2018 highlights
Building society, nationwide

We are the world’s largest building society. We thrive when our members thrive, and this has been another strong year for us. Together we can achieve more.

Building thriving membership
More members are doing more with us

- Record current accounts opened: 816,000 (2017: 795,000)
- Record gross prime mortgage lending: £29.4 billion (2017: £29.1 billion)
- Member financial benefit: £560 million (2017: £505 million)
- Record membership: 15.5 million members (of which 8.1 million engaged members) (2017: 15.1 million/7.8 million)
- Record first time buyers: 76,000 (2017: 75,000)

Built to last
A stable and secure Society that uses its members’ money wisely

- 4.9% UK leverage ratio (2017: 4.4%)
- 0% cost growth while growing membership (£1,979 million underlying costs; 2017: 10% /£1,979 million)
- £1,022 million underlying profit (2017: £1,030 million)
- £977 million statutory profit (2017: £1,054 million)
Building legendary service
Our members expect the best service

1st Customer satisfaction
With a lead of 4.6% ahead of our high street peer group1
2017: 1st with lead of 6.7%

Specialist Support Service
4,500 members needing extra support helped, returning around £1.4 million in fees

44% More current account members using our 24/7 mobile services
Now 2 million members in total.
2017: 41% growth and 1.4 million members

Building PRIDE
Happy employees look after our members

297 Carillion employees taken on within 7 days of its collapse

110 teams voluntarily engaged in efficiency projects

74% Employee engagement
3% below global high performing benchmark, and 9% above financial services sector norm
2017: 78%

Building a national treasure
Our social purpose is at the heart of what we do

UK’s most trusted financial brand6
with a lead of 3.8%.
2017: 1st with 1.3% lead7

66% of employees get involved with fundraising, volunteering or payroll giving
2017: 75%

Community involvement

Started a 5 year programme to invest
£20 million in member directed community grants

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1 More information on member financial benefit is included on page 27 of the Financial review.
3 Engaged members are defined as those who hold a mortgage or savings account with us (with a balance greater than £5,000) or who hold their main personal current account with us.
4 Further information on underlying profit is on page 26 and the financial performance framework on page 32 of the Financial review.
5 © GfK 2018, Financial Research Survey (FRS), 12 months ending 31 March 2018 and 12 months ending 31 March 2017, proportion of extremely/very satisfied customers minus proportion of extremely/very dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB). Prior to April 2017, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank inc C&G (Lloyds TSB prior to April 2015), NatWest and Santander).
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Outside of work, their three children are into everything sporty, from gymnastics to football. All in all, Becky and Simon are kept busy. And when they’re not ferrying their offspring around, they’re out and about keeping in touch with family, or ‘relaxing’ on a country walk.

They both rely on Nationwide for their banking and have their joint account and credit cards with us.

“We originally chose Nationwide when we were younger - in a time before kids.”

“AT that time, FlexAccount offered free cash withdrawals abroad and we wanted to travel around the world, so that was a great deal for us. These days we’re just as attached to Nationwide because it’s a building society. They feel like an organisation you can trust. That’s so important when you’re busy because, with their values, you can rely on them to treat you right, even when you’re not paying complete attention.”
Our mutual difference is our business model

For over 130 years, we have been driven by the belief that ordinary people can achieve extraordinary things when they work together, and by our purpose of building society, nationwide, helping people save to buy their own home.

This focus on building society remains as important to us today as when we were founded – our social purpose is an intrinsic part of why we exist, rather than an add-on. We’re proud that we still use the power of the collective to help individual members and their families to achieve their financial goals, whether that’s:

- Helping them into a home of their own - we remain the UK’s second largest mortgage provider.
- Saving for the future – we look after around £1 in every £10 saved in the UK.
- Looking after their day-to-day banking needs – we’ve opened 16% of all new current accounts in the UK this financial year.

Our mutuality defines us, our values and how we go about our business. From treating our members and their money with respect to returning the maximum financial benefit we can sensibly afford, from treating our employees well to paying our taxes, from contributing to society by championing the needs of our members to our community funding programme, we are different and that counts.

Coffee and convenience: making our members in Didcot feel at home in one of our new look branches.
Our mutual difference is our business model continued
Dear fellow member

Appearances can be deceptive. To some observers, Nationwide might look like a bank. We certainly offer products and services that look the same, but are quite different in practice. We start from a very different place, one that has profound implications. What truly defines us is that, as a mutual, we are owned by our members.

A different philosophy

Unlike most company reports, I don’t want to begin by talking about annual profits, as whilst this might make sense for a shareholder-owned business, it is not the best starting point for Nationwide. Our purpose is different; in the last two years we have refreshed our strategy – which we describe as ‘building society, nationwide’. This means we are tasked with delivering value to current and future members and we focus on what really matters to our members: delivering outstanding service, great value products and strong support for local communities, all underpinned by the financial strength befitting an important financial institution such as ours.

Our Chief Executive, Joe Garner, details our performance over the last year in his review for members that follows. As you will see, the Society made demonstrable progress against our objectives.

“We focus on what really matters to our members”

In particular, the fact that we have the most trusted brand in financial services is telling. So too that we have the best customer satisfaction against our high street peer group. Also that we returned £560 million of member financial benefit in the year by offering better rates, fees and incentives than the average across our competitors – please see page 27 for more on all this. This unrelenting focus on what really matters to members resulted in strong growth.

We helped around 1 in every 5 first time buyers onto the housing ladder. We provide a safe home for £1 in every £10 saved in the UK. We opened more current accounts than any other brand. Overall membership grew to a new high. And our financial performance continued to be strong in very competitive markets. Whilst this overall performance was pleasing, we can always improve, and I can assure members that your Board remains focused on ensuring the Society delivers outstanding service and value to every member, all the time.

Difference in practice

A critical element of the Nationwide approach is to start by doing the right thing for our people. Because it’s part of Nationwide’s DNA, and because we see an inseparable relationship between treating our people well and our people treating members well.

One of the most important questions we ask at Board and right across the Society is, ‘Is this right for our members?’ Only then do we see whether it has business potential.

I believe the service my colleagues deliver is better, not because our processes and systems are better, but because our people act differently. This ethos goes right through the branch network, right through the contact centres, through all our operations. Please do not think I am complacent; every day we strive to learn from our mistakes and do better. But, in an industry where trust in major providers is at very low levels, I believe Nationwide stands apart for service and care. Two practical examples come to mind.

When construction giant Carillion collapsed, we immediately secured the jobs of almost 300 contractors by stepping in to take them on. It was the right thing to do to secure the services members rely on, and for the people involved – and a demonstration that our philosophy of care extends to our supplier and other relationships.

‘A critical element of the Nationwide approach is to start by doing the right thing for our people’

We also had a case recently where an elderly member was about to make a large money transfer. One of our employees noticed she was unusually anxious, approached her and discovered that she was being set up for a fraud. Our colleague managed to dissuade her, let her daughter know and alerted the police. These are sensitive issues; after all, members can choose what they do with their money. Sadly, we are seeing more of this type of attempted fraud and, while I can’t say that others would not have done the same, I can say our colleague did the right thing and we’re proud of her.

Our philosophy extends to our approach to reward, where again we are different. We aim to pay fair market rates to the people who serve our members. In our pension scheme, we make one of the highest pension contributions of our peer group.

Chairman’s letter

David Roberts


2 ID: GfK 2018, Financial Research Survey (FRS), 12 months ending 31 March 2018, 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 >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB).

We do this because we think it’s important for our people to invest for their future. It’s also an important part of encouraging people to stay with Nationwide. It is clear that what brings people to work at Nationwide is more than money and, for our most senior executives, we aim for total financial reward to be lower than most of our key competitors. We also don’t reward anyone for maximising profit. We believe fundamentally in teams not individuals, so variable pay for everyone employed by the Society is based on the achievement of our goals, such as the growth of our membership and improvements in our service quality.

The other important matter on pay relates to gender pay, a subject that has received a lot of publicity in the last few months. There are two key tests here. First, equal pay measures pay between men and women carrying out the same or similar roles. We carry out regular audits to make sure our pay policies are operating free from gender bias and we are encouraged by our record on equal pay.

The second test is the gender pay gap, namely the difference between the average pay of men and women across the whole organisation. Our Gender Pay Report published in March shows that, along with many organisations, we have a distributional issue to address, with more men than women in senior roles, and more women than men in junior ones. We have started to address this at Board level, where we now have more female independent directors than male – on which, a warm welcome to Gunn Waersted, our newest director. We can and will do more to make sure more women and Black, Asian and Minority Ethnic (BAME) employees get into senior roles.

You can read more about our work here in the Nomination and Governance Committee report on page 77.

Membership with a difference

We are also on a journey to give our members more say on the big decisions facing the Society, see page 51 for more on this. It’s why we invited members to join our Board strategy day last October. We have also put local members in control of £20 million of our social investment for the next five years. And we listen. One example amongst many at last year’s AGM, members spoke out about interest rates being reduced on Loyalty Saver since the base rate reduction in August 2016. We can’t entirely defy market forces, but we responded by being one of the few providers to pass on in full last November’s base rate rise to these accounts. In March this year we launched a 1.40% Loyalty Single Access ISA, which attracted £8.5 billion in deposits.

Our philosophy of membership also underpins why we delivered over half a billion pounds in value back to members in the last 12 months. That’s a clear difference between us and our competitors.

Our difference also extends to seeking to make a real contribution to the UK housing market. Providers of finance have an important role in ensuring that there is an appropriate supply of credit, and that we make sure people are only taking on appropriate levels of commitment that won’t get them into trouble later.

We delivered over half a billion pounds in value back to members in the last 12 months

In particular, we focus on first time buyers, because they are the members of the future. We are also using our financial and convening power to regenerate and develop homes on some land in our own backyard in Swindon. We do this because we see the need locally and because we aspire to help create solutions nationally.

Taking a different path

In many ways, Nationwide’s is a traditional model. The challenge is to keep what is great, and to evolve to meet the new and emerging needs of our members, particularly in mobile and digital banking. We do this with innovative products like the lifetime mortgage that we introduced to help older members access the wealth tied up in their homes. If we are successful in our bid for funding from the RBS competition fund, we will also launch a mutual alternative to business banking for the UK’s millions of small business owners. There’s more in our Chief Executive’s review about that.

Branches may seem unfashionable to some, but not to Nationwide. We may live in an increasingly digital, ‘always on’ world, but our members tell us they continue to value human contact and community service. When we look at our network, our mindset is how do we keep open branches that communities want, and modernise them to match how members want to interact, not how much can we save if we close them. That doesn’t mean we will never close a branch, but it does mean we will try hard to make them viable. We’re not called Nationwide for nothing.

To conclude, my intention here is not to show that the Society is perfect, far from it. We are human and we will err. Rather, it is to show that behind the mortgage, ISA or current account, there is something truly different. And a team of people who are different. I believe this difference resonates strongly in Britain today, because, as Joe’s review will show, we are winning record numbers of new members and maintaining our leading satisfaction scores over our high street peer group.

Thank you, our members: together we are stronger.

And on behalf of our members, thank you to Nationwide’s people: you make the difference.

David Roberts
Chairman
Dear fellow member

Our mutuality is what makes Nationwide fundamentally different from most other businesses. As we are owned by you, our members, our purpose is to build society, nationwide, helping you to finance your goals and to contribute to making society a better place to live. Our primary purpose is a social – not commercial – one.

More and more people are experiencing the value of mutuality. This year our membership reached an all-time high of 15.5 million. And ‘engaged’ members – those who hold a main current account, or a balance of at least £5,000 in savings or a mortgage with us – hit a record of 8.1 million.

Our approach is deliberately simple. It involves three areas of greatest focus – the quality of our service, the value we deliver, and our financial strength.

We start from the premise that, as we manage members’ life savings and are a systemically important business for the UK economy, our financial strength and stability is critically important. Strong finances and a low risk profile are what we aim for. I’m therefore pleased to report that we finished the year financially stronger than ever, with all-time high capital levels and strong profits.

‘This year our membership reached an all-time high of 15.5 million’

We improved our CET1 ratio, a measure of our financial strength, to 30.5% (2017: 25.4%). And we enhanced our UK leverage ratio, a measure of our ability to cope with unforeseen shocks, to 4.9% (2017: 4.4%). The ratio measures how much capital we have as a proportion of our assets, principally lending. Meanwhile, we achieved underlying profits of over £1 billion, in line with our financial performance framework, while investing in significant growth and higher business volumes.

We also had a record year for gross prime mortgage lending, although overall net lending fell, in line with our lower appetite for buy to let lending, along with increased prime mortgage redemptions as we managed margins in the long-term interests of the Society. We also held our own in a savings market where people are saving less. These are considerable achievements given that competitive pressures have intensified in all our core markets, and margins are being squeezed.

Turning to service, Nationwide is the UK’s most trusted financial institution and has a longstanding reputation for customer care. This year we led our high street peer group for the sixth year in a row for customer satisfaction, ending the year with a lead of 4.6% over our nearest competitor. Satisfaction with our main current account was higher still at more than 10 percentage points ahead of our nearest high street peer group competitor. Plus, we attracted a record number of new current accounts, and continue to perform well on switching. In fact, it was the best year in our history for current account openings.

Having demonstrated that we can really make a difference for personal current account customers, we would like to do the same for UK businesses. It’s a market still dominated by five big banks, and where less than 5% of businesses switch their accounts. So we have decided to apply for money from the RBS funds set aside by the government to improve business banking competition. If successful, we will launch a straightforward business current account targeted at the UK’s smallest businesses, which employ one in three people in the UK. Everyday banking for everyday businesses.

‘Nationwide is the UK’s most trusted financial institution’

In addition to service we want to deliver real value for our loyal members, which we aim to do in a number of ways. Not least by providing great products and services. As we don’t have to reward shareholders, we can invest more in better pricing – on interest rates, fees and incentives – that will benefit members. We call this member financial benefit and it added up to £560 million last year (2017: £505 million). Much of this went to savings members who have suffered years of historically low interest rates. We also launched a range of ‘just for members’ products, providing members with access to our competitive rates and outstanding service in meeting their financial needs. Over 100,000 of our members earned ‘Recommend a Friend’ rewards by encouraging family and friends to move their main current account to us.
Chief Executive’s review continued

Nationwide could not thrive like this without the support of the 18,000 colleagues who serve members on a daily basis and I’d like to thank our people publicly for their enormous contribution to our success. We believe that we have grown a unique culture at Nationwide. One which is underpinned by what we describe as an ‘ethic of care’ which translates into high engagement scores for our people, and outstanding care for our members. Feedback from the Banking Standards Board and our own surveys indicate that our people believe in our mission, and work with great passion day in, day out for the good of the membership and our Society. You can read more on page 19.

A more detailed review of this year’s performance follows, organised around our strategy of ‘building society, nationwide’ and the five cornerstones that underpin it:

**Building thriving membership**

is about helping our members achieve important goals in their lives, whether that’s owning a home, saving for the future, or just helping them managing their everyday finances. The more members we serve and the deeper the relationship, the bigger our contribution can be.

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**Built to last**

is about keeping our members’ money safe, by being financially secure, profitable and sustainable for the long-term.

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**Building legendary service**

describes our determination to provide the outstanding service our members value and expect. Technology is changing people’s expectations of service. In particular, people expect to be able to use both traditional and digital channels seamlessly. This means we need to innovate as customers’ habits change so we deliver in the way they want, but we remain committed to a very human service.

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**Building PRIDE**

among colleagues and nurturing our mutual values helps our people look after our members even better. Which is why we want them to have one of the best workplaces in Britain.

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**Building a national treasure**

is about being recognised for the contribution that we make to the wider society, and using our success to make a difference on issues that are important to members. Naturally, this one will not be for us to judge.

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We measure our performance against each cornerstone and I’m pleased to report we’re making good progress against the vast majority of our targets, as you’ll see in this report. We’re also simplifying our measures – our key performance indicators – to focus on what we believe matters most to members (see page 12).

So we’re operating from a platform of strength and success. Outstanding in our service. Growth in our membership. And strength in our finances. This gives us confidence that we can continue to support our members in these changing times.

Looking ahead we expect the rate of technology innovation to accelerate sharply. We live in an ‘always on’ world where the availability of internet and mobile banking has become an essential service that members rely on. It will also become an increasingly important part of who consumers trust with their information. This will only be magnified by the advent of Open Banking and all financial providers will have room to improve.

We are therefore developing plans to ensure Nationwide is fit for the future and able to take advantage of the opportunities that change presents. This will include providing capacity for the significant business volumes our strong growth trajectory generates, and increasing the speed of innovation across the Society. At the same time, we will look to further reinforce our resilience against the backdrop of increasing dependence on technology platforms, and growing cyber threats. We will refine our operational and technology strategy and the investment this is likely to require accordingly, and provide an update on these plans later in the year.

Thank you for your loyalty and support for the continued success of Nationwide Building Society.

Joe Garner
Chief Executive Officer
Measuring our difference – aligning our targets with our purpose

In last year’s Annual Report and Accounts we introduced our refreshed strategy, and our purpose of ‘building society, nationwide’, underpinned by five cornerstones that define what we stand for, what we do and how we do it. Our report card on each of these can be found on pages 13-23.

Lots of organisations have a catalogue of targets or ‘key performance indicators’, as do most banks. Nationwide is not like most organisations, and we’re not a bank. We are a mutual with the aim of helping members to finance their goals. That means we don’t have shareholders asking us to pursue ever higher profits. Instead we aim to make sufficient profits to run a safe and sustainable business and invest in services for members, within the parameters of our established financial performance framework and Board Risk Appetite (see page 32 and page 102). We will continue to do this while also shining a light on a much more focused set of mutual measures. Ones that truly underscore what we believe matters most to our members and to our Society. Ones rooted in the critical importance that trust continues to play in financial services. And ones that will make it easier or members to judge how we are doing against our stated purpose.

That’s three things – outstanding service, value for members and society, and financial strength.
The following three measures will therefore be the focus of our reporting for the coming financial year (2018/19) and until 2022.

### Outstanding service

Our customers deserve the highest levels of service – among the UK’s best

Service matters to us because it matters to our members. We want our members to experience service that is genuinely heartfelt, easy, lifelong and personal. We measure ourselves against our high street competition using the long-established Financial Research Survey (FRS), where we want to be the best in sector, with daylight between us and our nearest competitor.

To stretch ourselves further, going forward we will also measure ourselves against the UK’s very best organisations. This will be assessed through the Customer Service Institute’s UK Satisfaction Index (UKCSI), where we aim to be in the top 5.

**Targets**

- **FRS**: 1st with a lead of more than 4% over our nearest high street competitor
- **UKCSI**: UK top 5

### Value for members and society

Creating mutual value by doing more with and for our members and their communities

We aim to help members achieve important goals in their lives. The more members we have, and the more we do for them, the bigger our contribution. That’s why we measure the number of ‘engaged members’ – those holding their current account, savings or mortgage with us. As we want to deepen relationships with existing members, we will also measure ‘committed members’ – those with an engaged membership product plus another product.

We share our success with members through better pricing than the market average. This ‘member financial benefit’ added up to £560 million last year. The amount varies each year, depending on our trading environment and investment priorities.

Our social purpose motivates us to contribute to local communities. We’re proud to have committed 1% of our pre-tax profits to charities since 2007 and are concentrating on helping people across the UK find a place fit to call home.

**Targets**

- At least £400 million in member financial benefit next year
- **Engaged members**: 10 million by 2022
- **Committed members**: 4 million by 2022
- **Community investment**: 1% of pre-tax profits, as voted by members

### Financial strength

Ensuring a safe and sustainable business for current and future members

First and foremost, members deserve to know their money is safe and secure. As a mutual, we approach profitability differently to most organisations. We don’t have shareholders to pay and our members own us. So profit is not an objective in itself, rather a means of how Nationwide stays strong and invests in employees and infrastructure.

We are built to last so our financial performance framework is designed to keep our capital at prudent levels and greater than regulations require. We will measure our success using the leverage ratio, which assesses the Society’s ability to meet its financial obligations and withstand unforeseen events. It’s a universally recognised indicator of long-term safety and sustainability.

**Target**

- **UK leverage ratio**: Greater than 4.5%
Building thriving membership

Helping you achieve your goals

Because we help our members achieve important goals in their lives, the more members we serve the bigger our contribution can be – whether that’s owning a home, saving for the future, or just helping them manage their everyday finances.

Growing membership makes us stronger and we measure progress by the number of engaged members we have – members who have their main personal current account with us, or a mortgage or savings account with a balance greater than £5,000.4

Key performance indicators

As a mutual Society, owned by our members, Nationwide thrives when our members thrive. In the last year we have thrived together, delivering consistently strong trading results in our core product markets.

Member financial benefit over £500 million

We calculate the additional financial benefit of membership – this takes the form of better rates, fees and incentives than the market average that we can offer members because we do not have to reward shareholders. Our member financial benefit for the year totalled £560 million (2017: £505 million)5.

A place to call home

We continued to be true to our founding aim of helping members into homes of their own. Altogether, we had a record year for gross prime lending, at £29.4 billion (2017: £29.1 billion). Total net lending for the year was £5.8 billion (2017: £8.8 billion) in line with our decision to reduce our buy to let lending through The Mortgage Works, along with increased prime mortgage redemptions, as we managed margins in the long-term interests of the Society in a fiercely competitive market.

We helped a record 76,000 first time buyers (2017: 75,000) and almost 400,000 (2017: 326,000) homeowners in all. We’re delighted that in the last five years we’ve helped over 250,000 first time buyers onto the housing ladder, and we remain committed to helping them with access to competitive mortgage products and incentives like cashback.

Meanwhile, we are helping one in seven potential homeowners holding a Help to Buy ISA with us to save for their first home.

We also listened to member feedback and, after carefully considering affordability criteria, we increased our maximum loan for a 95% LTV mortgage from £250,000 to £350,000.

We aim to adapt to the changing needs of our members, expanding our mortgage proposition in November 2017 to become the only major high street lender to offer a lifetime mortgage. We believe we should support members in later life looking to access the capital tied up in their property, and have had over 3,800 enquiries to date. We’ve been careful to design a product that is good value and includes all checks and balances to ensure members fully understand how it works. We also intend to launch a retirement interest only mortgage, giving members another choice in how they manage their lifestyle in later life.

As we had signalled, we significantly reduced our buy to let lending through The Mortgage Works. This was a result of our decision to reduce risk and tighten our lending criteria.

4 From 2018/19 this changes to balances of greater than £1,000 for savings members.
5 Further information on member financial benefit is included on page 27 of the Financial review.
Chief Executive’s review continued

ahead of regulatory changes, combined with a reduction in the market size since the introduction of a stamp duty surcharge in 2016. Looking after our members is about more than just providing products and services. We’re determined to champion the interests of our members to ensure they are treated fairly. So, when it became clear that some potential borrowers on new leasehold homes were facing onerous, potentially unfair terms and rapidly escalating ground rents, we took a stand against this by refusing to lend in such circumstances. We also very much support continued Government action to challenge bad practice around leasehold homes and high ground rents.

Homes are not always owned of course. Our members include tenants and landlords as well as homebuyers, so we also wanted to contribute to better standards for renters. To do this, we have put together a cross-industry partnership to help landlords deliver high quality properties to rent.

Supporting savers

The market has been extremely difficult for savers for a number of years. Notwithstanding the rate rise in November, interest rates remain at historic lows and people are saving less. We have consistently attempted to protect depositors and encourage a saving habit by offering rates on average more than 50% higher than the market average; and by offering a range of loyalty accounts.

We launched a range of loyalty bonds and fixed rate ISAs for members with at least one year’s membership; we doubled the maximum balance allowed in our Loyalty Saver account to £100,000; and in March we launched a Loyalty Single Access ISA paying 1.40%, which attracted £8.5 billion in deposits by the end of April 2018.

This commitment to rewarding loyalty helped us grow our overall savings members to 11.6 million. In a highly competitive market our deposit balances grew by £3.5 billion in the year, primarily driven by higher current account balances and the success of our Single Access ISAs. And overall, Nationwide continues to provide a safe home for £1 in every £10 saved in Britain.

In sickness and in health: Vaniya and Neena have been married 45 years now and Nationwide members for nearly half that time. Retired doctor, Vaniya, says: ‘We stick with Nationwide as they continue to deliver better rates and recognise their members’ loyalty’

Vaniya and Neena, members since 1998.

First choice for everyday finances

We want to be members’ first choice for their finances, and our unique combination of outstanding service and good value has helped record growth of current account members for the fourth year running.

In fact, we opened a record 816,000 accounts in all (2017: 795,000), more than any other brand1, taking our current account base to 7.3 million (2017: 6.8 million). Our share of main standard and packaged accounts grew to 7.9% (2017: 7.6%), a new high, with our share of all accounts increasing to 9.4% (2017: 8.9%).

Improvements to our student proposition, where we offer the only completely fee-free student account on the market, saw us double the number of accounts opened to 21,000. We continued to enhance our current accounts by focusing on the features members value most. We extended the travel and mobile phone insurance on our FlexPlus account and reduced fees for transactions and unauthorised overdrafts on our FlexAccount. We also introduced text alerts for unauthorised overdrafts to help members manage their finances.

During the year, we shifted the focus of our unsecured lending and protection products to be available ‘just for members’. This reduced the number of credit cards we issued, in line with our expectations, to 160,000 (2017: 206,000). However, overall balances were 3.9% higher at £1.8 billion. We also made our personal loans a ‘just for members’ product, and grew the outstanding balances for personal loans by £74 million to £2.0 billion. Meanwhile, we are making good progress with the transition of our existing home insurance policies to RSA and have successfully launched our new home insurance product, also in response to member feedback.

Meeting the needs of small businesses

Around a million of our members run their own business, and we’ve been asked many times if we can provide a mutual business account as an alternative to the big five banks, but the costs of market entry have been prohibitive in the past. In March, thanks to the availability of the Alternative Remedies Fund, financed by RBS to boost competition in banking, we announced we would apply for up to £50 million of funding to launch a business current account. If our bid is successful, we will launch an account targeted at small and micro-businesses, providing a mutual business alternative to the big five banks, who between them hold 83% of business accounts.

1 Market interest rates are based on Bank of England whole of market average interest rates over the period, adjusted to exclude Nationwide’s balances.


Just for members

We want our members to feel part of something special.

Part of something that looks after members and puts their interests first. Of a movement that does the right thing in the right way. Of a Society that gives back to our society more broadly.

• Rewarding members with ‘just for members’ products
• ‘Recommend a Friend’ to earn rewards – around 100,000 members benefited last year
• Take pride in the 1% of pre-tax profits we give to charity
• Help shape our Society at Member TalkBacks, through Member Connect, at our AGM
• Our specialist support service is here for you when you need it most.
Built to last

A safe and secure home for your money

We aim to be here for the long term. To look after our members’ money, help finance their futures, and to make a real contribution to society. So we have put in place a financial performance framework to ensure we are ‘built to last’.

We have a low-risk business model, with prudent levels of capital underpinning our financial strength and ensuring we are safe and secure. Profit is the means to an end for Nationwide, not an end in itself. As we do not have to pay dividends to shareholders, instead of seeking ever higher profits we seek to use our profitability to balance financial strength, investment in our Society and future growth.

Key performance indicators

<table>
<thead>
<tr>
<th>Measure</th>
<th>Performance</th>
<th>Target:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying profit (£m)</td>
<td>Underlying profit for the year of £1,022 million is in line with the financial performance framework</td>
<td>Underlying profit consistent with the financial performance framework</td>
</tr>
<tr>
<td>Statutory profit (£m)</td>
<td>Our UK leverage ratio ended the year at 4.9%</td>
<td>Greater than 4.5%</td>
</tr>
</tbody>
</table>

**Statutory profit (£m)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Statutory profit (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>677</td>
</tr>
<tr>
<td>2015</td>
<td>1,044</td>
</tr>
<tr>
<td>2016</td>
<td>1,279</td>
</tr>
<tr>
<td>2017</td>
<td>1,054</td>
</tr>
<tr>
<td>2018</td>
<td>977</td>
</tr>
</tbody>
</table>

**UK leverage ratio**

<table>
<thead>
<tr>
<th>Year</th>
<th>UK leverage ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3.4%*</td>
</tr>
<tr>
<td>2015</td>
<td>4.1%*</td>
</tr>
<tr>
<td>2016</td>
<td>4.4%</td>
</tr>
<tr>
<td>2017</td>
<td>4.4%</td>
</tr>
<tr>
<td>2018</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

* From 2016 Nationwide has been granted permission to report a UK leverage ratio on the basis of measurement announced by the PRA. Prior years (2014 and 2015) are reported on a CRR basis and include eligible central bank reserves.

Financially strong and secure

We finished the year with all time high capital ratios and strong profitability. Our Common Equity Tier 1 ratio, a measure of capital strength, rose to 30.5% (2017: 25.4%). We improved our UK leverage ratio, an important measure of our financial strength and an indicator of our ability to cope with unexpected shocks, to 4.9% (2017: 4.4%).

This was supported by issuing a second tranche of CCDS, a form of Common Equity Tier 1 capital specific to building societies, demonstrating capacity and liquidity in the CCDS market. And we achieved underlying profits of £1,022 million (2017: £1,030 million), in line with our financial performance framework. Our statutory profit for the year was £977 million (2017: £1,054 million).

These results have been the product of excellent trading in our core businesses, and the fruits of the efficiency programme we put in place last year. In a year where our business and membership have grown, we are pleased to report we held our costs flat, thanks to a focus on both efficiency and operational change.
Chief Executive’s review continued

Culturally, we’ve reinforced to our people that every pound we spend is a pound of our members’ money. We’ve encouraged them to come forward with suggestions on how to spend more wisely with the Arthur Webb Challenge Cup, a suggestion scheme for which we received over 100 team entries. Operationally, we’ve focused heavily on our ‘Right First Time’ initiative and have also begun to digitise member journeys for current accounts and mortgages, making better use of members’ and colleagues’ time. We also simplified our management structure, and reduced our headcount in many areas of the business, relying upon organic turnover of our employees as far as possible.

We have a responsibility to protect our members from fraud and ensure that the Society has robust systems of control to guard against facilitating other financial crimes such as money laundering, bribery and corruption. Our policies and controls are designed to apply robust but appropriate standards and we continue to evolve controls to keep our members’ money safe and comply with regulatory expectations.

Investing in technology and infrastructure

An important part of being built to last is investing in our business. This means building on earlier investments that have enabled our very rapid current account growth, increased mobile adoption by members, and underpinned our service distinction.

Looking ahead, it’s clear that the pace of change is accelerating. Technology is changing how people live and work, and Nationwide will need to continue to respond to member expectations. Today’s consumer lives in an ‘always on’ world and naturally expects the same from their financial provider. Service availability, in particular for internet and mobile banking, plus cash machines and payments, has become a key utility that members depend on. Meanwhile, no business is immune to growing cyber threats.

So, digital innovation and systems resilience are increasingly fundamental aspects of our member service experience and the trust customers have in their financial providers. At the same time, recognising that all businesses have room to improve, we will ensure the Society has the capacity to meet the demands of its strong business growth. We are therefore reviewing our operations and technology to keep Nationwide well ahead of future needs. This will include the opportunities presented by integrated platforms, cloud technology, and automation. We will refine our technology strategy accordingly, and the investment plan this might require. Importantly, we do so having achieved a position of considerable financial strength, good trading performance and demonstrable cost discipline.

Giving better value to members

As a mutual, owned by our members and here to serve their interests, ensuring that we offer really good value products is a priority.

That doesn’t mean that we will necessarily be at the top of every ‘best buy’ table – at least not until they measure long-term value, rather than short-term teaser rates.

What it does mean is that we aim to give members better value than they receive from banks – on top of the outstanding service we provide.

We think about profits differently

Members sometimes ask why, if we are a mutual, we need to make profits. We see profits as an important indicator of our success as a business. Importantly, they ensure the stability members expect, they fund investment in our service, and they support business growth – all after we’ve delivered real value to members through better pricing.

But because we have a social purpose, the pursuit of ever-larger profits is not the driving force for what we do. We don’t aim to maximise profits for shareholders, but to make sufficient profits to run a safe and sustainable business and to create more value for members through future growth.

We put our profits to work in a number of ways. First, we put money away for more challenging times – we maintain a strong capital buffer. Then we use our profits to support future growth, contributing to the long-term success of the Society and extending the benefits of mutuality to more members. Profits are also important so we can invest in our branch and digital networks, and for developing the products and services we expect our members to want in the future.

The Society’s profits are delivered after we have given value to members through better pricing, which added up to more than £500 million this year.

Each year, we make different choices about how we use the value we create. If the economy is weak, we may need to put more capital aside. If rates rise, homebuyers might need more support than savers.

Further information on member financial benefit and the financial performance framework is included in the Financial review on pages 27 and 32 respectively.
Nationwide has built its business around caring for members, and for society. The quality of our service matters to us because it matters to our members. Service is not an abstract concept. It is what happens when our employees and our members connect with each other. That makes it a fundamental part of our relationship with members and a key part of why Nationwide remains the UK’s most trusted financial institution10. We work hard to maintain and improve standards even as consumer expectations grow higher each year. We measure member satisfaction against our high street peer group and we were ranked number one for the sixth consecutive year9, ending the year with a lead of 4.6% ahead of our high street peer group. Our lead of 4.6% is well ahead of our strategic target. We also lead our high street peer group for main current account satisfaction, with a lead of more than 10 percentage points11 and we opened a record number of new current accounts. Our strong member satisfaction is also reflected in a lower level of complaints than our peers relative to our size and scale12.

Building legendary service

Our service difference
We believe that the quality of our service sets us apart from our competitors.

We have widened our comparison group this year, comparing ourselves to all those organisations with a main current account market share greater than 4%, rather than 6% in previous years, but we have remained number one for customer satisfaction against our more challenging high street peer group5. By providing outstanding service that is heartfelt, easy, lifelong and personal, we hope to retain and attract members. As we continue to stretch ourselves, we will also measure ourselves against the UK’s very best organisations, not just within the financial sector. We work hard to maintain and improve standards even as consumer expectations grow higher each year. We measure member satisfaction against our high street peer group and we were ranked number one for the sixth consecutive year9, ending the year with a lead of 4.6% ahead of our high street peer group. Our lead of 4.6% is well ahead of our strategic target. We also lead our high street peer group for main current account satisfaction, with a lead of more than 10 percentage points11 and we opened a record number of new current accounts. Our strong member satisfaction is also reflected in a lower level of complaints than our peers relative to our size and scale12.

Key performance indicators

Measure
Overall customer satisfaction (lead over our high street peer group)9

Performance
Despite setting ourselves a more testing target, we ended the year with our lead over our nearest competitor at 4.6%5.

2017/18 Target:
1st with a lead of 2%

We are currently ranked number seven in a top 10 that includes Amazon and John Lewis, with a target of the top 5. Members also need to be able to rely on us to keep their money safe, and we’re encouraged that we have among the lowest fraud losses in the industry. Protecting our members is increasingly challenging in an ever-evolving world where threats are constantly changing, and where fraudsters exploit new technologies and increasingly target members directly with scams. We continue to evolve our fraud defences, investing in our own future technology, and supporting members with education that empowers them to help protect themselves.

5 GfK 2018, Financial Research Survey (FRS), 6 year lead held over period 12 months ending 31 March 2013 to 12 months ending 31 March 2018. Performance chart covers 12 months ending 31 March 2014 to 12 months ending 31 March 2018. Each monthly data point contains customer feedback referring to previous 12 months. 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 >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB). Prior to April 2017, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank inc C&G, NatWest, Santander and TSB). Prior to April 2017, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank inc C&G, NatWest, Santander and TSB).

10 Source: Nationwide Brand and Advertising tracker – compiled by Independent Research Agency, based on all consumer responses, 3 months ending March 2018. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, Santander and TSB.


12 UK Customer Satisfaction Index, January 18.
Digital convenience with a human touch

Technology is constantly changing consumer expectations of service. In particular, people expect to be able to use both traditional and digital channels seamlessly. This means we need to make it as easy to move between branch, digital and telephone channels as it is to switch between satellite, streaming and terrestrial TV channels.

As we improve and expand our digital services, more members choose them as their first point of call with us, with mobile increasingly the first choice. Mobile active current account members grew 44% to 2 million, and mobile log-ons were up 49% over the year. We launched a ‘Discover Mobile’ campaign to encourage members to try our mobile services and we expect mobile active current account members to increase from 33% in 2018 to 44% by 2019.

Our Banking app has improved significantly with our iOS rating increasing from 3.0 to 4.8 (out of 5.0). We have extended what can be done with the app, including instant registration, reporting lost and stolen cards, letting members set up new payees and view pending transactions.

We successfully trialled a new ‘4C’ concept, which we expect to make members’ visits to branches more convenient, conversation, consultation and community. As we improve and expand our digital services, we want to use our branches to change. We successfully trialled a new ‘4C’ concept, and by the end of April we had rolled out 36 new style branches – from Barnstable to Aberdeen – with plans to update our entire branch network over the next four years. In these branches members can choose between four service zones depending on their needs:

- Convenience – quick and easy services that members can access from machines or a staffed counter;
- Conversation – a space to chat when you need some help;
- Consultation – somewhere to talk more privately;
- Community – a relaxed space for members with time to spare, who can stop for a coffee, explore our history or the work we do in our local communities.

We are also using technology to integrate our branches with our other channels. An example of this is Nationwide Now, a video-conferencing service that connects members in one branch with an adviser in another – a service that is more convenient for members and more efficient for the Society.

Open Banking: making the most of your money

Open Banking is a new requirement from the Competition & Markets Authority to boost competition in financial services and provide consumers with more choice and control over how they can manage their money. If a consumer gives their consent, Open Banking enables them to benefit from new services by sharing their financial data with authorised third-party providers. Nationwide is looking at how we can differentiate ourselves in the market and best serve our members. As the most trusted financial brand on the high street, we’re also responding to the needs of members with guidance on how to share their financial data securely. We are also committed to working with innovative partners to launch new digital propositions that will help make a difference to members’ lives, and the way they manage, budget and save their money.

We’re here for you when you need it most

During the Second World War, when many people lost their homes to bombing, the Society adopted the principles of ‘sympathy, simplicity and speed’ to help those who were affected. This included bringing in special measures, like interest only payments. So our ethic of care is a deeply-rooted part of our culture.

Today we have special support services in place to help vulnerable members facing hardship. When members are unexpectedly laid low by physical or mental illness, bereavement, caring responsibilities or job loss, money worries can loom large. As a mutual, our ethic of care is a deeply-held part of our culture.

Our Specialist Support Service, which began as a collaboration with Macmillan Cancer Support, has been extended to other life-limiting conditions and mental health challenges, and has helped over 5,000 members since it was launched in 2015. Our ‘Money Worries’ team works with members who are worried about their finances to understand and guide them through financial difficulties.
Building PRIDE

Making Nationwide a great place to work

We want to be one of the country’s best places to work and we believe that our mutual heritage and social purpose helps connect our people around a clear philosophy of care.

Not just because this is the right thing to do but because this is a key ingredient of our service record and part of our competitive advantage. Engaged and valued colleagues are much more likely to deliver the service our members deserve, which in turn helps grow our business and deliver more value to our members.

Key performance indicators

<table>
<thead>
<tr>
<th>Measure</th>
<th>Employee engagement</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Engagement (Global HP benchmark 2018 = 77%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We scored 74% for employee engagement, which is slightly below the global high</td>
</tr>
<tr>
<td></td>
<td></td>
<td>performing (HP) benchmark</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2017/18 Target: Global HP Benchmark</td>
</tr>
<tr>
<td>2014</td>
<td>77%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>79%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>78%</td>
<td></td>
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<tr>
<td>2018</td>
<td>74%</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Measure</th>
<th>Employee enablement</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Enablement (Global HP benchmark 2018 = 71%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Employee enablement, at 70% is just below the global HP benchmark</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2017/18 Target: Global HP Benchmark</td>
</tr>
<tr>
<td>2014</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>77%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>70%</td>
<td></td>
</tr>
</tbody>
</table>

PRIDE is about our people – about the culture and values we share, and doing the right thing. These are fine words, but it’s actions that make a real difference.

In January we were proud to live our values by taking on 297 Carillion contractors after the company collapsed. At a time of huge uncertainty for them, we gave stability and security to the people who provide valued services for our Society. This was wholly consistent with our culture and values and good for our Society.

We measure engagement and enablement through an independent employee survey (ViewPoint) each year. In 2018, 90% of our people completed the survey, an extremely high participation level that we’re proud of. Results this year show that our engagement score dropped by 4% and our enablement by 2% and we didn’t hit our stretching global high performing benchmark. That said, engagement remains extremely high at 74%, and 9 percentage points above the financial services norm.

We also participated in the Banking Standards Board’s survey on culture for the second time, and remain one of the strongest performers. We were particularly encouraged that 95% of our employees said our purpose and values are meaningful to them. We score relatively well on questions related to personal resilience, but over one third of employees often feel under pressure to perform at work. While it’s important that our employees perform to their full potential, we also want our people to enjoy a balanced working environment.

One part of being a good place to work is rewarding our people fairly. Nationwide was one of the first employers to offer a living wage in 2014, and in recent years we increased our pension contributions significantly. This year, we stepped away from paying bonuses linked to individual performance, replacing these with a ‘Sharing in Success’ scheme that rewards colleagues for collaborating and cooperating in growing our business and serving our members – for doing the right thing in the right way, in line with our values.

Working practices also contribute to employee satisfaction. Our colleagues value the flexible working contracts we offer to fit around their lives – from flexi-time, part time, job sharing, compressed hours and remote working – as well
as providing for specific needs, such as flexible working during religious festivals, and adoption and fertility treatment leave. We believe this flexibility is a key reason why 86% of our female colleagues return to work after maternity leave.

PRIDE is also about developing our people, and we are investing in our leadership capabilities at all levels of the Society. In line with our core belief that we can achieve more together than alone, we are building a more connected leadership community. We’ve identified a Leadership 200 group – including 20 ‘People’s Choice’ leaders chosen by an all-employee vote. Most of them have taken part in a development programme, ‘Leading for Mutual Good’, which aims to equip them to lead the business well into the future. We’ve also launched ‘Developing My Leadership’, a programme for all our people to expand their knowledge and capabilities and develop their own personal leadership skills.

In line with our equality, diversity & inclusion strategy for 2015-2020. As a result, we are pleased to have increased the representation of women on our Board (including non-executive directors (NEDs)) and we are confident we will meet our 2020 target of 33-35% for female senior managers. Progress towards our 2020 target of 8-15% for Black, Asian and Minority Ethnic (BAME) senior leaders is proving more of a challenge and we are redoubling our efforts to achieve our target by, for example, offering sponsorship and mentoring.

Gender pay gap reporting
We issued our first gender pay gap report in March 2018. Our mean gender pay gap – the difference in average hourly pay between all men and women – is 29% and is on a par with the rest of the UK retail banking sector.

This is very much a function of the nature of our business and our resulting employee profile. The gender pay gap for our senior population of approximately 300 managers is just 4%. This gap could be closed by moving only a handful of people. Our overall gender pay gap is therefore driven by having far fewer men in our junior roles – for example, only one in five of our junior branch roles is occupied by a man. To reduce our gender pay gap to zero would require us to change approximately 4,000 of these junior positions to be held by men.

Nevertheless, we remain committed to identifying opportunities to help women to progress to senior roles. We have already made good progress on our Board with 38% female representation. We have also delivered unconscious bias training for our people managers, and we set targets for female representation at all levels.

Our employees are fundamental to the overall success of the Society and the delivery of our strategic objectives. We place great importance on the culture of the Society and the behaviours and values that underpin it. People-related risks and opportunities are well understood across the Society. This is thanks to regular people-related risk assessments on both internal and external environmental factors and other issues including cultural, social, employee welfare, legislative, recruitment and retention. We monitor these on an ongoing basis and have policies and controls in place to manage people-related risks and to mitigate against material risk exposure to the Society and its members.

In addition, we engage regularly with our colleagues, and encourage them to escalate issues of concern to be discussed and debated with management and the Board, with changes implemented where necessary.
Building a national treasure

Making society a better place together

Possibly our most ambitious cornerstone, deeply rooted in our mutuality, is our desire to be a force for good for our members and society, contributing to the life of the nation. How our difference makes a difference.

Importantly, we measure our success by how others see us, with independent assessments of trust and prompted brand consideration. After all, this is not one for us to judge ourselves on.

Key performance indicators

<table>
<thead>
<tr>
<th>Measure</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prompted brand consideration (all consumers)</td>
<td>-6.3%</td>
<td>-6.9%</td>
<td>-3.5%</td>
<td>-2.6%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Target: 1st place with a lead of 4% by 2022</td>
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<table>
<thead>
<tr>
<th>Measure</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust (all consumers)</td>
<td>-1.7%</td>
<td>-1.0%</td>
<td>-1.9%</td>
<td>+1.3%</td>
<td>+3.8%</td>
</tr>
<tr>
<td>Target: 1st with a lead of 3%</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Social purpose has been part of our founding DNA for over 130 years, and has helped make us the UK’s most trusted financial brand16. But our mutual values make us want to go further, to use that trust to become a driving force for good in society.

We are a responsible business; we pay our taxes and we were the 11th highest UK business taxpayer in PwC’s annual Total Tax Contribution survey of the 100 Group17; we pay decent wages, we treat suppliers fairly; and we work hard to improve our sustainability – and we will continue to operate this way. It’s our nature to believe we can always do more. Indeed, Nationwide was originally set up to help people to save and borrow to build their own homes.

Over 130 years on and we’re still helping people into homes of their own. But we cannot hide from the fact that decent homes to buy or rent are out of reach for more and more people. So, we are combining our deep knowledge and experience with our new social investment strategy to make our contribution to Britain’s housing market in a socially responsible way.

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The 100 Group represents the views of the Finance Directors of FTSE 100 and several large UK organisations.
Our refreshed five-year social investment programme is one way we are ‘building society, nationwide’. In line with our member vote in 2007, we will continue to invest at least 1% of our pre-tax profits to support good causes, including tens of millions of pounds in housing initiatives. This will take the form of three separate programmes focusing on helping communities help themselves.

Through a new community funding programme, we will make £20 million available in grant funding for housing-related charities and organisations over the next five years. The projects will be driven by local needs and chosen by local members. We piloted this programme in the north of England, where nine projects received a total of £270,000, and we have since launched in Wales, Scotland, Northern Ireland and the West Midlands. We will extend this across the rest of the UK in 2018/19. In each region we will create a Community Board made up of Society colleagues, members and local housing experts who will manage the community funding programmes in their region.

Meanwhile, our support for the Elderly Accommodation Counsel’s ‘Live Safely and Well at Home’ campaign enabled 5,700 older people to stay in their own homes. We’ve also set up a partnership with homeless charity St Mungo’s, to support rough sleepers across the country.

In Swindon, where we are headquartered, we’re partnering with the borough council on a regeneration scheme to deliver a housing project. Key to the success of the Oakfield development is our desire to involve local people in the planning and build process. Our community organiser has been listening to local residents’ views on the number and type of homes to be built, as well as the green spaces and facilities people would like to see, which will turn a housing development into a living community. We intend this development to inspire other organisations to develop homes in partnership with their local communities.

Recognising that one in five people now live in privately rented homes, and our members and customers include both landlords and tenants, we wanted to take action to raise standards in private renting, considering the needs of all those involved and delivering high quality homes for rent. Last September we put together a Partnership Board of organisations from across the rental sector. The Board aims to create understanding of how the market functions and to collaborate on collective policy suggestions to bring to Government. As well as Nationwide, our Partnership Board includes the National Landlords Association (NLA), the Association of Residential Lettings Agents (ARLA Propertymark), Shelter, Countrywide and The Nationwide Foundation.

According to data from the Residential Landlords Association (April 2017) and English Housing Survey (March 2016).
Building a national treasure continued

The Nationwide Foundation

The Nationwide Foundation is an independent charity, which the Society set up in 1997. Each year, we donate 0.25% of Nationwide’s pre-tax profits to the Foundation – £2.8 million in 2017/18 – as part of the 1% of pre-tax profits we give to good causes. The Foundation’s vision is that everyone in the UK should have access to a decent, affordable home, and it funds three programmes to help achieve this ambition:

1. Nurturing ideas to change the housing system – to protect and create decent affordable homes. The Foundation is supporting West London residents of two housing estates in their bid to transfer their homes to community ownership, protecting and increasing the supply of decent, affordable homes.

2. Backing community-led housing – helping local people take control of their housing. The Foundation is funding the National Custom & Self Build Association’s programme to create an expert taskforce to support communities who want to develop affordable self-build housing schemes.

3. Transforming the private rented sector – to provide affordable, decent homes for tenants. The Foundation is funding a collaborative programme to transform the private rented sector for vulnerable tenants in Manchester, including ‘test and learn’ grants, and giving tenants a stronger voice in finding solutions.

For more information on any of this work please go to nationwidefoundation.org.uk

Treading lightly

As a large organisation, we have a responsibility to help sustain our environment and we continue to make progress toward our 2020 targets, doing what we said we would: reducing our carbon footprint and reducing the amount of waste we produce.

We’re seeking to reduce our impact on the environment, working with our supply partners to build on our commitment to use renewable energy. Following the success of the solar farm that produces 50% of our electricity, we’ve now signed an agreement to take the balance of our electricity from sustainable sources (wind and hydro power) making our electricity supply 100% ‘green’.

Our zero-to-landfill policy is well embedded and all our waste is either recycled or used for energy recovery. We’ve reduced the waste we produce by 216 tonnes (12%), thanks to new ways of working, beating our 2020 target two years early.

The commitment we’ve made to be among the top performers in environmental sustainability is reinforced by our participation in the Carbon Trust’s ‘Triple Standard’. We were amongst the first to be certified and subsequently re-certified to this demanding standard, and are undertaking another re-certification.

Working with our suppliers in April this year we achieved the Carbon Trust’s coveted level 2 Supply Chain Standard, and we’re now pushing for level 3 with a meaningful plan to reduce emissions.

We support the recommendations of the Financial Stability Board Taskforce on Climate-related Financial Disclosures (TCFD) released in June 2017. We are continuing to assess how, as a building society with a social purpose, we can best implement the recommendations.

Supporting our communities

Whilst our new social investment strategy is focused on housing, we encourage our colleagues to continue to support the local causes they are most passionate about. In 2017/18:

- 66% of our colleagues were involved in fundraising, volunteering or payroll giving.
- £1.8 million was raised for charity by our members and colleagues this year.

- The value of colleagues volunteering their time was £0.7 million (all colleagues are given up to 14 hours to volunteer during work time each year).
The UK economy has proved considerably more resilient than some people feared immediately after the Brexit referendum, though the pace of growth is likely to remain relatively subdued, reflecting ongoing Brexit uncertainties. With economic growth expected to be modest over the next two years, inflation is likely to moderate, gradually reducing the squeeze on household budgets. Subdued growth may mean a small rise in the unemployment rate from recent 43-year lows and only gradual, limited interest rate increases by the Bank of England.

Turning to the outlook for our own business, we anticipate modest growth in our core product markets, reflecting the outlook for the economy as a whole. With employment growth expected to slow and pressure on household budgets fading only gradually, mortgage lending is likely to rise at a fairly pedestrian pace. While demand in the housing market looks set to remain subdued, lack of supply will provide support for prices. We expect the mortgage market to remain extremely competitive.

Consumers have been saving less, but we expect household deposit growth to pick up a little, to around 4% a year. We will continue to focus on providing the attractive rates that have helped us maintain our deposit share at 10% in an extremely competitive market. More generally, consumers continue to switch rapidly to digital services, and the new era of Open Banking presents both challenges to established providers, and opportunities for a trusted brand like Nationwide to bring the benefits of mutuality to a wider community.

We look to the future from a position of strength and will continue to seek to deliver the outstanding service, mutual value and financial security our members deserve from us. We will support our members at all life-stages, introducing new services to meet their developing needs. We’ll reward our members by offering compelling value loyalty products to deepen our relationships with them. And we will look to invest to ensure the Society is financially strong and able to meet the future needs of our members.
Effective risk management is at the heart of our business and has an important part to play in delivering our shared purpose of ‘building society, nationwide’ by making sure we are safe and secure for the future. We have a low-risk business model, but if we are to serve our members’ interests, some risk is unavoidable. We have well-established risk management processes to ensure the risks we take are controlled and managed appropriately.

How we manage our risks

We manage our risks through an Enterprise Risk Management Framework, which sets out the minimum standards, and associated processes, for successful risk management to support strategic decision making. Through this framework, the Board sets Risk Appetite which formally defines how much risk we are prepared to take to achieve our objectives. This shapes our strategy for managing risks and determines the controls we put in place to mitigate them. We manage these risks with robust, consistent processes, supported by appropriate tools, guidance and systems. We then monitor these risks and their mitigation using key indicators and report our performance against appetite to the Board. For further detail see the Business and Risk Report page 97.

Our principal risks

Nationwide is exposed to the principal risks as set out below, which are effectively managed through the Society’s Enterprise Risk Management Framework as described on page 101.

**Credit risk**
The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations.

**Solvency risk**
The risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective members, investors, the Board, and regulators.

**Market risk**
The risk that the net value of, or net income arising from, Nationwide’s assets and liabilities is impacted as a result of market price or rate changes. As Nationwide does not have a trading book, market risk only arises in the banking book.

**Business risk**
The risk that volumes decline or margins shrink relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, regulatory or other external events.

**Liquidity and funding risk**
Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.

**Pension risk**
The risk that the value of the pension schemes’ assets will be insufficient to meet the estimated liabilities, creating a pension deficit.

**Model risk**
The risk of weaknesses or failures in models used to support key decisions, including in relation to the amount of capital and liquidity resources required, lending and pricing, resourcing and earnings.

**Operational risk**
The risk of loss resulting from failures of internal processes, people and systems, or from external events.

**Conduct and compliance risk**
The risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to: non-compliance with regulation or legislation; market integrity being undermined; or an unfair outcome being created for customers.

In the year ahead, we envisage the top and emerging risks to our strategy being:

- **Cyber security** – The risk that customer services are disrupted or data is lost through a failure to protect against a sophisticated ransomware, malware or Distributed Denial of Service (DDoS) attack.
- **Operational resilience** – The risk that our systems and processes are unable to cope with increased customer demand for digital, ‘always-on’ services, and we are unable to provide stable and resilient services to our members.
- **Regulatory change** – The risk that we are unable to comply with complex changes required by regulation which come into force over the coming year.
- **Competitive environment** – The risk that we fail to respond to changes in our core markets driven by new technologies, regulation, or changing consumer behaviour, affecting our ability to deliver the legendary service and quality products our members expect.
- **Geopolitical and macro-economic environment** – The risk that our borrowers are unable to repay the money they owe us, as a result of changes in the wider economy, such as Brexit, or other economic or political factors.
Our financial performance for the year demonstrates our continued focus on delivering long-term value to our members whilst ensuring we maintain capital strength. Statutory profit before tax was £977 million (2017: £1,054 million) and underlying profit before tax was £1,022 million (2017: £1,030 million). Our 2017/18 financial performance includes the impact of our debt buy-back exercise (£116 million charge within net income) which will deliver increased capital strength and reduced funding costs in the future, whilst the prior year included a one-off gain of £100 million from the sale of our investment in Visa Europe.

Our focus on efficiency has resulted in a flat cost base year on year and we remain committed to maintaining a low trajectory of cost growth in the future. Provisions for liabilities and charges have reduced during the year reflecting the higher charge for PPI and Plevin customer redress in the prior year, following the confirmation of the FCA’s time bar for complaints. Our robust financial performance and the successful issuance of Core Capital Deferred Shares (CCDS) have resulted in a further improvement of our capital ratios, which remain comfortably above regulatory requirements and demonstrate our financial strength.

In summary

Our focus on efficiency has resulted in a flat cost base year on year and we remain committed to maintaining a low trajectory of cost growth in the future. Provisions for liabilities and charges have reduced during the year reflecting the higher charge for PPI and Plevin customer redress in the prior year, following the confirmation of the FCA’s time bar for complaints. Our robust financial performance and the successful issuance of Core Capital Deferred Shares (CCDS) have resulted in a further improvement of our capital ratios, which remain comfortably above regulatory requirements and demonstrate our financial strength.

Income statement

<table>
<thead>
<tr>
<th>Underlying and statutory results</th>
<th>Year to 4 April 2018 £m</th>
<th>Year to 4 April 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>3,011</td>
<td>2,960</td>
</tr>
<tr>
<td>Net other income</td>
<td>121</td>
<td>325</td>
</tr>
<tr>
<td><strong>Total underlying income</strong></td>
<td><strong>3,132</strong></td>
<td><strong>3,285</strong></td>
</tr>
<tr>
<td>Underlying administrative expenses</td>
<td>(1,979)</td>
<td>(1,979)</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>(105)</td>
<td>(140)</td>
</tr>
<tr>
<td>Underlying provisions for liabilities and charges</td>
<td>(26)</td>
<td>(136)</td>
</tr>
<tr>
<td><strong>Underlying profit before tax (note i)</strong></td>
<td><strong>1,022</strong></td>
<td><strong>1,030</strong></td>
</tr>
<tr>
<td>Bank levy (note ii)</td>
<td>(45)</td>
<td>(42)</td>
</tr>
<tr>
<td>Financial Services Compensation Scheme (FSCS) (note ii)</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>(Losses)/gains from derivatives and hedge accounting (notes ii and iii)</td>
<td>(1)</td>
<td>66</td>
</tr>
<tr>
<td><strong>Statutory profit before tax</strong></td>
<td><strong>977</strong></td>
<td><strong>1,054</strong></td>
</tr>
<tr>
<td>Taxation</td>
<td>(232)</td>
<td>(297)</td>
</tr>
<tr>
<td><strong>Profit after tax</strong></td>
<td><strong>745</strong></td>
<td><strong>757</strong></td>
</tr>
</tbody>
</table>

Notes:

i. Underlying profit represents management’s view of underlying performance and is presented to aid comparability across reporting periods.

ii. Within the statutory results presented in the financial statements:
   a. bank levy is included within administrative expenses
   b. FSCS costs are included within provisions for liabilities and charges
   c. gains from derivatives and hedge accounting are presented separately within total income.

iii. Although we only use derivatives to hedge market risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not achievable. This volatility is largely attributable to accounting rules which do not fully reflect the economic reality of the hedging strategy.
Financial review continued

Total income and margin
Net interest income has increased marginally during the year to £3,011 million (2017: £2,960 million), with the benefit of lower funding costs being largely offset by a decrease in mortgage income, reflecting sustained competition in retail lending markets. Net interest margin (NIM) of 1.31% is therefore slightly lower than the prior year (2017: 1.33%).

The impact on mortgage pricing of competition in the retail lending markets, and our continued focus on delivering long-term value to our members, has meant that £24 billion of member balances have switched across all prime mortgages during the year. This includes the continued run-off of our legacy base mortgage rate (BMR) balances which reduced by £6.6 billion to £22.7 billion.

We expect our reported margin to trend lower in the year ahead as market conditions remain highly competitive.

The negative impact to NIM from the decline in mortgage margins has been partly offset by savings rates which remain low across the industry. In line with our mutual principles, we continue to resist lowering savings rates where possible and seek to offer long-term value to our members wherever possible. We were the first in the industry to pass on the full benefit of the recent base rate rise (in November 2017) to those members whose savings rates fell by 0.25% following the last base rate reduction in August 2016. During the year our

Member financial benefit
As a building society, we seek to maintain our financial strength whilst returning value to our members through pricing, propositions and service.

We measure the value provided to our members through the highly competitive mortgage, savings and banking products that we offer as our member financial benefit, which we quantify as:

Our interest rate differential + incentives and reduced fees

Interest rate differential
We measure how our average interest rates across our member balances in total compare against the market over the period.

For our two largest member segments, mortgages and retail deposits, we compare the average member interest rate for these portfolios against relevant industry benchmarks. A market benchmark based upon data from CACI is used for mortgages and a Bank of England benchmark is used for retail deposits, both adjusted to exclude Nationwide balances. The differentials derived in this way are then applied to member balances for mortgages and deposits.

For unsecured lending, a similar comparison is made. We calculate an interest rate differential based on available market data from the Bank of England and apply this to the total interest-bearing balances of credit cards and personal loans.

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

• Mortgages: the differential on incentives for members compared to the market
• ‘Recommend a friend’: the amount paid to existing members, when they recommend a new current account member to the Society
• FlexPlus account: this current account is considered market leading against major banking competitors, with a high level of benefits for a relatively smaller fee. The difference between the monthly account fee, which was increased from £10 to £13 during the year, and the market average of £16 is included in the member financial benefit measure.

For the year ended 4 April 2018, this measure shows we have provided our members with a financial benefit of £560 million (2017: £505 million). This reflects our ongoing commitment to delivering long-term value to our members despite strong levels of competition in our core markets.
Financial review continued

Administrative expenses

As a result of our significant focus on efficiency underlying administrative expenses have remained flat year on year at £1,979 million (2017: £1,979 million). During the year we have made good progress with our efficiency programme, successfully embedding £105 million of sustainable savings, meaning that we are on course to achieve our target of realising £300 million of sustainable savings by 2022. As the programme develops we will evolve our target of cost savings with a current expectation that this will increase, we will provide an update in this regard later in 2018/19. Sustainable savings have been achieved through process simplification, targeted reductions in third-party spend and organisational simplification, including the closure of operations that are not aligned to our core markets. Over the course of the year the number of permanent employees, on a full time equivalent basis, has decreased by 3% (2017: 2% increase).

Savings achieved during the year have helped to mitigate the impact of increases in underlying costs which were primarily driven by:
- higher pension costs (£36 million) largely as a result of market conditions impacting defined benefit costs
- annual pay award and other inflationary increases (£37 million)
- rising variable costs (£20 million) following further significant business growth, with mortgage balances increasing 4% over the year and with 12% more main current accounts than we had a year ago
- spend on initiatives to support longer-term efficiency was £27 million higher than in the previous year, resulting in total efficiency investment of £70 million during 2017/18. Initiatives include the redesign of member processes, organisational simplification and improvements to the way we deliver change.

We continue to invest to support the long-term interests of our members, including improvements to our branches, continued updates to our digital channels and preparations for Open Banking. During the year we have also continued investment in IT resilience to ensure that our systems remain safe and secure for our members, and to ensure compliance with UK and EU regulatory requirements.

Whilst we have made good progress towards achieving our sustainable savings targets, the reduction in total income has caused our underlying CIR to increase to 63.2% (2017: 60.2%).

Achieving more sustainable cost savings and embedding further efficiencies into our business remains a priority for the Society and we remain committed to maintaining a low trajectory of cost growth in the future.

Impairment losses

Impairment losses have decreased by £35 million to £105 million (2017: £140 million). This reduction reflects a prior year charge of £52 million in relation to enhancements to our provisioning methodology, primarily in relation to the credit risks associated with maturing interest only loans. This has been partially offset by the impact of updating provision assumptions to reflect current economic conditions. Delinquency levels have remained low across portfolios during the period, although there is some limited evidence of affordability pressures increasing after a period when inflation has exceeded wage growth.

<table>
<thead>
<tr>
<th>Impairment losses on loans and advances</th>
<th>Year to 4 April 2018 £m</th>
<th>Year to 4 April 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential lending</td>
<td>11</td>
<td>58</td>
</tr>
<tr>
<td>Consumer banking</td>
<td>97</td>
<td>78</td>
</tr>
<tr>
<td>Retail lending</td>
<td>108</td>
<td>136</td>
</tr>
<tr>
<td>Commercial and other lending</td>
<td>(1)</td>
<td>(5)</td>
</tr>
<tr>
<td>Impairment losses on loans and advances</td>
<td>107</td>
<td>131</td>
</tr>
<tr>
<td>Impairment (reversals)/losses on investment securities</td>
<td>(2)</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>105</strong></td>
<td><strong>140</strong></td>
</tr>
</tbody>
</table>

Underlying provisions for liabilities and charges

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the period primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these clauses. More information on customer redress and FSCS provisions is included in note 27 to the financial statements.

Taxation

The tax charge for the year of £232 million (2017: £297 million) represents an effective tax rate of 24% (2017: 28%) which is higher than the statutory UK corporation tax rate of 19% (2017: 20%). The effective tax rate is higher due to the 8% banking surcharge, equivalent to £43 million (2017: £62 million), and due to the tax effect of disallowable bank levy and customer redress costs of £8 million and £19 million (2017: £8 million and £19 million) respectively. Further information is provided in note 11 to the financial statements.
Financial review continued

Balance sheet

Total assets have increased by £7 billion year on year to £229 billion (4 April 2017: £222 billion). This growth has been driven by a £6 billion increase in residential mortgage balances due to strong trading in prime mortgages during the period. Despite sustained competition in the savings market, alongside slower market growth, we have maintained our market share of deposits at 10.0% (4 April 2017: 10.1%) reflecting the highly competitive products that we offer to our members. In addition, we have had significant success in growing the number of members who bank with us, opening 816,000 new current accounts during the year (2017: 795,000), with our market share of standard and packaged accounts now 7.9% (2017: 7.6%).

### Assets

<table>
<thead>
<tr>
<th></th>
<th>4 April 2018</th>
<th>4 April 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential mortgages (note i)</td>
<td>177,299</td>
<td>171,263</td>
</tr>
<tr>
<td>Commercial and other lending</td>
<td>10,716</td>
<td>12,597</td>
</tr>
<tr>
<td>Consumer banking</td>
<td>4,107</td>
<td>3,949</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>192,122</strong></td>
<td><strong>187,809</strong></td>
</tr>
<tr>
<td>Impairment provisions</td>
<td>(458)</td>
<td>(438)</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>191,664</td>
<td>187,371</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>34,841</td>
<td>31,231</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>2,593</td>
<td>3,068</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>229,098</strong></td>
<td><strong>221,670</strong></td>
</tr>
</tbody>
</table>

### Asset quality

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential mortgages (note i):</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of residential mortgage accounts 3 months+ in arrears</td>
<td>0.43</td>
<td>0.45</td>
</tr>
<tr>
<td>Average indexed loan to value of residential mortgage book (by value)</td>
<td>56</td>
<td>55</td>
</tr>
<tr>
<td>Average indexed loan to value of new residential mortgages business</td>
<td>71</td>
<td>71</td>
</tr>
<tr>
<td>Impairment provisions as a percentage of non-performing balances</td>
<td>5.3</td>
<td>5.3</td>
</tr>
</tbody>
</table>

### Consumer banking:

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-performing loans as percentage of total balances (excluding charged off balances) (note ii)</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Impairment provisions as a percentage of non-performing balances (including charged off balances) (note ii)</td>
<td>89</td>
<td>86</td>
</tr>
</tbody>
</table>

Notes:

i. Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let (BTL) lending.
ii. Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

### Residential mortgages

This financial year was our strongest ever for gross prime mortgage lending at £29.4 billion (2017: £29.1 billion) reflecting the competitively priced products and good long-term value that we offer our members. Total gross mortgage lending was £33.0 billion (2017: £33.7 billion) and represented a market share of 12.8% (2017: 14.0%). Our total net mortgage lending reduced by £3.0 billion to £5.8 billion (2017: £8.8 billion) due to a reduction in gross buy to let (BTL) lending following the affordability criteria changes we made last year and increased prime mortgage redemptions from ongoing market competition driving highly competitive new business rates. The impairment provision balance is broadly unchanged at £145 million (4 April 2017: £144 million). Arrears performance improved marginally during the year, with cases more than three months in arrears improving to 0.43% of the total portfolio (4 April 2017: 0.45%), despite some evidence of a greater strain on affordability given higher inflation and low wage growth.

### Commercial and other lending

During the year, our commercial and other lending balances decreased by £1.9 billion to £10.7 billion following our strategic decision in 2016/17 to reduce our commercial real estate (CRE) portfolio through managed run-off. As a result, our overall commercial lending portfolio is increasingly weighted towards registered social landlords, with balances of £6.8 billion (4 April 2017: £7.5 billion). The registered social landlords’ portfolio is fully performing, reflecting its low risk nature. The impairment provision held against CRE balances is £15 million (4 April 2017: £25 million).
Financial review continued

**Consumer banking**

Consumer banking comprises personal loans of £2.0 billion (4 April 2017: £2.0 billion), credit cards of £1.8 billion (4 April 2017: £1.7 billion) and current account overdrafts of £0.3 billion (4 April 2017: £0.2 billion).

The asset quality of the portfolio remains strong. Impairment provisions have increased to £298 million (4 April 2017: £269 million), reflecting both book growth and the impact of updating provision assumptions to reflect current economic conditions.

**Other financial assets**

Other financial assets total £34.8 billion (4 April 2017: £31.2 billion), primarily comprising liquidity and investment assets held by our Treasury function of £30.8 billion (4 April 2017: £25.4 billion) and derivatives with positive fair values of £4.1 billion (4 April 2017: £5.0 billion). Derivatives relate primarily to interest rate and foreign exchange contracts which economically hedge financial risks inherent in our core lending and funding activities.

Growth in on-balance sheet liquid assets is predominantly due to the replacement of off-balance sheet Funding for Lending Scheme (FLS) liquidity with on-balance sheet Term Funding Scheme (TFS) drawdowns. Our Liquidity Coverage Ratio (LCR) has increased to 130.3% (4 April 2017: 124.0%). At 4 April 2017, our LCR was impacted by an agreement to purchase £1.2 billion of residential mortgage backed securities (RMBS) under a programme to securitise Bradford & Bingley residential mortgages. Excluding this item our 2018 and 2017 LCR would have been broadly consistent.

**Members’ interests, equity and liabilities**

<table>
<thead>
<tr>
<th></th>
<th>4 April 2018 £m</th>
<th>4 April 2017 (note i) £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member deposits</td>
<td>148,003</td>
<td>144,542</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>34,118</td>
<td>40,339</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>33,173</td>
<td>23,978</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,401</td>
<td>1,678</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>216,695</td>
<td>210,537</td>
</tr>
<tr>
<td>Members’ interests and equity</td>
<td>12,403</td>
<td>11,133</td>
</tr>
<tr>
<td>Total members’ interests, equity and liabilities</td>
<td>229,098</td>
<td>221,670</td>
</tr>
</tbody>
</table>

Wholesale funding ratio (note ii): 28.2% (2017: 27.1%)

Notes:
1. Comparatives have been restated as detailed in note 1 of the financial statements.
ii. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations).

**Member deposits**

Member deposits have increased reflecting both an increase in current account credit balances from £17.5 billion to £19.8 billion and a growth in savings balances due to the success of our competitively priced products; on average our member deposit rates are more than 50% higher than the market average.1 In a highly competitive market, our market share of UK household deposits remained relatively stable at 10.0% (2017: 10.1%).

**Debt securities in issue and other financial liabilities**

Other financial liabilities have increased by £9.2 billion driven by an increase in bank deposits (which includes TFS drawdowns) and subordinated liabilities, which have been issued during the period to finance core activities and to fund the bond buy-back exercise. Correspondingly, debt securities in issue have reduced by £6.2 billion primarily due to lower wholesale funding balances following the debt buy-back exercise.

The growth in other financial liabilities has been partly offset by a decrease in Nationwide International balances which have now fully run off following our strategic decision in 2016/17 to exit the business. This outflow was managed in an orderly manner, with the funding replaced by additional member deposits and the use of wholesale funding where appropriate.

The wholesale funding ratio has increased to 28.2% (4 April 2017: 27.1%), predominantly due to TFS drawdowns during the period to support core activities and replace off-balance sheet Funding for Lending Scheme maturities.

**Members’ interests and equity**

Movements in the year reflect the retained profit after tax and the issuance of CCDS, details of which are included in the Capital structure section below.

**Statement of comprehensive income**

<table>
<thead>
<tr>
<th>Statement of comprehensive income</th>
<th>Year to 4 April 2018 £m</th>
<th>Year to 4 April 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax</td>
<td>745</td>
<td>757</td>
</tr>
<tr>
<td>Net remeasurement of pension obligations</td>
<td>22</td>
<td>(255)</td>
</tr>
<tr>
<td>Net movement in cash flow hedge reserve</td>
<td>(191)</td>
<td>(247)</td>
</tr>
<tr>
<td>Net movement in available for sale reserve</td>
<td>31</td>
<td>52</td>
</tr>
<tr>
<td>Other items</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>608</td>
<td>309</td>
</tr>
</tbody>
</table>

Further information on gross movements in the pension obligation is included in note 30 to the financial statements. Further information relating to movements in the cash flow hedge reserve is included in note 7 to the financial statements.

1 Market interest rates are based on Bank of England whole of market average interest rates over the period, adjusted to exclude Nationwide’s balances.
Capital structure

Our capital position has strengthened during the period with our CET1 and UK leverage ratios increasing to 30.5% and 4.9% respectively (4 April 2017: 25.4% and 4.4%), comfortably in excess of the regulatory capital requirements.

### Capital structure (note i)

<table>
<thead>
<tr>
<th>Capital resources</th>
<th>4 April 2018 £m</th>
<th>4 April 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common Equity Tier 1 (CET1) capital</td>
<td>9,925</td>
<td>8,555</td>
</tr>
<tr>
<td>Total Tier 1 capital</td>
<td>10,917</td>
<td>9,547</td>
</tr>
<tr>
<td>Total regulatory capital (note ii)</td>
<td>13,936</td>
<td>12,154</td>
</tr>
<tr>
<td>Risk weighted assets (RWAs)</td>
<td>32,509</td>
<td>33,641</td>
</tr>
<tr>
<td>UK leverage exposure</td>
<td>221,992</td>
<td>215,894</td>
</tr>
<tr>
<td>CRR leverage exposure</td>
<td>236,468</td>
<td>228,428</td>
</tr>
</tbody>
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### CRD IV capital ratios

<table>
<thead>
<tr>
<th></th>
<th>%</th>
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<tbody>
<tr>
<td>CET1 ratio</td>
<td>30.5</td>
<td>25.4</td>
</tr>
<tr>
<td>UK Leverage ratio (note iii)</td>
<td>4.9</td>
<td>4.4</td>
</tr>
<tr>
<td>CRR leverage ratio (note iv)</td>
<td>4.6</td>
<td>4.2</td>
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</table>

Notes:

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

ii. Total regulatory capital was restated as at 4 April 2017 to include accrued interest on subordinated liabilities and subordinated capital. Further information is provided in note 1 to the financial statements.

iii. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure.

iv. The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure and is reported on an end point basis.

The maintenance of strong capital ratios is a core requirement of the Society’s strategic objective to be ‘Built to Last’. In September 2017, five million CCDS were issued raising £0.8 billion of CET1 capital. The issuance enhanced the liquidity and relevance of the CCDS instrument, while also helping to maintain broad access to capital markets. These CCDS form a single series together with those previously issued in December 2013. Further information can be found in note 31 to the financial statements. Detailed information on Nationwide’s capital instruments can be found within the Pillar 3 Disclosure 2018 at nationwide.co.uk.

CET1 capital resources have increased over the year by approximately £1.1 billion, primarily due to the continued run-off of the commercial book. These movements have resulted in an increase in the CET1 ratio, to 30.5%.

The UK leverage ratio increased to 4.9% at 4 April 2018, as a result of the CCDS issuance and profits for the period. The CRR leverage ratio also increased to 4.6%.

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a lengthy transitional period from 2022 to 2027. In addition, the PRA's revised expectations for IRB models for residential mortgages will be effective from the end of 2020.

These reforms will lead to a significant increase in our risk weights over time and we currently expect the consequential impact on our reported CET1 ratio to ultimately be a reduction of the order of 45-50%, relative to our current methodology. We note however that organic earnings through the transition will mitigate this impact such that our reported CET1 ratio will in practice remain well in excess of the proforma levels implied by this change, and leverage requirements will remain our binding constraint based on latest projections. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources we hold or the risk profile of our assets. Final impacts are subject to uncertainty for future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRAs discretion.
Financial review continued

IFRS 9

IFRS 9 will be implemented in the financial statements for the year ending 4 April 2019. It is estimated that the new IFRS 9 expected credit loss (ECL) provisioning approach results in an increase in provisions of £172 million. The reclassification and measurement of financial assets results in a reduction in carrying value of £36 million. The resulting impact on members’ interests and equity, net of deferred tax, is £162 million. The CET1 ratio impact of IFRS 9 is a reduction of 31 basis points before taking regulatory transitional relief into account, and a reduction of 10 basis points once this relief is included. The equivalent UK leverage ratio impact is estimated as a reduction of 3 basis points before regulatory transitional relief and no reduction once this relief is included. As a result, IFRS 9 is not expected to have a significant impact on the Group’s capital position.

Financial performance framework (FPF)

As a mutual, we aim to optimise, rather than maximise, profit and retain 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. We have used the most recent guidance from regulators regarding the maximum expected capital requirement for Nationwide to develop our financial performance framework. This framework provides parameters which will allow us to calibrate future performance and help ensure that we achieve the right balance between distributing value to members, investing in our business and maintaining our financial strength.

The most important of these parameters is underlying profit which is a key component of Nationwide’s capital. We believe that a level of underlying profit of approximately £0.9 billion to £1.3 billion per annum over the cycle would meet the Board’s objective for sustainable capital strength. This range will vary from time to time, and whether our profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. It should not be construed as a forecast of the likely level of Nationwide’s underlying profit for any financial year or period within a financial year.