Strategic Report

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The Strategic Report has been approved by the Board of directors and signed on its behalf by:
Joe Garner
20 May 2019
What have we done to build society this year?

No. 1 for customer satisfaction amongst our peer group

15.9 million members
2018: 15.5 million

£788 million underlying profit
2018: £977 million

1st

UK’s most trusted financial brand

77,000 first-time buyers helped into their own homes
2018: 76,000

£705 million member financial benefit
2018: £560 million

Banking Brand of the Year 2018

More than 1 in 5 current account switchers came to us

4.9% UK leverage ratio
2018: 4.9%

Nationwide for Business:
our commitment to launch an everyday current account for small businesses

We’re investing an extra £1.3 billion over five years in technology bringing our total strategic investment to £4.1 billion

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1 Lead at March 2019: 4.8%, March 2018: 4.6%. © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019 and 12 months ending 31 March 2018, c. 60,000 adults surveyed per annum. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).


3 Pay UK monthly CAS data. 12 months to March 2019: 21.5%, 12 months to March 2018: 18.9%.

4 2018 comparative has been restated to reflect a change in the components of underlying profit. See page 27 for more information.

5 See page 28 for more information about member financial benefit.
Our building society was founded 135 years ago to help people save and buy homes of their own. We were driven by our social purpose, and our focus on building society is as important to us today as it was then.

We’re here to help our members achieve their financial goals, whether that’s:
- owning a home – this year, we helped one in five first-time buyers into a home of their own
- saving for the future – we look after £1 in every £10 saved in the UK, or
- looking after their day-to-day finances – almost 10% of all current accounts in the UK, and 8% of main current accounts are with us.

We do many of the things that banks do, but we’re owned by, and run for, our members: people who have their mortgages, savings or current accounts with us. And we measure our success through the things that matter to them: service, value and financial strength.

We need to be profitable to make sure that our Society and our members’ money are safe and secure, but – as a building society – we don’t need to pursue profits to pay ever higher dividends or put shareholders’ needs above those of our members.

We consider whether every business decision is the right thing to do from the perspective of our current and future members, which means we make different decisions from our competitors:
- we choose to forgo some of our profit to give members better long-term rates and service
- we have a prudent approach to lending
- we’re investing in our branches, as well as in improving members’ digital experiences, and
- we’ve committed to give 1% of each year’s pre-tax profits to charitable activities.

We’re helping to build society, nationwide.

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1 Source: CACI (February 2019) and internal calculations. ‘Main current accounts’ includes main standard and packaged accounts.
From my perspective as your Chairman, I see a Society that is thriving. We’re attracting record numbers of members and doing more for them. Our service continues to be better than that of our peer group\(^1\).

And the strength of our finances means we can invest for the future, whilst maintaining strong capital reserves – the amount we set aside to protect ourselves and our members against unexpected events.

This makes our Society a point of stability in an uncertain world, where people appear to be more divided along political, social and economic lines than in generations. These divisions have been brought into sharp focus by Brexit.

While we cannot remove political uncertainties, we’ve worked hard to make sure our Society will be able to support members whatever the future brings. Our strong capital position and cautious approach to risk mean we can continue to deliver for our members – as we have through many turbulent times in our 135-year history – supporting more members to buy homes, save for the future and manage their finances.

Today we are also facing transformational changes in technology and financial services. The way we communicate, organise ourselves, work and play has changed hugely in the last decade. New competitors are emerging, and consumers have more choice than ever before over when, where and how they manage their money, and who they trust with it.

While our Society is highly successful today, if we are to remain relevant, valued and competitive, we need to reassess how we serve our members. This is why last year we undertook a review of the Society’s plans and capabilities in light of these trends.

As a result, we have chosen to increase significantly the amount we are investing in technology, taking our planned five-year strategic investment

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\(^1\) © Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019, c.60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings.
Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).
to over £4 billion. The additional investment will allow us to develop new
digital and branch technologies to serve the changing needs of our
members, however they choose to interact with us, and to remain safe
and secure.

This investment has reduced our profits in the short term, but they remain
sufficiently strong. This was a deliberate decision we were able to make
as a building society, where profitability is only one measure of success –
alongside excellent service, long-term value, and financial strength.

The Society must be fit for the future and so must the Board. We evaluate
the Board’s capabilities and performance annually, and in 2018 this took
the form of an externally facilitated review. This found the Board to be
operating effectively, with a strong focus on the interests of our members.
The review identified some areas for us to prioritise, including preserving
our culture and mutual values in a time of great change, and spending
more time on strategic issues, as well as overseeing operational
performance.

Our Society is financially strong and growing, and we look to the future
with confidence

My fellow board members contribute a huge amount of expertise to the
Society. We review regularly the balance of the Board’s skills, capabilities
and independence. During the year we welcomed Albert Hitchcock, who
brings a wealth of experience in technology transformation, to the Board.
He has joined the Board’s IT & Resilience and Risk committees and will
strengthen the Board’s oversight of the Society’s technology strategy.

After eight years Mitchel Lenson will retire from the Board at our AGM
in July 2019 and I would like to thank Mitchel on behalf of the Board for
his valuable contribution over that time. On the management side, Tony
Prestedge became Deputy Chief Executive Officer and we welcomed
Patrick Eltridge to the Executive Committee as Chief Operating Officer.
Our Chief Financial Officer, Mark Rennison, has discussed with the
Board his intention to retire and the Board is actively considering
succession planning.

There is more information about these changes in the Corporate
governance report on page 43.

Another important part of the Board’s work is to ensure we pay our
colleagues fairly. We don’t reward anyone for maximising profits.
We pay the vast majority of our people at or above the market average
and consciously pay our most senior executives less than most of our
competitors, balancing this decision with the need to attract the right
people to lead the Society now, and in the future. I’d encourage you to
read more about this in our Remuneration report on page 81.

Our Board benefits hugely from hearing the views of members and
colleagues. We have a valuable dialogue with members through live
TalkBack events and through our online forum, Member Connect.

Colleagues are given lots of opportunities to hear from and, as importantly,
have open conversations with the CEO and his leadership team. For
example, our ‘People’s Choice’ leaders, who are chosen by their colleagues,
represent the employee voice and share insights at Board meetings twice
a year. We have also given non-executive director Mai Fyfield responsibility
for ensuring the views of our employees are heard by the Board. Member
and colleague views have a real impact on what we do: one example
among many is that member feedback prompted us to develop a business
banking proposition for small businesses.

I’ve talked a lot about change, so I’d like to close by assuring you that some
things will remain the same. Our values and aspirations are constant,
allowing us all to thrive together, through thick and thin. In these uncertain
times, what our Society stands for has become more important, not less:
bringing people together; delivering for members; doing the right thing;
supporting our communities.

Our Society is financially strong and growing, and we look to the future
with confidence. There is no other member-owned financial business in
the UK that can match our scale and reach, and we feel a real sense of
responsibility to provide a service and values-driven alternative to the
big banks.

We have the strength, experience and values, as well as the steadfast
support of our members and colleagues, to continue to succeed.
Thank you all for your support for our Society.

David Roberts
Chairman
Dear fellow member,

Nationwide is a building society, which means we are owned by you, our members. We have a deep and true member focus: we are here to serve your needs today and tomorrow.

We are committed to delivering great service, long-term value and a financially secure Society, run in the best interests of our members.

We have led our peer group on service for seven years running. We are now also comparing our service against the best in the UK, not just in financial services, tracking our place in the all-sector UK Customer Satisfaction Index. We have achieved our long-term goal of breaking into the top five, being ranked joint fifth in 2019, up from joint seventh in 2018. A key part of our service proposition is our branch network which is why we are investing in our branches and have pledged to keep a branch in every town or city we are in today until at least 2021.

Being member-owned means we can balance giving value to members, investing in our Society and maintaining our financial strength.

This year members benefited from £705 million (2018: £560 million) through better rates, fees and incentives compared with the market average. We kept our commitment to offer competitive mortgages and rewarded our loyal savers with special rates. Our leading service* and long-term value products have, I believe, helped us to another year of record membership as more people chose Nationwide for their mortgages, savings and current accounts.

Financially, we are strong. Our key measure of financial strength, our UK leverage ratio, is above our target at 4.9% (2018: 4.9%). We continue to manage our risks very carefully in an uncertain environment.

Our Society is in good health today. However, we must also look to the future and ensure we are best able to serve the needs of our members in a world where technology is changing how people manage their money. That’s why we announced in September an investment of an extra £1.3 billion in technology, taking our total strategic investment, including investment in our branches, to £4.1 billion over five years. Our investment will make us more efficient, innovative and responsive, and help us address our members’ needs today and in the future. In addition, we have committed to launch a business current account for small firms.

As a building society, we were able to increase our investment in technology to meet the long-term needs of our members, even though this reduces profit in the short term. Our underlying profit is in line with expectations, reducing to £788 million (2018: £977 million) after recognising a charge from technology asset write-offs and additional technology investment made during the year.

Our success is thanks to the hard work and commitment of our people, and I would like to thank them for their care and support for our members. I would also like to thank you, our loyal and growing membership, for your continued support for Nationwide.

Despite the economic uncertainties in the UK today, people still want to buy homes, save and manage their money, and we remain determined to support and serve our membership better every day.

Joe Garner
Chief Executive Officer

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*© Ipsos MORI 2019, Financial Research Survey (FRS), lead held over seven-year period covering 12 months ending 31 March 2013 to 12 months ending 31 March 2018, c. 60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander). Prior to April 2017, peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (Lloyds TSB prior to 2015), NatWest and Santander).

Your questions answered

We regularly hear from members at our live TalkBack events and through our online forum, Member Connect. Here are some of the questions our members ask us.

Why are you launching a business current account?  
Christopher, Andover, Hampshire

We estimate that up to a million members own a small business and our proposition will meet the straightforward needs of businesses, offering a fair value current account with market leading service. We have long believed we could bring a mutual alternative of scale to small firms, offering everyday great service and value. However, in the past, the costs of setting up were high and, at the time, we didn’t believe this was the optimal use of members’ money.

Now technology is making it more economical to enter the market, and we have also secured £50 million from the Capability and Innovation Fund to boost competition in business banking, which will allow us to develop our business banking proposition faster.

Why aren’t your savings rates higher?  
Brian, Chelmsford, Essex

We’ve kept our average deposit rate more than 50% higher than the market average, meaning we’ve provided members with £515 million in extra interest. We can do this because we are member-owned and focused on their interests. However, in an environment where mortgage rates are low there are limits on how much we can pay to our savings members. But we always try our hardest to give great value to our membership as a whole.

What are you spending over £4 billion of the Society’s funds on?  
Sharon, Market Harborough, Leicestershire

Technology is having a profound effect on every aspect of our lives, including how we manage our money. A significant part of our £4.1 billion five-year strategic investment will allow us to develop IT systems and infrastructure to enable us to address members’ changing needs. We are also investing in our branches. We strongly believe these are investments that will benefit our members over the long-term, both in terms of being able to access new services and exciting digital technologies, and in maintaining a resilient and secure Society.

How far can you guarantee that you won’t close any branches?  
Jill, Waltham Cross, Hertfordshire

While we can’t guarantee to keep every branch open, we’ve pledged to keep a branch in every town or city that has one today until at least May 2021. We are also adapting them to meet members’ changing needs.

Members make it very clear that branches are an important part of what we offer – they value the ability to have conversations about important financial decisions with people they know, and that comes through very clearly at Member TalkBacks and through our online member forum, Member Connect. We will continue to listen to members and adapt to their changing needs.

How are you protecting your members’ money from fraud?  
Mark, Kings Lynn, Norfolk

Members need to be able to rely on us to keep their money safe. We constantly strengthen our fraud defences and invest in new technology. We recognise the impact fraud has on customers and are committed to raising awareness of scams, as well as working closely with regulators, law enforcement agencies and other providers to combat customer fraud. Our colleagues in our branches play an important role in educating members on the risks of fraud and providing help when needed. We also place prominent warnings on our mobile app and internet bank to encourage members to ‘Stop and Think’ before making a new payment.
How we’re building society, nationwide

Our purpose, building society, nationwide, describes our aspiration to make a positive contribution to society by delivering the benefits of mutuality to more members, both present and future. It is underpinned by five strategic cornerstones that describe what we’ll do and how we’ll do it.

Building thriving membership

is about helping more members make more of their money

because...

the more members we help, whether it’s to buy a home of their own, save for the future or manage their everyday finances, the bigger difference we can make.

To achieve this, we will...

develop our core and ‘just for members’ products and enter new markets where we can make a mutual difference for more people.

Which will mean...

more than 4 million members will be using at least two of our products by 2022.

Our priorities next year are to...

develop our range of later life mortgage products and an everyday current account for small businesses.

Built to last

is about keeping our Society and our members’ money safe

because...

our members need to know that their money, and personal data, are safe and secure and that they can access their money wherever and whenever they need it.

To achieve this, we will...

use our members’ money wisely, and strike a balance between retaining profits, rewarding members and investing in the future of our Society.

Which will mean...

our capital levels give confidence that we can withstand future challenges and we are profitable, resilient and sustainable for the long term.

Our priorities next year are to...

maintain strong capital levels and progress our technology investment, which will help us to grow, support and protect future generations of members (see page 12).
Building legendary service

is about striving to serve our members better every day

because...
our members want the best service, with both the convenience of digital and the human touch of face-to-face service.

To achieve this, we will...
transform our service so that things work seamlessly for our members whether they are online, in a branch or speaking to us on the phone.

Which will mean...
we are recognised as one of the best for customer service, both amongst our peers and in the UK as a whole.

Our priorities next year are to...
continue our £350 million branch transformation and extend and improve our digital and mobile experiences.

Building PRIDE

is about creating the right culture to do the best for our members

because...
a positive and energising work environment, where our colleagues are trusted to make the right decisions at the right time, will in turn benefit our members.

To achieve this, we will...
create a distinctive experience for our colleagues that supports their performance and growth, and recognises their contribution.

Which will mean...
we are recognised as one of the best places to work in the UK.

Our priorities next year are to...
attract and develop the digital and data talent we need for the future, grow our leadership capability, and inspire and enable our colleagues to keep learning.

Building a national treasure

is about supporting communities and making a difference

because...
we have a social purpose, to build society, nationwide, and believe that everyone deserves a place fit to call home.

To achieve this, we will...
make sure our actions are consistent with our values, take a bolder stand on issues affecting society, and invest in local communities.

Which will mean...
consumers think of and trust us to meet their financial needs, and we make a difference on the things our members care about.

Our priorities next year are to...
continue our five-year social investment via our Community Boards, our Oakfield housing project and our Open Banking for Good challenge (see page 23).
How we are doing on service, value and strength

Nationwide is not like most organisations and our key performance indicators (KPIs) are not like those used by most organisations. We track our performance by focusing on the things that matter most to our members: great service, long-term value and financial strength. Our KPIs and targets for 2019/20 are the same as those for 2018/19. We don’t seek to maximise profits, so profit is not a KPI. Instead, we’ve developed a Financial Performance Framework that helps us strike the right balance between retaining profits to maintain our financial strength, rewarding members now and investing so that we can continue to meet members’ needs in the future. You can find out more about this on page 32.

Service

Giving our members the best service possible.

We aim to be the best for customer satisfaction in our peer group as measured by the FRS survey, with a lead of at least 4% against our closest competitor. Our lead of 4.8% exceeded our 2019 target1.

We also want to be among the top five organisations across all sectors for customer service, as measured by the Institute of Customer Service’s UK Satisfaction Index. We were joint fifth in January 2019, in line with our 2019 target2.

Value

Helping more members achieve their financial goals, giving them better value products and contributing to local communities.

We’re aiming to have 10 million engaged members by 2022, with 4 million committed members who use at least two of our products3. We are on track to achieve our 2022 targets.

We aim to deliver at least £400 million of value each year to our members through better pricing than the market average4. We shared £705 million of benefit with our members during 2018/19.

We’ve committed to give at least 1% of pre-tax profits to charitable activities5. We committed £10.6 million to charitable activities during 2018/19 meaning that we continued to meet our 1% commitment.

Strength

Keeping our members’ money safe and secure.

We aim to have a UK leverage ratio (a measure of our financial strength) of at least 4.5%.

Our UK leverage ratio of 4.9% exceeded our 2019 target.

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1 Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2016 to 12 months ending 31 March 2019, c. 60,000 adults interviewed per annum. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across main current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB). Prior to April 2017, peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest and Santander).

2 Institute of Customer Service’s UK Customer Satisfaction Index as at January in each year.

3 Engaged members have their main personal current account with us, a mortgage with a balance greater than £5,000, or a savings account with a balance greater than £1,000. Committed members have two or more of our products, of which at least one is an engaged membership product. Prior to 2018/19, the savings threshold was £5,000; prior year comparatives have been restated using the new £1,000 threshold. Figures are as at 31 March each year.

4 For more information on member financial benefit see page 28.

5 The 1% is calculated based on average pre-tax profits over the past three years. ‘Other activities’ includes, amongst other things, internal costs associated with managing our social investment, but excludes employee volunteering.
Our technology investment

We’re investing an extra £1.3 billion in technology, bringing our total strategic investment over five years to £4.1 billion. This will help make sure we can keep meeting our members’ needs in the future.

Why is this important?
Our Society is growing, and digital technologies are changing how our members manage their money. For example, last year they made almost 50% more contactless payments and over 40% more logins to our mobile app. Members also expect our services to be there whenever and wherever they need them.

The world around us is changing too. New digital challenger banks are emerging, and we, the wider industry and regulators are increasingly focused on making sure that firms’ customer data is secure and used appropriately.

What will it achieve?
Our technology investment will make us more resilient and secure, increase our agility to deliver better digital capabilities and improve our use of data. It will streamline our technology and reduce costs, meaning we can use our members’ money more efficiently.

Our technology investment underpins our strategy, delivering better member outcomes and helping us to build society, nationwide.

This new investment means we can…

- Deliver new features and services to our members more quickly, especially on our digital platforms, by using new tools and techniques, and changing how we work.
- Keep Nationwide, our members’ money and their data safe and secure by using state of the art security solutions to make sure we’re protected against potential threats.
- Be there when our members need us by using technologies like cloud computing, and improving the way our systems are designed so that our services are always available.
- Keep improving our products and services incorporating smarter data analysis into our services and back office processes.
- Give our members faster service by using automation to support our colleagues with everyday tasks.
- Use our members’ money more efficiently by streamlining our technology, which will reduce how much it costs to deliver our services to our members.
- Make sure our people have the right technology skills by developing the skills of our existing employees and hiring over 1,000 specialists to our new technology hubs in Swindon and London.

Our Society is growing, and digital technologies are changing how our members manage their money. For example, last year they made almost 50% more contactless payments and over 40% more logins to our mobile app. Members also expect our services to be there whenever and wherever they need them.
Jay’s had her current account and savings with Nationwide for over 20 years. So, when she came to buy her first home, she turned to us again.

“I’ve been with Nationwide since I was little, and I’ve worked here for 15 years, so I didn’t think twice about choosing them for my mortgage. I took a look at some other providers, but Nationwide was the one for me.”

Jay also used our MyNationwide app to help her along the way.

“The app was great – I could ask questions any time and get the answers I needed.

As a first-time buyer that was super helpful as I was a bit clueless at the start of it all! I also used the calculators to check how much I could borrow and which rates were best for me.

I’ve always trusted them to look after my money, so it made perfect sense to trust Nationwide with my home. And with the money I saved, I bought my beautiful boxer puppy, Olive.”
We are owned by the 15.9 million members who we’re helping into a home, to save for the future, or to manage their everyday finances.

Our membership grew to its highest level in 2018/19 and we are doing more with our members. Our committed membership – members who have two or more of our products – grew from 3.2 million to 3.4 million.

Members trusted Nationwide with more of their savings and this helped us grow deposits strongly by £6.0 billion (2018: £3.5 billion). We kept average deposit rates more than 50% above the market average, and launched attractive new rates on loyalty accounts. However, in an environment where mortgage rates are low, there are limits to how much we can pay to our savings members.

Despite economic uncertainties, mortgage volumes remained strong and our competitive mortgage pricing meant we lent more to homebuyers and landlords on both a gross and net basis.

We relaunched our home insurance proposition which was well received by members who took out 97,000 policies, almost 30% more than in 2018, and helped us become the top-placed insurance provider in the Institute of Customer Service’s UK Customer Satisfaction Index.

More people are choosing Nationwide to manage their everyday finances; 794,000 new current accounts were opened this year (2018: 816,000) and our market share of main current accounts has reached 8% for the first time. We hope to replicate this success in the small business market, with the launch of a business current account.

Membership matters

Customers become members when they choose Nationwide to help them buy a home, save, or manage their everyday banking, which means that mortgages, savings and current accounts are the foundation of our relationships with members. We grew our membership to a new high and members are doing more with us: the number of ‘committed’ members – those with two or more products – grew by 5% to 3.4 million.

Helping more members into homes

Overall, we lent more to help people into a home this year. Gross mortgage lending reached an all-time high of £36.4 billion (2018: £33.0 billion) and net lending was £8.6 billion (2018: £5.8 billion).

We’re working hard to expand home loan choices for members whether they are just starting their home journey, are established home owners, or are empty nesters.

We’ve supported new home buyers since our founding days, and this remains at the heart of our purpose. Last year, we helped a record 77,000 first time buyers, one in five of all first time buyers, into their own home.

For older members looking to access the value in their properties, our Later Life Lending range now offers three ways to borrow against their property in retirement, and we have a team of dedicated advisers to advise members on the option that suits them best.

We also improved our buy to let range and grew our lending to landlords through The Mortgage Works.

Saving for the future

Savers continue to be hard pressed by persistently low interest rates, and we continue to give them the best rates we can sustainably afford. Overall, our members benefited from an extra £515 million in deposit interest compared with the market average (2018: £435 million). We launched a number of new products to reward loyalty and meet new needs. Our members responded enthusiastically, opening more than 470,000 new Single Access and Loyalty ISAs. Over 75,000 Future Saver accounts, a straightforward savings account for children, were also opened in the year.

Managing everyday finances

The number of people choosing Nationwide to look after their daily finances continues to grow. More people opened a new current account with Nationwide than any other brand, with 794,000 (2018: 816,000) accounts opened this year. This takes our market share of all current accounts to just below 10%, and our share of main accounts to 8%.

More than one in five of all switchers via the current account switching service chose Nationwide and we’re making it easier for people to open accounts with us. For example, you can now open our youth FlexOne account in 10 minutes and we will extend this swift account opening process to all our adult accounts from the summer of 2019.

Open for business

We are hoping to replicate our success in personal current accounts in the small business current account market. We will launch a straightforward business account, combining a market-leading digital platform with the personal service our colleagues give every day. We were successful in our bid for funding from the Banking Competition Remedy Limited’s Capability and Innovation Fund and will receive £50 million funding, which will accelerate the launch of new products and services for small businesses.
Mr L visited our Woodley branch and asked to transfer £95,000 from his bonds to his current account.

When the branch team routinely asked why he wanted to move the money, he told them it was for personal reasons.

Our Branch Manager, Andreas (pictured), thought something didn’t quite seem right. He took Mr L into a private room and asked him if everything was ok.

“Mr L’s one of our regulars and we know him well here in the branch, so I could tell that he wasn’t his normal self. I asked if anyone had told him to take out the money. After a bit of hesitation, he told me someone claiming to be the police and trading standards had told him he needed to pay them £95,000 to repair the foundations of his house.”

The rogue traders had told Mr L if he didn’t pay, they’d name and shame him in the newspaper. They’d also warned him not to tell anyone what he was doing.

“I’m so glad Andreas intervened and was persistent in trying to help me, as the alternative would have been too scary. I would have had nothing.

Nationwide is, and always has been, looking after us. I’m so grateful to Andreas and the team for being so vigilant.”
Built to last

We are committed to running a financially secure Society, providing a safe home for our members’ money. As a building society, we are able to make decisions in the long-term interests of our members.

Our Financial Performance Framework helps the Society achieve the right balance between giving value to members, investing in our business and maintaining our financial strength.

Our capital – the funds that are a cushion against unexpected economic events – is above our own targets and regulatory requirements. At 4.9% our UK leverage ratio, a key measure of our financial strength, is also above our target. Following the announcement in April 2019 of our intention to redeem our Additional Tier 1 capital instrument in full, our UK leverage ratio will reduce but will remain above regulatory requirements.

We are managing our risks conservatively, although slowing house price growth resulted in a slightly higher loan to value ratio on total lending of 58% (2018: 56%).

We chose to provide extra value to members by competing in a crowded savings and mortgage market. Our competitive rates, fees and incentives meant members benefited from £705 million in member financial benefit, well above our aim of at least £400 million.

We also decided to invest an extra £1.3 billion in technology over five years so that we can meet members’ changing needs.

Underlying profit was down to £788 million, largely due to the impact of asset write-offs and our additional investment in technology, in line with expectations. Statutory profit was £833 million (2018: £977 million). As a building society, we were able to make these choices knowing it would impact profitability in the short term. We remain committed to our Financial Performance Framework, and our current performance is consistent with this framework which enables us to make conscious decisions to increase our investment at a time when members’ needs are changing rapidly and technology advancement is offering new opportunities.

We have continued to manage costs and have delivered over £100 million in sustainable cost savings in each of the last two years.

Financial and operational resilience

We continue to manage our capital ratios in the best interests of our members, based on economic and market conditions. Our common equity tier 1 capital ratio reached 32.4% (2018: 30.5%) and our UK leverage ratio was above our target at 4.9% (2018: 4.9%). Both are well above regulatory requirements. Our UK leverage ratio will reduce following redemption of our Additional Tier 1 capital in June 2019, but will remain above regulatory requirements.

One of our core values is that we spend our members’ money carefully. We have been working hard to become more efficient and to achieve sustainable cost savings. Although our business has grown, we’ve kept costs broadly flat – excluding the impact of technology asset write-offs and expenditure directly related to our additional technology investment. We’ve also delivered over £100 million in sustainable savings in each of the past two years and are on track to achieve our increased target of £500 million in sustainable cost savings by 2023.

Operational resilience is also a priority for management and the Board. We are particularly focused on cyber and fraud defences, which we’ve enhanced to protect our members’ money. For example, we’ve delivered new measures to detect and prevent attacks, including improved authentication on more risky online shopping transactions.

Managing our profits in our members’ interests

As a building society, our decisions are driven by what is in the long-term interests of our members rather than the need to make ever-higher profits. We’ve made two such decisions in the last year, consciously choosing to prioritise our members’ interests over higher profits.

Firstly, we chose to keep average deposit rates at a level that was 50% higher than the market average. At the same time, we’ve offered competitive rates for new and existing mortgage members.

As expected, this has continued to put pressure on our margin – the difference between the rates we pay on deposits and those we charge on mortgages – and had an impact on profits. We expect further pressure on margin in 2019/20 and will continue to manage our rates in the long-term interest of our members and the Society.

The second decision was to invest in the future of our Society. We have announced plans to invest an additional £1.3 billion in technology over five years, taking our total strategic investment to £4.1 billion. Our investment will mean we can develop a new digital platform, improve our service experience across all channels and deliver greater cost efficiencies. There’s more about our investment on page 12.

The effects of these decisions can be seen in this year’s underlying profits, which were lower at £788 million (2018: £977 million). Statutory profits were £833 million (2018: £977 million). The major factor in the reduction in profits was a charge related to technology asset write-offs and our additional technology investment. Further information on our Financial Performance Framework is included on page 32.
Emma’s sons told her they wanted to look after their own money. That’s why she took Carl and Jacob into their local branch to open their very own FlexOne current accounts.

“I chose Nationwide because I wanted an organisation that I can trust to look after my sons’ interests. The team were so welcoming and I knew instantly that I’d made the right choice. To me, a building society feels safer and more caring than the big banks, and that’s what I want for my boys.”

Carl and Jacob had a fab time when they went into branch and met Luke, one of our Personal Banking Managers.

“We loved opening our accounts. Luke was really nice and he told us all about saving our money. He even told us we own Nationwide and that we’re his boss!”

Emma’s really pleased that she and her family have a branch nearby.

“It means we feel like we have a real relationship with Nationwide. It makes us trust them and know that we’re part of something. And thank you so much to Luke for being so amazing. You made my boys feel like they matter. That they’re not just a number.”

“You made my boys feel like they matter. That they’re not just a number.”
Building legendary service

We all know what good service feels like. When we’re in a hurry, it’s quick and efficient. When we’re facing a dilemma, it’s unhurried and personal. Good service is not ‘one-size-fits-all’ but combines the best of human and digital interaction to serve our members well however they choose to interact with us.

We start from a strong base. For seven years running, we’ve been no.1 for service among our peer group. We’ve moved up to joint fifth in the all-industry UK Customer Satisfaction Index, achieving our target of being in the top five. Our current account satisfaction is also ahead of our peer group, with a lead of over 10%, and we were named Which? Banking Brand of the Year for the second year running.

Service expectations continue to grow, and we continue to work hard to improve our member experience. We are investing £350 million in transforming our branch network, while pledging that every town and city with a Nationwide branch will continue to have one until at least May 2021. Simultaneously, with mobile users up by 33% last year, we are investing in our digital services, bringing new levels of speed, convenience and security to our members.

Branches: here today, here tomorrow

Branches are a vital part of our local communities and valued by our members. We believe that members still want to talk to someone face to face about big financial decisions, which is why we continue to invest in our branches. We’ve recently pledged to keep a branch in every town or city where we have one today for at least two years.

However, it’s also true that how our members use our branches is changing. That’s why we are evolving the role of branches and transforming our network with a £350 million investment over five years. We’re introducing new branch styles. Last year, we converted over 100 branches to an open plan format combining the latest technology, such as high-definition video and iPads, with comfortable seating for coffee and conversation, and private spaces for personal consultations. We also merged a handful of branches which were near each other and refurbished the remaining branches to offer better services and technology.

Delivering digitally

Alongside our branches, members want to make the most of the speed and convenience of digital devices. We now have over 2.7 million members who are active mobile users – almost a third more than last year – and they are logging in, on average, nearly every day.

Net satisfaction with our app is over 90% but we are not complacent and we continue to invest in our digital services to give members more control over their money. New mobile functionality means members can now set up new payees, report lost or stolen cards, set up standing orders, and change their passcode on the move.

We’ve redesigned some of our processes to make it faster and easier to take out a mortgage or open a current account online, and we will be extending these improvements to more of our services over the next few months. We’re also exploring how we can use Open Banking rules that apply across our industry to put members in control of their money. Since last year, members have been able to share their financial data with Open Banking approved third-parties. We have also trialled an aggregation service in our mobile banking app that lets members see their accounts with multiple providers in one place. We will roll this out to members this year.

We will be able to go further and faster in developing our digital services over the next few years, thanks to our technology investment, and this will help the Society meet the changing lifestyles of our members, providing them with excellent service however they choose to deal with us.
Creating the right culture to do the best for our members

We have so many people working here at Nationwide. We’re all from different backgrounds with different perspectives.

And we know that those differences make us stronger and help us understand our members, who are also hugely diverse. Some of our people have been with us for over 40 years, some are brand new. Some have come from university, others have joined us from other organisations. And recently, we’ve had more and more apprentices coming to work with us.

Elrich is 21. He went to school in Swindon and as the time came to leave, he decided to look into an apprenticeship. That’s when he thought of us. He joined the Society’s apprenticeship scheme back in 2016.

“Since then, I’ve been promoted to IT Disaster Recovery Analyst and have been given extra time to study for my degree in Business Management. I feel like Nationwide has really supported me, both in my work and my studies.”

Kate, our Emerging Talent Manager here at Nationwide, looks after our apprentices.

“We believe that encouraging our employees to build their careers in the way that’s best for them means they’re happier at work. And that means they’ll be doing their best for our members, too.”

“I feel like Nationwide has really supported me, both in my work and my studies.”
Building PRIDE

PRIDE is a statement of the culture, values and principles we strive to live by. It’s about how we treat our members and each other.

We’ve worked hard to create a working environment where people are valued, teamwork is celebrated, and everyone can grow and develop their careers.

We have a strong culture and committed colleagues. This is evident from this year’s employee engagement score, which at 79% (March 2018: 78%), continues to be above the high-performing benchmark of 77%.

However, our rapidly changing world demands new skills and behaviours from our people: we need to be more innovative and able to work at pace. To help us achieve this, we developed a new people strategy last year. Our goal is to develop leaders at every level of our business to inspire and empower our people, and to help them learn new skills and capabilities. In the coming year, we will also be actively recruiting up to 1,000 technology specialists to support our technology investment. We have an approach to reward and recognition that recognises every colleague’s contribution based on the Society’s overall performance.

Culture and values underpin our success

Building society, nationwide is our purpose, and achieving that requires all our people to understand our strategy and live and breathe our values every day.

We know from independent surveys that our ethic of care for members and each other is strong. The Banking Standards Board culture survey showed that 92% of our people believe we put our customers at the centre of business decisions, a clear indication that our mutual values are shared throughout the Society.

However, we face new challenges in a world being redefined by technology, and we need to evolve our culture to meet these. We want to move from prescriptive approaches to clear principles and values that genuinely empower our people and we are focusing on this in our annual employee awards, by encouraging people to compete in new categories such as ‘have a go’, ‘growth’, ‘fresh perspectives’ and ‘mutual good’.

Empowering our People

We’ve launched a number of initiatives to support a move towards individuals feeling more accountable and empowered, notably the Arthur Webb challenge cup. In its second year we have seen over 700 colleagues join cross-community teams to work towards producing simple, innovative solutions to improve our employee and member experience. We are now focusing on challenging structural barriers to change, such as policies, governance and procedures, and encouraging colleagues to be more experimental.

Developing leaders at every level

Over 1,000 leaders have now taken part in our flagship Leading for Mutual Good programmes that we launched last year to develop senior leaders. In addition, we’ve introduced Developing My Leadership learning modules that put our managers in control of their skills development. So far, the modules have a 98.6% recommendation rate from the 1,600 colleagues who’ve taken part.

We are also identifying ways in which we can provide roles and experiences that will stretch and broaden our leaders, so we can meet future demands.

Creating a learning organisation

We are expanding our online learning resources so that every colleague can develop their skills and knowledge. We’ve launched a new development framework that translates our PRIDE values into demonstrable everyday skills and behaviours. Over 2,200 colleagues have used this to take part in learning relevant to them since April 2018. We’ll continue to develop the platform to support lifelong learning and development of our people.

Investing in the skills to deliver a fully digital organisation

Our technology investment to upgrade and develop our digital capabilities means we need to attract technology specialists to Nationwide. We’ve created a Technology Talent Squad to address this people challenge, responsible for both helping existing colleagues develop new skills and recruiting up to 1,000 new specialists – from software engineers to agile delivery experts – to work in Swindon and London.

Rewarding and recognising people

Fair pay and reward remain an important part of our ethos. This was the second year of Sharing in Success, our reward scheme that recognises every colleague’s contribution based on the Society’s overall performance. Instead of individual bonuses, all our people receive a variable pay award which in 2019 was 8.7% (2018: 9.5%). The award reflects our success in achieving things that are important to members – giving you better service than our peer group, serving more of our members’ needs, and achieving our cost-saving targets.

We also made a significant change in how we celebrate loyalty and long service. Following feedback from our people, who told us they valued time off to spend with friends and family, we have introduced a paid six-week sabbatical for everyone who works for Nationwide for 25 years.

Putting our members and their money first

Rising to the challenge

Inspiring trust

Doing the right thing in the right way

Excelling at relationships

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1 The comparative for Nationwide’s employee engagement score in 2018 has been restated based on updated information. The high-performing benchmark is based on data from more than 35 companies around the world across a range of industries. It covers more than 450,000 employees.

2 This is an annual survey undertaken by the Banking Standards Board covering 26 firms, including 9 systemically important institutions in the UK (of which Nationwide is one) plus a range of other mid-sized and small banks and building societies. It aims to raise standards across the sector. Over 3,000 colleagues at NBS participated in the last assessment.
Promoting diversity and inclusion

Our diversity and inclusion agenda is about creating a working environment where all our people feel valued, and able to combine their unique talents with those of other colleagues to make our Society stronger and more successful.

In 2015 we set ourselves challenging diversity targets to be achieved by the end of 2020. We’re pleased to have met our gender target, for women to fill between 33-35% of our most senior roles, ahead of schedule; 34.9% of senior roles are filled by women. We’re also close to achieving our target of 2.6% of roles at all levels being filled by disabled people (currently 2.5%). However, despite considerable efforts, achieving our Black, Asian and Minority Ethnic (BAME) targets has proved much more challenging than we anticipated. We were aiming for 8-15% of senior roles to be filled by BAME employees (currently 4.7%). We are creating progressive and sustainable plans to address this and stretch our ambition in all areas of diversity and inclusion.

Each part of the Society is working to address its own priorities, with tailored diversity and inclusion action plans. For example, the Finance & Efficiency community has begun cultural awareness workshops to prevent potential unconscious bias. Each area of the Society has also appointed a senior manager to report progress monthly to our new Strategic Diversity and Inclusion Action Group.

As we are planning on recruiting up to 1,000 people to support our technology investment, we have also created a distinct people proposition and assessment process to help attract quality candidates who share our values. This includes making sure we are attractive to candidates who are neuro-diverse, such as people on the autism spectrum, widening our potential talent pool.

Gender pay gap

We published our second gender pay gap report in November 2018, which showed our mean average gender pay gap as at 5 April 2018 was 28% (compared with 29% in 2017). This is very much a function of the nature of our business and our resulting employee profile. Our overall gender pay gap is therefore driven by having far fewer men in our junior roles which reflects our long-term success in offering a variety of work patterns which appeal to individuals at different stages of their career. We are committed to achieving a more balanced gender distribution and are putting new programmes in place to help improve opportunities for women at senior levels.
Supporting communities and making a difference

The Rock Trust aims to prevent youth homelessness and support young people to build better futures. Last year, they received a £50,000 Community Grant from Nationwide’s Community Board in Scotland.

Ally is Head of Services at the Rock Trust.

“When young people leave foster care, they face temporary accommodation and uncertain futures. Our Housing First project helps them break out of that cycle by offering them a permanent place to live, and support to stand on their own two feet. With Nationwide’s help, we’ve doubled the number of young people we can support.”

Hannah is 17 and used to be Scotland’s most reported missing person.

“The Rock Trust stepped in when I most needed it. I used to run away all the time and I didn’t feel like I could trust anyone. Now I’ve got a place to call my own, I’m at college and I don’t drink or do drugs anymore. I feel like this is my home. And I know I have help no matter what.”

Adam (pictured) is one of Hannah’s Rock Trust project workers who supports her day-to-day.

“The biggest change I’ve seen in Hannah is her confidence. She lives on her own, supports herself and has made such a positive change to her life. And Nationwide’s grant is helping us do that for so many others now, too.”

Nationwide Community Grants have been rolled out across the whole of the UK.

“With Nationwide’s help, we’ve doubled the number of young people we can support.”
Building a national treasure is perhaps our most ambitious cornerstone. It’s not about how we see ourselves, but about how others see us: how well we are trusted, recognised as a brand, and seen as a force for good in society.

We’re pleased to be no.1 for trust in our peer group, and joint top for brand consideration1 – a measure of how many consumers would consider Nationwide for their financial needs.

As a building society, we are guided by a social rather than a commercial purpose and aim to make our communities better places to live and work. Last year, we aligned our social investment with our goal of helping people into better homes and now direct most of our community investment into housing initiatives. In the second year of our social investment strategy, built on the idea that everyone should have a place fit to call home, we’ve awarded Community Grants totalling £3.9 million to more than 100 housing-related projects. We’re also working with Swindon Borough Council to develop a multi-generational community of 239 homes.

Financial capability is also important to us. We are funding a £3 million Open Banking for Good challenge, to motivate technology firms to use Open Banking standards to develop apps and services that put people in control of their money.

No.1 for trust

We’re no.1 for trust in our peer group, with a lead over our nearest competitor of 2.3% (March 2018: 1.4%), and we’re joint top for brand consideration. Our trust and brand consideration scores were our highest year-end scores ever2.

Everyone should have a place fit to call home

We continue to take concrete steps to make our communities better places to live and work.

In 2007 our members voted to commit at least 1% of pre-tax profit to charitable activities each year. In 2018/19, we invested £10.6 million in community projects through the Nationwide Foundation (an independent charity which we fund), our own social investment strategy and a range of local initiatives.

Our social investment is aligned with our founding purpose of helping people into better homes. Since launching our strategy, we’ve established 11 Community Boards covering the whole of the UK, each made up of Nationwide members, colleagues and local housing experts. Each Community Board has the power to award housing-related Community Grants, and local members have the final say over which projects we support.

In the last year, we have made grants totalling £3.9 million to over 100 housing-related charities or projects. Our funding has helped older people live independently for longer in Scotland, supported homeless young people in Gloucestershire to rebuild their lives, and has supported young vulnerable people in Wales through funding for a new helpline.

We have applied for planning permission for our Oakfield development, which will transform a brownfield site creating the start of a community of 239 new homes, including affordable housing. Through the support of a community organiser, local residents have helped shape the plans to foster neighbourliness through shared gardens, extensive places to meet and play, and a community hub. We intend to share what we learn to encourage other responsible businesses to do more as part of our commitment to find local solutions to the national housing shortage.

We are also working with two housing and homelessness charities. We have supported Shelter since 2001, part-funding its national helpline, donating £5 for every new mortgage taken out and supporting its Christmas campaign. We’re also working with St Mungo’s, to provide our branch colleagues with the tools and knowledge they need to provide a compassionate response to rough sleepers locally.

Looking out for tenants

Around one fifth of people in the UK live in privately rented homes and we’re using our expertise and influence to improve the quality of these homes. In 2017, we established a cross-industry Partnership Board made up of organisations and charities representing tenants, landlords and agents. This is now developing a coherent strategy for the sector. It also backed a Private Member’s Bill to let tenants bring claims against landlords for poor quality homes and succeeded in widening access to the rogue landlord database.

Unlocking financial capability

There are around 13 million people in the country who are coping financially, but only just keeping their heads above water. We believe Open Banking could help transform the lives of these people and launched a £3 million Open Banking for Good challenge to the financial technology community to develop apps and other services for them. We received over 50 applications and have shortlisted seven firms who we are working with closely to develop solutions in three areas: helping people understand their income and expenditure; smoothing irregular incomes, for example, in the flexible ‘gig’ economy; and manage their money and debt. Our funding will help bring the most successful solutions to market.
The Nationwide Foundation is an independent charity set up by the Society in 1997. Each year, we give 0.25% of Nationwide’s pre-tax profits to the Foundation – £2.4 million in 2018/19 – as part of the 1% of pre-tax profits we give to good causes. The Nationwide 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 Nationwide Foundation is supporting an organisation in Knowle West, Bristol, to find ways to use microsites – such as land in large back gardens, between buildings or grassed verges – to build up to 350 new homes for local residents. The Foundation is also funding the Affordable Housing Commission, to ensure more genuinely affordable homes will be created in England.

2. **Backing community-led housing**
   - helping local people take control of their housing
   The Nationwide Foundation is helping community-led housing schemes get off the ground by funding work that seeks to make public land widely available and accessible to community-led housing organisations. It is also supporting work exploring the health and wellbeing benefits of living in community-led housing in Wales.

3. **Transforming the private rented sector**
   - to provide affordable, decent homes for tenants
   The Nationwide Foundation funded a landmark review of the private rented sector in England, which provided robust insights and evidence. Housing experts, politicians and charities welcomed its launch in 2018. Academics at the University of York conducted the review, independently analysing private rented housing, including how policies have changed the sector over the last ten years.
Outlook

While the UK economy has slowed over the last few years, it has proved more resilient than many expected, with continued healthy gains in employment and a gradual rise in earnings contributing to solid rates of household spending.

We expect economic activity to continue to rise at a modest pace in the near term, which may mean a small rise in the unemployment rate from recent 43-year lows, with interest rates remaining close to current levels over the next few years. We anticipate that economic activity will then pick up once Brexit uncertainties fade and the UK’s trading relationship with the EU becomes clearer.

We expect demand in the housing market to remain fairly subdued, close to recent levels, before strengthening once the wider economy gains momentum. Deposit growth is likely to rise by around 4% per year, a little stronger than that recorded over the past two years.

In our own business, we will continue to make balanced decisions in the long-term interests of members and the Society as a whole. We expect our core mortgage and savings markets to remain competitive, with a continued narrowing of our net interest margin, and will continue our focus on delivering good long-term value for borrowers and savers.

Our financial strength has enabled us to commit to ongoing investment in technology with the confidence that we can continue to support our members now and in the future as we have done for the last 135 years.
Risk Overview

Nationwide takes a prudent approach to risk management. We keep our members’ money safe and secure by aligning our risk appetite with our strategy. To ensure risks are managed consistently, we operate an Enterprise Risk Management Framework, which sets out the minimum standards and processes for risk management. Further detail is included on page 103 of the Business and Risk Report.

Top and Emerging Risks

Whilst the risks that Nationwide runs are broadly stable, the threat posed by the external environment has heightened over the past year. Nationwide has responded to these threats through our strategy as described below. Additional information on these and other top and emerging risks, as well as a description of the principal risks and uncertainties we are exposed to through our business model, can be found in the Business and Risk Report on pages 98 to 102.

Political and Economic Environment

Nationwide’s core markets are naturally exposed to any downturn in the UK’s economic conditions. Economic risks remain heightened due to uncertainty surrounding Brexit and the wider geopolitical environment.

Our strategic response:

- Maintaining strong capital and liquidity surpluses over regulatory minimums with a CET1 ratio of 32.4%, UK leverage ratio of 4.9% and Liquidity Coverage Ratio of 150.2%.
- Undertaking robust internal and regulatory stress tests, including the 2018 Bank of England stress test in which we maintained capital ratios in excess of regulatory expectations.

Competition

Competition has intensified as newly ring-fenced banks have increased their focus on our core markets. Meanwhile new market entrants, competing primarily via digital channels, are seeking to exploit new technologies to revolutionise how customers use and access existing products and services.

Our strategic response:

- Diversifying our products to better meet customer needs through initiatives such as Later Life Lending and Nationwide for Business.
- Committing to maintain our branch presence and investing £350 million over five years to improve the experience in branch.
- Partnering with fin-techs to develop next-generation technologies.
- Investing an additional £1.3 billion in technology over five years to ensure we continue to meet our members’ needs.

Technology (incorporates Managing Change and Cyber Security)

Our members are increasingly demanding always-on and intuitive digital services. This increases demand on our systems and the volume of data that must be managed securely and reliably.

Our strategic response:

- Investing an extra £1.3 billion over five years into our technology to improve services and minimise the risk of disruption to members.
- Investing in cyber security, evolving our controls across both new and existing technologies to protect our systems and customer data from more complex attacks.

Regulation

The regulatory environment continues to evolve with a focus on providing confidence in UK financial services and ensuring specific markets are operating in the interests of and delivering value for customers.

Our strategic response:

- As a mutual, our business model focuses on building long-term relationships rather than generating profits or shareholder dividends.
- Working with regulators and the industry to deliver fair outcomes to our members, and meet all regulatory obligations.

UK withdrawal from the European Union

In April 2019, the UK Government and the European Union agreed to delay the UK’s departure from the European Union until 31 October 2019 unless a withdrawal agreement is agreed. As Nationwide’s business model is primarily focused in the UK, the Society has limited direct exposure to the EU. However, Nationwide is exposed to secondary impacts, particularly volatility in the UK economy and financial markets given the uncertain nature of both the implementation period and the future relationship between the UK and the EU. We have responded by considering a range of potential outcomes, including leaving without a deal, through our stress testing programme and preparing for alternative economic outcomes. We continue to monitor closely and analyse political, economic and regulatory developments to ensure we remain well positioned to respond to any potential shocks and minimise any disruption for our members and staff.
“Nationwide concluded 2018/19 in a position of financial strength with demonstrable momentum in trading performance. This reflects our continued commitment and focus on offering good value products, and better service for our members, whilst maintaining capital strength.”

In summary

An advantage of being a building society is that we can choose how we utilise our resources in order to deliver more long-term value and better services to our members. During the year we have continued to be guided by our Financial Performance Framework on how we distribute value to members, invest in the Society and retain profits. As signalled by our technology investment announcement in September 2018, a programme of investment has been initiated which will target the simplification of our IT estate, together with enhancement of our digital service and data capabilities, over the next five years. During the year we have recognised a charge of £227 million from asset write-offs and additional technology investment.

As a mutual we continue to aim to optimise, not maximise, profit and offer good long-term value to our members. For the year ended 4 April 2019, we delivered a member financial benefit of £705 million (2018: £560 million), demonstrating the competitive products and services that we offer our members. In line with expectations, underlying profit reduced by 19% to £788 million (2018: £977 million) and statutory profit before tax reduced by 15% to £833 million (2018: £977 million), largely due to the impact of asset write-offs and our investment in technology. This level of profitability maintained our capital strength, with our UK leverage ratio remaining at 4.9% (2018: 4.9%), well in excess of current and anticipated regulatory requirements.

Notwithstanding the continued uncertainty in the external environment and competitive market conditions, trading performance for the year has been robust with our strongest ever gross lending at £36.4 billion (2018: £33.0 billion), and a growth in member deposits of £6.0 billion (2018: £3.5 billion), reflecting the success of our Single Access ISA, Loyalty ISA and an increase in current account credit balances.

Achieving sustainable cost savings and embedding efficiencies remains a priority for the Society. We continue to make good progress with our efficiency programme, with a further £103 million of in-year sustainable saves being delivered during the year. On a cumulative basis, including the full year benefit of sustainable saves delivered over the last two years, we have now delivered approximately half of our target of £500 million of sustainable saves by 2023.

On 5 April 2018 we implemented IFRS 9 ‘Financial Instruments’. The total impact on members’ interests and equity, net of deferred tax, was a reduction of £162 million. There has been no restatement of comparatives following adoption of IFRS 9. Where useful for the interpretation of balances or movements, we have highlighted the impact on the Group’s balance sheet and members’ interests and equity at 5 April 2018.

Income statement

Underlying profit represents management’s view of underlying performance. The components of underlying profit have been changed during the year to reflect more appropriately ongoing business performance. As a result, underlying profit now includes the bank levy and FSCS management expenses, which were previously excluded. For the year ended 4 April 2019 this decreased underlying profit by £45 million (2018: £46 million). Comparatives have been restated. Underlying profit continues to exclude FSCS costs arising from institutional failures, and gains or losses from derivatives and hedge accounting.

Notes:

i. Under IFRS 9, the recognition and measurement of expected credit losses differs from under IAS 39. As prior period amounts have not been restated, impairment losses on loans and advances in the comparative period remain in accordance with IAS 39 and are therefore not directly comparable with impairment losses recorded for the current period.

ii. The opportunity has been taken to reclassify certain items previously included within net interest income to reflect better the nature of the transactions. As a result, gains and losses recognised on the disposal of investment securities classified as FVOCI (2018: available for sale) are now presented within net other income.

iii. Within statutory profit:
• FSCS costs arising from institutional failures, are included within provisions for liabilities and charges.
• Gains from derivatives and hedge accounting, are presented separately within total income.

iv. 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.
Total income and margin

As anticipated, net interest income has decreased, reducing by 3% to £2,915 million (2018: £3,004 million) due to lower mortgage income, reflecting sustained market competition and ongoing attrition of base mortgage rate (BMR) balances. Net interest margin (NIM) has therefore reduced to 1.22% (2018: 1.31%). We have continued to make conscious choices to deliver value to our borrowing members through attractive rates, with the average rate paid by our prime mortgage members reducing during the year to 2.34% (2018: 2.45%). The availability of low rates on new mortgages has encouraged product switching and refinancing, with £26.5 billion of prime mortgage customer balances having switched to a new Nationwide product in the year (2018: £24 billion). Our legacy BMR balances have continued to run off during the period and as at 4 April 2019 were £18.1 billion (4 April 2018: £22.7 billion).

The negative impact to NIM from declining mortgage margins has been partially offset by low savings rates. We have continued to manage savings pricing in line with our commitment to provide good long-term value for members. During the year depositors have continued to earn average rates more than 50% higher than the market average\(^1\). We expect market conditions to remain competitive, and product switching and BMR balance attrition to continue in line with recent experience. We anticipate therefore that our reported NIM will continue to trend lower in the year ahead.

Net other income has increased to £255 million during the year (2018: £128 million), predominantly due to the prior year including a £116 million charge in relation to a debt buy back exercise.

Member financial benefit

As a building society, we seek to maintain our financial strength whilst providing value to our members through pricing, propositions and service. Through our member financial benefit, we measure the additional financial value for members from the highly competitive mortgage, savings and banking products that we offer compared to the market. Member financial benefit is calculated by comparing, in aggregate, Nationwide’s average interest rates and incentives across mortgages, savings, current accounts, personal loans and credit cards to the market, predominantly using market data provided by the Bank of England and CACI. The value for individual members will depend on their circumstances and product choices. We quantify member financial benefit as:

- **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 Bank of England and CACI industry data. A market benchmark based upon the 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 lower fees**
  Our member financial benefit measure also includes amounts in relation to higher incentives and lower fees that Nationwide offers to members. Our calculation includes annual amounts 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 of £13 and the market average of £17 is included in the member financial benefit measure.

For the year ended 4 April 2019, this measure shows we have provided our members with a financial benefit of £705 million (2018: £560 million). This demonstrates that we continue to offer good long-term value products to our members in both the mortgage and deposit markets, despite strong levels of competition.

\(^1\) Market average interest rates are based on Bank of England whole of market average interest rates, adjusted to exclude Nationwide’s balances.
Financial review (continued)

Administrative expenses

Administrative expenses include the impact of technology asset write-offs and incremental expenditure associated with our technology investment announced in September 2018. The investment programme incorporates £1.3 billion of incremental expenditure to be incurred over five years, targeting the enhancement of our digital services and data capabilities, together with a simplification of our technology estate. During the year we have recognised a charge of £227 million, comprising asset write-offs and impairments of £115 million, combined with expenditure which relates directly to our technology investment of £112 million.

Excluding this charge, our cost base is broadly flat. Our continued focus on efficiency has allowed us to absorb inflation, volume growth and the impact of prior year investment. Beyond our additional technology investment programme, we continue to make ongoing investments in supporting the long-term interests of our members, including improving member service and propositions, both in branch and through digital channels, and meeting regulatory requirements.

Achieving sustainable cost savings and embedding efficiencies remain a priority for the Society. We have delivered a further £103 million of new in-year sustainable saves during the year. On a cumulative basis, including the full year benefit of sustainable saves delivered over the last two years, we have now delivered approximately half of our target of £500 million of sustainable saves by 2023. This has been achieved through a range of initiatives that are focused on the development of digital capabilities, organisational design, third party savings, process improvements, simplification and elimination.

Our underlying cost income ratio has increased to 71.1% (2018: 64.6%) largely due to the impact of the asset write-offs and expenditure directly related to our technology investment programme.

Impairment losses/(reversals) on loans and advances to customers

Impairment losses have increased by £8 million to £113 million (2018: £105 million). Despite this increase in impairments the underlying portfolio performance remains strong.

Retail lending impairment losses remain at historically low levels with the £17 million reversal (2018: £11 million charge) for the residential lending book resulting from improvements to the modelling of refinance risk on interest only loans and updated economic assumptions. The increase in the consumer banking impairment charge to £114 million (2018: £97 million) includes additional provisions against the credit card portfolio relating to borrowers considered to be in persistent debt (explained in the Credit risk - Consumer banking section of the Business and Risk Report).

Notwithstanding this increase, delinquency levels on the consumer banking portfolio have remained low during the year.

During the year commercial loan impairments were £16 million (2018: £1 million reversal) due to increased credit risk associated with two individual loans, with the overall portfolio performance remaining robust.

<table>
<thead>
<tr>
<th>Impairment losses/(reversals)</th>
<th>Year to 4 April 2019 £m</th>
<th>Year to 4 April 2018 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential lending</td>
<td>(17)</td>
<td>11</td>
</tr>
<tr>
<td>Consumer banking</td>
<td>114</td>
<td>97</td>
</tr>
<tr>
<td>Retail lending</td>
<td>97</td>
<td>108</td>
</tr>
<tr>
<td>Commercial and other lending</td>
<td>16</td>
<td>(1)</td>
</tr>
<tr>
<td>Impairment losses on loans and advances</td>
<td>113</td>
<td>107</td>
</tr>
<tr>
<td>Impairment losses on investment securities</td>
<td>-</td>
<td>(2)</td>
</tr>
<tr>
<td>Total</td>
<td>113</td>
<td>105</td>
</tr>
</tbody>
</table>

Note: Under IFRS 9, the recognition and measurement of expected credit losses differs from under IAS 39. As prior period amounts have not been restated, impairment losses in the comparative period are not comparable to impairment losses recorded for the current period.

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 ongoing administration, including non-compliance with consumer credit legislation and other regulatory requirements. The net charge of £15 million (2018: £26 million) reflects our latest estimate of our customer redress liabilities. More information is included in note 27 to the financial statements.

Taxation

The tax charge for the year of £215 million (2018: £232 million) represents an effective tax rate of 25.8% (2018: 23.7%) which is higher than the statutory UK corporation tax rate of 19% (2018: 19%). The effective tax rate is higher due to the 8% banking surcharge of £37 million (2018: £43 million) and the tax effect of disallowable bank levy and customer redress costs. More information is included in note 11 to the financial statements.
Balance sheet

Total assets have increased 4% year on year to reach £238.3 billion (5 April 2018: £228.9 billion) with a robust trading performance driving £6.6 billion of net mortgage lending (2018: £5.8 billion). This has been supported by strong growth in retail funding flows, with member deposits growing by £6.0 billion to £154.0 billion (5 April 2018: £148.0 billion) and our market share of UK deposits increasing slightly to 10.1% (31 March 2018: 10.0%). Of the growth in member deposits, £4.6 billion is attributable to an increase in savings balances largely reflecting the success during the year of accounts such as our Single Access ISA and Loyalty ISA.

### Assets

<table>
<thead>
<tr>
<th></th>
<th>4 April 2019</th>
<th>5 April 2018 (note i)</th>
<th>4 April 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>%</td>
<td>£m</td>
</tr>
<tr>
<td>Residential mortgages (note ii)</td>
<td>186,012</td>
<td>93</td>
<td>177,303</td>
</tr>
<tr>
<td>Commercial and other lending (note iii)</td>
<td>9,118</td>
<td>5</td>
<td>10,640</td>
</tr>
<tr>
<td>Consumer banking</td>
<td>4,586</td>
<td>2</td>
<td>4,107</td>
</tr>
<tr>
<td>Impairment provisions</td>
<td>(665)</td>
<td>(629)</td>
<td>(458)</td>
</tr>
<tr>
<td>Loans and advances to customers</td>
<td>199,051</td>
<td>100</td>
<td>192,050</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>36,709</td>
<td>191,421</td>
<td>191,593</td>
</tr>
<tr>
<td>Other non-financial assets</td>
<td>2,541</td>
<td>34,877</td>
<td>34,912</td>
</tr>
<tr>
<td>Total assets</td>
<td>238,301</td>
<td>228,937</td>
<td>229,098</td>
</tr>
</tbody>
</table>

### Asset quality

<table>
<thead>
<tr>
<th></th>
<th>%</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential mortgages (note ii)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of residential mortgage accounts more than 3 months in arrears</td>
<td>0.43</td>
<td>0.43</td>
</tr>
<tr>
<td>Average indexed loan to value (by value)</td>
<td>58</td>
<td>56</td>
</tr>
<tr>
<td>Consumer banking:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances) (note iv)</td>
<td>1.35</td>
<td>1.56</td>
</tr>
</tbody>
</table>

**Notes:**

i. Balances as at 5 April 2018 reflect the impact of applying IFRS 9 ‘Financial Instruments’.

ii. Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let lending.

iii. Commercial and other lending now exclude balances held with counterparties which are institutions similar to banks. These balances are now reported in Loans and advances to banks and similar institutions (Other financial assets line), and comparatives have been restated to disclose information on the same basis. Further details are included in note 1 to the financial statements.

iv. 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.

### Liquidity Coverage Ratio:

**150.2%**  
(2018: 130.3%)

### Return on Assets:

**0.26%**  
(2018: 0.33%)

### Residential mortgages

Despite competitive market conditions, total gross mortgage lending for the year was £36.4 billion (2018: £33.0 billion) representing our strongest ever year of gross mortgage lending and reflecting the competitively priced products and good long-term value that we continue to offer. Our market share of prime mortgage gross lending as at March 2019 has grown to 13.4% (2018: 12.8%). As a result, total net mortgage lending for the year increased by £2.8 billion to £8.6 billion (2018: £5.8 billion).

Arrears performance has remained stable during the year, with cases more than three months in arrears at 0.43% of the total portfolio (4 April 2018: 0.42%). The average LTV of the portfolio has increased during the year to 58% (4 April 2018: 56%), reflecting new lending, offset to a lesser degree this year by house price growth across the whole portfolio. Impairment provisions have decreased to £206 million (5 April 2018: £235 million) largely due to continued run-off of legacy, higher risk portfolios combined with refinements to our provisioning methodology.

### Commercial and other lending

During the year commercial balances have decreased by £1.5 billion to £9.1 billion (5 April 2018: £10.6 billion). As previously reported, our commercial real estate (CRE) portfolio is closed to new business and is currently in run-off. As a result, CRE balances have reduced during the year by £0.4 billion to £1.4 billion (5 April 2018: £1.8 billion). Impairment provisions have increased to £41 million (5 April 2018: £29 million) due to increased credit risks associated with two individual loan exposures. Notwithstanding this increase in provisions, the overall book performance remains strong and our exit from the commercial real estate market continues to be carefully managed.

Given deleveraging activity in previous financial years, the overall portfolio is increasingly weighted towards registered social landlords with balances of £6.0 billion (5 April 2018: £6.8 billion) and project finance with balances of £0.8 billion (5 April 2018: £0.9 billion). The reduction in our registered social landlord book largely reflects early redemptions of loans by housing associations.

### Consumer banking

Consumer banking balances have grown by £0.5 billion to £4.6 billion (5 April 2018: £4.1 billion). This balance growth was driven by a record £1.8 billion of personal loan lending during the year (2018: £1.3 billion) following the reduction in headline rates in March 2018 and changes to extend our lowest pricing to more members from January 2019.
Financial review (continued)

Other financial assets

Other financial assets total £36.7 billion (5 April 2018: £34.8 billion), primarily comprising liquidity and investment assets held by our Treasury function of £32.7 billion (5 April 2018: £30.8 billion) and derivatives with positive fair values of £3.6 billion (5 April 2018: £4.0 billion). Derivatives relate primarily to interest rate and foreign exchange contracts which economically hedge financial risks inherent in core lending and funding activities.

Our Liquidity Coverage Ratio has increased during the year to 150.2% (4 April 2018: 130.3%) largely due to the pre-funding of future wholesale funding maturities combined with a reduction in stressed collateral requirements. We continue to manage our liquidity in accordance with our risk appetite, which is more prudent than regulatory requirements. Further details are included in the Liquidity and funding risk section of the Business and Risk Report.

Members’ interests and equity and liabilities

<table>
<thead>
<tr>
<th></th>
<th>4 April 2019</th>
<th>5 April 2018 (note i)</th>
<th>4 April 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Member deposits</td>
<td>153,969</td>
<td>148,003</td>
<td>148,003</td>
</tr>
<tr>
<td>Debt securities in issue</td>
<td>35,942</td>
<td>34,118</td>
<td>34,118</td>
</tr>
<tr>
<td>Other financial liabilities</td>
<td>33,755</td>
<td>33,173</td>
<td>33,173</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,466</td>
<td>1,402</td>
<td>1,401</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>225,132</td>
<td>216,696</td>
<td>216,695</td>
</tr>
<tr>
<td>Members’ interests and equity</td>
<td>13,169</td>
<td>12,241</td>
<td>12,403</td>
</tr>
<tr>
<td>Total members’ interests, equity and liabilities</td>
<td>238,301</td>
<td>228,937</td>
<td>229,098</td>
</tr>
</tbody>
</table>

Note:

i. Balances as at 5 April 2018 reflect the impact of applying IFRS 9.

Wholesale funding ratio:

28.6% (2018: 28.2%)  

Member deposits

Member deposits have increased by £6.0 billion to £154.0 billion (4 April 2018: £148.0 billion) largely reflecting the success of our Single Access and Loyalty ISAs, combined with higher current account credit balances. In a competitive market, we have slightly increased our market share of deposits as at March 2019 to 10.1% (2018: 10.0%). Our market share of main standard and packaged current accounts grew to 8.0% (2018: 7.9%), with our market share of new current account openings increasing during the year to 16.2% (2018: 15.8%).

Debt securities in issue and other financial liabilities

Debt securities in issue have increased during the year by £1.8 billion to £35.9 billion (5 April 2018: £34.1 billion) largely due to wholesale funding issued in order to finance our core activities. Other financial liabilities have increased by £0.6 billion to £33.8 billion (5 April 2018: £33.2 billion) primarily due to issuances of debt during the year in order to meet the minimum requirement for own funds and eligible liabilities. Further details are included in the Liquidity and funding risk section of the Business and Risk Report.

Members’ interests and equity

Members’ interests and equity has increased by £1.0 billion to £13.2 billion (5 April 2018: £12.2 billion) largely reflecting additional retained profits and an increase in the cash flow hedge reserve.

Statement of comprehensive income

Further information on gross movements in the pension obligation and movements in the cash flow hedge reserve are included in notes 30 and 7 to the financial statements respectively.

<table>
<thead>
<tr>
<th></th>
<th>Year to 4 April 2019</th>
<th>Year to 4 April 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>618</td>
<td>745</td>
</tr>
<tr>
<td>Net remeasurement of pension obligations</td>
<td>153</td>
<td>22</td>
</tr>
<tr>
<td>Net movement in cash flow hedge reserve</td>
<td>328</td>
<td>(191)</td>
</tr>
<tr>
<td>Net movement in fair value through other comprehensive income reserve</td>
<td>(12)</td>
<td>-</td>
</tr>
<tr>
<td>Net movement in available for sale reserve</td>
<td>-</td>
<td>31</td>
</tr>
<tr>
<td>Other items</td>
<td>(1)</td>
<td>1</td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td>1,086</td>
<td>608</td>
</tr>
</tbody>
</table>

Note:

i. Movements are shown net of related taxation.
Financial Performance Framework

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.

Capital structure

Our capital position has strengthened during the period with our CET1 ratio increasing to 32.4% (5 April 2018: 30.4%) whilst our UK leverage ratio remained stable at 4.9% (5 April 2018: 4.9%). Both remain in excess of the regulatory capital requirements of 13.2% and 4.0% respectively, which include CRD IV buffers applicable from August 2019.

The CET1 ratio increased to 32.4% (5 April 2018: 30.4%) as a result of an increase in CET1 capital resources, with RWAs remaining relatively stable. CET1 capital resources have increased by £0.6 billion, primarily due to the profit after tax for the year of £0.6 billion, RWAs remained stable with increased retail lending and treasury related RWAs offset by run-off in the commercial book and the implementation of a new credit card IRB model.

The UK leverage ratio remained stable at 4.9% (5 April 2018: 4.9%), with an increase in Tier 1 capital driven by profit after tax of £0.6 billion offset by an increase in UK leverage exposure of £13 billion resulting from an increase in net retail lending of £9 billion, an increase in treasury exposures (including counterparty credit risk) of £5 billion, and an increase in other assets of £1 billion, offset by run-off in the commercial book of £2 billion.

We remain committed to our Financial Performance Framework. Our profit for the year ended 4 April 2019 reflects conscious decisions to increase investment at a time when members needs are changing rapidly and technology advancement is offering new opportunities. We are satisfied that this performance is in line with the framework.

Capital structure (note i)

<table>
<thead>
<tr>
<th>Capital structure (note i)</th>
<th>4 April 2019</th>
<th>5 April 2018 (note ii)</th>
<th>4 April 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td><strong>Capital resources</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Equity Tier 1 (CET1) capital</td>
<td>10,517</td>
<td>9,915</td>
<td>9,925</td>
</tr>
<tr>
<td>Total Tier 1 capital</td>
<td>11,509</td>
<td>10,907</td>
<td>10,917</td>
</tr>
<tr>
<td>Total regulatory capital</td>
<td>14,485</td>
<td>13,930</td>
<td>13,936</td>
</tr>
<tr>
<td>Risk weighted assets (RWAs)</td>
<td>32,506</td>
<td>32,579</td>
<td>32,509</td>
</tr>
<tr>
<td>UK leverage exposure</td>
<td>235,147</td>
<td>221,982</td>
<td>221,992</td>
</tr>
<tr>
<td>CRR leverage exposure</td>
<td>247,586</td>
<td>236,458</td>
<td>236,468</td>
</tr>
<tr>
<td><strong>CRD IV capital ratios:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CET1 ratio</td>
<td>32.4</td>
<td>30.4</td>
<td>30.5</td>
</tr>
<tr>
<td>UK leverage ratio (note iii)</td>
<td>4.9</td>
<td>4.9</td>
<td>4.9</td>
</tr>
<tr>
<td>CRR leverage ratio (note iv)</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
</tr>
</tbody>
</table>

Notes:

i. Data in the table is reported under CRD IV on an end point basis with IFRS 9 transitional arrangements applied.
ii. Figures have been adjusted to reflect the impact of applying IFRS 9 from 5 April 2018. Further information is provided in note 37 and in our ‘Report on Transition to IFRS 9: Financial Instruments’, which can be found at nationwide.co.uk.
iii. The UK leverage ratio (as defined in the PRA rulebook) is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves.
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.
Non-financial information

Measurement and reporting of non-financial matters is important for us to get a full picture of our performance. As a responsible business, we include below our statement on non-financial reporting.

The non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 are addressed below. Although Nationwide, as a building society, is not required to follow the Companies Act 2006, we seek to apply its requirements where appropriate.

<table>
<thead>
<tr>
<th>Non-financial information</th>
<th>Disclosure</th>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business model</td>
<td>Our business model and information on how we do business differently</td>
<td>Strategic Report – Who we are and what we do</td>
<td>4</td>
</tr>
<tr>
<td>Key performance indicators</td>
<td>Our KPIs set out how we are doing on service, value and strength</td>
<td>Strategic Report – Our KPIs</td>
<td>11</td>
</tr>
<tr>
<td>Key risks</td>
<td>Our key risks and their management</td>
<td>Strategic Report – Risk overview</td>
<td>26</td>
</tr>
<tr>
<td>Our policies</td>
<td>Our key policies and statements of intent are in place to ensure consistent governance on environmental matters, our employees, social matters, human rights and anti-bribery and corruption</td>
<td>See below</td>
<td></td>
</tr>
</tbody>
</table>

Our policies

Environmental matters

We’re the world’s largest building society, so it’s only natural we play a part in shaping the communities and places we belong to. We know we must do more than meet legal and regulatory requirements; we must reduce the ways we affect the environment and always aim to do better. And we’re encouraging everyone – our members, suppliers, contractors and other stakeholders – to do the same.

Our environmental targets for 2020, which were set in 2011, have already been met or exceeded. Already we’re a zero landfill business with all our waste either recycled or used for energy recovery, and 100% of our electricity is from renewable sources - we’re proud to receive over 50% from a Solar Farm Power Purchase Agreement, and we’ve offset our total carbon emissions by funding wind power projects at two sites in India, Andipatti and Thenai. Our ambition is to look for better, cleaner ways to run our operations and we’re now turning our attention to the Conference of Parties (COP 21) two-degree target set in Paris.

The impact of climate risks

Whilst we continue to work hard to minimise our direct impact on the environment, we must also assess the impact that global climate change could have on our business in the future.

Two types of risk may shape our business: physical risks (which arise from weather-related events) and transitional risks (which come from adapting to a low-carbon economy). As a building society we’re not significantly exposed to industries adapting to a low-carbon economy. Our core business is to help members buy houses and physical risks mainly arise in our mortgage portfolios. We welcome the recommendations of the Financial Stability Taskforce on Climate-related Financial Disclosures (TCFD) and are assessing how we can best implement the recommendations.

Governance

The Executive Risk Committee and Board Risk Committee are responsible for our climate related risks. We are creating an executive committee for Responsible Business which will be chaired by our Deputy CEO, Tony Prestedge. This committee will be charged by the Board with establishing the Society’s responsible business agenda, tracking the Society’s impact right across our business, setting targets for improvement and reporting back to the Board.

Strategy

We will continue to assess climate change risks on our business and integrate how we manage these risks into our strategy.

Risk Management

Over the longer term, risks could arise from more extreme weather events and we are building capability to improve our understanding of these risks. We have worked with third party organisations with geospatial modelling, and geological and hydrological expertise, to model the impacts of climate change on our property portfolios. Today we use this capability to protect members from purchasing uninsurable properties and over time this work will allow us to conduct “what if” analysis for different climate change scenarios and enable us to support our members better. To help us manage broader climate change risks, we assess the potential effects of climate-related financial risks and consider how we can include them in our stress testing and scenario analysis.

Metrics

We are developing our approach to reporting metrics and targets. A summary of our greenhouse gas emissions (GHG) is included in the Directors’ Report on page 95.

We note the recent publications from the PRA and the FCA relating to the financial risks arising from climate change and will work with the regulators as they further develop their approaches to managing and monitoring these risks.
## Our policies (continued)

### Our key policies / statements of intent

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Our employees</th>
</tr>
</thead>
</table>

| Board Composition and Succession Policy | The Board Composition and Succession Policy ensures the Board comprises persons who are fit and proper to direct the Society’s business, and sets out the approach to diversity in the senior leadership population (Board, executive leaders and their direct reports). The Society has committed to increasing female representation to 33-35% by 2020 across the senior leadership population. The strategy also includes a target of between 8% to 15% for BAME representation across the senior leadership population. These targets are supported by the Equality, Diversity and Inclusion Strategy and action plans, which are refreshed annually and against which progress is reported to the Nomination and Governance Committee annually. |

| Code of Conduct Policy | The Code of Conduct Policy outlines the standards of conduct and behaviour that Nationwide expects from its employees. We want to ensure that Nationwide is a great place to work for all our employees and we are committed to promoting a culture of honesty and integrity across Nationwide which enables our people to do the right thing for our customers. |

| Equality, Diversity and Inclusion Policy | Our mutuality and fundamental commitment to valuing everyone defines and differentiates us. We are committed to being a fair employer, treating everyone equally and promoting a supportive culture of equality, diversity and inclusion for our employees, customers and third party business partners. |

<table>
<thead>
<tr>
<th>Social matters</th>
</tr>
</thead>
</table>

| Our social purpose and commitment to our communities | It is 135 years since our business was founded - with a social purpose at its heart. This social purpose, helping people into homes of their own, motivates us still today. By helping people save, buy homes, and manage their money efficiently, we help people build secure and happy lives and communities. We’ve awarded Community Grants totalling £3.9 million to more than 100 housing-related projects and we’re working with Swindon Borough Council to develop a multi-generational community of 239 homes. |

<table>
<thead>
<tr>
<th>Human rights</th>
</tr>
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| Slavery and Human Trafficking | Section 54 of the Modern Slavery Act 2015 (the Act) requires certain commercial organisations, including Nationwide, to state on their website how they are tackling the risk of slavery and human trafficking in their business or supply chains. Each year, Nationwide produces its statement in accordance with the Act which outlines the steps we have taken and the policies we have in place to tackle the risk of modern slavery. One of these policies is the Third Party Code of Practice, which we ask all of our 1,200 suppliers to commit to. In addition, Nationwide’s Code of Conduct details our employees’, temporary workers’ and contractors’ obligations in relation to tackling modern slavery. Nationwide’s Whistleblowing policy offers colleagues a confidential channel to flag concerns. |

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<th>Anti-Bribery and Anti-Corruption</th>
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| Anti-Bribery and Corruption | Bribery and corruption is a risk for organisations across the world, and a collaborative approach across governments, law enforcement agencies and businesses is taken to tackle the issue. Nationwide is bound by the laws of the UK, including the Bribery Act 2010 which concerns conduct both at home and abroad. The Board is committed to operating with honesty and integrity in all of our business activities and to promoting an anti-bribery and corruption culture across the Group. Nationwide takes a zero tolerance approach to bribery and is committed to implementing and enforcing effective systems, and risk-based controls and procedures to counter bribery and corruption. These controls and procedures include a communication programme, staff training and awareness, a confidential whistleblowing procedure, and monitoring and review of the Anti-Bribery and Corruption policy and other related policies. |