Glossary

for the Annual Report
and Accounts 2019

Nationwide
Building Society

Glossary

Additional Tier 1 (AT1) capital	Capital that meets certain criteria set out in Capital Requirements Directive IV (CRD IV). In particular, the criteria require that upon the occurrence of a trigger event, the AT1 capital instrument converts to Common Equity Tier 1 capital or the principal is written down on a permanent or temporary basis.
Additional Tier 1 (AT1) securities	Securities that pay fixed annual interest at the discretion of the Society. In the event of insolvency, AT1 securities rank the same as permanent interest bearing shares (PIBS) but behind the claims of all subordinated debt holders, creditors and investing members of the Society, but ahead of core capital deferred shares (CCDS) investors. These securities are eligible as Tier 1 capital.
Arrears	Amounts that are unpaid at their contractual date. A customer is in arrears when they are behind in fulfilling their obligations such that an outstanding loan payment is overdue. Such a customer can also be said to be in a state of delinquency. When a customer is in arrears, the entire outstanding balance is said to be delinquent, meaning that delinquent balances are the total outstanding loans on which payments are overdue.
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 (AFS) – term under IAS 39 standard	Financial assets that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through the income statement.
Bank levy	A levy that applies to certain UK financial institutions (including Nationwide) and the UK operations of foreign banks since 1 January 2011. The levy is based on a percentage of the chargeable equity and liabilities of the institution at the balance sheet date.
Banking book	The banking book contains all assets and liabilities held as part of Nationwide's core banking activities. These assets and liabilities are held with no intention to trade.
Base mortgage rate (BMR)	The Society's standard variable rate, which is guaranteed to be no more than 2% above the Bank of England base rate. This is the revert rate for existing customers at the end of a deal reserved on or before 29 April 2009, at which point the Standard Mortgage Rate (SMR) was introduced.
Basel II	The Basel Committee on Banking Supervision's statement of best practice that defines the methods by which firms should calculate their regulatory capital requirements to retain sufficient capital to protect the financial system against unexpected losses. Basel II is comprised of three pillars.
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.
Basis point (bp)	One hundredth of a percent (0.01 percent). 100 basis points is one percent. Used, for example, in quoting movements in interest rates.
Business risk	The risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, regulatory or other external events.
Buy to let mortgages	Mortgages offered to customers purchasing residential property as a rental investment.
Capital ratios	Key financial ratios measuring the Group's capital adequacy or financial strength. These include the Common Equity Tier 1 ratio, Tier 1 ratio, total capital ratio, CRR leverage ratio and UK leverage ratio.
Capital requirements	The amount of capital that the Group is required to hold based upon the risks to which the business is exposed.
Capital Requirements Directive (CRD)	The supervisory framework in the European Union 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 in the European Union, 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 requirements for capital, liquidity and credit risk for credit institutions and investment firms.

Glossary (continued)

Capital Requirements Regulation (CRR) leverage ratio	A ratio defined by the Capital Requirements Regulation (CRR) which measures Tier 1 capital as a proportion of total CRR leverage ratio exposures.
Capital Requirements Regulation (CRR) leverage ratio exposure	The denominator used in the Capital Requirements Regulation (CRR) leverage ratio. Exposure is measured as the sum of on-balance sheet exposures, adjusted for derivative and securities financing transaction exposures, and off-balance sheet items.
Capital resources	Capital held, allowable under regulatory rules, less certain regulatory adjustments and deductions that are required to be made.
Career average revalued earnings (CARE)	A defined benefit pension arrangement where the pension accrued is based on pensionable pay across an employee's career. The pension earned each year is based on pensionable pay in that year and is increased by a set revaluation rate, linked to inflation, for each year up to retirement (or, if earlier, the date the employee leaves the scheme).
Certificates of deposit	Bearer-negotiable instruments acknowledging the receipt of a fixed term deposit at a specified interest rate.
Charge off	The point at which the customer relationship is transferred to being one of recovery only, due to significant levels of arrears or through placement with a debt collection agency or litigation.
Collateral	Security pledged for repayment of a loan.
Collateralised loan obligations (CLO)	A securitisation of loans and bonds issued by sub-investment grade rated companies (see separate definition of 'Securitisation').
Commercial lending	Loans secured on commercial property, loans to registered social landlords and loans relating to project finance.
Commercial mortgage backed securities (CMBS)	A securitisation of commercial real estate loans (see separate definition of 'Securitisation').
Commercial paper (CP)	An unsecured promissory note issued to finance short term credit needs, which specifies the face amount paid to investors on the maturity date.
Commercial real estate (CRE)	Includes office buildings, industrial property, medical centres, hotels, retail stores, shopping centres, multifamily housing buildings, warehouses, garages and industrial properties.
Common Equity Tier 1 capital	The highest quality form of capital as defined in Capital Requirements Directive IV (CRD IV), comprising accumulated reserves and qualifying instruments after regulatory deductions.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 capital expressed as a percentage of risk weighted assets.
Conduct and compliance risk	The risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined or an unfair outcome being created for customers.
Consumer banking	Comprises credit card, unsecured personal lending and the Group's FlexAccount (current account) products.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid.
Core capital deferred shares (CCDS)	A form of Common Equity Tier 1 (CET1) capital which has been developed to enable the Society to raise capital from the capital markets. Holders of CCDS receive periodic distributions from the Society. Distributions are discretionary and capped in any financial year. In the event of insolvency, CCDS holders rank behind the claims of all other depositors, creditors and investing members of the Society.
Cost income ratio (CIR)	A ratio that represents the proportion of administrative expenses to total income.
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.
Credit risk	The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations.

Glossary (continued)

Credit spread	The premium over the benchmark or risk-free rate required by the market to accept a lower credit quality.
Credit valuation adjustment (CVA)	The difference between the risk-free value of a portfolio of trades and the market value which takes into account the counterparty's risk of default. The CVA therefore represents an estimate of the change to fair value that a market participant would make to incorporate inherent credit risk.
Cross currency interest rate swap	An arrangement in which two parties exchange specific principal amounts of different currencies at inception and subsequent interest payments on the principal amounts. Often one party will pay a fixed rate of interest, while the other will pay a floating rate (though there are also fixed-fixed and floating-floating arrangements). At the maturity of the swap, the principal amounts are usually re-exchanged.
Customer deposits	Money deposited by personal account holders. Such funds are recorded as liabilities in the balance sheet within shares or amounts due to customers.
Customer redress	Compensation for loss as a result of past sales or other consequence (including technical breaches) of financial products.
Debit valuation adjustment (DVA)	The difference between the risk-free value of a portfolio of trades and the market value which takes into account the Group's risk of default. The DVA therefore represents an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk of the Group.
Debt securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings.
Debt securities in issue	Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Default	Default occurs 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. Indicators of unlikeliness to pay include (but are not limited to) bankruptcy, financial restructuring or certain types of forbearance.
Deferred tax asset	Corporate income taxes recoverable in future periods as a result of deductible temporary differences (being differences between the accounting and tax bases of an asset or liability that will result in tax deductible amounts in future periods) and the carry forward of unused tax credits.
Deferred tax liability	Corporate income taxes payable in future periods as a result of taxable temporary differences (being differences between the accounting and tax bases of an asset or liability that will result in taxable amounts in future periods).
Defined benefit obligation	The present value of expected future benefit payments resulting from past service of employees in the defined benefit pension plan.
Defined benefit pension plan	A pension or other post-retirement benefit plan under which the Group has an obligation to provide agreed benefits to current and former employees. The Group bears the risk that its obligation may increase or that the value of the assets in the pension fund may fall.
Defined contribution pension plan	A pension plan under which the Group pays fixed contributions as they fall due into a separate entity (a fund) and has no further legal or constructive obligations.
Delinquency	See 'Arrears'.
Derivative	A contract or agreement whose value changes with movements in an underlying index such as interest rates, foreign exchange rates, share prices or indices, and which requires no initial investment or an initial investment that is smaller than would be required for other types of contracts with a similar response to market factors. The principal types of derivatives are swaps, forwards, futures and options.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or liability. EIR allocates associated income or expense to produce a level yield, over the expected life of the financial asset or liability, or a shorter period when appropriate.
Effective tax rate	The tax charge in the income statement as a percentage of profit before tax.
Encumbered assets	Assets on the balance sheet which are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.
End point	Full implementation of Capital Requirements Directive IV (CRD IV) with no transitional provisions.

Glossary (continued)

Enterprise Risk Management Framework (ERMF)	A framework that seeks to provide the context and guidance for cohesive risk management activity across the Group.
European Banking Authority (EBA)	The independent EU authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.
Expected credit loss (ECL)	The present value of all cash shortfalls over the expected life of the financial instrument. The term relates to accounting for impairment provisions under the new IFRS 9 standard.
ECL – 12 Month	Cash shortfalls resulting from default events that are possible in the next 12 months weighted by the probability of the default occurring.
ECL – lifetime	Cash shortfalls resulting from default events that are possible over the remaining expected life of the loan, weighted by the probability of that default occurring.
Expected loss (EL)	A regulatory capital 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 at default (EAD)	An estimation of the amount of exposure that will be outstanding at the time of default.
Fair Value through other comprehensive income (FVOCI)	Financial assets held at fair value on the balance sheet with changes in fair value recognised through other comprehensive income.
Fair value through profit or loss (FVTPL)	Financial assets held at fair value on the balance sheet with changes in fair value being recognised through the income statement.
Final salary pension arrangements	A defined benefit pension arrangement where the pension payable is based on the employee's final pensionable salary.
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 Ombudsman Service (FOS)	An independent service in the UK for settling disputes between businesses providing financial services and their customers.
Financial performance framework	Sets out the financial parameters that the Group calibrates future performance against to achieve the right balance between distributing value to members, investing in the business and maintaining our financial strength.
Financial Policy Committee (FPC)	A Bank of England committee charged with identifying, monitoring and taking action to reduce or remove systemic risks with a view to protect and enhance the resilience of the UK financial system. It is also responsible for supporting the economic policy of the UK Government.
Financial Services Compensation Scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry.
Fitch	Rating agency, Fitch Ratings Limited.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan to a customer that is experiencing or about to experience financial difficulties.
Foundation internal ratings based (IRB) 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).
Funding risk	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.
Gross mortgage lending	New lending advanced to customers during the period.

Glossary (continued)

Held to maturity (HTM) – term used under IAS 39 standard	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intention and ability to hold to maturity.
Help to Buy shared equity scheme	A Government scheme which helps house purchasers obtain a mortgage with a 5% deposit. The property is part financed by an equity loan from the Homes and Communities Agency.
House price index (HPI)	An index monitoring changes in house prices both monthly and annually, providing a comprehensive view of the property market.
Impaired loans	Loans which have been classified as Stage 3 (see definition below).
Impairment losses	When an impairment review determines that the amount expected to be recovered is less than the current carrying value, an impairment loss is recognised to reduce the asset's value to its recoverable amount.
Impairment provisions	Provisions held against assets on the balance sheet. The provisions represent management's best estimate of losses incurred in the loan portfolio at the balance sheet date.
Interest rate swap	A contract under which two counterparties agree to exchange periodic interest payments on a predetermined monetary principal, the notional amount.
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.
Internal liquidity adequacy assessment process (ILAAP)	The process and document that defines Nationwide's liquidity and funding risk management framework, including risk appetite and measurement of these risks.
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 Accounting Standards Board (IASB)	The independent standard setting body of the IFRS Foundation. Its members are responsible for the development and publication of International Financial Reporting Standards (IFRSs) and for approving interpretations of IFRS as developed by the IFRS Interpretations Committee (IFRIC).
International Swaps and Derivatives Association (ISDA) master agreement	A standardised contract developed by ISDA and used to enter into bilateral derivative transactions. The contracts grant legal rights of set off for derivative transaction with the same counterparty. This reduces the credit risk of the derivatives to the extent that negative values offset positive values.
Investment grade	The highest range of credit ratings, from AAA to BBB, as measured by external credit rating agencies.
Investment Property Databank (IPD) index	A measurement of the performance of the prime commercial real estate (CRE) market in the UK on a monthly basis, reporting on a number of key data series (including capital value returns, total returns, income returns, rental values and void rates) against the performance of other key asset classes including UK equities and UK gilts.
Level 1 fair values	Fair values derived from unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, such as for high quality government securities.
Level 2 fair values	Fair values derived from models whose inputs are observable in an active market, such as for most investment grade and liquid bonds, asset backed securities, collateralised loan obligations (CLOs) and over the counter (OTC) derivatives.
Level 3 fair values	Fair values derived from inputs that are not based on observable market data (unobservable inputs), such as for private equity investments, derivatives including an equity element, deposits including an equity element, and certain asset backed securities and bonds.
Leverage ratio	A ratio which measures Tier 1 capital as a proportion of exposures on a non risk weighted basis. There are two bases of calculation. For further details refer to UK leverage ratio and Capital Requirements Regulation (CRR) leverage ratio.
Libor (London Interbank Offered Rate)	A benchmark interest rate at which banks can borrow funds from other banks in the London interbank market.

Glossary (continued)

Lifetime mortgage	A type of mortgage where the customer does not have to make monthly payments and interest rolls up over the life of the mortgage.
Liquid asset buffer (LAB)	A portfolio of high quality, unencumbered liquid assets that are held to meet internal and regulatory liquidity stressed requirements.
Liquidity Contingency Plan (LCP)	A document that can be used to identify an emerging liquidity and funding stress, and which details the procedures to be followed and the actions which can be taken to withstand such a stress.
Liquidity coverage ratio (LCR)	A regulatory liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet a severe-but-plausible stress lasting for 30 calendar days.
Liquidity risk	Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and other stakeholder confidence.
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. The Group 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.
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.
Main current account	The primary or sole current account used by the customer.
Market risk	The risk that the net value of, or net income arising from Nationwide's assets and liabilities is impacted as a result of market prices or rate changes.
Medium term notes	Corporate notes continuously offered by a company to investors, through a dealer, across a range of maturity periods.
Member	A person who has a share investment or a mortgage loan with the Society as set out in the Society's Memorandum of rules.
Model risk	The risk of weaknesses or failures in models used to support key decisions, including in relation to the amount of capital and liquidity resources required, lending and pricing, resourcing and earnings.
Moody's	Rating agency, Moody's Investors Service Limited.
Near prime	Loans to borrowers with marginally weakened credit histories such as a County Court Judgement (CCJ) or default of less than or equal to £1,000 or with one missed mortgage payment in the last 12 months.
Negative equity	The difference between the outstanding balance on a loan and the current value of any security held where the security value is lower than the outstanding balance.
Net assets	The difference between total assets and total liabilities.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Net interest margin	Net interest income as a percentage of weighted average total assets.
Net mortgage lending	The net amount of new lending advanced to customers during the period offset by customer balances settled during the period.
Net stable funding ratio (NSFR)	A regulatory funding metric which is used to promote a stable funding profile by assessing the proportion of long term assets that are funded by stable long term funding sources (eg customer deposits and long term wholesale funding).
Non-performing loans	Loans which are in arrears, including impaired loans with individually assessed impairments.

Glossary (continued)

Open Banking	The collective term used to describe the combined impact of new regulations such as the Competition and Markets Authority Order (CMA) and Payments Services Directive II (PSD2), where financial institutions such as Nationwide will provide registered third party organisations with transactional information where the consent of customer or member is provided. The aim of Open Banking will be to create more transparency and fairness in banking and financial services through greater competition and innovation.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
Over the counter (OTC)	Contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. They offer flexibility because, unlike standardised exchange-traded products, they can be tailored to fit specific needs.
Overnight indexed swap (OIS) rate	A rate reflecting the overnight interest typically earned or paid in respect of collateral exchanged. OIS is used in valuing collateralised interest rate derivatives.
Past due loans	Loans where a counterparty has failed to make a payment when contractually due.
Pension risk	The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit.
Performing loans	Loans which are neither past due nor impaired.
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 the Group, and ahead of the claims of core capital deferred shares (CCDS) investors. PIBS are also known as subscribed capital.
Pillar 1/2/2A/3	Components of the Basel capital framework. Pillar 1 covers the minimum capital requirements, largely in relation to credit and operational risks. Pillar 2/2A covers additional firm-specific capital requirements for risks not covered in full by Pillar 1 requirements. Pillar 3 covers disclosures about the firm's capital and risk position.
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.
Private equity investments	Equity investments in operating companies that are not quoted on a public exchange.
Probability of default (PD)	An estimate of the probability that a borrower will default on their credit obligations over a fixed time period. A 12 month ECL uses a 12 month PD, whilst a lifetime ECL uses the estimated PD over the remaining contractual life of the loan.
Protected equity bonds (PEBs)	Deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. PEBs protect an investor's original investment amount against reductions in the linked stock market indices, whilst providing potential for upside from movements in the stock markets over a fixed term.
Provision coverage ratio	The ratio of impairment provisions to the corresponding portfolio of loans and advances to which they relate.
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.
Purchased or originated credit impaired assets (POCI)	POCI loans are credit impaired when initially recognised on the balance sheet, either if purchased when impaired from a third party, or if recognised as a new loan (eg through restructuring of an existing credit impaired loan).
Regulatory capital	Capital allowable under regulatory rules, less certain required regulatory adjustments and deductions.
Renegotiated loans	Loans and advances may be renegotiated either as part of an ongoing customer relationship with a creditworthy customer or in response to a borrower's financial difficulties. In the latter case, the renegotiated loan may be treated as a stage 2 loan if the related concession event still envisages the full repayment of capital and interest on a discounted basis. However, if the renegotiated terms have a detrimental impact on the present value of future cash flows, the loan will be treated as stage 3.

Glossary (continued)

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 on a given date. For the party selling the security (and agreeing to repurchase it in the future) it is a repurchase agreement or 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.
Residential mortgage backed securities (RMBS)	A securitisation of residential mortgage loans. RMBS can be backed by either prime, buy to let or sub-prime residential mortgage loans (see separate definition of 'Securitisation').
Residual maturity	The remaining period to the contractual maturity date of a financial asset or financial liability.
Retail funding	Funding obtained from individuals rather than institutions.
Retail internal ratings based (IRB) approach	An approach for measuring exposure to retail credit risks. The method of calculating credit risk capital requirements uses internal probability of default (PD), loss given default (LGD) and exposure at default (EAD) models. Internal ratings based (IRB) approaches may only be used with Prudential Regulation Authority (PRA) permission.
Retail loans	Loans to individuals rather than institutions, including residential mortgage lending and consumer banking.
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.
Securitisation	A process where a group of assets, usually loans, is 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. The cash flows from the assets are used to pay interest on and repay the debt securities.
Senior non-preferred debt	A form of wholesale funding that is unsecured and ranks behind the claims of all depositors, creditors and other investing members, but before the claims of holders of regulatory capital instruments (instruments qualifying as CET1, AT1 or Tier 2 capital).
Shares	Funds deposited by a person in a retail savings or current account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The total of shares, deposits from banks and similar institutions, other deposits, amounts due to customers and debt securities in issue.
Significant increase in credit risk	A significant increase in credit risk on a financial asset is judged to have occurred when an assessment, using quantitative and qualitative factors, identifies at a reporting date that the credit risk has moved significantly since the asset was originally recognised.
Solo surplus	Total capital on an individual consolidated basis less capital requirements. Individual consolidation is a consolidation basis for regulatory purposes which only includes those subsidiaries meeting particular criteria contained within Capital Requirements Directive IV (CRD IV).
Solvency risk	The risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board, and regulators.
Sovereign exposures	Exposures to governments, ministries, departments of governments, embassies, consulates and exposures on account of cash balances and deposits with central banks.
Special purpose entities (SPEs)	Entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. The Group uses a number of SPEs, including those set up under securitisation programmes. This term is used interchangeably with SPV (special purpose vehicle).
SPPI test	An assessment of whether the contractual terms of the financial asset give rise to cash flows that are in substance solely payments of principal and interest.

Glossary (continued)

Stage 1	Stage 1 assets are assets which have not experienced a significant increase in credit risk since the asset was originally recognised on the balance sheet. 12 month ECL are recognised as the impairment provision for all financial assets on initial recognition.
Stage 2	Stage 2 assets have experienced a significant increase in credit risk since initial recognition. Lifetime ECL is recognised as an impairment provision.
Stage 3	Stage 3 assets are those which are credit impaired. Lifetime ECL is also recognised as an impairment provision.
Specialist residential lending	Consists of buy to let, self-certified and other non-standard mortgages.
Standard & Poor's (S&P)	Rating agency, Standard & Poor's Credit Market Services Europe Limited.
Standard mortgage rate (SMR)	The revert rate for existing mortgage customers at the end of a deal reserved on or after 30 April 2009.
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 the Group (either financial or non-financial), assessing the Group's ability to withstand such changes, and identifying management actions to mitigate the impact.
Structured entity	An entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.
Sub prime	Loans to borrowers that typically have weakened credit histories such as payment delinquencies and potentially more severe problems such as County Court Judgements (CCJs) or default greater than £1,000, more than one missed mortgage payment in the last 12 months or discharged bankruptcies. Sub prime borrowers may also display higher risk characteristics as measured by credit scores, or other criteria indicating heightened risk of default.
Subordinated debt	A form of subordinated liability that qualifies as Tier 2 capital and ranks behind the claims of all depositors, creditors and other investing members, but before the claims of holders of Additional Tier 1 (AT1) securities, permanent interest bearing shares (PIBS) and core capital deferred shares (CCDS).
Subordinated liabilities	Unsecured debt instruments issued by the Society consisting of non-preferred senior debt, and subordinated debt qualifying as Tier 2 capital.
Subscribed capital	See 'Permanent interest bearing shares (PIBS)'.
Swap rate	The fixed interest rate in a fixed to floating interest rate swap.
Term Funding Scheme	A scheme launched by the Bank of England in August 2016 within a package of monetary stimulus measures, with the purpose of encouraging lending institutions to pass on base rate cuts, by providing an efficient source of funding.
Tier 1 capital	A measure of the Group's financial strength. Tier 1 capital comprises Common Equity tier 1 capital and additional Tier 1 capital instruments.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	A further measure of the Group'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.
Trading book	A regulatory classification consisting of positions in financial instruments or commodities held by a bank with the intention of profiting from short term fluctuations in price.
Transformation costs	Costs, included within administrative expenses, which are directly related to business combinations or the restructuring of parts of the business to transform the way activities are performed.

Glossary (continued)

UK leverage ratio	A ratio defined by the Capital Requirements Regulation (CRR) which measures Tier 1 capital as a proportion of total CRR leverage ratio exposures, modified by the PRA to exclude eligible central bank holdings.
Underlying profit	A measure which aims to present management's view of the Group's underlying performance for the reader of the Annual Report and Accounts with like for like comparisons of performance across years without the distortion of one off volatility and items which are not reflective of the Group's ongoing business activities. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.
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, the Group uses a 10 day horizon and a 99% confidence level.
Wholesale funding	Funding received from larger businesses, financial institutions and sovereign entities.
Wholesale funding ratio	Wholesale funding as a percentage of total funding.
Write off	The point where it is determined that an asset is irrecoverable, or it is no longer considered economically viable to try and recover the asset or final settlement is reached and the shortfall written off. In the event of write off, the customer balance and any related impairment balance are removed from the balance sheet.

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