Strategic and Financial Review

2016





Summary Financial Statement

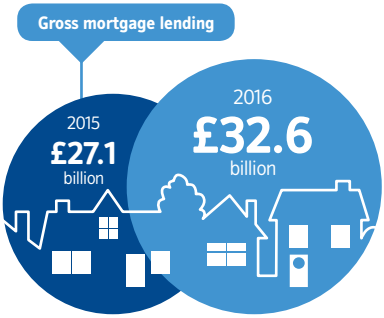
Nationwide

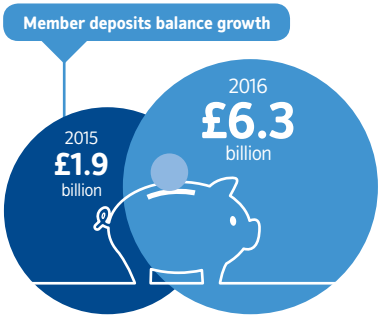
On your side

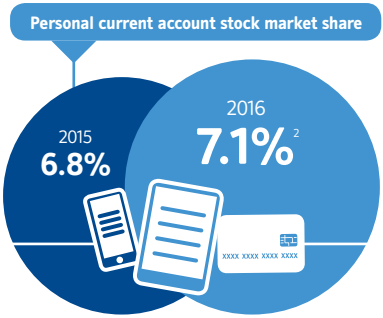
2016 Society highlights

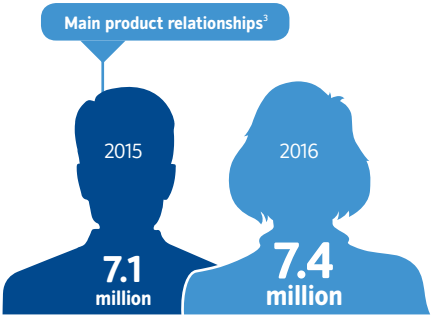
We are a modern mutual providing a full service, multi-channel offering to a growing number of members. We are the UK's second largest mortgage and savings provider.











[1] © GfK 2016, Financial Research Survey (FRS), 3 months ending 31 March 2016 vs 31 March 2015, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander). Prior to April 2015, Lloyds Bank and TSB combined as Lloyds TSB Group (including Lloyds Bank, TSB and C&G).

[2] As at February 2016.

[3] Main personal current account customers and mortgage/savings customers with balances greater than £5,000.

Profit is important as it allows us to grow and invest in the Society for our members. Our Common Equity Tier 1 ratio and our leverage ratio are key measures of our financial strength. Our cost income ratio is a measure of our efficiency.

Underlying profit 2015 **£1,227**[4] **million** 2016 **£1,337 million**

Statutory profit before tax 2015 **£1,044 million** 2016 **£1,279 million**



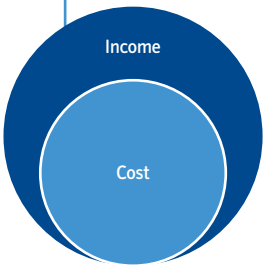
Common Equity Tier 1 (CET1) ratio

2015 **19.8%**

2016 **23.2%**

Our CET1 ratio, a risk based measure of our financial strength, is significantly ahead of our banking peers.

Underlying cost income ratio



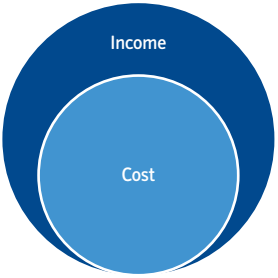
2015 **51.4%**[4]

Leverage ratio

2015 **4.1%**

2016 **4.2%**

Our leverage ratio, a measure looking at the financial strength of our balance sheet, is well above the regulatory 3% minimum requirement.



2016 **53.9%**

Our underlying cost income ratio demonstrates how efficiently we are running the Society. A lower percentage indicates greater efficiency.

[4] Comparatives have been restated to exclude foreign currency retranslation amounts from net interest margin within underlying profit.

Chairman's statement **David Roberts**



This is my first annual statement as your Chairman. It has been a privilege and a pleasure to have led the Board during what has been a highly successful year. I would like to extend my deepest thanks to the management team and all colleagues across the Society for their professionalism, dedication and care.

The 'magic ingredient' that sets your Society apart is the commitment of our people to always do the right thing for our members. I am convinced this culture is a direct consequence of our history and heritage and the resultant mutual business model.



I joined Nationwide in 2014 after a 30 year career in retail and commercial banking, working both in the UK and around the world. Based on that experience, I would like to take the opportunity to offer some reflections about your Society:

- we were born out of a social, rather than a commercial, purpose so our sole focus is to help improve the quality of life for our members,
- we are a building society, which makes us tangibly different to the established UK banks,
- we are therefore legally required to hold at least 75% of our assets as loans secured on UK residential property and we have to be primarily financed through retail savings deposits, enabling us to prioritise the financial security of our business and our members' money,
- we are owned by our members, so do not have to consider the potentially conflicting demands of shareholders and customers typical in the 'plc' style models I have witnessed elsewhere,
- therefore all profits are re-invested in the Society to deliver excellent service and value to our members over the long term.

Our mutual heritage drives a shared sense of purpose to offer good, long term value products and exceptional service. In the last twelve months, Nationwide has successfully grown its membership through strong mortgage lending, an increase in savings balances and a continued expansion of our current account market share.

I am pleased to report we have delivered a set of results which are the product of this consistent strategy, achieving underlying profits in excess of £1.3 billion and continuing to demonstrate strong levels of capital.

I am often asked why the Society makes a profit when it is run for the benefit of its members. The answer is, if we are to remain a safe and trusted home for our members' money, we must have the 'financial firepower' to continue to support our members and invest in our future service.

Changing consumer behaviour

Consumer demand for digital services continues to evolve rapidly, and it is vital that we allow members to transact with us in their preferred manner. As we seek to offer more products to more people, we will not forget that exceptional member service is critical across all points of access. As a modern mutual, I believe it is important we continue to invest in order to meet members' current and future needs, both in face-to-face support through our branches and through technological innovations such as Nationwide Now.



The retail financial services market is highly competitive and, as a consequence, we will not always be top of the best buy tables. However, we will always offer good value over the medium term and will always be open, honest and transparent, whilst balancing the needs of all members.

Our people

Of course, the products and services your Society offers would be nothing without great employees. Our people embody our culture and are ambassadors for our mutual approach. We are delighted to have been named as the third best big company to work for by the Sunday Times and as a Times Top 50 employer for women.

Every day I experience first-hand the overwhelming commitment within the Board, the management team and all colleagues across the Society to do the right thing for you, our members.



Listening to member views

We are constantly looking for ways to make it easier for members to talk to us through a range of media, and to listen and respond to suggestions and comments. We run a wide range of feedback events and activities and a number of enhancements to our products and services can be traced directly to ideas generated by our members.

Regulation

As an exemplar organisation we are committed to operating to both the letter and spirit of regulation and legislation. We were pleased to work with the Banking Standards Board as it carried out its initial assessment of the culture and standards of behaviour and competence within the retail banking industry. Whilst there will always be room for improvement, we were very pleased that the final report noted Nationwide's strong and stable culture and the consistency and stability of our stated values.



Supporting the broader society

We have a role to play in positively impacting the communities in which we operate. We aim to be recognised as one of the UK's leading corporate citizens and over the past year we have continued to engage in a range of initiatives, including two paid volunteering days per annum for all employees and our plan to plant a series of woodlands.

Your board of directors

It is my responsibility to ensure the Board has the correct mix of skills, experience and diverse thinking to steer the Society forward. We are delighted to welcome three new independent non executive directors to the Board. Mai Fyfield and Tim Tookey joined us in June 2015. Kevin Parry was appointed to the Board on 23 May 2016 and will become Chairman of the Audit Committee upon the retirement of Roger Perkin at the conclusion of this year's AGM. Nationwide owes him a debt of gratitude for his significant contribution over the last six years.

This year also saw the retirement of our longstanding Chief Executive, Graham Beale. Graham worked for Nationwide for over 30 years and steered the Society through the financial crisis, emerging stronger on all fronts. He has left the business in great shape, prospering as a modern mutual. I would like to thank him for his immense contribution to the Society, and wish him well for the future. Your Board spent considerable time identifying a suitable successor. We set out to find someone who embodied Nationwide's values and who was deeply committed to the mutual business model. I am delighted Joe Garner has been appointed as our new Chief Executive. Joe brings a breadth of experience gained from his wide-ranging career working for a number of large organisations, and your Board is convinced he is the right person to take Nationwide forward.

I am delighted to be your Chairman at this exciting time, and am confident that Nationwide is ideally placed to take advantage of the opportunities on offer to provide ever-better services and products to you, our members.

Chief Executive's review
Joe Garner



I am privileged to have been chosen to take over as Chief Executive of Nationwide Building Society. Nationwide is an exceptional organisation, one which has consistently demonstrated that it is possible to be successful by doing the right thing.

Long term focus drives strong performance

This success is manifested in the latest set of results, which show strong mortgage lending, strong savings inflows and over half a million new current accounts opened. These figures are the result of a consistent and sustained focus on the needs of our members and customers, through the provision of excellent service, great products and continued investment in the fabric which underpins the Society.



Our underlying profit of £1,337 million is the culmination of our performance over the past twelve months and the member relationships that we have formed over previous years. We stood by our members' borrowing needs through the difficult financial crisis and over the four year period to March 2016 accounted for 36% of net mortgage lending in the UK. Our capital ratios have further improved, are comfortably ahead of current requirements and broadly in line with our best understanding of the medium term regulatory requirements. This enables us to be secure and to invest in the future for the benefit of members today and tomorrow.

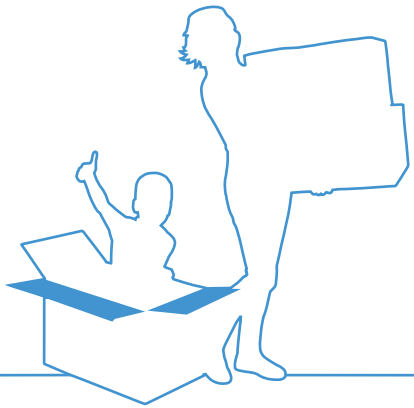
As the new Chief Executive my job will be to build on this success. As the results show, Nationwide is not in need of radical reform, but it is an organisation that should constantly challenge itself on ways it can improve and offer an enhanced level of service to its members.

Helping more members buy their own home

Over the year our gross mortgage advances reached £32.6 billion, while net lending amounted to £9.1 billion. These represent market shares of 13.7% and 21.4% respectively, strengthening our position as the UK's second largest mortgage lender. As ever, we have recognised the importance of helping people take their initial steps onto the housing ladder, and over the year we provided finance for 57,200 first time buyer mortgages, one in six of all such mortgages in the UK.

Our mutual commitment to providing consistently good value to all members has been delivered through competitive products and propositions, with free standard valuations now included for all of our mortgage products, and we continue to provide our best rates exclusively to our existing mortgage members.

We have played a major role in supporting borrowers in the buy to let market, in which we have maintained our position as the second largest lender. As the pattern of



tenure in the UK continues to evolve, we believe it is right that we should offer good value, low risk loans to investors who are able to demonstrate their commitment to the rental market. Buy to let has come under regulatory and political scrutiny in recent times, including changes to the tax regime which come into effect from 2017. As a responsible lender we have recently taken a lead by increasing rental cover requirements to ensure loans are affordable, and by reducing the maximum loan to value for new buy to let loans.



Rewarding loyal savers

Our strategy of offering a range of long term good value products has resulted in us growing our member deposit balances by £6.3 billion. This is despite significant competition at the start of the year from NS&I, offering rates well above those generally available in the market.

In our drive for transparency and ease of access, we have further simplified our savings range and made it easier for members to select the best product for their needs. The vast majority of main savings products can now be opened online as well as in branch, and members can receive email and SMS updates on the status of their savings application. In addition, around ten million members received their annual statement as part of Nationwide's Savings Promises, providing details of all their savings accounts, their current interest rates and the Society's top variable rates. During the year over 760,000 members subscribed to our free SavingsWatch service, which automatically informs them whenever the interest rate on their account changes or Nationwide launches a new savings account.

We understand that low market interest rates continue to pose challenges for savers and, in response, have offered a number of products aimed at rewarding our loyal and committed members including our Loyalty Bond, Loyalty Saver and Flexclusive Regular Saver.

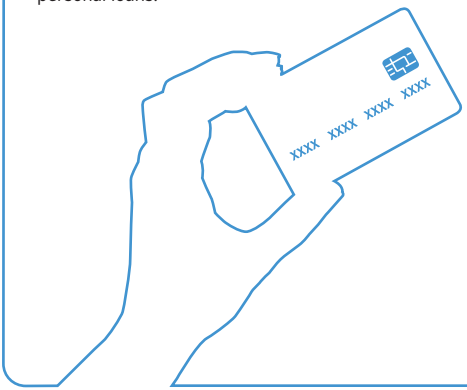
More people choosing Nationwide for their current account

I am very pleased that we have opened 525,000 new current accounts in the last twelve months, up 12% on the previous year. This has taken our market share of main standard and packaged current accounts as at February to 7.1%; our strategic aim is to expand this to 10%.

As testament to the quality of our current account range we have been a net beneficiary of customers seeking to switch their account in each and every month since the introduction of the Current Account Switch Service in September 2013. During the past year over 129,000 customers have switched their accounts to us through this service, up 38% on the previous year and representing a market share of switchers of 12.5%.

Our current accounts are complemented by our high quality, good value credit card and personal loan propositions. We issued 186,000 new cards (2015: 196,000), with the attraction of new customers being impacted by the long term balance transfer products which are dominating the market. We continue to reward our main current account customers with the Select Credit Card cashback, which benefited customers to a total of over £15 million in cash reward payments, and also provides them with fee-free overseas transactions.

Our strategy is to meet the unsecured borrowing needs of our existing members, and over the year we have lent £1.2 billion (2015: £0.9 billion) of personal loans.



Leading service satisfaction

I am delighted that we continue to be ranked number one for customer satisfaction amongst our high street peer group and our lead over our nearest competitor has increased to 7.7% for the quarter ending March 2016 (2015: 4.5%)[1]. Over a longer twelve month period we remain ranked number one with a 6.6% lead[2].

Our service satisfaction lead is a measure of our performance over the last three months compared to the performance of our next nearest competitor, in our high street peer group. As a result, our lead can be volatile as it is dependent on the performance of our competitors.



Despite our size, we account for only 2% of total industry complaints, and we make every attempt to resolve these to members' satisfaction. When cases do get referred to the Financial Ombudsman Service, 82% of our decisions are upheld, compared with the industry average of 47%.

Building a financially strong Society

As a mutual we aim to optimise, rather than maximise, profit, retaining sufficient earnings to support future growth, sustain strong capital ratios and to allow us to invest in the business to provide the services that our members demand. This will help us to deliver a long term, sustainable business that operates in the interests of our members.

Buoyant volumes and an improved net interest margin have contributed to a 5% increase in total underlying income to £3,333 million (2015: £3,163 million). Our underlying profit for the year was £1,337 million (2015: £1,227 million), an increase of 9%, and statutory profit before tax was £1,279 million (2015: £1,044 million), an increase of 23%. Underlying costs have increased by £170 million to £1,796 million, reflecting the growth of our business, our focus on risk and control and continued investment in new and enhanced products and services. This has resulted in our underlying cost income ratio deteriorating slightly to 53.9% (2015: 51.4%).

Our strong financial performance has resulted in our CET1 ratio increasing to 23.2% (2015: 19.8%). The primary driver of the amount of capital we hold is our leverage ratio, which over the year has improved to 4.2% (2015: 4.1%).

Guidance issued by the regulators during the financial year has given us greater certainty of the expected maximum capital requirements for the Society. This has allowed us to develop a financial framework to assess future performance and maintain our financial strength.



[1] © GfK 2016, Financial Research Survey (FRS), 3 months ending 31 March 2016 vs 31 March 2015, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander). Prior to April 2015, Lloyds Bank and TSB combined as Lloyds TSB Group (including Lloyds Bank, TSB and C&G).

[2] © GfK 2016, Financial Research Survey (FRS), 12 months ending 31 March 2016, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

The framework is based on the fundamental principle of maintaining our capital in excess of regulatory requirements. Based on our current assumptions, a level of underlying Group profit of approximately £1 billion to £1.5 billion per annum over the medium term would optimise our ability to invest to support members' needs while maintaining our financial strength.



Leading employer

Our delivery of great service, great products and great results flows from employing talented and dedicated people and allowing them to make the most of their diverse range of talents. Being a great employer provides a genuine competitive advantage. We pay particular attention to providing a supportive and encouraging working environment, and our success is reflected in our annual employee survey, which continues to show exceptionally high levels of employee engagement and enablement.

Supporting the communities we serve

We have continued to support the communities in which we operate through a broad range of initiatives. The most notable development during the year has been our investment to extend our existing Specialist Support Service for customers affected by cancer; going forward, this will be available for customers facing other life-limiting or long term physical conditions, such as heart disease, stroke and multiple sclerosis.

Outlook

Our financial performance in the period ahead is likely to be influenced by a number of themes:

- clear evidence of more sustained competition within the mortgage market resulting in further margin pressure during 2016/17
- as a modern mutual we will continue to invest in order to meet our members' current and future needs by providing good, long term value products, services and security
- these two factors combine such that we anticipate profits are likely to moderate in the period ahead.

The continual evolution of technology, changing customer preferences and regulatory change will affect the whole industry, and we will continue to invest to ensure we are able to deliver value to our members and maintain excellent relationships with regulators. The threat of cyber-attacks has increased, and will require ongoing focus and investment as we seek constantly to maintain the resilience of our systems and protect the interests of our members.

Uncertainty surrounding the EU referendum and the global economic outlook are likely to have some impact on UK economic activity in the near term. Our central expectation is that if this uncertainty lifts and the global economy gradually strengthens, UK economic growth will move back towards its long term trend rate of 2% to 2.5% per annum. The household sector is expected to remain a main driving force, underpinned by continued healthy gains in employment and rising real earnings. We expect the housing market to remain resilient, with any dampening of activity from modest increases in interest rates offset by a strengthening labour market and an under-supply of housing.

Nationwide is a unique organisation with a proud history and an optimistic future. We have the potential to build an even stronger Society serving the needs of today's and tomorrow's members by 'doing the right thing'.



Strategic review

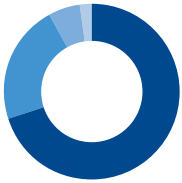
Our business model

Our approach to providing financial services is straightforward – we offer a broad range of competitive mortgages, savings, current accounts and other financial products, delivering consistently excellent service to our members, who are also our owners.

Where the money comes from

Funds are raised from:

- Customer deposits **70%**
- Wholesale funding **22%**
- Reserves **6%**
- Other **2%**



We raise the majority of our funding from members entrusting us with their personal savings. The balance of our funding comes primarily from wholesale markets.

What we use it for

Funds deposited at Nationwide are used to provide:

- Mortgages for owner occupiers
- Mortgages for buy to let investors
- Current account overdrafts
- Personal loans
- Credit cards
- Lending to the commercial sector

How we generate income

Nationwide generates income from two sources:

Receive interest from mortgages – Pay interest on deposits = Net interest income

1. **Net interest income**
   The difference between the interest and fees charged for mortgages and other lending, and the interest paid on member deposits and other funding
2. **Other income**
   Fees and charges from the provision of financial products

What we incur costs on

Our income covers the costs of running the Society. This includes:

- Paying our people
- Systems and technology
- Property and operating costs
- Credit losses

What we use our profits for

Any surplus generated as profit is used to:

- Maintain our capital strength
- Invest in delivering improved products and services
- Support future growth

In summary, our profits are returned to, or used to benefit, our members.

Our strategic priorities

The Group's strategic priorities are set out under four themes:

Modern mutual



Great employer



Exemplar organisation



Strong Society



Modern mutual

- Offer a full multi-channel service to a growing number of members
- Deliver 'next generation banking' through automation, simplified processes and self-service, with a branch network focused on help, guidance and advice
- Extend our personal current account range
- Build an iconic brand
- Create relationships with members digitally, providing them with choice in how they can interact with us

Great employer

- Create a flexible and multi-skilled workforce
- Identify and grow the competencies our people need to create a modern mutual
- Ensure our people are engaged and enabled, and that they continue to operate at the level expected of a high performing organisation

Strong Society

- Generate optimal levels of profit to support the delivery of enhanced member value
- Embed a financial performance framework to ensure that we preserve a strong, robust and efficient Society
- Maintain our capital strength
- Maintain our strong governance and risk framework

Exemplar organisation

- Be recognised as 'what good looks like' by all stakeholders
- Champion our customers' interests
- Have a culture focused on good conduct and fair customer outcomes
- Provide support for vulnerable customers
- Maintain strong relationships with our regulators

We have followed a consistent strategy for many years. As a result, we have been able to focus our business on one central aim: to deliver outstanding service and long term value to our current and future members. We expect this continued focus to result in the achievement of **our vision of being the UK's first choice financial services provider.**

Summary financial statement Year ended 4 April 2016

This financial statement is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which will be available to members and depositors free of charge on demand at every office of Nationwide Building Society from 17 June 2016. They will also be available on the internet at **nationwide.co.uk** The auditors' report in relation to the full financial statements was not qualified in any respect.

Summary directors' report
The Summary directors' report comprises the 2016 Society highlights on pages 2 and 3, the Chairman's statement on pages 4 and 5, the Chief Executive's review on pages 6 to 9 and the Strategic review on pages 10 and 11.

Approved by the board of directors on 23 May 2016 and signed on its behalf by:
D L Roberts, Chairman **J D Garner**, Director and Chief Executive **M M Rennison**, Group Finance Director

Results for the year

	2016 £m	2015 (note i) £m
Net interest income	3,086	2,872
Other income and charges	247	291
Gains/(losses) from derivatives and hedge accounting	39	(20)
Administrative expenses	(1,847)	(1,706)
Impairment losses and other provisions	(246)	(393)
Profit for the year before taxation	**1,279**	**1,044**
Taxation	(294)	(205)
Profit for the year	**985**	**839**

Reconciliation of statutory profit to underlying profit

	2016 £m	2015 (note i) £m
Statutory profit for the year before taxation	**1,279**	**1,044**
FSCS and bank levy (note ii)	87	111
Transformation costs	10	52
(Gains)/losses from derivatives and hedge accounting (note iii)	(39)	20
Underlying profit for the year before taxation	**1,337**	**1,227**

The reconciliation above adjusts statutory profit before tax for a number of items to derive an underlying profit before tax figure. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across periods.

Notes:
i. Comparative balances have been restated to reclassify £11 million in relation to foreign exchange losses from net interest income within underlying profit to gains/losses from derivatives and hedge accounting.
ii. Fees we pay to the Financial Services Compensation Scheme (FSCS) reflect our share of the interest payable on the loan from HM Treasury to the FSCS. They also reflect our share of the expected shortfall in the amount of money that will be recovered from institutions that have failed.
iii. Although we only use derivatives to manage risks, their impact can be volatile. This volatility is largely due to accounting rules that do not fully reflect the economic reality of our strategy.

Financial position at the end of the year

	2016 £m	2015 £m
Assets		
Liquid assets	23,000	18,754
Mortgages	162,062	152,775
Commercial lending	13,138	14,272
Other lending	3,607	3,600
Derivative financial instrument assets	3,898	3,337
Fixed and other assets	3,234	2,842
Total assets	**208,939**	**195,580**
Members' interests, equity and liabilities		
Shares	138,715	132,373
Borrowings	52,016	45,274
Derivative financial instrument liabilities	3,463	4,048
Other liabilities	1,585	1,608
Subordinated liabilities	1,817	2,121
Subscribed capital	413	415
Core capital deferred shares	531	531
Other equity instruments	992	992
General reserve	8,921	7,995
Revaluation reserve	64	68
Cash flow hedge reserve	430	129
Available for sale reserve	(8)	26
Total members' interests, equity and liabilities	**208,939**	**195,580**

Summary of the key financial ratios required by the Building Societies Act

	2016	2015
Gross capital as a percentage of shares and borrowings This ratio helps us measure how much capital we have to protect our members and other creditors against shocks.	6.9%	6.9%
Liquid assets as a percentage of shares and borrowings This ratio is a measure of our ability to meet normal cash demands, such as your savings withdrawals or providing new mortgages.	12.1%	10.6%
Profit for the year as a percentage of mean total assets This ratio measures the profit made in the year relative to the average amount of assets held.	0.49%	0.44%
Management expenses as a percentage of mean total assets This ratio is a way of measuring how efficient we are being.	0.91%	0.89%

We are required to disclose the above ratios under legislation originally drafted in 1986. Today, we use different industry standard ratios to measure our capital strength and efficiency. Our capital strength is measured by our CET1 ratio and leverage ratio – in both cases by comparison with current regulatory requirements. Our efficiency is measured by our cost income ratio, which is our total income divided by the costs of running the business. See the 2016 Society highlights and the Chief Executive's review for how we have performed against these more relevant measures.

Independent auditor's statement

on the Summary Financial Statement to the members of Nationwide Building Society

We have examined the Summary Financial Statement of Nationwide Building Society (the 'Society') included in the Strategic and Financial Review, which comprises results for the year ended 4 April 2016, reconciliation of statutory profit to underlying profit, the financial position at the end of the year and summary of key financial ratios.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the Financial Statements, Annual Business Statement and Directors' Report within the full Annual Report and Accounts and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made under it.

We also read the other information contained in the Strategic and Financial Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Summary Directors' Report as defined in the Summary Financial Statement and Summary Report of the Directors on Remuneration.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

Our examination involved agreeing the balances in the Summary Financial Statement to the Financial Statements, Annual Business Statement and Directors' Report within the full Annual Report and Accounts. Our report on the Society's Financial Statements describes the basis of our audit opinion on those Financial Statements.

Opinion

In our opinion the Summary Financial Statement is consistent with the Financial Statements, Annual Business Statement and Directors' Report within the full Annual Report and Accounts of Nationwide Building Society for the year ended 4 April 2016 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 May 2016

(a) The maintenance and integrity of the Nationwide Building Society website is the responsibility of the directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the Summary Financial Statement since it was initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Summary report of the directors on remuneration

Year ended 4 April 2016



This report is a summary of our full 'Report of the directors on remuneration', which you can find online at **nationwide.co.uk** within the 'Results and accounts' section. It includes details of the directors' pay for the year to 4 April 2016 and what they can earn in the coming year.

Remuneration policy

Our remuneration policy was approved by our members in 2014, and continues to set the framework for our directors' remuneration.

For the 2016/17 performance year we are making changes to the Directors' Performance Award (DPA) in response to new regulatory requirements, which mean elements of directors' pay will now be deferred for up to seven years.

In addition, during the year the Committee reviewed the approach to benchmarking remuneration, the structure and outcomes of the DPA and reviewed the ongoing compliance with the PRA Remuneration Code as it applies to Nationwide as a mutual. We also considered the remuneration issues relating to the executive changes.

Performance outcomes

Our executive directors have delivered another strong performance, driven by our consistent focus on putting the needs of our members first. We continue to be ranked number one for customer satisfaction amongst our high street peer group[1], underlying income and profits have both increased and we strengthened our capital position. Underlying costs have increased, reflecting the growth of our business and continued investment in new products and services which means our underlying cost income ratio has increased slightly. We have successfully grown our membership, as well as continuing to invest in new products and technologies. As a result of this performance, payments have been awarded under the DPA. Awards have also been made in relation to the final cycle of the Medium Term Performance Pay Plan (now discontinued), which was based on a three year performance period ending in March 2016.

Executive changes

Our new Chief Executive, Joe Garner, has a remuneration package which is slightly below that of his predecessor, reflecting the fact this is his first year in the role. He will receive a base salary of £840,000, benefits, and a pension allowance of 40% of salary. He will participate in the DPA for 2016/17 with a potential award of 100% of salary for target performance and a maximum award of 160% of salary.

We have also agreed to compensate Joe Garner for the forfeiture of an element of his existing unvested performance pay awards from his employment prior to joining.

Our former Chief Executive, Graham Beale, is receiving a payment in lieu of notice in line with his contractual entitlements. The total payments to be made to him in respect of his notice period are £1,278,050 which is based on twelve months' salary, benefits and pension.

In recognition of his long service and contribution to the Society, including nine years as Chief Executive, we will also maintain his full entitlement to the deferred element of his outstanding variable pay awards, subject to continued performance adjustment requirements.

Summary

Nationwide's executive directors have day-to-day responsibility for running the world's biggest building society and the UK's second largest savings and mortgage provider. In delivering the stretching targets which they were set, the Committee considers that they have delivered real benefits for the Society and all of our members.

Lynne Peacock
Chair of the Remuneration Committee

[1] © GfK 2016, Financial Research Survey (FRS), 3 months ending 31 March 2016 vs 31 March 2015, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander). Prior to April 2015, Lloyds Bank and TSB combined as Lloyds TSB Group (including Lloyds Bank, TSB and C&G).

What is our remuneration policy?

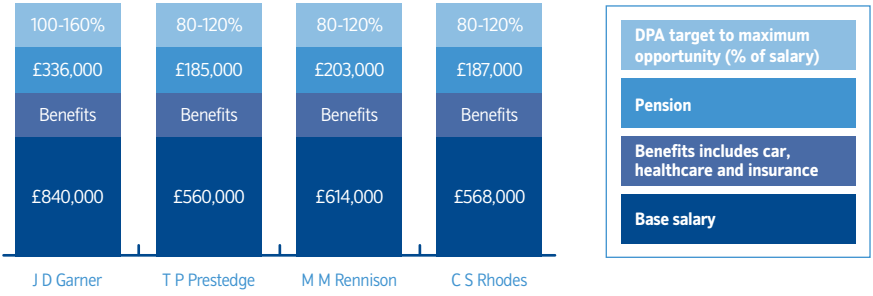
The key elements of our remuneration policy are set out below and the full policy is available at **nationwide.co.uk**[1]

Remuneration policy

	Operation	Maximum opportunity
Base salary	• Reviewed annually, taking into account market data, individual skills, performance and experience, and the approach to salaries throughout Nationwide.	No maximum opportunity for base salary or benefits.
Benefits	• Include car benefits, healthcare and insurance benefits.	
Pension	• Executive directors receive a cash allowance in lieu of pension.	Maximum allowance is 40% of salary.
Directors' Performance Award (DPA)	• Rewards annual performance against challenging financial and strategic measures and key individual objectives. • Key measures within the Corporate Plan have to be achieved for target pay-out and considerably exceeded for maximum pay-out. • Deferral periods have increased so that: - 40% of the award is paid following the performance period - 60% is deferred for between three and five years. • 50% of awards are linked to the value of the Society's core capital deferred shares. • Awards are subject to clawback for up to seven years.	Maximum opportunity varies by role but will not exceed regulatory limits.
Chairman fees	• Normally reviewed and approved by the Remuneration Committee on an annual basis.	No maximum opportunity, but fee levels take into account time commitment for the role and practice at other organisations.
Non executive director fees	• Normally reviewed and approved by the Executive Committee and the Chairman on an annual basis. • Non executive directors receive a basic fee. • An additional supplement is paid for serving on or chairing a Board Committee. • Non executive directors do not participate in any performance pay or pension arrangement.	

What could our directors earn next year?

2016/17 remuneration framework



From the 2016/17 plan onwards, the deferral schedule for DPA awards will be extended to seven years in line with regulatory requirements.

How is pay linked to performance?

Directors' Performance Award (DPA) – 2015/16 outcomes

A risk gateway must be passed before any payment is made under the plan, based on measures of statutory profit and CET1 capital ratio, and this gateway was achieved in 2015/16.

25% of the plan was assessed on individual performance. The remaining 75% of the plan is based on how well the Group had performed against three equally weighted measures:

Directors' Performance Award

Measure	Performance target range: threshold – maximum	Performance relative to targets	Outcome	Performance pay achieved (% of salary)	
				Chief Executive	Executive directors
Customer satisfaction	1st with a 4% lead – 1st with a 8% lead	Above target	1st in our high street peer group with a 6.6% lead[2]	31.2%	23.0%
Growing customer relationships	7.1 million – 7.5 million	Above target	Main product relationships with 7.4 million customers	35.5%	26.4%
Financial efficiency (cost income ratio)	54.7% – 49.9%	Above threshold	Cost income ratio of 53.9%	18.8%	13.6%
Total performance pay achieved based on Group performance				**85.5%**	**63.0%**

40% of each director's award will be paid in 2016. 30% is deferred for three years and the remaining 30% is deferred for five years. These deferred elements of the award will be paid out in future years and payment is not guaranteed. The Remuneration Committee will review if the deferred awards remain appropriate before being paid out.

These performance awards are also subject to clawback for up to seven years from the date of award. This means that the Society could require an individual to repay all or part of a variable pay award after payment has been made if the Remuneration Committee felt this was appropriate.

Awards have also been made under the Medium Term Performance Pay Plan (MTPPP) 2013-16 (now discontinued). Full details of these awards can be found at **nationwide.co.uk**

[1] The full policy can be found at **nationwide.co.uk** in the 'Results and accounts' section under 2013-14, within the 'Report of the Directors on Remuneration 2014'.

[2] © GfK 2016, Financial Research Survey (FRS), 12 months ending 31 March 2016, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

How much did they earn in total in 2015/16?

Audited information

The tables in the following sections have been audited by PricewaterhouseCoopers LLP.

The table below shows the total remuneration for each executive director for the years ended 4 April 2016 and 4 April 2015.

Single total figure of remuneration for each executive director (Audited)

Executive directors	Fixed remuneration			Current variable remuneration (note iii)	*Legacy variable remuneration (note iv)*	*Total pay package including legacy*	Total pay package excluding legacy
	Salary	Benefits (notes i and ii)	Pension allowance				
2016	**£'000**	**£'000**	**£'000**	**£'000**	***£'000***	***£'000***	**£'000**
G J Beale (note v)	893	214	357	1,083	***866***	***3,413***	2,547
T P Prestedge	536	83	177	481	***355***	***1,632***	1,277
M M Rennison	602	90	199	520	***399***	***1,810***	1,411
C S Rhodes	557	60	184	463	***369***	***1,633***	1,264
Total	**2,588**	**447**	**917**	**2,547**	***1,989***	***8,488***	**6,499**
2015							
G J Beale	875	242	350	1,042	***888***	***3,397***	2,509
T P Prestedge	525	83	173	460	***362***	***1,603***	1,241
M M Rennison	590	112	195	517	***407***	***1,821***	1,414
C S Rhodes	546	62	180	460	***377***	***1,625***	1,248
Total	**2,536**	**499**	**898**	**2,479**	***2,034***	***8,446***	**6,412**

Notes:

i. Taxable benefits include private medical cover, car allowance and the use of a company vehicle and driver when required for business purposes.

ii. Taxable benefit figures for 2015 have been restated to reflect HMRC guidance in relation to travel and subsistence expenses in situations where directors regularly work from more than one office location.

iii. Current variable remuneration consists of the awards under the DPA, which was known as the Directors' Performance Pay Plan in 2014/15.

iv. Legacy variable remuneration consists of awards under the MTPPP. Although the plan was discontinued for years starting after 2014, the nature of the plan which measures business performance over a three year period means there are awards in 2016 in respect of the MTPPP plan initiated in 2013.

v. The current and legacy variable remuneration figures shown for G J Beale reflect the Committee's decision to allow the deferred portions of his outstanding variable pay awards to subsist in full subject to continued performance adjustment requirements. Payments will be made on the normal payment dates. Details of his payments for loss of office are described in the introduction to this report.

How much were the non executive directors paid?

The total fees paid to each non executive director are shown below.

Fees paid to each non executive director (Audited)

Non executive directors	2016 Society & Group fees £'000	2015 Society & Group fees £'000
G M T Howe (Chairman) (note i)	98	310
D L Roberts (Chairman) (note i)	306	88
R Clifton	92	87
A P Dickinson (note ii)	-	47
M Fyfield (note iii)	51	-
M K Jary (note iv)	26	79
M A Lenson	97	89
L M Peacock	125	115
R K Perkin (Senior Independent Director)	127	127
T Tookey (note iii)	96	-
Total	**1,018**	**942**
Pension payments to past non executive directors (note v)	268	286

Notes:

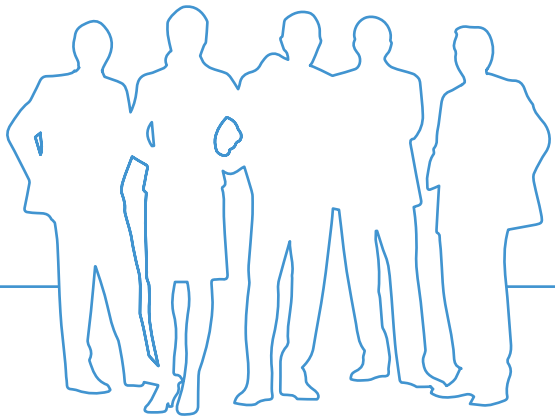
i. D L Roberts succeeded G M T Howe as Chairman on 23 July 2015.

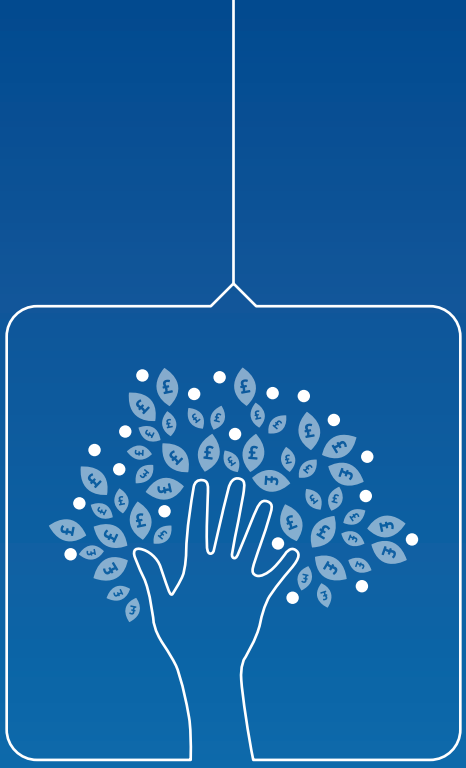
ii. A P Dickinson retired from the Board on 17 July 2014.

iii. M Fyfield and T Tookey joined the Board on 2 June 2015.

iv. M K Jary retired from the Board on 23 July 2015.

v. The Society stopped granting pension rights to non executive directors who joined the Board after January 1990.





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