

Extract from the Annual Report and Accounts 2017,
pages 1 to 29

Strategic Report

2017

15 million members building society, nationwide



Strategic Report

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The Strategic Report on pages 1 to 29 has been approved by the board of directors and signed on its behalf by

Joe Garner
Chief Executive
22 May 2017



2017 highlights

Building society, nationwide

Nationwide's purpose is to use the power of mutuality as a force for good for our members, and for society; we describe this as building society, nationwide. To guide us, we refreshed our strategy during the year, organised around five cornerstones. These define what we stand for, what we will do and how we will do it, and we will use them to report on our performance. Read about our 2017 highlights below. More information is included in the Strategic review.



Built to Last

Being safe, secure, sustainable and dependable

Underlying profit	Statutory profit	Common Equity Tier 1 (CET1) ratio	UK leverage ratio	Underlying cost income ratio ¹
£1,030 million	£1,054 million	25.4%	4.4%	60.2%
2016 £1,337 million	2016 £1,279 million	2016 23.2%	2016 4.4%	2016 53.9%

	2013	2014	2015	2016	2017
Underlying profit (£ million)	433	952	1,227	1,337	1,030
Statutory profit (£ million)	168	677	1,044	1,279	1,054



Building Thriving Membership

Delivering real value to our members

Record membership	Member financial benefit ³	Record current accounts opened	Record gross mortgage lending	Member deposit balance growth
15 million members of which 7.8 million engaged members ²	£505 million value returned to members	795,000 UK's top choice provider ⁴	£33.7 billion	£5.8 billion
2016 7.4 million ²	2016 £397 million	2016 590,000	2016 £32.6 billion	2016 £6.3 billion



Building **Legendary Service**

Providing service that is heartfelt, easy, lifelong and personal

<p>Customer satisfaction</p> <p>No.1 for customer satisfaction over high street peer group⁵</p>	<p>Growth in digital channel</p> <p>73% increase in mobile log-ons</p>	<p>Investment in branches</p> <p>Nationwide NOW (our state of the art video technology) now installed in 421 branches</p>	
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Building a **National Treasure**

Leading by example and making a difference

<p>UK's most trusted financial brand⁶</p>	<p>Which? Banking Brand of the Year 2017</p>	<p>£5 million channelled into community and charity support</p>	
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Building **PRIDE**

Shared values, shared culture, doing the right thing

<p>Employee engagement</p> <p>78% 5% above average score of high performing organisations worldwide</p>	<p>Employee enablement</p> <p>72% In line with high performing organisations worldwide</p>	<p>Community involvement</p> <p>75% of employees getting involved in fundraising, volunteering or payroll giving</p>	
<p>2016 80%</p>	<p>2016 77%</p>	<p>2016 76%</p>	

¹ Our underlying cost income ratio demonstrates how efficiently we are running Nationwide. A lower percentage indicates greater efficiency.

² Engaged members are defined as those who hold a mortgage or savings account with us (with a balance greater than £5,000) or who hold their main personal current account with us.

³ More information about member financial benefit can be found in the Financial review.

⁴ Source: Nationwide Brand and Advertising tracker – compiled by Independent Research Agency. 'Top choice' is most considered i.e. 'first choice' or 'seriously considered' current account provider amongst non-customers, based on responses from non-customers of each brand, 3 months ending March 2017. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.

⁵ © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017, 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).

⁶ Source: Nationwide Brand and Advertising tracker – compiled by Independent Research Agency, based on responses from existing customers of each brand, 3 months ending March 2017. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.



Chairman's statement

David Roberts

Dear fellow member

As a member as well as your Chairman, I want to start by thanking Nationwide's people for what they did for us last year. Thanks to them, this was another successful year for our Society. We maintained our financial strength and our strong balance sheet. We continued to invest in our future. And we both grew our membership to an all-time high, and returned real value to you.

As a mutual, you are our owners and I believe we have a responsibility to be clear to you about what we do and why we do it. We were born with a social purpose, which we express today as 'building society, nationwide', rooted in the belief that we achieve more together than we can alone. I am confident that this means we think and behave differently.

Nationwide's core business with current and future members is to help them buy their homes, manage their daily finances and provide a safe place for their savings, all while returning the value that mutuality provides. To make sure we deliver well and live up to our purpose, we refreshed our strategy last year, informed by talking to members and employees.

Around for over
130 years

We've been around for over 130 years and we aspire to prepare the Society for the next 130. The commitments we make to members can last for decades. We even have young members joining who, if we stay true to this purpose, could be with us in the 22nd century. So as your Chairman, my starting point is that the Society must be 'built to last': this is the foundation stone that underpins the strategy. We should be a beacon of stability and confidence for members, no matter what.

Perhaps that is even more relevant in the context of the uncertainty we see today, whether from geopolitical risk or, closer to home, with Brexit and Britain's relationship with the wider world high on the agenda.

So the most important thing we can do is run a stable, low-risk organisation. After that, in order to best serve our members, we need to care for, develop and invest in our people. Because it's our people that actually deliver to you. I'm therefore enormously proud we have people like Anne from our Leamington Spa branch who, when I met her, had served members there for 42 years.

When I meet our people they tell me Nationwide is a great place to work. And when I ask why, they say it's because they enjoy it, they're trusted and they're treated well. Fundamentally because they feel that they're asked to do the right thing. Of course, we're not perfect. And 22,000 suggestions through our 'Big Conversation' have generated lots of ideas on how we can do things better, and we are using these to improve our service to members (more from our Chief Executive, Joe Garner, on that later in this Report).



Ultimately the logic of our strategy is that, if we're a safe Society which has good engagement with its people, who then deliver a great service, then we will do a good job for members. That breeds success and allows Nationwide to invest ever more into membership and also wider society, which takes us towards the aspiration of becoming a 'national treasure'. This logic informs the cornerstones on which we have built the strategy. You can read more about this in Joe's statement and the Strategic review.

Chairman's statement *continued*

Being a mutual is not a guarantee of success on its own. We do not have to follow a shareholder agenda, and the singular pursuit of profits this tends to demand, but nor do we face conventional shareholder scrutiny, so we need to ensure the Board provides an equivalent level of challenge and scrutiny to the business. By combining the best of the public company world in terms of governance and ambition, and the alignment with members that exists within a mutual, we have a powerful and special proposition.

So, our goal is not to maximise profit, rather we aim to make sufficient profit. Sufficient to ensure the safety and stability that is in members' interests, building capital strength and resilience. Sufficient to invest in the business infrastructure – the branches and technologies that allow us to be more efficient and to serve members better – as well as products and service. Then beyond that, any surplus we generate we can return to our members in the form of improved rates and loyalty rewards.

Balancing these interests is a key part of management and the subject of keen oversight by your Board. That balance changes depending on the needs of members, the state of the economy and the Board's view of what is coming. So in a challenging environment, it might be prudent to increase the capital we put aside or reduce the level of investment. Or we might make a decision to support members and give back extra value through rewards, as we did last year through initiatives such as 'recommend a friend', and by striving to offer savings rates higher than our main competitors. This year we have quantified the financial rewards to members, and it is over half a billion pounds. More on this is included in the Financial review.

Our mutuality informs how we behave. We apply the highest standards of corporate governance, adopting the standards applicable to a FTSE-listed business. We choose to have an excellent pension scheme because that is consistent with our sense of fairness to employees. And we choose not to pay our most senior executives as much as they would get in businesses of comparable size, because that is appropriate for a member-based business.

We also approach dealing with people in financial difficulty differently. For example, we have helped more than 2,000 members affected by life-limiting situations through a specialist support service, applying financial flexibility and human understanding.

At Nationwide's AGM in 2007, members voted to spend at least 1% of our profits each year on social investment programmes – either directly, or through the independent charity we established 20 years ago, the Nationwide Foundation. We're proud of our success in helping people into better homes and to start saving, and we believe the social impact of what we do is additive to the Society in terms of trust and our reputation. As we embark on a new social investment programme in 2017, we are looking at ways to involve you more, including letting members decide what we support.

If we are serious about 'building society, nationwide', then we also need to engage with some of the big issues of the day. We do this through social investment and also through employee volunteering, as we know our people like to get involved.

Nationwide's success means we have the privilege to try new things. For example, we recently returned a branch to Glastonbury in Somerset, meeting the call of a community whose bank branches had closed. We can partner with the local community where others may not, to seek to create a viable model. If it works, we will look at other locations.

The Government is currently thinking through how corporate governance should improve, especially for private companies. As a large private member-owned business, we believe we can offer a useful perspective on how to engage members and employees to get their views, given the priority we give this and the actions we already have in place to make it happen.

Diversity is an important attribute of our society, and something we strive to reflect in our people, the management team and our Board. We continued to improve our gender and minority representation in the Society and we have also broadened the experience of the Board by welcoming two new independent non executive directors, Kevin Parry and Baroness Usha Prashar. I am also delighted to announce that Gunn Waersted will shortly be joining our Board as non executive director. Although there is still more to do, I am pleased to note that as a consequence of an open, meritocratic selection process, almost 40% of our Board and over half of our non executive directors will now be women.

I started by thanking employees. Let me end by thanking you, Nationwide's members. It is your collective power that makes Nationwide a force for good. I very much look forward to meeting as many of you as possible this year.

We are
**building
society,
nationwide**

For more information on our diversity agenda, including employee gender information, see the Directors' report and the Nomination and Governance Committee report.



Chief Executive's review

Joe Garner

Why being a building society matters

Our building society has an extraordinary past. Nationwide was born of a social purpose and the belief that people can achieve more together than alone. That speaks to an equally extraordinary future. We are unashamedly ambitious for a future in which we are seen to be genuinely 'building society, nationwide'. After a year as your Chief Executive, I am more convinced than ever that Nationwide's mutual purpose remains as relevant today as it was when we were founded 130 years ago.

Nationwide's strong trading and financial performance in 2016/17 puts us in a good position. Membership is at a record high, as more people choose Nationwide for mortgages, savings and current accounts than ever before. We are proud to be, for the first time, the UK's top choice for current accounts.

Nationwide has a strong reputation for outstanding service, where we lead our high street peer group for customer satisfaction by 5%, delivered by loyal and committed people. As a result, membership grew to over 15 million.

£505 million
of member financial benefit

Nationwide is in robust financial health, having achieved profits of over £1 billion for the third consecutive year. As a mutual, profits are not the only barometer of our success, but they are important because they allow us to maintain our financial strength, to invest with confidence, and to return value to you, our members, through pricing and service. During the year, we therefore took conscious decisions on interest rates, fees and incentives, that delivered a financial benefit of £505 million to our members, alongside the high standards of service we are known for. For more information see our Financial review.

Financially strong and sustainable

Nationwide remains safe and secure as shown by a strong capital position and balance sheet. We have improved the Society's common equity tier 1 ratio to 25.4% (2016: 23.2%), and the UK leverage ratio remains robust at 4.4%.

As anticipated, statutory profit reduced by 17.6% in the year to £1,054 million, due to a number of factors. Net interest income reduced due to the prevailing low interest rate environment, competition in the mortgage market and the conscious decisions we have taken to protect rates for savers while passing on the base rate decrease to mortgage borrowers. There has also been a growth in underlying costs, mainly reflecting ongoing expenditure on strategic investment, together with growth in business volumes. The impact of these has been partially offset by a gain of £100 million from the disposal of the Society's stake in Visa Europe during the period.

Strategic investment in the Society is greater than ever before, reflecting our commitment to investing in new products and better service propositions for members. We also continue to invest in strengthening our resilience and control environment to keep our members' money safe. As a responsible employer, we have supported our people by increasing pension contributions.

These increases to costs have led to a deterioration in our underlying cost income ratio to 60.2% (2016: 53.9%). In the coming year, we will keep our costs broadly flat by implementing efficiency initiatives, such as our 'right first time' programme to reduce errors and duplication across the business, and our plans to automate more manual processes. We will continue to invest where we believe it is in the long term interests of our members.

We have a stable and low-risk business model, which is fundamentally about looking after our members' deposits and putting them to work funding other members' mortgages. During the year, we identified several parts of the business that were not a good fit with our core purpose. We have begun to exit these responsibly. We will stop offering car insurance to new customers from June 2017 and will be writing to customers to let them know how their policy will be managed in future. We are also winding down our commercial lending business, will exit the Nationwide International deposit-taking business, and will no longer offer inheritance tax planning advice. While we recognise these customer needs, we believe it is not in the interests of our Society to provide services which are not core to our business.

Nationwide's financial strength, improved efficiency, and a tighter focus on our core business will ensure we can continue to invest in new products, good value pricing, and the service quality members value.

Chief Executive's review *continued*

Record membership as more people choose Nationwide

Nationwide's membership reached an all-time high, with over 15 million members, including a record 7.8 million engaged members who hold a core product with us.

15 million members

More than 2.2 million members hold mortgages with us, representing a market share of 12.9% and, as the UK's second largest mortgage lender, we remain committed to helping people own their own home. In the year, we lent more to help people onto or up the housing ladder than ever before, with total mortgage lending of £33.7 billion, up 3%. We also helped 75,000 first-time buyers into their first home, representing 1 in 5 of all first-time buyers in the UK and a new record (2016: 57,200). In March, we launched a new Family Deposit Mortgage that allows homeowners to raise funds from their existing property to help another family member buy a home and we are already processing the first applications.

We also support the growing private rented sector through our dedicated buy to let subsidiary, The Mortgage Works (UK) plc. We have tightened our criteria on lending to make sure our borrowers can meet future repayments. This move, combined with the softening of lending which followed changes to Stamp Duty in March 2016, resulted in a planned fall in buy to let lending to £4.6 billion, a decline of 36%.

UK's top choice for current accounts

We are the UK's third largest savings provider, accounting for £1 in every £10 of savings in Britain. With interest rates still at record lows, we remain committed to encouraging the nation to keep saving. We kept average deposit interest rates over a third higher than the market average in the last year, leading to £5.8 billion growth in member balances. Following the base rate cut in the summer, we maintained rates on our Help to Buy ISA, Flexclusive Regular Saver and Regular Saver accounts. As part of our overall desire to support savers, over the last year our members benefited from £380 million in additional interest compared to the market average. 1.7 million members have signed up to SavingsWatch, our email and text alert service for rate changes and new products.

Which? Banking Brand of the Year 2017

Nationwide achieved a new milestone, becoming the UK's top choice for current accounts. A combination of strong growth and good retention took our market share of main standard and packaged current accounts to 7.5% at February, up from 7.1% last year. A record 795,000 Nationwide current accounts were opened over the year, an increase of 35% over the previous year. This included 147,000 new youth accounts, a market share of 14.3% in the youth market. A further 169,000 people chose FlexPlus, our award-winning account. We strongly support financial inclusion by providing customers access to a full banking service with our FlexBasic account. We also continue to benefit from high switching rates through the Current Account Switch Service, with some 165,000 current account holders switching to Nationwide – an 18% share of the total personal switcher market. We are delighted to have recently become Which? 'Banking Brand of the Year 2017'.

We continued to provide a full range of personal banking services and saw steady growth in credit cards issued, personal loans and home insurance.

No 1 for service

If there is one thing that sets us apart, it is Nationwide's high standard of service. We are ranked number one for customer satisfaction amongst our high street peer group, with a lead of 5%² over the nearest competitor thanks to the culture of care I see everywhere at Nationwide. As service expectations of our members tend only to rise, we are constantly seeking ways to serve members even better.

We are working hard to provide a truly seamless service across mobile, branch and telephone channels, so that members can choose when, where and how to transact with us. It is 20 years this year since we launched our internet bank – the first in the UK – and we still combine digital convenience with a human touch. In the last year mobile log-ons grew by 73%, and we aim to double the number of members who are active via mobile channels.

At the same time, our branches remain busy: over half of all new current accounts are still opened in a branch. We still see a vital role for the branch network, despite the continued withdrawal of financial services providers from high streets over the last two decades.

We are exploring ways to ensure branches remain financially viable in a future where members may use them less. For example, we're testing using Nationwide NOW, our state of the art video technology, to connect customers to mortgage, personal banking and financial consultants in selected branches, as well as contact centres, using our branch consultants' time more efficiently. Similarly, we're piloting a new community branch in Glastonbury, which opened in April, to test the viability of combining personal service and the latest technology to serve communities left without a bank.

Great place to work

Our employees provide the foundations on which our member service and propositions thrive, so we try very hard to make Nationwide Building Society a great place to work. Our success is reflected in our very high employee engagement score which, at 78%, is above the average score of high performing organisations worldwide. In the previous year we improved our employee pension scheme by increasing our employer contributions, helping to ensure that employees will have a living pension.

² © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017, 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).

Chief Executive's review *continued*

Our reputation as a good employer reflects the very special culture and ethos of Nationwide, which is encapsulated in our PRIDE values:

pride stands for:

- P**utting our members and their money first
- R**ising to the challenge
- I**nspiring trust
- D**oing the right thing in the right way
- E**xcelling at relationships

Leading by example and making a difference

Since our origins in the 19th century right through to the present day, our aim has been to support communities by helping people save and live in better homes. We continue to invest at least 1% of our pre-tax profits to support good causes, in line with our purpose. This funding supports both our own social investment programme and the Nationwide Foundation, the independent charity we established 20 years ago to provide decent, affordable homes for people in housing need.

Our five-year *Living on your Side* social investment programme drew to a close in April and, I am proud to report, achieved all its objectives. Over five years, we helped 958,000 people into a home of their own, enabled over one million people to start saving, and channelled more than £21 million into community and charity support.

We employ over
18,000 people
 across more than
700 locations

As housing in Britain remains a challenge, we want to play our part in addressing this by targeting a range of housing issues with our new social investment programme. This will be launched in 2017 and will focus on an aspiration that everyone has a place fit to call home. It will also include a new social ambition to find local solutions to national housing issues. We will also support the growing number of people who rent by championing the rights of tenants and high standards for landlords.

You can read more about our successes in the 'Social investment' section of this report.

A refreshed purpose and strategy

Our business model of looking after our members' deposits and using them to fund other members' mortgages, is broadly unchanged since we were founded. Our belief in the power of mutuality is a constant.

But the world around us is changing like never before, and we have a responsibility to review our Society's strategy periodically to ensure we're able to respond to these changes. Technology is profoundly reshaping customer needs, expectations and relationships. Political upheavals have shown that many people feel the system is not working for them. Economically, the continued era of low interest rates and increasing competition creates new challenges for us to respond to. By refreshing our Society's strategy, we have prepared ourselves to meet these challenges and embrace the opportunities we see ahead.

Collaboration has been a force for good throughout Nationwide's history, which is why we started our strategy refresh with a huge listening exercise, giving our people and our members the chance to contribute to our future. Almost all of our 18,000 colleagues had the chance to contribute through a five-week 'Big Conversation' last summer. We've also listened to you, our members, at TalkBack events, through our 5,000-strong online Member Connect community, and through our everyday interactions across the Society.

This huge collaborative effort has led to a reinvigorated sense of Nationwide's purpose, which we describe as 'building society, nationwide' – helping people improve the quality of their lives. It has also helped to shape a refreshed strategy, which will allow us to deliver value for members in an efficient and compelling way.

To do this, we have organised our strategy around five cornerstones that define what we stand for, what we will do and how we will do it:

Built to Last – being safe, secure, sustainable and dependable

Building PRIDE – shared values, shared culture, doing the right thing

Building Legendary Service – providing service that is heartfelt, easy, lifelong and personal

Building Thriving Membership – delivering real value for our members

Building a National Treasure – leading by example and making a difference

For each cornerstone, we have developed a set of key performance indicators (KPIs). These will ensure that we remain tightly focused on our purpose and also provide you, as members, with the ability to assess the Society's performance. You can find more detail about the cornerstones and our new KPIs in the Strategic review.

Mutuality is as
relevant today
 as when we were
founded
in 1884

Chief Executive's review *continued*

Outlook

Nationwide is a domestic, consumer-facing business, which means consumer confidence matters to us. This is why, alongside our macro-economic analysis, we have asked consumers how they are feeling on an individual level.

£380 million
extra interest earned
by members
from our better pricing

Our research shows that confidence among consumers has held up well since last year's referendum, thanks to the strong performance of the UK economy. It also showed that consumers are alert to the economic uncertainties ahead, with the Brexit negotiations, low interest rates and inflation registering as concerns. However, households remain relatively optimistic about their own finances, and are going about their daily lives as normal.

Spending most commonly cited by consumers as possible future concerns are the food, utility and other household bills that make up a good proportion of monthly outgoings, and we anticipate that a combination of rising inflation and modest wage growth is likely to squeeze household budgets. Unsurprisingly, consumers said that if they needed to trim their spending in the future, they would cut back on leisure activities first, and see their mortgage and rent payments as most protected.

UK's second largest mortgage lender

In the housing market, if the economy slows as we expect, there will be a cooling effect in the form of lower sales and house price growth – and in fact the first signs of this are already showing through in market data. However, the continued shortage of homes in the UK will support house prices, which we expect to rise by 2% in 2017, with some scope for a further softening in 2018 to 2019. In the medium-term, we expect house prices to rise broadly in line with earnings.

It's clear that consumers are alive to the economic uncertainties that lie ahead, as are we. In this environment, we believe the benefits of mutuality will become only clearer. Last year, we protected our members through enhanced pricing, putting an additional £505 million into members' pockets. We anticipate that the financial benefit will vary from year to year depending on market conditions, and expect it to reduce next year. However, Nationwide's financial strength, stable and low risk business model, and strong trading performance all mean we are well placed to continue to support the UK economy, and our members, in the uncertain times ahead. In the medium term, I believe people will always want to save for their future, manage their daily finances and have a place to call home, so the fundamentals of Nationwide's business remain as relevant as ever.

Building society, nationwide

Nationwide is your Society, and we are custodians of it. I hope this statement has given you a sense of what we achieved on your behalf last year and the strength of our Society to achieve its purpose of **building society, nationwide**.



Strategic review

Our mutual difference

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.

Nationwide does many of the things that banks do, but we stand apart from the banks because of our ownership structure and social purpose. We are owned by our members, individuals who are seeking to provide for themselves and their families. And we have a social purpose at our heart, which is to improve the lives of ordinary people. Both these things mean we think and behave differently.

We approach profitability from the perspective of our members. It is in their interests that we remain financially strong, so that their money is safe, which is why the first thing we do is invest some of our profits in maintaining strong capital ratios and a conservative leverage ratio. To fulfil our social purpose, we must retain existing members and attract new ones, which is why another part of our profits is invested in developing and growing our business. Finally, we need to deliver tangible value to the members who own us, so we choose to forgo an element of our profitability, investing this in better value products and services for our members than they might find in a shareholder-owned bank.

As a Society, we know that our members value Nationwide's rounded approach to serving their interests. They value the leading service we provide through our branch network, as well as our phone and digital services, and we continue to invest in our people and our networks so that we retain our service lead over our high street peer group¹. We are extremely fortunate to

have talented and dedicated people who regularly provide first class service. Most of our people are also members, and therefore owners of the Society, so they have a vested interest in serving other members as they would like to be served themselves.

Our members also appreciate the highly competitive savings and mortgage products we can offer as a direct result of being a member-owned business. In 2016/17, our

differentiated pricing, member reduced fees and incentives put an additional £505 million into members' pockets. We have quantified our mutual pricing advantage, as we want members to really understand the financial as well as the non-financial benefits they gain from mutuality. More on this is included in our Financial review.



¹ © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017 vs 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).

Strategic review *continued*

Our business model

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.

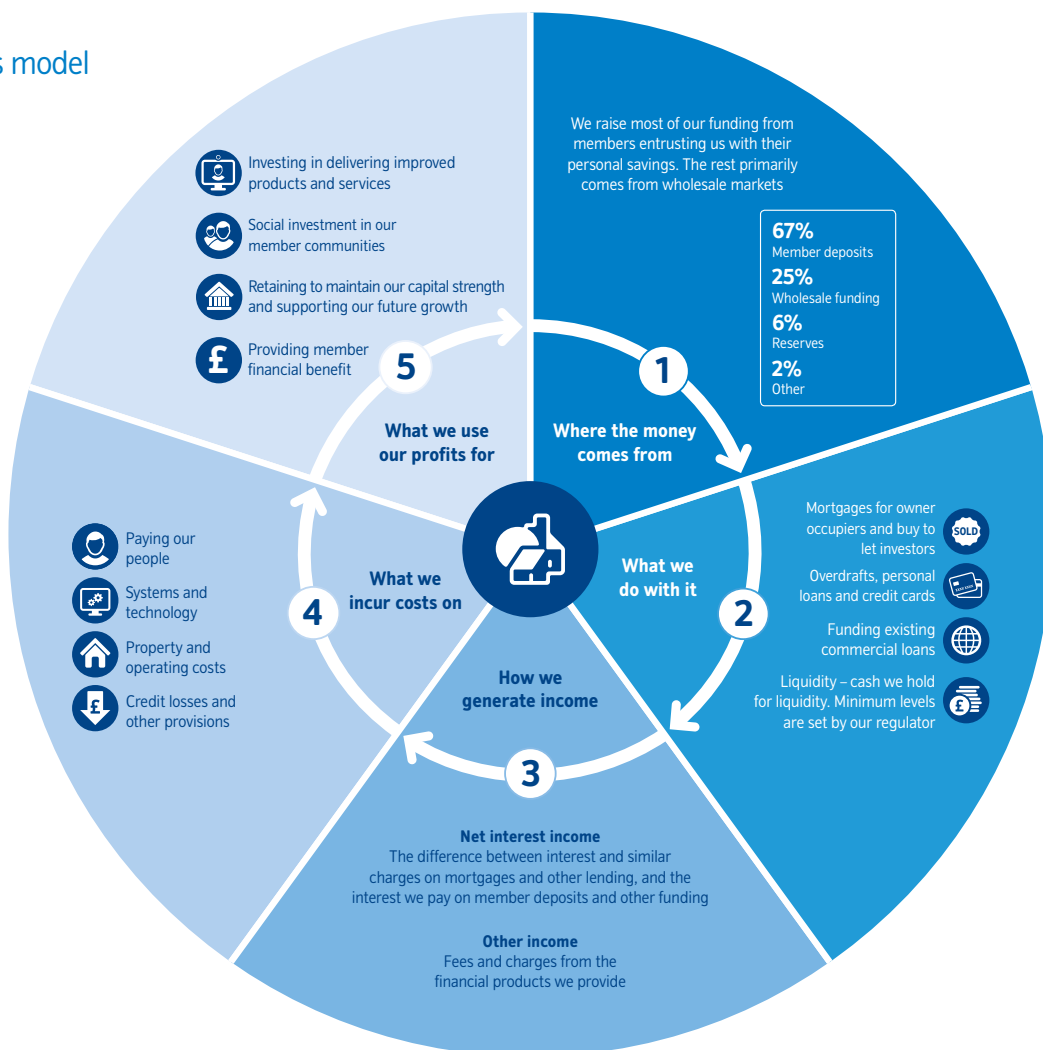
Our members are able to manage their money how they want, when they want, through our nationwide network of nearly 700 branches, by phone, online and through our mobile banking service. We believe in offering people the choice of the latest technology together with the personal touch so many value in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

We are bound by laws requiring at least 75% of business 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 project finance customers. A strategic decision was also made to exit the Nationwide International deposit-taking business.

Our business model at a glance



Strategic review *continued*

Our strategy

During the year we undertook a strategic review and we are now embarking upon the next evolution of our strategy, centred around our core purpose of building society, nationwide.

Our refreshed strategy is founded upon a rigorous re-evaluation of our strengths and our assessment of the way in which the financial services industry has evolved in recent years. We have engaged our members through live 'TalkBacks', suggestion schemes and through our 5,000 strong online 'Member Connect' community. Most recently we engaged employees through the 'Big Conversation', an opportunity for all our people to share their views on how the Society is run.

This led us to look at what activities we should engage in, starting with those where we can leverage the power of mutuality. With this in mind, we believe that our founding focus on mortgages and savings remains as relevant today as it was when we were founded in the 19th century. Additionally, we believe that increasing the size of our current account base remains a logical extension of our purpose by fulfilling our members' day to day financial needs and strengthening our mutual relationship. We will continue to offer a broad range of financial services that complements our core products of mortgage, savings and current accounts.

Our strategy refresh will make sure we are delivering the services and customer experience our members want in 2017 and beyond. Our core purpose is 'building society, nationwide' and we have defined five interconnected cornerstones which support our purpose and strategy. Our strategic targets and KPIs have been reviewed and amended in line with our strategy refresh.

Building society, nationwide

Strategic cornerstones



Strategic review *continued*

Our strategic cornerstones

Built to Last



Members want us to keep their money safe by being secure and dependable. They want us to be built to last by:

- generating a level of profit sufficient to meet regulatory capital and future business investment requirements
- focusing on how we spend members' money through driving a culture of efficiency

- maintaining a prudent approach to risk management, operating at all times within Board risk appetite
- supporting member expectations of 'always on' through the resilience of our operations.

Measuring success

We have developed a financial performance framework based on the fundamental principle of maintaining our capital at a prudent level in excess of regulatory leverage ratio requirements. The framework provides parameters which will allow us to calibrate future performance and help ensure we achieve the right balance between distributing value to members, investing in the business and maintaining financial strength.

We believe that generating underlying profit of approximately £0.9 billion to £1.3 billion per annum over the medium term is appropriate. This is based on our current assumptions around the size of the mortgage market and maintaining a leverage ratio of at least 4%. Our target reduced from a profit range of £1.0 billion to £1.5 billion set in 2016, reflecting our expectation of a slightly smaller mortgage market in future years than was anticipated a year ago.

Our financial performance will be supported by a renewed focus on efficiency. We will continue to put our members and their money first by making careful choices on how best to allocate our resources. Whilst previously cost income ratio was a main measure, we have now set a target to deliver £300 million of sustainable cost savings by 2022. This will be delivered across a range of initiatives, including 'right first time' member service, third party procurement reviews, process automation and digitised service delivery, as well as targeted restructuring activity.

Measure	Performance	Strategic target
Underlying profit (£m)	<p>433 952 1,227 1,337 1,030</p> <p>2013 2014 2015 2016 2017</p>	<p>Underlying profit for the year of £1.0 billion is within our target range</p> <p>Underlying profit: £0.9 billion – £1.3 billion per annum</p>
UK leverage ratio¹ (%)	<p>2.2%* 3.4%* 4.1%* 4.4% 4.4%</p> <p>2013 2014 2015 2016 2017</p> <p>*CRR leverage ratio basis</p>	<p>Our leverage ratio ended the year at 4.4% on a UK leverage basis</p> <p>Leverage ratio of at least 4%¹</p>

¹ 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, excluding eligible central bank reserves. Prior years (2013-2015) are reported on a CRR basis and include eligible central bank reserves.

Strategic review *continued*

Building PRIDE

PRIDE is the symbol of our culture and values. It guides us to serve our members to the best of our ability and support our people in doing the right thing. It means:

- P** Putting our members and their money first
- R** Rising to the challenge
- I** Inspiring trust
- D** Doing the right thing in the right way
- E** Excelling at relationships



We will equip our people by:

- developing our leaders and high potential talent to enable a more empowered and agile workforce
- growing our capabilities across the business to equip all of our people to make decisions in the interests of members
- inspiring them and invigorating our culture through our PRIDE values.

Measuring success

We are and intend to remain one of the UK's best places to work, which is in keeping with our mutual ethos of care and is the backbone behind the service our members receive. Having highly engaged and enabled employees is a key source of competitive advantage as we strive to have industry leading levels of customer satisfaction and grow our business. We measure engagement and enablement through our annual employee survey called ViewPoint, conducted for the last eight years by global management consulting firm Korn Ferry Hay Group (formerly Hay Group).

Measure	Performance	Strategic target													
Employee engagement & enablement	<p>Engagement (HP benchmark 2017 = 73%)</p> <table border="1"> <tr><th>Year</th><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td></tr> <tr><th>Engagement</th><td>68%</td><td>77%</td><td>79%</td><td>80%</td><td>78%</td></tr> </table>	Year	2013	2014	2015	2016	2017	Engagement	68%	77%	79%	80%	78%	<p>We scored 78% for employee engagement, which is above the HP benchmark</p>	Cross-industry High Performance (HP) benchmarks for engagement and enablement
	Year	2013	2014	2015	2016	2017									
Engagement	68%	77%	79%	80%	78%										
<p>Enablement (HP benchmark 2017 = 72%)</p> <table border="1"> <tr><th>Year</th><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td></tr> <tr><th>Enablement</th><td>68%</td><td>75%</td><td>75%</td><td>77%</td><td>72%</td></tr> </table>	Year	2013	2014	2015	2016	2017	Enablement	68%	75%	75%	77%	72%	<p>Employee enablement, at 72%, is in line with the HP benchmark</p>		
Year	2013	2014	2015	2016	2017										
Enablement	68%	75%	75%	77%	72%										

Strategic review *continued*

Building Legendary Service



Our ambition is for members to experience our service as heartfelt, easy, lifelong and personal. We aim to have industry leading service levels by:

- investing in our high street presence to transform the branch experience
- using technology to enhance the experience through both branches and mobile

- deploying the people and technology to enable our members to interact with us whenever and however they choose
- delivering on our members' expectations by getting it right first time.

Measuring success

Delivering leading levels of member satisfaction is a key point of differentiation to our peers and an important driver in helping to grow our membership. We measure our service satisfaction performance using an independent survey conducted by market research experts GfK. Our performance is currently benchmarked against a peer group of high street banks with a main current account market share greater than 6%. We will continue to benchmark ourselves against this measure. However, we have expanded the peer group that we are comparing ourselves against to include those with a main current account market share greater than 4%. We have done this to recognise the increased competition we face from challenger organisations, and to ensure that we continue to focus on our members' satisfaction and further support us in building society, nationwide. We have recognised this change to our peer group in our targets for 2017/18, setting ourselves a strategic target of 1st position with a lead of 2%, based on the average for the financial year.

Measure	Performance	Strategic target												
Service satisfaction (lead over peer group)	<table border="1"> <caption>Service Satisfaction Lead Over Peer Group</caption> <thead> <tr> <th>Year</th> <th>Lead (%)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>2.3%</td> </tr> <tr> <td>2014</td> <td>4.2%</td> </tr> <tr> <td>2015</td> <td>4.5%</td> </tr> <tr> <td>2016</td> <td>7.7%</td> </tr> <tr> <td>2017</td> <td>5.0%</td> </tr> </tbody> </table>	Year	Lead (%)	2013	2.3%	2014	4.2%	2015	4.5%	2016	7.7%	2017	5.0%	<p>We ended the year with our lead over our nearest high street peer group competitor standing at 5.0%¹</p> <p>2017/18: (based upon revised peer group): 1st with a lead of 2% (based on the average for the financial year)</p>
Year	Lead (%)													
2013	2.3%													
2014	4.2%													
2015	4.5%													
2016	7.7%													
2017	5.0%													

¹ © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017, 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, HSBG, 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).

Strategic review *continued*

Building Thriving Membership



The more members we have, the more we can help them achieve their goals, whether that's owning a home or saving for the future. We will deliver real value to our thriving membership by:

- delivering a membership proposition that recognises loyalty by rewarding our most committed members

- building our relationships with young families through enhanced products and services
- building depth in our core products of mortgages, savings and current accounts.

Measuring success

Growing our base of engaged members allows us to bring the benefits of mutuality to a wider population. We measure our performance through our number of engaged members, defined as those who hold a mortgage or savings account with us (with a balance greater than £5,000) or who hold their main personal current account with us.

Measure	Performance	Strategic target												
Engaged members (million)	<table border="1"> <caption>Engaged Members (million)</caption> <thead> <tr> <th>Year</th> <th>Engaged Members (million)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>6.7</td> </tr> <tr> <td>2014</td> <td>6.9</td> </tr> <tr> <td>2015</td> <td>7.1</td> </tr> <tr> <td>2016</td> <td>7.4</td> </tr> <tr> <td>2017</td> <td>7.8</td> </tr> </tbody> </table>	Year	Engaged Members (million)	2013	6.7	2014	6.9	2015	7.1	2016	7.4	2017	7.8	Engaged members grew by 380,000 during the year to 7.8 million, largely driven by growth in current account members 10 million engaged members by 2022
Year	Engaged Members (million)													
2013	6.7													
2014	6.9													
2015	7.1													
2016	7.4													
2017	7.8													

Strategic review *continued*

Building a National Treasure



Our ambition is to be considered a ‘national treasure’ in British society, in particular for our members and for the public to trust us and to believe that Nationwide makes a difference to people’s lives. We will strengthen our position as one of the most trusted and respected organisations in the UK by:

- leading by example, being the voice championing the interests of our members and the acknowledged expert in our field

- improving awareness of the Nationwide brand and our mutual difference
- engaging with our members through their preferred channels of communication
- aligning our social investment agenda with our purpose of building society, nationwide, through a focus on housing initiatives.

Measuring success

Our brand is the sum of how our members and others perceive us. A strong brand, effective both in digital and traditional media, is essential to attract new members as they work their way through life. We measure our performance through an independent specialist market research agency. Two headline measures drawn from that survey, prompted brand consideration and trust, provide a view of our progress towards being seen as a ‘national treasure’.

Measure	Performance	Strategic target
Prompted brand consideration (all consumers)	<p>2013 2014 2015 2016 2017</p> <p>■ 1st position peer ■ Nationwide</p>	<p>We ended the year in 3rd position for prompted brand consideration amongst all consumers¹</p> <p>1st with a lead of 4% by 2022</p>
Trust (all consumers)	<p>2013 2014 2015 2016 2017</p> <p>■ 1st position/nearest peer ■ Nationwide</p>	<p>We ended the year in 1st position for trust amongst all consumers¹</p> <p>2017/18: 1st with a lead of 3%</p>

¹ Source: Independent research agency.



Financial review

Mark Rennison

Overall performance

Financial performance for the year ended 4 April 2017 was in line with the expectations indicated when announcing our 2015/16 financial results. Statutory profit before tax was £1,054 million (2016: £1,279 million) and underlying profit was £1,030 million (2016: £1,337 million), reflecting our continued focus on offering value on our products and better service for our members, whilst maintaining capital strength.

An advantage of being a building society is that Nationwide can choose to forgo an element of profitability in order to deliver more value to our members, whilst ensuring we maintain financial strength and safeguard our members' money. In 2016 we 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. Despite the reduction in profitability, 2016/17 underlying profit remains comfortably within the target range set by our financial performance framework.

Our underlying cost income ratio has deteriorated to 60.2% (2016: 53.9%) primarily due to increased costs against broadly flat total underlying income. The rise in costs reflects ongoing expenditure on strategic investment to enhance propositions and service for our members, and increased staff costs, including our investment in a 'Living Pension' for our employees. We have also incurred one-off costs during the year relating to restructuring and asset write downs, reflecting the pace of change of technology and changing member needs. These one-off costs, along with other in-flight initiatives and our target to deliver £300 million of sustainable cost savings by 2022, will result in lower cost growth in future periods.

Impairment losses have increased following a review of the secured and unsecured lending portfolios to ensure that the evidence of impairment and latent risks during the low interest rate environment are adequately represented in the model assumptions, and that appropriate provisions are held for interest only loans where borrowers may be unable to repay capital balances at maturity.

Total assets have grown by £12.7 billion to £222 billion as at 4 April 2017, largely due to a £9.1 billion increase in residential mortgages. Of this, £8.0 billion relates to prime mortgages and reflects a strong trading performance aligned to our strategic objective of increasing our market share of prime mortgages. The remainder of the balance sheet growth is driven by an increase in high quality liquid assets as we replace off-balance sheet Funding for Lending Scheme (FLS) liquidity with on-balance sheet Term Funding Scheme (TFS).

Capital levels have remained strong with Common Equity Tier 1 (CET1) ratio and UK leverage ratios of 25.4% and 4.4% respectively (2016: 23.2% and 4.4% respectively). The UK leverage ratio remains unchanged as profits have broadly offset the increase in the defined benefit pension deficit and balance sheet growth driven by increases in mortgage balances.

We expect the prolonged low interest rate environment and competition in the mortgage market to continue in the period ahead. Notwithstanding this, our positive trading performance, financial strength and high quality balance sheet mean that we are well placed to deliver long term value to our members. We will also continue to focus on driving our efficiency agenda to reduce cost growth in future periods.

£1,030 million
underlying
profit before tax

Financial review *continued*

Income statement

Underlying and statutory results		
	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Net interest income	2,960	3,086
Net other income	325	247
Total underlying income	3,285	3,333
Underlying administrative expenses	(1,979)	(1,796)
Impairment losses	(140)	(73)
Underlying provisions for liabilities and charges	(136)	(127)
Underlying profit before tax (note i)	1,030	1,337
Transformation costs (note ii)	-	(10)
Bank levy (note ii)	(42)	(41)
FSCS (note ii)	-	(46)
Gains from derivatives and hedge accounting (notes ii and iii)	66	39
Statutory profit before tax	1,054	1,279
Taxation	(297)	(294)
Profit after tax	757	985

Notes:

- i. Underlying profit represents management's view of underlying performance and is presented to aid comparability across reporting periods.
- ii. Within the statutory results presented in the financial statements:
 - a. transformation costs and bank levy are included within administrative expenses
 - b. Financial Services Compensation Scheme (FSCS) costs are included within provisions for liabilities and charges
 - c. gains from derivatives and hedge accounting are presented separately within total income.
- iii. Although we only use derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not currently applied or is not currently achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.

Total income and margin		
	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Net interest income	2,960	3,086
Other income	325	247
Total underlying income	3,285	3,333
Gains from derivatives and hedge accounting	66	39
Total statutory income	3,351	3,372
Weighted average total assets	222,901	203,623
Net interest margin (NIM) %	1.33	1.52

£1,054 million
statutory
profit before tax

Financial review *continued*

Net interest income has reduced by £126 million to £2,960 million (2016: £3,086 million). This reduction is primarily due to ongoing competition in the mortgage market and our continued focus on delivering long term value to our members, combined with the ongoing natural run off of our residential base and standard mortgage rate balances. The competitive rates available across the market have led to more members switching to competitively priced products (£17.0 billion of members' balances switched to lower priced Nationwide mortgages) and higher redemptions. This reduction in back book balances, together with lower margins on new business pricing, has resulted in downward pressure on our NIM. As anticipated our NIM for the year of 1.33% was lower than the previous year's NIM of 1.52%.

The longer-term impact on the UK economy of the EU referendum vote is uncertain and, with interest rates expected to continue to remain at historically low levels for a prolonged period, we expect NIM to remain broadly stable for the year ahead.

Margin pressure resulting from increased competition for new mortgage lending has led to savings rates continuing to fall across the industry. In line with our mutual principles we have chosen to forgo an element of profitability through resisting lowering savings rates where possible and offering competitive products.

Following the decision by the Bank of England to cut the bank rate to 0.25%, we committed to protecting members who save regularly, or are building a deposit to buy their own home, resulting in several products being protected from the bank rate decrease. We have also applied a 0.10% rate floor to all variable products.

Other income has increased by 32% to £325 million (2016: £247 million) primarily due to a one-off gain of £100 million from the disposal of our investment in Visa Europe during the year. Excluding this gain, underlying other income has reduced, primarily due to a reduction of £15 million in income from credit card transactions, following the introduction of regulatory caps in December 2015, and a decrease of £7 million in other income received from mortgages. Whilst the number of active current accounts has increased, the associated net fee income is broadly flat as we continue to support the financial inclusion of customers by offering the benefits of our FlexBasic account, which has no fees for certain transactions.

Administrative expenses

	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Employee costs	793	736
Other administrative expenses	790	735
Depreciation, amortisation and impairment	396	325
Total underlying administrative expenses	1,979	1,796
Bank levy	42	41
Transformation costs	-	10
Total statutory administrative expenses	2,021	1,847
	%	%
Cost income ratio – underlying basis	60.2	53.9
Cost income ratio – statutory basis	60.3	54.8

Underlying administrative expenses increased by 10% (£183 million) due to increases in employee costs and strategic investment in propositions and service for members, as well as restructuring costs to drive efficiency and the costs of servicing higher business volumes. The underlying cost income ratio has increased to 60.2% (2016: 53.9%). At a statutory level, administrative expenses increased by 9% (£174 million).

Our cost trajectory reflects significant business growth and investment over recent years. Mortgage balances have grown 18% over the last three years and we have 42% more main current accounts today than in 2014.

During 2016/17 employee costs increased by £57 million, reflecting an annual pay award averaging 2.1% and higher full year costs from enhancements made in 2015/16 to the defined contribution pension scheme in line with our commitment to provide a 'Living Pension'. Average employee numbers increased by 4% year on year to build greater capacity to meet additional business volumes, deliver our investment strategy and further strengthen control functions.

Notwithstanding the fact that cost growth in recent years is the result of conscious decisions to support the Society's strategy and the service provided to members, we recognise the need to improve efficiency, and that cost increases significantly ahead of inflation are not sustainable in the continuing low interest rate environment we face. We will continue our focus on operational efficiency, exploiting the benefits of past and ongoing investment while continuing to prioritise the needs of our members.

60.2%
underlying
cost income ratio

Financial review *continued*

We have launched an efficiency programme which targets £300 million of sustainable cost savings to be delivered by 2022. This includes investing £43 million in 2016/17 in improving longer term efficiency, including accelerating automation and digitised service delivery, costs associated with organisational simplification, the announced closure of our Isle of Man and Republic of Ireland operations, and our withdrawal from the commercial real estate (CRE) sector. We have allocated approximately £100 million of spend over the next three years to support the programme, and anticipate that our

focus on efficiency will enable us to achieve broadly flat costs in 2017/18 and lower cost growth in future.

To support the long term interests of our members, we continue to invest in propositions, service and resilience. During the period, investment has focused on service improvements for members, both in branch and through digital channels, including updating our savings point of sale systems to allow real time online account opening, delivery of in-house credit risk assessments for prime mortgages, upgrades to our Banking App for smartphones and

tablets, and the roll out of further video links in branches which allow members greater flexibility to speak face to face with advisors in another location. We have also invested in IT resilience and ensuring compliance with UK and EU regulatory requirements.

Following a review of amounts capitalised for assets in use or in the course of development, asset write downs of £31 million (2016: £2 million) were recognised in the year, along with an increased depreciation charge of £15 million due to adjustments to asset lives, reflecting the pace of change of technology and changing member needs.

Impairment losses/(reversals)		
	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Residential lending	58	18
Consumer banking	78	96
Retail lending	136	114
Commercial lending	(5)	(34)
Other lending	-	1
Impairment losses on loans and advances	131	81
Impairment losses/(reversals) on investment securities	9	(8)
Total	140	73

Impairment losses have increased by £67 million to £140 million (2016: £73 million) driven by additional residential mortgage impairments as a result of enhancements to our credit loss provisioning methodology, combined with lower levels of net recoveries in the CRE portfolio.

Residential lending impairment charges of £58 million (2016: £18 million) include £45 million (2016: £27 million) as a result of enhancements to the provisioning methodology and assumptions to ensure provisions continue to reflect appropriately the incurred losses within each portfolio. These enhancements reflect the extended

period for arrears to arise from trigger events and the risks associated with the ability of borrowers to repay capital balances at the maturity of interest only loans. Excluding these methodology changes, the underlying impairment charge of £13 million (2016: £9 million release) reflects the stabilisation of mortgage arrears at 0.45%, compared with a fall from 0.49% to 0.45% in the prior year, and a more modest benefit from house price inflation.

Consumer banking impairment charges have decreased by £18 million to £78 million (2016: £96 million). Of this charge, £7 million (2016: £29 million) represents a reassessment

of impairment assumptions to reflect latent risks during the current low interest rate environment. Excluding this, the consumer banking charge has remained relatively consistent, reflecting both stable arrears performance and gross lending balances.

Commercial lending impairments relate exclusively to CRE lending, with no arrears in our registered social landlords and project finance portfolios. The net impairment reversal of £5 million (2016: £34 million) is a result of continued CRE market improvements in terms of both asset values and liquidity.

Provisions for liabilities and charges		
	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Underlying provisions for liabilities and charges – Customer redress	136	127
FSCS levy	-	46
Total statutory provisions for liabilities and charges	136	173

Financial review *continued*

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the year primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of our PPI provision we have considered the implications of the guidance published by the Financial Conduct Authority (FCA) in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case. More information on customer redress is included in note 30.

There is no net charge for the year in respect of the Financial Services Compensation Scheme (FSCS) (2016: £46 million charge). This reflects the substantial repayment of the loan from HM Treasury to FSCS as a result of the securitisation of Bradford & Bingley plc assets, and our £13 million share of recoveries from Icelandic banks. More information on FSCS is included in note 30.

Taxation

The tax charge for the year of £297 million (2016: £294 million) represents an effective tax rate of 28% (2016: 23%) which is higher than the statutory UK corporation tax rate of 20% (2016: 20%). The effective rate is increased due to the banking surcharge which is payable at a rate of 8% from 1 January 2016, equivalent to £62 million (2016: £22 million), and by the tax effect of disallowable bank levy and customer redress costs of £8 million and £19 million (2016: £8 million and £7 million) respectively. Further information is provided in note 11.

Member financial benefit

As a building society, we know that our members value the highly competitive savings and mortgage products we can offer as a direct result of being a member-owned business. We measure our member financial benefit by considering our differentiated interest rate pricing, reduced fees and incentives, compared to industry benchmarks.

The financial benefit measured has given our members an additional £505 million (2016: £397 million) in their pockets for the year. We have chosen to quantify our member financial benefit, as we want members to understand the financial as well as the non-financial benefits they gain from mutuality.

The increase in member financial benefit compared with the prior year primarily reflects the discretionary actions we took during the year to protect savings rates in a declining interest rate environment. Prudent management of the Society requires us to manage savings flows and our cost of retail funding in the context of wider market conditions, and in particular demand for lending. Therefore the benefit we provide to members is dependent on a variety of external market and competitive factors, as well as maintaining a balance between profits we retain and member benefit we provide.

Member financial benefit

Member financial benefit is delivered in the form of differentiated pricing and incentives, which we quantify as:

Our interest rate differential + member reduced fees + incentives

Interest rate differential

We measure how our average interest rates compare against the market.

For our two largest member segments, **prime mortgages** and **retail deposits**, we compare the average member interest rate for these portfolios against relevant industry benchmarks. A CACI benchmark is used for prime mortgages and Bank of England benchmark for retail deposits¹, both on a 12-month rolling basis. The differentials derived in this way are then applied to member balances for mortgages and deposits.

For unsecured lending, a similar comparison is made. The differential of Nationwide's average new business lending rate against the Bank of England's average new business lending rate is applied to the total interest bearing balances of **credit cards** and **personal loans**. These are also measured on a 12-month rolling average basis.

Member reduced fees and incentives

Our member financial benefit measure also includes amounts in relation to reduced fees and incentives provided to members, and includes annual amounts provided for the following:

- Prime mortgages: the differential on incentives and fees for members compared to the market
- 'Recommend a friend': the amount paid to existing members, when they recommend a new current account member to the Society
- FlexPlus account: this current account is considered market leading against major banking competitors, with a high level of benefits for a relatively smaller fee. The difference between the monthly account fee of £10 and the market average of £16 is included in the member financial benefit measure.

¹ Adjusted to exclude Nationwide's balances.

Financial review *continued*

Balance sheet

Total assets have increased 6% year on year to reach £222 billion at 4 April 2017 (2016: £209 billion). This increase primarily reflects our focus on mortgage pricing for members and growing our market share of prime mortgages, with prime mortgage balances increasing by £8.0 billion. The remainder of the balance sheet growth relates to £1.1 billion in relation to specialist lending and a £3.4 billion increase in other financial assets.

Mortgage lending has been partially supported by strong strategic growth in retail funding flows, with member deposits growing by £5.8 billion, and our market share of UK deposits at 10.1% at 4 April 2017 (2016: 10.2%). Of the growth in member balances, £2.7 billion is attributable to current account balances as we have continued to increase our market share of main standard and packaged current

accounts, to 7.5% at February 2017 from 7.1% last year. This growth in member deposits reflects our renewed focus on growing our base of engaged members, allowing us to bring the benefit of mutuality to a wider population.

Assets				
	4 April 2017		4 April 2016	
	£m	%	£m	%
Residential mortgages	171,263	91	162,164	91
Commercial lending	12,580	7	13,197	7
Consumer banking	3,949	2	3,869	2
Other lending (note i)	17	-	20	-
	187,809	100	179,250	100
Impairment provisions	(438)		(443)	
Loans and advances to customers	187,371		178,807	
Other financial assets	31,231		27,782	
Other non-financial assets	3,068		2,350	
Total assets	221,670		208,939	
Asset quality		%		%
Residential mortgages:				
Proportion of residential mortgage accounts 3 months+ in arrears		0.45		0.45
Average indexed loan to value of residential mortgage book (by value)		55		55
Impairment provisions as a percentage of non-performing balances		5.3		3.2
Consumer banking:				
Non-performing loans as percentage of total balances (excluding charged off balances) (note ii)		4		4
Impairment provisions as a percentage of non-performing balances (including charged off balances) (note ii)		86		81
Other key ratios				
Return on assets		0.34		0.47
Liquidity coverage ratio		124.0		142.6

Notes:

- Other lending balance consists of deferred consideration relating to an investment in Visa Inc, collateral to support repurchase transactions and a residual portfolio of secured loans relating to a European commercial loan facility held by one of Nationwide's subsidiaries, Cromarty CLO Ltd.
- Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

Financial review *continued*

Residential mortgages

Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let (BTL) lending. Gross mortgage lending in the period increased 3% to £33.7 billion (2016: £32.6 billion), representing a market share of 14.0% (2016: 13.7%).

Mortgage balances grew by £9.1 billion (2016: £9.3 billion) of which £8.0 billion was prime lending (2016: £5.4 billion) and £1.1 billion related to specialist lending (2016: £3.9 billion).

The average loan to value (LTV) of new lending in the period, weighted by value, increased to 71% (2016: 69%) primarily due to our strategy to increase lending to the first time buyer market as we recognise the importance of helping people take their initial steps onto the housing ladder. Modest house price growth has resulted in the average LTV of our portfolio remaining flat at 55% (2016: 55%). Residential mortgage arrears have remained flat at 0.45% (2016: 0.45%).

Non-performing balances have reduced by £485 million to £2,694 million (2016: £3,179 million), with particular improvement in those balances past due up to three months. However, the impairment provision balance has increased to £144 million (2016: £102 million). This increase in provisions reflects an update to our credit loss provisioning methodology and assumptions to ensure that provisions appropriately reflect incurred losses within the portfolio. This update included focusing on the credit risk associated with maturing interest only loans and the period for evidence of impairment losses to emerge on up to date loans. This provision increase, combined with a reduction in non-performing balances, resulted in an increase in impairment provisions as a percentage of non-performing balances to 5.3% (2016: 3.2%).

The growth of the BTL portfolio has slowed following a decision taken in May 2016 to increase the minimum interest cover ratio for new lending from 125% to 145% and reduce the maximum LTV from 80% to 75%. Despite the anticipated impact of this decision on BTL portfolio growth, these steps were taken in response to forthcoming income tax changes which will materially affect cash flow and affordability for some landlords.

Commercial lending

Total commercial lending balances are £12.6 billion (2016: £13.2 billion) and, as a result of deleveraging activity undertaken in recent years, our overall portfolio is increasingly weighted towards registered social landlords with balances of £7.5 billion (2016: £7.6 billion). This portfolio is fully performing and remains stable, reflecting its low risk nature. The commercial portfolio also includes loans made under the Government's Private Finance Initiative (PFI) amounting to £1.1 billion (2016: £1.2 billion) and CRE loans of £2.6 billion (2016: £3.0 billion) which have reduced during the period through deleveraging and run-off. The remaining balance of £1.4 billion (2016: £1.4 billion) relates to fair value adjustments where we have hedged loans to mitigate their associated financial risks, typically interest rate risk.

Following the wider strategy review, it was concluded that the commercial lending business was no longer core to the Society's vision for the future and balances will continue to reduce through managed run-off.

0.45%

residential mortgage accounts 3 months+ in arrears

Consumer banking

Consumer banking comprises personal loans of £2.0 billion (2016: £1.9 billion), credit cards of £1.7 billion (2016: £1.7 billion) and current account overdrafts of £0.2 billion (2016: £0.2 billion). During the year we have focused on enhancing our consumer banking proposition to create a more cohesive and engaging relationship with our members. The asset quality of the portfolio remains strong, benefiting from proactive risk management practices and continued low interest rates.

Other financial assets

Other financial assets total £31.2 billion (2016: £27.8 billion) and comprise liquidity and investment assets held by our Treasury function amounting to £25.4 billion (2016: £23.1 billion), derivatives with positive fair values of £5.0 billion (2016: £3.9 billion) and fair value adjustments and other assets of £0.8 billion (2016: £0.8 billion).

Derivatives largely comprise interest rate and foreign exchange derivatives, taken out to economically hedge financial risks inherent in our core lending and funding activities.

Levels of on-balance sheet liquid assets have increased due to the replacement of the off-balance sheet FLS liquidity with on-balance sheet TFS drawdowns. The increase in total liquidity is more than offset by higher liquidity requirements, resulting in our Liquidity Coverage Ratio (LCR) reducing from 142.6% as at 4 April 2016 to 124.0%. This increase in requirements reflects the inclusion of additional stressed derivative collateral outflows in the LCR calculation following the finalisation of EU rules during the year, and the impact of one-off items. On a like-for-like basis our LCR would remain broadly consistent with last year's.

Financial review *continued*

27.1%
wholesale
funding ratio

Liabilities		
	4 April 2017 £m	4 April 2016 £m
Member deposits	144,542	138,715
Debt securities in issue	40,339	36,085
Other financial liabilities	23,940	21,637
Other liabilities	1,716	1,572
Total liabilities	210,537	198,009
Members' interests and equity	11,133	10,930
Total members' interests, equity and liabilities	221,670	208,939
	%	%
Wholesale funding ratio (note i)	27.1	24.8

Note:

- i. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations) but excludes Funding for Lending Scheme (FLS) drawings which, as an asset swap, are not included on Nationwide's balance sheet, reflecting the substance of the arrangement. Off-balance sheet FLS drawings have reduced from £8.5 billion at 4 April 2016 to £4.8 billion.

Member deposits

Member deposits have increased by £5.8 billion to £144.5 billion (2016: £138.7 billion) and our market share of all UK deposits at 4 April 2017 was 10.1% (2016: 10.2%).

Current account credit balances have increased to £17.5 billion (2016: £14.8 billion). We increased our market share of main standard and packaged accounts to 7.5% at February 2017 (2016: 7.1%).

Debt securities in issue

Debt securities in issue of £40.3 billion (2016: £36.1 billion) are used to raise funding in wholesale markets in order to

finance core activities. The increase in outstanding amounts partially reflects increased issuance activity in the wholesale markets during the period to support increased liquidity. The wholesale funding ratio has increased to 27.1% (2016: 24.8%) as a result of this wholesale issuance activity, as well as the draw down of TFS which is included in other financial liabilities.

Other financial liabilities

Other financial liabilities include customer and bank deposits (including TFS drawdown) of £17.5 billion (2016: £15.9 billion), derivatives and fair value adjustments of £3.2 billion (2016: £3.5 billion), subordinated

debt of £2.9 billion (2016: £1.8 billion) and permanent interest bearing shares (PIBS) of £0.3 billion (2016: £0.4 billion).

During the year a strategic decision was taken to exit the Nationwide International business. This resulted in a £3.6 billion decrease in balances, representing the majority of the deposits associated with this business. These outflows have been managed in an orderly manner with the funding being replaced by additional member deposits and the use of wholesale funding where appropriate.

Statement of comprehensive income

Statement of comprehensive income		
	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Profit after tax	757	985
Net remeasurement of pension obligations	(255)	51
Net movement in cash flow hedge reserve	(247)	301
Net movement in available for sale reserve	52	(34)
Other items	2	(4)
Total comprehensive income	309	1,299

Movements in the table above are shown net of related taxation.

The remeasurement of pension obligations of £255 million expense (2016: £51 million income) reflects £1,298 million of actuarial losses (2016: £164 million actuarial gains), partly offset by £951 million relating to

positive movements in the Fund's assets greater than the discount rate (2016: £122 million return less than the discount rate). Further information on gross movements in the pension obligation is included in note 33.

The movement in cash flow hedge reserve of £247 million expense (2016: £301 million income) relates to a gross movement before tax of £348 million, driven by significant changes in derivative valuations caused by movements in foreign exchange rates. Further information is included in note 7.

Financial review *continued*

Capital structure

Capital structure		
	4 April 2017 £m	4 April 2016 £m
Capital resources (note i)		
Common Equity Tier 1 (CET1) capital	8,555	8,013
Total Tier 1 capital	9,547	9,005
Total regulatory capital	12,129	10,654
Risk weighted assets (RWAs)	33,641	34,475
UK leverage exposure	215,894	204,346
CRR leverage exposure	228,428	213,181
CRD IV capital ratios	%	%
CET1 ratio	25.4	23.2
UK Leverage ratio (note ii)	4.4	4.4
CRR leverage ratio (note iii)	4.2	4.2

Notes:

- Data in the table is reported under CRD IV on an end point basis.
- The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure.
- The CRR leverage ratio is calculated using the Capital Requirements Regulation definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure and is reported on an end point basis.

CET1 capital resources have increased over the period by approximately £0.5 billion mainly due to £757 million of profit after tax for the period. Risk weighted assets (RWAs) reduced over the period by approximately £0.8 billion due to continued run-off of the commercial book and lower residential lending RWAs, as a result of house price inflation which more than offset portfolio growth.

The movements described above have resulted in an increase in the CET1 ratio to 25.4% (2016: 23.2%).

The UK leverage ratio is 4.4% at 4 April 2017 (2016: 4.4%) as profits have broadly been offset by an increase in the defined benefit pension deficit and balance sheet growth, which was driven by increases in mortgage balances. The CRR leverage ratio is 4.2% (2016: 4.2%).

We continue to monitor regulatory developments that could lead to an increased level of capital requirements. Whilst there are a number of areas where potential requirements are yet to be finalised, regulatory announcements during the financial year mean that we have a clearer understanding of the expected impact. However, we will remain engaged in the development of the regulatory approach to ensure we are prepared for any change. Whilst these amendments may result in increases to RWAs, we do not believe there will be a material increase in overall capital requirements.

25.4% CET1 ratio

4.4% UK leverage ratio

Risk overview

Effective risk management is at the heart of the business, supporting the delivery of Nationwide’s strategy by ensuring the business 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’s principal risks are:

- **Lending risk:** The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan.
- **Financial risk:** The risk of inadequate earnings, cash flow or capital to meet current or future requirements and expectations.

- **Operational risk:** The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.
- **Conduct and compliance risk:** The risk that members experience unfair outcomes or that Nationwide fails to comply with regulatory requirements.
- **Strategic risk:** The risk of significant loss or damage arising from business decisions that impact the long-term interests of the membership, or from an inability to adapt to external developments.

For each of these principal risks, a formal statement of Board appetite for risk defines how much risk the Board is prepared to take in pursuit of the Society’s goals, and establishes a framework for decision making. Performance is reviewed regularly against these statements to ensure that the business operates within risk appetite.

Our principal risks are managed through adopting policies and practices as set out below:

To manage	Policies and practices are in place to ensure that
Lending risk	<ul style="list-style-type: none"> • Nationwide primarily lends on prime residential mortgages and sets prudent limits to control exposure to other risk portfolios, such as buy to let and unsecured lending. • The commercial portfolios are being actively managed to maturity. As commercial lending is now closed to new business, risk management of these portfolios focuses on refinance, extension and concentration risks. • Treasury credit risk is accepted only to support Nationwide’s liquidity strategy, on derivative activities necessary to support our member proposition and to manage legacy positions.
Financial risk	<ul style="list-style-type: none"> • Financial risks, including liquidity, funding and solvency, are tightly managed whilst allowing Nationwide to meet members’ needs when designing products and services. • Where residual financial risks exist, sufficient capital or liquidity is held to mitigate their impact.
Operational risk	<ul style="list-style-type: none"> • Nationwide operates its business to ensure a minimum level of serious disruption to members, brand and reputation, with systems and services designed to achieve defined levels of availability and performance.
Conduct and compliance risk	<ul style="list-style-type: none"> • Nationwide’s products and services meet customer needs and expectations and perform as represented. • Nationwide builds sustainable partnerships with members and customers by providing the right information at the right time, and value for money products and services. • Nationwide addresses customer detriment and / or dissatisfaction in a timely and fair manner. • Nationwide safeguards personal data, does not exploit asymmetries and does not disadvantage customers or customer segments or take advantage of customer vulnerability. • Nationwide does not conduct or facilitate market abuse or financial crime and does not distort competition.
Strategic risk	<ul style="list-style-type: none"> • Nationwide does not overcommit by targeting too many strategic priorities at any one time, ensuring the most effective and efficient use of its resources. It is committed to a mutual business model that is focused on the provision of retail financial services, almost exclusively in the UK.

Top and emerging risks

Whilst the Board accepts that the Society’s business activities involve some risk, it seeks to protect members by managing the exposures that arise.

Risk management activity has focused on strengthening business resilience and managing conduct and regulatory challenges. As a result, Nationwide’s top and emerging

risks remain largely unchanged and fall within the following themes:

- macroeconomic environment including the political and economic uncertainty resulting from the Brexit vote
- cyber security, data protection and operational resilience
- the pace of change in the digital and regulatory environments.

Further details of the risks facing Nationwide, its appetite for these risks and the risk management framework are given in the Business and Risk Report.

Social investment

Social investment is about doing what is right by our members and their communities. It goes to the heart of what it means to be a building society. Back in 2012, we asked our members how we could make a lasting difference to their local communities. As a result, we launched ‘Living on your side’, setting out three ambitious targets to be delivered by 2017.

Our members, colleagues and charity partners have worked together and not only have these targets been met, they have been exceeded, benefiting thousands of communities across the UK.



A long lasting difference

Nationwide Building Society believes everyone should have a place fit to call home, and this year we are working on a new programme to help make this happen.

Based on feedback from members, we are developing a new social ambition to find local solutions to national housing issues. We will be working with colleagues and members locally to make a long lasting difference to their communities and we will continue to invest at least 1% of our pre-tax profits to support good causes.

What we have done this year

Your Home



226,300 people helped into a home of their own this year
against a target of 198,600

Helping people into a home of their own is not just about buying a house, it is about having a safe and comfortable place to call home. We do this by helping first time buyers, providing buy to let lending to support the rental market and working in partnership with charities. In 2016/17:

- We continued our work with housing and homeless charity Shelter to help 17,000 people into a home of their own. Since 2012, 44,000 people have been helped against a target of 16,000. This includes interventions when people are at risk of losing their homes and helping vulnerable people find and keep a home.

- Our partnership with Elderly Accommodation Counsel enabled 5,600 older people to stay in their own homes through our support of its 'Live Safely and Well at Home' campaign and its UK telephone advice service.
- We have been working with military communities to make it easier for them to access a mortgage and a home. This work was recognised when the Society received a 'Gold' award from the MOD in its Employer Recognition Scheme.

The Nationwide Foundation

The Nationwide Foundation* increases the availability of decent affordable homes for people in housing need, thus alleviating social and economic disadvantage in the UK.

In 2016/17 the Nationwide Foundation received a donation of £2.8 million from Nationwide Building Society and funded 26 charitable causes. Its funding supported: housing cooperatives, self-build housing, the development of community-led housing, research into the availability of land and the experience of vulnerable tenants in the private rented sector, and bringing empty properties into use.

*The Nationwide Foundation is a registered charity (1065552) set up in 1997 by Nationwide Building Society.

Your Money



288,000 people helped to start saving with us this year
against a target of 290,000*

As one of the UK's largest savings providers, we play an important role in encouraging a savings culture.

Through our Talking Numbers programme, we have focused on improving young people's everyday number skills to encourage their savings habits. This has included:

- Developing nationwideeducation.co.uk which provides free, independent online resources for children, parents and teachers covering numeracy and financial capability.

- Sponsoring safety education centres in Birmingham, North Wales and Belfast, where students can attend MoneyLIVE workshops where they are taught key life skills such as budgeting, saving and using an ATM. 18,600 young people benefited from MoneyLIVE workshops in 2016/17.
- Funding ten secondary school teachers through education charity Teach First and working with pfeG (Personal Finance Education Group) on a bespoke programme to train primary school teachers to teach financial literacy.

Helping people to avoid and manage problem debt

This year, we have further developed our partnership with the Money Advice Trust, which helps people tackle debts and manage their money wisely.

We have also referred more members to IncomeMAX, an organisation that provides free advice and advocacy on a range of benefits, grants and utility bill discounts. In the last year, this service identified £400,000 of additional income, benefits and savings for members. We also continue to work closely with the Money Advice Service by helping develop new debt solutions and standards.

*This figure represents new savers to Nationwide who have not had a savings account with us in the last financial year. Of these, 54% opened children's savings accounts. The remaining 46% were new adult savers, including those taking out a Help to Buy ISA account where money is deposited to help secure a mortgage, and those benefiting from tax-free savings in our Regular Saver ISA.

Your Community



£5 million channelled into community and charity support
against a target of £4.5 million

Through 'Living on your side' we wanted to make a big difference at a community level, not only through donations but also by unlocking the volunteering and fundraising capacity of colleagues and members. In 2016/17:

- 75% of our colleagues were involved in fundraising, volunteering or payroll giving (this was 6% in 2012). £1.7 million was raised for charity by our members and colleagues this year.

- The value of colleagues volunteering their time was £1.2 million (all colleagues are given up to 14 hours to volunteer during work time each year).
- Through the Nationwide Big Local and Community Match programmes, £438,000 was donated to 1,200 local charities or causes in 2016/17.
- 4,200 colleagues are now CPR trained through our partnership with the British Heart Foundation and its 'Nation of Lifesavers' programme.

World's Biggest Coffee Morning

For Macmillan Cancer Support's most recent World's Biggest Coffee Morning, we were a Community Partner, encouraging members of the public to hold their own coffee morning. In total we raised £276,000 for the charity.



Building Society