Strategic Report

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The Strategic Report on pages 3 to 54 has been approved by the board of directors and signed on its behalf by:

Joe Garner
Chief Executive
23 May 2016
2016 Society highlights

Our vision is to be the UK’s first choice financial services provider. We are a modern mutual providing a full service, multi-channel offering to a growing number of members.

Customer satisfaction lead over our high street peer group¹

- 2015 4.5%
- 2016 7.7%

We are the UK’s second largest mortgage and savings provider.

Gross mortgage lending

- 2015 £27.1 billion
- 2016 £32.6 billion

Member deposits balance growth

- 2015 £1.9 billion
- 2016 £6.3 billion

Personal current account stock market share

- 2015 6.8%
- 2016 7.1%²

Main product relationships¹

- 2015 7.1 million
- 2016 7.4 million

We believe that being a great employer and employing first class people offers us a genuine competitive advantage.

We are working closely with suppliers to identify opportunities to reduce carbon emissions, water usage and waste.

We developed a first-of-its-kind Specialist Support Service for customers affected by cancer.

To read more on our progress go to pages 17, 26.

We made the Times’ list of the UK’s top 50 employers for women for the 4th year running.

3rd in the Sunday Times’ list of top 25 best big companies to work for, up from 6th last year.

98% and 4½ stars in the 2016 BITC Corporate Responsibility Index. 3rd in the Sunday Times’ list of top 25 best big companies to work for, up from 6th last year.

We are the UK’s second largest mortgage and savings provider.

We aim to be an exemplar organisation, being trusted always to do the right thing.
A **strong Society**. Profit is important as it allows us to grow and invest in the Society for our members. Our Common Equity Tier 1 ratio and our leverage ratio are key measures of our financial strength. Our cost income ratio is a measure of our efficiency.

### Underlying profit

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<tr>
<td>Underlying profit(^1)</td>
<td>£279 million</td>
<td>£433 million</td>
<td>£952 million</td>
<td>£1,227 million</td>
<td>£1,337 million</td>
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<tr>
<td>Statutory profit before tax</td>
<td>£166 million</td>
<td>£168 million</td>
<td>£677 million</td>
<td>£1,044 million</td>
<td>£1,279 million</td>
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### Common Equity Tier 1 (CET1) ratio

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<td>2015</td>
<td>19.8%</td>
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<tr>
<td>2016</td>
<td>23.2%</td>
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### Leverage ratio

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<th>2015</th>
<th>2016</th>
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<td>2015</td>
<td>4.2%</td>
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<td>2016</td>
<td>4.1%</td>
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### Underlying cost income ratio\(^1\)

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<td>Income</td>
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<td>Cost</td>
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<td></td>
<td></td>
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<tr>
<td>2012</td>
<td>61.8%</td>
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<td></td>
<td></td>
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<tr>
<td>2013</td>
<td>55.9%</td>
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<td></td>
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<tr>
<td>2014</td>
<td>52.0%</td>
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<tr>
<td>2015</td>
<td>51.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2016</td>
<td>53.9%</td>
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\(^1\) © GfK 2016. Financial Research Survey (FRS), 3 months ending 31 March 2016 vs 31 March 2015, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander). Prior to April 2015, Lloyds Bank and TSB combined as Lloyds TSB Group (including Lloyds Bank, TSB and C&G).  
\(^2\) As at February 2016. 
\(^3\) Main personal current account (PCA) customers and mortgage/savings customers with balances greater than £5,000. 
\(^4\) Comparatives have been restated as described in note 1 to the financial statements.
My first year
This is my first annual statement as your Chairman. It has been a privilege and a pleasure to have led the Board during what has, once again, been a highly successful year.

The ‘magic ingredient’ that sets your Society apart from all other competitors in retail financial services is the commitment of our people to always do the right thing for our members. I am convinced this culture is a direct consequence of our history and heritage, and the resultant mutual business model.

From our earliest ancestry in Ramsbury, Wiltshire in 1846, when we were formed to offer ordinary people a safe place to save and the prospect of borrowing to buy a home, Nationwide (and its constituent societies) has always stood for doing what’s right and delivering the very best service, and this continues to the present day. Indeed, every day I experience first-hand the overwhelming commitment within the Board, the management team and all colleagues across the Society to do the right thing for you, our members, and on your behalf I extend my deepest thanks to them all for their outstanding professionalism, dedication and care.

I joined Nationwide in 2014 after a 30 year career in retail and commercial banking, working both in the UK and around the world. Based on that experience, I would like to take the opportunity to offer some reflections about your Society and why I believe we are able to make a genuine difference in the provision of retail financial services in the United Kingdom:

• we were born out of a social, rather than a commercial, purpose so our sole focus is to help improve the quality of life for our members,
• we are a building society, which makes us tangibly different to the established UK banks,
• we are therefore legally required to hold at least 75% of our assets as loans secured on UK residential property and we have to be primarily financed through retail savings deposits, enabling us to prioritise the financial security of our business and our members’ money,
• we are owned by our members, so do not have to consider the potentially conflicting demands of shareholders and customers typical in the ‘plc’ style models I have witnessed elsewhere,
• therefore all profits are re-invested in the Society to deliver excellent service and value to our members over the long term.
We run the Society to deliver outstanding service to all customers and members, and we seek to optimise, rather than maximise, profits. I am often asked why the Society makes a profit when it is run for the benefit of our members. Put simply, profits are the ‘oxygen’ that allows the Society to support future growth, to sustain a strong balance sheet and capital ratios in order to keep the Society safe and secure, and crucially to be able to invest to provide the consistent top quality service our members rightfully demand.

Nationwide is a business that our members and employees say ‘feels different’. Our mutual heritage drives a shared sense of purpose to offer good, long term value products and exceptional service, recognising the complementarity of our members foremost as customers and secondly as owners. Your Board is constantly seeking to balance the needs of all members, particularly between savers and borrowers, and between delivering value in both the short term and over the longer term.

Our performance in the past year is reflective of this approach. In the last twelve months, Nationwide has successfully grown its membership through strong mortgage lending, an increase in savings balances and a continued expansion of our current account market share, all reflecting our strategic focus on being a modern mutual. I am pleased to report we have delivered a set of results which are the product of this consistent strategy, achieving underlying profits in excess of £1.3 billion and continuing to demonstrate strong levels of capital. We are, and will remain, a safe and trusted home for our members’ money at all times, and we have the ‘financial firepower’ to continue to support our members and invest in our future service.

Importantly, this includes a firm commitment to our branches, as we know that these are valued by many of you and offer a level of service that we believe differentiates us from our peers. We are investing in improving our branch network to maintain a compelling experience, offering members an increasing range of options from self-service to full face to face support, including our leading video technology - Nationwide Now - which allows members to access a team of expert advisers at a central location. This provides us with greater capacity to offer you the service you seek at a time and location to suit you.

As a modern mutual, I believe it is important we continue to invest in order to meet members’ current and future needs. This is a challenge in a highly competitive market, and does not mean that we will always be top of the best buy tables. However, we will always offer good value over the medium term, and whatever we do we will be open, honest and transparent. I recognise that the ongoing low interest rate environment is particularly challenging for our savers, and the current economic uncertainty suggests that market rates are likely to remain low for some time yet. We take our responsibility to our savings members very seriously and will continue to monitor conditions in the savings and mortgage markets to ensure we are offering sustainable rates. In line with other providers, we have to balance the amount of savings we attract and the loans we make; failure to do so would leave us with excess funds, which would have an adverse impact on our long term ability to invest in the business.

Investing in the Society to provide new or enhanced products and services comes at a cost, most notably in personal current accounts, where we have yet to reach our strategic target of a 10% market share. Your Board believes this is the right thing to do, especially at a time when digital innovation and other initiatives are having a major impact on consumer behaviour and high expectations of service and digital access.

Our people

Of course, the products and services your Society offers would be nothing without great employees. Our people embody our culture and are ambassadors for our mutual approach. Our strong principles are expressed across Nationwide through our PRIDE behaviours: Putting members first; Rewarding membership; Inspiring trust; Doing the right thing; Excelling at service. We are proving that it is possible to operate successfully as a modern mutual by adopting a culture consistent with our status and heritage, but which is aligned with an increasingly digital world, and are delighted to have been named as the third best big company to work for by the Sunday Times and as a Times Top 50 employer for women.
Listening to member views

As the Chairman of your Society, it is very important that I am able to gain direct feedback on how Nationwide is performing, what members think could improve and how we might help them more effectively in the future.

We are constantly looking for ways to make it easier for members to talk to us through a range of media, and to listen and respond to suggestions and comments. We run a wide range of events and activities over the course of the year, full details of which can be found in the Report of the directors on corporate governance, but amongst the highlights are:

- the Annual General Meeting, at which members can have their say on the way the Society is run and hear first-hand from the directors
- Member TalkBacks, which provide an opportunity for members and directors to discuss the Society’s activities face to face. We have held a further seven TalkBack sessions during the year, taking our total to over 150
- Online TalkBacks, which provide an opportunity for members unable to attend a face to face session to interact with our directors, ask questions and make suggestions about our products and services
- our online Member Suggestion Scheme, through which we received nearly 1,000 ideas during the year
- social media and e-newsletters, which reflect the growing trend towards the use of digital channels and media to obtain and share stories
- Nationwide Connect, our online research panel of around 6,000 members, which provides feedback on a variety of topics.

All directors are engaged in listening directly to the views of members through attendance at Member TalkBack events and similar activities, and your Board receives regular reports on the views and inputs of members. We place real value on the feedback we receive and a number of enhancements to our products and services can be traced directly to ideas generated by our members.

Regulation

Effective and proportionate regulation is critical to ensuring the long term sustainability of the financial services sector, and as an exemplar organisation we are committed to operating to both the letter and spirit of regulation and legislation.

Nationwide has been a long term provider of finance to the buy to let market, and we have noted with interest recent actions and proposals of both regulators and government which are designed to control growth in the sector and ensure that it does not pose a threat to market stability. The precise impacts of the measures on the broader market will become apparent over time, and we will adjust our approach accordingly.

We were pleased to work with the Banking Standards Board as it carried out its initial assessment of the culture and standards of behaviour and competence in leading firms across the retail banking industry. Exercises such as this force organisations to take a long, hard look at how they are operating and challenge themselves as to whether they are acting in the best interests of their customers. Whilst there will always be room for improvement, we were very pleased that the final report noted Nationwide’s strong and stable culture and the consistency and stability of our stated values.

Supporting the broader society

In addition to providing financial services to members, we have a role to play in positively impacting the communities in which we operate, full details of which can be found in our Citizenship report. We aim to be recognised as one of the UK’s leading corporate citizens and over the past year we have continued to engage in a range of initiatives to add value both at a local and national level.
This encompasses a wide range of activities, including our longstanding commitment to employee volunteering, whereby all employees are provided with two paid volunteering days per annum, and the start of our plan to plant a series of woodlands to provide local amenities that can be enjoyed by the public for generations to come.

Your board of directors

The retail financial services marketplace is changing rapidly, and it is my responsibility to ensure the composition of the Board has the correct mix of skills, experiences and diverse thinking to steer the Society through the challenges ahead.

We are delighted to welcome three new independent non executive directors to the Board. Mai Fyfield and Tim Tookey joined us in June 2015. Kevin Parry was appointed to the Board on 23 May 2016 and will become Chairman of the Audit Committee upon the retirement of Roger Perkin at the conclusion of this year’s AGM. Roger has provided his fellow directors with much wise counsel and Nationwide owes him a debt of gratitude for his significant contribution over the last six years.

This year also saw the retirement of our longstanding Chief Executive, Graham Beale. Graham worked for Nationwide for over 30 years and was appointed CEO in 2007, just before the financial crisis hit. He played a critical role in ensuring that your Society not only survived the financial crisis unscathed, but also took the courageous decision to invest for the future at a time when the easier decision would have been simply to hunker down and wait for the storm to abate. He has left the business in great shape, prospering as a modern mutual, ready to take on new opportunities as the market for financial services evolves. On behalf of all at Nationwide, I would like to thank him for his immense contribution to the Society, and wish him well for the future.

Your Board spent considerable time identifying a suitable successor to Graham. We set out first and foremost to find someone who embodied Nationwide’s values and who was deeply committed to the mutual business model. In addition, we were looking for someone who had the skills and experience to lead the Society in the years to come as the market evolves and as the widespread adoption of digital technology changes the way members and customers wish to interact with the Society. I am delighted Joe Garner has been appointed as our new Chief Executive. Joe brings a breadth of experience gained from his wide-ranging career working for a number of large organisations, most particularly from his time as Head of HSBC UK. Your Board is convinced he is the right person to take Nationwide forward into new opportunities and looks forward to working closely with him. Further details on Joe and his background can be found in the Governance section of this report.

We are committed to ensuring that our Board, management and broader workforce reflects the communities in which we operate, and we value diversity across the Society. With our recent appointments, women make up 27% of our Board and 33% of our Executive Committee. But we recognise that there is still much to do, and have a strategy to focus activity on equality, diversity and inclusion, setting ourselves challenging aims in our priority areas of ethnicity, gender and disability across the whole Society.

We are in a new era in UK financial services, an era which is increasingly defined by a move to digital technology but one in which the personal touch will continue to be of critical importance. I am delighted to be your Chairman at this exciting time, and am confident that Nationwide is ideally placed to take advantage of the opportunities on offer to provide ever-better services and products to you, our members.
Long term focus drives strong performance

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

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

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

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

Our heritage is in providing support to the UK housing market, and 2015/16 was no exception. Over the year our gross mortgage advances reached £32.6 billion, while net lending amounted to £9.1 billion. These represent market shares of 13.7% and 21.4% respectively, strengthening our position as the UK’s second largest mortgage lender. As ever, we have recognised the importance of helping people take their initial steps onto the housing ladder, and over the year we provided finance for 57,200 first time buyer mortgages, one in six of all such mortgages in the UK.

We have played a major role in supporting borrowers in the buy to let market, in which we have maintained our position as the second largest lender. As the pattern of tenure in the UK continues to evolve, we believe it is right that we should offer good value, low risk loans to investors who are able to demonstrate their commitment to the rental market. We recognise that buy to let has come under regulatory and political scrutiny in recent times, including significant changes to the tax regime governing mortgage interest tax relief which come into effect from 2017. We pride ourselves on being a responsible lender, and since the year end we have taken a lead by increasing rental cover requirements to ensure loans are affordable, and by reducing the maximum loan to value for new buy to let loans.

Rewarding loyal savers

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

In our drive for transparency and ease of access, we have further simplified our savings range and made it easier for members to select the best product for their needs. The vast majority of main savings products can now be opened online as well as in branch, and members can receive email and SMS updates on the status of their savings application.

In addition, around ten million members received their annual statement as part of Nationwide’s Savings Promises, providing details of all their savings accounts, their current interest rates and the Society’s top variable rates. During the year over 760,000 members subscribed to our free SavingsWatch service, which automatically informs them whenever the interest rate on their account changes or Nationwide launches a new savings account.
We understand that low market interest rates continue to pose challenges for savers and, in response, have offered a number of products aimed at rewarding our loyal and committed members:

- **Loyalty Bond**, which offered our highest two-year fixed rate exclusively for existing members. Over 96,000 accounts were opened, with members depositing £2.7 billion during the four months the bond was available.

- **Loyalty Saver**, which pays higher rates of interest according to length of membership. Over 100,000 accounts were opened during the year, with over 1.2 million members now holding these accounts.

- **Flexclusive Regular Saver**, which offers our current account holders a rate of 5% for a year on monthly deposits of up to £500. In the first four months of the offer being available, over 185,000 members opened an account.

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

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More people choosing Nationwide for their current account

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

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Our current accounts are complemented by our high quality, good value credit card and personal loan propositions. We issued 186,000 new cards (2015: 196,000), with the attraction of new customers being impacted by the long term balance transfer products which are dominating the market. We continue to reward our main current account customers with the Select Credit Card cashback, which benefited customers to a total of over £15 million in cash reward payments, and also provides them with fee-free overseas transactions. Our strategy is to meet the unsecured borrowing needs of our existing members, and over the year we have lent £1.2 billion (2015: £0.9 billion) of personal loans.
Leading service satisfaction

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

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

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

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

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

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

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

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

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

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

Leading employer

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

Supporting the communities we serve

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

Our financial performance in the period ahead is likely to be influenced by a number of themes in line with the guidance we provided at our half year results:

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

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

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

Nationwide is a unique organisation with a proud history and an optimistic future. We have the potential to build an even stronger Society serving the needs of today’s and tomorrow’s members, by championing the right thing to do and continuing to deliver tangible service excellence and long term value. We are committed to serving members and the wider society.
**Strategic review**

**Our history and purpose**

We have been looking after the interests of our members since the 19th century. Although the world has changed radically in the intervening years, our core social purpose remains the same: to help improve the quality of life for our members, to use the power of the collective to help benefit each individual and to be innovative in how we do it.

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**Business model**

1. **Legal obligations**
   - Member owned
   - Retail mortgages ≥75%
   - Retail deposits ≥50%

2. **Consequences for our business**
   - Stakeholders’ and members’ interests aligned
   - Predominately retail funded
   - Assets primarily comprised of UK residential mortgages
   - Low risk, sustainable business
   - Focused on long term value

3. **Practical implications**
   - Focus on providing excellent services and value to our members over the long term
   - Consistent support for the mortgages and savings markets, and growth in current accounts
   - Low credit risk with strong capital and liquidity
   - Sustained investment to meet our members’ needs
Nationwide was originally founded around a simple idea, the power of the collective: by giving members a secure place to grow their savings, we were able to offer mortgages to allow people to buy their own homes.

We are now the world’s largest building society, with relationships with one in four households in the UK, and we are still owned by our members, not shareholders.

Our aim is to help our members, at every stage of their lives. We can provide a secure home for members’ savings, offer them a range of current accounts, help them to buy their first home and work with them to plan for their retirement.

Our low risk business model is focused mainly on the provision of retail financial services, almost exclusively in the UK and as a building society we are barred from any speculative trading. Reflecting our heritage and the legislation that governs our business, our balance sheet comprises primarily residential mortgages funded through retail deposits and, to a lesser extent, wholesale funding.

In our traditional products, mortgages and savings, we are the second largest provider in the UK, with over 12% of total residential mortgage balances and over 10% of total retail deposit balances.

We have recognised that as a modern mutual we need to diversify our business model by offering a range of current accounts to new and existing members, thereby enabling us to build deeper, long term member relationships. We began offering current accounts in 1987; our market share now stands at over 7% and our strategic aim is to expand this to 10%.

We also offer competitive personal loans, credit cards, general insurance, protection products and financial planning services. We undertake a limited range of other activities, including property based commercial lending and deposit-taking for small and medium sized enterprises (SMEs).

We retain only sufficient earnings to ensure the financial safety and security of our business. The remainder is reinvested into the Society to maintain our capital ratios, provide consistently good value products and deliver industry leading service for our members. For this reason we invest heavily in our culture and our people, who are committed to ensuring we deliver the best possible customer outcomes.
Our business model

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

Where the money comes from

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

<table>
<thead>
<tr>
<th>Where the money comes from</th>
<th>Funds are raised from:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customer deposits 70%</td>
</tr>
<tr>
<td></td>
<td>Wholesale funding 22%</td>
</tr>
<tr>
<td></td>
<td>Reserves 6%</td>
</tr>
<tr>
<td></td>
<td>Other 2%</td>
</tr>
</tbody>
</table>

What we use it for

Funds deposited at Nationwide are used to provide:

- Mortgages for owner occupiers
- Mortgages for buy to let investors
- Current account overdrafts
- Personal loans
- Credit cards
- Lending to the commercial property, Project Finance and social housing sectors

How we generate income

Nationwide generates income from two sources:

1. Net interest income
   The difference between the interest and fees charged for mortgages and other lending, and the interest paid on member deposits and other funding

2. Other income
   Fees and charges from the provision of financial products

What we incur costs on

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

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

What we use our profits for

Any surplus generated as profit is used to:

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

In summary, our profits are returned to, or used to benefit, our current and future members.
Our financial performance framework

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

Recent guidance from regulators has given us greater certainty of the expected maximum capital requirement for the Group. This has allowed us to develop a 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 our financial strength.

Based on current assumptions, we believe that a level of underlying Group profit of approximately £1 billion to £1.5 billion per annum over the medium term, would optimise our ability to invest and support members’ needs while maintaining financial strength.

We may see our profitability move outside the range in any one individual year, either through external factors, a conscious decision to return value or to make investment into the business. One of the benefits of being a strong, safe and secure modern mutual is that we are able to take long term decisions which are in the best interests of current and future members. Should performance move outside the range, management will consider what future actions, if any, to take in order to bring financial performance back within the range.
Our strategy

We have followed a consistent strategy for many years. As a result, we have been able to focus our business on one central aim: to deliver outstanding service and long term value to our current and future members. We expect this continued focus to result in the achievement of our vision of being the UK’s first choice financial services provider. Our strategic priorities remain in line with those set out in last year’s Annual Report and Accounts.
Our strategic priorities

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

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

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

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

**Exemplar organisation**
- Be recognised as ‘what good looks like’ by all stakeholders
- Champion our customers’ interests
- Have a culture focused on good conduct and fair customer outcomes
- Provide support for vulnerable customers
- Maintain strong relationships with our regulators
Our success measures

What we measure and why

Modern mutual

Market leading satisfaction

Delivering leading levels of customer satisfaction is a key point of differentiation to our peers. We measure this through GfK FRS Customer Service Satisfaction scores relative to our high street peer group.

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Score</td>
<td>1.8%</td>
<td>2.3%</td>
<td>4.2%</td>
<td>4.5%</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

1st + 6%

We ended the year with our lead over our nearest high street peer group competitor standing at 7.7%, compared with 4.5% at the same time last year.

Grow the membership

Growing our base of members with whom we have a main product relationship allows us to spread the benefits of mutuality to a wider proportion of the UK population.

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>6.7m</td>
<td>6.7m</td>
<td>6.9m</td>
<td>7.1m</td>
<td>7.4m</td>
</tr>
</tbody>
</table>

9 million main product relationships by 2021

Main product relationships grew by 300,000 during the year to 7.4 million, largely driven by growth in current account customers.

Grow our market shares

We aim to maintain our top two position in our heritage markets of mortgages and savings. We are aiming to grow our personal current account market share to 10%.

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage balances market share</td>
<td>10.6%</td>
<td>11.1%</td>
<td>11.7%</td>
<td>12.1%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Savings balances market share</td>
<td>11.0%</td>
<td>10.5%</td>
<td>10.6%</td>
<td>10.2%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Personal current accounts market share</td>
<td>5.1%</td>
<td>5.7%</td>
<td>6.2%</td>
<td>6.8%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

Mortgages: 13.1% market share

We ended the year as the second largest provider of mortgages and savings in the UK, with market shares of 12.6% and 10.2% respectively.

Our personal current account market share was 7.1% in February 2016. Whilst our personal current account market share has continued to grow, we recognise that intense market competition may result in us taking longer than originally anticipated to achieve our target market share of 10%.

Savings: 10.2% market share

Personal current accounts: 10% market share (main adult standard and packaged accounts)

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

**Next generation banking**

We offer a number of options to access our services, ranging from the traditional face to face transactions in branches to a mobile app. We use the number of members transacting online or via mobile to measure our performance in meeting evolving member needs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Online/Mobile Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1.7m</td>
</tr>
<tr>
<td>2013</td>
<td>1.9m</td>
</tr>
<tr>
<td>2014</td>
<td>2.1m</td>
</tr>
<tr>
<td>2015</td>
<td>2.3m</td>
</tr>
<tr>
<td>2016</td>
<td>2.6m</td>
</tr>
</tbody>
</table>

80% growth over the next five years (4.7 million by 2021)\(^3\)

\(^3\)Source: eBenchmarkers digitally active current customers

We currently have 2.6 million members transacting online or using our mobile app, in line with our annual target.

**Spontaneous brand awareness and prompted brand consideration**

A strong, iconic brand, effective both in digital and traditional media, is essential to attract new members across all life stages. We gauge our performance through a combination of spontaneous and prompted awareness of our brand amongst consumers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Spontaneous Brand Awareness</th>
<th>Prompted Brand Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>27.2%</td>
<td>2013-16, 1st for prompted brand consideration</td>
</tr>
<tr>
<td>2014</td>
<td>25.0%</td>
<td>4th</td>
</tr>
<tr>
<td>2015</td>
<td>23.1%</td>
<td>4th</td>
</tr>
<tr>
<td>2016</td>
<td>24.2%</td>
<td>4th</td>
</tr>
</tbody>
</table>

Spontaneous brand awareness: 40.0% (Top 5)\(^4\)

Prompted brand consideration: 1st\(^4\)

\(^4\)Source: Millward Brown

Our score for spontaneous brand awareness rose to 24.2%, putting us in 7th position.

We ended the year having retained the number one position for prompted brand consideration amongst customers.
Our success measures continued

What we measure and why

Great employer

Having highly engaged and enabled employees will be a key source of competitive advantage as we strive to maintain industry leading levels of customer satisfaction and to grow our business. Our performance is measured through our annual employee survey.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee engagement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HP benchmark 2016 = 73%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>69%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>68%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>77%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>79%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>80%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Employee enablement |
| HP benchmark 2016 = 71% |
| 2012 | 70% |
| 2013 | 68% |
| 2014 | 75% |
| 2015 | 75% |
| 2016 | 77% |

High performance (HP) benchmark for engagement and enablement in the financial services industry

We scored 80% and 77% for engagement and enablement respectively in the latest annual Viewpoint survey conducted by the Hay Group. Both scores were above the HP benchmark scores for the financial services industry.

Great corporate citizen

Our commitment to being a leading corporate citizen is consistent with our mutual heritage and our drive to make a difference in people’s lives. Our chosen measure is the Business in the Community (BITC) Corporate Responsibility Index.

CR INDEX 2016

5* BITC accreditation

During the year we received a 98% and 4½* BITC rating. This is below our 2015 5* rating and reflects the generally tougher criteria applied by BITC in 2016.
What we measure and why

Performance

Strategic target*

Commentary

**Strong Society**

**Financially sustainable**

Running a robust business which delivers optimal levels of profitability will provide our members with confidence and allow us to invest in services and good value products for our members.

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying profit: £1 billion to £1.5 billion per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>£279m</td>
</tr>
<tr>
<td>2013</td>
<td>£423m</td>
</tr>
<tr>
<td>2014</td>
<td>£952m</td>
</tr>
<tr>
<td>2015</td>
<td>£1,227m</td>
</tr>
<tr>
<td>2016</td>
<td>£1,337m</td>
</tr>
</tbody>
</table>

Underlying profit for the year over £1.3 billion.

**Efficient business**

We aim to run the Society’s business efficiently, managing our costs prudently and ensuring that our income is derived in a manner that supports our business and adds demonstrable value to our members.

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying profit: £1 billion to £1.5 billion per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
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<tr>
<td>2014</td>
<td>£952m</td>
</tr>
<tr>
<td>2015</td>
<td>£1,227m</td>
</tr>
<tr>
<td>2016</td>
<td>£1,337m</td>
</tr>
</tbody>
</table>

Medium term underlying cost income ratio: 55%.

Our cost income ratio ended the year at 53.9%.

**Financially robust**

Strong capital ratios are the ultimate demonstration of our core strength, providing confidence to our members that they can trust us to safeguard their finances.

<table>
<thead>
<tr>
<th>Year</th>
<th>Leverage ratio: 4.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>2.2%</td>
</tr>
<tr>
<td>2014</td>
<td>3.4%</td>
</tr>
<tr>
<td>2015</td>
<td>4.1%</td>
</tr>
<tr>
<td>2016</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

The leverage ratio 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.

Our leverage ratio ended the year at 4.2%, below our strategic target but in line with anticipated regulatory requirements.

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*Our strategic targets are reviewed annually as part of our strategic planning process and these targets have been amended.
2016 Financial review

Our 2015/16 financial performance has been strong with statutory profit before tax up 23% year on year, reflecting a 7% increase in net interest income, underpinned by our strong operating performance, and an improvement in asset quality with impairments falling 71%.

The underlying cost income ratio has deteriorated to 53.9% (2015: 51.4%) reflecting our investment in new products and services such as Nationwide Now and Apple Pay functionality, our ongoing investment in improving and strengthening our IT infrastructure, increasing sales and service capacity and our response to new regulation.

Total assets have grown by £13 billion to £209 billion at 4 April 2016. This increase is largely attributable to £9.3 billion growth in residential mortgage lending, reinforcing our position as second largest mortgage lender in the UK. The remaining growth is driven by an increase in high quality liquid assets, with the Liquidity Coverage Ratio (LCR) increasing to 142.6% (2015: 119.3%).

Our capital strength has improved during the year through retained earnings and a continued improvement in asset quality. As a result our CET1 and leverage ratios have reached 23.2% and 4.2% respectively (2015: 19.8% and 4.1% respectively), well in excess of current regulatory requirements. We also believe we are well placed to meet foreseeable regulatory capital requirements.

We anticipate that profits are likely to moderate in the period ahead as competition maintains pressure on margins and we focus on delivering value to members, including investment in service enhancements, whilst maintaining our capital strength.
Underlying and statutory results

<table>
<thead>
<tr>
<th></th>
<th>Year to 4 April 2016</th>
<th>Year to 4 April 2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>£3,086</td>
<td>£2,872</td>
</tr>
<tr>
<td>Net other income</td>
<td>£247</td>
<td>£291</td>
</tr>
<tr>
<td><strong>Total underlying income</strong></td>
<td><strong>£3,333</strong></td>
<td><strong>£3,163</strong></td>
</tr>
<tr>
<td>Underlying administrative expenses</td>
<td>(£1,796)</td>
<td>(£1,626)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(73)</td>
<td>(251)</td>
</tr>
<tr>
<td>Underlying provisions for liabilities and charges</td>
<td>(127)</td>
<td>(59)</td>
</tr>
<tr>
<td><strong>Underlying profit before tax</strong></td>
<td><strong>£1,337</strong></td>
<td><strong>£1,227</strong></td>
</tr>
<tr>
<td>Bank levy (note i)</td>
<td>(41)</td>
<td>(28)</td>
</tr>
<tr>
<td>Transformation costs (note i)</td>
<td>(10)</td>
<td>(52)</td>
</tr>
<tr>
<td>FSCS (note ii)</td>
<td>(46)</td>
<td>(83)</td>
</tr>
<tr>
<td>Gains/(losses) from derivatives and hedge accounting (note iii)</td>
<td>39</td>
<td>(20)</td>
</tr>
<tr>
<td><strong>Statutory profit before tax</strong></td>
<td><strong>£1,279</strong></td>
<td><strong>£1,044</strong></td>
</tr>
<tr>
<td>Taxation</td>
<td>(294)</td>
<td>(205)</td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td><strong>£985</strong></td>
<td><strong>£839</strong></td>
</tr>
</tbody>
</table>

*Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains/losses from derivatives and hedge accounting as described in note 1 to the financial statements.

Notes:

i. Within the statutory results presented in the financial statements, bank levy and transformation costs are included within administrative expenses.
ii. Within the statutory results presented in the financial statements, FSCS costs are included within provisions for liabilities and charges.
iii. Within the statutory results presented in the financial statements, gains/losses from derivatives and hedge accounting are presented separately within total income.

Underlying profit

Underlying profit represents management’s view of underlying performance and is presented to aid comparability across reporting periods. Underlying profit growth of 9% year on year is largely attributable to our operating performance driving higher net interest income, combined with significantly lower impairment losses. This is partially offset by a reduction in net other income and an increase in administration costs.

Statutory and underlying income

<table>
<thead>
<tr>
<th></th>
<th>Year to 4 April 2016</th>
<th>Year to 4 April 2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
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</tr>
<tr>
<td>Gains/(losses) from derivatives and hedge accounting</td>
<td>39</td>
<td>(20)</td>
</tr>
<tr>
<td><strong>Total statutory income</strong></td>
<td><strong>£3,372</strong></td>
<td><strong>£3,143</strong></td>
</tr>
<tr>
<td>Weighted average total assets</td>
<td>203,623</td>
<td>195,429</td>
</tr>
<tr>
<td><strong>Net interest margin (NIM) %</strong></td>
<td>1.52</td>
<td>1.47</td>
</tr>
</tbody>
</table>

*Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains/losses from derivatives and hedge accounting as described in note 1 to the financial statements.
Net interest income and margin

Net interest income has increased 7% to £3,086 million (2015: £2,872 million) due to a 4% growth in average assets, reflecting a 21.4% market share of net residential mortgage lending in the year, and a 5 bps improvement in NIM to 152 bps.

Interest income during the year reflects our consistent support for the housing market over recent years, providing mortgages to customers over a period when a number of our competitors constrained their lending. In the four years to 4 April 2016, the Group accounted for over one third of net lending in the market.

Savings rates have continued to fall across the industry and this reduction in retail funding costs has underpinned our margin performance. We estimate that our average margin on savings balances measured against relevant market indices (swaps or Bank base rate) was circa 50 bps over the year in comparison to circa 70 bps during the year to 4 April 2015. Notwithstanding this, our savings range has been very competitively positioned throughout the year with savings rates often better than, and sometimes significantly so, equivalent products offered by our high street peer group.

The benefit to NIM of lower retail funding costs has been partly offset by a decrease in mortgage margins. Over the last year there has been increased competition in both the prime and buy to let mortgage markets, resulting in new business gross margins falling by an average of 24 bps during 2015/16. In addition, our Base Mortgage Rate (BMR) balances continue to run off, reducing by £8 billion to £35 billion at 4 April 2016. This attrition reflects the highly competitive new business rates available across the market which have increased switching and redemption behaviours of customers, a trend which is likely to continue into 2016/17.

Whilst our average NIM has increased year on year by 5 bps, the quarterly picture for the 2015/16 financial year shows a downward trend, caused by the repricing of assets described above. Our spot margin at the end of the financial year was 10 bps lower than the rate of 152 bps reported for the year as a whole. Whilst we expect the impact to moderate, we nevertheless anticipate further margin compression throughout 2016/17 as competition is sustained and we focus on delivering long term value to members.

The macroeconomic environment could pose further risks to NIM, in particular sustained low interest rates and deterioration in the global economy, which could lead to a downturn in the UK economy, and could have an impact on the cost of wholesale funding.

Net other income

Net other income has reduced by 15% to £247 million (2015: £291 million). We have chosen to improve our current account and credit card propositions during the period by removing unauthorised overdraft fees and removing fees on our credit card associated with spending above authorised credit limits. Interchange income associated with current account and credit card transactions has also reduced following the introduction of regulatory caps. As a result, despite increasing the number of active current accounts and credit cards, fee income has reduced on these products. Reduction in our general insurance income is largely due to lower profit share following a higher level of claims due to adverse weather conditions.

Gains/losses from derivatives and hedge accounting

Although the Group only uses derivatives to hedge risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the Group’s hedging strategy. Details of fair value gains and losses relating to derivatives and hedge accounting are provided in note 6 of the financial statements.
Total underlying administrative expenses have increased by £170 million to £1,796 million, driven by continued investment in the business. At a statutory level administrative expenses have increased by £141 million to £1,847 million.

Employee costs have increased by £65 million to £736 million reflecting the impact of annual pay awards averaging 3.0% and 2.5% in each of the last two years and higher costs resulting from enhancements to the Nationwide Group Personal Pension Plan. In addition, employee numbers have increased by 3% year on year as the Group continues to build greater capacity to support our members’ needs and strengthen risk and control functions.

Other administrative expenses have increased by £74 million to £735 million, driven by increased brand development costs and revenue costs associated with our ongoing commitment to a targeted programme of strategic investment. During the year, this investment has included enhancements in our digital capability, including Nationwide Now, Apple Pay functionality and PayM, IT resilience and investment in core product platforms to meet additional business volumes, and ensuring compliance with UK and European Union regulatory requirements. Depreciation charges have risen by £31 million to £325 million as a consequence of strategic investment in the business.

Transformation costs are significantly lower than the prior year as a result of the successful completion of the integration of the Dunfermline, Cheshire and Derbyshire brands which have resulted in ongoing savings of £20 million per annum. Activities relating to changes in the Group’s IT service delivery model have also completed which has enabled the Group to deliver increased investment in the business at a lower cost through the utilisation of strategic partner capabilities.

The cost income ratio, on an underlying basis, has deteriorated to 53.9% (2015: 51.4%) as a result of the growth in administrative expenses described above, which reflects our focus on improving product propositions and services for members whilst remaining strong, safe and secure.

---

**Administrative expenses**

<table>
<thead>
<tr>
<th>Administrative expenses</th>
<th>Year to 4 April 2016</th>
<th>Year to 4 April 2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee costs</strong></td>
<td>£736</td>
<td>£671</td>
</tr>
<tr>
<td><strong>Other administrative expenses</strong></td>
<td>£735</td>
<td>£661</td>
</tr>
<tr>
<td><strong>Depreciation and amortisation</strong></td>
<td>£325</td>
<td>£294</td>
</tr>
<tr>
<td><strong>Total underlying administrative expenses</strong></td>
<td>£1,796</td>
<td>£1,626</td>
</tr>
<tr>
<td><strong>Bank levy</strong></td>
<td>£41</td>
<td>£28</td>
</tr>
<tr>
<td><strong>Transformation costs</strong></td>
<td>£10</td>
<td>£52</td>
</tr>
<tr>
<td><strong>Total statutory administrative expenses</strong></td>
<td>£1,847</td>
<td>£1,706</td>
</tr>
<tr>
<td><strong>Cost income ratio – underlying basis</strong>*</td>
<td>53.9%</td>
<td>51.4%</td>
</tr>
<tr>
<td><strong>Cost income ratio – statutory basis</strong></td>
<td>54.8%</td>
<td>54.3%</td>
</tr>
</tbody>
</table>

---

*Comparatives have been restated for the reclassification of foreign currency retranslation amounts from net interest income to gains/losses from derivatives and hedge accounting as described in note 1 to the financial statements."
Impairments

<table>
<thead>
<tr>
<th>Impairments</th>
<th>Year to 4 April 2016</th>
<th>Year to 4 April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential lending</td>
<td>£18</td>
<td>£58</td>
</tr>
<tr>
<td>Consumer banking</td>
<td>£96</td>
<td>£89</td>
</tr>
<tr>
<td>Retail lending</td>
<td>£114</td>
<td>£147</td>
</tr>
<tr>
<td>Commercial lending</td>
<td>(£34)</td>
<td>£52</td>
</tr>
<tr>
<td>Other lending</td>
<td>£1</td>
<td>£34</td>
</tr>
<tr>
<td>Impairment losses on loans and advances</td>
<td>£81</td>
<td>£233</td>
</tr>
<tr>
<td>Impairment (reversals)/losses on investment securities</td>
<td>(£8)</td>
<td>£18</td>
</tr>
<tr>
<td>Total</td>
<td>£73</td>
<td>£251</td>
</tr>
</tbody>
</table>

Impairment losses for the year of £73 million are 71% lower than in the year ended 4 April 2015 primarily as a result of an improvement in asset quality and divestment of our commercial lending portfolio.

Residential lending impairment charges of £18 million (2015: £58 million) comprise a reduction in provision requirement of £9 million as a result of moderate house price growth combined with the continued reduction in our mortgage arrears to 0.45% (2015: 0.49%). This has been more than offset by increased provisions of £27 million due to refinements in our credit risk impairment assumptions to take account of the impacts of a prolonged period of low interest rates and the risks attaching to interest only mortgages.

Consumer banking impairments have increased by 8% to £96 million (2015: £89 million). Of this charge, £29 million reflects a reassessment of assumptions embedded within provisioning models across each of the consumer banking products to ensure that they remain appropriate in a low interest rate environment. Excluding these model changes, the underlying consumer banking impairment charge has reduced by 25%, predominantly a result of improving economic conditions combined with improved credit underwriting for personal loans.

Commercial lending impairments relate exclusively to commercial real estate (CRE) lending, with no arrears in our registered social landlords and Project Finance portfolios. The continued improvement in market conditions for CRE, as asset values improve and liquidity strengthens, has driven a high level of provision reversals and recoveries.

Provisions for liabilities and charges

<table>
<thead>
<tr>
<th>Provisions for liabilities and charges</th>
<th>Year to 4 April 2016</th>
<th>Year to 4 April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying provisions for liabilities and charges – customer redress</td>
<td>£127</td>
<td>£59</td>
</tr>
<tr>
<td>FSCS levy</td>
<td>£46</td>
<td>£83</td>
</tr>
<tr>
<td>Total provisions for liabilities and charges</td>
<td>£173</td>
<td>£142</td>
</tr>
</tbody>
</table>

Customer redress

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 £127 million charge in the period predominantly relates to updated estimates for provisions previously recognised, with £95 million of the increase relating to Payment Protection Insurance (PPI). Of the total charge a significant proportion relates to the cost of administering claims.

When assessing the adequacy of our PPI provision we have considered the implications of the proposals published by the Financial Conduct Authority (FCA) in its November 2015 consultation, including the expected impact of the Plevin case. The remainder of the charge for the year is in respect of claims relating to consumer credit legislation.

Financial Services Compensation Scheme (FSCS)

The FSCS charge has reduced by 45% to £46 million, reflecting the Group’s expected share of interest costs in relation to the 2016/17 FSCS scheme year and final confirmation of previous scheme year charges.
During the year, the FSCS have confirmed that the non-Bradford & Bingley loan was fully repaid and any excess dividends received from the wind-up of these failed institutions will be used to pay the outstanding balance of the Dunfermline capital. As a result no capital costs have been included in the charge. More information on FSCS is included in note 28.

Taxation
The statutory tax charge for the year of £294 million (2015: £205 million) represents an effective tax rate of 23% (2015: 19.6%) which is higher than the statutory rate in the UK of 20% (2015: 21%). The higher effective rate is due principally to the banking surcharge of 8% effective from 1 January 2016, equivalent to £22 million (2015: £nil), together with the tax effect of disallowable bank levy and customer redress costs of £8 million and £7 million (2015: £6 million and £nil) respectively. Further information is provided in note 10.

Balance sheet
Total assets have increased 7% year on year to reach £209 billion at 4 April 2016 (2015: £196 billion). This growth largely reflects increases in residential mortgage lending which grew by over £9 billion as a result of the strong operating performance. This is combined with an increase in high quality on balance sheet liquid assets of £4 billion. In line with our mutual model, strong retail funding flows have largely supported the strategic growth in retail assets as we continue to introduce attractive savings products to both new and existing members. Member balances have grown by £6 billion, of which £2 billion is attributable to our award winning current account proposition as we continue to demonstrate our position as a modern mutual, improving our market share of main current accounts from 6.8% to 7.1%.

<table>
<thead>
<tr>
<th>Assets</th>
<th>4 April 2016</th>
<th>4 April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential mortgages</td>
<td>162,164</td>
<td>152,885</td>
</tr>
<tr>
<td>Commercial lending</td>
<td>13,197</td>
<td>14,594</td>
</tr>
<tr>
<td>Consumer banking</td>
<td>3,869</td>
<td>3,791</td>
</tr>
<tr>
<td>Other lending</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>Impairment provisions</td>
<td>(443)</td>
<td>(652)</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>178,807</td>
<td>170,647</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>27,782</td>
<td>22,721</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>2,350</td>
<td>2,212</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>208,939</strong></td>
<td><strong>195,580</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset quality</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential mortgages:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of residential mortgage accounts 3 months+ in arrears</td>
<td>0.45</td>
<td>0.49</td>
</tr>
<tr>
<td>Average indexed loan to value of residential mortgage book (by value)</td>
<td>55</td>
<td>56</td>
</tr>
<tr>
<td>Impairment provisions as a % of non-performing balances</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>Commercial real estate (CRE) lending:</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Gross balances</td>
<td>3,009</td>
<td>4,043</td>
</tr>
<tr>
<td>Impaired balances</td>
<td>171</td>
<td>608</td>
</tr>
<tr>
<td>Individual provisions as a % of impaired balances</td>
<td>32%</td>
<td>51%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other key ratios</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan to deposit ratio (note i)</td>
<td>117.2</td>
<td>115.6</td>
</tr>
<tr>
<td>Return on assets</td>
<td>0.47</td>
<td>0.43</td>
</tr>
<tr>
<td>Liquidity coverage ratio</td>
<td>142.6</td>
<td>119.3</td>
</tr>
</tbody>
</table>

Note:

i. The loan to deposit ratio represents loans and advances to customers divided by (shares + other deposits + amounts due to customers).
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 was £32.6 billion (2015: £27.1 billion), representing an increased market share of 13.7% (2015: 13.4%).

Net of repayment and redemptions, mortgage balances grew by £9.3 billion, of which £5.4 billion was prime lending and £3.9 billion related to specialist lending. The loan to value (LTV) profile of new lending, weighted by value, remained at 69% (2015: 69%). Annual house price growth over the financial year was 5.3%, contributing to the reduction in the average LTV of the total portfolio which fell to 55% (2015: 56%). Our residential mortgage arrears have reduced to 0.45% (2015: 0.49%) and continue to be significantly lower than the Council of Mortgage Lenders industry average which stood at 1.04% at 31 March 2016. The performance of our residential portfolios continues to be underpinned by the sustained low interest rate environment and is also now benefiting from broader market conditions, including low levels of unemployment and a return to growth in household incomes.

The level of impaired balances fell by £117 million to £778 million (2015: £895 million) reflecting lower arrears. Impairment provisions have fallen by £8 million to £102 million (2015: £110 million) reflecting strong underlying asset performance, in part offset by refinements in provision modelling assumptions to take account of the impacts of a prolonged period of low interest rates and the risks attaching to interest only mortgages.

Commercial lending

Commercial lending includes commercial real estate (CRE) loans of £3.0 billion (2015: £4.0 billion), a reduction of 25% during the year achieved through deleveraging and repayment. Commercial lending balances also include loans to housing associations of £7.6 billion (2015: £7.8 billion) and a portfolio of loans made under the Government’s Project Finance initiative amounting to £1.2 billion (2015: £1.4 billion). The balance sheet total for commercial lending also includes £1.4 billion (2015: £1.4 billion) of fair value adjustments relating to loans where we have hedged associated financial risks, typically interest rate risk, using derivatives which are carried at fair value on the balance sheet.

We have undertaken minimal amounts of new lending during the year, with activity being concentrated on ongoing management of the existing portfolio and with focus on the managed work out of weak CRE exposures. During the year, we have deleveraged over £1.0 billion of non-core CRE loans and we have reduced other CRE exposures by a further £1.0 billion through repayment and managed workout of individual exposures.

The level of impaired balances as a proportion of our total CRE exposure has fallen from 15% to 6%, reflecting deleveraging and resolution of impaired asset positions. Individual provision coverage against impaired balances has fallen from 51% to 32% reflecting the work out of our higher risk cases.
**Consumer banking**

There has been particularly intense competition in the consumer banking environment in recent months; however the Group has maintained broadly stable balances reflecting our attractive pricing propositions and loyalty offers.

Consumer banking comprises personal loans of £1.9 billion (2015: £1.8 billion), credit cards of £1.7 billion (2015: £1.7 billion) and current account overdrafts of £0.2 billion (2015: £0.2 billion). Asset quality remains high as we see the benefit of improved credit policies contributing to the Group’s low risk, high quality asset balance sheet.

Further details of our lending and lending risks are provided in the ‘Lending risk’ section of the Business and Risk Report.

**Other financial assets**

Other financial assets total £27.8 billion (2015: £22.7 billion) and comprise liquidity and investment assets held by our Treasury Division amounting to £23.1 billion (2015: £18.8 billion), derivatives with positive fair values of £3.9 billion (2015: £3.3 billion) and fair value adjustments and other assets of £0.8 billion (2015: £0.6 billion). Derivatives largely comprise interest rate and other derivatives with positive fair values, taken out to hedge financial risks inherent in our core lending and funding activities.

The increase in liquidity and investment assets reflects both the transition to Liquidity Coverage Ratio (LCR) requirements and an element of pre-funding of wholesale and Bank of England Funding for Lending Scheme (FLS) maturities to de-risk our funding plans ahead of the EU referendum in June 2016. For all these reasons we have taken opportunities to increase both the quality and duration of wholesale funding on our balance sheet over the last year with a consequent increase in liquidity. This has increased the LCR to 142.6% (2015: 119.3%).

Further details of our treasury portfolios are included in the ‘Treasury assets’ section of the Business and Risk Report.

### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>4 April 2016</th>
<th>4 April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member deposits</td>
<td>138,715</td>
<td>132,373</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>36,085</td>
<td>28,105</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>21,637</td>
<td>23,767</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,572</td>
<td>1,594</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>198,009</td>
<td>185,839</td>
</tr>
<tr>
<td>Members’ interests and equity</td>
<td>10,930</td>
<td>9,741</td>
</tr>
<tr>
<td><strong>Total members’ interests, equity and liabilities</strong></td>
<td>208,939</td>
<td>195,580</td>
</tr>
</tbody>
</table>

**Key ratio %**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale funding ratio (note i)</td>
<td>24.8</td>
<td>23.3</td>
</tr>
</tbody>
</table>

**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 the Group’s balance sheet, reflecting the substance of the arrangement. Off balance sheet FLS drawings totalling £8.5 billion are unchanged from the prior year.

**Member deposits**

Member deposits have increased by £6.3 billion to £138.7 billion (2015: £132.4 billion) as we continue to offer competitive savings and current account propositions which provide long term good value and seek to support members in the current low base rate environment. The Group has continued to attract inflows from both new and existing members through the introduction of successful products such as our Help to Buy ISA and our range of loyalty regular saver products. We estimate our share of the balance growth in the UK deposit market for the year to be 8.7% (2015: 3.4%). Of this balance growth, £2.2 billion relates to inflows into our current account products as we have increased our market share of main standard and packaged accounts from 6.8% to 7.1%, with in-credit balances on those accounts amounting to £14.8 billion (2015: £12.6 billion).
Debt securities in issue

Debt securities in issue of £36.1 billion (2015: £28.1 billion) are used to raise funding in wholesale markets in order to finance core activities. The increase in outstanding amounts reflects increased issuance activity in the wholesale markets during the year to support increased liquidity.

The wholesale funding ratio has increased to 24.8% (2015: 23.3%), as a result of the wholesale issuance activity.

Further details on the Group’s wholesale funding mix and liquidity holdings are included in the ‘Liquidity and funding risk’ section of the Business and Risk Report.

Other financial liabilities

Other financial liabilities include customer and bank deposits of £15.9 billion (2015: £17.2 billion), permanent interest bearing shares (PIBS) of £0.4 billion (2015: £0.4 billion), subordinated debt of £1.8 billion (2015: £2.1 billion) and derivatives and fair value adjustments of £3.5 billion (2015: £4.0 billion). Derivatives and fair value adjustments largely comprise interest rate and other derivatives with negative fair values, taken out to hedge financial risks inherent in our core lending and funding activities.

Capital structure

<table>
<thead>
<tr>
<th>Capital resources (note i)</th>
<th>4 April 2016</th>
<th>4 April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 (CET1) capital</td>
<td>8,013</td>
<td>7,279</td>
</tr>
<tr>
<td>Total Tier 1 capital</td>
<td>9,005</td>
<td>8,271</td>
</tr>
<tr>
<td>Total regulatory capital</td>
<td>10,654</td>
<td>9,950</td>
</tr>
<tr>
<td>Risk weighted assets (RWAs)</td>
<td>34,475</td>
<td>36,804</td>
</tr>
<tr>
<td>Leverage exposure</td>
<td>213,181</td>
<td>200,665</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CRD IV capital ratios</th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>CET1 ratio</td>
<td>23.2</td>
<td>19.8</td>
</tr>
<tr>
<td>Leverage ratio (note ii)</td>
<td>4.2</td>
<td>4.1</td>
</tr>
</tbody>
</table>

Notes:

i. Data in the table is reported under CRD IV on an end point basis.

ii. The 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.

CET1 capital resources have increased over the period by approximately £0.7 billion mainly as a result of a strong operating performance with £985 million of profit after tax for the period.

Risk weighted assets (RWAs) reduced over the period by approximately £2.3 billion due to reduced commercial RWAs, lower retail unsecured RWAs (resulting from model development) 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 23.2% (2015: 19.8%). The leverage ratio has increased to 4.2% (2015: 4.1%) as growth in Tier 1 capital has outstripped the balance sheet growth, which has been driven by increases in residential mortgage and liquidity balances.

The Group continues 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 better visibility of expectations for future capital requirements. The Group will remain engaged in the development of the regulatory approach to ensure we are prepared for any change.

We expect to have a steady state leverage ratio requirement of 3.75% from 2019, which comprises a minimum requirement of 3%, a supplementary leverage ratio buffer of 0.35% and countercyclical leverage ratio buffer of 0.4%. The Financial Policy Committee could set a countercyclical leverage buffer up to 0.9%, but has so far set the buffer at 0.2%, which is expected to apply from March 2017. The Group’s strategic leverage ratio target of 4.5% reflects its desire to maintain strong levels of capital relative to maximum regulatory expectations (4.25%).

Further details of the capital position are included in the ‘Solvency risk’ section of the Business and Risk Report.
Taxation

The Group has adopted the Code of Practice on Taxation for Banks and has established appropriate processes and oversight to ensure it meets its obligations under the Code. As a result the Group manages its tax obligations to ensure full compliance with all statutory requirements and does not structure transactions to give a result which is contrary to the intentions of Parliament. This includes working with HMRC in real-time to agree the tax treatment of transactions where the law is uncertain. Tax planning is undertaken where it supports genuine commercial activity in order to maximise member value. The Group maintains an open and transparent relationship with HMRC and has been granted a low risk status. An in-house team of tax specialists is responsible for managing the Group’s tax affairs in accordance with an Audit Committee endorsed tax policy. This provides a framework for the operation, planning and oversight of tax and tax risk to ensure the Group complies with all relevant tax legislation and minimises reputational risk. Regular updates are provided to the Audit Committee on tax matters.

The Group maintains a branch presence in the Isle of Man and Republic of Ireland as part of normal business operations.

Total tax contribution

A measure of the contribution the Group makes to our wider society is through the amount of taxes it pays on its activities. During the year ended 4 April 2016 the Group paid £542 million (2015: £427 million) in taxes. This includes irrecoverable VAT, bank levy, employment and property taxes in addition to corporation tax and the banking surcharge. A further £342 million (2015: £358 million) was collected and remitted on behalf of customers and employees. An analysis of the taxes paid and collected by the Group is detailed below.

From 6 April 2016 tax will no longer be withheld from savings interest on customer accounts following new legislation proposed in Finance Bill 2016.
Risk overview

Effective risk management is at the heart of the business, supporting the delivery of the Group’s strategy by ensuring the business continues to be safe and sustainable and ultimately by protecting members’ interests.

The Group adopts an enterprise-wide risk management framework to ensure that it manages risks 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. More detail on the risk management framework and three lines of defence model is given in the Business and Risk Report.

The principal risks facing the Group are set out below. Fuller definitions are provided in the Business and Risk Report.

- **Lending risk**: The risk that a borrower or counterparty fails to pay interest or repay the principal on a loan.
- **Financial risk**: The risk of inadequate earnings, cash flow or capital.
- **Operational risk**: The risk of loss from inadequate or failed internal operations or external events.
- **Conduct and compliance risk**: The risk that customers experience unfair outcomes or that the Group fails to comply with regulatory requirements.
- **Strategic risk**: The risk of significant loss from longer term business decisions 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 Group’s goals, and establishes a framework for decision making. Performance is reviewed regularly against this statement to ensure that the business operates within risk appetite.

In addition, the Group manages each of these principal risks through adopting policies and practices as set out below:

<table>
<thead>
<tr>
<th>To manage</th>
<th>Policies and practices are in place to ensure that</th>
</tr>
</thead>
</table>
| **Lending risk**                 | - the Group lends responsibly, only taking risks that are well understood  
                                  | - the Group builds prudent loan portfolios, primarily focused on residential mortgages, without creating undue risk concentrations and controls exposure to higher risk portfolios  
                                  | - the Group only participates in non-member business where it has existing capabilities and earns a premium return on capital or provides valuable services to members.                                                                                     |
| **Financial risk**               | - the Group maintains a strong balance sheet with prudent levels of liquidity and diverse sources of funding  
                                  | - the Group maintains a strong capital base above regulatory requirements  
                                  | - the Group can withstand a severe stress event without any significant disruption to products and services.                                                                                                                                   |
| **Operational risk**             | - the Group operates its business to ensure a minimum level of serious disruption to customers, brand and reputation with systems and services designed to achieve defined levels of availability and performance.                                                        |
| **Conduct and compliance risk**  | - the Group never knowingly creates unfair outcomes for customers  
                                  | - the Group’s products, services and distribution channels are designed, monitored and managed to provide value over time, accessibility, and meet the needs and experience expectations of our customers  
                                  | - the Group has a strong, focused conduct culture, where conduct risk is embedded in governance frameworks, to ensure adequate consideration, identification, management and mitigation of conduct risks  
                                  | - the Group puts customers at the heart of everything it does, and this is reflected in its conduct outcomes.                                                                                                                                   |
| **Strategic risk**               | - the Group is committed to a mutual business model, and ensures this model remains sustainable within legal and regulatory requirements  
                                  | - the Group focuses strategic decisions on achieving the best long term outcome for its members.                                                                                                                                              |
Top and emerging risks

Whilst the Group accepts that all of its business activities involve risk, it seeks to protect its members by managing risks that arise from its activities appropriately. Against this background, during the last year the Group’s financial strength has continued to grow and lending performance has further improved, with low arrears reflecting high quality underwriting and the current economic environment. Risk management activity has focused on strengthening business resilience and managing conduct and regulatory challenges. As a result the Group’s top and emerging risks remain largely unchanged and fall within four themes: macroeconomic, cyber attack and business resilience, the changing face of financial services, and conduct and compliance risk challenges. More details of these are given in the Business and Risk Report and are summarised below.

Macroeconomic
The Group’s financial position remains strong, with increasing profitability and robust capital and liquidity positions. However, uncertainty both globally and in the UK presents two main areas that could affect the Group. If UK bank base rates remain at their current low levels for a protracted period this could constrain the Group’s margin. In addition, although not expected, a move to zero or negative rates may result in changing customer attitudes to savings which could challenge the Group’s business model. Global factors or the referendum on UK membership of the EU could temporarily affect access to and pricing of wholesale funding or reduce confidence and activity in property markets.

Cyber attack and business resilience
Cyber security threats are increasing and this, coupled with the pace of technological development, creates risk across the financial services industry. Recent high profile cyber attacks serve to illustrate the increasing sophistication in this area and also prompt greater member and regulator concerns about security. In addition, customer tolerance for service disruption continues to reduce within the financial services industry. The potential for cyber attacks across the industry increases as the business becomes increasingly digital, and greater reliance is placed on integrated industry-wide systems.

Changing face of financial services
The Group will continue to develop new and existing technology to deliver a market-leading proposition. However, there are a number of challenges from new and changing competition, in particular: ring-fencing of retail operations may lead traditional banking competitors to refocus their activity in the Group’s core markets, whilst challenger banks and FinTech firms may impact product pricing and customer propositions. New technology and new models, such as peer-to-peer lending or robo-advice, may mean that customer behaviours and attitudes deviate significantly from expectations.

Conduct and compliance challenges
The Group’s culture places conduct and compliance as central to its values and behaviours. The Group’s risk governance and control framework drives a strong customer-focused conduct culture at each stage of a customer’s interaction from product design, through sales and post-sales servicing. However, the scale and quantity of changing regulation affecting the industry continues apace, with the consequential risk that industry developments proceed ahead of regulatory change. In addition, customers increasingly expect to be able to access products and services at a time, and through a medium, of their choosing. It is critical that the Group’s products and services remain resilient to meet customer expectations and are designed to meet the changing needs of an ageing population.

Further details on risk management and top and emerging risks can be found in the Business and Risk Report, together with full principal risk definitions.
Our people

Our people are central to providing exceptional service to our members. We believe that being a great employer and employing first class people offers us a genuine competitive advantage. We are proud to have been ranked as the third best big company to work for by the Sunday Times and a top 50 employer for women by The Times.
Our annual employee survey indicates that our people feel more engaged and enabled than ever. Our results are well above the norm not only for financial services providers, but for high performing (HP) companies in general. Over the past year our employee engagement score increased by 1% to 80% (HP Norm: 73%) and our enablement score increased by 2% to 77% (HP Norm: 71%). In addition, over 93% of our employees are proud to work for us and 88% agreed we demonstrate care and concern for our employees.

These levels of employee engagement and enablement are achieved by developing an outstanding member-focused culture, which is underpinned by our PRIDE values:

**P** putting members first

**R** rewarding membership

**I** inspiring trust

**D** doing the right thing

**E** excelling at service

**Performance, reward and recognition**

Our reward principles enable Nationwide to deliver our Corporate Plan and provide high standards of service to our customers. We ensure that they are aligned to our members’ interests, are competitive within the market, enable our people to have choice and flexibility, and are reflective of our mutual ethos.
Leadership and development
Our business results pay testimony to a leadership team that has delivered high levels of customer satisfaction, a strong financial performance and best-in-class employee engagement levels in our sector.

The development of our people is essential to the future performance of our business. We are identifying the capabilities our people need to serve our customers in a digital age and training them accordingly. We are also developing tools to enable our people to drive their own careers. We continue to identify and develop talented employees to build our leadership for the future.

During the year, we have tripled our intake of entry talent (graduates, apprentices and industrial placements). We will continue to offer entry talent schemes to ensure we have a source of future leaders prepared to manage a digital Society.

We value pathways for progression and therefore we are significantly increasing our apprenticeship programme this year. This will supply structured career opportunities to our entry level talent and will benefit from the apprenticeship levy. This levy will be on UK employers which will facilitate an additional three million apprenticeships in England by 2020.

We believe that apprenticeships are an attractive alternative to university, and are therefore developing new apprenticeship courses that will provide clear learning opportunities. As a Society we want individuals to get the best possible start in their career and are actively engaging with our community to communicate the benefits of apprenticeships, as well as breaking down gender and age misconceptions commonly associated with being an apprentice.

Culture and diversity
We value people from all backgrounds, ensuring an inclusive approach that celebrates diversity. Having a workforce that is representative of the UK’s rapidly changing communities means, quite simply, we’re better able to serve our customers and provide the excellent service they expect and deserve. This also helps us strengthen our inclusive culture, developing and retaining a secure supply of skilled, committed employees. We aim to achieve this through our Equality, Diversity and Inclusion agenda which is based around four themes:
- Inclusive leadership
- Diverse workforce
- Access and inclusion
- Workplace flexibility.

The Nomination Committee in 2015 set a target range of 8-15% of the entire director population (divisional directors and above) to be BAME (Black, Asian and Minority Ethnic) by 2020. Currently 2.6% of the Group’s director population is BAME.

Our diversity agenda spans across the themes of Gender, Ethnicity (‘BAME’) and Disability. In addition, to deliver the breadth of skills we need now and for a digital future and to build a workforce that is representative of all our customers, further work will consider other areas, including age, sexual orientation, faith/belief and carers.

Female representation
The charts below show the number and proportion of Society employees, senior managers and directors of each sex as at 4 April 2016. A senior manager is an employee who has responsibility for planning, directing or controlling the activities of the Society, or a strategically significant part thereof.
Future focus

As we move into an increasingly digital world the requirements of our leaders will change. To ensure that we continue to meet our members’ needs we will continue to develop our future leadership capability.

We will focus on our diversity agenda to ensure our people continue to feel confident in working and developing in a diverse workforce, and can respond appropriately to an increasingly diverse customer base.

Further detail on our talent development, diversity and gender balance initiatives and targets may be found in the Nomination and Governance Committee report within the Report of the directors on corporate governance.
Citizenship report

The ‘Living on your side’ citizenship strategy is built on feedback received from the Society’s members, doing what is right for the communities in which they live. The strategy focuses on four key areas that are at the heart of the business: 
\textbf{Your Home, Your Money, Your Community} and \textbf{Your Society}.

The ‘Living on your side’ strategy is also about how the Society stays true to its mutual values and how it runs its business in a responsible and ethical way. The following pages tell you how the Society has performed in all four areas.

- **Your Home**: 210,000 people helped into a home of their own this year.
- **Your Money**: 293,000 people helped to start saving this year.
- **Your Community**: £4.98 million channelled into local communities this year.
- **Your Society**: As a mutual, we will stay true to our values and run our business in a responsible and ethical way.

Your Environment | Your Workplace | Your Ethical Business
This year, ‘Living on your side’ has made strong progress against the targets which were set in 2012. Members and employees have worked side by side to make a real difference to local communities, including:

- taking the sector lead in supporting vulnerable customers, military families and young people
- working with Shelter to exceed a target of helping 16,000 people into a home of their own
- in conjunction with Macmillan Cancer Support, launching the Specialist Support Service for customers living with cancer
- partnering with the Woodland Trust as part of the Society’s woodland creation programme
- employees volunteering almost 90,000 hours of their time
- raising more than £150,000 for Macmillan Cancer Support and breaking the record for the world’s largest cream tea party.

Independent recognition
The citizenship agenda is a core part of how the Society operates as a business, staying true to its mutual values and helping it remain truly ‘on your side’. This was recognised when the Society scored 98% in the BITC Corporate Responsibility Index and received re-accreditation of BITC’s CommunityMark.

Help shape the next citizenship strategy
As the Society enters the fifth and final year of its ‘Living on your side’ strategy, it is ready to start creating a new five year plan for how it will continue to make a difference as a leading responsible business. Input from members will be crucial in this process – the Society wants members’ views on what it should be doing to support local communities and what can be achieved by investing up to 1% of profits to support good causes. For more information, visit your.nationwide.co.uk/your-society/

Governance
While ‘Living on your side’ is the collective citizenship strategy of the Society, overall accountability for it rests with the senior management team and the board of directors.

Graham Beale Chief Executive*
- Occupational health and safety • Human Rights

Alison Robb Group Director
- Employee engagement • Citizenship

Chris Rhodes Executive Director, Group Retail
- Members/customers

Tony Prestedge Chief Operating Officer
- Supply chain • Environment

*Graham Beale led this until his intention to retire in April 2016. A replacement will be appointed shortly.
Citizenship report

Your Home

210,000 people helped into a home of their own against a target of 174,000.

732,000 helped since 2012 against a target of 750,000 by 2017.

We all need a place to call home

Nationwide has been working with the housing and homeless charity Shelter for 15 years to help people into a home of their own. This year, the Society has continued to provide funding to support the following Shelter services:

- **Birmingham Family Support Service** which works with families who are at risk of losing their home.
- **Sheffield Education Training Learning Project** which gives people the opportunity to access education and training courses which help to support them back into work, enabling them to improve their home or find a more suitable place.
- **Shelter’s helpline** which is a free national helpline, open all year round, to help anyone struggling with issues related to housing or homelessness.

Supporting military families into a home

Since becoming signatories to the Armed Forces Covenant in 2014, the Society has taken a co-ordinated approach to supporting the military community. As well as supporting the Government’s ‘Forces Help to Buy’ scheme, military personnel can let their property from day one of their mortgage at no additional charge if they are posted elsewhere in the UK or abroad. The Society also held ‘Big Brew Ups’ in aid of SSAFA, the Armed Forces charity (formerly known as the Soldiers, Sailors, Airmen & Families Association), to fundraise for the UK’s oldest national tri-service charity.

Supporting older people at home

Nationwide continues to work in partnership with Elderly Accommodation Counsel (EAC) to help older people remain independent in their own home. The Society funds their ‘Live Safely and Well at Home’ campaign, along with their national FirstStop telephone advice service. This gives older people information regarding future housing options, including remaining at home or living in a supported home, such as sheltered accommodation. The Society has also introduced an employee ‘Call in Time’ volunteering befriending scheme, developed in partnership with Age UK. With the aim of reducing loneliness and isolation, employees make weekly calls to older people, totalling over 340 hours in 2015/16.
In 2015/16 Nationwide donated **£2.5 million** to the Nationwide Foundation to support its Decent Affordable Homes strategy.

Supporting Elderly Accommodation Counsel’s Live Safely and Well at Home campaign

Funded by Nationwide, the ‘Live Safely and Well at Home’ campaign focuses on how to prevent trips, falls and hazards in the home and so avoid unplanned hospitalisation and moves into care.

This advice and support can often enable older people to remain safe and comfortable at home rather than move into residential care. This may include working with agencies such as ‘Care and Repair’ that will assess a home and install adaptations such as ramps and grab rails.
Citizenship report

Your Money

293,000 people helped to start saving this year against a target of 248,000.

925,000 helped since 2012 against a target of 1 million by 2017.

Encouraging people to save
Nationwide is committed to encouraging people to save. Initiatives this year included:

- Regular Saver and Regular Saver ISA accounts have been introduced and designed specifically to encourage new saving.
- In December 2015, Help to Buy ISA was launched to support people saving for their first home. This provides up to £3,000 Government cash back.
- The new FlexBasic current account was created for people that do not have a credit score or who may have faced financial difficulties in the past. This was further supported by the launch of the Your Money website, a no-nonsense guide to money, budgeting and credit ratings.

Talking Numbers
Talking Numbers is Nationwide’s education programme to improve the everyday number skills of more than 200,000 young people by 2017. The Society works closely with teachers and partner organisations to improve numeracy skills. This year’s highlights included:

- funding ten secondary school maths teachers through Teach First
- working with the Personal Finance Education Group (known as pfeg) to develop a bespoke programme, Money-Matics, which trains primary school teachers to teach financial literacy
- the delivery of Rock Club with the Transformation Trust, which is all about making maths fun by running workshops across the country whereby young people use their maths skills to plan a rock concert
- development of a Nationwide branch in RADAR (Northern Ireland’s first fully interactive safety and life skills centre) and running a series of financial skills modules (MoneyLIVE) for students to participate in at similar centres that Nationwide supports.

Nationwide Education
NationwideEducation.co.uk is a website providing free, independent online resources for children, parents and teachers covering numeracy and financial capability as well as careers, sustainability and road and home safety. This year, three new supermarket games have been added for Key Stages 1 and 2. For Key Stages 3 and 4, the ‘Saving the Day’ game has been launched where six characters face every day financial conundrums.
Strategic Report

29,300 parents, teachers and young people regularly visited NationwideEducation.co.uk over the past year.

18,700 young people benefited from MoneyLIVE workshops

Number Crunchers

helped 12 schools and 300 school children

Number Crunchers is Nationwide’s volunteering programme that supports children in primary schools to help them improve number skills. It involves visiting a local school for short sessions to help those children who need a little extra support.

Jeremy Beach, a Nationwide employee, comments: “I love volunteering as a Number Cruncher as I’m helping the children directly and, of course, supporting the local community.”

helped 925,000 to start saving since 2012
Citizenship report

Your Community

£4.98 million channelled into local communities this year against a target of £5 million.

£16 million since 2012 against a target of £15 million by 2017.

Working side by side with members
Together with members, the Society supports causes that are close to people’s hearts. This has been achieved through:

• The Nationwide Big Local where once a month customers vote online for one of three shortlisted charities to win £5,000.
• Community Match which asks customers quarterly to vote for one of three local causes in branch to win a £500 donation.
• Side by Side volunteering where members and employees volunteer for a number of projects such as CPR training and tree planting.

Skills volunteering
Nationwide employees are passionate about supporting the communities in which they live and work, with 76% getting involved in fundraising, volunteering or payroll giving. More and more employees are choosing to share their business and professional skills with charities that benefit from expertise they may otherwise not be able to access or afford. The Great Western Air Ambulance Charity, for example, has a target to recruit 60 new volunteers. A team of employee volunteers spent time with the charity to develop a new volunteer recruitment strategy. The relationship has continued as the employees are now fundraising for the charity and continuing to support them with other activities.

Macmillan – a record breaking year
The Society’s 23 year relationship with Macmillan Cancer Support was taken to a new level this year. Both organisations have worked together to develop and launch a ground-breaking Specialist Support Service for Nationwide customers affected by cancer. Members and employees also celebrated Macmillan’s World’s Biggest Coffee Morning, raising more than £150,000 for the charity. A highlight of the year was breaking the record for holding the world’s largest cream tea party in Swindon, with the support of one of the Society’s suppliers, Baxter Storey.
The value of employees volunteering their time was £1.5 million (all employees are given up to 14 hours to volunteer during company time each year).

£1.7 million raised for charity by members and employees

Nationwide employees involved in citizenship

76%

Specialist Support Service
With the mutual goal to help customers manage their finances and reduce the stress of money worries, the Society has worked with Macmillan Cancer Support to develop a first-of-its-kind Specialist Support Service for customers affected by cancer. In its 2013 report, ‘Cancer’s Hidden Price Tag’, Macmillan found that as a direct result of being diagnosed with cancer, four out of five people are on average £570 worse off each month, comparable to a monthly mortgage payment. Its 2014 report ‘Counting on Your Support’ also showed that 98% of people chose not to contact their bank or building society for fear of not getting any help or worse, that their diagnosis will have a negative impact on their financial situation. 800 Nationwide customers have been supported since the Service was set up and it is now being extended to other life limiting and life threatening conditions.

Are you affected by cancer?

1.2 million votes received for Big Local and Community Match
1,900 hours volunteered through Side by Side

£1.7 million raised for charity by members and employees

Nationwide employees involved in citizenship

76%
Citizenship report

Your Society

Your Environment
Despite growing as a Society and creating the need for new buildings and more data management facilities, the Society continues to reduce its energy consumption and carbon emissions. The Society does, however, face new challenges as it continues to grow, for example water usage has increased slightly across the organisation. Over the last 12 months, the Society has reduced energy use by 1% and its carbon footprint by 3%.

New targets have been created for 2020:

- **Reduce water consumption by 5%**
- **Carbon footprint not to exceed the 2014/15 level of 52,000 tonnes CO₂**
- **Reduce waste by 100 tonnes and increase recycled waste to 80%**

Your Workplace
A new ‘Equality, Diversity and Inclusion’ strategy was introduced this year covering four themes: inclusive leadership, diverse workforce, access and inclusion and workplace flexibility. It sets clear goals for the next five years, including specific workforce targets for women and Black, Asian and Minority Ethnic (BAME) employees at executive and senior manager levels and for disabled employees across the Society.

More than 50 apprentices, on a mixture of intermediate, advanced and higher schemes, are now working for the Society and are a critical element of its people strategy. All apprentices are paid the Living Wage and have permanent contracts. The advanced and higher apprentices are also able to study to A-Level and degree level.

The Society continues to monitor its performance through a variety of equality, diversity and inclusion benchmarks. This year, it was ranked within the top 20% of participating organisations in the BITC Age and Wellbeing benchmarks, which reflects the Society’s more holistic approach to the diversity agenda.

Your Ethical Policies
After becoming the first high street financial services provider to become a Principal Partner of the Living Wage Foundation, from 1 April 2016 everyone employed by Nationwide, including all contractors, will be paid a Living Wage. To encourage other organisations to take the Society’s lead, Alison Robb, Group Director, has joined the Living Wage Commission.
Creating Nationwide woodlands

As part of the Society’s programme to reduce its environmental impact, it pledged to plant a tree for every current and future employee and a tree for members who opted to go paperless at the 2015 AGM; this equates to a total of 60,000 trees. By planting trees, the Society will offset its impact on the environment and provide long lasting community benefit for generations to come.

In March 2016, a third tree planting event took place at a woodlands site, Ravens Retreat, in Wiltshire with the Wiltshire Wildlife Trust. Employees, their families and local members came together to work side by side to plant more of the trees the Society has committed to planting in UK woodlands.

8,500 trees have been planted so far out of 60,000 pledged

Our carbon footprint has reduced by 3%

To help Nationwide create woodlands in other parts of the UK, the Society has partnered with the Woodland Trust. One aspect of the partnership is to help local communities manage their own woodlands by offering start up grants and training. By providing resources and funding this can help people who are passionate about their local woods take an active role in the care and management of them.
The Nationwide Foundation

The Nationwide Foundation is an independent registered charity which funds charitable work across the UK to create decent affordable homes for people in need.

The Nationwide Foundation’s Decent Affordable Homes strategy focuses on:

- Bringing empty properties back into use as homes for people in need.
- Improving the living conditions of vulnerable tenants in the private rented sector.
- Funding alternative housing models to provide more affordable homes.
Empty properties become homes for people in need
In 2015/16 the Nationwide Foundation’s funding helped bring empty properties back into use to create safe and secure homes for people in housing need.

People in need
The former empty properties are now homes for people who had been homeless, were at risk of homelessness or were living in poor housing. Those helped include vulnerable young people and low income families who were trapped in overcrowded damp homes. Without the help of the organisations funded by the Nationwide Foundation, none of these people could have accessed decent, affordable housing.

Support towards employment
The community-led organisations that the Nationwide Foundation funds deliver greater benefits than simply creating a home. These organisations support local people to develop work skills; giving them opportunities to gain work experience, training or apprenticeships, as well as helping them to find paid employment.

New empty properties funding programme
In autumn 2015, the Nationwide Foundation continued its commitment to creating affordable homes from empty properties by launching a £1 million grants programme to bring more properties back into use, aiming to provide homes for 80 people in housing need.

Alternative housing models
The Nationwide Foundation is committed to developing alternative models for the creation of genuinely affordable housing. It is a firm supporter of community-led housing, putting communities at the heart of housing development. Community-led housing includes community land trusts, cooperative housing, self and custom-build and cohousing.
To grow these housing models, the Nationwide Foundation provided grants to a range of projects in 2015/16 including:
• the launch of an alliance to represent organisations with a passion for community-led housing, supporting the delivery of more homes
• support for early-stage community-led housing projects located in deprived urban areas in the UK facing homelessness and affordability issues
• research projects exploring what needs to change to enable local communities to provide more of the homes they need using alternative housing models and how giving communities more power over local housing developments can help to get more homes built
• the launch of an online toolkit intended to help local councils take forward initiatives to boost the number of affordable self and custom-build homes.

Living Wage Friendly Funder
The Nationwide Foundation has joined the Living Wage Foundation’s scheme for charity funders ensuring that where its grants are supporting employment that these workers are paid fairly with a UK Living Wage. The UK Living Wage reflects the real cost of living and is a simple way of tackling poverty and disadvantage.

Find out more at www.nationwidefoundation.org.uk

Nationwide makes an annual donation to the Nationwide Foundation, which for 2015/16 was £2.5 million

Helped to create decent, affordable homes for 1,000 people since 2012

The Nationwide Foundation is a registered charity (no.1065552) and a company limited by guarantee registered in England and Wales (no.3451979).