / %	£m / %
UK leverage ratio		
UK leverage ratio exposure measure	215,894	204,346
UK leverage ratio	4.4	4.4
	£m / %	£m / %
CRR leverage ratio		
Total CRR leverage ratio exposure measure	228,428	213,181
CRR leverage ratio	4.2	4.2
	%	%
Liquidity coverage ratio	124.0	142.6

Capital resources and minimum requirements (2017)

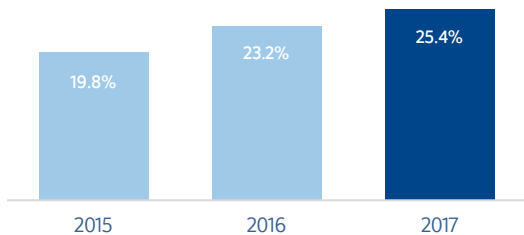
The chart illustrates the excess of capital resources over both risk-based and leverage requirements.



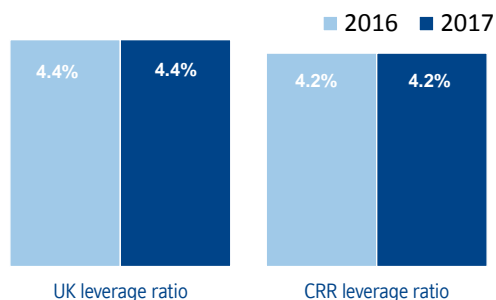
Note: There is a requirement that 75% of the UK Leverage requirements (including buffers) are met with CET1 capital.

Capital ratios:

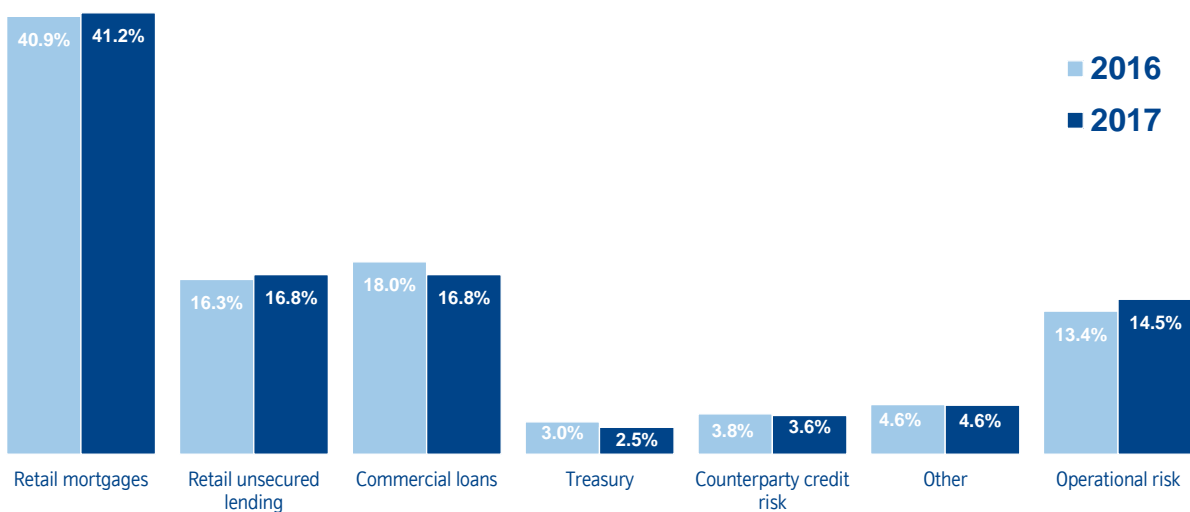
Common Equity Tier 1 (CET1) ratio



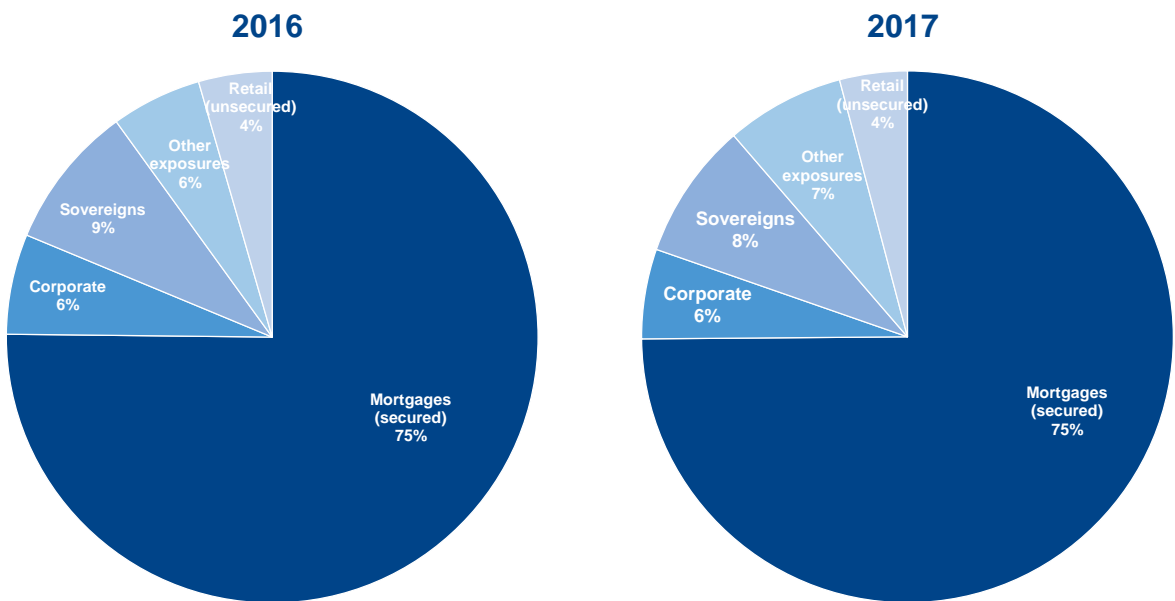
Leverage ratio



Risk-weighted assets percentage breakdown



Regulatory exposure breakdown¹



¹Note: the above charts are based on the regulatory exposure values used for calculating capital requirements, as shown in Table 13.

2 Introduction

2.1 Background

The European Union Capital Requirements Directive came into effect on 1 January 2007. This introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II accord. Following publication of the Basel III accord, this was replaced by the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (together referred to as CRD IV) which came into force on 1 January 2014 and is enforced in the UK, together with local implementing rules and guidance, by the Prudential Regulatory Authority (PRA). The rules include disclosure requirements known as 'Pillar 3' which apply to banks and building societies. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. See section 2.6 for details on how these disclosure rules are evolving.

In May 2008, the Financial Services Authority (FSA) granted Nationwide permission to use Internal Ratings Based (IRB) approaches for credit risk and capital management. This permission was updated to become a CRR IRB permission from 1 January 2014. The disclosures in this document are based on IRB approaches for certain portfolios and Standardised for the remainder of credit risks and operational risk, as detailed in section 4.2.

As a building society subject to the Building Societies Act, Nationwide does not have a trading book.

2.2 Scope

Nationwide's structure

Nationwide is a European Economic Area (EEA) parent institution that is regulated by the PRA and Financial Conduct Authority (FCA). The CRD IV framework therefore applies to Nationwide Building Society and its subsidiary undertakings (together, the 'Group').

There is a requirement to calculate and maintain regulatory capital ratios on both a Group basis and on an Individual consolidation (or Solo) basis. There are no differences between the basis of consolidation of the Group for accounting and prudential purposes. Full details of the principal subsidiary undertakings are included in the Annual Report and Accounts 2017, Note 36 to the financial statements,

The subsidiaries included on the Individual consolidation basis are:

- The Mortgage Works (UK) plc
- UCB Home Loans Corporation Limited
- Derbyshire Home Loans Limited
- E-Mex Home Funding Limited
- Nationwide Syndications Limited

All of the Society's subsidiaries are included in the data provided in our Pillar 3 disclosures, unless the data specifically relates to the Individual consolidated (or Solo) basis. See Section 2.4 for more information.

Nationwide currently has a branch in the Republic of Ireland (Nationwide UK Ireland) and a branch in the Isle of Man (Nationwide International) which are both retail deposit takers and are regulated by the Central Bank of Ireland and the Isle of Man Financial Services Authority respectively (Nationwide has announced the closure of its Isle of Man and Republic of Ireland operations). With those exceptions, the Group does not foresee any practical or legal impediments to the transfer of capital resources or the repayment of liabilities within the Group.

Basis and frequency of disclosures

This document sets out the 2017 Pillar 3 disclosures for Nationwide. The purpose of these disclosures is to give information on the basis of Basel III capital requirements and on the management of risks faced by Nationwide. This is in accordance with the rules laid out in the Capital Requirements Regulation (Part 8). The disclosures may differ from similar information in the Annual Report and Accounts 2017 which are prepared in accordance with International Financial Reporting Standards ('IFRS'). Therefore, the information in these disclosures may not be directly comparable with that information.

Unless otherwise stated, all figures are as at 4 April 2017, Nationwide's financial year end, with comparative figures for 4 April 2016 where relevant. Full Pillar 3 disclosures are published annually, and concurrently with the Annual Report and Accounts 2017 in accordance with regulatory guidelines. Summary Pillar 3 disclosures will be published quarterly and semi-annually concurrently with interim management statements and interim results respectively.

Regulatory balance sheet

These disclosures are produced on the same basis as Nationwide's accounting (IFRS) balance sheet – there are no entities that are derecognised from the accounting balance sheet for regulatory purposes. For further information please see Appendix 9.

2.3 Risk appetite

A number of tools are employed to support the management of solvency risk. The Board is responsible for setting risk appetite with respect to solvency risk, which is articulated through its risk appetite statements, and it defines minimum levels of capital ratios, including leverage, that it is willing to

operate with. These are translated into specific risk metrics, which are monitored by the Board Risk Committee, Assets and Liabilities Committee (ALCO) and other internal management committees.

The capital structure is managed to ensure that minimum regulatory requirements are met, as well as meeting the expectations of other key stakeholders and to maintain a robust financial position to protect our members. As part of the risk appetite framework, strong capital ratios are targeted relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the available for sale reserve and pension deficit) are all considered. Nationwide has a strategic target to maintain a UK leverage ratio of at least 4%.

2.4 Individual (Solo) consolidation

Nationwide calculates capital requirements on a Group and Solo basis. The Solo consolidation includes entities that meet certain criteria as set out in CRD IV and for Nationwide's represent only lending entities. The differences between the Group and Solo consolidations relate primarily to reserves held by entities that sit outside of the scope of Solo consolidation that are included in the Group consolidation, and a small impact from the risk weighted assets of these entities.

2.5 Reporting

Key aspects of Nationwide's capital position are reported monthly to the Board in Nationwide's Business Performance Pack. More detailed reports of capital and risk, including information by business stream, are considered monthly by the Capital Committee, a sub-committee of ALCO. Specific reports detailing capital by business stream are also included in the monthly packs of the risk committees as appropriate.

A range of Key Risk Indicators and Key Performance Indicators are routinely monitored (in both actual and forecast terms) by management and by the Board and its sub-committees (primarily Board Risk Committee and the Audit Committee) to ensure that appropriate actions can be taken should triggers be breached.

2.6 Changes to disclosure requirements

This disclosure includes 12 new templates, leading to 25 new tables, that have been prescribed within European Banking Authority (EBA) guidelines on disclosures and have been early adopted. These new tables are outlined in Appendix 11. The introduction of the guidelines is part of a larger exercise to make Pillar 3 disclosures more comparable and consistent across the industry. Additional tables set out in the EBA guidelines will be included in the 2018 Pillar 3 disclosure, in line with required disclosure timeframes set out within the guidelines.

2.7 Location and verification

These disclosures have been reviewed and approved by the Board Risk Committee and are published on Nationwide's website:

<http://www.nationwide.co.uk>

Nationwide has a formal policy in place which outlines how it complies with Pillar 3 disclosure requirements.

All figures disclosed within this document have been subject to internal verification. These disclosures have not been externally audited and do not constitute any part of Nationwide's financial statements.

3 Capital resources

3.1 Total available capital

At 4 April 2017 and throughout the financial year, Nationwide complied with the capital requirements that were in force as set out by European and national legislation. Nationwide continues to use an IRB approach, using its IRB models to calculate capital requirements. The PRA has confirmed that the original 2008 permission transferred to a CRR IRB permission from 1 January 2014. Section 4.2 outlines the scope of Nationwide's IRB permission and which portfolios are calculated under the Standardised Approach.

All disclosures are on an end point basis unless otherwise stated as the transitional provisions only relate to grandfathered Additional Tier 1 (AT1) and Tier 2 capital. The impact of these can be seen in Table 2, which shows the comparison between the end point and transitional arrangements. Our solo position can also be seen in Table 2.

3.2 Tier 1 capital

Tier 1 capital comprises:

- Core Capital Deferred Shares (CCDS);
- General reserves;
- Revaluation reserves;
- Available for sale reserve;
- Permanent Interest Bearing Shares (PIBS) - transitional basis only;
- Additional Tier 1 Capital; and
- Adjustments as set out by the regulatory requirements governing capital resources.

The general reserves represent accumulated accounting profits as well as deductions relating to any pension fund deficit and loss (below cost) on property revaluations.

3.3 Tier 2 capital

Tier 2 capital comprises:

- Qualifying subordinated notes;
- Qualifying PIBS;
- Grandfathered subordinated notes – transitional basis only;
- Collective impairment allowance (for exposures treated on the standardised basis); and
- Adjustments as set out by the regulatory requirements governing capital resources.

Subordinated notes are unsecured and rank behind the claims of all depositors, creditors and investing members (other than holders of PIBS, AT1 securities and CCDS) of the Society. More details of the subordinated notes are included in the Annual Report and Accounts 2017, Note 22 to the financial statements.

As part of its capital management strategy, £140 million of PIBS were called in December 2016. This transaction removed instruments that are not eligible as capital under end point CRD IV. Overall Tier 2 capital increased with the issuance of \$1.25 billion of qualifying Tier 2 subordinated debt, in line with plans to meet the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). Future liability management options and decisions with respect to capital calls may be made at Nationwide's discretion in light of prevailing market, economic and regulatory conditions.

Appendix 4 shows the key features of the capital instruments issued by the Group, and more information can be found in the Annual Report and Accounts 2017, Notes 34 to 35 to the financial statements.

Table 2 shows the composition of capital resources for the Group as at 4 April 2017 on a CRD IV basis, comparing this against the end point basis for Group and Solo (i.e. assuming all CRD IV requirements were in force in full with no transitional provisions permitted). See Appendix 3 for the full CRD IV disclosure template as published in the Official Journal of the European Union, 1423/2013.

Table 2. Capital composition

	Group End Point		Solo End Point		Group Transitional	
	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m
Common equity tier 1						
General reserve	9,316	8,921	9,366	8,940	9,316	8,921
Core capital deferred shares (CCDS)	531	531	531	531	531	531
Revaluation reserve	67	64	67	64	67	64
Foreseeable distributions ¹	(43)	(42)	(43)	(42)	(43)	(42)
Available for sale adjustment	44	(8)	44	(8)	44	(8)
Prudent valuation adjustment ²	(23)	(55)	(23)	(52)	(23)	(55)
Own credit valuation adjustments ³	-	(2)	-	(2)	-	(2)
Intangible assets ⁴	(1,174)	(1,120)	(1,174)	(1,120)	(1,174)	(1,120)
Goodwill ⁴	(12)	(12)	(12)	(12)	(12)	(12)
Excess of expected loss over impairment ⁵	(151)	(264)	(151)	(264)	(151)	(264)
Total common equity tier 1	8,555	8,013	8,605	8,035	8,555	8,013
Tier 1						
Additional Tier 1 (AT1) capital securities	992	992	992	992	992	992
Permanent Interest Bearing Shares (PIBS)	-	-	-	-	267	404
Total tier 1	9,547	9,005	9,597	9,027	9,814	9,409
Tier 2						
Subordinated debt ⁶	2,555	1,628	2,555	1,628	2,585	1,657
Collective impairment allowance	27	21	27	21	27	21
Total tier 2	2,582	1,649	2,582	1,649	2,612	1,678
Total capital	12,129	10,654	12,179	10,676	12,426	11,087
Risk weighted assets⁷						
Retail mortgages	13,863	14,086	13,863	14,086	13,863	14,086
Retail unsecured lending	5,641	5,621	5,641	5,621	5,641	5,621
Commercial loans	5,636	6,194	5,636	6,194	5,636	6,194
Treasury	849	1,039	842	1,019	849	1,039
Counterparty credit risk	1,221	1,296	1,221	1,296	1,221	1,296
Other	1,566	1,635	1,580	1,661	1,566	1,635
Operational risk	4,865	4,604	4,865	4,604	4,865	4,604
Market risk ⁸	-	-	-	-	-	-
Total risk weighted assets	33,641	34,475	33,648	34,481	33,641	34,475
Capital ratios						
Common equity tier 1 ratio	25.4	23.2	25.6	23.3	25.4	23.2
Tier 1 ratio	28.4	26.1	28.5	26.2	29.2	27.3
Total regulatory capital ratio	36.1	30.9	36.2	31.0	36.9	32.2

¹ Forseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.

² A prudent valuation adjustment is applied in respect of fair valued instruments with positive fair values as required under regulatory capital rules.

³ Own credit and debit valuation adjustments are applied to remove gains or losses of fair valued liabilities and derivatives with negative fair values that result from changes in Nationwide's own credit risk, in accordance with CRD IV rules.

⁴ Intangible assets and goodwill are required to be deducted from capital for regulatory purposes.

⁵ Under CRD IV the net regulatory capital expected loss in excess of accounting impairment provisions is deducted from CET1 capital, gross of tax.

⁶ 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 less than five years to maturity.

⁷ See Appendix 5 for details of EAD and RWAs by approach and portfolio.

⁸ The Group elected to set this to zero in 2017 and 2016, as permitted by the CRR, as exposure was below the 2% threshold of own funds.

There are no transitional provisions which apply to Nationwide's common equity capital, so the CET1 ratio remains the same on a transitional and end point basis at 25.4% (4 April 2016: 23.2%). The total Tier 1 capital ratio and total regulatory capital ratio are 29.2% (4 April 2016: 27.3%) and 36.9% (4 April 2016: 32.2%) respectively on a transitional basis, as PIBS and some additional subordinated debt instruments qualify under grandfathering provisions under CRD IV.

The CET1 ratio on an Individual (solo) consolidated basis at 4 April 2017 is 25.6% (2016: 23.3%) and is marginally greater than the Group's CET1 ratio due to higher general reserves as a result of cash flow hedge accounting. The majority of cash flow hedge accounting affects the Group accounts only, with gains or losses on derivatives being deferred to the cash flow hedge reserve in the Group accounts, but not the Individual (solo) consolidation accounts. The cash flow hedge reserve is not included in CET1 capital.

The CET1 ratio improved due to an increase in CET1 capital resources and lower RWAs. The increased CET1 capital resources reflect profit after tax for the period of £757 million, offset by an increase in the defined benefit pension deficit which reduced the general reserve by £255 million. The excess of expected loss over provisions is also lower due to reduced regulatory expected loss mainly due to the continued run-off of the commercial book. Tier 2 capital has increased, in line with plans to meet the MREL, following the issuance of \$1.25 billion of qualifying Tier 2 subordinated debt.

RWAs have reduced by £834 million since 4 April 2016, to £33,641 million. Commercial RWAs have continued to decrease driven by the run-off of the commercial book and improvements in the credit quality of the remaining exposures. Residential mortgage RWAs are lower as the impact of rising house prices has outweighed the increase in mortgage balances. Treasury RWAs have decreased due to a reduction in exposures to banks. Operational risk RWAs, calculated on the Standardised approach, have increased due to higher income.

Table 9 provides an analysis of the credit risk and counterparty credit risk RWA movements.

Table 3 provides an analysis of the capital flows.

Table 3. Capital flow statement

	Group
	£m
Common equity tier 1 capital as at 4 April 2016	8,013
Profit for the year	757
Other comprehensive income recognised directly in the general reserve	(362)
Foreseeable distributions	(1)
Revaluation reserve	3
Available for sale reserve	52
Capital adjustments:	
Prudential valuation adjustment	32
Own credit valuation adjustment	2
Intangible assets	(54)
Excess of expected loss over impairment	113
Common equity tier 1 capital as at 4 April 2017	8,555
Additional tier 1 capital as at 4 April 2016 and 2017	992
Total tier 1 capital as at 4 April 2017	9,547
Tier 2 capital as at 4 April 2016	1,649
Issuance of subordinated debt	936
Amortisation of subordinated debt	(160)
Fair value adjustments	151
Collective impairment allowance	6
Tier 2 capital as at 4 April 2017	2,582
Total regulatory capital as at 4 April 2016	10,654
Total regulatory capital as at 4 April 2017	12,129

3.4 Leverage ratio

Overview

Under CRD IV, firms are required to calculate a leverage ratio, which is not risk sensitive, to complement risk-based capital requirements. The leverage ratio measures the relationship between a firm's Tier 1 capital resources and its leverage exposure (total assets, plus certain off balance sheet exposures). Monitoring and requiring firms to manage this metric allows regulators to limit the accumulation of excessive leverage, which is widely considered to have precipitated the banking crisis.

The Basel Committee has completed a monitoring period to test the suitability of a minimum 3% leverage ratio. This limit will be reassessed in 2017 before becoming mandatory in 2018. In the UK, the PRA has confirmed that all large banks and building societies, including Nationwide, must meet a 3% minimum leverage ratio at all times.

The supplementary leverage ratio buffer of 0.35% will become a requirement from 2019. In addition, the Financial Policy Committee (FPC) can set a countercyclical leverage buffer up to 0.9% of leverage exposure for UK exposures; the countercyclical leverage buffer is currently set at 0%.

Leverage is also a hurdle rate in the annual Concurrent Stress Testing (CST) exercise. Nationwide's risk appetite is to maintain a leverage ratio greater than 3% in severe but plausible stress tests. See section 4.3.4 for further detail on Nationwide's approach to stress testing.

Managing the risk of excessive leverage

The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of the risk appetite framework. Nationwide has a strategic target to maintain a UK leverage ratio of at least 4%.

Given that Nationwide's balance sheet is focused on residential mortgage lending, it is considered that the risk of material unexpected movements in the leverage exposure measure is limited. However, regular stress tests are undertaken, which assess the sensitivity of the leverage ratio to stress conditions relative to risk-based capital metrics.

The risk of excessive leverage is also managed through the recovery planning framework. If the leverage ratio were to fall below a defined level, Nationwide may take actions to restore its capital position, which may include actions to increase capital resources or to reduce the size of the balance sheet based on a timescale deemed appropriate to the situation.

UK leverage framework

Following recommendations from the FPC in 2016 the PRA has introduced the UK leverage ratio to the leverage framework. It is calculated in the same way as the CRR leverage ratio, as outlined below, but excludes eligible central bank reserves from the calculation of the leverage exposure measure.

The FPC is due to undertake a review of the UK leverage ratio framework during 2017, in particular, examining ways of managing the impact of the introduction of the UK leverage exposure as the primary supervisory metric, so that the amount of capital required by firms to meet leverage requirements is not reduced by default.

Table 4. UK leverage ratio

	2017	2016
	£m / %	£m / %
Tier 1 capital	9,547	9,005
UK leverage exposure measure	215,894	204,346
UK leverage ratio	4.4	4.4

The UK leverage ratio is 4.4% at 4 April 2017 (4 April 2016: 4.4%). The ratio has remained stable as profits have broadly offset increases in both the defined benefit pension deficit and the UK leverage exposure, which was mainly driven by higher mortgage balances due to net mortgage lending in the year.

CRR leverage ratio

The CRR leverage ratio is calculated as Tier 1 capital / total exposures, defined as:

- Capital: Tier 1 capital defined according to CRD IV on an end point basis (assuming the full impact of CRD IV requirements on Tier 1 capital were in force with no transitional provisions). See Table 2.
- Exposures: total on and off balance sheet exposures (subject to credit conversion factors) as defined in the Delegated Act amending CRR Article 429 (Calculation of the Leverage Ratio), which includes deductions applied to Tier 1 capital.

Table 5 shows Nationwide's historical CRR leverage ratio based on monthly averaged exposure and capital figures.

Table 5. CRR average leverage ratio

	4 April 2017 £m / %	31 December 2016 £m / %	30 September 2016 £m / %	30 June 2016 £m / %
Average CRR leverage ratio exposure	233,438	230,874	226,534	220,393
Average CRR leverage ratio (%)	4.1	4.0	4.0	4.1

Note: During the three months to 4 April 2017, the UK average leverage exposure measure was £217,188 million and the average ratio was 4.4%

Tables 6 to 8 provide more details on the components of the exposure measure used to calculate Nationwide's CRR leverage ratio, disclosed in accordance with the templates prescribed by the EBA.

The CRR leverage ratio remained at 4.2% (2016: 4.2%) as profits have broadly offset the increase in the defined benefit pension deficit and the higher CRR leverage exposure, which was driven by increased mortgage balances and liquid assets.

The total exposure used to calculate the CRR leverage ratio, which consists of balance sheet assets, off-balance sheet items and other regulatory adjustments, has increased by £15,247 million to £228,428 million. Balance sheet assets have grown by £12,731 million to £221,670 million since 4 April 2016, mainly driven by increases in mortgage balances and high quality liquid assets. Further details on liquid assets are contained in the liquidity section of the Annual Report and Accounts 2017.

The most significant external factors, related to the economic and financial environments, which affected Nationwide's mortgage balances and profits and subsequently its CRR leverage ratio are discussed within the Annual Report and Accounts 2017.

Table 6. Summary reconciliation of accounting assets and CRR leverage ratio exposure

	CRR leverage ratio exposures 2017 £m	CRR leverage ratio exposures 2016 £m
1 Total assets as per published financial statements	221,670	208,939
4 Adjustments for derivative financial instruments	(4,565)	(3,974)
5 Adjustments for securities financing transactions (SFTs)	5,385	4,004
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	7,298	5,663
7 Other adjustments	(1,360)	(1,451)
8 Leverage ratio exposure	228,428	213,181

Note i: the CRR Leverage Ratio Exposure is based on the Delegated Act. The Group has no fiduciary assets or entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation.

Note ii: The leverage ratio exposure is different to the regulatory capital exposure used to calculate RWAs. For a reconciliation of balance sheet assets to regulatory capital exposure, see Appendix 9.

Table 7. CRR leverage ratio common disclosure

		CRR leverage ratio exposures 2017 £m	CRR leverage ratio exposures 2016 £m
On- balance sheet exposures (excluding derivatives and SFTs)			
1	On- balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	216,627	205,041
2	(Asset amounts deducted in determining Tier 1 capital) ¹	(1,360)	(1,451)
3	Total on- balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	215,267	203,590
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	28	199
5	Add- on amounts for potential future exposure associated with all derivatives transactions (mark- to- market method)	1,412	1,236
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(962)	(1,511)
11	Total derivatives exposures	478	(76)
SFT exposures			
14	Counterparty credit risk exposure for SFT assets	5,385	4,004
16	Total securities financing transaction exposures	5,385	4,004
Other Off- balance sheet exposures			
17	Off- balance sheet exposures at gross notional amount	24,632	22,143
18	(Adjustments for conversion to credit equivalent amounts)	(17,334)	(16,480)
19	Other off- balance sheet exposures ²	7,298	5,663
Capital and total exposure measure			
20	Tier 1 capital	9,547	9,005
21	Leverage ratio total exposure measure	228,428	213,181
Leverage Ratios			
22	Leverage ratio	4.2	4.2
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU- 23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	

¹Representing intangible assets (and goodwill), expected loss deductions and prudent valuation adjustment.

²This is the total credit equivalent amount of off- balance sheet exposures as required by the Capital Requirements Regulation (CRR).

Table 8. Split of on- balance sheet exposures (excluding derivatives and securities financing transactions)

		CRR leverage ratio exposure 2017 £m	CRR leverage ratio exposure 2016 £m
EU- 1	Total on- balance sheet exposures (excluding derivatives and SFTs), of which:	216,627	205,041
EU- 3	Banking book exposures, of which:	216,627	205,041
EU- 4	Covered bonds	931	1,012
EU- 5	Exposures treated as sovereigns	20,340	15,838
EU- 6	Exposures to regional governments, MDB, international organisations and public sector entities not treated as sovereigns	465	530
EU- 7	Institutions	757	1,949
EU- 8	Secured by mortgages of immovable properties	170,915	162,022
EU- 9	Retail exposures	3,777	3,709
EU- 10	Corporate	13,667	13,322
EU- 11	Exposures in default (standardised)	237	273
EU- 12	Other exposures (eg equity, securitisations, and other non- credit obligation assets)	5,538	6,386

4 Capital requirements

4.1 Introduction

Nationwide manages its capital structure to ensure it continues to exceed minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, strong capital ratios relative to regulatory requirements are targeted. Planned changes to the balance sheet, potential regulatory developments and other factors (such as movements in the Available for Sale reserve and pension deficit) are all considered.

The capital strategy is to manage these ratios through prudent lending and retained earnings, supplemented by external capital where appropriate. In recent years, Nationwide has demonstrated its ability to supplement retained earnings through the issuance of CET1, AT1 and Tier 2 capital instruments and has also managed risk weighted assets through significant deleveraging of its non-core commercial real estate portfolio and out of policy treasury assets.

A number of tools are employed to support the management of solvency risk. The Board is responsible for setting risk appetite with respect to solvency risk, which is articulated through its risk appetite statements. The Board defines minimum levels of capital (by reference to its capital and leverage ratios) that it is willing to operate with.

These are translated into specific risk metrics, which are monitored by the Board Risk Committee, ALCo and other internal management committees.

With general reserves forming the majority of capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which monitors targets for individual product segments.

In 2016, Nationwide introduced a financial performance framework with parameters which enable us to calibrate future performance to achieve the right balance between distributing value to members and maintaining financial strength. It is based on the fundamental principle of maintaining our capital at a prudent level in excess of regulatory leverage ratio requirements. Further information on the financial performance framework can be found in the strategic review section of the Annual Report and Accounts 2017.

Nationwide also undertakes a regular Internal Capital Adequacy Assessment Process (ICAAP) and regular Group-wide stress tests are undertaken to enhance the understanding of any potential vulnerabilities to stressed market conditions or tail-risk events and how management actions might be deployed in the event of stressed conditions developing.

4.2 Pillar 1

Credit risk

Nationwide uses IRB approaches for certain credit risk portfolios following FSA approval in May 2008. This was updated to a CRR permission from January 2014 by the PRA which allows Nationwide to continue to use an IRB approach under the CRD IV framework.

The scope of IRB permission for the year ended 4 April 2017 is as follows:

IRB Category	Portfolios	Percentage of total IRB exposure
Advanced IRB	<ul style="list-style-type: none"> Society and TMW residential mortgages, Unsecured lending (personal loans); and Qualifying revolving credit risks (personal current accounts and credit cards). 	92.6%
Foundation IRB	<ul style="list-style-type: none"> Treasury exposures (excluding exposures to central banks and governments, Multilateral Development Banks and corporates); and Exposures to housing associations (Registered Social Landlords) 	5.9%
Slotting IRB	<ul style="list-style-type: none"> Income Producing Real estate (IPRE); and Project Finance 	1.5%

All other credit exposures are risk weighted based on the Standardised Approach. These include mortgages generated by the Cheshire, Derbyshire and Dunfermline building societies and the Bank of Ireland.

Operational risk

The Standardised Approach is adopted for operational risk. Further information concerning operational risk can be found in section 9.

Market risk

Market risk arises from foreign exchange risk under Pillar 1 due to foreign currencies in the banking book. The Foreign Exchange Position Risk Requirement (FX PRR) charge is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions due to movements in foreign exchange rates. This is calculated in accordance with the Standardised Approach, and is currently set to zero as it falls below

the threshold of 2% of total own funds capital requirements. Other market risks are not included in regulatory capital requirements under Pillar 1 as Nationwide does not have a trading book under the CRD IV definition.

Further information on market risk can be found in section 10.

Table 9 provides an overview of RWAs and minimum capital requirements for credit risk, counterparty credit risk, securitisation exposures and operational risk. Tables 10 shows movements in credit risk RWAs (IRB and standardised) and counterparty credit risk from 5 April 2016 to 4 April 2017.

Table 9. EU OV1: Overview of RWAs

		RWA		Minimum capital requirements	
		2017	2016	2017	2016
		£m	£m	£m	£m
1	Credit risk (excluding counterparty credit risk) (CCR)	26,802	28,004	2,144	2,240
2	Of which standardised approach (SA)	2,548	3,010	204	241
3	Of which the foundation IRB (FIRB) approach	6,969	7,599	557	608
4	Of which the advanced IRB (AIRB) approach	17,163	17,095	1,373	1,367
5	Of which Equity IRB under the Simple risk-weight or the internal models approach	122	300	10	24
6	Counterparty credit risk	1,221	1,296	98	104
7	Of which marked to market	546	598	44	48
9	Of which standardised approach for counterparty credit risk	19	-	2	-
11	Of which risk exposure amount for contributions to the default fund of a CCP	6	-	0	-
12	Of which CVA	650	698	52	56
13	Settlement risk	-	-	-	-
14	Securitisation exposures in banking book (after cap)	434	335	35	27
15	Of which IRB ratings-based approach (RBA)	434	335	35	27
19	Market risk ¹	-	-	-	-
23	Operational risk	4,865	4,604	389	368
25	Of which Standardised Approach	4,865	4,604	389	368
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	319	236	25	19
29	Total	33,641	34,475	2,691	2,758

¹ The Group elected to set this to zero in 2017 and 2016, as permitted by the CRR, as exposure was below the 2% threshold of own funds.

Total RWAs have reduced by £834 million since 4 April 2016, to £33,641 million. Credit risk RWAs have reduced by £1,202 million during the period. Commercial RWAs have continued to decrease driven by continued run-off of the commercial book and improvements in the credit quality of the remaining exposures. Residential mortgage RWAs are lower as a result of improved book quality from rising house prices, which outweighed the increase in mortgage balances. Treasury RWAs have decreased due to a reduction in exposures to banks and disposal of a number of out of policy investments during the year. Equity RWAs have reduced following the disposal of Nationwide's share in Visa Europe Limited.

Securitisation RWAs increased over the period to 4 April 2017 as Nationwide had entered a commitment to subscribe for up to a maximum of £1.8 billion of residential mortgage backed securities (RMBS), rated AAA to BBB under a programme to securitise ex Bradford and Bingley residential mortgage assets. This resulted in Nationwide acquiring £1.2 billion RMBS, primarily held in AAA rated notes; the transaction settled on 25 April 2017. Operational risk RWAs, calculated on the Standardised approach, have increased due to higher income.

Table 10. EU CR8: RWA flow statements of credit risk exposures

		IRB credit risk		Standardised credit risk		Counterparty credit risk	
		RWA amounts	Capital requirement	RWA amounts	Capital requirement	RWA amounts	Capital requirement
		£m	£m	£m	£m	£m	£m
1	RWA as at 4 April 2016	24,994	1,999	3,010	241	1,296	104
2	Asset size	(193)	(15)	(459)	(37)	132	11
3	Asset quality	(269)	(22)	(3)	-	(67)	(5)
5	Methodology and policy	(278)	(22)	-	-	(140)	(12)
9	RWA as at 4 April 2017	24,254	1,940	2,548	204	1,221	98

Note: This table excludes exposures to securitisations.

Credit risk RWAs have decreased by approximately 4% since April 2016. Although the balance sheet has grown due to an increase in mortgage balances, reductions in treasury, commercial and equity (Visa), which carry higher risk weights than mortgages resulted in the overall reduction due to asset size. The IRB asset quality improvement is a result of rising house prices. Credit risk RWAs under the standardised approach have decreased due to reductions in the mortgages originated by the Cheshire, Derbyshire and Dunfermline building societies and the Bank of Ireland.

Counterparty credit risk RWAs have decreased due to an increase in the size of the derivative book, in line with a larger balance sheet, being offset by the impact of applying a revised methodology for valuing collateral received.

Changes in value of minimum capital requirements

The majority, 84.6% (2016: 86.0%), of Nationwide's capital requirement is for credit risk. Nationwide's overall credit risk requirements have decreased in line with the decrease in RWAs.

Table 11 shows the composition of the minimum capital requirement for credit risk at 4 April 2017.

Table 11. Total minimum Pillar 1 capital requirements for credit risk

	Group		Solo	
	2017 £ m	2016 £ m	2017 £ m	2016 £ m
Internal Ratings Based (IRB) exposure classes				
Institutions	17	38	17	38
Corporates (commercial lending)	448	480	448	480
Retail mortgages (secured against residential property)	922	917	922	917
Qualifying revolving retail	331	325	331	325
Other retail (unsecured loans)	120	125	120	125
Securitisation positions	35	27	35	27
Non-credit obligation assets (fixed assets and other)	92	90	91	90
Equity ¹	10	24	11	24
	1,975	2,026	1,975	2,026
Standardised exposure classes				
Central governments & central banks	-	-	-	-
Regional governments & local authorities	1	1	1	1
Multilateral development banks	-	-	-	-
Corporates (non-commercial)	6	7	6	7
Retail mortgages (secured against residential property)	168	190	168	190
Other retail ²	-	-	-	-
Commercial lending (secured against property)	3	5	3	5
Commercial lending (other)	-	7	-	7
Exposures in default	19	22	19	22
Other ³	7	9	7	9
	204	241	204	241
Counterparty credit risk	98	104	98	104
Total	2,277	2,371	2,277	2,371

¹ Significant investments in financial sector entities are included in the 'Other' solo capital requirements.

² Other retail (within standardised exposures) contains exposures to personal loans with a capital requirement of £0.1m

The total minimum capital requirements are not materially different on a Group or Solo basis so the disclosures in the remainder of this document are shown on a Group basis only.

4.3 Pillar 2

4.3.1 Introduction

Pillar 2 covers risks to Nationwide which are not fully captured under the Pillar 1 capital requirements, referred to as Pillar 2A, and risks to which Nationwide may become exposed over a forward-looking planning horizon (e.g. due to changes in the economic environment), referred to as Pillar 2B.

4.3.2 Internal Capital Adequacy Assessment Process (ICAAP)

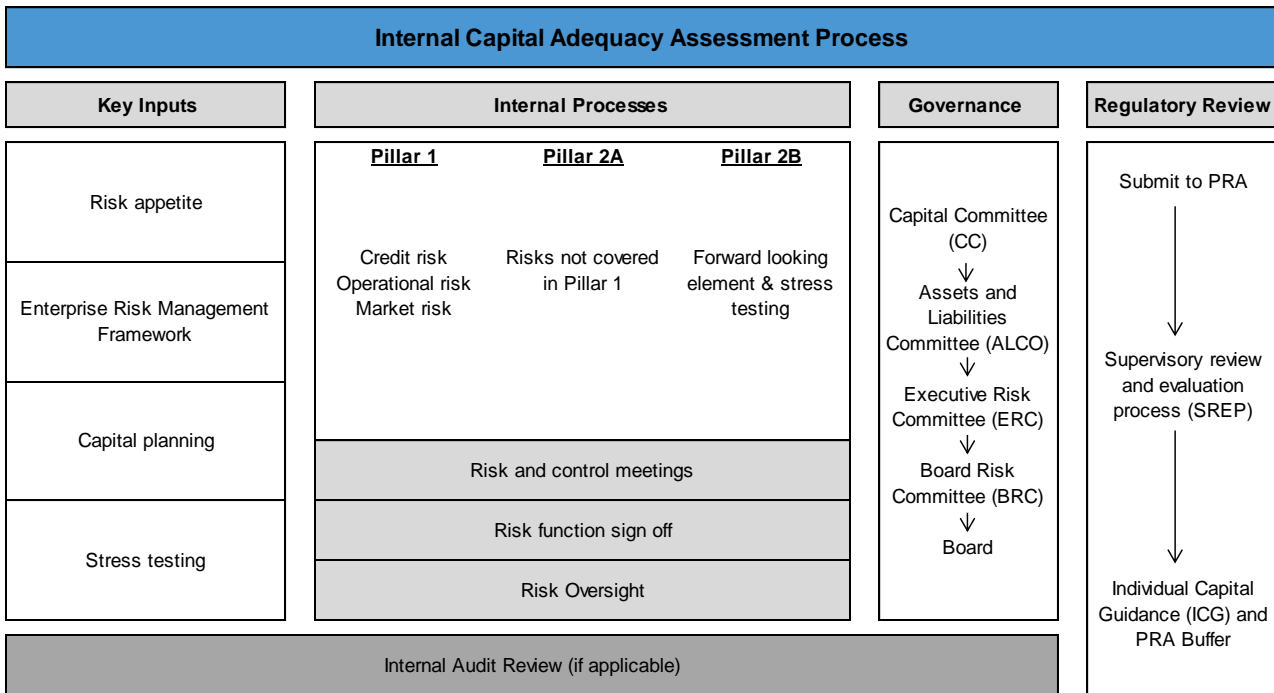
Nationwide undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which is an internal assessment of its capital needs for Pillar 2 purposes. This internal assessment considers risks included in the Pillar 1 Capital Resource Requirement as well as other risks not included in Pillar 1. The ICAAP is performed annually or more frequently should the need arise. The ICAAP includes an assessment of Nationwide's business strategy, risk

appetite, risk profile and capital plan throughout a five-year planning horizon. The capital plan forms the starting point for stress testing which considers the impact of alternative scenarios on Nationwide’s plan and deploys management actions where necessary to ensure Nationwide would remain within its risk appetite under the hypothetical scenarios.

The outcome of the ICAAP is presented in an Internal Capital Assessment (ICA) document covering all the material risks for Nationwide and its subsidiaries to determine the capital requirement and ensures that Nationwide plans to meet its future capital needs. Nationwide’s capital strategy has established the target capital base that it aims to achieve over the planning horizon through understanding current and future capital quantity and quality needs based on existing plans and expectations, and including Pillar 2B requirements to cover the potential for plausible but extreme economic scenarios, and considering the context of its external stakeholders including members, investors, rating agencies and regulators.

The ICA is presented to ALCO, Executive Risk Committee, and Board Risk Committee, for challenge and approval. The Board ratifies the ICA following its approval by Board Risk Committee. The PRA assesses Nationwide’s ICA and sets Individual Capital Guidance (ICG) and the PRA buffer for Nationwide. Nationwide must retain capital in excess of the ICG at all times.

The following diagram illustrates the ICAAP.



4.3.3 Pillar 2A

The ICG is a point in time estimate by the PRA, which may change over time, of the amount of capital required to be held to meet risks not fully covered by Pillar 1 such as credit concentration and operational risk, and those risks outside the scope of Pillar 1 such as pensions and interest rate risk.

Nationwide’s latest Pillar 2A Individual Capital Guidance (ICG) was received in August 2016 following an ICAAP. It equates to circa £2.2 billion, of which at least circa £1.2 billion must be met by CET1 capital, and was broadly unchanged from the previous ICG. This amount is equivalent to 6.6% of RWAs as at 4 April 2017 (2016: 6.4%), reflecting Nationwide’s low average risk weight, given that approximately 75% (2016: 76%) of total assets are in the form of secured residential mortgages, of which 81% (2016: 80%) are prime.

4.3.4 Stress testing

Nationwide’s stress testing activity is designed to test its business model using the major sources of risks identified in the PRA rulebook and emerging risks identified internally. Stress testing scenarios can comprise a firm-specific stress (idiosyncratic), a market-wide stress (systemic) or a combination of the two to assess capital and liquidity adequacy.

Stress testing results are used to inform risk appetite and provide senior management with insight around early-warning triggers and business vulnerabilities. Furthermore, stress testing results are used to inform management of the impact and the availability of actions which may be available in different scenarios to mitigate the impact of the stress scenario and these are used to support Nationwide’s recovery plan. Stress testing forms an integral part of the planning process and is a key element of the overall risk management framework.

Stress testing results are used to evaluate capital and liquidity adequacy and highlight risks to various committees. The results are reviewed, challenged and approved by key internal forums and the Stress Testing Committee, with ultimate approval by Board Risk Committee.

Management activity associated with stress testing is embedded across Nationwide with a dedicated team to support the execution and enhancement of the approach to all forms of stress testing. To support this, the Stress Testing Committee reviews stress testing results and facilitates executive

management of stress testing in the business. Board Risk Committee is ultimately responsible for approval of stress testing results.

During 2016, the major UK banks and building societies, including Nationwide, took part in the PRA's annual concurrent stress test, which assessed firms' resilience to a severe global downturn. The specified stress scenario was a combination of the more severe elements of CST 2014 and CST 2015, incorporating a sharp increase in the cost of credit for households and businesses accompanied by a 0% Bank Base Rate, a near doubling of the unemployment rate to a peak of 9.5% and a 31% fall in UK house prices.

Despite the severity of this scenario the results illustrate the strength and resilience of Nationwide with low point stressed ratios for CET1 and leverage of 15.6% and 4.2% respectively after the effect of management actions. The volatility of risk weights, which reduces the CET1 ratio in a stress scenario, largely reflects the use of Point in Time (PiT) based modelling approaches for secured portfolios. The PRA has consulted on changes to modelling approaches for these portfolios (in CP29/16), with the intention of reducing volatility in risk weights. Nationwide is in the process of reviewing its modelling methodologies in order to comply with these proposals.

Additionally, the ICAAP stress test was undertaken during autumn 2016 with a stress scenario based on a more severe variant of the 2016 CST exercise. The analysis further demonstrated that Nationwide can withstand a severe but plausible solvency stress without breaching regulatory thresholds.

Nationwide, along with the major UK banks, is currently taking part in the 2017 PRA annual concurrent stress test. The Annual Cyclical Scenario (ACS) features a global and domestic economic downturn, with a sharp rise in interest rates in the UK. In addition to the ACS, this is the first year that participating firms are required to complete the Biennial Exploratory Scenario. This scenario features persistently low interest rates combined with compressed margins because of an assumed increase in competition, driven by advances in financial technology and new entrants to the market. The results of the concurrent stress test are expected to be announced in early December.

4.4 Regulatory capital buffers

Introduction

Under CRD IV, institutions are required to meet the following own funds requirements: a Common Equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6% and a total capital ratio of 8%. These form the institution's Pillar 1 requirements. Pillar 2A covers risks that are not fully addressed by Pillar 1. In addition to the minimum capital requirements, CRD IV requires institutions to hold capital buffers that can be utilised to absorb losses in stressed conditions.

Under Pillar 2B the PRA has set a PRA Buffer defining a minimum level of capital buffer over and above the minimum regulatory requirement that should be maintained in non-stressed conditions as a mitigation against future possible stress periods. This buffer is firm specific, and the PRA requires that the level of this buffer is not publicly disclosed.

The PRA Buffer is assessed alongside other capital buffers, as described below. All buffers must be met with CET1 resources.

Capital conservation buffer

The capital conservation buffer is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. As of 4 April 2017, the capital conservation buffer was 1.25%. The level of this buffer will be phased in in increments of 0.625% per annum to reach the end-point requirement of 2.5% of RWAs in 2019.

Countercyclical capital buffer (CCyB)

The CCyB requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

Each institution's specific countercyclical buffer rate is a weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located. The Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate (for credit exposures located in the UK), and has indicated that this will be set at 1% in normal economic conditions. As of 4 April 2017 the UK CCyB was set to 0%; the FPC will reconsider the level of the UK CCyB at each quarterly meeting. See section 4.5 for Nationwide's CCyB.

G-SII buffer

Financial institutions that are considered to represent a higher risk to the global financial system, based on a number of key factors, are defined as globally systemically important institutions (G-SIIs). G-SIIs are categorised into buckets based on size, interconnectedness, substitutability, complexity and global activity. As a result of its bucket allocation, each G-SII's capital requirement is determined from within the range of 1% to 2.5% of RWAs.

Nationwide does not currently meet the definition of a G-SII so this buffer is not applicable.

Systemic risk buffer (SRB)

The SRB will be introduced by the PRA to mitigate long term non-cyclical systemic or macro-prudential risks. The SRB will apply to ring fenced banks and large building societies. The buffer rate is between 0% and 3% depending on balance sheet size. Nationwide expects a 1% buffer to be applicable from 2019.

4.5 Countercyclical capital buffer

Table 12 shows Nationwide's specific countercyclical capital buffer rate and requirement as follows:

- The total risk exposure amount, across Nationwide for exposures in all countries;
- The institution specific countercyclical buffer rate, which is Nationwide's weighted-average countercyclical buffer rate, calculated by multiplying the own funds requirement for each geographical area where the exposure lies by the countercyclical buffer rate set for that country (including those countries that have a countercyclical buffer rate set to zero); and
- The institution specific countercyclical requirement, which is calculated by multiplying the above two figures together.

Table 12. Amount of institution specific countercyclical capital buffer

	2017	2016
	£m / %	£m / %
Total risk exposure amount ¹	33,641	34,475
Institution specific countercyclical buffer rate (%)	0.001	0.001
Institution specific countercyclical requirement	0.4	0.3

¹ The 'Total risk exposure amount' is equal to the total risk weighted assets.

As at 4 April 2017, Nationwide's only exposures in countries with a countercyclical buffer rate greater than 0% were in Sweden and Norway. Norway currently has a 1.5% countercyclical buffer rate while Sweden has a 2.0% countercyclical buffer rate. Nationwide's exposures to these countries relate to covered bonds and the level of these credit exposures totals £209m.

Appendix 7 shows the breakdown of exposures for all countries, including those which currently have a countercyclical buffer rate set to 0%.

4.6 Future regulatory capital developments

Whilst there are a number of areas where potential requirements in relation to regulatory capital are yet to be finalised, announcements during the financial year mean that there is better visibility of the expected impact. However, Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any change.

Nationwide is currently required to maintain a minimum leverage ratio of 3%, with a supplementary leverage ratio buffer of 0.35% to be implemented in 2019. The FPC has the ability to set a UK countercyclical leverage buffer; this is currently 0%, but could be set up to a maximum of 0.9%. The PRA has introduced a modification to the UK leverage ratio framework, with the introduction of a UK leverage ratio measure, which excludes qualifying central bank reserves from the leverage exposure measure. This follows recommendations made by the FPC in 2016. The FPC is due to undertake a review of the UK leverage ratio framework during 2017.

The Basel Committee continues to reaffirm its commitment to finalising reforms to the Basel III framework, including the risk-weighted assets framework, the leverage ratio framework and the introduction of an output floor (which will prevent IRB risk weights falling below a certain level). It is not clear at this stage when these will be finalised or are likely to become effective. The PRA has also consulted on revised expectations for IRB models for residential mortgages, which are likely to be effective in 2019. Whilst these amendments are expected to result in an increase in RWAs, and therefore a reduction in the CET1 ratio, they are not expected to result in a material increase in Nationwide's overall capital requirements.

As part of the Bank Recovery & Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the MREL and provided firms with indicative MREL. It is anticipated that Nationwide will be subject to a requirement to hold twice the minimum capital requirements (i.e. 6% of UK leverage exposure), plus the applicable buffers, from January 2020. Current total MREL resources are equal to circa 5.9% of UK leverage ratio exposure. While this results in a small shortfall to be met over the period to January 2020, Nationwide has a strong foundation from which to meet MREL requirements through on-going retained profit, issuance of Tier 2 capital, or, if it becomes available through legislative changes, a senior non-preferred debt instrument.

5 Risk management

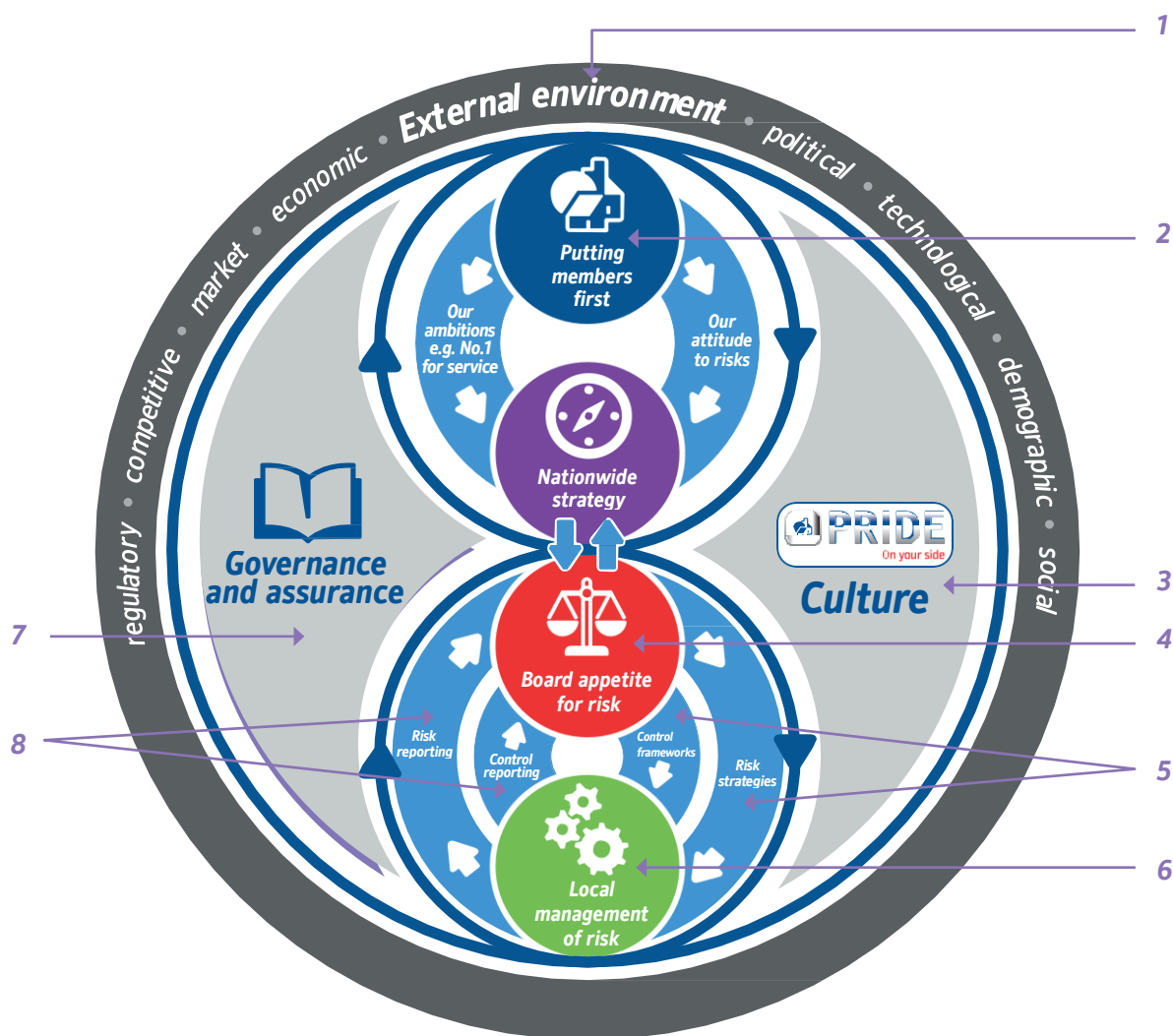
5.1 Managing risk

Effective risk management is at the heart of the business, supporting the delivery of Nationwide’s strategy by ensuring it is ‘built to last’ and continues to be safe and sustainable, protecting members’ interests. An enterprise-wide risk management framework ensures that risks are managed effectively. This is underpinned by the three lines of defence model which ensures independent oversight and audit of risk management carried out by the business. Nationwide addresses its principal risks by:

- Operating a single integrated business model underpinned by strong governance;
- Adopting an enterprise-wide risk management framework supported by the three lines of defence model;
- Managing risks within risk appetite as set by the Board and supported by a more granular appetite for the detailed risk categories; and
- Operating a business model which is able to withstand a severe but plausible market and economic stress.

5.2 Enterprise Risk Management Framework (ERMF)

The ERMF sets out the high-level policy, standards and requirements for the management of all risks. The following sections describe the key elements of the ERMF in more detail.



1	External environment	Nationwide's risk management agenda is shaped by external environmental factors including but not limited to those listed in the diagram.
2	Building society, nationwide	Nationwide's core purpose sets its ambitions and informs its strategy and attitude to risks.
3	Culture	Having the right culture supports risk management activity across the business. Nationwide's culture and PRIDE values ensure that members' interests, safety and security are put at the heart of its approach to risk management.
4	Board appetite for risk	Board appetite for risk defines how much risk the Board is prepared to take in pursuit of Nationwide's goals, and establishes a framework for decision making. It is supported by metrics and limits which enable performance against appetite to be effectively reported. Board appetite for risk is informed by and informs Nationwide's strategy.
5	Risk strategies and Control frameworks	The Board approves the control frameworks and strategies that management use to ensure that major risks remain within Board appetite for risk.
6	Local management of risk	Local management of risk is the process of identifying, assessing, managing, monitoring and reporting risks. Risk management activity is carried out by all employees to ensure that risks which are part of their day-to-day jobs are properly identified and controlled. As part of this, the Society undertakes stress testing and scenario analysis to ensure that it understands and remains resilient to the impact of remote but potentially severe risks. Further details of stress testing can be found in the 'Liquidity and funding risk' and the 'Solvency risk' sections in the Annual Report and Accounts 2017.
7	Governance and assurance	Governance and assurance describes the risk committee structures and mandates and ensures that roles and responsibilities are clear and operate within the Society's 'three lines of defence' model. Further information is included on the following pages.
8	Risk and control reporting	Risk and control reporting enables the Board to ensure that the ERMF and internal control systems are working correctly and that risks are being managed within risk appetite.

5.2.1 Risk culture

Nationwide's culture plays an important part in risk management. It is informed by its identity, as a member owned society, and core purpose and it impacts the way risk is managed at Nationwide. Risk culture describes the norms, attitudes and behaviours related to risk management which all employees are expected to embrace. The risk culture statements complement Nationwide's PRIDE values and support its member-centric objectives. For further information on Nationwide's risk culture and PRIDE values, see the Annual Report and Accounts 2017.

5.2.2 Board appetite for risk

Board appetite for risk defines how much risk the Board is prepared to take in pursuit of Nationwide's goals, and establishes a framework for decision making. It is supported by metrics and limits which enable performance against appetite to be effectively reported. Board appetite for risk is informed by and informs Nationwide's strategy.

To provide a structure for Board appetite for risk, Nationwide uses a risk categorisation model. The principal risk categories are:

- Strategic risk;
- Lending risk;
- Financial risk;
- Operational risk; and
- Conduct and compliance risk.

Each of these risks has a risk appetite, defined as statements supported by metrics, including rationale, limits and triggers. The principal risks are further sub-divided into more detailed categories of risk, providing management risk appetite in the context of the Board's risk appetite.

Reporting, limits and controls are set in a hierarchy that links the Board's tolerance for risk with 'on the ground' risk taking actions and behaviour throughout Nationwide. Lower level metrics from first line risk committees are escalated to the Executive Risk Committee and the Board Risk Committee should they fall out of tolerance or breach risk appetite.

Stress testing

Stress testing is an integral part of the annual financial planning process, the adequacy assessment processes for liquidity and capital and the annual review of risk appetite. Nationwide engages in thorough stress testing, scenario analysis and contingency planning, allowing it to understand the impact of severe but plausible stresses to ensure that it remains resilient to them. This includes a range of Society-wide, multi-risk category stress tests, reverse stress tests and operational risk scenario analysis.

Stress testing outputs are used for capital and liquidity planning, determining potential management actions within contingency plans, and further improving the management of Nationwide's risk profile.

5.2.3. Risk strategies

Nationwide's risk strategies connect the Board's five-year plan and risk appetite with practical and detailed strategies, controls and limits to ensure that risk appetite is not compromised.

Nationwide's risk strategies focus on how each risk is managed within Board appetite for risk, and set out:

- Actions being taken to manage the risk in the light of both the inherent risk and Board appetite for risk;
- Management metrics being used to measure risk;
- Any measures being used to track success of actions; and
- Risks and challenges to delivering the strategy.

5.2.4 Controls frameworks

Control frameworks define what type of control Nationwide plans to apply for each type of risk category. Mature control frameworks include control libraries, guidance on how key controls are identified and assessed. They also set minimum standards for business monitoring and independent testing/validation, and how controls are remediated.

The detail may vary dependent on the risk and the control frameworks in place.

5.2.5 Local management of risk

Local management of risk is the process for ensuring that risks are managed effectively across Nationwide. Everyone has a role to play in the effective management of risks but the approach and responsibilities will vary by both role and risk type. To ensure effective and consistent management of risks a five-step process has been developed. The five steps can be applied to a number of different processes/activities and are used as the basis for developing relevant guidance and methodology to be used by each first line team:

1. **Identify** the risks to achieving objectives;
2. **Assess** the likelihood and potential impact of risks;
3. **Manage** the risk by deciding on an appropriate and proportionate response in line with Board Risk Appetite. The main options are to accept or tolerate the risk, mitigate the risk through the use of controls or reject/avoid the risk;
4. **Monitor** the level of risk exposure using key indicators and other contributing factors such as incident loss data, or changes in the external environment; and
5. **Report** all material risks to Nationwide's objectives and where necessary, escalate appropriately to enable effective management of Nationwide's risk profile.

5.2.6 Risk governance and assurance

Nationwide continues to operate the three lines of defence model, ensuring clear separation between ownership of risk and control (first line), independent oversight (second line) and audit assurance (third line).

Accountabilities within the three lines of defence model are outlined below:

First line - Risk and control ownership	Second line – Oversight, support and challenge	Third line - Assurance
<p><i>Specific accountabilities include:</i></p> <ul style="list-style-type: none"> • Setting business objectives; • Defining management risk appetite; • Identifying, owning and mitigating risks; • Defining, operating and testing controls; • Implementing and maintaining regulatory compliance; • Adhering to the minimum standards set out in the risk management framework and associated policies; and • Identifying future threats and risks. 	<p><i>Specific accountabilities include:</i></p> <ul style="list-style-type: none"> • Providing expert advice on business initiatives; • Advising the Board on setting risk appetite; • Reporting aggregate enterprise level risks to the Board; • Conducting independent and risk based assurance; • Interpreting material regulatory change; • Setting the risk management framework and associated policies; and • Identifying future threats and risks. 	<p><i>Specific accountabilities include:</i></p> <ul style="list-style-type: none"> • Performing independent audits of the effectiveness of first line (risk and control) and second line (risk oversight, support and challenge); • Taking a risk-based approach to the programme of audit work; and • Preparing an annual opinion on the risk management and controls framework to present to the Audit Committee.

Each principal risk, with the exception of strategic risk, has a first line committee with overall responsibility for managing their risk category. Below these committees, specialist sub-committees, forums and working groups consider technical detail and reports, making recommendations to their parent committee as appropriate. In addition, all executive teams and business areas hold risk and control meetings so that there is an opportunity to report and escalate risks across the entire organisation.

The Executive Risk Committee ensures a co-ordinated management approach is taken by the first line across all risk categories and is also responsible for the management of strategic risk.

The Board Risk Committee and Audit Committee continue to provide oversight and advice on risk management and controls to the Board. The Board Risk Committee met 9 times during 2016-2017; Audit Committee met 8 times during 2016-2017. Further information about Nationwide’s governance structure, including the Board, Audit Committee, Board Risk Committee and other risk committees is included in the Annual Report and Accounts 2017.

Nationwide’s risk committee structure is set out in section 5.5.

Further information about the Board, including other directorships held, recruitment policies, skills and diversity, can be found within the Annual Report and Accounts 2017.

5.2.7 Risk control and reporting

The objective of risk reporting is to confirm Nationwide’s risk profile and provide relevant risk information to management, committees and to the Board. Ongoing risk reporting enables Nationwide to monitor and manage performance against risk appetite but also to advise on emerging risks, any material breaches of risk appetite and the extent of aggregated risk faced by Nationwide. This enables the Board to ensure that the business remains within risk appetite.

Risk models are used to quantify exposures in many of Nationwide’s principal risks. A separate framework sets out the policy and standards for model use across Nationwide, including model development, approval, validation, implementation, on-going management and reporting.

Risk data includes any qualitative or quantitative information which is, or could be, used in the identification, assessment, or management of a risk. Effective management of risk data is recognised as being of critical importance to Nationwide’s risk strategy and, as such, controls and processes are operated to support the accuracy and quality of data.

Control reporting informs the Board of the control environment and whether the controls in place are designed and operating effectively. The Board needs this information to ensure sound risk management is supported by an effective internal control system. Controls may be challenged or strengthened to improve effectiveness, remediate weaknesses or to bring risks within appetite.

5.3 Effectiveness of risk management arrangements

The Board is accountable to the members of Nationwide and seeks to balance their interests with the broader range of stakeholders, including suppliers, customers, regulators, the community and employees.

The Board is responsible for ensuring that Nationwide maintains a sound system of internal control to support its strategy and objectives. The Board approves Nationwide’s risk appetite and metrics, following consideration by the Board Risk Committee. Stress testing results including the concurrent stress test, the Internal Capital Adequacy Assessment Process and the Individual Liquidity Adequacy Assessment Process are approved by the Board Risk Committee. The Board receives regular reports and assessments of Nationwide’s risk and control processes, and recommendations from the Board Risk Committee on matters spanning all risk categories and including the appropriate level of risk appetite.

The Board is responsible for robustly assessing the principal risks facing Nationwide, including those that could potentially threaten its business model, future performance, solvency or liquidity. These risks are set out in the Business and Risk Report in the Annual Report and Accounts 2017, which explains how they are being managed. To manage these risks effectively, the Board monitors Nationwide's risk management and internal control systems and carries out an annual review of their effectiveness. The Board delegates detailed review of these to the Board Risk Committee and Audit Committee as set out below.

The Board approves Nationwide's risk appetite and has delegated responsibility for monitoring performance against appetite to the Board Risk Committee. The Board has also delegated responsibility to the Board Risk Committee for approval of the ERMF and principal risk management strategies. The ERMF is an enterprise-wide risk framework, which defines how risk management should operate across the business. Further information about Nationwide's ERMF is set out in the Business and Risk Report of the Annual Report and Accounts 2017.

The Board has delegated responsibility for reviewing the adequacy and effectiveness of Nationwide's internal controls to the Audit Committee.

The Audit Committee and the Board Risk Committee receive regular reports throughout the year, which include information about reviews conducted by Risk Oversight and Internal Audit. The Audit Committee also receives reports from Nationwide's auditor, PricewaterhouseCoopers LLP, and has a discussion with the auditor at least once a year without management present, to ensure that there are no unresolved issues of concern. The chairs of the Board Risk Committee and the Audit Committee are accountable to the Board to which both submit regular reports covering the committees' activities, providing an opportunity to highlight any potential areas of concern.

Between them, the Audit Committee and the Board Risk Committee have reviewed all components of the ERMF including the effectiveness of local risk and control management and reporting.

On the basis of this review, the Board is satisfied that Nationwide's risk management arrangements in place are adequate for its risk profile and strategy. Nationwide will continue to develop the ERMF with the aim of ensuring it remains appropriate for the size and complexity of the organisation and responsive to emerging developments and regulatory change.

The Board has also delegated to the Audit Committee oversight of the management of the relationship with Nationwide's auditors, details of which are set out in the Audit Committee report within the Annual Report and Accounts 2017. Internal Audit provides the Audit Committee with a report of the audit work carried out during the year. This is accompanied by reports from the Compliance and Risk Oversight teams, which outline the programme of reviews performed during the year and key findings of the work undertaken.

Individual accountability at Board and senior manager level has been strengthened following the introduction by Nationwide's regulators of the Senior Managers and Certification Regime in March 2016. This established a revised framework under which senior managers are individually and personally accountable for specific areas of Nationwide's business. It also introduced a certification regime requiring Nationwide to assess the fitness and propriety of staff in positions where the decisions they make could pose significant harm to the business or its customers. In support of this, all directors have access to the services and advice of the Chief Legal Officer and Society Secretary and are able to obtain independent, professional advice on matters relating to their responsibilities.

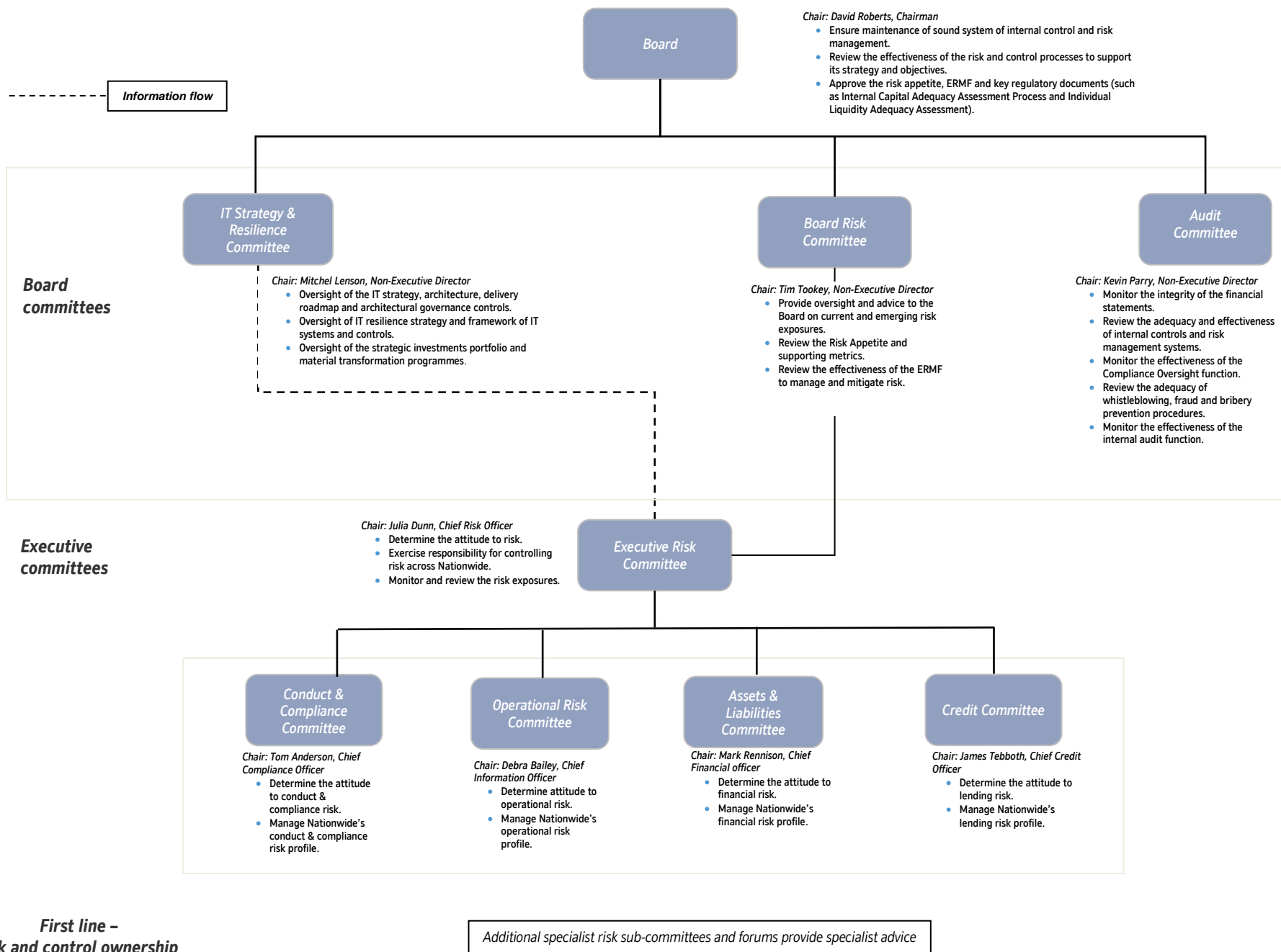
Further information on risk management and the performance of internal controls are set out in the Annual Report and Accounts 2017.

5.4 Coverage of risks

Pillar 3 disclosures in this document cover the Pillar 1 risks: credit risk (section 6), counterparty credit risk (section 7), securitisation risk (section 8), operational risk (section 9) and market risk (section 10). Other financial risks are summarised in section 11. Additional information on the other financial risks, and conduct and compliance risks, can be found in the Annual Report and Accounts 2017.

5.5 Risk committee structure

Nationwide's risk committee structure can be found on the following page:



6 Credit risk

6.1 Credit risk overview

Credit risk is defined as the risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument on time. Credit risks are inherent across most of Nationwide's activities and may arise from changes in credit quality, and the recoverability of loans and amounts due from counterparties. Adverse changes in the credit quality of borrowers or a general deterioration in economic conditions could affect the recoverability and value of Nationwide's assets and therefore its financial performance. Comprehensive risk management methods and processes have been established as part of Nationwide's overall governance framework to measure, mitigate and manage credit risk within Nationwide's risk appetite.

Exposure, as shown in these credit risk disclosures, is defined as the exposure value under the regulatory definitions for capital purposes. Exposure value (calculated as exposure at default (EAD) under IRB) is an estimate of the expected utilisation of a credit facility, excluding the impact of any credit risk mitigation, and will be equal to or greater than the drawn exposure.

Nationwide uses a wide range of techniques to reduce the credit risk of its lending. The most basic of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. However, the risk can be further mitigated by obtaining security for the funds advanced.

6.2 Exposures

The overall year end exposure values for credit risk at 4 April 2017 are 6.8% higher than at 4 April 2016, largely due to increases in Nationwide's mortgage book and central government and central banks holdings. The majority of the credit risk exposures are in the UK (96.7%). This proportion is slightly higher than at 4 April 2016 (96.4%). Non-UK exposures lie almost entirely within the Treasury portfolios and these exposure types are further explained within the Treasury credit risk and Counterparty credit risk sections. Nationwide's Treasury Credit Policy ensures all credit risk exposures align to the Board's risk appetite with investments restricted to low risk assets and proven market counterparties. Appendix 6 and Appendix 8 show the geographical distribution and residual maturity of credit risk exposures.

The credit risk exposures at 4 April 2017 and the averages for the year are summarised in Table 13.

Table 13. Credit risk exposures

	Average 2017 £m	Year end 2017 £m	Average 2016 £m	Yearend 2016 £m
Internal Ratings Based (IRB) exposure classes				
Institutions	2,270	1,688	3,550	2,961
Corporates (commercial lending) ¹	13,901	13,438	14,506	14,046
Retail mortgages (secured against residential property)	176,423	179,820	163,695	168,998
Qualifying revolving retail	8,349	8,186	8,277	8,420
Other retail (unsecured loans)	2,005	2,018	1,893	1,962
Securitisation positions	2,919	3,641	3,223	2,686
Non-credit obligation assets (fixed assets and other)	1,087	1,152	1,043	1,126
Equity	40	33	26	81
	206,994	209,976	196,213	200,280
Standardised exposure classes				
Central governments & central banks	22,877	20,211	14,482	15,838
Regional governments & local authorities	7	7	9	8
Multilateral development banks	455	459	542	522
Corporates (non-commercial)	264	97	131	111
Retail mortgages (secured against residential property)	6,241	5,916	6,949	6,656
Other retail	2	2	3	3
Commercial lending (secured against property)	34	31	68	58
Commercial lending (other)	44	1	133	87
Exposures in default	248	237	290	273
Other	815	660	1,097	821
	30,987	27,621	23,704	24,377
Counterparty credit risk	10,500	10,466	6,847	7,682
Total	248,481	248,063	226,764	232,339

¹ Includes RSL, PFI and commercial real estate

Note: The exposures here differ from the asset figures reported in the Annual Report and Accounts, due to a different calculation to derive exposures for capital requirement purposes, including adjustments for derivatives. See Appendix 9 for details.

6.3 Approach to credit risk

6.3.1 Credit risk under IRB approach

Nationwide uses the IRB approach for the following credit risk exposure classes:

- Institutions;
- Corporates (commercial lending);
- Retail mortgages: prime, buy-to-let and self-certified (secured against residential property);
- Qualifying revolving retail (current accounts and credit cards);
- Other retail (unsecured personal loans);
- Securitisation positions;
- Equities;
- Non-credit obligation assets (fixed assets and other); and
- Counterparty credit risk (Institutions).

Further information on the internal ratings process (as relevant) for each of the above can be found in sections 6.5 to 6.7, 7 and 8

6.3.2 Credit risk under the standardised approach

Nationwide uses the standardised approach for the following credit risk exposure classes:

- Central governments and central banks, regional governments and local authorities and multilateral development banks;
- Corporates (non-commercial);
- Counterparty credit risk (Central clearing);
- Retail mortgages (secured against residential property) originated by Dunfermline, Cheshire and Derbyshire Building Societies and the Bank of Ireland;
- Other retail (small legacy personal loans);
- Commercial lending (secured against property and unsecured); and
- Other (cash in hand and items in the course of collection).

Nationwide uses Standard and Poor's (S&P), Moody's and Fitch as External Credit Assessment Institutions (ECAIs) for central government and central banks exposures. The ratings from these ECAIs are mapped across to the Credit Quality Step requirements in CRR using the draft mappings from the EBA. Nationwide does not use ECAIs for other credit risk exposure classes under the standardised approach.

No changes have been made to Nationwide's designated ECAIs within the 2016/2017 financial year.

Tables 14 and 15 show a breakdown of exposures under the standardised approach pre and post the application of credit conversion factors (CCF) and credit risk mitigation (CRM). Nationwide does not apply CRM techniques to its exposures under the standardised approach and CCF are only applicable to off-balance sheet exposures. The off-balance sheet exposures outlined below only relate to commitments.

Tables 16 and 17 provide a breakdown of each exposure by its risk-weighting.

Table 14. EU CR4: Standardised approach - credit risk exposure and credit risk mitigation (CRM) effects (2017)

		a	b	c	d	e		f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density		
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density	
		£m	£m	£m	£m	£m	%	
1	Central governments or central banks	20,211	-	20,211	-	-	0.0	
2	Regional government or local authorities	7	-	7	-	7	100.0	
4	Multilateral development banks	459	-	459	-	-	0.0	
7	Corporates	37	190	37	61	80	81.2	
8	Retail	62	26	62	13	56	75.0	
9	Secured by mortgages on immovable property	5,821	106	5,821	53	2,076	35.3	
10	Exposures in default	237	-	237	-	241	102.0	
16	Other items	660	-	660	-	88	13.3	
17	Total	27,494	322	27,494	127	2,548	9.2	

Table 15. EU CR4: Standardised approach - credit risk exposure and credit risk mitigation (CRM) effects (2016)

		a	b	c	d	e		f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density		
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density	
		£m	£m	£m	£m	£m	%	
1	Central governments or central banks	15,838	-	15,838	-	-	0.0	
2	Regional government or local authorities	8	-	8	-	8	100.0	
4	Multilateral development banks	522	-	522	-	-	0.0	
7	Corporates	137	190	137	61	180	90.7	
8	Retail	94	29	94	14	81	75.0	
9	Secured by mortgages on immovable property	6,552	114	6,552	57	2,351	35.6	
10	Exposures in default	273	-	273	-	281	102.8	
16	Other items	821	-	821	-	109	13.3	
17	Total	24,245	333	24,245	132	3,010	12.3	

Table 16. EU CR5: Exposure post CRM and credit conversion factors - standardised approach (2017)

	Risk weights						Total £m	Of which: unrated £m
	0% £m	20% £m	35% £m	75% £m	100% £m	150% £m		
1 Central governments or central banks	20,211	-	-	-	-	-	20,211	-
2 Regional government or local authorities	-	-	-	-	7	-	7	7
4 Multilateral development banks	459	-	-	-	-	-	459	-
7 Corporates	-	23	-	-	75	-	98	75
8 Retail	-	-	-	75	-	-	75	-
9 Secured by mortgages on immovable property	-	-	5,843	-	31	-	5,874	-
10 Exposures in default	-	-	-	-	228	9	237	-
16 Other items	221	439	-	-	-	-	660	-
17 Total	20,891	462	5,843	75	341	9	27,621	82

Table 17. EU CR5: Exposure post CRM and credit conversion factors - standardised approach (2016)

	Risk weights						Total £m	Of which: unrated £m
	0% £m	20% £m	35% £m	75% £m	100% £m	150% £m		
1 Central governments or central banks	15,838	-	-	-	-	-	15,838	-
2 Regional government or local authorities	-	-	-	-	8	-	8	8
4 Multilateral development banks	522	-	-	-	-	-	522	-
7 Corporates	-	23	-	-	175	-	198	145
8 Retail	-	-	-	108	-	-	108	-
9 Secured by mortgages on immovable property	-	-	6,551	-	58	-	6,609	-
10 Exposures in default	-	-	-	-	258	15	273	-
16 Other items	274	547	-	-	-	-	821	-
17 Total	16,634	570	6,551	108	499	15	24,377	153

6.4 IRB Models

6.4.1 IRB models overview

As part of its calculation of the capital requirements for credit risk, Nationwide uses a range of IRB models. The key features of these models are set out in Table 18. In addition to calculating regulatory capital requirements, Nationwide's IRB models support a number of business areas, including credit approval, portfolio management, forecasting and stress testing, impairment calculations and the development of risk appetite.

6.4.2 Model risk management of IRB risk ratings systems

The performance and accuracy of IRB models is critical in terms of effective risk management and the calculation of credit risk capital requirements. The effectiveness of the models is achieved through clear allocation of roles and responsibilities covering model ownership, approval and governance, ongoing model monitoring, review and independent validation.

Models are required to have a model owner in the first line. For IRB models, this is the senior executive accountable for the credit risk portfolio (i.e. Retail, Commercial and Treasury). The model owner is required to ensure that the models are developed, implemented, governed and maintained in line with internal standards and regulatory requirements. This includes model review and assessment process.

Ultimate responsibility for approving the use of Nationwide's IRB models resides with the Credit Committee, ensuring that the committee responsible for managing the credit risk is also responsible for ensuring model risk is managed within appetite.

In addition, regular monitoring of IRB models takes place at specialist credit risk committees or forums. Monitoring includes the comparison of model outputs to observed data to ensure the models continue to operate within expected tolerances. Other features of the models, such as stability and discrimination are also closely monitored to ensure models remain fit-for-purpose. If the performance of a model falls outside expected criteria, it will be subject to a detailed review. The model may then be modified or recalibrated as a result of the review. A formal review is also required at least annually, the results of which are subject to independent oversight and governance.

The role of second line is to provide independent expert oversight of models. Independent validation is a key factor in deciding whether a newly developed model, or a model that has been changed, is approved for use. It assesses whether the model adequately discriminates between different levels of risk and delivers accurate risk estimates. This includes an evaluation of the quality of the source data, portfolio analysis, model design, assumptions, performance, documentation, implementation and controls.

The findings of the validation are presented to the Model Risk Oversight Committee (MROC). The MROC is a second line committee with responsibility for oversight of model risk delegated from the Executive Risk Committee. The MROC, chaired by the Head of Model Risk Oversight, considers whether a new model is fit-for-purpose, and reviews IRB models at least annually to ensure they are performing within expectations.

Nationwide Internal Audit consider model risk as a key focus area when providing independent assurance regarding the Society's control framework. This is achieved through a cyclical programme of review activity covering models and the risk systems they support. Internal Audit also consider the adequacy and effectiveness of the overall model risk framework and how it is being operated across the Society. Models that are used to estimate IRB parameters must also be approved for use by the regulator with material changes also subject to regulatory approval. Annually the Chief Risk Officer is required to attest compliance with the IRB regulatory requirements. To support this, a detailed, evidence-based reassessment of regulatory compliance is undertaken by the model owner with independent review undertaken by Prudential Risk Oversight.

Table 18. Credit risk models key features							
Division	Portfolio	Portfolio RWAs 4 April 2017 (£m)	Model	Model description and methodology	Number of years of loss data	Basel asset class	Applicable industry-wide regulatory thresholds
Retail	Prime Mortgages	7,432	PD	Accounts are mapped to PD rating segments based on application scores, behavioural scores and arrears statuses. Each rating segment is assigned a regulatory PD.	> 10 years	Retail mortgages	PD floor of 0.03%
			LGD	Data driven models predicting possession given default, haircuts and movements in house prices.		Retail mortgages	Portfolio LGD floor of 10%
			EAD	Estimated interest added to the account balance prior to default as a downturn view.		Retail mortgages	Floored by the existing account balance.
Retail	Specialist Lending (TMW / UCB)	4,092	PD	Accounts are mapped to PD rating segments based on application scores, behavioural scores and arrears statuses. Each rating segment is assigned a regulatory PD.	6 - 10 years	Retail mortgages	PD floor of 0.03%
			LGD	Data driven models predicting possession given default, haircuts and movements in house prices		Retail mortgages	Portfolio LGD floor of 10%
			EAD	Estimated interest added to the account balance prior to default as a downturn view.		Retail mortgages	Floored by the existing account balance.
Retail	Credit Card	2,465	PD	Simplified flat PD	6 - 10 years	Qualifying Revolving Retail Exposures	PD floor of 0.03%
		LGD	Simplified flat LGD				
		EAD	Rule based segmentation				
Retail	Current accounts	1,679	PD	Simplified flat PD	6 - 10 years	Qualifying Revolving Retail Exposures	PD floor of 0.03%
			LGD	Simplified flat LGD			
			EAD	Rule based segmentation			
Retail	Personal Loans	1,495	PD	Accounts are mapped to PD rating segments based on application scores and behavioural scores. Each rating segment is assigned a regulatory PD.	6 - 10 years	Other Retail	PD floor of 0.03%
			LGD	Data driven models built from historic performance			
			EAD	Single linear model			
Treasury	Institutions/ Corporates	222	LARS PD Model	A structured qualitative overlay is applied to an internal statistically driven quantitative financial strength rating	> 10 years	Institutions	PD floor of 0.03%
	Institutions: Counterparty credit risk	546				Institutions - counterparty credit risk	
Commercial	Income Producing Real Estate (IPRE)	2,292	IPRE Slotting Model	Slotting approach model based on Supervisory criteria for IPRE exposures which map to 5 grades with predefined risk weights from Strong to Default	> 10 years	Corporates - Specialised Lending	-
Commercial	Project Finance	1,026	Project Finance Slotting Model	Slotting approach model based on Supervisory criteria for Project Finance exposures which map to 5 grades with predefined risk weights from Strong to Default	N/A - Low Default Portfolio	Corporates - Specialised Lending	-
Commercial	RSL Housing	2,277	RSL Housing PD Model	PD model based on expert judgement and inputs from financial accounts and borrower specific drivers. The model calibration is based on a conservative supervisory approved approach	N/A - Low Default Portfolio	Corporates	PD floor of 0.03%

6.4.3 IRB credit risk model performance

This section provides an analysis of the performance of IRB models over the year to April 2017.

Nationwide operates an ongoing validation process to ensure models are “fit for purpose” and updated where appropriate either through recalibration or redevelopment. A continuous rolling program of ongoing validation of Nationwide’s IRB models has shown that the models are performing within expectations. However, as part of normal model management and maintenance the secured IRB model suite is being redeveloped, in part to reflect pending regulatory changes for firms which use the IRB approach. Details of the backtesting of Nationwide’s IRB models can be found in Tables 20, 21 and 22.

Expected Loss is the forecast loss for accounts that are likely to default over the next 12 months as a result of applying Nationwide’s PD, LGD and EAD models. There are material differences between the methodologies and underlying principles for calculating Expected Loss according to regulatory requirements and accounting standards. Any comparisons must therefore take into consideration these key differences. Notable differences include timing with regard to default and impairment, and cyclicalities where regulatory models take account of long-run average or downturn estimates over an economic cycle.

Table 19 sets out model performance as measured by comparing expected loss versus provisions as at year end for each of the last three years:

Table 19. Comparison of expected loss and actual loss (provisions)						
	Expected loss at 4 April 2016	Provisions at 4 April 2017	Expected loss at 4 April 2015	Provisions at 4 April 2016	Expected loss at 4 April 2014	Provisions at 4 April 2015
	£m	£m	£m	£m	£m	£m
Internal Ratings Based (IRB) exposure classes						
Institutions	1	-	2	-	3	-
Retail mortgages (secured against residential property)	143	115	180	79	233	81
Qualifying revolving retail	240	161	205	159	175	128
Other retail (unsecured loans)	175	108	143	121	141	87
Commercial	126	27	406	64	1,718	348
Treasury corporates ¹	-	-	-	-	16	-

¹ Nationwide disposed of its treasury corporate exposures prior to 4 April 2015

Treasury

As treasury credit risks are measured on a Foundation IRB (FIRB) basis the only modelled parameter is PD. The estimated PDs for treasury portfolios can be found in Table 20 (no defaults have been recorded against this portfolio in the year to 4 April 2017).

Commercial

Three FIRB models are used to support the Commercial lending portfolios: Income Producing Real Estate (IPRE), Registered Social Landlords (RSL) and project finance. The IPRE and project finance models adopt the Specialised Lending (Slotting) methodology in PRA Supervisory Statement SS11/13. These models do not use PD and LGDs to calculate capital, instead they use the risk weights and expected loss values prescribed by the regulator. As a result, measures of model performance for PD and LGD are not applicable. Regular model monitoring shows the Commercial models perform as expected.

The RSL model produces PD estimates but to date no defaults have been recorded against the portfolio. The portfolio is on a FIRB approach, so only PD estimates are modelled. LGD and EAD estimates under the FIRB approach are determined in accordance with standard parameters set by the regulator rather than on the basis of internal estimates. Table 20 highlights PD backtesting (no defaults have been recorded against this portfolio in the year to 4 April 2017).

Retail

Tables 21 and 22 compare the PDs and LGDs estimated by Nationwide’s approved IRB models with actual default rates and loss experience. Results from this exercise have shown that the models continue to perform satisfactorily. During the last 12 months, both PD and LGD modelled estimates have been higher than actual outcomes and evidence an appropriately prudent calibration. The PD and LGD values shown in the tables are direct outputs from the Nationwide’s long-run-average and downturn estimates respectively.

Retail mortgages include both prime and specialist portfolios. The mortgage rating systems utilise a hybrid PiT rating scale approach for the estimation of regulatory capital. Within the PD model, cases are assigned a segment based on their application score, behavioural score and arrears status. Each rating segment is assigned a regulatory PD. For accounts in arrears this is based on a long-run average PD estimated over a full economic cycle. Accounts which are not in arrears are assigned a conservatively adjusted PD to reflect downturn conditions. As shown in Table 21, the estimated PDs and actual default experience increase broadly in line with one another, moving up each PD band, maintaining the ranking order throughout.

The unsecured personal loans portfolio operates on a predominantly PiT approach. As a full economic cycle is not available for the unsecured portfolio an approach has been adopted which assigns an uplifted fixed regulatory PD to each rating scale band.

Table 20. EU CR9: IRB approach - Backtesting of PD per exposure class (FIRB)									
a	b	c	d	e	f		g	h	i
Exposure Class	PD range	External rating equivalent	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
					End of previous year	End of the year			
			%	%					
Corporates non-SME (RSL model)	0.00 to <0.15	AAA-Baa2	0.03	0.03	69	66	-	-	-
	0.15 to <0.25	Baa3- Ba1	0.22	0.22	1	1	-	-	-
	0.25 to <0.50	Ba2- Ba3	-	-	-	-	-	-	-
	0.50 to <0.75	B1- B2	-	-	-	-	-	-	-
	0.75 to <2.50	B3	-	-	-	-	-	-	-
	2.50 to <10.00	Caa1	-	-	-	-	-	-	-
	10.00 to <100.00	Caa2- C	-	-	-	-	-	-	-
	100.00 (default)	D	-	-	-	-	-	-	-
Corporates SME (RSL model)	0.00 to <0.15	AAA-Baa2	0.04	0.04	207	203	-	-	-
	0.15 to <0.25	Baa3- Ba1	0.16	0.16	5	2	-	-	-
	0.25 to <0.50	Ba2- Ba3	0.35	0.35	2	2	-	-	-
	0.50 to <0.75	B1- B2	-	-	-	-	-	-	-
	0.75 to <2.50	B3	-	-	-	-	-	-	-
	2.50 to <10.00	Caa1	-	-	-	-	-	-	-
	10.00 to <100.00	Caa2- C	-	-	-	-	-	-	-
	100.00 (default)	D	-	-	-	-	-	-	-
Institutions	0.00 to <0.15	Aaa to A3	0.06	0.06	30	27	-	-	-
	0.15 to <0.25	Baa1	-	-	-	1	-	-	-
	0.25 to <0.50	Baa2- Baa3	-	-	-	-	-	-	-
	0.50 to <0.75	-	-	-	-	-	-	-	-
	0.75 to <2.50	Ba1- Ba3	-	-	-	-	-	-	-
	2.50 to <10.00	B1- B2	-	-	-	-	-	-	-
	10.00 to <100.00	B3- C	-	-	-	-	-	-	-
	100.00 (default)	D	-	-	-	-	-	-	-

Table 21. EU CR9: IRB approach - Backtesting of PD per exposure class (AIRB)

a	b	d	e	f		g	h	i
Exposure Class	PD range	Weighted average PD	Arithmetic average PD by obligors	Number of obligors		Defaulted obligors in the year	Of which new obligors	Average historical annual default rate
		%	%	End of previous year	End of the year			
Retail: Mortgages (All)	0.00 to <0.15	0.04	0.04	1,136,942	1,162,998	215	8	0.02
	0.15 to <0.25	0.18	0.18	91,464	92,175	98	1	0.10
	0.25 to <0.50	0.32	0.33	98,754	101,468	98	1	0.15
	0.50 to <0.75	0.69	0.69	70,840	75,054	116	1	0.32
	0.75 to <2.50	1.47	1.43	32,352	32,114	211	-	0.81
	2.50 to <10.00	5.02	4.97	14,281	12,906	340	-	2.91
	10.00 to <100.00	34.77	33.69	11,872	11,092	1,623	-	15.59
	100.00 (default)	100.00	100.00	4,487	3,935	-	-	100.00
Retail: Unsecured personal loans	0.00 to <0.15	0.07	0.06	37,864	45,082	17	2	0.02
	0.15 to <0.25	0.17	0.17	32,241	35,313	38	12	0.07
	0.25 to <0.50	0.34	0.34	36,889	38,173	99	21	0.15
	0.50 to <0.75	0.69	0.69	41,233	41,235	160	-	0.31
	0.75 to <2.50	1.38	1.38	40,090	39,590	559	228	0.73
	2.50 to <10.00	3.87	3.91	60,516	56,733	2,035	418	2.40
	10.00 to <100.00	21.20	21.69	20,188	18,568	3,272	-	14.81
	100.00 (default)	100.00	100.00	22,514	21,365	-	-	100.00

Table 22. LGD model performance

	LGD estimate (March 2016) ¹	Actual LGD observed (March 2017)
	%	%
Prime mortgages ²	8.81	2.68
Specialist mortgages	19.61	11.42
Unsecured personal loans	77.67	62.99

¹ These are the LGD estimates used in regulatory calculations and are calibrated on a prudent, downturn basis.

² Prime mortgages are subject to a regulatory imposed LGD floor of 10%.

6.5 Retail credit risk

6.5.1 Overview

Prime mortgages, specialist secured lending, unsecured loans and qualifying revolving retail exposures (personal current accounts and credit cards) are risk-weighted using the Retail IRB Approach. Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) are calculated and are used to determine the risk weights.

Prime and specialist mortgage exposures under IRB

PD models for prime and specialist mortgages use a hybrid rating system that combines Point in Time (PiT) rating scale grade assignment, based on application and behavioural scores, with mapping based on arrears status. Accounts are expected to migrate across grades as the economy moves through the cycle. Each grade is assigned a conservatively-adjusted or a long-run average PD that is applied to each account within the grade that month, and this PD estimate is used in the capital calculation.

The EAD models for the prime and specialist portfolios predict the exposure at the point of default, taking balances of the accounts adjusted to include the potential for additional months' interest and expected payments made prior to default. The LGD models predict the exposure remaining unrecovered should a default occur, taking into account the likelihood of repossession in the event of default, Loan to Value (LTV), house price movements and other costs. Both LGD and EAD models calculate PiT and Downturn estimates, the latter of which are fed into the capital calculation.

Internal performance data covering the period back to the early 1990s was used in the development of the prime mortgage models, with the experience seen on the prime portfolio and the available data for specialist portfolios used to develop the models for specialist mortgages. These have been supplemented with industry data where appropriate.

Qualifying revolving retail (personal current account and credit card) exposures under IRB

Nationwide calculates the RWAs for its Current Account (overdraft) and Credit Card exposures using a prudent, simplified approach while the underlying

models are redeveloped. This applies a flat PD by product to non-defaulted accounts and a single LGD across portfolios, as outlined in Tables 23 and 24. The EAD calculations have also been simplified to add on a static amount to performing balances.

Other retail (personal loans) exposures under IRB

For the unsecured personal loan portfolio, a new IRB model was introduced in February 2016. The PD models use a predominantly PiT approach, accounts are mapped to the rating system by their behavioural score. Accounts are expected to migrate across grades as the economy moves through the cycle. Each grade is assigned a conservatively-adjusted PD that gets applied to each account within the grade that month, and this PD estimate is used in the capital calculation.

The exposure predicts the balance at the point of default, taking balances of the accounts adjusted to include the potential for additional months' interest and expected payments made prior to default. The LGD calculation is data driven and predicts the percentage of the EAD that will ultimately be unrecoverable. Both LGD and EAD models calculate PiT and Downturn estimates, the latter of which is fed into the capital calculation.

Table 23. EU CR6: IRB approach - credit risk exposures by exposure class and PD range (2017)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity	RWA £m	RWA density %	EL £m	Value adjustments and Provisions £m
Retail - Secured by real estate non- SME												
0.00 to <0.15	127,642	12,632	52.8	139,282	0.04	1,207,361	9.9		5,172	3.7	8	
0.15 to <0.25	9,949	781	65.4	10,840	0.18	95,609	11.0		713	6.6	2	
0.25 to <0.50	11,297	441	86.0	12,189	0.32	105,536	13.7		1,096	9.0	6	
0.50 to <0.75	10,033	282	97.2	10,786	0.69	78,723	14.1		1,569	14.5	10	
0.75 to <2.50	3,475	159	87.1	3,762	1.47	33,343	15.5		1,035	27.5	9	
2.50 to <10.00	1,265	39	89.2	1,351	4.97	13,226	12.4		566	41.9	8	
10.00 to <100.00	1,154	22	95.1	1,215	34.43	11,298	14.4		943	77.6	65	
100.00 (Default)	395	1	10.0	395	100.00	3,935	13.9		430	108.8	20	
Sub-total	165,210	14,357	55.9	179,820	0.63	1,549,031	10.6		11,524	6.4	128	115
Retail - Qualifying revolving												
0.00 to <0.15	-	-	0.0	-	0.00	-	0.0		-	0.0	-	
0.15 to <0.25	-	-	0.0	-	0.00	-	0.0		-	0.0	-	
0.25 to <0.50	-	-	0.0	-	0.00	-	0.0		-	0.0	-	
0.50 to <0.75	-	-	0.0	-	0.00	-	0.0		-	0.0	-	
0.75 to <2.50	1,821	8,946	68.9	7,983	1.39	8,658,251	85.0		3,530	44.2	94	
2.50 to <10.00	-	-	0.0	-	0.00	-	0.0		-	0.0	-	
10.00 to <100.00	-	-	0.0	-	0.00	-	0.0		-	0.0	-	
100.00 (Default)	170	252	0.0	203	100.00	146,744	85.0		614	302.3	125	
Sub-total	1,991	9,198	67.0	8,186	3.84	8,804,995	85.0		4,144	50.6	219	161
Retail - Other non- SME (personal loans)												
0.00 to <0.15	227	1	100.0	227	0.07	45,145	72.9		33	14.4	-	
0.15 to <0.25	230	2	100.0	231	0.17	35,455	75.1		67	28.9	-	
0.25 to <0.50	264	4	100.0	268	0.34	38,486	76.1		124	46.1	1	
0.50 to <0.75	304	4	100.0	308	0.69	41,631	76.9		214	69.7	2	
0.75 to <2.50	294	5	100.0	300	1.38	40,106	77.3		283	94.5	3	
2.50 to <10.00	410	9	100.0	420	3.84	57,811	77.5		491	116.8	13	
10.00 to <100.00	120	1	100.0	121	21.29	18,678	77.2		188	155.0	20	
100.00 (Default)	143	-	0.0	143	100.00	21,365	88.0		95	66.8	118	
Sub-total	1,992	26	100.0	2,018	9.53	298,677	77.1		1,495	74.1	157	108
Total	169,193	23,581	60.3	190,024	0.86	10,652,703	14.6		17,163	9.0	504	384

Table 24. EU CR6: IRB approach - credit risk exposures by exposure class and PD range (2016)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on- balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjust- ments and Provisions
	£m	£m	%	£m	%		%		£m	%	£m	£m
Retail - Secured by real estate non- SME												
0.00 to <0.15	120,008	11,368	50.0	130,375	0.04	1,176,847	10.1		4,781	3.7	8	
0.15 to <0.25	9,393	694	60.5	10,171	0.18	94,400	10.8		651	6.4	2	
0.25 to <0.50	10,555	560	87.5	11,525	0.32	103,947	14.6		1,090	9.5	6	
0.50 to <0.75	9,076	437	98.3	9,938	0.69	75,892	15.3		1,563	15.7	10	
0.75 to <2.50	3,444	175	88.0	3,746	1.5	33,808	16.2		1,076	28.7	9	
2.50 to <10.00	1,370	50	89.1	1,468	4.9	14,703	13.3		649	44.2	9	
10.00 to <100.00	1,259	30	96.7	1,333	34.0	12,165	16.0		1,155	86.7	77	
100.00 (Default)	442	1	10.0	442	100.0	4,487	14.1		511	115.5	22	
Sub-total	155,547	13,315	54.5	168,998	0.71	1,516,249	11.0		11,476	6.8	143	79
Retail - Qualifying revolving												
0.00 to <0.15	-	-	0.0	-	0.0	-	0.0		-	0.0	-	
0.15 to <0.25	-	-	0.0	-	0.0	-	0.0		-	0.0	-	
0.25 to <0.50	-	-	0.0	-	0.0	-	0.0		-	0.0	-	
0.50 to <0.75	-	-	0.0	-	0.0	-	0.0		-	0.0	-	
0.75 to <2.50	1,796	8,305	77.2	8,206	1.4	8,017,502	85.0		3,609	44.0	96	
2.50 to <10.00	-	-	0.0	-	0.0	-	0.0		-	0.0	-	
10.00 to <100.00	-	-	0.0	-	0.0	-	0.0		-	0.0	-	
100.00 (Default)	183	205	0.0	214	100.0	131,434	85.0		449	210.1	150	
Sub-total	1,979	8,510	75.3	8,420	3.88	8,148,936	85.0		4,058	48.2	246	160
Retail - Other non- SME (personal loans)												
0.00 to <0.15	179	1	100.0	179	0.08	37,947	73.6		29	16.2	-	
0.15 to <0.25	159	2	100.0	162	0.17	32,461	73.9		46	28.4	-	
0.25 to <0.50	246	4	100.0	251	0.34	37,299	75.5		115	45.8	1	
0.50 to <0.75	269	6	100.0	275	0.69	41,822	76.0		190	68.9	2	
0.75 to <2.50	290	8	100.0	298	1.4	40,903	76.8		280	93.9	3	
2.50 to <10.00	447	16	100.0	462	3.9	62,197	77.2		538	116.6	14	
10.00 to <100.00	184	2	100.0	186	19.3	20,437	77.1		287	154.9	21	
100.00 (Default)	149	-	0.0	149	100.0	22,514	89.7		75	50.2	127	
Sub-total	1,923	39	100.0	1,962	10.7	295,580	77.1		1,560	79.5	168	121
Total	159,449	21,864	62.7	179,380	0.97	9,960,765	15.2		17,094	9.5	557	360

Management of retail credit risks

Retail credit risks are managed in accordance with limits set out within the Secured and Unsecured Lending Risk Strategies. Detailed policies exist which set out lending criteria and circumstances where expert underwriting may be needed.

The residential and specialist portfolios have their own credit scoring models, policy and underwriting rules to make decisions on applications for credit and to manage accounts. The principal factors considered in the residential decision are affordability, credit history, buyer types, nature of income and LTV, with the principal factors considered in the specialist decision being affordability, credit history, security and LTV. In addition, confirmation of borrower identity is obtained and an assessment of the value and suitability of the security being taken as collateral is carried out prior to granting a credit facility.

Each of the unsecured portfolios has its own credit scoring models (including behavioural scoring), policy and underwriting rules to make decisions on applications for credit and to manage accounts. Credit scoring is used to support the customer account management process in the following ways: to set maximum lending limits, to set shadow limits to manage unauthorised borrowing and to prioritise collections activity.

Ongoing monitoring of all retail credit portfolios is undertaken by the Secured and Unsecured Credit Risk functions in Risk. Reports are sent to the Credit Committee on a monthly basis.

To support customers in financial difficulty Nationwide offers forbearance options to secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended 4 April 2017 to ensure alignment to good practice.

More detail on forbearance can be found in the Annual Report and Accounts 2017.

6.5.2 Credit risk concentration

Concentration risk is defined as the risk arising from insufficient diversification, resulting in a single exposure or group of correlated exposures with the potential to generate severe losses for Nationwide.

Credit risk concentration can arise in two forms:

- Systemic risk – the effect of changes in macro-economic and financial conditions on borrower performance.
- Idiosyncratic risk – the effect of events which impact individual borrowers, which can be reduced through portfolio diversification.

The residential portfolio comprises lending across the UK but with a bias towards the South East of England which simply reflects a concentration of the UK market in that region.

By their nature, residential mortgages and unsecured lending comprise a large number of highly-diversified small loans with a low volatility of credit risk outcomes at a portfolio level. The intrinsic protection against more specific local risks such as industry closures or reduced student rental demand is in the diversification of the portfolio across areas and regions throughout the UK.

For residential mortgages, concentration risks are monitored as part of the overall lending strategy covering both portfolio concentrations and new lending.

6.5.3 Credit risk mitigation

Residential property is Nationwide's main source of collateral and means of mitigating credit risk inherent in its residential mortgage portfolios. All mortgage lending activities are supported by an appropriate form of valuation using in-house valuers, an independent firm of valuers or by an Automatic Valuation Model subject to business rules and confidence levels.

6.6 Commercial credit risk

6.6.1 Overview

Commercial credit risk is defined as the risk that a commercial borrower fails to pay the interest or to repay the principal on a loan, on time. It also encompasses extension risk and concentration risk.

Nationwide holds a reducing portfolio of commercial loans which have been provided to meet the funding requirements of Commercial Real Estate (CRE) investors, including private sector landlords, registered social landlords (RSL) and project finance initiatives.

In November 2016, following a strategic review of the CRE business, it was concluded that this is no longer core to Nationwide's core purpose and as such, the decision was made to cease lending to new and existing CRE customers. The CRE portfolio is now closed to new business and existing loans will run off in line with their contractual terms.

The strategy for the registered social landlord and project finance portfolios is to hold and actively manage to maturity. No new lending will be considered although opportunities to de-risk specific transactions will be explored as they arise.

The portfolio is closely monitored and Nationwide's risk appetite is managed and reported on a monthly basis through a suite of metrics which have been developed to monitor portfolio performance, as well as limit exposure to high risk segments. Prudential Risk Oversight, a second line oversight function reporting to the Chief Risk Officer, oversees the Commercial Credit function.

All commercial lending relationships are subject to regular reviews, at least once a year, to ensure that the facilities are performing in accordance with the terms of the original sanction. This provides an opportunity to review the exposure to each counterparty in the light of the most recently available financial and non-financial information and to refresh risk grading data. Borrowers are rated annually, as a minimum, with more frequent rating reviews prompted by the identification of adverse individual or sector trends or material changes.

Monitoring of asset quality in the commercial portfolio is based upon a number of measures including rating grade migration, risk concentrations, market changes and financial covenant monitoring. Reports relating to the profile of the commercial lending portfolio are sent to the risk committees on a monthly basis.

Table 25 highlights the year end position for the RSL portfolio with the closing position for the previous year outlined in Table 26. The rating composition and size of the portfolio is broadly stable on a year on year basis.

Table 25. EU CR6: IRB approach - credit risk exposures by exposure class and PD range (2017)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity yrs	RWA £m	RWA density %	EL £m	Value adjustments and Provisions £m
Corporates – SME												
0.00 to <0.15	2,312	200	75.0	2,462	0.04	214	38.4	20	586	23.8	-	
0.15 to <0.25	2	-	0.0	2	0.16	2	45.0	12	1	51.9	-	
0.25 to <0.50	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
0.50 to <0.75	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
0.75 to <2.50	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
2.50 to <10.00	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
10.00 to <100.00	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
100.00 (Default)	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
Sub-total	2,314	200	75.0	2,464	0.04	216	38.5	20	587	23.8	-	-
Corporates – Other												
0.00 to <0.15	6,518	574	75.0	6,949	0.03	97	37.5	21	1,690	24.3	1	
0.15 to <0.25	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
0.25 to <0.50	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
0.50 to <0.75	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
0.75 to <2.50	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
2.50 to <10.00	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
10.00 to <100.00	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
100.00 (Default)	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	
Sub-total	6,518	574	75.0	6,949	0.03	97	37.5	21	1,690	24.3	1	-
Total	8,832	774	75.0	9,413	0.04	313	37.8	21	2,277	24.2	1	-

Table 26. EU CR6: IRB approach - credit risk exposures by exposure class and PD range (2016)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and Provisions
	£m	£m	%	£m	%		%	yrs	£m	%	£m	£m
Corporates – SME												
0.00 to <0.15	2,518	230	75.0	2,689	0.04	234	38.4	22	623	23.2	-	
0.15 to <0.25	21	-	0.0	21	0.16	5	37.0	23	9	43.7	-	
0.25 to <0.50	-	-	0.0	-	0.35	1	45.0	15	-	54.8	-	
0.50 to <0.75	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
0.75 to <2.50	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
2.50 to <10.00	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
10.00 to <100.00	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
100.00 (Default)	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
Sub-total	2,539	230	75.0	2,710	0.04	240	38.4	22	632	23.3	-	-
Corporates – Other												
0.00 to <0.15	6,314	736	75.0	6,867	0.03	94	38.6	22	1,707	24.9	1	
0.15 to <0.25	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
0.25 to <0.50	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
0.50 to <0.75	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
0.75 to <2.50	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
2.50 to <10.00	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
10.00 to <100.00	-	-	0.0	-	0.0	-	0.0	-	-	0.0	2	
100.00 (Default)	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
Sub-total	6,314	736	75.0	6,867	0.03	94	38.6	22	1,707	24.9	3	-
Total	8,853	966	75.0	9,577	0.04	334	38.5	22	2,339	24.4	3	-

Table 27 highlights the year end position for the specialised lending portfolios with the closing position for the previous year outlined in Table 28. These portfolios comprise project finance and income producing real estate exposures (IPRE) exposures. The portfolios have fallen in balance on a year on year basis, with a strengthening in risk profile over the period consistent with the strategy for the portfolio.

Table 27. CR10: IRB specialised lending and equities (2017)

Specialised Lending								
Regulatory categories	Remaining Maturity	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA	Expected losses	
£m	£m	£m	£m	%	£m	£m	£m	£m
Strong	Less than 2.5 years	212	-	50	212	106	-	
	Equal to or more than 2.5 years	2,092	63	70	2,139	1,497	9	
Good	Less than 2.5 years	276	-	70	276	192	1	
	Equal to or more than 2.5 years	906	14	90	916	824	7	
Satisfactory	Less than 2.5 years	89	-	115	89	102	3	
	Equal to or more than 2.5 years	188	-	115	188	216	5	
Weak	Less than 2.5 years	67	-	250	67	169	5	
	Equal to or more than 2.5 years	85	-	250	85	212	7	
Default	Less than 2.5 years	50	-	-	50	-	25	
	Equal to or more than 2.5 years	3	-	-	3	-	1	
Total	Less than 2.5 years	694	-		694	569	34	
	Equal to or more than 2.5 years	3,274	77		3,331	2,749	29	
Equities under the simple risk-weight approach								
		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA	Expected losses	
		£m	£m	%	£m	£m	£m	£m
	Other equity exposures	33	-	370	33	122	10	
Total		33	-		33	122	10	

The table shows that 88% (2016: 84%) of exposures are in the strong or good categories.

Table 28. CR10: IRB specialised lending and equities (2016)

Specialised Lending								
Regulatory categories	Remaining Maturity	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA	Expected losses	
£m	£m	£m	£m	%	£m	£m	£m	£m
Strong	Less than 2.5 years	264	-	50	264	130	-	
	Equal to or more than 2.5 years	1,914	65	70	1,963	1,366	9	
Good	Less than 2.5 years	393	-	70	393	270	2	
	Equal to or more than 2.5 years	1,093	33	90	1,118	985	9	
Satisfactory	Less than 2.5 years	140	-	115	140	158	4	
	Equal to or more than 2.5 years	228	-	115	228	256	6	
Weak	Less than 2.5 years	101	-	250	101	246	8	
	Equal to or more than 2.5 years	103	-	250	103	248	8	
Default	Less than 2.5 years	128	-	-	128	-	64	
	Equal to or more than 2.5 years	31	-	-	31	-	15	
Total	Less than 2.5 years	1,026	-		1,026	804	78	
	Equal to or more than 2.5 years	3,369	98		3,443	2,855	47	
Equities under the simple risk-weight approach								
		On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA	Expected losses	
		£m	£m	%	£m	£m	£m	£m
Other equity exposures		81	-	370	81	300	24	
Total		81	-		81	300	24	

Table 29. Commercial lending by industry sector

	2017	2016
	£m	£m
IRB exposures		
Registered social landlords	9,413	9,577
Project finance	1,425	1,560
Property finance lending:		
Retail	845	1,017
Office	487	489
Residential	971	952
Industrial and warehouse	150	214
Leisure and hotel	128	205
Other	19	32
Standardised exposures		
Owner occupier	33	99
Other	1	88
Regional governments and local authorities (lease receivables)	7	8
Total	13,479	14,241

6.6.2 Credit risk concentration

The commercial portfolio remains well spread across sectors and geographic regions, and policies are set to restrict the size of aggregate exposure to any single counterparty or group of closely-connected counterparties. In addition, the portfolio has decreased in size and is heavily focused in RSL and PFI, which hold low risk profiles.

6.6.3 Credit risk mitigation

Commercial property is the main source of collateral and means of mitigating credit risk inherent in the commercial portfolios. Collateral for the majority of commercial loans comprises first legal charges over freehold or long leasehold property, complemented by an assignment of rental income and duty of care deeds where appropriate.

The project finance portfolio is secured against contractual cash flows from projects procured under the UK Private Finance Initiative rather than physical assets.

For property-based lending, supporting information such as professional valuations are an important tool to help determine the ongoing suitability of the property offered as security and, in the case of property finance lending, that the property generates sufficient cash flow to service the facility and ultimately repay the loan. The type of valuation obtained will depend upon the use of the property, but typically, as a minimum, will include market values assuming vacant possession and subject to any occupational leases in place and an assessment of market rent.

All valuations are undertaken by members of an internally-approved panel of valuers. The merits of obtaining a revaluation are considered at each facility review and typically, higher value assets and those relating to cases at risk are re-valued most regularly.

The exposure a borrower has to interest rate risk is considered, as part of the credit risk assessment, throughout the life of the loan.

6.7 Treasury credit risk

6.7.1 Introduction

Credit risk within Treasury arises primarily from the instruments held by Treasury for operational, liquidity, and investment purposes.

The Treasury Credit Risk function manages all aspects of credit risk in accordance with Nationwide's risk governance framework with the Treasury Credit Policy approved by Nationwide's Credit Committee. It also sets and monitors compliance with policy and limits. Independent oversight and challenge is provided by Prudential Risk Oversight.

The risk profile of the Treasury portfolio has continued to improve, as shown in Tables 31 and 32. New investment activity remains limited to a small number of established asset classes with proven credit performance, predominantly at senior AA-AAA levels and the total balance of out of policy legacy assets (investment securities acquired prior to the financial crisis and no longer approved within risk appetite) has reduced from £0.4bn to £0.2bn.

An established governance structure exists to identify and review under-performing assets and highlight the likelihood of future losses. A monthly review is undertaken of the current and expected future performance of all treasury assets. In accordance with accounting standards, assets are impaired where there is objective evidence that current events and/or performance will result in a loss. Review frequencies will be greater for those counterparties perceived to be higher risk or where a significant material change has been seen that may impact their credit rating.

As part of Nationwide's risk management, derivatives are used to reduce exposure to market risks that have the potential to create counterparty credit risk. These instruments are only traded with highly-rated organisations and are collateralised under market standard documentation.

Lending and investment decisions are subject to a manual, qualitative underwriting process which is supplemented by cash-flow modelling (via the independent market standard modelling tool, Intex) or from the outputs of a financial strength rating model for financial institution counterparties. Additional modelling is undertaken with Moody's Analytics (MA) used to support stress testing activity and to enhance treasury credit modelling capability.

An IRB model is used to determine PDs for Treasury's financial institution exposures. The PD model for financial institutions consists of two key elements, a statistically driven quantitative financial strength rating and a qualitative overlay. Under the Foundation IRB approach, regulatory parameters are used for LGD and credit conversion factors applicable to commitments.

The qualitative overlay is applied by the Treasury Credit Risk function to the quantitative rating to reflect material differences in operating conditions and market related or business specific factors that may not yet be reflected in published financial information. This adjustment also recognises any external support mechanisms that would take effect in the event of the counterparty encountering financial difficulties. The model generates a long-term rating by combining these quantitative and qualitative factors. The output is a numerical rating ranging from 1 to 22, with grades 1 to 10 equating to investment grade status and grade 22 representing default.

Credit limits are restricted to financial institutions with an internal rating of 8 or above. In line with the ERMF, credit exposures will continue to be managed and controlled by a tiering system, with limits capped by rating and counterparty size. New limits are approved by Treasury Lending Risk Committee and all financial institutions counterparties are reviewed and re-rated annually as a minimum and subject to review and challenge via the established monthly monitoring meetings.

Nationwide uses Standard and Poor's (S&P), Moody's and Fitch as External Credit Assessment Institutions (ECAIs) for Treasury credit risk exposures. The issuer and issue credit assessments provided by ECAIs are one of a number of considerations that form part of the credit assessment process, that is supported by comprehensive and market standard procedures and controls.

Table 30 shows the mapping of internal default grades to external ratings at 4 April 2017.

Table 30. Internal default grades mapped to external ratings							
Internal Default Grades	PD band	S&P ratings		Moody's ratings		Fitch ratings	
1- 3	0% to 0.035%	AAA	to AA	Aaa	to Aa2	AAA	to AA
4- 6	0.036% to 0.070%	AA-	to A	Aa3	to A2	AA-	to A
7- 9	0.071% to 0.300%	A-	to BBB	A3	to Baa2	A-	to BBB
10- 12	0.301% to 2.000%	BBB-	to BB	Baa3	to Ba2	BBB-	to BB
13- 16	2.001% to 18.000%	BB-	to B-	Ba3	to B3	BB-	to B-
17- 22	18.001% to 100%	CCC+	to D	Caa1	to D	CCC	to D

Tables 31 and 32 show the exposure values and PD ranges for financial institutions (including commitments), equity and other non-credit obligation assets at 4 April 2017. Exposure values for asset backed securities can be found in section 8.

Table 31. EU CR6: IRB approach - credit risk exposures by exposure class and PD range (2017)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure £m	Off-balance sheet exposures pre CCF £m	Average CCF %	EAD post CRM and post-CCF £m	Average PD %	Number of obligors	Average LGD %	Average maturity yrs	RWA £m	RWA density %	EL £m	Value adjustments and Provisions £m
Institutions												
0.00 to <0.15	1,623	-	0.0	1,623	0.06	59	25.6	2	198	12.2	-	-
0.15 to <0.25	65	-	0.0	65	0.16	1	45.0	1	24	36.8	-	-
0.25 to <0.50	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	-
0.50 to <0.75	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	-
0.75 to <2.50	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	-
2.50 to <10.00	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	-
10.00 to <100.00	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	-
100.00 (Default)	-	-	0.0	-	0.00	-	0.0	-	-	0.0	-	-
Sub-total	1,688	-	0.0	1,688	0.06	60	26.4	2	222	13.2	-	-
Equity - Under the simple risk-weight approach												
None	33	-	0.0	33	0.00	1	0.0	-	122	370.0	1	-
Other non- credit-obligation assets												
None	1,152	-	0.0	1,152	0.00	-	0.0	-	1,152	100.0	-	-
Total	2,873	-	0.0	2,873	0.06	61	26.4	2	1,496	52.1	1	-

Table 32. EU CR6: IRB approach - credit risk exposures by exposure class and PD range (2016)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post- CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and Provisions
	£m	£m	%	£m	%		%	yrs	£m	%	£m	£m
Institutions												
0.00 to <0.15	2,930	-	0.0	2,930	0.06	75	33.7	2	465	15.9	1	
0.15 to <0.25	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
0.25 to <0.50	-	-	0.0	-	0.0	-	0.0	0	-	0.0	-	
0.50 to <0.75	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
0.75 to <2.50	31	-	0.0	31	2.2	1	11.3	3	10	32.4	-	
2.50 to <10.00	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
10.00 to <100.00	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
100.00 (Default)	-	-	0.0	-	0.0	-	0.0	-	-	0.0	-	
Sub-total	2,961	-	0.0	2,961	0.09	76	33.5	2	475	16.0	1	-
Equity - Under the simple risk-weight approach												
None	81	-	0.0	81	0.0	1	0.0	-	300	370.0	2	-
Other non- credit- obligation assets												
None	1,126	-	0.0	1,126	0.0	-	0.0	-	1,126	100.0	-	-
Total	4,168	-	0.0	4,168	0.09	77	33.5	2	1,901	45.6	3	-

6.7.2 Credit risk concentrations

Policy limits have been set to manage treasury credit risk concentrations. These limits are actively managed, measured and reported, providing an over-arching control over the composition of the portfolio. More granular limits are applied to cover sub-portfolios, countries, asset classes/sectors, issuer exposures and aggregated counterparty groups to prevent unacceptable concentrations.

6.7.3 Credit risk mitigation

Collateral held as security for treasury assets is determined by the nature of the instrument. Loans, debt securities and treasury bills are generally unsecured. Asset backed securities, covered bonds and similar instruments are secured by pools of financial assets.

Nationwide's preferred method of documenting derivative activity is the International Swaps and Derivatives Association (ISDA) Master Agreement. In all such cases a Credit Support Annex (CSA) is executed in conjunction with the ISDA Master Agreement to mitigate credit risk on the derivatives portfolio.

Under these agreements Nationwide typically values its portfolio internally using discounted cash flow and options pricing models as appropriate. The terms of a CSA allow for collateral to be passed between parties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Nationwide's 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 on derivatives.

Nationwide's CSA legal documentation for derivative transactions grants legal rights of set off for transactions with the same overall 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.

6.8 Equities

Nationwide holds a small equity exposure which had a balance sheet and fair value of £33m at 4 April 2017 (2016: £81m). This exposure is risk-weighted at the 370%, resulting in total risk-weighted assets of £122m. Nationwide does not hold any private equity exposures or exchange traded exposures.

On 21 June 2016, Nationwide disposed of its share in Visa Europe Limited resulting in a gain on disposal of £100 million. Nationwide was a principal member and shareholder of Visa Europe Limited and in exchange for its share received a combination of cash, deferred consideration and preferred stock. No other disposals occurred during the period.

Tables 27, 28, 31 and 32 provide further details on Nationwide's equity exposure.

6.9 Impairment provisions

Assets held at amortised cost

Nationwide assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, delinquency or default in interest or principal payments or the debt is being restructured to reduce the burden on the borrower.

Nationwide first assesses whether objective evidence of impairment exists either individually for assets that are separately significant, or individually and collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually-assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions are deducted from the asset values in the balance sheet. The methodology and assumptions used for estimating future cash flows are reviewed regularly by Nationwide to ensure they are appropriate for the calculation of loss estimates.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

Loans subject to individual impairment assessment whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired.

The Annual Report and Accounts 2017 details the past due loans and provisions for impaired exposures (equivalent to value adjustments) and charges to the income statement. These can be found in the Lending Risk section of the Business and Risk Report.

Available for sale assets

Nationwide assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If

any such evidence exists for available for sale assets, the cumulative loss, measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised, is recognised in impairment losses/recoveries on investment securities in the income statement.

A subsequent decline in the fair value of an available for sale asset is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income.

If the fair value of an available for sale asset increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent it reverses the previously recognised impairment. Any gain in fair value in excess of the original impairment is recognised in other comprehensive income. On disposal, where sales proceeds exceed the carrying amount of an impaired asset, the proportion of the gain which offsets the previously recognised impairment loss is recognised as a credit in impairment losses/recoveries on investment securities in the income statement.

Impairment losses recognised in the income statement on available for sale equity shares are not reversed through the income statement.

Further information on the accounting for impairment provisions can be found in the Annual Report and Accounts 2017, Note 1 to the financial statements.

Table 33 summarises the movement during the year in impairment provisions.

Table 33. Movements in impairment provisions

	Individual Provisions		Collective Provisions		Total	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Opening balance	76	341	367	311	443	652
Charge for the year	15	(5)	116	86	131	81
Write-offs	(49)	(275)	(101)	(44)	(150)	(319)
Recoveries	5	23	15	19	20	42
Disposals	-	-	-	-	-	-
Unwind of discount	(2)	(8)	(4)	(5)	(6)	(13)
Balance at 4 April	45	76	393	367	438	443

7. Counterparty credit risk

Nationwide uses derivative instruments to hedge its exposure to market risk, for example, interest rate and foreign exchange risk. Counterparty credit risk is the risk that a counterparty to a derivative instrument to which Nationwide has an exposure could default. This risk is mitigated by offsetting the amounts due to the same counterparties ('netting benefits') and by cash collateral deposited by certain counterparties ('collateral held') to mitigate the mark to market exposures on derivatives.

Table 34 shows the exposures to counterparty credit risk for derivative contracts at 4 April 2017.

Table 34. Net exposures to counterparty credit risk for derivative contracts		
	2017	2016
	£m	£m
Interest rate contracts	1,879	2,175
Foreign exchange contracts	2,931	1,283
Other contracts	233	440
Gross positive fair value of contracts	5,043	3,898
Netting benefits ¹	(799)	(779)
Netted current credit exposure	4,244	3,119
Collateral ²	(2,889)	(1,687)
Net derivative credit exposure	1,355	1,432

¹ Netting benefits are included after the add on for potential future credit exposure (PFCE) has been applied

² Collateral is after any regulatory adjustments have been applied

The increase in the value of the foreign exchange derivative contracts is driven by foreign exchange rates and higher levels of non-sterling funding. The net derivative credit exposure represents the credit exposure to derivative transactions after taking account of legally enforceable netting agreements and CSAs and after including Potential Future Credit Exposure (PFCE) as required in the calculation of exposure. Regular, typically daily, re-balancing of the collateral requirements reduces the potential increase in future credit exposure.

Collateralisation of derivatives introduces two material changes in credit exposure, namely:

- The posting of collateral reduces the impact of the current market value to the difference between the market value of the derivatives and the value of the collateral. This difference is limited by the operational use of 'thresholds' and 'minimum transfer amounts', which set criteria to avoid the movement of small amounts of collateral; and
- If the counterparty fails to post additional collateral required, a default can be enforced within a very short timeframe resulting in a substantial reduction in the potential future increases in credit exposure. This rapid default enforcement shortens the timescale within which future changes in interest rates and foreign exchange rates may occur, which would affect the value of the exposure.

Derivative positions and collateral are valued daily and compared with counterparty valuations to agree collateral settlement. Any disputes in value are monitored and escalated as required by the dispute resolution procedures. Market standard CSA collateral allows GBP, EUR and USD cash and in some cases, extends to high grade sovereign debt securities but cash is the only collateral currently held.

Liquidity is held for both additional collateral that would have to be posted in the event of a credit rating downgrade and adverse movements in market rates. Collateral requirements following downgrade are assessed on a contractual basis, whereas liquidity for changes in market rates is assessed using historic market rate volatility.

"Wrong-way risk" may occur when exposure to a counterparty is negatively correlated with the credit quality of that counterparty. Hence, there is a tendency for the exposure to increase as the creditworthiness decreases. This risk is managed through the Treasury Credit Risk Policy, which states that all collateral must not be materially correlated to the trade counterparty.

Nationwide has an increasing exposure to a central counterparty (CCP). Nationwide is a direct member of a CCP to clear repurchase agreements. This necessitates a contribution to the default fund, however the repurchase agreements are short-dated, typically overnight, and the exposure to the fund is relatively small. Nationwide also has indirect clearing arrangements with a CCP used to centrally clear standardised derivatives subject to mandatory clearing under EU regulatory requirements. Limits to the CCP are set in line with the current Treasury Credit Risk Policy.

As described in 6.7.3, the Nationwide's preferred method of documenting derivative activity is the ISDA Master Agreement. In all such cases a CSA is executed in conjunction with the ISDA Master Agreement to mitigate credit risk on the derivatives portfolio. Under these agreements Nationwide typically values its portfolio in-house using discounted cash flow and options pricing models as appropriate. Any such valuations are agreed with the relevant counterparties, and collateral is then exchanged to bring the credit exposure within agreed tolerances.

Credit derivatives

The purchase of a credit derivative (i.e. a credit default swap) is treated as a credit substitution and enables the credit exposure from the reference asset to be transferred to the credit protection seller. Thus, the credit protection buyer's risk only manifests if both the reference asset and the credit protection seller default.

At 4 April 2017, Nationwide had no credit default swaps.

Tables 35 to 43 provide further detail on Nationwide's counterparty credit risk exposures.

Table 35. EU CCR1: Analysis of the CCR exposure by approach (2017)

		b	c	f	g
		Replacement cost / current market value	Potential future exposure	EAD post-CRM	RWAs
		£m	£m	£m	£m
1	Mark to market	2,832	1,302	1,276	546
9	Financial collateral comprehensive method (for SFTs)			5,385	-
11	Total				546

Note: This table does not include centrally cleared derivative exposures.

Table 36. EU CCR1: Analysis of the CCR exposure by approach (2016)

		b	c	f	g
		Replacement cost / current market value	Potential future exposure	EAD post-CRM	RWAs
		£m	£m	£m	£m
1	Mark to market	1,883	1,236	1,433	594
9	Financial collateral comprehensive method (for SFTs)			4,004	4
11	Total				598

Note: This table does not include centrally cleared derivative exposures.

Table 37. EU CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk (2017)

		Risk weight		Total
		0%	2%	
		£m	£m	£m
1	Central governments or central banks ¹	5,385	-	5,385
7	Corporates ²	-	936	936
11	Total	5,385	936	6,321

¹ Security Financing Transactions (SFTs) - Repurchase transactions

² Centrally cleared derivative exposures.

Table 38. EU CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk (2016)

		Risk weight		Total
		0%	2%	
		£m	£m	£m
1	Central governments or central banks ¹	3,989	-	3,989
7	Corporates ²	-	-	-
11	Total	3,989	-	3,989

¹ Security Financing Transactions (SFTs) - Repurchase transactions

² Centrally cleared derivative exposures.

Table 39. CCR4: IRB approach - CCR exposures by portfolio and PD scale (2017)

	a	b	c	d	e	f	g
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
	£m	%		%	yrs	£m	%
0.00 to <0.15	4,085	0.05	28	13.5	4	506	12.4
0.15 to <0.25	49	0.16	2	43.8	5	40	81.4
0.25 to <0.50	-	0.00	-	0.0	-	-	0.0
0.50 to <0.75	-	0.00	-	0.0	-	-	0.0
0.75 to <2.50	-	0.00	-	0.0	-	-	0.0
2.50 to <10.00	-	0.00	-	0.0	-	-	0.0
10.00 to <100.00	-	0.00	-	0.0	-	-	0.0
100.00 (Default)	-	0.00	-	0.0	-	-	0.0
Sub-total	4,134	0.05	30	13.9	4	546	13.2
Total (all portfolios)	4,134	0.05	30	13.9	4	546	13.2

Note 1: This table does not include any centrally cleared derivative exposures.

Note 2: EAD post CRM does not include the effect of collateral received as this is reflected in the LGD.

Table 40. CCR4: IRB approach - CCR exposures by portfolio and PD scale (2016)

	a	b	c	d	e	f	g
	EAD post CRM	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density
	£m	%		%	yrs	£m	%
0.00 to <0.15	3,693	0.06	37	17.6	4	598	16.2
0.15 to <0.25	-	0.00	-	0.0	-	-	0.0
0.25 to <0.50	0	0.44	1	45.0	5	-	130.8
0.50 to <0.75	-	0.00	-	0.0	-	-	0.0
0.75 to <2.50	-	0.00	-	0.0	-	-	0.0
2.50 to <10.00	-	0.00	-	0.0	-	-	0.0
10.00 to <100.00	-	0.00	-	0.0	-	-	0.0
100.00 (Default)	-	0.00	-	0.0	-	-	0.0
Sub-total	3,693	0.06	38	17.6	4	598	16.2
Total (all portfolios)	3,693	0.06	38	17.6	4	598	16.2

Table 41. EU CCR8: Exposures to central counterparties (2017)

	a	b
	EAD (post-CRM)	RWA
	£m	£m
1 Exposures to QCCPs (total)		25
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	493	10
3 (i) OTC derivatives	493	10
8 Non-segregated initial margin	443	9
9 Prefunded default fund contributions ¹	11	6

¹ Default fund contributions relate to repurchase transactions only.

Table 42. EU CCR2: Credit valuation adjustment (CVA) capital charge (2017)

	a	b
	Exposure £m	RWA £m
4 All portfolios subject to the Standardised Method	1,276	650
5 Total subject to the CVA capital charge	1,276	650

Table 43. EU CCR2: Credit valuation adjustment (CVA) capital charge (2016)

	a	b
	Exposure value £m	RWA £m
4 All portfolios subject to the Standardised Method	1,447	698
5 Total subject to the CVA capital charge	1,447	698

8 Securitisation

Nationwide engages in securitisation activities for two purposes:

- To obtain funding from the capital markets; and
- To support Nationwide's liquidity requirements via the purchase of highly rated securitisation issues.

Retained securitisation positions

Nationwide has securitised certain mortgage loans by transferring the loans to special purpose entities (SPEs) sponsored by the Group. The SPEs are fully consolidated into the Group accounts.

The Silverstone Master Trust programme for retail mortgages is currently the only vehicle that securitises assets originated by the Society. Notes are issued by Silverstone Master Issuer plc to external counterparties and to the Society to obtain secured funding. Nationwide Building Society is both originator and servicer of the programme. Other roles fulfilled by the Society are fully described in the Silverstone base prospectus.

A total of £10.4 billion (4 April 2016: £12.4 billion) of mortgage loans are currently pledged to the Silverstone programme. As at 4 April 2017, assets on the balance sheet which meet the eligibility criteria for the Silverstone programme total £61.5 billion of prime mortgages (4 April 2016: £56.9 billion).

The transfers of the mortgage loans to the Silverstone entities are not treated as sales by Nationwide. The Group continues to recognise the mortgage loans on its own balance sheet after the transfer because it substantially retains their risks and rewards through the receipt of substantially all the profits or losses of the Silverstone entities. In the accounts of the Group, the proceeds received from the transfer are accounted for as a deemed loan repayable to the Silverstone entities.

A summary of the Group's accounting policies for securitisations activities can be found within the Annual Report and Accounts 2017, Note 1 to the financial statements.

For residential mortgages securitised by Nationwide, as at 4 April 2017, 332 mortgage accounts were past due (2016: 301), with an outstanding balance of £31 million (2016: £29 million). Losses incurred in the Silverstone pool in the period amounted to £0.6 million (2016: £1.0 million) across 22 properties sold (2016: 55).

Silverstone Master Issuer (SMI) issues Class A and unrated Class Z notes (respectively A-notes and Z-notes). Currently all A-notes are held by third parties and all Z-notes are retained by Nationwide. During the year, SMI did not issue any A-notes to third parties and A-notes issued to third parties of £1.1 billion and \$0.53 billion were repaid (sterling equivalent £1.5 billion at maturity). The total value of A-notes issued to third parties as at 4 April 2017 is £3.5 billion (4 April 2016: £4.7 billion) sterling equivalents, on respective reporting dates.

Z-notes provide subordination required to maintain the rating of the A-notes. Z-notes issued to Nationwide of £1.5 billion were repaid during the year. In January 2017, Nationwide issued a Z-Variable Funding Note (Z-VFN), which enables subordination to be maintained at an efficient level as the amount of A-notes changes. The values of Z-notes and the Z-VFN retained by Nationwide at 4 April 2017 are £0.1bn and £0.3bn respectively. The Society and its subsidiaries are under no obligation to support any losses that may be incurred by the securitisation programme or holders of the notes issued. The parties holding the notes in issue are only entitled to obtain payment of the principal and interest to the extent that the resources of the Silverstone Master Trust structure are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form.

To manage interest rate risk, the Society enters into derivative transactions with the SPEs, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. In accordance with IAS 39, these internal derivatives are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans are not derecognised. Cash flows arising from these internal derivatives are accounted for on an accruals basis. All other derivatives relating to securitisations are treated as explained in the derivatives and hedge accounting policy, which can be found in the Annual Report and Accounts 2017.

The Silverstone entities also represent a liquidity risk to the Group due to legal covenants which may need to be fulfilled in the event of a downgrade of the Society. Funds may need to be either deposited with another institution which has the requisite ratings or a guarantee obtained from a suitable guarantor if Nationwide's short term rating was downgraded, unless the rating agencies as appropriate confirm that the ratings of the notes will not be affected. The cash flows resulting from these legal covenants are in respect of amounts required to collateralise swaps and amounts held in the transaction bank accounts and the Guaranteed Investment Contract (GIC) accounts, which represent the net cash position arising from the management of the securitisation programme at any point in time. The cash flows required in the event of downgrade are considered in Nationwide's internal assessment of its liquidity requirements.

As at 4 April 2017, Nationwide held £0.4 billion (2016: £1.6 billion) of self-issued notes in Silverstone of which £nil (2016: £nil) were eligible for use in repurchase (repo) transactions.

Self-issued notes and the equivalent deemed loan, together with the related income, expenditure and cash flows are not recognised in the Group's financial statements. This avoids the 'grossing-up' of the financial statements that would otherwise arise. Notes issued to third parties are held and valued at amortised cost.

For details on asset encumbrance relating to securitisation activity, refer to Appendix 1. More details of assets pledged under securitisation, covered bond and whole loan arrangements can be found in Note 16 to the financial statements, Annual Report and Accounts 2017.

Purchased securitisation positions

Nationwide invests in highly rated securitisation issues in eligible, established asset classes to support regulatory liquidity requirements. In line with the Board's liquidity risk appetite, Treasury Credit Policy restricts investment activity to senior, high quality liquid securities in a small number of established, low risk sectors.

The ratings-based method for calculating risk weighted exposure on its securitisation portfolio is employed. The total exposure to purchased securitisation positions at 4 April 2017 was £3.6 billion (2016: £2.7 billion) by market value. The aggregate fair values are calculated based on independent quoted market prices.

At the balance sheet date, Nationwide had entered a commitment to subscribe to up to a maximum of £1.8 billion of residential mortgage backed securities (RMBS), rated AAA to BBB under a programme to securitise ex Bradford and Bingley residential mortgage assets which resulted in Nationwide acquiring £1.2 billion RMBS, primarily held in AAA rated notes. The transaction settled on 25 April 2017.

Within a securitisation structure, the senior note holders will have priority over all available cash flows together with structural credit protection provided by the lower ranking notes outstanding that will absorb credit losses. The senior noteholders will only incur losses once all outstanding non-senior notes have been fully written down although all notes remain vulnerable to rating agency downgrades should a deterioration in credit profile be seen.

Table 44 shows the breakdown of purchased securitised exposure split by underlying collateral type.

Table 44. Aggregate amount of purchased securitisation positions by exposure type

	2017	2016
	£m	£m
Residential mortgages	2,985	1,630
Commercial mortgages	11	40
Credit card receivables	126	125
Loans to corporates or SMEs	226	528
Consumer loans	159	195
Other assets	134	168
Total	3,641	2,686

The total balance of out of policy legacy assets (investment securities acquired prior to the financial crisis and no longer approved within the Nationwide's risk appetite) has reduced from £0.4 billion to £0.2 billion, primarily through ongoing sales. Opportunities to exit positions continue to be assessed against prevailing market conditions and the financial implications.

This activity, together with the commitment provided for the legacy Bradford & Bingley transaction described above accounts for the change in profile illustrated in Table 45 (where there is a greater proportion of the overall exposure rated at credit quality step 1 and 2 than in 2016). Credit quality steps are a credit quality assessment scale as set out in CRD IV.

Table 45 shows Nationwide's exposure to securitisation positions, mapped to the appropriate credit quality step. Risk weightings are applied based on the granularity of the exposure, i.e. the number of assets in the underlying collateral pool. If there are fewer than (the equivalent of) six assets in the underlying pool, the non-granular risk weights are applied, otherwise, the risk weighting is determined by the seniority of the exposure.

Appendix 6 provides the breakdown of purchased positions split by geographic region, showing 84.3% of purchased securitisations are in the UK. Further details of securitisation activity can be found in the Annual Report and Accounts 2017, Note 1 and Note 17 to the financial statements.

Table 45. Aggregate amount of purchased securitisation positions by exposure type

Credit Quality Step	Securitisation risk weights			Resecuritisation risk weights		Ratings			Exposure Values				Average risk weights	
	Risk weight most senior	Base	Non-granular pool	Senior	Non Senior	S&P	Moody's	Fitch	Securitisation	Resecuritisation	Securitisation	Resecuritisation	Exposure Weighted average RW 2017	Exposure Weighted average RW 2016
									2017	2017	2016	2016		
	%	%	%	%	%				£m	£m	£m	£m	%	%
1	7	12	20	20	30	AAA	Aaa	AAA	3,051	26	1,978	117	7.5	8.2
2	8	15	25	25	40	AA	Aa	AA	318	-	458	-	12.5	10.5
3	10	18	35	35	50	A+	A1	A+	24	-	40	-	10.6	10.9
4	12	20	35	40	65	A	A2	A	127	-	28	-	20.5	13.1
5	20	35	35	60	100	A-	A3	A-	11	-	20	-	26.0	23.6
6	35	50	50	100	150	BBB+	Baa1	BBB+	-	-	22	-	0.0	37.1
7	60	75	75	150	225	BBB	Baa2	BBB	79	-	16	-	79.4	66.5
8	100	100	100	200	350	BBB-	Baa3	BBB-	-	-	-	-	0.0	0.0
9	250	250	250	300	500	BB+	Ba1	BB+	-	-	-	-	0.0	0.0
10	425	425	425	500	650	BB	Ba2	BB	-	-	-	-	0.0	0.0
11	650	650	650	750	850	BB-	Ba3	BB-	-	-	-	-	0.0	0.0
Total (CQS 1- 11)									3,610	26	2,562	117		
11<	1250	1250	1250	0	0	Below BB-	Below Ba3	Below BB-	5	-	7	-	1,250.0	1,250.0

9 Operational risk

9.1 Operational risk profile

Nationwide defines operational risk as the risk of loss or damage to Nationwide, its customers or employees resulting from inadequate or failed internal processes, people and systems, or from external events. Nationwide manages operational risk across a number of sub-categories the most significant of which include: cyber, IT resilience and security, business continuity, changes to products or service, regulatory change, payments and fraud.

The operational risk profile is informed by risk assessments from across the business, and by review and challenge by both management and the oversight functions. Nationwide continues to strengthen and embed the operational risk framework, expanding the use of techniques such as scenario analysis and 'war-gaming' to support the understanding of current and future risks and optimise risk-based decision making across the business.

Nationwide also monitors and reports on the operational risk events that have occurred, by number and by value, in order to better understand those exposures that require management attention. For the purposes of reporting in the Annual Report and Accounts, operational risk events include only those which have a financial loss arising from an operational risk incident. Nationwide reports operational risk events against the causal category, as well as by Basel defined operational risk categories in line with the regulatory requirements. This approach allows Nationwide to compare operational risk experience with its peer group.

9.2 Operational risk framework

Nationwide has an Operational Risk Framework in place to provide context and guidance for cohesive operational risk management activity across all business areas. The Framework is aligned to Nationwide's ERMF and encapsulates a range of risk policies, strategies and other methodologies, standards and/or control frameworks that describe in greater detail how each operational risk sub-category is managed.

These policies set the principles, formulated and enforced by the relevant committee, to direct and limit actions in pursuit of long-term goals. Operational risk policies are themselves supported by detailed guidance and process documents. All operational risk policies have an assigned owner, responsible for defining the principles to be applied for each specific risk type and ensuring their appropriate application.

Operational risk controls also monitor conduct and compliance risk. Further information on conduct and compliance risk can be found in the Annual Report and Accounts 2017.

9.3 Operational risk governance

Nationwide organises its operational risk management and control activities in line with the three lines of defence model.

Responsibility for managing operational risk resides within the first line of defence, supported by dedicated Heads of Governance, Risk and Control and Operational Risk Officers. Business areas are able to make decisions on what, if any, action is required to reduce the level of risk to Nationwide in line with stated risk appetite, seeking advice, guidance and support to improve the control environment from Key Control Functions where appropriate. There is a specialist Key Control Function for each of the sub-categories of operational risk, situated in the first line, which is responsible for setting and managing risk policies and minimum standards of control relevant to the sub-category.

First line committees are responsible for the setting of operational risk appetite, approving and managing risk policy, and ensuring that the first line of defence manages risks effectively. The Operational Risk Committee is supported by the Operational Risk Management Forum, which focuses on ensuring the effectiveness of the Operational Risk Framework and the accuracy and completeness of data used for risk management. Adherence to the Operational and Conduct & Compliance Risk Framework is monitored by the oversight function as a second line of defence (with any material non-compliance or breaches escalated to the Risk Oversight Committee). Independent assurance is provided by internal audit as a third line of defence.

9.4 Risk measurement

Nationwide adopts the Standardised Approach for the purpose of calculating its operational risk Pillar 1 capital requirement. Nationwide's capital requirement as at 4 April 2017 was £389 million, an increase of £21 million from the previous year due to higher income. Nationwide also undertakes its own modelling utilising historical internal and external loss data, Business Environment and Internal Control Factor (BEICF) metrics, and the outputs from scenario management. The outputs of the operational risk capital model are used for Pillar 2A purposes and are monitored quarterly by the capital modelling team with any exceptions reported to the first and second line committees for challenge and debate.

10 Market risk

10.1 Introduction

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted because of market price or rate changes, specifically interest rates, currency rates or equity prices. Market risks are not taken unless they are essential to core business activities, or they are designed to provide stability of earnings. Nationwide does not have a trading book. Some market risk arises because of Nationwide's funding obligations to a number of defined benefit pension schemes. The risks related to these pension schemes are discussed in section 11.4.

Nationwide's Pillar 1 capital requirement for market risk is currently set to zero (as it falls below the threshold of 2% of total own funds capital requirements) and hence no figures are disclosed.

Market risk is monitored and reported upon daily by the Balance Sheet Risk team within Nationwide's Treasury function. This is independent of and separate from the Treasury Front Office which manages market risk within strict limits.

There have been no material changes to Nationwide's policies and practices for the management of market risk. Internal risk limits remain low to restrict the potential exposure to market risk arising from the daily management of residual positions.

UK interest rate movements in the first half of the year were primarily driven by the EU referendum, with significant volatility seen prior to the vote, and a sharp fall immediately following the result. A package of measures, including a rate cut, announced by the Bank of England in August helped to stabilise the market and interest rates rose in response before stabilising in the second half of the year.

Sterling also weakened sharply after the referendum and remains volatile, with future movements likely to be dependent upon the path taken to achieve Brexit. Nationwide has limited exposure to currency risk.

The Basel Committee published the Standards for Interest Rate Risk in the Banking Book (IRRBB) in April 2016. Nationwide expects to be fully compliant with these enhanced disclosure requirements, which are expected to be applicable from 2018.

The European Commission (EC) proposed a set of reforms to capital requirements for market risk in November 2016. Included within this proposed set of reforms are elements of the Basel Disclosure Standards for IRRBB and more granular instructions for calculation of own funds requirements for market risk in the non-trading book. Nationwide will assess the new guidelines over the coming months and ensure readiness in anticipation of adoption of the proposal. The EC expects the proposed regulation to be effective from 2019.

10.2 Market risk management

Market risk only arises in the banking book. Nationwide does not have a trading book. Most of Nationwide's exposure to market risk arises from fixed rate mortgages and savings, and swap spreads on government bonds held for liquidity purposes. There is a limited amount of currency risk on non-sterling financial assets and liabilities held.

The Board is ultimately responsible for the management of market risk. This manifests in the articulation of the Board's Market Risk Appetite. Market risk forms part of Nationwide's ERMF and is managed and monitored by Treasury, with independent review provided by Prudential Risk Oversight and Internal Audit. The approach to risk management is defined in the Market Risk Strategy which is approved by ALCO. Internal risk limits remain low to restrict the potential exposure to market risk arising from the daily management of residual positions, with relevant market risk metrics reported to ALCO. This ongoing management of market risk is also governed by ALCO.

The principal market risks that affect Nationwide are listed below together with the types of risk reporting measures used:

Risk type	Reporting measure	Monitoring Frequency
Interest rate risk	Value Sensitivity / Value at Risk	Daily
Basis risk	Earnings sensitivity	Monthly
Swap spread risk	Value Sensitivity / Value at Risk	Daily
Currency exchange risk	Value at risk	Daily
Product option risk	Sensitivity	Monthly

In addition, stress analysis is used to evaluate the impact of more extreme, but plausible events. These techniques are described in the Annual Report and Accounts 2017.

10.3 Interest rate risk

The main market risk faced by Nationwide is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities.

To reduce the impact of such movements, hedging activities are undertaken by Nationwide's treasury function. For example, interest rate risks generated by lending to and receiving deposits from members or customers are offset against each other internally. The remaining net exposure is managed using derivatives, within parameters set by ALCO.

The income contribution from the reserves and non-interest bearing current accounts are subject to the volatility of short-term interest rates. This is smoothed using structural hedging to reduce the volatility of earnings.

Table 46 highlights the limited amount to which Nationwide is exposed to interest rate risk. The risk is calculated each day.

Table 46. Interest rate risk

	2017			2016		
	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m
VaR (99%/10-day)	0.5	2.4	0.1	0.3	0.8	0.1
Sensitivity analysis (PV01)	0.0	0.1	(0.0)	-	0.1	(0.1)
Stress testing (PV200: all currencies)	4.0	19.3	(9.3)	6.9	19.3	(10.8)

Additional detail on interest rate risk arising from customers exercising options embedded in fixed rate products which can result in required changes to hedging can be found within the Annual Report and Accounts 2017. Capital requirements for these risks are assessed in the Internal Capital Adequacy Assessment Process (ICAAP) and form part of Pillar 2A.

10.4 Basis risk

Basis risk arises where variable rate assets and liabilities re-price with reference to differing short-term interest rate benchmarks. The primary interest rates that Nationwide is exposed to are the Bank of England base rate and three month Libor. Changes in the difference between base rate and three month Libor over time will impact earnings.

At a Group level, assets and liabilities are offset by a reference rate or 'basis' type. Exposure to the net mismatch is mitigated, where necessary, by transacting basis swaps to ensure Nationwide remains within internally agreed risk limits.

10.5 Sensitivity of net interest income

Earnings sensitivity is the risk that Nationwide's income is adversely affected by changes in interest rates. The sensitivity of earnings to changes in interest rates is measured monthly using a forecasting model and potential interest rate scenarios.

Table 47. Potential impact on NII

	2017 £m
+200 basis points shift	250
+100 basis points shift	117
-25 basis points shift	(68)

The following should be noted in relation to Table 47:

- impacts are calculated for a forward period of one year;
- the interest rate sensitivities set out above are illustrative only and are based on a static balance sheet. All assets and liabilities maturing within the year are assumed to reinvest in like for like products;
- the negative shift scenarios are floored at one basis point to prevent rates from turning negative;
- the reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, market conditions, customer behaviour and strategic changes to the balance sheet mix, and should not therefore be considered predictive of future performance;
- the sensitivity analysis includes all financial assets and liabilities held by Nationwide; and
- the model does not take any management actions into account.

The absolute levels of interest rates can influence Nationwide's flexibility to manage earnings. If interest rates fall further or become negative, margins may be constrained because Nationwide is unlikely to be able to fully offset the benefit to borrowers through current account or savings product rate changes.

10.6 Other market risks

Additional detail on model risk, swap spread risk, currency risk and product option risk can be found within the Annual Report and Accounts 2017.

11 Financial risk

11.1 Financial risk overview

Financial risk is the risk of Nationwide having inadequate earnings, cash flow or capital to meet current or future requirements and expectations. It includes loss or damage to the earnings capacity, market value or liquidity of the Group, arising from mismatches between Nationwide's assets, funding and other commitments, which may be exposed by changes in market rates, market conditions, or Nationwide's credit profile.

Financial risk is split into five sub-categories:

- Liquidity and funding risk;
- Solvency risk;
- Market risk;
- Pension risk; and
- Earnings risk.

Solvency risk is covered in section 3 (Capital resources) and section 4 (Capital requirements) while market risk is covered in section 10. A summary of the other risks is provided below.

11.2 Earnings risk

Nationwide ensures that it can generate sustainable profit through focus on recurrent sources of income commensurate with the risks taken. Earnings risk is defined as the risk that sources of income and cost and provision management are unable to generate the projected profit, due to plausible changes in market, regulatory or other environmental factors. The Society manages and monitors this risk as part of ongoing business performance reporting to senior management and the Board.

For further details of the management of earnings risk see the Business and Risk Report section of the Annual Report and Accounts 2017.

11.3 Liquidity and funding risk

Nationwide's management of liquidity and funding risks aims to ensure that at all times there are sufficient liquid assets, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to meet financial obligations as they fall due, even during episodes of stress.

This is achieved through management and stress testing of business cash flows, setting appropriate risk limits to maintain a prudent funding mix and maturity profile, and maintaining sufficient levels of high quality liquid assets and appropriate encumbrance levels.

At 4 April 2017, the Society's Liquidity Coverage Ratio (LCR) was 124.0% (4 April 2016: 142.6%) and Net Stable Funding Ratio (NSFR) was 132.6% (4 April 2016: 127.9%). This LCR exceeds the current UK regulatory minimum requirement of 90% and reflects the Society's strategy of maintaining a LCR above 100%. Based on current interpretations of NSFR requirements, Nationwide's NSFR exceeds the expected 100% minimum future requirement. The decrease in the LCR reflects the inclusion of additional outflows in the LCR following the finalisation of EU rules during the year and the impact of a one-off item in respect of Nationwide's commitment to acquire financial assets. On a like-for-like basis, the LCR remains broadly consistent with last year's.

For further details of the management of liquidity and funding risk see the Business and Risk Report section of the Annual Report and Accounts 2017.

11.4 Pension risk

Nationwide has funding obligations to several defined benefit pension schemes. Pension risk is defined as the risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities. Pension risk can adversely impact Nationwide's capital position and may result in increased cash funding obligations to the pension schemes.

The most significant pension scheme is the Nationwide Pension Fund (the Fund), which is closed to new employees, although some employees continue to accrue benefits. In accordance with UK legislation, the assets of the Fund are held in a legally separate trust from Nationwide's assets and are administered by a board of trustees (the Trustee) who have fiduciary responsibilities to the beneficiaries of the Fund.

Volatility in investment returns from the assets and the value of the liabilities cause volatility in the Fund's deficit. The key risk factors impacting the deficit are set out below, these factors can have a positive or negative impact on the deficit:

- Long-term interest rates and credit spreads;
- Inflation;
- Asset performance, including equity prices;
- Longevity (life expectancy); and
- Regulation.

For further details of these factors, Nationwide's approach to management of pension risk and the outlook for this risk see the Business and Risk Report section of the Annual Report and Accounts 2017.

Appendix 1: Asset encumbrance

Asset encumbrance is the process by which assets are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.

Nationwide maintains a level of encumbrance commensurate with the scale and scope of its business operation, within the context of a robust and diversified funding capability. The majority of encumbrance arises from its secured funding programmes, namely the Nationwide Covered Bond and Silverstone Residential Mortgage Backed Securities programmes. Assets are encumbered in accordance with the contractual requirements of these programmes. A further material amount of asset encumbrance arises from Nationwide's participation in the Bank of England's Funding for Lending Scheme and Term Funding Scheme. All programmes and schemes are continually assessed and where appropriate, a prudent buffer of over-collateralisation is voluntarily maintained for operational efficiency.

Additionally, a small amount of asset encumbrance arises from transactions and associated margin requirements conducted under the terms of ISDA, CSA, Global Master Securities Lending Agreement (GMSLA) and Global Master Repurchase Agreement (GMRA) agreements.

Nationwide's level of encumbrance has been steady over the reporting period, reflecting a stable business environment. There is no material difference in the level of encumbrance of Nationwide entities on a Group or Solo basis.

Unencumbered other assets include cash-on-hand, derivative assets, property, plant and other fixed assets, intangible assets including goodwill, and deferred tax assets.

Nationwide manages its level of encumbrance in accordance with the approved limits within its risk appetite, and endeavours to ensure that a limit on the amount of encumbered assets is maintained during normal business conditions. We continue to work closely with the regulators to ensure that our encumbrance profile remains transparent, proportionate and relevant to our business model.

The Pillar 3 asset encumbrance disclosure templates have been compiled in accordance with PRA/EBA regulatory reporting requirements. As such, these numbers may differ from Nationwide's disclosures contained in the Annual Report and Accounts 2017 due to scope and definitional differences with respect to certain assets considered to be encumbered, for example EBA methodology allows for pro-rating of mortgage pools supporting secured funding programmes, where retained self-issued notes exist.

Table 48 shows the balance sheet assets and whether they are encumbered or unencumbered (based on the EBA methodology). Table 49 shows derivative liabilities, repurchase agreements and debt securities issued (based on the EBA methodology), alongside the value of the corresponding assets encumbered to support these liabilities.

In accordance with the threshold criteria under PRA supervisory statement SS11/14 (CRD IV: Compliance with the European Banking Authority's Guidelines on the disclosure of encumbered and unencumbered assets), Nationwide is not required to report on the fair value of encumbered and unencumbered collateral received. Furthermore, the statement requires that the data is presented as a median calculation rather than a specific point in time.

Table 48. (Template A) Assets

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	2017	2016	2017	2016	2017	2016	2017	2016
	£m	£m	£m	£m	£m	£m	£m	£m
Assets of the reporting institution	41,863	40,265			180,725	164,336		
Equity instruments	-	-	-	-	57	64	57	64
Debt securities	416	174	416	174	9,510	10,808	9,510	10,808
Other assets	244	244			8,793	5,620		

Table 49. (Template C) Encumbered assets / collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issues other than covered bonds and ABSs encumbered	
	2017	2016	2017	2016
	£m	£m	£m	£m
Carrying amount of selected financial liabilities	24,984	21,178	29,617	27,061

Appendix 2: Remuneration

This section provides details of the remuneration of the Society's Material Risk Takers for the year ending 4 April 2017 together with an explanation of the Society's remuneration policies, practice and governance.

Material Risk Takers are those individuals whose actions have a material impact on the risk profile of the Society, based on criteria set by the European Banking Authority.

During the year there were a total of 106 Material Risk Takers. Of these 24 fall within the Management Body and Senior Management categories for the purposes of these disclosures (being the executive and non executive directors, and members of the Executive Committee, as defined by Article 3.1(9) of CRD IV).

These disclosures are made in accordance with Article 450 of the Capital Requirements Regulation (CRR) and should be read in conjunction with the Report of the Directors on Remuneration set out in the Annual Report and Accounts 2017 (pages 66 to 79).

Remuneration policy

Overview of remuneration policy for material risk takers and the link between pay and performance

Our pay policy and framework for senior executive / specialist roles is set at a level which enables us to motivate, reward and retain our leadership team to deliver value for our members. The Society believes in pay for performance, whilst ensuring that an appropriate proportion of the total package is fixed so as not to incentivise inappropriate risk taking.

Reward is delivered through a combination of fixed and variable pay. The Society uses variable pay to align reward with performance and ensures that individuals are only rewarded for achievement of challenging key objectives based on the Society's Plan.

There are three main elements of remuneration for Material Risk Takers:

- Base salary or fees;
- Benefits (pension, car and healthcare); and
- Performance pay

Non executive directors only receive fees. They are not entitled to benefits or to participate in any performance award.

Performance awards are assessed by reference to a range of measures, which take into account risk, sustainability of performance and the Society's values in order to take a rounded view of performance.

The Society's intention is to reward our executives at a level which is fair but not excessive.

All performance awards operate within the regulatory limit of 100% of fixed remuneration (base salary, pension payments and other benefits).

Decision-making process for determining remuneration policy

The Remuneration Committee (the 'Committee') is responsible for determining, and agreeing with the Board, the remuneration strategy and policy for the Chairman, the executive directors and other members of the Executive Committee of the Society as well as any other employees who are deemed to fall within scope of the PRA Remuneration Code and, within the terms of the agreed policy, the specific remuneration packages for these roles.

This includes approving the design of, and determining the performance targets for, any discretionary performance pay plans operated by the Society for the benefit of employees within the Committee's remit, and approving the total annual payments under such plans.

The Committee also oversees the remuneration policy throughout the Society, with a specific focus on the risks posed by remuneration policies and practices.

The Committee's terms of reference were last reviewed and updated in April 2017. The full terms of reference are available on the Society's website www.nationwide.co.uk

Composition of the Committee

The members of the Committee are all independent non executive directors of the Society and include a member of the Board Risk Committee. During the year the Committee members were: Lynne Peacock (Chairman of the Committee), David Roberts, Rita Clifton and Usha Prashar (from January 2017).

The Committee met eleven times during the year. This includes three remuneration strategy review meetings which were outside of meetings scheduled as part of the usual annual cycle.

Role of relevant stakeholders

During the year the Committee was supported by the Chief People Officer, the Divisional Director, Human Resources and where appropriate the Chief Executive, who is invited to attend Committee meetings to provide further background information and context to assist the Committee in its duties.

The Committee is supported by the Board Risk Committee on risk related matters including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and business protection. The Remuneration Committee is also supported by and receives input from the Audit Committee. In no case is any person present when their own remuneration is discussed.

All non executive directors were invited to attend one Committee meeting during the year to discuss the remuneration strategy for the Society.

In performing its duties, the Remuneration Committee draws on the advice of independent external consultants. During the year the Committee received advice on regulatory developments, best practice and remuneration trends from Deloitte LLP, who were appointed by the Committee following a tender process.

Design and structure of remuneration

Base salary or fees

All Material Risk Takers receive either salary, or in the case of non executive directors, fees. Salary levels are generally reviewed annually, taking into account market data for similar roles in our sector, individual skills, performance and experience and the approach to salaries throughout Nationwide.

Non executive directors receive fees which are reviewed annually taking into account practice at other organisations as well as the time commitment for the role at Nationwide. The Chairman’s fee is reviewed and approved by the Remuneration Committee. The fees paid to non executive directors are reviewed and approved by the executive directors and by the Chairman. Non executive directors receive a basic fee, with an additional supplement paid for serving on or chairing a Board Committee.

Performance awards

The performance award in which Material Risk Takers participate depends on their seniority and the part of the business within which they work. In all cases, these plans measure the Society’s performance against a range of financial and strategic measures, are operated on a fully discretionary basis and are capped as a percentage of salary.

The plans also share a number of common features:

- A substantial proportion of payments under the plans are deferred (other than for individuals who are not subject to the full Remuneration Code requirements due to the application of proportionality);
- Where applicable, a portion of both the upfront and deferred award is linked to the value of the Society’s core capital deferred shares (CCDS) over the relevant retention and deferral periods.;
- The Committee has the discretion to reduce or cancel payments if it believes that the plan outcomes are not representative of the overall performance of the Society; and
- Malus and clawback provisions apply.

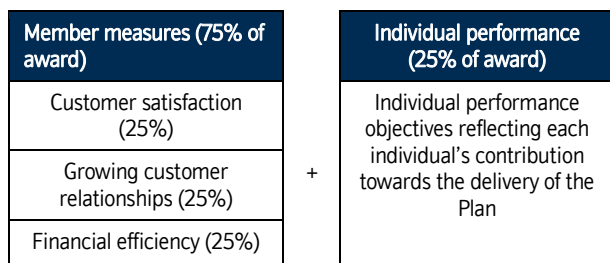
In response to changing regulatory requirements the time horizons under the performance pay plans were extended in 2016/17.

Directors’ Performance Award (DPA)

The DPA was the only performance pay plan in which the executive members of the Board, Group and divisional directors participated in 2016/17.

A gateway must be passed before any payment is made under the plan. For 2016/17 this gateway was based on measures of statutory profit and CET1 capital ratio.

The plan rewards individual performance and the attainment of challenging strategic and financial corporate metrics. The measures fall within the broad areas set out below and ensure focus on delivering benefits for our members.



Key measures within the Society Plan have to be achieved for target pay-out and considerably exceeded for maximum pay-out.

In the case of directors in control functions, the weighting of the Group measures is lower than those set out above as a significant proportion of the award is based on divisional performance.

For executive members of the Board and other Senior Managers, as defined by the PRA/FCA, 40% of each individual’s award vests in June 2017 and the remaining 60% is deferred, payable in in five equal amounts between years three and seven following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society’s core capital deferred shares (CCDS). These elements are subject

to a six month retention period and so will be paid to participants, in cash, in the following December.

For all other directors, 60% of each individual's award vests in June 2017 and the remaining 40% is deferred, payable in five equal amounts over five years following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS) and distributions paid. These elements are subject to a six month retention period and so will be paid to participants, in cash, in the following December.

Level 4 Senior Executive Performance Award

The performance pay plan for Level 4 Senior Executives follows the same structure as the DPA including the same risk gateways and performance measures. The vesting schedule for Material Risk Takers is dependent on the employee's categorisation under the Senior Manager Regime.

For Material Risk Takers who are PRA/FCA Risk Managers under the Senior Manager Regime and who are subject to the full Remuneration Code requirements, 60% of each individual's award vests in June 2017 and the remaining 40% is deferred, payable in five equal amounts over five years following the date of award. 50% of both the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS) and distributions paid. These elements are subject to a six month retention period and so will be paid to participants, in cash, in the following December.

For all other Material Risk Takers who are subject to the full Remuneration Code requirements, 60% of each individual's award vests in June 2017 and the remaining 40% is deferred, payable in three equal amounts over three years following the date of award. 50% of both the upfront and deferred portions is linked to the performance of the CCDS and distributions paid. These elements are subject to a six month retention period and so will be paid to participants in the following December.

Level 3 Senior Executive Performance Award / Group Performance Award

The performance pay plan for employees from Level 1 – Level 3 Senior Executives reward the individual's contribution to the success of the Group based on the achievement of challenging corporate and individual targets for a single financial year.

Bonus ranges are determined based on Group performance for the year, assessed against the same Group measures as set for the DPA above. Individual awards are then determined reflecting an individual's performance against objectives set at the start of the year.

For Material Risk Takers who are subject to the full Remuneration Code requirements, payments would be deferred and part linked to the performance of CCDS in accordance with the Code, and the vesting schedule would depend on the employee's categorisation under the Senior Manager Regime as detailed above.

The majority of Material Risk Takers who participate in this plan are not subject to the full Remuneration Code requirements due to the application of proportionality, and as such awards are paid in full in cash in June 2017.

Treasury Performance Award

The performance pay plan for Treasury employees is based on an evaluation of divisional performance, taking into account a range of quantitative and qualitative measures. Individual awards are then determined reflecting an individual's performance against objectives set at the start of the year.

For Material Risk Takers who are subject to the full Remuneration Code requirements, payments would be deferred and part linked to the performance of CCDS in accordance with the Code.

The majority of Material Risk Takers who participate in this plan are not subject to the full Remuneration Code requirements due to the application of proportionality, and as such awards are paid in full in cash in June 2017.

Medium Term Performance Pay Plan

The Society previously operated the Medium Term Performance Pay Plan (MTPPP), which rewarded sustained performance and the achievement of challenging financial targets over a three-year performance cycle. The last awards under this plan were granted in 2013/14 and no new awards will be granted under this scheme.

The final one third of the award earned in respect of the 2013 - 2016 award cycle will be paid in June 2017. 50% of this award is linked to the performance of the CCDS and distributions paid. This element is subject to a six month retention period and so will be paid to participants in December 2017.

Risk adjustment, malus and claw-back provisions

Performance pay awards for Material Risk Takers are subject to risk adjustment, malus and clawback:

- The Committee retains the discretion to reduce or cancel payments under the Society's performance pay plans if the Committee believes that the plan outcomes are not representative of overall performance or are otherwise unaffordable;
- Where payments under the performance awards are retained or deferred, the retained or deferred element may be reduced or cancelled at the Committee's discretion if it emerges that the original assessment of performance was misleading, or if performance declines substantially over the retained period; and
- Awards from 2014/15 onwards are subject to clawback. This enables the Society to require an individual to repay all or part of a performance

award after payment has been made. Awards are subject to clawback for up to seven years from when the award is made. This requirement will continue to apply if the individual leaves employment with the Society.

In making such risk adjustment determinations, the Committee takes into account a range of factors including guidance from both the Audit and Board Risk Committees.

From the 2016/17 performance awards onwards for PRA-designated Senior Managers, the period over which awards are subject to clawback was extended to ten years in some circumstances, in line with regulatory requirements.

Table 50 shows the aggregate remuneration for Material Risk Takers by remuneration type. Tables 51 to 55 provide further regulatory information on remuneration.

Table 50. Analysis of remuneration by fixed and variable elements

	Material Risk Takers aggregate 2016/17 remuneration by remuneration type			Total
	Management Body	Senior Management	Other Material Risk Takers	
Number of material risk takers	13	11	82	106
Fixed (£m) ¹	4.7	3.9	16.8	25.4
Variable (£m) ²	2.5	2.5	6.9	11.9
Total	7.2	6.4	23.7	37.3

¹Base salary, allowances, benefits, pension and severance pay plus fees for non-executive directors.

²Performance pay awards in respect of the 2016/17 financial year

Table 51. Amounts and forms of variable elements

	Material Risk Takers aggregate 2016/17 remuneration by remuneration type (£m)			Total
	Management body	Senior Management	Other Material Risk Takers	
Cash bonus	0.5	0.6	3.4	4.5
Retained phantom CCDS ¹	0.5	0.6	0.9	2.0
Deferred cash	0.6	0.5	1.2	2.3
Deferred phantom CCDS	0.9	0.8	1.4	3.1
Total	2.5	2.5	6.9	11.9

¹Participants are not issued with actual CCDS, the change in value of CCDS is tracked over the applicable deferral period.

Table 52. Deferred remuneration outstanding

	Outstanding deferred remuneration (£m)			Total
	Management body	Senior Management	Other Material Risk Takers	
As at 4 April 2017	2.8	2.5	5.2	10.5

This includes outstanding deferred remuneration under the 2013-2016 Medium Term Performance Pay Plan, the 2014/2015 and 2015/2016 performance pay plans and any outstanding deferred guaranteed variable remuneration and bonus buy out awards.

Table 53. Deferred remuneration during the year

	Deferred remuneration during the year (£m)			Total
	Management body	Senior Management	Other Material Risk Takers	
Awarded during the financial year ¹	2.5	1.3	3.0	6.8
Paid out during the financial year ²	1.3	1.2	3.0	5.5
Performance adjustments	-	-	0.1	0.1

¹This represents the deferred element of 2016/17 performance pay awards.

²Medium Term Performance Pay Plan payments made in respect of the 2012-2015 and 2013-2016 plans paid out during the 2016/17 financial year.

Table 54. Sign on and severance payments

Sign on and severance payments during 2016/2017	Total
Sign on payments made during year (£m) ¹	-
Number of beneficiaries	-
Severance payments made during year (£m) ²	-
Number of beneficiaries	-
Highest individual award (£m)	-

¹ Any guaranteed variable payments made in the first year of service.

² Payments related to termination of employment, made outside of local policies or statutory entitlements, such as pay in lieu of notice and benefits.

Table 55. Remuneration by band

Remuneration Band (Euros)	No. of Material Risk Takers
4.5 million - 5 million	-
4 million - 4.5 million	-
3.5 million - 4 million	-
3 million - 3.5 million	-
2.5 million - 3 million	1
2 million - 2.5 million	-
1.5 million - 2 million	2
1 million - 1.5 million	2
Less than 1 million	101

Table prepared in Euro s in accordance with Article 450 of the CRR, converted using the European Commission financial programming and budget exchange rates for March of the reported year.

Appendix 3: EBA Own Funds disclosure template

EBA own funds disclosure template									
		Group				Solo			
		Current Rules		Full Impact		Current Rules		Full Impact	
		2017	2016	2017	2016	2017	2016	2017	2016
		£m	£m	£m	£m	£m	£m	£m	£m
	Common Equity Tier 1 (CET1) Capital: instruments and reserves								
1	Capital Instruments and the related share premium accounts	531	531	531	531	531	531	531	531
2	Retained earnings	8,559	7,937	8,559	7,937	8,581	7,873	8,581	7,873
3	Accumulated other comprehensive income (and other reserves)	111	56	111	56	111	56	111	56
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	714	942	714	942	742	1,025	742	1,025
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	9,915	9,466	9,915	9,466	9,965	9,485	9,965	9,485
	Common Equity Tier 1 (CET1) capital: regulatory adjustments								
7	Additional value adjustments (negative amount)	(23)	(55)	(23)	(55)	(23)	(52)	(23)	(52)
8	Intangible assets (net of related tax liability) (negative amount)	(1,186)	(1,132)	(1,186)	(1,132)	(1,186)	(1,132)	(1,186)	(1,132)
12	Negative amounts resulting from the calculation of expected loss amounts	(151)	(264)	(151)	(264)	(151)	(264)	(151)	(264)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	(2)	-	(2)	-	(2)	-	(2)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(1,360)	(1,453)	(1,360)	(1,453)	(1,360)	(1,450)	(1,360)	(1,450)
29	Common Equity Tier 1 (CET1) capital	8,555	8,013	8,555	8,013	8,605	8,035	8,605	8,035
	Additional Tier 1 (AT1) capital: instruments	-	-	-	-	-	-	-	-
30	Capital instruments and the related share premium accounts	992	992	992	992	992	992	992	992
31	of which: classified as equity under applicable accounting standards	992	992	992	992	992	992	992	992
32	of which: classified as liabilities under applicable accounting standards	-	-	-	-	-	-	-	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out of AT1	267	404	-	-	267	404	-	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	1,259	1,396	992	992	1,259	1,396	992	992
44	Additional Tier 1 (AT1) capital	1,259	1,396	992	992	1,259	1,396	992	992
45	Tier 1 capital (T1= CET1+AT1)	9,814	9,409	9,547	9,005	9,864	9,431	9,597	9,027

EBA own funds disclosure template

		Group				Solo			
		Current Rules		Full Impact		Current Rules		Full Impact	
		2017	2016	2017	2016	2017	2016	2017	2016
		£m	£m	£m	£m	£m	£m	£m	£m
Tier 2 (T2) capital: instruments and provisions		-	-	-	-	-	-	-	-
46	Capital instruments and the related share premium accounts	2,555	1,628	2,555	1,628	2,555	1,628	2,555	1,628
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	30	29	-	-	30	30	-	-
50	Credit risk adjustments	27	21	27	21	27	21	27	21
51	Tier 2 (T2) capital before regulatory adjustments	2,612	1,678	2,582	1,649	2,612	1,679	2,582	1,649
58	Tier 2 (T2) capital	2,612	1,678	2,582	1,649	2,612	1,679	2,582	1,649
59	Total capital (TC = T1 + T2)	12,426	11,087	12,129	10,654	12,476	11,110	12,179	10,676
60	Total risk weighted assets	33,641	34,475	33,641	34,475	33,648	34,481	33,648	34,481
Capital ratio and buffers									
61	Common Equity Tier 1 (as a percentage of total risk exposure amount) (%)	25.4	23.2	25.4	23.2	25.6	23.3	25.6	23.3
62	Tier 1 (as a percentage of total risk exposure amount) (%)	29.2	27.3	28.4	26.1	29.3	27.4	28.5	26.2
63	Total capital (as a percentage of total risk exposure amount) (%)	36.9	32.2	36.1	30.9	37.1	32.2	36.2	31.0
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) (%)	25.4	23.2	25.4	23.2	25.6	23.3	25.6	23.3
76	Credit risk adjustment included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	27	21	27	21	27	21	27	21
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	32	38	32	38	32	38	32	38
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	151	154	151	154	151	154	151	154
82	Current cap on AT1 instruments subject to phase out arrangements	528	633	-	-	528	633	-	-
84	Current cap on T2 instruments subject to phase out arrangements	198	237	-	-	198	237	-	-

Appendix 4: Capital instruments key features

Capital instruments key features					
1	Issuer	NATIONWIDE	NATIONWIDE (CHESHIRE)	NATIONWIDE	NATIONWIDE
2	ISIN	XS0047364947	XS0153275960	XS0906394043	XS0527239221
3	Gov. law (sub)	English	English	English	English
Regulatory treatment					
4	Trans. CRR rules	Tier 2	Tier 2	Tier 2	AT1
5	Post- transitional CRR rules	Tier 2	Ineligible	Tier 2	Ineligible
6	Eligible at Group (G), Individual Consolidated (IC) or Society (S)	0	0	0	0
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Debt	Subordinated Debt	Subordinated Debt	Subordinated Debt
8	Regulatory capital value (£)	18,907,996	29,911,533	1,074,758,069	454,798,979
9	Nominal amount of instrument	£125,000,000	£30,000,000	€1,250,000,000	€50,000,000
9a	Issue px	101	98	100	99
9b	Redemption px	100	100	100	100
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Date of issue	29/11/1993	30/08/2002	20/03/2013	22/07/2010
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity	29/03/2018	01/09/2022	20/03/2023	22/07/2020
14	Issuer call	Yes	Yes	Yes	No
15	Optional call date, contingent call dates and redemption amount	29/11/1998; par tax call	01/09/2017	20/03/2018; par regulatory/tax call	No issuer call; par tax call
16	Subsequent call dates, if applicable	Anytime	Semi-annually	n/a	n/a
Coupons / dividends					
17	Fixed or floating dividend/coupon	Fixed	Fixed-to-fixed	Fixed-to-fixed	Fixed
18	Coupon rate and any related index	8.625%	6.500%	4.125%	6.750%
19	Existence of a dividend stopper	No	No	No	No
20a/b	Fully discretionary, partially or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	Yes	No	No
22	Noncumulative or cumulative	n/a	n/a	n/a	n/a
23	Convertible or non- convertible	Non- convertible	Non- convertible	Non- convertible	Non- convertible
24	If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a
28	Specify output instrument	n/a	n/a	n/a	n/a
29	Specify issuer of output instrument	n/a	n/a	n/a	n/a
30	Write- down features	None contractual, statutory via bailin	None contractual, statutory via bailin	None contractual, statutory via bailin	None contractual, statutory via bailin
31-34	If w/d, trigger(s), full/partial, PWD/TWD	n/a	n/a	n/a	n/a
35	Instrument type immediately senior	Senior Unsecured	Senior Unsecured	Senior Unsecured	Senior Unsecured
36	Non- compliant transitioned features	No	Yes	No	No
37	If yes, specify non- compliant features	n/a	Step-up reset rate	n/a	n/a

Capital instruments key features						
1	Issuer	NATIONWIDE (CHESHIRE)	NATIONWIDE	NATIONWIDE (PORTMAN)	NATIONWIDE (PORTMAN)	NATIONWIDE
2	ISIN	GB0033882084	XS1043181269	GB0031049215	GB0033627968	XS0184519139
3	Gov. law (sub)	English	English	English	English	English
Regulatory treatment						
4	Trans. CRR rules	AT1	AT1	AT1	AT1	AT1
5	Post- transitional CRR rules	Ineligible	AT1	Ineligible	Ineligible	Ineligible
6	Eligible at Group (G), Individual Consolidated (IC) or Society (S)	G; IC; S	G; IC; S	G; IC; S	G; IC; S	G; IC; S
7	Instrument type (types to be specified by each jurisdiction)	PIBS	AT1	PIBS	PIBS	PIBS
8	Regulatory capital value (£)	9,063,106	992,220,610	40,993,634	56,855,023	97,238,747
9	Nominal amount of instrument	£9,639,000	£1,000,000,000	£33,265,000	£43,771,000	£83,740,000
9a	Issue px	99	100	100	100	100
9b	Redemption px	100	100	100	100	100
10	Accounting classification	Liability - amortised cost	Shareholders' equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Date of issue	10/12/2003	11/03/2014	05/12/2001	22/10/2003	06/02/2004
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity	No maturity	No maturity	No maturity	No maturity	No maturity
14	Issuer call	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	43,475	20/06/2019; par regulatory/tax call	44,535	45,587	06/02/2026; par tax call
16	Subsequent call dates, if applicable	5 yearly	5 yearly	5 yearly	5 yearly	5 yearly
Coupons / dividends						
17	Fixed or floating dividend/coupon	Fixed-to-fixed	Fixed-to-fixed	Fixed-to-fixed	Fixed-to-fixed	Fixed-to-fixed
18	Coupon rate and any related index	6.875%	6.875%	7.250%	6.250%	0
19	Existence of a dividend stopper	Yes ¹	No	Yes ¹	Yes ¹	Yes ¹
20a/b	Fully discretionary, partially or mandatory (in terms of timing)	Partially discretionary	Fully discretionary	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes	No	Yes	Yes	Yes
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	FL CET1<7%	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	F/P conv.	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	conv. px: £80	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Both	n/a	n/a	n/a
28	Specify output instrument	n/a	CET1- CCDS	n/a	n/a	n/a
29	Specify issuer of output instrument	n/a	Society	n/a	n/a	n/a
30	Write-down features	None contractual, statutory via bailin	None contractual, statutory via bailin	None contractual, statutory via bailin	None contractual, statutory via bailin	None contractual, statutory via bailin
31-34	If w/d, trigger(s), full/partial, PWD/TWD	n/a	n/a	n/a	n/a	n/a
35	Instrument type immediately senior	Tier 2	Tier2	Tier 2	Tier2	Tier 2
36	Non-compliant transitioned features	Yes	No	Yes	Yes	Yes
37	If yes, specify non-compliant features	Step-up reset rate	n/a	Step-up reset rate	Step-up reset rate	Step-up reset rate

¹ This is not a typical stopper since, if the Society has cancelled a payment on a more senior ranking instrument (i.e. a deposit or share investment other than a deferred share investment), it cannot pay on any of these PIBS

	NATIONWIDE	NATIONWIDE (CHESHIRE)	NATIONWIDE	NATIONWIDE
1 Issuer	NATIONWIDE	NATIONWIDE (CHESHIRE)	NATIONWIDE	NATIONWIDE
2 ISIN	GB0001777886	GB0001918076	GB00BBQ33664	US63859WAE93
3 Gov. law (sub)	English	English	English	New York (English)
Regulatory treatment				
4 Trans. CRR rules	AT1	Tier2	CET1	Tier2
5 Post- transitional CRR rules	Ineligible	Tier2	CET1	Tier2
6 Eligible at Group (G), Individual Consolidated (IC) or Society (S)	G; IC; S	G; IC; S	G; IC; S	G; IC; S
7 Instrument type (types to be specified by each jurisdiction)	PIBS	PIBS	Core Capital Deferred Shares	Subordinated Debt
8 Regulatory capital value (£)	59,644,853	9,266,979	530,773,580	997,521,722
9 Nominal amount of instrument	£38,400,000	£10,000,000	£550,000,000	\$1,250,000,000
9a Issue px	100	100	100	100
9b Redemption px	100	100	100	100
10 Accounting classification	Liability - amortised cost	Liability - amortised cost	Shareholders' equity	Liability - amortised cost
11 Date of issue	13/03/2000	28/03/1994	06/12/2013	14/09/2016
12 Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13 Original maturity	No maturity	No maturity	No maturity	14/09/2026
14 Issuer call	Yes	No	No	No
15 Optional call date, contingent call dates and redemption amount	47,555	n/a	n/a	No issuer call; par regulatory/tax call
16 Subsequent call dates, if applicable	5 yearly	n/a	n/a	n/a
Coupons / dividends				
17 Fixed or floating dividend/coupon	Fixed-to-fixed	Floating	Variable	Fixed
18 Coupon rate and any related index	7.859%	6mL+240bp	£10.25 per CCDS2	4.000%
19 Existence of a dividend stopper	Yes ¹	Yes ¹	No	No
20a/b Fully discretionary, partially or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Fully discretionary	Mandatory
21 Existence of step up or other incentive to redeem	Yes	No	No	No
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a
23 Convertible or non- convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24 If convertible, conversion trigger(s)	n/a	n/a	n/a	n/a
25 If convertible, fully or partially	n/a	n/a	n/a	n/a
26 If convertible, conversion rate	n/a	n/a	n/a	n/a
27 If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a
28 Specify output instrument	n/a	n/a	n/a	n/a
29 Specify issuer of output instrument	n/a	n/a	n/a	n/a
30 Write- down features	None contractual, statutory via bailin	None contractual, statutory via bailin	None contractual, statutory via bailin	None contractual, statutory via bailin
31-34 If w/d, trigger(s), full/partial, PWD/TWD	n/a	n/a	n/a	n/a
35 Instrument type immediately senior	Tier 2	Tier 2	AT1	Senior Unsecured
36 Non- compliant transitioned features	Yes	No	No	No
37 If yes, specify non- compliant features	Step-up reset rate	n/a	n/a	n/a

¹ This is not a typical stopper since, if the Society has cancelled a payment on a more senior ranking instrument (i.e. a deposit or share investment other than a deferred share investment), it cannot pay on any of these PIBS

² As indicated in the distribution policy and subject to a £15 cap at issue, adjustable annually for inflation by reference to the UK CPI (overall index, 2005=100) published by the ONS

Appendix 5: EAD, RWAs and capital requirements by exposure class and approach

EAD, RWAs and capital requirements by exposure class and approach									
Exposure class	Total	Under Standardised Approach		Under F-IRB Approach		Under A-IRB Approach		Total	
	EAD	EAD	RWAs	EAD	RWAs	EAD	RWAs	RWAs	Capital Requirement
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Exposure class									
Central governments and central banks	20,211	20,211	-	-	-	-	-	-	-
Multilateral development banks	459	459	-	-	-	-	-	-	-
Regional governments or local authorities	7	7	7	-	-	-	-	7	1
Corporates	13,536	98	80	13,438	5,595	-	-	5,675	454
Of which:									
Standardised corporates	98	98	80	-	-	-	-	80	6
SME	2,464	-	-	2,464	587	-	-	587	47
Specialised lending	4,025	-	-	4,025	3,318	-	-	3,318	265
Other corporates	6,949	-	-	6,949	1,690	-	-	1,690	136
Retail	195,973	5,949	2,132	-	-	190,024	17,163	19,295	1,544
Of which:									
Standardised other retail	75	75	56	-	-	-	-	56	5
Standardised retail mortgages (secured against retail property)	5,843	5,843	2,045	-	-	-	-	2,045	163
Secured against commercial property	31	31	31	-	-	-	-	31	3
IRB retail mortgages (secured against residential property)	179,820	-	-	-	-	179,820	11,524	11,524	922
Qualifying revolving retail	8,186	-	-	-	-	8,186	4,144	4,144	331
Other retail (unsecured loans)	2,018	-	-	-	-	2,018	1,495	1,495	120
Institutions	1,688	-	-	1,688	222	-	-	222	17
Counterparty credit risk (excluding CVA)	10,455	6,321	19	4,134	546	-	-	565	45
Securitisation positions IRB	3,641	-	-	3,641	434	-	-	434	35
Exposures in default	237	237	241	-	-	-	-	241	19
Other items	660	660	88	-	-	-	-	88	7
Other non-credit obligations	1,152	-	-	1,152	1,152	-	-	1,152	92
Equity IRB under the simple risk-weighted approach	33	-	-	33	122	-	-	122	10
Total	248,052	33,942	2,567	24,086	8,071	190,024	17,163	27,801	2,224
Operational risk standardised (STA) approach	-	-	-	-	-	-	-	4,865	389
Credit valuation adjustment (CVA)	-	-	-	-	-	-	-	650	53
Contributions to the default fund of a CCP	11	-	-	-	-	-	-	6	-
Deferred Tax Assets	127	-	-	-	-	-	-	319	25
Total risk exposure amount including CVA	248,190	33,942	2,567	24,086	8,071	190,024	17,163	33,641	2,691

Appendix 6: Geographical distribution of credit risk exposures

Geographical distribution of credit risk exposures (2017)					
	UK	Other European Countries	North America	Rest of the World	Total
	£m	£m	£m	£m	£m
Internal Ratings Based (IRB) exposure classes					
Institutions	792	528	360	8	1,688
Corporates (commercial lending)	13,426	12	-	-	13,438
Retail mortgages (secured against residential property)	179,820	-	-	-	179,820
Qualifying revolving retail	8,186	-	-	-	8,186
Other retail (unsecured loans)	2,018	-	-	-	2,018
Securitisation positions	3,069	415	157	-	3,641
Non-credit obligation assets (fixed assets and other)	1,152	-	-	-	1,152
Equity	33	-	-	-	33
	208,496	955	517	8	209,976
Standardised exposure classes					
Central governments & central banks	17,428	2,183	600	-	20,211
Regional governments & local authorities	7	-	-	-	7
Multilateral development banks	-	185	98	176	459
Corporates (non-commercial)	97	-	-	-	97
Retail mortgages (secured against residential property)	5,916	-	-	-	5,916
Other retail	2	-	-	-	2
Commercial lending (secured against property)	27	4	-	-	31
Commercial lending (other)	1	-	-	-	1
Exposures in default	237	-	-	-	237
Other	660	-	-	-	660
	24,375	2,372	698	176	27,621
Counterparty credit risk	6,990	555	2,564	357	10,466
Total	239,861	3,882	3,779	541	248,063

Geographical distribution of credit risk exposures (2016)					
	UK	Other European Countries	North America	Rest of the World	Total
	£m	£m	£m	£m	£m
Internal Ratings Based (IRB) exposure classes					
Institutions	1,296	732	922	11	2,961
Corporates (commercial lending)	14,034	12	-	-	14,046
Retail mortgages (secured against residential property)	168,998	-	-	-	168,998
Qualifying revolving retail	8,420	-	-	-	8,420
Other retail (unsecured loans)	1,962	-	-	-	1,962
Securitisation positions	1,736	632	301	17	2,686
Non-credit obligation assets (fixed assets and other)	1,126	-	-	-	1,126
Equity	81	-	-	-	81
	197,653	1,376	1,223	28	200,280
Standardised exposure classes					
Central governments & central banks	13,312	1,624	902	-	15,838
Regional governments & local authorities	8	-	-	-	8
Multilateral development banks	-	404	44	74	522
Corporates (non-commercial)	91	20	-	-	111
Retail mortgages (secured against residential property)	6,656	-	-	-	6,656
Other retail	3	-	-	-	3
Commercial lending (secured against property)	54	4	-	-	58
Commercial lending (other)	87	-	-	-	87
Exposures in default	273	-	-	-	273
Other	821	-	-	-	821
	21,305	2,052	946	74	24,377
Counterparty credit risk	4,947	774	1,939	22	7,682
Total	223,905	4,202	4,108	124	232,339

Appendix 7: Countercyclical capital buffer

	Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer								
	General credit risk exposures		Securitisation	Own funds requirements			Total	Own funds requirement weights ¹	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value IRB	Exposure value IRB	Of which: General credit exposures	Of which: Securitisation exposures	Weighting			
£ m	£ m	£ m	£ m	£ m	£ m	£ m			
Breakdown by country:									
United Kingdom	8,004	205,111	3,068	2,155	31	2,186	99.620	-	
Australia	-	-	-	-	-	-	-	-	
Canada	-	151	-	1	-	1	0.044	-	
Denmark	-	39	-	-	-	-	0.007	-	
Finland	-	25	-	-	-	-	0.010	-	
France	-	31	7	-	-	-	0.008	-	
Germany	-	-	43	-	-	-	0.012	-	
Ireland	6	-	-	1	-	1	0.024	-	
Italy	-	-	-	-	-	-	-	-	
Jersey	4	12	-	1	-	1	0.049	-	
Netherlands	-	-	366	-	2	2	0.100	-	
Norway	-	130	-	1	-	1	0.036	1.5	
Portugal	-	-	-	-	-	-	-	-	
Spain	-	-	-	-	-	-	-	-	
Sweden	-	79	-	1	-	1	0.031	2.0	
United States	-	-	157	-	1	1	0.061	-	
Total	8,014	205,578	3,641	2,160	34	2,194	100.000		

¹ The weighting is calculated as each country's own funds requirement as a proportion of the total own funds requirements.

Note: exposures to sovereigns, multilateral development banks and institutions' senior unsecured debt are exempt from the countercyclical buffer analysis. Those exposures are excluded from this table. This is why the total own funds requirement does not reconcile to the IRB total in Table 9.

Appendix 8: Residual maturity of credit risk exposures

Residual maturity of credit risk exposures (2017)						
	On demand	Up to 12 months	1-5 years	5-10 years	More than 10 years	Total
	£m	£m	£m	£m	£m	£m
Internal Ratings Based (IRB) exposure classes						
Institutions	-	968	657	63	-	1,688
Corporates (commercial lending)	10	423	1,511	486	11,008	13,438
Retail mortgages (secured against residential property)	131	542	4,963	16,052	158,132	179,820
Qualifying revolving retail	8,186	-	-	-	-	8,186
Other retail (unsecured loans)	23	89	1,725	181	-	2,018
Securitisation positions	-	-	194	254	3,193	3,641
Non-credit obligation assets (fixed assets and other)	291	-	485	-	376	1,152
Equity	-	33	-	-	-	33
	8,641	2,055	9,535	17,036	172,709	209,976
Standardised exposure classes						
Central governments & central banks	-	13,762	932	4,057	1,460	20,211
Regional governments & local authorities	-	-	2	1	4	7
Multilateral development banks	-	16	421	22	-	459
Corporates (non-commercial)	-	67	30	-	-	97
Retail mortgages (secured against residential property)	44	100	529	1,296	3,947	5,916
Other retail	-	-	-	1	1	2
Commercial lending (secured against property)	-	15	2	3	11	31
Commercial lending (other)	-	-	1	-	-	1
Exposures in default	4	3	19	45	166	237
	48	13,963	1,936	5,425	5,589	26,961
Other	-	-	-	-	-	660
Counterparty credit risk	869	-	9,178	419	-	10,466
Total	9,558	16,018	20,649	22,880	178,298	248,063

Residual maturity of credit risk exposures (2016)						
	On demand	Up to 12 months	1-5 years	5- 10 years	More than 10 years	Total
	£m	£m	£m	£m	£m	£m
Internal Ratings Based (IRB) exposure classes						
Institutions	-	2,066	549	346	-	2,961
Corporates (commercial lending)	22	560	1,407	531	11,526	14,046
Retail mortgages (secured against residential property)	131	579	4,798	15,546	147,944	168,998
Qualifying revolving retail	8,420	-	-	-	-	8,420
Other retail (unsecured loans)	24	91	1,677	170	-	1,962
Securitisation positions	-	-	199	408	2,079	2,686
Non- credit obligation assets (fixed assets and other)	295	-	493	-	338	1,126
Equity	-	81	-	-	-	81
	8,892	3,377	9,123	17,001	161,887	200,280
Standardised exposure classes						
Central governments & central banks	-	9,510	2,866	2,445	1,017	15,838
Regional governments & local authorities	-	1	2	1	4	8
Multilateral development banks	-	-	407	115	-	522
Corporates (non- commercial)	-	88	23	-	-	111
Retail mortgages (secured against residential property)	40	95	538	1,230	4,753	6,656
Other retail	-	-	1	1	1	3
Commercial lending (secured against property)	-	14	8	22	14	58
Commercial lending (other)	-	76	1	-	10	87
Exposures in default	1	5	56	31	180	273
	41	9,789	3,902	3,845	5,979	23,556
Other	-	-	-	-	-	821
Counterparty credit risk	-	4,562	2,172	948	-	7,682
Total	8,933	17,728	15,197	21,794	167,866	232,339

Appendix 9: Reconciliation of accounting balance sheet to regulatory balance sheet

Reconciliation of accounting balance sheet to regulatory balance sheet												
	Accounting balance sheet per published financial statements	Balance sheet per regulatory scope of consolidation	Balances not subject to credit risk calculations	Specific regulatory adjustments and balances adjusted directly through capital	Regulatory on balance sheet exposures	Regulatory exposure of off-balance sheet items pre CCF	Regulatory exposure of off-balance sheet items post CCF	IRB provisions	Exposure to counterparty credit risk for SFTs	Total regulatory EAD pre-CRM	RWAs	Pillar 1 credit risk capital requirement
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets												
Cash in hand, loans due from other banks and debt securities	25,368	25,368	-	415	25,783	1,964	1,834	-	5,385	33,002	839	67
Fair value adjustments for portfolio hedged risk	746	746	(556)	-	190	-	-	-	-	190	46	4
Derivative financial instruments	5,043	5,043	-	(830)	4,213	-	-	-	-	4,213	1,198	96
Loans and advances to customers	187,371	187,371	-	6,775	194,146	22,668	14,917	411	-	209,474	25,102	2,008
Investments in equity shares	67	67	-	-	67	-	-	-	-	67	156	12
Goodwill and other intangible assets	1,230	1,230	(1,230)	-	-	-	-	-	-	-	-	-
Property, plant and equipment	851	851	-	-	851	-	-	-	-	851	851	68
Investment properties	8	8	-	-	8	-	-	-	-	8	8	1
Deferred tax assets	103	103	-	24	127	-	-	-	-	127	318	25
Other assets	883	883	(625)	-	258	-	-	-	-	258	258	21
Total assets	221,670	221,670	(2,411)	6,384	225,643	24,632	16,751	411	5,385	248,190	28,776	2,302

Appendix 10: CRR mapping

CRR reference	High-level summary	Disclosure reference
Scope of disclosure requirements		
431(1)	Requirement to publish Pillar 3 disclosures.	Nationwide published Pillar 3 disclosures.
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	Not applicable.
431(3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness. Institution must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants.	Nationwide has a Pillar 3 disclosure policy.
431(4)	Explanation of ratings decision upon request.	Not applicable to this disclosure.
Non-material, proprietary and confidential information		
432(1)	Institutions may omit information that is not material if certain conditions are respected.	Nationwide's Pillar 3 disclosure policy covers this provision.
432(2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected	Nationwide's Pillar 3 disclosure policy covers this provision.
432(3)	Where 432 (2) applies this must be stated in the disclosures, and more general information must be disclosed.	No disclosures have been omitted on the grounds of Article 432(2) or Article 432(3).
432(4)	Use of 432 (1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information.	
Frequency of disclosures		
433	Disclosures must be published once a year at a minimum and more frequently if necessary	Disclosures published annually or more frequently where otherwise required.
Means of disclosure		
434(1)	To include all disclosures in one appropriate medium, or provide clear cross-references.	Nationwide publishes all required disclosures on its website. Signposting directs the reader to other publications where relevant.
434(2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Any cross-references to accounting or other disclosures are clearly signposted within the Pillar 3 document.
Risk management objectives and policies		

435(1)	Disclose information on:	
435(1)(a)	The strategies and processes to manage risks	Page 23, Section 5.2.3: Risk strategies and pages 27 to 61 for the major risk categories.
435(1)(b)	Structure and organisation of risk management function	Pages 25 to 26, Section 5.5: Risk committee structure
435(1)(c)	Risk reporting and measurement systems	Page 24, Section 5.2.7: Risk controls and reporting
435(1)(d)	Hedging and mitigating risk – policies and processes	Pages 35 to 49, Sections 6.5 to 6.7 (Credit risk), pages 51 to 54, Section 7: Counterparty credit risk and pages 59 to 60, Section 10: Market risk
435(1)(e)	A declaration of adequacy of risk management arrangements approved by the Board	Page 24, Section 5.3 Effectiveness of risk management arrangements
435(1)(f)	Concise risk statement approved by the Board.	Page 7, Section 2.3: Risk Appetite
435(2)	Information on governance arrangements, including information on Board composition and recruitment and risk committees.	Page 64, Annual report and accounts, “Report on the directors on corporate governance”.
435(2)(a)	Number of directorships held by Board members	Pages 31 to 34, Annual report and accounts, “Board of Directors” and pages 212 to 213, Annual report and accounts, “Annual Business Statement”.
435(2)(b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise.	Page 64, Annual report and accounts, “Report on the directors on corporate governance”.
435(2)(c)	Policy on diversity of Board membership and results against targets.	Page 49, Annual report and accounts: “Report on the directors on corporate governance”.
435(2)(d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year	Pages 23 to 24: Section 5.2.6: Risk governance and assurance. Pages 25 to 26, Section 5.5: Risk committee structure
435(2)(e)	Description of information flow on risk to Board	Pages 24 to 25, Section 5.3: Effectiveness of risk management framework. Pages 25 to 26: Risk committee structure
Scope of application		
436(a)	Name of institution.	Page 7, Section 2.2: Scope
436(b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are:	
436(b)(i)	Fully consolidated;	

436(b)(ii)	Proportionally consolidated;	Page 7, Section 2.2: Scope, there are no differences between the consolidation for accounting and prudential purposes.
436(b)(iii)	Deducted from own funds;	
436(b)(iv)	Neither consolidated nor deducted.	
436(c)	Impediments to transfer of own funds between parent and subsidiaries.	Page 7, Section 2.2 Scope
436(d)	Capital shortfalls in any subsidiaries outside the scope of consolidation.	Not applicable.
436(e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	Pages 7 to 8: Section 2.2: Scope and Section 2.4: Individual (solo) consolidation.
Own funds		
437(1)	Disclose the following information regarding own funds:	Page 69, Appendix 3: EBA Own Funds disclosure template.
437(1)(a)	a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and filters and deductions applied pursuant to Articles 32 to 35, 36, 56, 66 and 79 to own funds of the institution and the balance sheet in the audited financial statements of the institution;	Pages 71 to 73: Appendix 4: Capital instruments key features.
437(1)(b)	a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution;	
437(1)(c)	the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments;	
437(1)(d)	disclosure of the nature and amounts of the following:	Page 9, Section 3.3, Table: Capital composition. Page 74, Appendix 5.
437(1)(d)(i)	each prudential filter applied pursuant to Articles 32 to 35;	
437(1)(d)(ii)	each deduction made pursuant to Articles 36, 56 and 66;	
437(1)(d)(iii)	items not deducted in accordance with Articles 47, 48, 56, 66 and 79	
437(1)(e)	a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply;	Not applicable.
437(1)(f)	where institutions disclose capital ratios calculated using elements of own funds determined on a different basis	
Capital requirements		

438(a)	Summary of institution's approach to assessing adequacy of capital levels.	Pages 17 to 18, Section 4.3.2: "Internal Capital Adequacy Assessment Process (ICAAP)"
438(b)	Result of ICAAP on demand from authorities.	Not requested
438(c)	Capital requirements for each Standardised approach credit risk exposure class.	Page 27, Table 13: Total minimum Pillar 1 capital requirements for credit risk.
438(d)	Capital requirements for each Internal Ratings Based Approach credit risk exposure class.	
438(e)	Capital requirements for market risk or settlement risk.	Page 16, Table 9: EU OV1: Overview of RWAs
438(f)	Capital requirements for operational risk, separately for the Basic Indicator Approach, the Standardised Approach, and the Advanced Measurement Approaches as applicable.	
438 (end note)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Pages 43 to 44, Tables 27 and 28: EU CR10
Exposure to counterparty credit risk (CCR)		
439(a)	Description of process to assign internal capital and credit limits to CCR exposures.	Pages 45 to 49, Section 6.7: Treasury credit risk and pages 51-54, Section 7: Counterparty credit risk.
439(b)	Discussion of policies for securing collateral and establishing credit reserves.	
439(c)	Discussion of management of wrong-way risk exposures.	
439(d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	
439(e)	Derivation of net derivative credit exposure.	Page 51, Table 34: Net exposures to counterparty credit risk for derivative contracts.
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	Not applicable
439(h)	Notional amounts of credit derivative transactions.	
439(i)	Estimate of alpha, if applicable	
Capital buffers		
440(1)(a)	Geographical distribution of relevant credit exposures for calculation of countercyclical capital buffer.	Page 77, Appendix 7: Countercyclical capital buffer.
440(1)(b)	Amount of the institution specific countercyclical capital buffer.	Page 20, Table 12: Amount of institution specific countercyclical capital buffer

Indicators of global systemic importance		
441(1)	Disclosure of the indicators of global systemic importance.	Disclosed separately at www.nationwide.co.uk .
Credit risk adjustments		
442(a)	Disclosure of bank's definitions of past due and impaired.	Pages 215 to 223, Glossary, Annual Report and Accounts 2017
442(b)	Approaches for calculating specific and general credit risk adjustments.	Pages 49 to 50, Section 6.9: Impairment provisions.
442(c)	Disclosure of pre-CRM EAD by exposure class.	Page 27, Table 13: Credit risk exposures.
442(d)	Disclosure of pre-CRM EAD by geography and exposure class	Page 75, Appendix 6: Geographical distribution of credit risk exposures.
442(e)	Disclosure of pre-CRM EAD by industry and exposure class.	Page 74, Appendix 5: EAD, RWAs and capital requirements. Page 44, Table 29: Commercial lending by industry sector.
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class.	Page 78, Appendix 8: Residual maturity.
442(g)(i),(ii),(iii)	Breakdown of impaired, past due, specific and general credit risk adjustments, and impairment charges for the period.	Pages 91, 95, 102 & 169 Annual Report and Accounts 2017. Pages 49 to 50, Section 6.9: Impairment provisions.
442(h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Pages 91, 95, 102 & 169 Annual Report and Accounts 2017. Pages 49 to 50. Section 6.9: Impairment provisions.
442(i), (ii), (iii), (iv), (v)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures.	Page 50, Table 32: Movements in impaired provisions.
442(endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.	All specific credit risk adjustments are recorded to the income statement.
Unencumbered assets		
443	Disclosures on unencumbered assets.	Page 63, Appendix 1: Asset encumbrance.
Use of ECAIs		
444(a)	Names of the ECAIs used in the calculation of Standardised approach risk-weighted assets and reasons for any changes	Page 28, Section 6.3.2: Credit risk under the standardised approach.
444(b)	Exposure classes associated with each ECAI.	
444(c)	Description of the process used to transfer credit assessments to non-trading book items.	Not applicable.
444(d)	Mapping of external rating to CQS (if the institution does not comply with EBA standards)	Not applicable.

444(e)	Exposure value pre and post-credit risk mitigation, by CQS	Page 29, Tables 14 and 15: EU CR4: Standardised approach – credit risk exposure and credit risk mitigation (CRM) effects.
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Not applicable.
Operational risk		
446	Scope of approaches used to calculate operational risk.	Page 58, Section 9: Operational risk.
Exposure in equities not included in the trading book		
447 (a)	Differentiation of exposures based on objectives	Page 49, Section 6.8: Equities.
447 (b)	Recorded and fair value, and actual prices of exchange traded equity where it differs from fair value.	
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	
447 (d)	Realised cumulative gains and losses on sales over the period.	
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital.	
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of risk and key assumptions in measurement models.	Pages 59 to 60, Section 10: Market risk.
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency.	
Exposure to securitisation positions		
449	Exposure to securitisations positions.	Pages 55 to 57, Section 8: Securitisation.
449(a)	Objectives in relation to securitisation activity.	
449 (b)	Nature of other risks in securitised assets, including liquidity.	
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	
449 (d)	The roles played the institution in the securitisation process.	
449 (e)	Indication of the extent of involvement in these roles.	
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	Pages 55 to 57, Section 8: Securitisation, Page 45: Treasury credit risk.

449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	Page 155, Annual Report and Accounts 2017, Securitisation transactions.
449 (h)	Approaches to calculation of RWA for securitisations mapped to types of exposures.	Pages 55-57, Section 8: Securitisation.
449 (i)	Types of SSPEs used to securitise third-party exposures, and list of SSPEs.	
449 (j)	Summary of accounting policies for securitisations:	Pages 155 and 180, Annual Report and Accounts 2017, Note 1 & 16. Pages 55-57, Section 8: Securitisation.
449 (j) (i)	Treatment of sales or financings;	
449 (j) (ii)	Recognition of gains on sales;	
449 (j) (iii)	Approach to valuing securitisation positions;	
449 (j) (iv)	Treatment of synthetic securitisations;	Not applicable.
449 (j) (v)	Valuation of assets awaiting securitisations;	Not applicable.
449 (j) (vi)	Recognition of arrangements that could require the bank to provide support to securitised assets.	
449 (k)	Names of ECAIs used for securitisations.	Pages 55 to 57, Section 8: Securitisation.
449 (l)	Full description of Internal Assessment Approach.	Not applicable.
449 (m)	Explanation of changes in quantitative disclosures.	Pages 55 to 57, Section 8: Securitisation.
449 (n)	Banking and trading book securitisation exposures:	
449 (n) (i)	Amount of outstanding exposures securitised;	
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off-balance sheet exposures;	
449 (n) (iii)	Amount of assets awaiting securitisation;	Not applicable.
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements;	Not applicable.
449 (n) (v)	Deducted or 1250%-weighted securitisation positions;	Pages 55 to 57, Section 8: Securitisation.
449 (n) (vi)	Amount of exposures securitised and recognised gains or losses on sales.	
449 (o)	Banking and trading book securitisations by risk band:	
449 (o) (i)	Retained and purchased exposure and associated capital requirements, broken down by risk-weight bands;	

449 (o) (ii)	Retained and purchased re-securitisation exposures before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type	
449 (q)	Exposure and capital requirements for trading book securitisations, separately into traditional and synthetic.	Not applicable.
449 (r)	Whether the institution has provided financial support to securitisation vehicles	Pages 55 to 57, Section 8: Securitisation.
Remuneration disclosures		
450	Remuneration	Pages 64 to 68, Appendix 2: Remuneration.
Leverage		
451 (1) (a), (b), (c)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items	Pages 12 to 14, Section 3.4: Leverage ratio.
451 (1) (d), (e)	Description of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the year.	
451 (2)	EBA to publish implementation standards for points above.	
Use of the IRB approach to credit risk		
452 (a)	Permission to use of the IRB approach from the competent authority	Pages 15 to 17: Section 4.2: Pillar 1.
452 (b)	Explanation and review of:	Pages 45 to 49. Section 6.7: Treasury credit risk.
452 (b) (i)	Internal rating scales, mapped to external ratings;	
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	Page 31, Section 6.4.1: IRB models overview.
452 (b) (iii)	Management and recognition of credit risk mitigation;	Pages 39 to 45, Section 6.6: Commercial credit risk. Pages 51 to 54, Section 7: Counterparty credit risk.
452 (b) (iv)	Controls around ratings systems.	Pages 31 to 32: Section 6.4.2: Model risk management of IRB risk ratings systems.
452 (c) (i), (ii), (iii), (iv) & (v)	Description of ratings processes for each IRB asset class, provided separately	Pages 35 to 49, Section 6.5: Retail credit risk, Section 6.6: Commercial credit risk, Section 6.7: Treasury credit risk and Section 6.8: Equities
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	Pages 37 to 38, 41 to 42 and 47 to 48: Tables 23, 24, 25, 26, 31 and 32 EU CR6
452 (e)	For wholesale exposure classes, disclosed separately by obligor grade:	
452 (e) (i)	Total exposure, separating loans and undrawn exposures where applicable;	

452 (e) (ii)	Exposure-weighted average risk weight;	
452 (e) (iii)	For institutions using own estimates of CCFs, undrawn commitments and average exposure values by asset class.	Not applicable
452 (f)	For retail exposure classes, same disclosures as under 452 (e), by risk grade or EL grade.	Pages 37 to 38, Table EU CR6: Retail
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	Page 33: Table 19: Comparison of expected loss and actual loss
452 (h)	Commentary on drivers of losses in preceding period.	Page 33 to 35: IRB credit risk model performance
452 (i)	Disclosure of predicted against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	
452 (j)	For all IRB exposure classes:	Pages 37 to 38, 41 to 42 and 47 to 48: Tables 23, 24, 25, 26, 31 and 32 EU CR6
452 (j) (i) & (ii)	Where applicable, PD and LGD by each country where the bank operates	
Use of credit risk mitigation techniques		
453 (a)	Use of on- and off-balance sheet netting	Not applicable
453 (b)	How collateral valuation is managed	Pages 39 to 45, Section 6.6. Commercial credit risk, Pages 51 to 54, Section 7: Counterparty credit risk.
453 (c)	Description of types of collateral used by Nationwide	Pages 39 to 45, Section 6.6. Commercial credit risk, Pages 51 to 54, Section 7: Counterparty credit risk.
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	Not applicable
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Pages 39 to 45, Section 6.6. Commercial credit risk, Pages 51 to 54, Section 7: Counterparty credit risk.
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	Pages 51 to 54, Section 7: Counterparty credit risk
453 (g)	Exposures covered by guarantees or credit derivatives	Not applicable
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	Not applicable
Use of internal market risk models		
455 (a) (i)	Disclosure of the characteristics of the market risk models.	Not applicable
455 (a) (ii)	Disclosure of the methodology and description of comprehensive risk measure and incremental risk charge.	

455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	
455 (a) (iv)	Methodology for back-testing and validating the models.	
455 (b)	Scope of permission for use of the models.	
455 (c)	Policies and processes to determine which exposures are to be included in the trading book, and to comply with prudential valuation requirements.	
455 (d) (i), (ii) & (iii)	High/Low/Mean values over the year of VaR, sVaR, comprehensive risk measure and incremental risk charge.	
455 (e)	The elements of the own fund calculation.	
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in portfolio's value.	

Appendix 11: EBA guidelines early adoption tables

Table	Abbreviation	Full name
9	EU OV1	EU OV1 - Overview of RWAs
10	EU CR8	EU CR8 - RWA flow statements of credit risk exposures under IRB approach
14 & 15	EU CR4	EU CR4 - Standardised Approach – credit risk exposure and Credit Risk Mitigation (CRM) effects
16 & 17	EU CR5	EU CR5 - Standardised Approach
20	EU CR9	EU CR9 - IRB approach - Backtesting of PD per exposure class (AIRB)
21	EU CR9	EU CR9 - IRB approach - Backtesting of PD per exposure class (FIRB)
23 & 24	EU CR6	EU CR6 - IRB approach - Credit risk exposures by exposure class and PD range (Retail)
25 & 26	EU CR6	EU CR6 - IRB approach - Credit risk exposures by exposure class and PD range (Commercial)
27 & 28	EU CR10	EU CR10 - IRB (Specialised lending and equities)
31 & 32	EU CR6	EU CR6 - IRB approach - Credit risk exposures by exposure class and PD range (Treasury)
35 & 36	EU CCR1	EU CCR1 - Analysis of CCR exposure by approach
37 & 38	EU CCR3	EU CCR3 - Standardised approach – CCR exposures by regulatory portfolio and risk
39 & 40	EU CCR4	EU CCR4 - IRB approach – CCR exposures by portfolio and PD scale
41	EU CCR8	EU CCR8 - Exposures to central counterparties (CCPs)
42 & 43	EU CCR2	EU CCR2 – Credit valuation adjustment (CVA) capital charge

Glossary of terms

AIRB	Advanced Internal Ratings Based (see Internal ratings based approach).
Asset Backed Securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows, including credit card assets, but are commonly pools of residential or commercial mortgages. Investors in these securities have the right to cash received from future payments (interest and / or principal) on the underlying asset pool.
Available for sale reserve	The available for sale reserve represents the cumulative gains and losses, and associated deferred taxation, arising from the revaluation of available for sale assets held by the Group.
Basel III	The Basel Committee rules text, issued in December 2010, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. This has been implemented via the Capital Requirements Directive IV (CRD IV) legislation.
Capital Resources Requirement	The amount of capital that Nationwide is required to hold based upon the risks to which the business is exposed.
Capital Requirements Directive (CRD)	The supervisory framework in the European Commission which reflects the Basel II and Basel III rules on capital measurement and capital standards.
Capital Requirements Directive IV (CRD IV)	European legislation to implement Basel III, which includes the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD).
Capital Requirements Regulation (CRR)	European regulation that is directly applicable to European Union member states defining prudential capital requirements for credit institutions and investment firms.
Collectively assessed impairments	Where a portfolio comprises assets with similar characteristics, collective impairment assessment takes place using appropriate statistical techniques. The collective assessment takes account of losses that will have taken place but are not yet identified.
Commercial lending	Loans secured on commercial property, loans to registered social landlords and loans relating to Project Finance.
Common Equity Tier 1 capital	The highest quality form of capital as defined by CRD IV, comprising accumulated reserves and qualifying instruments after regulatory deductions.
Counterparty credit risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Covered Bonds	Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds. Nationwide issues covered bonds as part of its funding activities.
Credit quality steps	A credit quality assessment scale as set out in CRD IV.
Credit risk	The risk that a borrower or counterparty fails to pay interest or to repay principal on a loan or other financial instrument (such as a bond) on time.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.

Default	Circumstances in which the probability of default is taken as 100% for the purposes of the calculation of regulatory capital and compliance with the Capital Requirements Directive IV (CRD IV) legislation. This is defined as when a borrower reaches a predefined arrears status or where a borrower is considered unlikely to repay the credit obligation in full without the lender taking action such as realising security.
Delegated Act	Commission delegated regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 (CRR) of the European Parliament and of the Council with regard to the leverage ratio.
Exposure at Default (EAD)	An estimation of the amount of exposure that will be outstanding at the time of default.
EEA parent institution	A parent financial institution situated in a Member State of the European Economic Area which is not a subsidiary of another financial institution also situated in the EEA.
European Banking Authority (EBA)	An independent EU authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.
Expected loss (EL)	A calculation to estimate the potential losses on current exposures due to potential defaults. It is the product of probability of default (PD), loss given default (LGD) and exposure at default (EAD).
Exposure	The maximum loss that a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations or if assets and off-balance sheet positions have to be realised.
Exposure Value	A parameter used in IRB approaches to estimate the exposure (amount outstanding) at the time of default.
External Credit Assessment Institution	External Credit Assessment Institution (ECAI). An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for the prudential regulation of firms that do not fall within the Prudential Regulation Authority's (PRA's) scope.
Financial Services Authority (FSA)	The financial services industry regulator in the UK, before transition to the PRA and FCA in April 2013.
Foundation internal ratings based (FIRB) approach	A method of calculating credit risk capital requirements using internal probability of default (PD) models but with regulators' supervisory estimates of loss given default (LGD) and conversion factors for the calculation of exposure at default. (EAD).
FX PRR	Foreign Exchange Position Risk Requirement. The capital requirement under CRR (Market risk) as part of the calculation of the market risk capital requirement.
Guarantee	An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations.
ICA	Internal Capital Assessment – the document produced as a result of the ICAAP.
Internal capital adequacy assessment process (ICAAP)	The Group's own assessment of the levels of capital that it needs to hold in respect of its regulatory capital requirements for credit, market and operational risks as well as for other risks including stress events.
ICG	Individual Capital Guidance. The minimum amount of capital the Group should hold as set by the PRA under Pillar 2 and informed by ICAAP.

Impaired loans	Loans which are three or more months in arrears, or which have individual provisions raised against them.
Individually assessed impairments	Residential loans are assessed individually for impairment when they are in possession. Commercial loans are assessed individually for impairment when there is objective evidence that an impairment loss has occurred.
Interest rate risk	Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.
Internal ratings based approach (IRB)	An approach for measuring exposure to credit risks. IRB approaches are more sophisticated and risk sensitive than the Standardised approach and may be Foundation or Advanced. IRB approaches may only be used with Prudential Regulation Authority (PRA) permission.
International Swaps and Derivatives Association (ISDA) master agreement	A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions. The contracts grant legal rights of set off for derivative transactions with the same counterparty. This reduces the credit risk of the derivatives to the extent that negative values offset positive values.
Lending risk	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk.
Loss given default (LGD)	An estimate of the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
LIBOR (London Interbank Offered Rate)	A benchmark interest rate at which banks can borrow funds from other banks in the London interbank market.
Liquid assets	Total of cash in hand and balances with the Bank of England, loans and advances to banks and investment securities.
Liquidity and funding risk	Liquidity risk is the risk that the Nationwide is unable to meet its liabilities as they fall due and maintain member and stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.
Long-run average PD	Probability of default based on a long-run average default rate which would be expected over a full economic cycle.
Loan to value ratio (LTV)	A ratio which expresses the amount of exposure as a percentage of the value of the property on which it is secured. Nationwide calculates LTV on an indexed basis such that the value of the property is updated on a regular basis to reflect changes in the market using either the house price or commercial real estate indices.
Market risk	The risk that the net value of, or net income arising from, the Nationwide's assets and liabilities is impacted as a result of market prices or rate changes.
Maturity	The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Medium Term Performance Pay Plan	The Medium Term Performance Pay Plan rewards sustained performance and the achievement of challenging financial targets over a three year performance cycle.
Minimum capital requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, market and operational risk.

Model validation	The process of assessing how well a risk model performs, using a predefined set of criteria including the discriminatory power of the model, the appropriateness of the inputs and expert opinion.
Netting	The ability to reduce credit risk exposures by offsetting the value of any deposits against loans to the same counterparty.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems or from external events.
Probability of default (PD)	An estimate of the probability that a borrower will default on their credit obligations in the next 12 months.
Permanent Interest Bearing Shares (PIBS)	Unsecured, deferred shares of the Society that, in the event of insolvency, rank equally with the claims of Additional Tier 1 (AT1) securities, behind the claims of all subordinated debt holders, depositors, creditors and investing members of Nationwide, and ahead of the claims of core capital deferred shares (CCDS) investors. PIBS are also known as subscribed capital.
Pillar 1 – Minimum capital requirements	The regulatory minimum capital requirements for credit, market and operational risk.
Pillar 2 – The supervisory review process	Sets out the processes by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks (including Pillar 1 risks) – ICG is an outcome from Pillar 2.
Pillar 3 – Market discipline	Disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
PiT	Point-in-time. A modelling approach which assesses the credit risk of an exposure at a single point in time.
Prime residential mortgages	Mainstream residential loans, which typically have a higher credit quality and fit standard underwriting processes. As such, they are likely to have a good credit history, and pass a standard affordability assessment at the point of origination.
Project Finance	Loans advanced to provide financial support for "public-private partnerships" between the public and private sectors.
Provisions	Amounts set aside to cover incurred losses associated with credit risks.
Present Value 01/200 (PV01 / PV200)	A calculation to assess the change in value of the net present value (NPV) of financial instruments with 1 basis point / 200 basis points parallel shifts in interest rates. PV01 shows the sensitivity while PV200 applies a more severe stress test.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and a small number of significant investment firms in the UK from 1 April 2013. The PRA is a subsidiary of the Bank of England.
Qualifying Revolving Retail Exposures	Facilities to retail customers that provide a revolving facility e.g. credit cards and overdrafts from which credit risks arise. Nationwide's main current account is the FlexAccount.
Rating system	A system for assessing and ranking customers and accounts by risk. A rating system comprises all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of exposures to grades or pools (rating), and the quantification of default and loss estimates for credit risk exposures.

Repurchase agreement (repo) / reverse repurchase agreement (reverse repo)	An agreement that allows a borrower to use a financial security as collateral for a cash loan. In a repo, the borrower agrees to sell a security to the lender subject to a commitment to repurchase the asset at a specified price on a given date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the counterparty to the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Resecuritisation	A securitisation where the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation position.
Revaluation reserve	The revaluation reserve represents the cumulative gains, and associated deferred taxation, arising on the revaluation of certain property assets held by Nationwide.
Retail loans	Loans to individuals rather than institutions, including residential mortgage lending and consumer banking.
Reverse stress tests	Regulatory stress tests that require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities.
Risk appetite	The level and type of risk that Nationwide is willing to assume in pursuit of its strategic goals.
Risk weighted assets (RWA)	The value of assets, after adjustment under the capital rules to reflect the degree of risk they represent.
RWA density	Risk-weighted assets divided by exposure after default (post credit risk mitigation and the application of credit conversion factors).
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. A company transfers assets to a special purpose entity (SPE) which then issues securities backed by the assets. Nationwide has established securitisation structures as part of its funding activities. These securitisation structures use retail mortgages as the asset pool. In addition, Nationwide invests in various securitisation structures in its Treasury portfolio.
Society	Nationwide Building Society.
Specialist residential lending	Consists of buy to let, self-certified and other non-standard mortgages.
SREP	Supervisory Review and Evaluation Process, the PRA assessment of a firm's own capital assessment (ICA) under Pillar 2.
Standardised approach	The basic method used to calculate credit risk capital requirements. In this approach the risk weights used in the capital calculation are determined by regulators' supervisory parameters. The Standardised approach is less risk-sensitive than the internal ratings based (IRB) approach.
Stress testing	A process which involves identifying possible future adverse events or changes in economic conditions that could have unfavourable effects on Nationwide (either financial or non-financial), assessing Nationwide's ability to withstand such changes, and identifying management actions to mitigate the impact.
Subordinated debt/liabilities	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors and investing members but before the claims of holders of Additional Tier 1 securities (AT1), permanent interest bearing shares (PIBS) and core capital deferred shares (CCDS).

The Standardised Approach (operational risk)	The standardised approach to operational risk, calculated using three-year historical net income multiplied by a factor of between 12-18%, depending on the underlying business being considered.
Tier 1 capital	A measure of the Nationwide's financial strength. Tier 1 capital comprises Common Equity Tier 1 capital and additional Tier 1 capital instruments.
Tier 2 capital	A further measure of the Nationwide's financial capital that meets the Tier 2 requirements set out in the Capital Requirements Regulation (CRR), comprising qualifying subordinated debt and other securities and eligible impairment allowances after regulatory deductions.
Value at Risk (VaR)	A technique that estimates the potential loss that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. In its day to day monitoring, Nationwide uses a 10 day horizon and a 99% confidence level.
Wrong-way risk	Defined by the PRA as a situation where there is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction.

Abbreviations

Abbreviation	Brief description	Abbreviation	Brief description
ABS	Asset Backed Securities	IAS	International Accounting Standard
AIRB	Advanced Internal Ratings Based	ICA	Internal Capital Assessment
ALCO	Assets and Liabilities Committee	ICAAP	Internal Capital Adequacy Assessment Process
BRRD	Bank Recovery and Resolution Directive	ICG	Internal Capital Guidance
CCDS	Core Capital Deferred Shares	IFRS	International Financial Reporting Standard
CCF	Credit Conversion Factor	IRB	Internal Ratings Based
CCP	Central Counterparties	IRRBB	Interest Rate Risk in the Banking Book
CCyB	Countercyclical Capital Buffer	ISDA	International Swaps and Derivatives Association
CRD	Capital Requirements Directive	LCR	Liquidity Coverage Ratio
CRE	Commercial Real Estate	LGD	Loss Given Default
CRM	Credit Risk Mitigation	LMR	Local Management of Risk
CRR	Capital Requirements Regulation	LTV	Loan to Value
CSA	Credit Support Annex	MDB	Multilateral Development Bank
CST	Concurrent Stress Testing	MREL	Minimum Requirement for Own Funds and Eligible Liabilities
CVA	Credit Valuation Adjustment	MROC	Model Risk Oversight Committee
DPA	Directors' Performance Award	MTPPP	Medium Term Performance Pay Plan
EAD	Exposure at Default	NPV	Net Present Value
EBA	European Banking Authority	NSFR	Net Stable Funding Ratio
ECAI	External Credit Assessment Institutions	PD	Probability of Default
EEA	European Economic Area	PFE/PFCE	Potential Future Credit Exposure
ERMF	Enterprise Risk Management Framework	PIBS	Permanent Interest Bearing Shares
FCA	Financial Conduct Authority	PRA	Prudential Regulatory Authority
FI	Financial Institution	RWA	Risk Weighted Assets
FIRB	Foundation Internal Ratings Based	SA	Standardised Approach
FPC	Financial Policy Committee	SFT	Security financing transaction
FSA	Financial Services Authority	SPE	Special Purpose Entity
FX PRR	Foreign Exchange Position Risk Requirement	SRB	Systemic Risk Buffer
GIC	Guaranteed Investment Contract	SREP	Supervisory Review and Evaluation Process
GMRA	Global Master Repurchase Agreement	TLRC	Treasury Lending Risk Committee
GMSLA	Global Master Securities Lending Agreement	Z-VFN	Z Variable Funding Note
G-SII	Globally Systemically Important Institution		

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