Nationwide Building Society

Preliminary Results Announcement
For the year ended
4 April 2018

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Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 11. Statutory profit before tax of £977 million has been adjusted for a number of items to derive an underlying profit before tax of £1,022 million. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across years. Underlying profit is not designed to measure sustainable levels of profitability as it potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.

Nationwide has developed a financial performance framework based on the fundamental principle of maintaining its capital at a prudent level in excess of regulatory requirements. The framework provides parameters which allow it to calibrate future performance and help ensure that it achieves the right balance between distributing value to members, investing in the business and maintaining financial strength. The most important of these parameters is underlying profit which is a key component of Nationwide's capital. We believe that a level of underlying profit of approximately £0.9 billion to £1.3 billion per annum over the cycle would meet the Board's objective for sustainable capital strength. This range will vary from time to time, and whether our profitability falls within or outside this range in any given financial year or period will depend on a number of external and internal factors, including conscious decisions to return value to members or to make investments in the business. It should not be construed as a forecast of the likely level of Nationwide's underlying profit for any financial year or period within a financial year.

Forward looking statements

Certain statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable, Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward looking statements.

Nationwide undertakes no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

This document does not constitute or form part of an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering to be made in the United States will be made by means of a prospectus that may be obtained from Nationwide and will contain detailed information about Nationwide and management as well as financial statements.

SERVICE LEADERSHIP[1], RECORD LENDING AND CURRENT ACCOUNT OPENINGS DRIVE STRONG PROFITS AND £560 MILLION IN MEMBER FINANCIAL BENEFIT[2]

Service *– No 1 for service[3], trust[4] and main current account satisfaction[5] against our high street peer group*
Value *– Rewarded members with £560m in member financial benefit*
Strength *– Financial strength enhanced by keeping costs flat and all-time high capital*

Strong profitability, plus record capital ratios

- Underlying profit of £1,022m (2017: £1,030m), within our financial performance framework
- Statutory profit of £977m (2017: £1,054m)
- Profits include a £116m cost of debt buy-back (2017: £100m one-off gain from Visa Europe disposal)
- UK leverage ratio improved to 4.9% (2017: 4.4%) and CET1 to a record high of 30.5% (2017: 25.4%)
- Efficiency programme kept costs flat at £1,979m (2017: £1,979m)
- Total underlying provision charges of £131m (2017: £276m) driven by lower PPI charges

Our mutual pricing delivers member financial benefit of £560m (2017: £505m)

- Protected depositors by holding rates on average more than 50% higher than the market average[6]
- Rewarded 100,000 members through 'Recommend a Friend', driving 1 in 9 account openings
- Ensured fairness and value for members and loyal borrowers with one of the industry's lowest SVRs

No 1 for service and trust

- UK's most trusted financial organisation, with a lead of 3.8%[4]
- No 1 for customer satisfaction for 6th year running; 4.6% ahead of our high street peer group[7]
- Continued leadership of main current account satisfaction, more than 10 percentage points over our nearest high street peer group competitor[8]

Highest number of current account openings in the UK, making a real difference to current account market

- UK's top choice for current accounts[9], opening more than with any other brand[10]; 816,000 (2017: 795,000)
- Record market share of 7.9% (2017: 7.6%) for main standard and packaged accounts, and 9.4% for all current accounts (2017: 8.9%)

Helping 400,000 borrowers onto or up the housing ladder

- Record gross prime mortgage lending of £29.4bn (2017: £29.1bn)
- Mortgage net lending of £5.8bn (2017: £8.8bn) reflecting high levels of competition
- Helped around 1 in 5 UK first time buyers finance a home; a record 76,000 borrowers (2017: 75,000)
- Championing home buyers by refusing to lend on new-builds with escalating ground rents

Rewarding the loyalty of our 11.6m saver members

- Gave loyal members £435m in extra interest on their deposits compared with market average[6]
- Increased member deposit balances by £3.5bn (2017: £5.8bn)
- Maintained our deposit market share of 10% (2017: 10.1%) in a highly competitive market

Using our knowledge and experience to contribute to the UK housing market

- Committed £50m to innovative housing project in Swindon
- Started a five-year programme to invest £20m in member-directed community grants
- Giving members a say about local housing issues through new Community Boards

Forecast subdued but steady UK growth

- Resilient UK economy, though growth expected to be modest at 1% to 1.5% over next two years
- Squeeze on household incomes likely to gradually fade as inflation falls back
- Expect housing market to remain subdued with house price growth slowing to 1% over the next year

Joe Garner, Chief Executive, Nationwide Building Society, said:

"Nationwide's defining difference is that we're owned by our members. This informs how we operate and the decisions we make. So we continue to focus on delivering what members tell us matters most – outstanding service and great value, backed by record capital strength.

“Being member led means we’re the UK’s most trusted financial institution[4], and we have led our high street peer group for customer satisfaction for the last six years[7].

“As a mutual, without shareholders to reward, we were able to deliver £560 million in extra value to members during the year, as a result of the better rates, fees and incentives we can offer compared to the market average[6].

“Leading service and value added up to an all-time membership high of 15.5 million. Our ‘engaged’ members – those who have a current account, a mortgage or a savings balance over £5,000 with us – also reached a record high of 8.1 million.

“In an industry notorious for customer inertia, Nationwide is making a real difference to the current account market. We had our best ever year for current accounts with more people opening an account with the Society than with any other brand[10], a record 816,000 new accounts, and continue to perform well on switching. We also enjoy a greater than 10 percentage point lead on main current account satisfaction over our high street peer group[5].

“We believe Nationwide could transform choice for the UK’s small businesses in the way we have become top choice for personal current accounts[9]. So, if we are successful in our application for funding from the money the government has asked RBS to set aside, we intend to roll out a mutual business alternative to the big five banks, nationwide.

“In the meantime, we face the future from a platform of strength. Strength in our service, the value we offer and our finances means we can continue to support our members, and our mission of building society, nationwide.”

Mark Rennison, Chief Financial Officer, Nationwide Building Society, said:

“Nationwide continues to trade strongly in spite of intense competition in our core markets, in a number of cases choosing to protect value for members through more competitive pricing rather than taking the opportunity to enhance margin.

“While growing our business, we delivered on our commitment to hold costs flat, thanks to our Society-wide efficiency programme.

“This strong trading has translated into stronger than ever finances for the Society. Our core capital ratio is at an all-time high of 30.5%, and we improved our already conservative UK leverage ratio to 4.9%, well ahead of regulatory requirements.

“After investing in our business and in the value we offer to members, our pre-tax underlying profits were broadly flat at £1,022 million – and within our financial performance framework.

“We expect technology innovation to accelerate, driven by digital adoption, mobile service take-up and Open Banking. We are reviewing our operations and technology to ensure Nationwide can take the opportunities ahead and meet the challenges posed by increasing dependence on technology and growing cyber threats. We do so having achieved a position of financial strength, good trading performance and demonstrable cost discipline. We will update on these plans and the investment required later in the year.”

[1] © GfK 2018, Financial Research Survey (FRS), 12 months ending 31 March 2018, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB).

[2] More information on member financial benefit is included on page 12 in the Financial review.

[3] © GfK 2018, Financial Research Survey (FRS), 12 months ending 31 March 2018, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB).

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

[5] © GfK 2018, Financial Research Survey (FRS), 12 months ending 31 March 2018, proportion of extremely/very satisfied main current account customers minus proportion of extremely/very/fairly dissatisfied main current account customers. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

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

[7] © GfK 2018, Financial Research Survey (FRS), 6 year lead held over period 12 months ending 31 March 2013 to 12 months ending 31 March 2018. Each monthly data point contains customer feedback referring to previous 12 months. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB). Prior to April 2017, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank inc C&G (Lloyds TSB prior to Apr 15), NatWest and Santander).

[8] © GfK 2018, Financial Research Survey (FRS), 12 months ending 31 March 2018 vs 31 March 2017, proportion of extremely/very satisfied main current account customers minus proportion of extremely/very/fairly dissatisfied main current account customers. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB).

[9] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency. Top Choice is considered ie ‘first choice’ or ‘seriously considered’ current account provider amongst non-customers, based on responses from non-customers of each brand, 3 months ending March 2018. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.

[10] Source: eBenchmarkers April 2017 to March 2018, CACI April 2017 to March 2018, BACS Payments Schemes monthly CASS switching market data and internal sources.

FINANCIAL SUMMARY

	Year to 4 April 2018		Year to 4 April 2017	
Financial performance	**£m**		£m	
Total underlying income	**3,132**		3,285	
Underlying profit before tax	**1,022**		1,030	
Statutory profit before tax	**977**		1,054	
Mortgage lending	**£bn**	**%**	£bn	%
Group residential – gross/*gross market share*	***33.0***	***12.8***	33.7	*14.0*
Group residential – net/*net market share*	**5.8**	***13.0***	8.8	*25.4*
	%		%	
Average indexed loan to value of new residential mortgages business	**71**		71	
Deposit balances	**£bn**	**%**	£bn	%
Member deposits balance movement/*market share (note i)*	**3.5**	**7.5**	5.8	*8.2*
Net receipts *(note ii)*	**0.4**		0.7	
Key ratios	**%**		%	
Cost income ratio – underlying basis	**63.2**		60.2	
Cost income ratio – statutory basis	**64.6**		60.3	
Net interest margin	**1.31**		1.33	

	4 April 2018		4 April 2017	
Balance sheet	**£bn**	**%**	£bn	%
Total assets	**229.1**		221.7	
Loans and advances to customers	**191.7**		187.4	
Member deposits balance/*market share* (note i)	**148.0**	***10.0***	144.5	*10.1*
Asset quality	**%**		%	
Residential mortgages				
Proportion of residential mortgage accounts 3 months+ in arrears	**0.43**		0.45	
Average indexed loan to value of residential mortgage book (by value)	**56**		55	
Total provisions as % of non-performing balances	**5.3**		5.3	
Consumer banking				
Non-performing loans as % of total (excluding charged off balances)	**4**		4	
Total provisions as a % of non-performing loans (including charged off balances)	**89**		86	
Key ratios	**%**		%	
Capital				
Common Equity Tier 1 ratio (note iii)	**30.5**		25.4	
UK leverage ratio (note iv)	**4.9**		4.4	
CRR leverage ratio (note iii)	**4.6**		4.2	
Other balance sheet ratios				
Liquidity coverage ratio	**130.3**		124.0	
Wholesale funding ratio (note v)	**28.2**		27.1	

Notes:
i. Member deposits include current account credit balances.
ii. Net receipts include outflows of non-member deposits relating to the closure of off-shore operations in the Isle of Man and Republic of Ireland.
iii. Reported under CRD IV on an end point basis. The CRR leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.
iv. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority and excludes eligible central bank reserves from the leverage exposure measure.
v. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations) but excludes Funding for Lending Scheme (FLS) drawings which, as asset swaps, are not included on Nationwide's balance sheet, reflecting the substance of the arrangement. Off-balance sheet FLS drawings totalled £nil (4 April 2017: £4.8 billion).

CEO REVIEW

Nationwide is a membership business. As a mutual without shareholders to reward, we are free to focus on our stated purpose – *building society, nationwide*. That means helping members to finance their goals and contributing to making society a better place. Our approach is simple by design – to concentrate on service, value, and financial strength.

We never forget that we manage members' life savings and are an economically important business so it's essential we have exceptionally strong finances. We finished the year with capital at an all-time high, and strong underlying profits of over £1 billion, within our financial performance framework.

On service, Nationwide is the UK's most trusted financial institution[1] and we led our high street peer group on customer satisfaction for the 6th year[2], ending the year with a lead of 4.6% over our nearest competitor. Satisfaction with our main current account was higher still, at more than 10 percentage points ahead of our nearest high street peer group competitor[3], and we attracted a record number of new current accounts.

We also deliver extra value to members through fair and better pricing. This 'member financial benefit' added up to £560 million last year[4], including around 100,000 members who earned 'Recommend a Friend' rewards.

We and our members thrive together thanks to the support of our 18,000 colleagues. I'd like to thank them for their enormous contribution and the care they show our members.

All this adds up to operating from a platform of strength. This gives us confidence that we can continue to deliver against our ambitions, underpinned by five strategic cornerstones.

Built to last

We finished the year financially stronger than ever, with an improved CET1 ratio of 30.5% and a more conservative UK leverage ratio of 4.9%, well in excess of regulatory requirements. This was supported by issuing a second tranche of CCDS, a form of Common Equity Tier 1 capital specific to building societies demonstrating capacity and liquidity in the CCDS market.

We also held our costs flat while significantly growing the business thanks to the success of the efficiency programme we put in place last year. Our 'Right First Time' programme helped to reduce errors. Simplifying our management structure gave people the space to lead. And the 'Arthur Webb Challenge Cup' saw many of our people suggest how to spend our members' money more wisely.

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

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

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

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

[2] © GfK 2018, Financial Research Survey (FRS), 6 year lead held over period 12 months ending 31 March 2013 to 12 months ending 31 March 2018. Each monthly data point contains customer feedback referring to previous 12 months. Proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. High street peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest, Santander and TSB). Prior to April 2017, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank inc C&G (Lloyds TSB prior to Apr 15), NatWest and Santander).

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[4] More information on member financial benefit is included on page 12 in the Financial review.

CEO review (continued)

Building thriving membership

We're proud to help members own a home, save for the future, and manage their everyday finances. The more members we serve and the more we do with them, the bigger our contribution. And we are thriving, with a new high of 15.5 million members. Engaged members – those who hold a main current account, or a balance of at least £5,000 in savings or a mortgage with us – grew by 330,000 to 8.1 million.

As a mutual, our goal is not to pursue profits but to serve our members and run a safe and sustainable Society. Unlike some institutions, we therefore aim to give members the fairest fees and the highest rates we can afford. So, for example, our deposit rates were on average more than 50% higher than the market average[1] over the last year. Combined with better fees and incentives – such as Recommend a Friend – our member financial benefit for 2017/18 totalled £560 million (2017: £505 million).

A place to call home

We were true to our goal of supporting members into homes of their own, helping a record 76,000 first time buyers (2017: 75,000) and almost 400,000 (2017: 326,000) homeowners in all.

Overall, we had our strongest ever year for gross prime lending at £29.4 billion (2017: £29.1 billion). Net lending was down on the previous year, in line with our decision to reduce our buy to let lending through The Mortgage Works, along with increased prime mortgage redemptions as we managed margins in the long-term interests of the Society in a fiercely competitive market.

Member needs change in later life, so we expanded our mortgage range with a lifetime mortgage which will allow people to access equity in their home in later life. Next, we plan to launch a retirement interest only mortgage, giving members more choice in managing their finances as they get older.

Supporting savers

With interest rates still at historic lows, people are saving less. We've done our best to encourage a savings habit and protect depositors with highly competitive rates and by offering a range of loyalty rewards.

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

Rewarding loyalty helped grow our overall savings members to 11.6 million. Our deposit balances increased by £3.5 billion in the year, thanks mainly to higher current account balances and the success of our Single Access ISAs. In a highly competitive market, deposits grew more slowly than last year, but overall, Nationwide continues to provide a safe home for £1 in every £10 saved in the UK.

First choice for everyday finances

We attracted record new current accounts for the fourth year running, opening 816,000 accounts in all (2017: 795,000), more than any other brand in the last year[2]. Our share of main standard and packaged accounts grew to 7.9% (2017: 7.6%), a new high, and our share of all accounts to 9.4% (2017: 8.9%). We improved our student account, and doubled account openings to 21,000. Focusing on the features that members value most, we extended travel and mobile phone insurance on our FlexPlus account and reduced fees for transactions and unauthorised overdrafts on our FlexAccount. We also introduced text alerts for unauthorised overdrafts to help members manage their finances.

We also began to move our credit cards, personal loans and insurance products to a 'just for members' proposition. It meant we issued fewer credit cards, in line with our expectations, at 160,000 (2017: 206,000), but overall balances were higher, as were balances on our personal loans. We're making good progress with the transition of our existing home insurance policies to RSA and have successfully launched our new home insurance product in response to member feedback.

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

[2] Source: eBenchmarkers April 2017 to March 2018, CACI April 2017 to March 2018, BACS Payments Schemes monthly CASS switching market data and internal sources.

CEO review (continued)

Transforming choice for UK small firms

Around a million of our members run their own business, and many have asked if we can provide a business account. The costs of market entry have been prohibitive in the past but thanks to the Alternative Remedies Fund, financed by RBS to boost competition in banking, we are applying for up to £50 million to launch a business current account. If successful, we'll launch an account targeted at small and micro-businesses, providing a mutual business alternative to the big five banks, who hold 85% of business accounts.

Building legendary service

Our service leadership

The quality of our service matters to us because it matters to our members. We believe it's a key part of why Nationwide remains the UK's most trusted financial institution[1], and no. 1 for satisfaction for the 6th year running compared with our high street peer group competitors[2].

We're in a strong position, but if we want to be truly legendary, we need to be among the best in the UK, not just in financial services. That's why we will start to measure our success with the all-sector UK Customer Satisfaction Index, published by The Institute of Customer Service. Today we're ranked no. 7, in a top 10 that includes Amazon and John Lewis[3].

Digital convenience with a human touch

Members want to use traditional and digital channels seamlessly – to manage their finances on the move, while also being able to speak to us when they need to.

We've extended what members can do on our banking app, including instant registration, reporting lost and stolen cards, setting up new payees and viewing pending transactions. More improvements are in hand; including the ability to freeze or unfreeze your card if you have mislaid it; a MoneyWatch service to put members in control of their spending; and an auto-investment advice service.

As a result, more members are choosing digital as their first point of call – mobile active current account members grew 44% to 2 million. We launched a 'Discover Mobile' campaign to promote our mobile services.

Branches for the future

We appreciate that customers still value a personal service in our branches, and we invested £73 million in our branch network this year. Of course, the way members choose to use our branches is changing and we've designed a new concept '4C' branch which we'll use as the model to update our branch network over the next four years. These will cater for convenience, conversation, consultation and community.

PRIDE

PRIDE is about our people, culture and values. We want to be one of the country's best places to work because we care about our people, and by caring for them they care for our members.

In January, we were proud to live our values by taking on 297 Carillion contractors after the company collapsed, securing their jobs and the services our members rely on.

We measure employee engagement and enablement through an independent survey each year. Nationwide compares extremely well with most organisations, although we didn't hit our stretching global high performing benchmark target this year. That said, engagement remains extremely high, at 74%, and we are 9 percentage points above the financial services norm.

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

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[3] UK Customer Satisfaction Index, January 2018.

CEO review (continued)

PRIDE is also about developing our people. We're investing in our leadership capabilities from a Leadership 200 group – including 20 'People's Choice' leaders chosen by an all-employee vote – to a business-wide 'Developing My Leadership' programme for all our people to expand their capabilities and leadership skills.

We issued our first gender pay gap report in March 2018. Our mean gender pay gap - the difference in average hourly pay between all men and women - is 29% and is on a par with the rest of the UK retail banking sector. This is very much a function of the nature of our business and our resulting employee profile. The gender pay gap for our senior population of approximately 300 managers is just 4%. This gap could be closed by moving only a handful of people. Our overall gender pay gap is therefore driven by having far fewer men in our junior roles - for example, only one in five of our junior branch roles is occupied by a man. To reduce our gender pay gap to zero would require us to change approximately 4,000 of these junior positions to be held by a man. Nevertheless, we remain committed to identifying opportunities to help women to progress to senior roles. We have already made good progress on our Board with 38% female representation.

Building a national treasure

Social purpose has been part of our founding DNA for over 130 years, and we would like to use our trusted status to become a driving force for good in society. Of course, this cornerstone ambition will not be judged by us, but by our members and the wider world.

We take our responsibilities seriously. The Society is the 11th highest UK business taxpayer in PwC's annual Total Tax Contribution survey of the 100 Group, we pay fair wages, treat suppliers with respect and work hard to improve our sustainability. We will continue to invest at least 1% of our pre-tax profits to support good causes, of which 0.25% is donated to The Nationwide Foundation.

But we want to do more. With decent homes to buy or rent increasingly out of reach for more and more people, we're using our knowledge and experience to make a contribution to Britain's housing market with a new, five-year community programme that will invest tens of millions of pounds in housing initiatives.

We will make some £20 million available in grants for housing-related charities and organisations over the next five years. Support for local projects will be driven by local needs and chosen by local members.

In Swindon, where we're headquartered, we're partnering with the borough council, and engaging local people, to turn a housing development into a living community.

With more people renting, and our members including both renters and small landlords, we wanted to help raise standards across the rental market. We've put together a cross-industry Partnership Board to stay close to tenant needs and help deliver high quality properties for rent.

CEO review (continued)

Outlook

The UK economy has proved considerably more resilient than some people feared immediately after the Brexit referendum, though the pace of growth is likely to remain relatively subdued, reflecting ongoing Brexit uncertainties.

With economic growth expected to be modest over the next two years, inflation is likely to moderate, gradually reducing the squeeze on household budgets. Subdued growth may mean a small rise in the unemployment rate from recent 43-year lows and only gradual, limited interest rate increases by the Bank of England.

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

Consumers have been saving less, but we expect household deposit growth to pick up a little, to around 4% a year. We will continue to focus on providing the attractive rates that have helped us maintain our deposit share at 10% in an extremely competitive market.

More generally, consumers continue to switch rapidly to digital services, and the new era of Open Banking presents both challenges to established providers, and opportunities for a trusted brand like Nationwide to bring the benefits of mutuality to a wider community.

We look to the future from a position of strength and will continue to seek to deliver the outstanding service, mutual value and financial security our members deserve from us. We will support our members at all life-stages, introducing new services to meet their developing needs. We'll reward our members by offering compelling value loyalty products to deepen our relationships with them. And we will look to invest to ensure the Society is financially strong and able to meet the future needs of our members.

Financial review

In summary

Our financial performance for the year demonstrates our continued focus on delivering long-term value to our members whilst ensuring we maintain capital strength. Statutory profit before tax was £977 million (2017: £1,054 million) and underlying profit before tax was £1,022 million (2017: £1,030 million). Our 2017/18 financial performance includes the impact of our debt buy-back exercise (£116 million charge within net income) which will deliver increased capital strength and reduced funding costs in the future, whilst the prior year included a one-off gain of £100 million from the sale of our investment in Visa Europe.

Our focus on efficiency has resulted in a flat cost base year on year and we remain committed to maintaining a low trajectory of cost growth in the future. Provisions for liabilities and charges have reduced during the year reflecting the higher charge for PPI and Plevin customer redress in the prior year, following the confirmation of the FCA's time bar for complaints.

Our robust financial performance and the successful issuance of Core Capital Deferred Shares (CCDS) have resulted in a further improvement of our capital ratios, which remain comfortably above regulatory requirements and demonstrate our financial strength.

UK leverage ratio: 4.9% (2017: 4.4%)

Underlying profit: £1,022m (2017: £1,030m)

Statutory profit: £977m (2017: £1,054m)

Income statement

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

Net Interest Margin: 1.31% (2017: 1.33%)

Underlying Cost:Income Ratio: 63.2% (2017: 60.2%)

Statutory Cost:Income Ratio: 64.6% (2017: 60.3%)

Notes:

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

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

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

Total income and margin

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

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

Financial review (continued)

The negative impact to NIM from the decline in mortgage margins has been partly offset by savings rates which remain low across the industry. In line with our mutual principles, we continue to resist lowering savings rates where possible and seek to offer long-term value to our members wherever possible. We were the first in the industry to pass on the full benefit of the recent base rate rise (in November 2017) to those members whose savings rates fell by 0.25% following the last base rate reduction in August 2016. During the year our member deposit balances increased and our market share of deposits was maintained at 10.0% (4 April 2017: 10.1%).

Other underlying income has decreased during the year to £121 million (2017: £325 million), predominantly due to a £116 million charge relating to our debt buy-back exercise during the year and the prior year impact of a one-off gain of £100 million from the sale of our investment in Visa Europe. The debt buy-back exercise involved the Society issuing circa £2.1 billion of new bonds, which we consider to be MREL eligible, and the repurchase of older bonds. This has resulted in an increase in our capital strength and a reduction in our future cost of wholesale funding.

Member financial benefit

As a building society, we seek to maintain our financial strength whilst returning value to our members through pricing, propositions and service. We measure the value provided to our members through the highly competitive mortgage, savings and banking products that we offer as our *member financial benefit*, which we quantify as:

Our interest rate differential + incentives and reduced fees

Interest rate differential

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

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

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

Member incentives and reduced fees

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

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

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

Member financial benefit is derived with reference to available market or industry level data. No adjustment is made to take account of factors such as customer mix, risk appetite and product strategy, due to both limitations in availability of data and to avoid bias from segments in which Nationwide may be under or over-represented. Going forward, we will continue to develop our methodology to ensure it captures all the key elements of financial benefits where data is available.

Financial review (continued)

Administrative expenses

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

Savings achieved during the year have helped to mitigate the impact of increases in underlying costs which were primarily driven by:

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

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

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

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

Impairment losses

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

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

Financial review (continued)

Underlying provisions for liabilities and charges

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the period primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these claims. More information on customer redress and FSCS provisions is included in note 12 to the financial statements.

Taxation

The tax charge for the year of £232 million (2017: £297 million) represents an effective tax rate of 24% (2017: 28%) which is higher than the statutory UK corporation tax rate of 19% (2017: 20%). The effective tax rate is higher due to the 8% banking surcharge, equivalent to £43 million (2017: £62 million), and due to the tax effect of disallowable bank levy and customer redress costs of £8 million and £nil (2017: £8 million and £19 million) respectively. Further information is provided in note 9 to the financial statements.

Balance sheet

Total assets have increased by £7 billion year on year to £229 billion (4 April 2017: £222 billion). This growth has been driven by a £6 billion increase in residential mortgage balances due to strong trading in prime mortgages during the period.

Despite sustained competition in the savings market, alongside slower market growth, we have maintained our market share of deposits at 10.0% (4 April 2017: 10.1%) reflecting the highly competitive products that we offer to our members. In addition, we have had significant success in growing the number of members who bank with us, opening 816,000 new current accounts during the year (2017: 795,000), with our market share of standard and packaged accounts now 7.9% (2017: 7.6%).

Assets	4 April 2018 £m	%	4 April 2017 £m	%
Residential mortgages (note i)	177,299	92	171,263	91
Commercial and other lending	10,716	6	12,597	7
Consumer banking	4,107	2	3,949	2
	192,122	100	187,809	100
Impairment provisions	(458)		(438)	
Loans and advances to customers	191,664		187,371	
Other financial assets	34,841		31,231	
Other non-financial assets	2,593		3,068	
Total assets	229,098		221,670	
Asset quality				
Residential mortgages (note i):	%		%	
Proportion of residential mortgage accounts 3 months+ in arrears	0.43		0.45	
Average indexed loan to value of residential mortgage book (by value)	56		55	
Average indexed loan to value of new residential mortgages business	71		71	
Impairment provisions as a percentage of non-performing balances	5.3		5.3	
Consumer banking:				
Non-performing loans as percentage of total balances (excluding charged off balances) (note ii)	4		4	
Impairment provisions as a percentage of non-performing balances (including charged off balances) (note ii)	89		86	

Return on Assets: 0.33% (2017: 0.34%)

Liquidity coverage ratio: 130.3% (2017: 124.0%)

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

Financial review (continued)

Residential mortgages

This financial year was our strongest ever for gross prime mortgage lending at £29.4 billion (2017: £29.1 billion) reflecting the competitively priced products and good long-term value that we offer our members. Total gross mortgage lending was £33.0 billion (2017: £33.7 billion) and represented a market share of 12.8% (2017: 14.0%). Our total net mortgage lending reduced by £3.0 billion to £5.8 billion (2017: £8.8 billion) due to a reduction in gross buy to let (BTL) lending following the affordability criteria changes we made last year and increased prime mortgage redemptions from ongoing market competition driving highly competitive new business rates.

The impairment provision balance is broadly unchanged at £145 million (4 April 2017: £144 million). Arrears performance improved marginally during the year, with cases more than three months in arrears improving to 0.43% of the total portfolio (4 April 2017: 0.45%), despite some evidence of a greater strain on affordability given higher inflation and low wage growth.

Commercial and other lending

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

Consumer banking

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

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

Other financial assets

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

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

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

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

Notes:
i. Comparatives have been restated as detailed in note 2 of the financial statements.
ii. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations).

Financial review (continued)

Member deposits

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

Debt securities in issue and other financial liabilities

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

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

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

Members' interests and equity

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

Statement of comprehensive income (Movements shown net of related taxation)	**Year to 4 April 2018 £m**	Year to 4 April 2017 £m
Profit after tax	**745**	757
Net remeasurement of pension obligations	**22**	(255)
Net movement in cash flow hedge reserve	**(191)**	(247)
Net movement in available for sale reserve	**31**	52
Other items	**1**	2
Total comprehensive income	**608**	309

Further information on gross movements in the pension obligation is included in note 14 to the financial statements. Further information relating to movements in the cash flow hedge reserve is included in note 6 to the financial statements.

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

Financial review (continued)

Capital structure

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

Capital structure (note i)	4 April 2018 £m	4 April 2017 £m
Capital resources		
Common Equity Tier 1 (CET1) capital	9,925	8,555
Total Tier 1 capital	10,917	9,547
Total regulatory capital (note ii)	13,936	12,154
Risk weighted assets (RWAs)	32,509	33,641
UK leverage exposure	221,992	215,894
CRR leverage exposure	236,468	228,428
CRD IV capital ratios:	%	%
CET1 ratio	30.5	25.4
UK leverage ratio (note iii)	4.9	4.4
CRR leverage ratio (note iv)	4.6	4.2

Notes:
i. Data in the table is reported under CRD IV on an end point basis.
ii. Total regulatory capital was restated as at 4 April 2017 to include accrued interest on subordinated liabilities and subordinated capital. Further information is provided in note 2 to the financial statements.
iii. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure.
iv. The Capital Requirements Regulation (CRR) leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure and is reported on an end point basis.

The maintenance of strong capital ratios is a core requirement of the Society's strategic objective to be 'Built to Last'. In September 2017, five million CCDS were issued raising £0.8 billion of CET1 capital. The issuance enhanced the liquidity and relevance of the CCDS instrument, while also helping to maintain broad access to capital markets. These CCDS form a single series together with those previously issued in December 2013. Further information can be found in note 15 to the financial statements.

CET1 capital resources have increased over the year by £1.4 billion, mainly due to the CCDS issuance (£0.8 billion), and profit after tax for the period of £0.7 billion. Risk weighted assets (RWAs) have reduced over the year by approximately £1.1 billion, primarily due to the continued run-off of the commercial book. These movements have resulted in an increase in the CET1 ratio, to 30.5%.

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

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a lengthy transitional period from 2022 to 2027. In addition, the PRA's revised expectations for IRB models for residential mortgages will be effective from the end of 2020. These reforms will lead to a significant increase in our risk weights over time and we currently expect the consequential impact on our reported CET1 ratio to ultimately be a reduction of the order of 45-50% relative to our current methodology. We note however that organic earnings through the transition will mitigate this impact such that our reported CET1 ratio will in practice remain well in excess of the proforma levels implied by this change, and leverage requirements will remain our binding constraint based on latest projections. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources we hold or the risk profile of our assets. Final impacts are subject to uncertainty for future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA's discretion.

Financial review (continued)

IFRS 9

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

Financial performance framework (FPF)

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

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

Business and risk report

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Principal risks

Effective risk management is fundamental to the success of Nationwide's business and has an important part to play in delivering our purpose of building society, nationwide by making sure we are safe and secure for the future. Whilst it is accepted that all business activities involve some degree of risk, Nationwide seeks to protect its members by appropriately managing the risks that arise from its activities. Nationwide's risk management processes ensure the Society is built to last by:

- contributing to better decision making, ensuring we take the right risks, in a way that is considered and supports the strategy
- ensuring the risks we do take are appropriately understood, controlled and managed
- maintaining an appropriate balance between delivering member value and remaining a prudent and responsible lender.

Nationwide is exposed to the principal risks as set out below, which are managed through the Society's Enterprise Risk Management Framework as described on page 25. The Society's description of principal risks have been restructured to better align with how the risks are managed. However, the underlying risks to Nationwide remain the same.

Credit risk

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

Why this risk is important for Nationwide

Borrowers may be unable to repay loans for a number of reasons, such as changes to the economic and market environment or in their individual circumstances. This may lead to:

- Financial difficulty or other detriment to borrowers who are unable to afford repayments on existing products and services, either with Nationwide or other providers
- Credit losses which adversely impact the Society's profitability, ability to generate sufficient capital and sustainability.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise unaffordable lending and credit losses through:

- Stringent affordability checks and controls, ensuring lending is responsible and will not cause financial difficulty for members and customers
- Prudent lending policies, operated across specific market segments, which ensure lending remains within the Board's risk appetite
- Continuous monitoring of credit portfolios to identify potential risks, through stress testing, modelling and ongoing reporting to senior management and the Board.

Solvency risk

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

Why this risk is important for Nationwide

A sudden stress or series of unexpected losses may result in Nationwide's capital reserves being depleted. This may lead to:

- Threats to the ongoing viability of the Society should capital resources be exhausted
- An inability to offer new products to members as capital is not available to support these offerings
- Reputational damage to the Society as members, regulators, investors and counterparties lose trust in Nationwide's ability to operate.

How Nationwide manages this risk on behalf of members

Nationwide ensures it maintains sufficient capital resources through:

- Defining a minimum level of capital, including leverage, which the Society is willing to tolerate through Board risk appetite, which is maintained and monitored by the Board and other risk committees.
- Structuring capital to meet key regulatory minimums, stakeholder expectations and the requirements of the strategy.

Principal risks (continued)

Market risk

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

Why this risk is important for Nationwide

Nationwide's income or the value of its assets may be altered by changes in interest rates, currency rates and equity prices. This may lead to:

- Lower than expected income, adversely affecting the Society's profitability and ability to generate capital
- Capital and liquidity resources which are worth less than expected, impacting the Society's ability to meet its financial commitments and its ongoing viability.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise its exposure to fluctuations in market prices and rates through:

- Fully hedging market risks where possible and appropriate and taking market risks only when these are essential to core business activities, or are designed to provide stability of earnings.
- Continuous monitoring through a variety of techniques including sensitivity analysis, earnings sensitivity, Value at Risk and stress analysis.

Business risk

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

Why this risk is important for Nationwide

Nationwide may fail to respond appropriately to changes in the external environment including new technology, consumer behaviour, regulation or market conditions. This may lead to:

- Products and services which fail to meet members' needs, adversely affecting both the Society's relationship with members and the ability to generate income
- A weakening of our relationships with members as they increasingly conduct their business through third parties
- Degradation of profitability through increased costs or decreased income.

How Nationwide manages this risk on behalf of members

Whilst changes in Nationwide's operating environment pose risks, they also present opportunities to provide new, innovative products and services to members. Nationwide ensures it is able to adapt to new conditions and continues to meet members' needs whilst remaining safe and secure for the future through:

- Considering the potential for disruption to the market and operating environment from a range of factors, including technology and consumer trends, through regular Board and senior management reporting
- Continuing to develop new products and services based on member engagement, emerging trends, and technological innovation
- Identifying and monitoring potential risks to its business model through dedicated horizon scanning processes.

Principal risks (continued)

Liquidity and funding risk

Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and other stakeholder confidence.

Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.

Why this risk is important for Nationwide

In the event of a downturn in the macroeconomic environment, sudden withdrawals of member deposits or other potential shocks, Nationwide could have insufficient financial resources to meet its commitments. This may lead to:

- Members being unable to access their money or other products and services
- Disruption to other organisations or the market
- Damage to the Society's reputation, decreased member and stakeholder confidence and increased funding costs.

How Nationwide manages this risk on behalf of members

Nationwide ensures it is able to meet its liabilities as they fall due and maintain appropriate funding through:

- Operating a comprehensive suite of policies, limits, stress testing, monitoring and robust governance controls to ensure a stable and diverse funding base and sufficient holdings of high quality liquid assets
- Continuously monitoring liabilities against internal and regulatory requirements, and management of liquidity resources to meet these as they fall due
- Maintaining a contingency funding plan which details the actions available to the Society in a stress situation.

Pension risk

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

Why this risk is important for Nationwide

Nationwide has funding obligations to defined benefit pension schemes. The value of the schemes' assets could become insufficient to meet estimated liabilities as a result of volatility in the value of schemes' assets and liabilities, driven by market interest rates, inflation and longevity. This may lead to:

- Insecurity of employee pension arrangements
- A requirement to increase cash funding into these schemes
- An adverse impact on Nationwide's capital position.

How Nationwide manages this risk on behalf of members

The assets of Nationwide's defined benefit schemes are held in legally separate trusts, each administered by a board of trustees, in accordance with UK legislation. Nationwide minimises the impact of pension risk on both the Society and pension scheme members through:

- Maintaining effective engagement with the trustees to manage the long-term impact of pension risk on the Society's capital and financial position
- Balancing risk, return and relevant employee considerations.

Principal risks (continued)

Model risk

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

Why this risk is important for Nationwide

Model outputs could be inaccurate as a result of inappropriate design or operation. This may affect decision making and lead to:

- Members being inappropriately offered or refused access to products and services
- Financial loss or insufficient financial resources
- Regulatory censure.

How Nationwide manages this risk on behalf of members

Models play an ever more important part in supporting the strategy as decision making becomes more sophisticated. This risk is mitigated through:

- A well governed model development process, operated by expert modelling teams and independently validated by specialists in the second line.
- Regular monitoring of model performance and maintenance, supported by independent review.

Operational risk

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

Why this risk is important for Nationwide

Process, people or system failures or external events could lead to:

- Disruption either to the services provided to members or to internal processes
- The loss of customer data, assets, or other form of detriment due to external parties (e.g. cyber attack, fraud) or poor internal controls
- Financial loss, through a loss of income, increase in costs, or direct loss.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise detriment and loss to members, customers and the Society through:

- Regularly identifying and assessing the key operational risks to its strategy, ensuring appropriate controls are in place to mitigate these risks
- Considering the extreme but plausible events which could affect the Society
- Continuing to invest in enhanced controls in key areas including cyber, resilience and data.

Principal risks (continued)

Conduct and compliance risk

The risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to:

- Non-compliance with regulation or legislation
- Market integrity being undermined, or
- An unfair outcome being created for customers.

Why this risk is important for Nationwide

In an evolving regulatory and consumer environment, Nationwide could provide products and services which are misaligned to the needs of customers or market conditions due to the pace of change in customer behaviour, regulation, or the external environment. This may lead to:

- Unfair customer outcomes, with customers being sold products which are not wanted or needed
- Non-compliance with the letter or spirit of legislation or regulation
- Disruption to the market
- Regulatory censure.

How Nationwide manages this risk on behalf of members

Nationwide seeks to minimise its conduct and compliance exposure through:

- Rigorous testing of products and services both before and after providing them to members to ensure they are designed and performing appropriately
- Continually assessing new and existing risks in the conduct and compliance environment (e.g. technology, cyber-crime, changes in consumer or market behaviour and regulatory changes), and ensuring that risk exposures are appropriately managed.

Managing risk

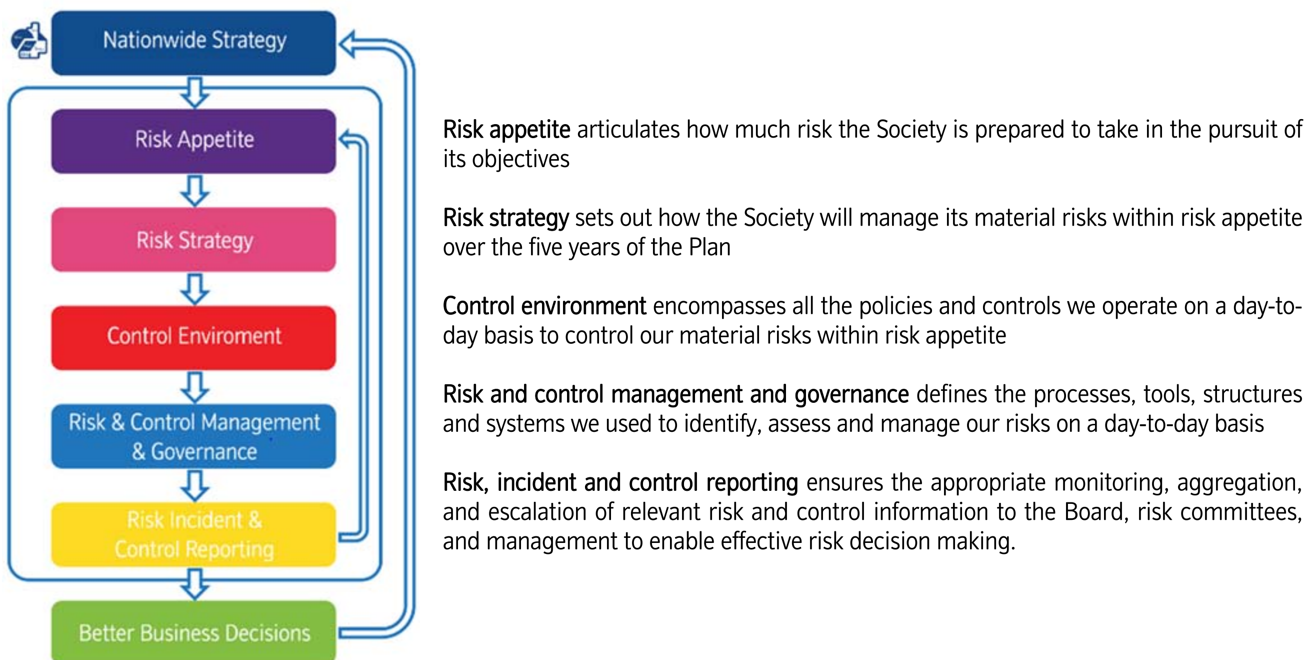
Effective risk management is at the heart of the business, ensuring that decisions are made having considered any associated risks to delivery of Nationwide's strategy and our goal to protect members' interests.

The Society manages its risk through an enterprise-wide risk management framework, which sets out the minimum standards, and associated processes, for successful risk management, connecting the Society's strategy with day-to-day risk management activities.

Enterprise risk management framework (ERMF)

Over the past year, Nationwide has evolved the ERMF in response to industry developments, best practice and the shifting risk landscape, to simplify the Society's processes and improve their effectiveness and efficiency. Whilst the visualisation below presents a simplified articulation of how Nationwide manages its risk, the approach to risk management remains fundamentally unchanged.

The diagram below outlines how Nationwide's ERMF is structured to manage the risks to which the Society is exposed.



Risk appetite articulates how much risk the Society is prepared to take in the pursuit of its objectives

Risk strategy sets out how the Society will manage its material risks within risk appetite over the five years of the Plan

Control environment encompasses all the policies and controls we operate on a day-to-day basis to control our material risks within risk appetite

Risk and control management and governance defines the processes, tools, structures and systems we used to identify, assess and manage our risks on a day-to-day basis

Risk, incident and control reporting ensures the appropriate monitoring, aggregation, and escalation of relevant risk and control information to the Board, risk committees, and management to enable effective risk decision making.

The ERMF ensures that risks are managed through robust and consistent processes, supported by appropriate tools and guidance, enabling better business decisions for delivery of Nationwide's strategy.

The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. During the year, the Society's risk management and internal control systems have been reviewed and, on the basis of this review, the Board is satisfied that Nationwide has an adequate system of risk management and internal control.

Managing risk (continued)

Risk appetite

Board risk appetite articulates how much risk the Board is willing to accept on behalf of its members in the delivery of the strategy. The following statements articulate Nationwide's approach to taking risk responsibly in the interests of our members. The Society's ambitions are to:

- Lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle
- Maintain sufficient capital and liquidity resources to support current business activity and planned growth and to remain resilient to significant stress
- Minimise customer disruption, financial loss, reputational damage and regulatory non-compliance, especially those caused by failures of people, processes and systems
- Provide sustainable customer services over resilient systems
- Treat customers fairly before, during and after the sales process
- Offer products and services which meet customer needs and expectations, perform as represented and provide value for money
- Operate a mutual business model which is sustainable and remains within the requirements of the Building Societies Act in a stress
- Only incur market risks that are required for operational efficiency, stability of earnings or cost minimisation in supporting core business activities.

Top and emerging risks

Nationwide accepts that all business activities involve some degree of risk; therefore, steps are taken to protect members by ensuring that these activities are managed appropriately. The Built to Last strategic cornerstone focuses on Nationwide being sustainable, efficient and resilient for members.

Top and emerging risks are identified through the process outlined in the 'Managing Risk' section of this report and are closely tracked throughout the governance structure. They are specific instances of one or more of our principal risks which are particularly relevant in the current environment and which the Society will keep under close observation through risk reporting. The top and emerging risks to Nationwide's' strategy are detailed in the table below.

Risk	Overview of Risk	Mitigating Actions
Cyber security	Nationwide and other organisations across financial and non-financial sectors continue to be targeted by increasingly sophisticated and frequent cyber attacks including ransomware, malware and Distributed Denial of Service (DDoS) attacks. These attacks can disrupt the provision of services to members or lead to a loss of member data. The threat from cyber attacks is expected to remain high, with heightened geopolitical tensions, potentially increasing the threat to the UK, and the development of ever more sophisticated threats. This becomes more significant as services continue to be accessed online.	Nationwide is: • Continuing to invest in cyber security, focusing on the development of robust preventative controls, intrusion detection systems and response plans to protect services and member data • Collaborating with industry bodies and law enforcement agencies, to develop a better understanding of, and response to, evolving cyber threats.
Operational resilience	Over recent years there has been a dramatic increase in demand for digital services available at all times. Ever increasing volumes of data must be managed securely and reliably, to avoid disruption to member services. The rate of increase in demand for digital services shows no signs of slowing down, and delivering technological change to match this demand, without impacting system security or stability, remains a challenge across the sector.	Nationwide is: • Ensuring focus on maintenance of service provision, with oversight through the dedicated Board IT and Resilience Committee • Continuing to invest in the resilience of its systems and implementing robust controls to minimise disruption.
Regulatory change	The regulatory environment continues to evolve, with several key pieces of regulation coming into force in 2018, including the General Data Protection Regulation (GDPR), the Payment Services Directive II (PSD II), Competition and Markets Authority (CMA) remedies and BCBS 239. Each of these requires complex changes to implement and the combined effect is resulting in significant industry-wide challenges for firms to demonstrate and maintain compliance. Nationwide is well placed to respond to new requirements with work already underway to ensure compliance.	Nationwide is: • Managing implementation of regulatory changes through dedicated programmes which are closely monitored by the Board • Working closely with regulators to ensure compliance with both the letter and the spirit of regulation.

Top and emerging risks (continued)

Risk	Overview of Risk	Mitigating Actions
Competitive environment	Competition continues to evolve in Nationwide's core markets driven by changes to regulation, technological innovation, and increasing demand for digital products and services due to the convenience that they can bring. Whilst these provide opportunities to build new and deeper relationships with members, and better meet customer needs through new product offerings, they may also pose challenges to Nationwide's products, systems and pricing, and disrupt how financial services currently operate. Changes in the competitive environment are expected to continue as existing or new competitors launch propositions utilising Open Banking technologies and enhance existing service offerings through artificial intelligence, machine learning and other product innovation.	Nationwide is: • Continuously monitoring the competitive environment and reviewing the ability of the Society's business model to respond to potential risks and opportunities • Continuing to identify and invest in new and innovative product offerings and technology to deliver on our commitment to provide legendary service to members.
Geopolitical and macro-economic environment	Nationwide is inherently exposed to a downturn in macro-economic conditions which can impact customer affordability, credit losses and the availability and cost of financial resources. Numerous factors are expected to impact the geopolitical and macro-economic environment over the coming year. These include: • Brexit – whilst the basis of a transition deal is in place, uncertainty remains over the terms of the UK's exit from the EU. Whilst Nationwide's business model means the Society has limited direct exposure to the EU, depending upon the shape of the deal, Nationwide may be exposed to secondary impacts • Economic conditions and policy – when adjusted for inflation, wages growth is negligible and productivity remains persistently low. When coupled with the withdrawal of some monetary stimulus, customer affordability could be affected • Geopolitical tensions – there remain significant tensions in the geopolitical environment which have the potential to create headwinds for the UK economy.	Nationwide is: • Monitoring key economic factors for signs of increasing risk or environmental developments • Undertaking regular assessments of how economic stresses may impact its business model • Continuing Board review of key developments including Brexit, geopolitical tensions, European and domestic political changes.

Credit risk

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk also encompasses refinance risk and concentration risk. Refinance risk is the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

Nationwide manages credit risk for each of the following portfolios:

Portfolio	Definition
Residential mortgages	Loans secured on residential property
Consumer banking	Unsecured lending including current account overdrafts, personal loans and credit cards
Commercial and other lending	Loans to registered social landlords, loans made under the Private Finance Initiative and commercial real estate lending. Also includes deferred consideration and collateral balances to support repurchase transactions.
Treasury	Treasury liquidity, derivatives and discretionary portfolios

Maximum exposure to credit risk

Credit risk largely arises from exposure to loans and advances to customers, which account for 85.2% (2017: 85.9%) of Nationwide's total credit risk exposure. Within this, exposure relates primarily to residential mortgages, which account for 92.5% (2017: 91.4%) of total loans and advances to customers and which comprise high quality assets with low occurrences of arrears and possessions. Residential mortgage exposures have increased during the year, driven by Nationwide's continued support for first time buyers which has contributed to the £6 billion growth in prime mortgage balances in the year.

In addition to loans and advances to customers, Nationwide is exposed to credit risk on all other financial assets. For financial assets recognised on the balance sheet, the maximum exposure to credit risk represents the balance sheet carrying value after allowance for impairment. For off-balance sheet guarantees, the maximum exposure is the maximum amount that Nationwide would have to pay if the guarantees were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

Nationwide's maximum exposure to credit risk has risen from £234 billion to £240 billion, reflecting the growth in residential mortgage loans.

Maximum exposure to credit risk	2018					
	Gross balances	Less: Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
(Audited)	£m	£m	£m	£m	£m	%
Cash	14,361	-	14,361	-	14,361	6
Loans and advances to banks	3,422	-	3,422	101	3,523	1
Investment securities – Available for sale	11,926	-	11,926	-	11,926	5
Investment securities – Held to maturity	1,120	-	1,120	700	1,820	1
Derivative financial instruments	4,121	-	4,121	-	4,121	2
Fair value adjustment for portfolio hedged risk (note ii)	(109)	-	(109)	-	(109)	-
	34,841	-	34,841	801	35,642	15
Loans and advances to customers:						
Residential mortgages	177,299	(145)	177,154	12,204	189,358	79
Consumer banking	4,107	(298)	3,809	42	3,851	1
Commercial and other lending (notes ii and iii)	10,716	(15)	10,701	842	11,543	5
	192,122	(458)	191,664	13,088	204,752	85
Total	226,963	(458)	226,505	13,889	240,394	100

Credit risk (continued)

Maximum exposure to credit risk			2017			
	Gross balances	Less: Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
(Audited)	£m	£m	£m	£m	£m	%
Cash	13,017	-	13,017	-	13,017	6
Loans and advances to banks	2,587	-	2,587	115	2,702	1
Investment securities – Available for sale (note iv)	9,831	-	9,831	-	9,831	4
Investment securities – Held to maturity	-	-	-	1,774	1,774	1
Derivative financial instruments	5,043	-	5,043	-	5,043	2
Fair value adjustment for portfolio hedged risk (note ii)	746	-	746	-	746	-
	31,224	-	31,224	1,889	33,113	14
Loans and advances to customers:						
Residential mortgages	171,263	(144)	171,119	12,589	183,708	78
Consumer banking	3,949	(269)	3,680	26	3,706	2
Commercial and other lending (notes ii and iii)	12,597	(25)	12,572	926	13,498	6
	187,809	(438)	187,371	13,541	200,912	86
Total	219,033	(438)	218,595	15,430	234,025	100

Notes:

i. In addition to the amounts shown above, Nationwide has, as part of its retail operations, revocable commitments of £9,517 million (2017: £9,202 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by Nationwide, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

ii. The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (included within the carrying value of loans for the commercial lending portfolio) represent hedge accounting adjustments. They are indirectly exposed to credit risk through the relationship with the underlying loans covered by Nationwide's hedging programmes.

iii. Commercial and other lending includes deferred consideration relating to an investment in Visa Inc and collateral balances to support repurchase transactions.

iv. Comparatives have been restated as detailed in note 2 of the financial statements.

Credit risk (continued)

Movements in impaired loans by credit risk segment

The table below shows the movements during the year of all loans classified as impaired. The balance shown represents the entire financial asset rather than just the overdue elements.

Movements in impaired loan balances (Audited)	Prime mortgages £m	Specialist mortgages £m	Consumer banking £m	Commercial and other lending £m	Total £m
At 5 April 2017	372	401	233	45	1,051
Classified as impaired during the year	310	343	125	24	802
Transferred from impaired to unimpaired	(285)	(337)	(23)	(5)	(650)
Amounts written off	(17)	(38)	(78)	(22)	(155)
Repayments	(7)	-	(11)	(12)	(30)
At 4 April 2018	**373**	**369**	**246**	**30**	**1,018**

Movements in impaired loan balances (Audited)	Prime mortgages £m	Specialist mortgages £m	Consumer banking £m	Commercial and other lending £m	Total £m
At 5 April 2016	366	412	260	176	1,214
Classified as impaired during the year	323	358	110	6	797
Transferred from impaired to unimpaired	(298)	(333)	(44)	(29)	(704)
Amounts written off	(14)	(37)	(92)	(105)	(248)
Repayments	(5)	1	(1)	(3)	(8)
At 4 April 2017	372	401	233	45	1,051

Note:
Loans that were classified as impaired and loans that have transferred into or out of the impaired classification are based on the relevant status at each month end, when compared to the previous month end.

Credit risk - Residential mortgages

Summary

Nationwide's residential mortgages include both prime and specialist loans. Prime residential mortgages are mainly Nationwide-branded advances made through the branch network and intermediary channels. Specialist lending consists of buy to let mortgages originated under The Mortgage Works (UK) plc (TMW) brand.

Nationwide is committed to helping people become homeowners and continues to actively support first time buyers. New lending in the prime portfolio has seen the residential mortgage exposure grow from £171 billion to £177 billion over the year, with new lending to first time buyers, at £11.8 billion, increasing to 38% (2017: 36%) of all new lending. Nationwide continues to operate with a commitment to responsible lending with a focus on championing good conduct and fair outcomes.

Whilst the average LTV of new lending has remained stable at 71%, increased new lending to first time buyers, at higher LTVs, has resulted in a rise in the proportion of the portfolio with an LTV above 80% to 11.2% (2017: 9.6%). The average indexed LTV across the combined residential mortgage portfolio has increased slightly from 55% to 56%.

The proportion of lending made to the buy to let segment reduced over the year to 11% (2017: 14%). TMW remains a top tier BTL lender and uses this presence and influence in the market to drive improving standards across the industry, providing expertise, opinion and innovation for the benefit of the private rental sector, supporting both landlords and tenants. Through TMW, Nationwide is supporting portfolio landlords, with four or more properties, has expanded into 80% LTV lending and is piloting lending to limited companies.

The proportion of loans in arrears has reduced slightly to 1.5% (2017: 1.6%) and arrears levels remain low across prime and specialist lending, reflecting the favourable economic conditions and low interest rate environment, supported by robust credit assessment and affordability controls at the point of lending, and proactive engagement with borrowers. The proportion of loans more than three months in arrears reduced slightly to 0.43% and is significantly below the UK Finance (UKF) average of 0.81%. Whilst there are no signs of deterioration in the portfolio, with the immediate outlook for the UK being less certain and the buy to let market facing increased costs and potentially less investor demand, the expectation is for a gradual rise in arrears from these low levels.

The provision balance for residential mortgages has remained broadly stable at £145 million (2017: £144 million) and provision coverage on non-performing balances is unchanged at 5.3%.

Lending and new business

The table below summarises the residential mortgages portfolios:

Residential mortgage lending *(Audited)*	2018 £m	 %	2017 £m	 %
Prime	144,049	81	138,004	81
Specialist:				
Buy to let	30,438	18	30,087	18
Self-certified	1,823	1	2,071	1
Near prime	705	-	784	-
Sub prime	284	-	317	-
	33,250	19	33,259	19
Total residential mortgages	177,299	100	171,263	100

Note:
Self-certified, near prime and sub prime lending were discontinued in 2009.

Credit risk - Residential mortgages (continued)

Distribution of new business by borrower type (by value)	2018 %	2017 %
Prime:		
Home movers	29	30
First time buyers	38	36
Remortgagers	21	19
Other	1	1
Total prime	89	86
Specialist:		
Buy to let new purchases	2	3
Buy to let remortgagers	9	11
Total specialist	11	14
Total new business	100	100

Note:
All new business measures exclude further advances and product switchers.

In October 2014, the Financial Policy Committee (FPC) introduced a 15% limit on the proportion of new lending for residential mortgages, excluding buy to let, that may be written at income multiples of 4.5 and above. The proportion of new lending at income multiples of 4.5 or higher was 8.3% in the year (2017: 10.6%). This is closely monitored and controlled to remain within risk appetite.

Credit risk

Residential mortgage lending continues to have a low risk profile as demonstrated by a low level of arrears compared to the industry average. The residential mortgages portfolio comprises many relatively small loans which are broadly homogenous, have low volatility of credit risk outcomes and are diversified in terms of the UK market and geographic segments.

LTV and credit risk concentration

LTV is calculated by weighting the borrower level LTV by the individual loan balance to arrive at an average LTV. This approach is considered to most appropriately reflect the exposure at risk.

Average LTV of loan stock	2018 %	2017 %
Prime	55	54
Specialist	58	59
Group	56	55

Average LTV of new business	2018 %	2017 %
Prime	72	72
Specialist (buy to let)	61	62
Group	71	71

Note:
The LTV of new business excludes further advances and product switchers.

Credit risk - Residential mortgages (continued)

LTV distribution of new business	2018 %	2017 %
0% to 60%	26	26
60% to 75%	30	31
75% to 80%	9	9
80% to 85%	14	14
85% to 90%	18	17
90% to 95%	3	3
Over 95%	-	-
Total	100	100

The maximum LTV for new prime residential customers is 95%. The proportion of new lending greater than 80% LTV has increased to 35% (2017: 34%) in part as a result of the strategy to continue to support first time buyers.

Geographical concentration

Residential mortgage balances by LTV and region *(Audited)* 2018	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	26,771	10,392	6,896	8,727	5,820	2,895	1,383	925	63,809	
50% to 60%	11,496	5,932	4,101	4,502	3,240	1,612	799	389	32,071	
60% to 70%	9,006	6,807	6,136	3,678	3,304	2,375	1,271	392	32,969	
70% to 80%	6,441	4,944	5,568	2,809	2,414	2,495	1,098	403	26,172	
80% to 90%	4,987	2,817	3,386	1,974	1,592	1,453	675	274	17,158	
90% to 100%	506	319	452	306	172	283	63	83	2,184	
	59,207	31,211	26,539	21,996	16,542	11,113	5,289	2,466	174,363	98.4
Not fully collateralised										
Over 100% LTV (A)	4	4	20	2	3	11	2	169	215	0.1
Collateral value on A	3	3	17	2	2	11	2	144	184	
Negative equity on A	1	1	3	-	1	-	-	25	31	
Total performing loans	59,211	31,215	26,559	21,998	16,545	11,124	5,291	2,635	174,578	98.5
Non-performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	489	162	112	122	70	39	23	28	1,045	
50% to 60%	199	100	82	70	44	31	15	11	552	
60% to 70%	78	109	116	60	52	37	22	11	485	
70% to 80%	30	79	100	26	31	39	19	10	334	
80% to 90%	13	32	84	8	6	21	16	8	188	
90% to 100%	4	3	36	3	1	9	7	8	71	
	813	485	530	289	204	176	102	76	2,675	1.5
Not fully collateralised										
Over 100% LTV (B)	-	1	8	-	-	2	-	35	46	-
Collateral value on B	-	1	8	-	-	2	-	28	39	
Negative equity on B	-	-	-	-	-	-	-	7	7	
Total non-performing loans	813	486	538	289	204	178	102	111	2,721	1.5
Total residential mortgages	60,024	31,701	27,097	22,287	16,749	11,302	5,393	2,746	177,299	100.0
Geographical concentrations	34%	18%	15%	13%	9%	6%	3%	2%	100%	

Credit risk - Residential mortgages (continued)

Residential mortgage balances by LTV and region *(Audited)* 2017	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	28,493	9,737	6,361	8,783	5,630	2,915	1,208	833	63,960	
50% to 60%	11,822	5,612	3,748	4,637	3,141	1,649	681	357	31,647	
60% to 70%	8,659	6,888	5,737	3,852	3,426	2,366	972	395	32,295	
70% to 80%	5,169	4,905	5,897	2,216	2,198	2,619	1,296	352	24,652	
80% to 90%	3,084	2,483	3,304	1,314	1,207	1,285	707	324	13,708	
90% to 100%	288	237	699	132	102	157	233	140	1,988	
	57,515	29,862	25,746	20,934	15,704	10,991	5,097	2,401	168,250	98.2
Not fully collateralised										
LTV more than 100% (A)	5	6	40	2	3	16	8	239	319	0.2
Collateral value on A	*4*	*5*	*35*	*1*	*2*	*15*	*8*	*199*	*269*	
Negative equity on A	*1*	*1*	*5*	*1*	*1*	*1*	*-*	*40*	*50*	
Total performing loans	57,520	29,868	25,786	20,936	15,707	11,007	5,105	2,640	168,569	98.4
Non-performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	504	153	100	120	66	40	20	25	1,028	
50% to 60%	192	98	69	69	41	28	12	11	520	
60% to 70%	69	105	107	58	49	42	17	12	459	
70% to 80%	17	94	105	21	32	36	24	10	339	
80% to 90%	8	42	86	6	6	18	15	11	192	
90% to 100%	1	7	53	-	1	7	14	7	90	
	791	499	520	274	195	171	102	76	2,628	1.6
Not fully collateralised										
LTV more than 100% (B)	-	1	12	-	-	2	3	48	66	-
Collateral value on B	*-*	*1*	*11*	*-*	*-*	*2*	*3*	*38*	*55*	
Negative equity on B	*-*	*-*	*1*	*-*	*-*	*-*	*-*	*10*	*11*	
Total non-performing loans	791	500	532	274	195	173	105	124	2,694	1.6
Total residential mortgages	58,311	30,368	26,318	21,210	15,902	11,180	5,210	2,764	171,263	100.0
Geographical concentrations	34%	18%	15%	12%	9%	7%	3%	2%	100%	

Over the year, the geographical distribution across the UK has remained stable.

The value of partially collateralised non-performing loans has reduced to £46 million (2017: £66 million), primarily reflecting the growth in house prices.

During the year the proportion of loan balances with an LTV greater than 80% has increased to 11.2% (2017: 9.6%) reflecting the new lending and support for first time buyers.

Credit risk - Residential mortgages (continued)

Arrears

The methodology for calculating mortgage arrears is based on the UK Finance (UKF) definition of arrears, where months in arrears is determined by dividing the arrears balance outstanding by the latest contractual payment.

Number of cases more than 3 months in arrears as % of total book	2018 %	2017 %
Prime	0.34	0.36
Specialist	0.83	0.89
Total	0.43	0.45
UKF industry average	0.81	0.91

Favourable economic conditions, including a continued low interest rate environment, have resulted in the arrears performance of both the prime and specialist mortgage portfolios reaching a level where any future changes are more likely to be gradual upward movements rather than further falls. The combined arrears rate of 0.43% was approximately half of the UKF industry average rate of 0.81%.

Impaired loans

Impaired and non-performing loans are identified primarily by arrears status. Impaired accounts are defined as those greater than three months in arrears and include accounts subject to possession. Non-performing accounts include:

- all impaired loans;
- loans which are past due but not impaired, including any loan where a payment due is received late or missed; and
- past term interest only loans which have gone into litigation.

The non-performing loan amount represents the entire loan balance rather than just the payment overdue.

Impairment provisions are held in relation to both the performing and non-performing segments of the residential mortgage portfolio. Provisions reflect losses which have been incurred at the balance sheet date, based on objective evidence. Individual impairment provisions are assigned to accounts in possession and a collective provision is assigned to all other accounts. For currently performing loans, the provision reflects losses arising from impairment events that have occurred within the portfolio but are not identifiable at the reporting date.

Credit risk - Residential mortgages (continued)

Residential mortgages by payment status		**2018**		
	Prime	**Specialist**	**Total**	
(Audited)	**£m**	**£m**	**£m**	**%**
Performing:				
Neither past due nor impaired	**142,382**	**32,196**	**174,578**	**98.5**
Non-performing:				
Past due up to 3 months	**1,294**	**685**	**1,979**	**1.1**
Impaired:				
Past due 3 to 6 months	**162**	**159**	**321**	**0.2**
Past due 6 to 12 months	**113**	**110**	**223**	**0.1**
Past due over 12 months	**89**	**76**	**165**	**0.1**
Litigations (past term interest only)	**1**	**1**	**2**	**-**
Possessions	**8**	**23**	**31**	**-**
Total non-performing loans	**1,667**	**1,054**	**2,721**	**1.5**
Total residential mortgages	**144,049**	**33,250**	**177,299**	**100**
Non-performing loans as a % of total residential mortgages	**1.2%**	**3.2%**	**1.5%**	
Impairment provisions (£m)	**36**	**109**	**145**	
Impairment provisions as a % of non-performing balances	**2.2%**	**10.3%**	**5.3%**	
Impairment provisions as a % of total residential mortgages	**0.02%**	**0.33%**	**0.08%**	

Residential mortgages by payment status		2017		
	Prime	Specialist	Total	
(Audited)	£m	£m	£m	%
Performing:				
Neither past due nor impaired	136,374	32,195	168,569	98.4
Non-performing:				
Past due up to 3 months	1,258	663	1,921	1.1
Impaired:				
Past due 3 to 6 months	156	173	329	0.2
Past due 6 to 12 months	117	118	235	0.2
Past due over 12 months	91	91	182	0.1
Litigations (past term interest only)	-	1	1	-
Possessions	8	18	26	-
Total non-performing loans	1,630	1,064	2,694	1.6
Total residential mortgages	138,004	33,259	171,263	100.0
Non-performing loans as a % of total residential mortgages	1.2%	3.2%	1.6%	
Impairment provisions (£m)	34	110	144	
Impairment provisions as a % of non-performing balances	2.1%	10.3%	5.3%	
Impairment provisions as a % of total residential mortgages	0.02%	0.33%	0.08%	

Mortgage portfolios at 4 April 2018 included 1,634 mortgage accounts (2017: 1,674), including those in possession, where payments were more than 12 months in arrears. The total principal outstanding in these cases was £182 million (2017: £195 million). The total value of arrears in these cases was £22 million (2017: £20 million) or 0.01% (2017: 0.01%) of total mortgage balances.

Credit risk - Residential mortgages (continued)

Impairment losses for the year *(Audited)*	2018 £m	2017 £m
Prime	3	11
Specialist	8	47
Total	11	58

Note:
Impairment losses represent the amount charged through the profit and loss account, rather than amounts written off during the year.

Possessions

Number of properties in possession as % of total book	2018		2017	
	Number of properties	%	Number of properties	%
Prime	108	0.01	89	0.01
Specialist	150	0.05	136	0.05
Total	258	0.02	225	0.01
UKF industry average		0.03		0.03

Repossessions as a percentage of the total book have remained stable.

Interest only mortgages

Nationwide does not offer any new advances for prime residential mortgages on an interest only basis. However, there are historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis was agreed (this option was withdrawn in 2012). Maturities on interest only mortgages are managed closely, engaging regularly with borrowers to ensure the loan is redeemed or to agree a strategy for repayment.

The majority of the specialist portfolio comprises buy to let loans, of which approximately 80% are advanced on an interest only basis.

Interest only mortgages – term to maturity	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
2018	£m	£m	£m	£m	£m	£m	%
Prime	54	331	366	1,577	11,271	13,599	9.4
Specialist	126	173	213	1,305	27,795	29,612	89.1
Total	180	504	579	2,882	39,066	43,211	24.4

Interest only mortgages – term to maturity	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of total book
2017	£m	£m	£m	£m	£m	£m	%
Prime	64	337	444	1,636	13,604	16,085	11.7
Specialist	104	202	216	1,173	28,037	29,732	89.4
Total	168	539	660	2,809	41,641	45,817	26.8

Interest only loans that are 'term expired (still open)' are, unless otherwise in arrears, considered to be performing for six months, pending renegotiation of the facility. After six months, if not in litigation, the loans are classified as forborne.

Credit risk - Consumer banking

Summary

The consumer banking portfolio comprises balances on unsecured retail banking products, specifically overdrawn current accounts, personal loans and credit cards. Total balances across these portfolios have grown by 4 % to £4,107 million during the period (2017: £3,949 million).

Nationwide is aware of the pressure that some of our members will be under, with increasing levels of household debt. We continue to operate with a commitment to responsible lending and a focus on championing good conduct and fair outcomes.

The quality of the unsecured portfolios has remained strong, benefiting from proactive risk management practices and continued low interest rates. Total non-performing balances (excluding charged off accounts) as a proportion of total balances have remained stable over the year at 4%.

Impairment provisions are held against both performing and non-performing segments of the consumer banking portfolio. Provision balances have increased in the year, largely due to updates to provision assumptions to reflect the current economic conditions. Across the consumer banking portfolios this has led to a 3% increase in provision coverage as a percentage of total non-performing balances from 86% to 89%.

Consumer banking balances	**2018**		2017	
(Audited)	**£m**	**%**	£m	%
Overdrawn current accounts	**277**	**7**	261	7
Personal loans	**2,031**	**49**	1,957	49
Credit cards	**1,799**	**44**	1,731	44
Total consumer banking	**4,107**	**100**	3,949	100

Credit risk

Impaired accounts

Credit risk on the consumer banking portfolios is primarily monitored and reported based on arrears status. Impaired accounts are those greater than three months in arrears or which have individual provisions raised against them. Non-performing accounts comprise all impaired accounts as well as accounts where a payment due is received late or missed. This includes overdrawn accounts with balances in excess of the agreed limit. The non-performing loan amount represents the entire loan rather than just the payment overdue.

The performance of the portfolios is closely monitored, with impairment provisions held for both the performing and non-performing segments of the consumer banking portfolio. Impairment provisions reflect estimated losses which have been incurred at the balance sheet date, based on objective evidence. For performing loans, the impairment provision reflects the assessment of losses arising from events that have occurred but which have not been specifically identified at the reporting date.

Credit risk - Consumer banking (continued)

Consumer banking by payment due status	2018				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
(Audited)	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	235	1,882	1,656	3,773	92
Non-performing:					
Past due up to 3 months	12	43	33	88	
Impaired:					
Past due 3 to 6 months	4	13	11	28	
Past due 6 to 12 months	3	12	2	17	
Past due over 12 months	3	13	-	16	
	22	81	46	149	4
Charged off (note i)	20	68	97	185	4
Total non-performing	42	149	143	334	
Total consumer banking lending	277	2,031	1,799	4,107	100
Non-performing loans as % of total (excluding charged off balances)	9%	4%	3%	4%	
Impairment provisions excluding charged off balances (£m)	17	56	50	123	
Impairment provisions on charged off balances (£m)	19	65	91	175	
Total impairment provisions	36	121	141	298	
Impairment provisions as a % of non-performing loans (including charged off balances)	86%	81%	99%	89%	
Impairment provisions as % of total balances	13%	6%	8%	7%	

Credit risk - Consumer banking (continued)

Consumer banking by payment due status	2017				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
(Audited)	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	225	1,822	1,591	3,638	92
Non-performing:					
Past due up to 3 months	12	38	28	78	
Impaired:					
Past due 3 to 6 months	4	10	12	26	
Past due 6 to 12 months	3	11	2	16	
Past due over 12 months	3	14	-	17	
	22	73	42	137	4
Charged off (note i)	14	62	98	174	4
Total non-performing	36	135	140	311	
Total consumer banking lending	261	1,957	1,731	3,949	100
Non-performing loans as % of total (excluding charged off balances)	9%	4%	3%	4%	
Impairment provisions excluding charged off balances	15	48	42	105	
Impairment provisions on charged off balances	13	60	91	164	
Total impairment provisions	28	108	133	269	
Impairment provisions as a % of non-performing loans (including charged off balances)	78%	80%	95%	86%	
Impairment provisions as % of total balances	11%	6%	8%	7%	

Note:
i. 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.

Total non-performing balances (excluding charged off accounts) have increased by 9% to £149 million (2017: £137 million), driven by small increases in early arrears (past due up to three months) on the personal loan and credit card portfolios. However, as the portfolios have continued to grow over recent periods, the non-performing balances, as a percentage of the total consumer banking lending, have remained stable at 4%.

Impairment losses for the year	Overdrawn current accounts	Personal loans	Credit cards	Total
(Audited)	£m	£m	£m	£m
Year to 4 April 2018	**15**	**36**	**46**	**97**
Year to 4 April 2017	12	28	38	78

Note:
Impairment losses represent the amount charged through the profit and loss account, rather than amounts written off during the year.

Impairment losses have increased in the year, driven by both growth in balances and updated provision assumptions to reflect the current economic climate.

Credit risk - Commercial and other lending

Summary

The commercial and other lending portfolio comprises the following:

Commercial and other lending balances	2018		2017	
	£m	%	£m	%
Registered social landlords (note i)	6,820	71	7,546	67
Commercial real estate (CRE)	1,868	20	2,568	23
Project Finance (note ii)	906	9	1,096	10
Total commercial lending	9,594	100	11,210	100
Fair value adjustment for micro hedged risk (note iii)	1,043		1,370	
Other lending	79		17	
Total	10,716		12,597	

Notes:
i. Loans to registered social landlords are secured on residential property.
ii. Loans advanced in relation to project finance are secured on cash flows from government or local authority backed contracts.
iii. Micro hedged risk relates to loans hedged on an individual basis.

The strategy for the commercial lending portfolio continues to be to hold and actively manage to maturity in line with contractual terms.

The registered social landlord and project finance portfolios now amount to 80% (4 April 2017: 77%) of the commercial lending portfolio. This increase is due to the run-off of the CRE portfolio, which is subject to shorter maturity dates. Notwithstanding the reduction in CRE lending balances, the exposure remains well spread across sectors and geographic regions. The registered social landlord and project finance assets are fully performing, reflecting their long-term, lower risk nature.

Other lending comprises £71 million of collateral to support repurchase transactions with a central counterparty and £8 million of deferred consideration relating to an investment in Visa Inc.

Credit risk

Credit risk in the commercial loan portfolio is linked to arrears, the level of collateral to cover any loan balances and the availability of credit to refinance loans at contractual maturity. Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise, from the portfolio.

Credit risk in the CRE portfolio continues to reduce as the managed exit of this business continues.

The registered social landlord portfolio is risk rated using internal rating models with the major drivers being financial strength, independent viability assessment ratings provided by Homes England, and the type and size of the registered social landlord. The distribution of exposures is weighted more towards the stronger risk ratings and, against a backdrop of a long history of zero defaults, the risk profile of the portfolio remains low.

The project finance portfolio is secured against contractual cash flows from projects procured under the Private Finance Initiative rather than physical assets. The majority of loans are secured on projects which are now operational and benefiting from secure long-term cash flows, with one case, with a balance of £25 million, which has reverted to the construction phase.

Credit risk - Commercial and other lending (continued)

Loan to value

The following table shows the CRE portfolio split by LTV and region:

CRE lending balances by LTV and region	London	Rest of UK (note i)	Total	
2018	£m	£m	£m	%
Performing loans				
Fully collateralised				
LTV ratio (note ii):				
Less than 25%	257	54	311	
25% to 50%	691	241	932	
51% to 75%	297	222	519	
76% to 90%	9	40	49	
91% to 100%	-	4	4	
	1,254	561	1,815	97
Not fully collateralised:				
Over 100% LTV (A)	-	1	1	-
Collateral value on A	*-*	*-*	*-*	
Negative equity on A	*-*	*1*	*1*	
Total performing loans	1,254	562	1,816	97
Non-performing loans				
Fully collateralised (note iii)				
LTV ratio:				
Less than 25%	1	2	3	
25% to 50%	14	1	15	
51% to 75%	4	11	15	
76% to 90%	-	6	6	
91% to 100%	-	-	-	
	19	20	39	2
Not fully collateralised				
Over 100% LTV (B)	-	13	13	1
Collateral value on B	*-*	*7*	*7*	
Negative equity on B (note iv)	*-*	*6*	*6*	
Total non-performing loans	19	33	52	3
Total CRE loans	1,273	595	1,868	100
Geographical concentration	68%	32%	100%	

Credit risk - Commercial and other lending (continued)

CRE lending balances by LTV and region	London	Rest of UK (note i)	Total	
2017	£m	£m	£m	%
Performing loans				
Fully collateralised				
LTV ratio (note ii)				
Less than 25%	217	57	274	
25% to 50%	702	537	1,239	
51% to 75%	466	427	893	
76% to 90%	8	63	71	
91% to 100%	1	9	10	
	1,394	1,093	2,487	97
Not fully collateralised				
Over 100% LTV (A)	2	5	7	-
Collateral value on A	*-*	*4*	*4*	
Negative equity on A	*2*	*1*	*3*	
Total performing loans	1,396	1,098	2,494	97
Non-performing loans (note iii)				
Fully collateralised				
LTV ratio:				
Less than 25%	1	-	1	
25% to 50%	9	5	14	
51% to 75%	8	5	13	
76% to 90%	-	3	3	
91% to 100%	3	7	10	
	21	20	41	2
Not fully collateralised				
Over 100% LTV (B)	1	32	33	1
Collateral value on B	*-*	*20*	*20*	
Negative equity on B (note iv)	*1*	*12*	*13*	
Total non-performing loans	22	52	74	3
Total CRE loans	1,418	1,150	2,568	100
Geographical concentration	55%	45%	100%	

Notes:
i. Includes lending against collateral based in the Channel Islands.
ii. The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The Investment Property Databank (IPD) monthly index is used.
iii. Non-performing loans include impaired loans and loans with arrears of less than three months which are not impaired.
iv. All non-performing loans with negative equity are impaired.

Non-performing loans represent 3% of CRE balances (2017: 3%). The value of partially collateralised non-performing loans and the negative equity on collateral for non-performing loans have reduced, reflecting the improving book performance and managed exit activity.

Credit risk - Commercial and other lending (continued)

Credit risk concentrations

The geographic concentration for CRE lending balances is shown in the Loan to value tables above. The concentration to London has increased to 68% (2017 55%).

The CRE portfolio remains well spread across sectors as shown below:

CRE lending balances and impairment provisions by type (note i)	2018 £m	2017 £m
Retail	400	812
Office	376	472
Residential	837	986
Industrial and warehouse	115	157
Leisure and hotel	120	127
Other	20	14
Total CRE lending	1,868	2,568
Impairment provision:		
Retail	2	7
Office	1	3
Residential	5	6
Industrial and warehouse	-	1
Leisure and hotel	-	6
Other	7	2
Total impairment provisions	15	25

Note:

i. A CRE loan may be secured on assets crossing different sectors; the balances are therefore attributed to the sector where the majority of the exposure arises. This can lead to recategorisations occurring between periods if the asset mix changes.

Arrears and impairment

Impairment provisions are held in relation to both the performing and non-performing segments of commercial lending and other lending. Provisions reflect estimated losses which have been incurred at the balance sheet date, based on objective evidence. Individual impairment provisions are assigned to facilities exhibiting signs of financial difficulty and a collective provision is assigned to all other accounts. For currently performing loans, the collective provision reflects losses arising from impairment events that have occurred within the portfolio but are not identifiable at the reporting date.

No losses have been experienced on the registered social landlord or project finance portfolios and there is no non-performance within these portfolios. As a result, impairment provisions are required only against the CRE portfolio.

The table below sets out the payment due status and impairment provisions for the CRE portfolio and other lending.

Credit risk - Commercial and other lending (continued)

CRE balances by payment due status	2018 £m	%	2017 £m	%
Performing:				
Neither past due nor impaired	1,816	97	2,494	97
Non-performing:				
Past due up to 3 months but not impaired (note i)	22	1	29	1
Impaired (note ii):				
Past due up to 3 months	6	-	24	1
Past due 3 to 6 months	11	1	1	-
Past due 6 to 12 months	1	-	3	-
Past due over 12 months	12	1	17	1
Possessions (note iii)	-	-	-	-
Total non-performing balances	52	3	74	3
Total	1,868	100	2,568	100
Impairment provisions				
Individual	11	73	20	80
Collective	4	27	5	20
Total impairment provisions	15	100	25	100
Provision coverage ratios				
Individual provisions as % of impaired balances		37		44
Total provisions as % of non-performing balances		29		34
Total provisions as % of total gross balances		1		1
Estimated collateral:				
Against loans past due but not impaired	22	100	29	100
Against impaired loans	23	77	32	71
Total collateral	45	87	61	82

Notes:

i. The status 'past due up to 3 months but not impaired' includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.

ii. Impaired loans include those balances which are more than three months in arrears, or against which an individual provision is held.

iii. Possession balances represent loans for which Nationwide has taken ownership of security pending sale. Assets in possession are realised to derive the maximum benefit for all interested parties. Nationwide does not occupy or otherwise use for any purposes the repossessed assets.

Impairment reversal for the year for commercial and other lending portfolio	2018 £m	2017 £m
Total	(1)	(5)

Note:

Impairment reversals represent the amount recognised through the profit and loss account, rather than amounts written off during the year.

Credit risk - Treasury assets

Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 4 April 2018 treasury assets represented 15.3% (2017: 13.7%) of total assets.

The net increase in the portfolio compared to the previous year is predominantly due to increased government bond holdings, and cash balances received under the Bank of England's Term Funding Scheme (TFS).

Treasury asset balances *(Audited)*	**2018** **£m**	2017 £m
Cash	14,361	13,017
Loans and advances to banks	3,422	2,587
Investment securities	13,046	9,831
Liquidity and investment portfolio	30,829	25,435
Derivative assets	4,121	5,043
Total treasury portfolio	34,950	30,478

Note:
Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 4 April 2018 derivative liabilities were £2,337 million (2017: £3,182 million).

In line with the Board's liquidity risk appetite, investment activity is restricted to high quality liquid securities comprising central bank reserves and highly rated debt securities issued by a limited range of governments, multilateral development banks ('supranationals') and government guaranteed agencies. In addition, cash is invested in highly rated liquid assets that are eligible for accessing central bank funding operations.

Liquidity portfolio assets are generally unsecured; however, reverse repos, asset-backed securities and similar instruments are secured by pools of financial assets. During the year, Nationwide disposed of its residual out of policy legacy assets (2017: £172 million). There are no exposures to emerging markets, hedge funds or credit default swaps.

Derivatives are used to reduce exposure to market risks but are not used for trading or speculative purposes.

Liquidity and investment portfolio

The liquidity and investment portfolio of £30,829 million (2017: £25,435 million) comprises liquid assets and other securities. The size of the portfolio reflects fluctuations in market prices, Nationwide's operational and strategic liquidity requirements and legacy asset disposals. An analysis of the balance sheet portfolios by asset class, credit rating and geographical location of the issuers is set out below.

Liquidity and investment portfolio by credit rating (note i) *2018* *(Audited)*	£m	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Liquid assets:									
Cash and reserves at central banks	14,361	-	100	-	-	100	-	-	-
Government bonds	8,937	15	85	-	-	80	5	15	-
Supranational bonds	655	96	4	-	-	-	-	-	100
Covered bonds	1,007	100	-	-	-	51	-	27	22
Residential mortgage backed securities (RMBS) available for sale	738	100	-	-	-	64	-	36	-
Asset backed securities (other)	302	100	-	-	-	56	-	44	-
Liquid assets total	26,000	16	84	-	-	87	2	8	3
Other securities (note ii):									
RMBS available for sale	188	21	19	60	-	100	-	-	-
RMBS held to maturity	1,120	85	5	7	3	100	-	-	-
Other investments	99	-	36	42	22	22	42	36	-
Other securities total	1,407	71	9	16	4	95	3	2	-
Loans and advances to banks (note iii)	3,422	-	47	50	3	84	6	8	2
Total	30,829	16	77	6	1	87	2	8	3

Credit risk - Treasury assets (continued)

Liquidity and investment portfolio by credit rating (note i) *2017* *(Audited)*	£m	AAA %	AA %	A %	Other %	UK %	US %	Europe %	Other %
Liquid assets:									
Cash and reserves at central banks	13,017	-	90	-	10	90	-	10	-
Government bonds	6,438	10	90	-	-	78	9	13	-
Supranational bonds	459	88	12	-	-	-	-	-	100
Covered bonds	931	100	-	-	-	51	-	33	16
Residential mortgage backed securities (RMBS) available for sale	922	100	-	-	-	61	-	39	-
Asset backed securities (other)	285	100	-	-	-	83	-	17	-
Liquid assets total	22,052	14	80	-	6	81	3	13	3
Other securities (note ii):									
RMBS available for sale	288	27	3	70	-	98	-	2	-
Commercial mortgage backed securities (CMBS)	11	-	38	24	38	38	62	-	-
Collateralised loan obligations	226	86	14	-	-	88	12	-	-
Student loans	120	48	52	-	-	-	100	-	-
Other investments	151	-	32	28	40	44	24	32	-
Other securities total	796	42	19	31	8	69	24	7	-
Loans and advances to banks (note iii)	2,587	-	47	51	2	70	18	10	2
Total	25,435	14	74	6	6	80	5	12	3

Notes:
i. Ratings used are obtained from Standard & Poor's (S&P), and from Moody's if no S&P rating is available. Internal ratings are used if neither is available.
ii. Includes RMBS (UK Buy to Let and UK Non-Conforming) not eligible for the Liquidity Coverage Ratio (LCR).
iii. Loans and advances to banks includes derivative collateral and reverse repo balances.

Of the total £30,829 million (2017: £25,435 million) liquidity and investment portfolio, £11,926 million (2017: £9,831 million) is classified as available for sale (AFS). This includes all assets except for 'Cash and reserves at central banks', 'Loans and advances to banks' and 'RMBS held to maturity'.

Country exposures

The following table summarises the exposure to institutions outside the UK. The exposures are shown at their balance sheet carrying values.

Country exposures *(Audited)* 2018	Cash £m	Government bonds £m	Mortgage backed securities £m	Covered bonds £m	Supra-national bonds £m	Loans to banks £m	Other corporate £m	Other assets £m	Total £m
Austria	-	66	-	-	-	-	-	-	66
Belgium	-	44	-	-	-	-	-	-	44
Finland	-	267	-	24	-	-	-	-	291
France	-	-	-	-	-	156	-	36	192
Germany	-	627	-	-	-	119	-	132	878
Ireland	-	-	-	-	-	1	-	-	1
Netherlands	-	335	263	-	-	-	-	-	598
Total Eurozone	-	1,339	263	24	-	276	-	168	2,070
USA	-	441	-	-	-	215	-	41	697
Rest of world (note i)	-	-	-	472	656	63	-	-	1,191
Total	-	1,780	263	496	656	554	-	209	3,958

Credit risk - Treasury assets (continued)

Country exposures *(Audited)* 2017	Cash £m	Government bonds £m	Mortgage backed securities £m	Covered bonds £m	Supra-national bonds £m	Loans to banks £m	Other corporate £m	Other assets £m	Total £m
Finland	-	218	-	24	-	-	-	-	242
France	-	-	-	31	-	-	1	54	86
Germany	-	484	-	-	-	44	-	43	571
Ireland	1,258	-	-	-	-	27	-	-	1,285
Italy	-	-	-	-	-	-	3	-	3
Netherlands	-	153	366	-	-	-	-	-	519
Total Eurozone	1,258	855	366	55	-	71	4	97	2,706
USA	16	600	7	-	-	474	-	182	1,279
Rest of world (note i)	-	-	-	400	459	232	-	-	1,091
Total	1,274	1,455	373	455	459	777	4	279	5,076

Note:
i. Rest of world exposure is to Australia, Canada, Denmark, Norway, Sweden and Switzerland.

None of the exposures detailed in the table above were in default at 4 April 2018 (2017: £nil), and no impairment was incurred on these assets in the year (2017: £nil).

Derivative financial instruments

Derivatives are used to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement in a financial year. The fair value of derivative assets at 4 April 2018 was £4.1 billion (2017: £5.0 billion) and the fair value of derivative liabilities was £2.3 billion (2017: £3.2 billion).

The International Swaps and Derivatives Association (ISDA) Master Agreement is Nationwide's preferred agreement for documenting derivative transactions. A Credit Support Annex (CSA) is always executed in conjunction with the ISDA Master Agreement. Under the terms of a CSA, collateral is passed between parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions. CSAs are two-way agreements where both parties post collateral dependent on the exposure of the derivative. Collateral is paid or received on a regular basis (typically daily) to mitigate the mark to market exposures.

Nationwide's CSA legal documentation for derivatives grants legal rights of set off for transactions with the same overall counterparty. Accordingly, the credit risk associated with such positions is reduced to the extent that negative mark to market values offset positive mark to market values in the calculation of credit risk within each netting agreement.

Under the terms of CSA netting arrangements, outstanding transactions with the same counterparty can be offset and settled net following a default, or another predetermined event. Under CSA arrangements, netting benefits of £2.0 billion (2017: £2.2 billion) were available and £2.2 billion of collateral (2017: £2.8 billion) was held. Only cash is held as collateral.

To comply with EU regulatory requirements, Nationwide has indirect clearing arrangements with a central counterparty (CCP) which it uses to clear standardised derivatives.

The following table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral:

Derivative credit exposure	2018				2017			
Counterparty credit quality *(Audited)*	AA £m	A £m	BBB £m	Total £m	AA £m	A £m	BBB £m	Total £m
Gross positive fair value of contracts	1,584	2,266	271	4,121	2,077	2,576	390	5,043
Netting benefits	(532)	(1,156)	(271)	(1,959)	(797)	(1,030)	(389)	(2,216)
Net current credit exposure	1,052	1,110	-	2,162	1,280	1,546	1	2,827
Collateral (cash)	(1,051)	(1,106)	-	(2,157)	(1,261)	(1,537)	(1)	(2,799)
Net derivative credit exposure	1	4	-	5	19	9	-	28

Liquidity and funding risk

Summary

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

Nationwide manages liquidity and funding risks within a comprehensive risk framework which includes its policy, strategy, limit setting and monitoring, stress testing and robust governance controls.

This framework ensures that Nationwide maintains stable and diverse funding sources and sufficient holdings of high quality liquid assets so that there is no significant risk that liabilities cannot be met as they fall due.

Liquidity and funding levels continued to be within Board risk appetite and regulatory requirements at all times during the year. This includes the LCR, which ensures that sufficient high quality liquid assets are held to survive a short term severe but plausible liquidity stress. Nationwide's LCR at 4 April 2018 increased to 130.3% (4 April 2017: 124.0%). At 4 April 2017, the LCR was impacted by an agreement to purchase £1.2 billion of residential mortgage backed securities (RMBS) under a programme to securitise Bradford & Bingley residential mortgages. Excluding this item our 2018 and 2017 LCR would have been broadly consistent.

Nationwide also monitors its position against the longer term funding metric, the Net Stable Funding Ratio (NSFR). Based on current interpretations of regulatory requirements and guidance, the NSFR at 4 April 2018 was 131.0% (4 April 2017: 132.6%) which exceeds the expected 100% minimum future requirement.

Funding risk

Funding strategy

Nationwide's funding strategy is to remain predominantly retail funded; retail customer loans and advances are largely funded by customer deposits. Non-retail lending, including treasury assets and commercial customer loans, are largely funded by wholesale debt, as set out below.

Funding profile

Assets	2018 £bn	2017 £bn	Liabilities	2018 £bn	2017 £bn
Retail mortgages	177.2	171.1	Retail funding	148.4	146.9
Treasury assets (including liquidity portfolio)	30.8	25.4	Wholesale funding	58.8	55.5
Other retail lending	3.8	3.7	Capital and reserves	18.2	14.3
Commercial/Other lending	10.7	12.6	Other liabilities	3.7	5.0
Other assets	6.6	8.9			
	229.1	221.7		229.1	221.7

Note:
The figures in the above table are stated net of impairment provisions where applicable.

Nationwide's loan to deposit ratio[1] at 4 April 2018 was 125.5% (4 April 2017: 122.6%).

[1] The loan to deposit ratio represents loans and advances to customers divided by shares + other deposits + amounts due to customers (excluding repurchase agreements and collateral received).

Liquidity and funding risk (continued)

Wholesale funding

The wholesale funding portfolio is made up of a range of secured and unsecured instruments to ensure Nationwide has a diversified funding base across a range of instruments, currencies, maturities and investor types. Nationwide's wholesale funding strategy is to remain active in core markets and currencies. A funding risk limit framework also ensures a prudent funding mix and maturity concentration profile is maintained, and limits levels of encumbrance to ensure sufficient contingent funding capacity is retained.

Wholesale funding has increased by £3.3 billion to £58.8 billion. This is due to £11.0 billion of drawings from the Bank of England's Term Funding Scheme (TFS) during the year, to support core activities, refinance maturing wholesale funding, and replace off-balance sheet Funding for Lending Scheme (FLS) maturities. This additional funding is reflected in Nationwide's wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) which was 28.2% at 4 April 2018 (4 April 2017: 27.1%).

The table below sets out an analysis by currency of Nationwide's wholesale funding.

Wholesale funding currency	**2018**						2017					
	GBP £bn	**EUR £bn**	**USD £bn**	**Other £bn**	**Total £bn**	**% of total**	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total
Repos	0.7	0.2	-	-	0.9	2	-	-	-	-	-	-
Deposits (note i)	5.4	1.4	-	-	6.8	12	7.7	1.4	0.1	-	9.2	16
Certificates of deposit	4.0	0.1	0.2	-	4.3	7	5.3	-	-	-	5.3	10
Commercial paper	-	-	1.0	-	1.0	2	-	-	1.8	-	1.8	3
Covered bonds	2.5	12.6	-	0.2	15.3	26	3.3	11.4	-	0.2	14.9	27
Medium term notes	2.0	4.6	1.8	0.6	9.0	15	3.1	6.2	3.6	0.8	13.7	25
Securitisations	1.1	1.3	1.3	-	3.7	6	0.9	1.2	1.4	-	3.5	6
TFS	17.0	-	-	-	17.0	29	6.0	-	-	-	6.0	11
Other	0.2	0.6	-	-	0.8	1	0.3	0.8	-	-	1.1	2
Total	32.9	20.8	4.3	0.8	58.8	100	26.6	21.0	6.9	1.0	55.5	100

Note:
i. 2017 included £0.8 billion of protected equity balances (PEBs), all of which had matured by 4 April 2018.

The residual maturity of the wholesale funding book, on a contractual maturity basis, is set out below.

Wholesale funding – residual maturity	**Not more than one month**	**Over one month but not more than three months**	**Over three months but not more than six months**	**Over six months but not more than one year**	**Subtotal less than one year**	**Over one year but not more than two years**	**Over two years**	**Total**
2018	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
Repos	0.9	-	-	-	0.9	-	-	0.9
Deposits (note i)	4.5	0.5	1.4	0.4	6.8	-	-	6.8
Certificates of deposit	-	3.6	0.5	0.2	4.3	-	-	4.3
Commercial paper	0.1	0.9	-	-	1.0	-	-	1.0
Covered bonds	0.8	0.1	-	-	0.9	1.6	12.8	15.3
Medium term notes	0.1	0.1	0.1	1.4	1.7	1.8	5.5	9.0
Securitisations	0.1	-	0.3	0.4	0.8	0.9	2.0	3.7
TFS	-	-	-	-	-	-	17.0	17.0
Other	-	-	-	-	-	-	0.8	0.8
Total	6.5	5.2	2.3	2.4	16.4	4.3	38.1	58.8
Of which secured	1.8	0.1	0.3	0.4	2.6	2.5	32.6	37.7
Of which unsecured	4.7	5.1	2.0	2.0	13.8	1.8	5.5	21.1
% of total	11.1	8.8	3.9	4.1	27.9	7.3	64.8	100.0

Liquidity and funding risk (continued)

Wholesale funding – residual maturity 2017	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than one year £bn	Subtotal less than one year £bn	Over one year but not more than two years £bn	Over two years £bn	Total £bn
Repos	-	-	-	-	-	-	-	-
Deposits (note i)	5.3	1.3	2.0	0.6	9.2	-	-	9.2
Certificates of deposit	0.4	1.7	2.4	0.8	5.3	-	-	5.3
Commercial paper	0.5	0.6	0.6	0.1	1.8	-	-	1.8
Covered bonds	-	-	0.8	-	0.8	0.8	13.3	14.9
Medium term notes	-	-	0.1	1.2	1.3	1.8	10.6	13.7
Securitisations	0.3	-	0.3	0.1	0.7	0.6	2.2	3.5
TFS	-	-	-	-	-	-	6.0	6.0
Other	-	-	-	-	-	-	1.1	1.1
Total	6.5	3.6	6.2	2.8	19.1	3.2	33.2	55.5
Of which secured	0.3	-	1.1	0.1	1.5	1.4	22.4	25.3
Of which unsecured	6.2	3.6	5.1	2.7	17.6	1.8	10.8	30.2
% of total	11.7	6.5	11.2	5.0	34.4	5.8	59.8	100.0

Note:
i. 2017 included £0.8 billion of protected equity balances (PEBs), all of which had matured by 4 April 2018.

At 4 April 2018, cash, government bonds and supranational bonds included in the liquid asset buffer represented 142% (4 April 2017: 129%) of wholesale funding maturing in less than one year, assuming no rollovers.

Liquidity risk

Liquid assets

Nationwide ensures it has sufficient liquid assets, both in terms of amount and quality, to meet daily cash flow needs as well as simulated stressed requirements driven by the Society's risk appetite and regulatory assessments. This includes ensuring the currency composition of the liquid asset buffer is consistent with the currency profile of stressed outflows.

The table below sets out the sterling equivalent fair value of the liquidity portfolio, categorised by issuing currency. It includes off-balance sheet liquidity such as bonds received through reverse repurchase (repo) agreements and excludes bonds encumbered through repo agreements.

Liquid assets	2018				2017			
	GBP £bn	**EUR £bn**	**USD £bn**	**Total £bn**	GBP £bn	EUR £bn	USD £bn	Total £bn
Cash and reserves at central banks	**14.4**	**-**	**-**	**14.4**	11.8	1.2	-	13.0
Government bonds (note i)	**6.8**	**0.8**	**0.6**	**8.2**	10.0	0.5	0.7	11.2
Supranational bonds	**0.4**	**-**	**0.3**	**0.7**	0.2	-	0.3	0.5
Covered bonds	**0.6**	**0.6**	**-**	**1.2**	0.4	0.5	-	0.9
RMBS (note ii)	**1.7**	**0.3**	**-**	**2.0**	0.5	0.4	-	0.9
Asset-backed securities	**0.2**	**0.1**	**-**	**0.3**	0.3	-	-	0.3
Other securities	**-**	**-**	**-**	**-**	0.3	0.2	0.2	0.7
Total	**24.1**	**1.8**	**0.9**	**26.8**	23.5	2.8	1.2	27.5

Notes:
i. 2017 includes £4.8 billion of FLS, all of which had matured by 4 April 2018.
ii. Balances include all RMBS held by the Society which can be monetised through sale or repo.

Nationwide's liquid assets are held and managed centrally by its Treasury function. Nationwide maintains a high quality liquidity portfolio, predominantly comprising:

- reserves held at central banks
- highly rated debt securities issued by a restricted range of governments, central banks and supranationals.

Liquidity and funding risk (continued)

The size and mix of the liquid asset buffer is defined by the Society's risk appetite as set by the Board, which is translated into a set of liquidity risk limits; it is also influenced by other relevant considerations such as stress testing and regulatory requirements.

The average combined month end balance of cash and reserves at central banks, and government and supranational bonds during the year was £27.2 billion (2017: £29.5 billion).

Nationwide also holds a portfolio of high quality, central bank eligible covered bonds, RMBS and asset-backed securities. Other securities are held that are not eligible for central bank operations but can be monetised through repurchase agreements with third parties or through sale.

Nationwide undertakes securities financing transactions in the form of repurchase agreements. This demonstrates the liquid nature of the assets held in its liquid asset buffer and also satisfies regulatory requirements. Cash is borrowed in return for pledging assets as collateral and because settlement is on a simultaneous 'delivery versus payment' basis, the main credit risk arises from intra-day changes in the value of the collateral. This is largely mitigated by Nationwide's collateral management processes.

Repo market capacity is assessed and tested regularly to ensure there is sufficient capacity to rapidly monetise the liquid asset buffer in a stress.

For contingent purposes, Nationwide pre-positions unencumbered mortgage assets at the Bank of England which can be used in the Bank of England's liquidity operations if market liquidity is severely disrupted.

Residual maturity of financial assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the final contractual maturity date (residual maturity).

Residual maturity (note i) 2018	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	14,361	-	-	-	-	-	-	-	14,361
Loans and advances to banks	3,078	-	-	-	-	-	-	344	3,422
Investment securities	76	64	17	141	89	387	2,498	9,774	13,046
Loans and advances to customers	3,041	1,318	1,925	1,886	1,908	7,564	22,961	151,061	191,664
Derivative financial instruments	12	17	6	231	52	381	1,966	1,456	4,121
Fair value adjustment for portfolio hedged risk	-	(16)	(30)	(19)	(30)	(90)	(53)	129	(109)
Total financial assets	**20,568**	**1,383**	**1,918**	**2,239**	**2,019**	**8,242**	**27,372**	**162,764**	**226,505**
Financial liabilities									
Shares	120,617	2,892	4,403	4,430	3,248	6,593	4,499	1,321	148,003
Deposits from banks	2,343	9	47	5	-	-	17,000	-	19,404
Of which repo	*266*	-	-	-	-	-	-	-	*266*
Of which TFS	-	*1*	-	-	-	-	*17,000*	-	*17,001*
Other deposits	3,123	481	1,343	315	50	11	-	-	5,323
Of which repo	*680*	-	-	-	-	-	-	-	*680*
Due to customers	402	-	-	-	-	-	-	-	402
Secured funding – ABS and covered bonds	872	65	273	211	224	2,491	9,266	6,288	19,690
Senior unsecured funding	229	4,644	595	980	553	1,845	1,589	3,993	14,428
Derivative financial instruments	39	25	11	6	11	64	305	1,876	2,337
Fair value adjustment for portfolio hedged risk	-	(6)	(6)	(4)	(4)	(8)	(25)	-	(53)
Subordinated liabilities	17	-	49	-	-	-	690	4,741	5,497
Subscribed capital (note iii)	1	1	1	-	-	-	-	260	263
Total financial liabilities	**127,643**	**8,111**	**6,716**	**5,943**	**4,082**	**10,996**	**33,324**	**18,479**	**215,294**
Off-balance sheet commitments (note iv)	13,890	-	-	-	-	-	-	-	13,890
Net liquidity difference	**(120,965)**	**(6,728)**	**(4,798)**	**(3,704)**	**(2,063)**	**(2,754)**	**(5,952)**	**144,285**	**(2,679)**
Cumulative liquidity difference	**(120,965)**	**(127,693)**	**(132,491)**	**(136,195)**	**(138,258)**	**(141,012)**	**(146,964)**	**(2,679)**	**-**

Liquidity and funding risk (continued)

Residual maturity (note i) 2017	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	13,017	-	-	-	-	-	-	-	13,017
Loans and advances to banks	2,226	-	-	-	-	-	-	361	2,587
Investment securities (note v)	40	13	116	66	57	216	2,002	7,321	9,831
Loans and advances to customers	2,890	1,309	1,937	1,877	1,910	7,259	22,057	148,132	187,371
Derivative financial instruments	11	94	130	30	121	324	2,317	2,016	5,043
Other financial assets (note v and vi)	36	22	15	28	10	60	265	317	753
Total financial assets	18,220	1,438	2,198	2,001	2,098	7,859	26,641	158,147	218,602
Financial liabilities									
Shares	112,403	1,666	6,169	4,905	4,513	9,842	3,870	1,174	144,542
Deposits from banks	2,499	123	20	48	16	28	6,000	-	8,734
Of which repo	-	-	-	-	-	-	-	-	-
Of which TFS	-	-	-	-	-	-	*6,000*	-	*6,000*
Other deposits	2,882	1,075	1,885	336	255	15	11	-	6,459
Of which repo	-	-	-	-	-	-	-	-	-
Due to customers	1,818	130	305	45	67	11	-	-	2,376
Secured funding – ABS and covered bonds	341	20	1,086	128	90	1,394	10,137	6,280	19,476
Senior unsecured funding	894	2,339	3,126	657	1,431	1,765	5,022	5,629	20,863
Derivative financial instruments	37	11	35	41	57	135	505	2,361	3,182
Fair value adjustment for portfolio hedge risk	-	-	(2)	-	1	8	1	-	8
Subordinated liabilities (note v)	-	35	-	-	103	-	700	2,102	2,940
Subscribed capital (notes iii and v)	3	-	-	-	-	-	-	276	279
Total financial liabilities (note v)	120,877	5,399	12,624	6,160	6,533	13,198	26,246	17,822	208,859
Off-balance sheet commitments (note iv)	15,784	-	-	-	-	-	-	-	15,784
Net liquidity difference	(118,441)	(3,961)	(10,426)	(4,159)	(4,435)	(5,339)	395	140,325	(6,041)
Cumulative liquidity difference	(118,441)	(122,402)	(132,828)	(136,987)	(141,422)	(146,761)	(146,366)	(6,041)	-

Notes:

i. The analysis excludes certain non-financial assets (including property, plant and equipment, intangible assets, investment property, other assets, deferred tax assets and accrued income and expenses prepaid) and non-financial liabilities (including provisions for liabilities and charges, accruals and deferred income, current tax liabilities, other liabilities and retirement benefit obligations).

ii. Due less than one month includes amounts repayable on demand.

iii. The principal amount for undated subscribed capital is included within the due after more than five years column.

iv. Off-balance sheet commitments include amounts payable on demand for unrecognised loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid, and commitments to acquire financial assets.

v. Comparatives have been restated as detailed in note 2 of the financial statements.

vi. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and the fair value of certain mortgage commitments.

In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid faster. This gives rise to funding mismatches on Nationwide's balance sheet. The balance sheet structure and risks are managed and monitored by ALCO. Nationwide uses judgement and past behavioural performance of each asset and liability class to forecast likely cash flow requirements.

The 2018 table above includes the impact of a debt buy-back exercise that involved the Society issuing £2.1 billion of new MREL compliant bonds to partly fund the repurchase of older bonds, resulting in an increase in our capital strength and a reduction in our future cost of wholesale funding. A total of £4.0 billion of senior unsecured funding was repurchased, with the impact of cancelling associated derivative financial instruments also reflected.

Liquidity and funding risk (continued)

Asset encumbrance

Encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise the Covered Bond and Silverstone secured funding programmes (note 10 to the financial statements) and from participation in the TFS and previously FLS.

Certain unencumbered assets are readily available to secure funding or meet collateral requirements. These include prime mortgages and cash and securities held in the liquidity buffer. Other unencumbered assets, such as non-prime mortgages, are capable of being encumbered with a degree of further management action. Assets which do not fall into either of these categories are classified as not being capable of being encumbered.

An analysis of Nationwide's encumbered and unencumbered on-balance sheet assets is set out below. This disclosure is not intended to identify assets that would be available in the event of a resolution or bankruptcy.

Asset encumbrance (note i)	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					Total
						Assets not positioned at the central bank				
	As a result of covered bonds	As a result of securitisations	Other	Total	Assets positioned at the central bank (i.e. prepositioned plus encumbered)	Readily available for encumbrance	Other assets that are capable of being encumbered	Cannot be encumbered	Total	
2018	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash	381	376	-	757	-	13,389	-	215	13,604	14,361
Loans and advances to banks	-	-	1,220	1,220	1,124	-	-	1,078	2,202	3,422
Investment securities	-	-	944	944	30	12,027	-	45	12,102	13,046
Loans and advances to customers	21,000	8,712	-	29,712	37,732	76,791	47,429	-	161,952	191,664
Derivative financial instruments	-	-	-	-	-	-	-	4,121	4,121	4,121
Other financial assets	-	-	-	-	-	-	-	(109)	(109)	(109)
Non-financial assets	-	-	-	-	-	-	-	2,593	2,593	2,593
Total	**21,381**	**9,088**	**2,164**	**32,633**	**38,886**	**102,207**	**47,429**	**7,943**	**196,465**	**229,098**

Asset encumbrance	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					Total
						Assets not positioned at the central bank				
	As a result of covered bonds	As a result of securitisations	Other	Total	Assets positioned at the central bank (i.e. prepositioned plus encumbered)	Readily available for encumbrance	Other assets that are capable of being encumbered	Cannot be encumbered	Total	
2017	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash	1,538	567	-	2,105	-	10,697	-	215	10,912	13,017
Loans and advances to banks	-	-	1,393	1,393	927	-	-	267	1,194	2,587
Investment securities (note i)	-	-	-	-	32	9,732	-	67	9,831	9,831
Loans and advances to customers	19,322	10,412	-	29,734	33,376	75,032	49,229	-	157,637	187,371
Derivative financial instruments	-	-	-	-	-	-	-	5,043	5,043	5,043
Other financial assets (note i)	-	-	-	-	-	-	-	753	753	753
Non-financial assets	-	-	-	-	-	-	-	3,068	3,068	3,068
Total (note i)	20,860	10,979	1,393	33,232	34,335	95,461	49,229	9,413	188,438	221,670

Note:
i. Comparatives have been restated as detailed in note 2 of the financial statements.

Liquidity and funding risk (continued)

External credit ratings

The Group's long-term and short-term credit ratings are shown in the table below. The long-term rating for both Standard & Poor's and Moody's is the senior preferred rating. The long-term rating for Fitch is the senior non-preferred rating.

Credit ratings	Senior preferred	Short-term	Senior non-preferred	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	A	A-1	BBB+	BBB	February 2018	Positive
Moody's	Aa3	P-1	Baa1	Baa1	March 2018	Stable
Fitch	A+	F1	A	A-	February 2018	Stable

In August 2017, Standard & Poor's affirmed Nationwide's A/A-1 long- and short-term ratings, with a negative outlook. This reflected their view on a negative trend for economic risk in the UK following the outcome of the EU referendum. In November 2017, Standard & Poor's revised the trend on economic risk for the UK banking sector to stable and revised Nationwide's outlook to stable. Nationwide's outlook was then revised to positive in February 2018 reflecting Standard & Poor's expectation that Nationwide's buffer of bail-in instruments could exceed their threshold for two notches of Additional Loss Absorbing Capacity (ALAC) uplift over their 18-24 month forecast horizon following Nationwide's inaugural issuance of senior non-preferred debt.

In addition, Moody's changed the outlook on Nationwide's deposits and senior unsecured debt to stable from negative in August 2017, reflecting its expectation of a moderate deterioration in the operating environment in the UK, to which Nationwide is now more resilient.

In February 2018 Fitch downgraded Nationwide's Long-Term Issuer Default Rating (IDR) to 'A' from 'A+' with a stable outlook. The senior preferred unsecured debt rating was unchanged at A+. The downgrade follows the Society's issue of senior non-preferred debt which, in accordance with Fitch's methodology, becomes the reference obligation for Nationwide's IDR.

The table below sets out the amount of additional collateral Nationwide would need to provide in the event of a one and two notch downgrade by external credit rating agencies.

	Cumulative adjustment for a one notch downgrade £bn	Cumulative adjustment for a two notch downgrade £bn
2018	3.1	3.3
2017	3.3	3.7

The contractually required cash outflow would not necessarily match the actual cash outflow as a result of management actions that could be taken to reduce the impact of the downgrades.

Solvency risk

Solvency risk is the risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators. Capital is held to protect members, cover inherent risks, provide a buffer for stress events and support the business strategy. In assessing the adequacy of capital resources, risk appetite is considered in the context of the material risks to which Nationwide is exposed and the appropriate strategies required to manage those risks.

Capital position

Capital ratios	2018	2017
Solvency	%	%
Common Equity Tier 1 (CET1) ratio	30.5	25.4
Total Tier 1 ratio	33.6	28.4
Total regulatory capital ratio	42.9	36.1
Leverage	£m	£m
UK leverage exposure (note i)	221,992	215,894
CRR leverage exposure (note ii)	236,468	228,428
Tier 1 capital	10,917	9,547
	%	%
UK leverage ratio	4.9	4.4
CRR leverage ratio	4.6	4.2

Notes:

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

ii. 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.

The capital disclosures included in this report are on a Capital Requirements Directive IV (CRD IV) end point basis. This assumes that all CRD IV requirements are in force during the period, with no transitional provisions permitted. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

Capital and leverage ratios have remained well in excess of regulatory requirements with a CET1 ratio of 30.5% (4 April 2017: 25.4%) and a UK leverage ratio of 4.9% (4 April 2017: 4.4%).

In September 2017, five million CCDS were issued raising £0.8 billion of CET1 capital. The issuance enhanced the liquidity and relevance of the CCDS instrument, while also helping to maintain broad access to capital markets and further strengthening Nationwide's capital position. These CCDS form a single series together with those previously issued in December 2013. Further information can be found in note 15 to the financial statements.

The CET1 ratio has improved following an increase in CET1 capital resources and a reduction in RWAs. CET1 capital resources have increased over the year by £1.4 billion mainly due to the CCDS issuance (£0.8 billion), and profit after tax for the year of £0.7 billion. Risk weighted assets (RWAs) have reduced over the period by approximately £1.1 billion, primarily due to the continued run-off of the commercial book. These movements have resulted in the CET1 ratio increasing to 30.5%.

Total regulatory capital ratio has increased to 42.9% (4 April 2017: 36.1%), due to the CET1 capital increases and the net issuance of £0.6 billion of qualifying Tier 2 subordinated debt, in line with plans to meet the pending Minimum Requirement for Own Funds and Eligible Liabilities (MREL).

CRD IV requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The current regulatory threshold is set at 3.25%. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

Nationwide has been granted permission to report a UK leverage ratio on the basis of measurement announced by the PRA in August 2016. Minimum leverage requirements are monitored by the PRA on this basis. It is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure, excluding eligible central bank reserves.

Solvency risk (continued)

The UK leverage ratio has increased to 4.9% at 4 April 2018 (4 April 2017: 4.4%), predominantly due to an increase in Tier 1 capital resources resulting from profits in the year and the issuance of CCDS. The CRR leverage ratio increased at a slower rate to 4.6% (4 April 2017: 4.2%), following an £8 billion increase in exposure during the year, primarily driven by a £5 billion increase in mortgage balances and a £4 billion increase in liquid assets. The difference in exposure measure is caused by the CRR leverage ratio using the Delegated Act definition.

Nationwide's latest Pillar 2A Individual Capital Guidance (ICG) was received in August 2017. It equates to circa £2.3 billion, of which at least circa £1.3 billion must be met by CET1 capital, and was broadly in line with the previous ICG. This amount is equivalent to 7.1% of RWAs as at 4 April 2018 (4 April 2017: 6.6%), reflecting the low average risk weight, given that approximately 78% (4 April 2017: 75%) of total assets are in the form of secured residential mortgages, of which 82% (4 April 2017: 81%) are prime mortgages, based on the regulatory exposure amounts.

The table below reconciles the general reserves to total regulatory capital on an end-point basis and so does not include non-qualifying instruments.

Total regulatory capital

(Audited)	2018 £m	2017 £m
General reserve	9,951	9,316
Core capital deferred shares (CCDS)	1,325	531
Revaluation reserve	68	67
Available for sale reserve	75	44
Regulatory adjustments and deductions:		
Foreseeable distributions (note i)	(68)	(43)
Prudent valuation adjustment (note ii)	(32)	(23)
Own credit and debit valuation adjustments (note iii)	(1)	-
Intangible assets (note iv)	(1,286)	(1,174)
Goodwill (note iv)	(12)	(12)
Excess of regulatory expected losses over impairment provisions (note v)	(95)	(151)
Total regulatory adjustments and deductions	(1,494)	(1,403)
Common Equity Tier 1 capital	9,925	8,555
Additional Tier 1 capital securities (AT1)	992	992
Total Tier 1 capital	10,917	9,547
Dated subordinated debt (notes vi and vii)	3,019	2,580
Collectively assessed impairment allowances	-	27
Tier 2 capital (note vii)	3,019	2,607
Total regulatory capital (note vii)	13,936	12,154

Notes:

i. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.

ii. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.

iii. Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in Nationwide's own credit standing and risk, in accordance with CRD IV rules.

iv. Intangible assets and goodwill do not qualify as capital for regulatory purposes.

v. The net regulatory capital expected loss in excess of accounting impairment provisions is deducted from CET1 capital, gross of tax.

vi. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

vii. Subordinated debt was restated as at 4 April 2017, due to a change in the presentation of accrued interest. Further information is provided in note 2 of the financial statements.

Solvency risk (continued)

As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the MREL and provided firms with indicative MREL. From 1 January 2020, it is anticipated that Nationwide will be subject to a requirement to hold twice the minimum capital requirements (i.e. 6.5% of UK leverage exposure), plus the applicable buffers, which are subject to change but are currently expected to amount to 0.75% of leverage exposure from 1 January 2019. In order to meet this pending requirement, Tier 2 capital has increased by £0.4 billion, following issuance of £1.8 billion and redemption of £1.2 billion of qualifying Tier 2 subordinated debt during the year. In addition, Nationwide issued £2.1 billion of senior non-preferred notes in March 2018, which we consider to be MREL eligible.

At 4 April 2018 total MREL resources were equal to circa 7.5% (4 April 2017: 5.9%) of UK leverage ratio exposure. Nationwide has a strong foundation from which to meet MREL requirements by 2020 through further issuance of senior non-preferred debt.

Risk weighted assets

The table below shows the breakdown of risk weighted assets (RWAs) by risk type and business activity. Market risk has been set to zero as permitted by the CRR, as the exposure is below the threshold of 2% of own funds.

Risk weighted assets 2018	Credit Risk (note i) £m	Operational Risk (note ii) £m	Total Risk Weighted Assets £m
Retail mortgages	13,764	3,564	17,328
Retail unsecured lending	5,805	725	6,530
Commercial loans	4,634	210	4,844
Treasury	540	87	627
Counterparty credit risk (note iii)	1,184	-	1,184
Other	1,681	315	1,996
Total	27,608	4,901	32,509

2017	Credit Risk (note i) £m	Operational Risk (note ii) £m	Total Risk Weighted Assets £m
Retail mortgages	13,863	3,502	17,365
Retail unsecured lending	5,641	763	6,404
Commercial loans	5,636	100	5,736
Treasury	849	13	862
Counterparty credit risk (note iii)	1,221	-	1,221
Other	1,566	487	2,053
Total	28,776	4,865	33,641

Notes:

i. This column includes credit risk exposures, counterparty credit risk exposures and exposures below the thresholds for deduction that are subject to a 250% risk weight.
ii. RWAs have been allocated according to the business lines within the standardised approach to operational risk, as per article 317 of CRR.
iii. Counterparty credit risk relates to derivative financial instruments and repurchase agreements.

RWAs have reduced by £1.1 billion to £32.5 billion. This was predominantly driven by a £1 billion reduction in commercial RWAs, due to continued run-off of the portfolio.

Solvency risk (continued)

Regulatory developments

Highlighted below are a number of areas where regulatory requirements are yet to be finalised. Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any change.

Nationwide is currently required to maintain a minimum leverage ratio of 3.25% following the recalibration to adjust for the impact of excluding central bank holdings from the exposure measure. There is a supplementary leverage ratio buffer of 0.35% to be implemented in 2019. Following the Financial Policy Committee's (FPC) announcement on the countercyclical buffer (June 2018: 0.5%, November 2018: 1%), the equivalent countercyclical leverage ratio buffer will be 0.2% from June 2018, increasing to 0.4% from November 2018. Therefore, the minimum leverage ratio requirement is expected to be 4% by January 2019. Nationwide is confident it is in a strong position to meet the minimum requirements.

The Basel Committee published their final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a lengthy transitional period from 2022 to 2027. In addition, the PRA's revised expectations for IRB models for residential mortgages will be effective from the end of 2020. These reforms will lead to a significant increase in our risk weights over time and we currently expect the consequential impact on our reported CET1 ratio to ultimately be a reduction of the order of 45-50% relative to our current methodology. We note however that organic earnings through the transition will mitigate this impact such that our reported CET1 ratio will in practice remain well in excess of the proforma levels implied by this change, and leverage requirements will remain our binding constraint based on latest projections. These reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources we hold or the risk profile of our assets. Final impacts are subject to uncertainty for future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA's discretion.

Consolidated financial statements

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Consolidated income statement
For the year ended 4 April 2018

	Notes	2018 £m	2017 £m
Interest receivable and similar income	3	4,818	5,050
Interest expense and similar charges	4	(1,807)	(2,090)
Net interest income		3,011	2,960
Fee and commission income		449	446
Fee and commission expense		(244)	(221)
Other operating (expense)/income	5	(84)	100
(Losses)/gains from derivatives and hedge accounting	6	(1)	66
Total income		3,131	3,351
Administrative expenses	7	(2,024)	(2,021)
Impairment losses on loans and advances to customers	8	(107)	(131)
Impairment recoveries/(losses) on investment securities		2	(9)
Provisions for liabilities and charges	12	(25)	(136)
Profit before tax		977	1,054
Taxation	9	(232)	(297)
Profit after tax		745	757

Consolidated statement of comprehensive income
For the year ended 4 April 2018

	2018 £m	2017 £m
Profit after tax	745	757
Other comprehensive (expense)/income		
Items that will not be reclassified to the income statement		
Remeasurements of retirement benefit obligations:		
Retirement benefit remeasurements before tax	29	(347)
Taxation	(7)	92
	22	(255)
Revaluation of property:		
Revaluation before tax	2	1
Taxation	(1)	2
	1	3
Effect of tax rate change on other items through the general reserve	-	(1)
	23	(253)
Items that may subsequently be reclassified to the income statement		
Cash flow hedge reserve:		
Fair value movements taken to members' interests and equity	(2,316)	1,671
Amount transferred to income statement	2,057	(2,019)
Taxation	68	101
	(191)	(247)
Available for sale reserve:		
Fair value movements taken to members' interests and equity	50	176
Amount transferred to income statement	(8)	(106)
Taxation	(11)	(18)
	31	52
Other comprehensive (expense)/income	(137)	(448)
Total comprehensive income	608	309

Consolidated balance sheet
At 4 April 2018

	Notes	2018 £m	2017* £m
Assets			
Cash		14,361	13,017
Loans and advances to banks		3,422	2,587
Investment securities		13,046	9,831
Derivative financial instruments		4,121	5,043
Fair value adjustment for portfolio hedged risk		(109)	746
Loans and advances to customers	10	191,664	187,371
Intangible assets		1,342	1,230
Property, plant and equipment		887	859
Accrued income and expenses prepaid		164	191
Deferred tax		98	103
Other assets		102	692
Total assets		229,098	221,670
Liabilities			
Shares		148,003	144,542
Deposits from banks		19,404	8,734
Other deposits		5,323	6,459
Due to customers		402	2,376
Fair value adjustment for portfolio hedged risk		(53)	8
Debt securities in issue		34,118	40,339
Derivative financial instruments		2,337	3,182
Other liabilities		345	391
Provisions for liabilities and charges	12	273	387
Accruals and deferred income		336	295
Subordinated liabilities	11	5,497	2,940
Subscribed capital	11	263	279
Deferred tax		49	100
Current tax liabilities		53	82
Retirement benefit obligations	14	345	423
Total liabilities		216,695	210,537
Members' interests and equity			
Core capital deferred shares	15	1,325	531
Other equity instruments	16	992	992
General reserve		9,951	9,316
Revaluation reserve		68	67
Cash flow hedge reserve		(8)	183
Available for sale reserve		75	44
Total members' interests and equity		12,403	11,133
Total members' interests, equity and liabilities		229,098	221,670

*Comparatives have been restated as detailed in note 2.

Consolidated statement of movements in members' interests and equity
For the year ended 4 April 2018

	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Total £m
At 5 April 2017	531	992	9,316	67	183	44	11,133
Profit for the year	-	-	745	-	-	-	745
Net remeasurements of retirement benefit obligations	-	-	22	-	-	-	22
Net revaluation of property	-	-	-	1	-	-	1
Effect of tax rate change on other items through the general reserve	-	-	-	-	-	-	-
Net movement in cash flow hedge reserve	-	-	-	-	(191)	-	(191)
Net movement in available for sale reserve	-	-	-	-	-	31	31
Total comprehensive income	-	-	767	1	(191)	31	608
Issue of core capital deferred shares	794	-	-	-	-	-	794
Distribution to the holders of core capital deferred shares	-	-	(82)	-	-	-	(82)
Distribution to the holders of Additional Tier 1 capital (note i)	-	-	(50)	-	-	-	(50)
At 4 April 2018	1,325	992	9,951	68	(8)	75	12,403

For the year ended 4 April 2017

	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Total £m
At 5 April 2016	531	992	8,921	64	430	(8)	10,930
Profit for the year	-	-	757	-	-	-	757
Net remeasurements of retirement benefit obligations	-	-	(255)	-	-	-	(255)
Net revaluation of property	-	-	-	3	-	-	3
Effect of tax rate change on other items through the general reserve	-	-	(1)	-	-	-	(1)
Net movement in cash flow hedge reserve	-	-	-	-	(247)	-	(247)
Net movement in available for sale reserve	-	-	-	-	-	52	52
Total comprehensive income	-	-	501	3	(247)	52	309
Distribution to the holders of core capital deferred shares	-	-	(56)	-	-	-	(56)
Distribution to the holders of Additional Tier 1 capital (note i)	-	-	(50)	-	-	-	(50)
At 4 April 2017	531	992	9,316	67	183	44	11,133

Note:

i. The distribution to the holders of Additional Tier 1 capital is shown net of an associated tax credit of £18 million (2017: £18 million).

Notes to the consolidated financial statements

1 Reporting period

These results have been prepared as at 4 April 2018 and show the financial performance for the year from, and including, 5 April 2017 to this date.

2 Basis of preparation

The 2018 preliminary results have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB), and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union. The accounting policies adopted for use in the preparation of this Preliminary Results Announcement and which will be used in preparing the Annual Report and Accounts for the year ended 4 April 2018 were included in the 'Annual Report and Accounts 2017' document except as detailed below. Copies of this document are available at nationwide.co.uk/about_nationwide/results_and_accounts

Adoption of new and revised IFRSs

The Group has adopted the amendments to IAS 7 Statement of Cash Flows with effect from 5 April 2017, which has resulted in additional disclosures of changes in liabilities arising from financing activities.

Minor amendments to IAS 12 Income Taxes have also been adopted, together with amendments from the annual improvements to IFRS Standards 2014-2016 cycle. The adoption of these amendments and improvements had no significant impact for the Group.

Change to accounting policies

Following the Group's decision to wind down its commercial lending business, and the strategic review outlined in the Annual Report and Accounts 2017, the segmental reporting policy has been updated to better reflect the way in which the Executive Committee, as chief operating decision maker, now manages the business. As a result, no segmental disclosure is provided.

Adjustments to comparative information

Balance sheet presentation

Following the disposal of certain investments, the value of the Group's investments in equity shares is no longer material. As a result, this balance sheet line is no longer separately presented. Instead, the remaining balance has been combined with 'Investment securities'. At the same time, and also due to materiality considerations, the decision was taken to combine the Group's investment properties, valued at £9 million at 4 April 2018 (2017: £8 million), with 'Property, plant and equipment'. Accordingly, the 'Investment properties' balance sheet line item is no longer separately presented.

Accrued interest on subordinated liabilities and subscribed capital

The Group carries subordinated liabilities and subscribed capital at amortised cost. Accrued interest on these liabilities was previously included in 'Accruals and deferred income'. Accrued interest is now presented within 'Subordinated liabilities' and 'Subscribed capital' to provide a consistent presentation with other financial instruments held at amortised cost.

Comparatives have been restated as shown below:

Consolidated balance sheet extract At 4 April 2017	Notes	Previously published £m	Adjustment £m	Restated £m
Investment securities		9,764	67	9,831
Investments in equity shares		67	(67)	-
Property, plant and equipment		851	8	859
Investment properties		8	(8)	-
Accruals and deferred income		333	(38)	295
Subordinated liabilities	11	2,905	35	2,940
Subscribed capital	11	276	3	279

These restatements had no impact on the Group's net assets or members' interests and equity at 4 April 2017.

Notes to the consolidated financial statements (continued)

2 Basis of preparation (continued)

Judgements in applying accounting policies and critical accounting estimates

The Group has to make judgements in applying its accounting policies which affect the amounts recognised in the accounts. In addition, estimates and assumptions are made that could affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may differ from those estimates.

Going concern

The Directors have assessed the Group's ability to continue as a going concern. The Directors confirm they are satisfied that the Group has adequate resources to continue in business for the foreseeable future and that therefore, it is appropriate to adopt the going concern basis in preparing this preliminary financial information.

3 Interest receivable and similar income

	2018 £m	2017 £m
On residential mortgages	4,532	4,843
On other loans	798	774
On investment securities	201	372
On other liquid assets	95	59
Net expense on financial instruments hedging assets	(808)	(998)
Total	**4,818**	5,050

Included within interest receivable and similar income is interest income on impaired financial assets of £30 million (2017: £33 million).

4 Interest expense and similar charges

	2018 £m	2017 £m
On shares held by individuals	1,140	1,390
On subscribed capital	15	34
On deposits and other borrowings:		
Subordinated liabilities	175	128
Other	320	450
On debt securities in issue	712	767
Net income on financial instruments hedging liabilities	(563)	(684)
Interest on net defined benefit pension liability (note 14)	8	5
Total	**1,807**	2,090

Interest on deposits and other borrowings includes an expense of £210 million (2017: £327 million) in relation to the redemption and maturity of Protected Equity Bond (PEB) deposits which have returns linked to the performance of specified stock market indices. The PEBs, all of which had matured at 4 April 2018, were economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities includes income of £206 million (2017: £308 million) in relation to the associated derivatives.

Notes to the consolidated financial statements (continued)

5 Other operating expense/income

	2018 £m	2017 £m
Gains on disposal of investments	26	100
Other expense	(110)	-
Total	(84)	100

On 28 April 2017, the Group disposed of shares in VocaLink Holdings Limited, resulting in a gain on disposal of £26 million. On 21 June 2016, the Group disposed of its share in Visa Europe Limited, resulting in a gain on disposal of £100 million.

Other expense includes a £116 million loss from a debt buy-back exercise during the year, together with the net amount of rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialised buildings which are not recognised in other comprehensive income.

6 Losses/gains from derivatives and hedge accounting

The Group only uses derivatives for the hedging of risks; however, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not achievable. The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other market risks are continually managed. This volatility does not reflect the economic reality of the Group's hedging strategy.

	2018 £m	2017 £m
(Losses)/gains from fair value hedge accounting (note i)	(86)	61
Ineffectiveness from cash flow hedge accounting (note ii)	17	(4)
Net gain from mortgage pipeline (note iii)	50	8
Fair value gains/(losses) from other derivatives (note iv)	5	(19)
Foreign exchange differences (note v)	13	20
Total	(1)	66

Notes:

i. Gains or losses from fair value hedges can arise where there is an IFRS hedge accounting relationship in place and either:
   - the relationship passed all the monthly effectiveness tests but the fair value movement of the derivative was not exactly offset by the change in fair value of the asset or liability being hedged (referred to as hedge ineffectiveness); or
   - the relationship failed a monthly effectiveness test which, for that month, disallows recognition of the change in fair value of the underlying asset or liability being hedged and in following months leads to the amortisation of existing balance sheet positions.

ii. In cash flow hedge accounting the effective portion of the fair value movement of designated derivatives is deferred to the cash flow hedge reserve. The fair value movement is subsequently recycled to the income statement when amounts relating to the underlying hedged asset or liability are recognised in the income statement. The ineffective portion of the fair value movement is recognised immediately in the income statement.

iii. The mortgage pipeline in the above table includes interest rate swaps used to economically hedge expected new mortgage business, as well as some firm mortgage commitments which the Group has elected to fair value in order to reduce the accounting mismatch.

iv. Other derivatives are those used for economic hedging but which are not in an IAS 39 hedge accounting relationship because hedge accounting is not currently in place.

v. Gains or losses arise from the retranslation of foreign currency monetary items not subject to effective hedge accounting.

Losses of £86 million (2017: gains of £61 million) from fair value hedge accounting include losses of £42 million (2017: gains of £47 million) from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts, and losses of £44 million relating to micro hedges (2017: gains of £14 million) which arise due to a combination of hedge ineffectiveness, disposals and restructuring, and the amortisation of existing balance sheet amounts.

For the mortgage pipeline the income statement includes the full fair value movement of forward starting interest rate swaps economically hedging the pipeline. To alleviate an accounting mismatch, the Group only elects to fair value certain underlying mortgage business within the pipeline.

The deferral of fair value movements to the cash flow hedge reserve, and the transfer of amounts from the cash flow hedge reserve to the income statement, are shown in the consolidated statement of comprehensive income.

Notes to the consolidated financial statements (continued)

7 Administrative expenses

	2018 £m	2017 £m
Employee costs:		
Wages and salaries	524	517
Bonuses	61	75
Social security costs	66	64
Pension costs	173	137
	824	793
Other administrative expenses	758	790
Bank levy (note 12)	45	42
	1,627	1,625
Depreciation, amortisation and impairment	397	396
Total	2,024	2,021

8 Impairment provisions on loans and advances to customers

The following provisions have been deducted from the appropriate asset values in the Group balance sheet:

	2018 £m	2017 £m
Impairment charge for the year		
Prime residential	3	11
Specialist residential	8	47
Consumer banking	97	78
Commercial and other lending	(1)	(5)
Total	107	131
Impairment provision at the end of the year		
Prime residential	36	34
Specialist residential	109	110
Consumer banking	298	269
Commercial and other lending	15	25
At 4 April	458	438

The Group impairment provision of £458 million at 4 April 2018 (2017: £438 million) comprises individual provisions of £31 million (2017: £45 million) and collective provisions of £427 million (2017: £393 million).

Notes to the consolidated financial statements (continued)

9 Taxation

Tax charge in the income statement	2018 £m	2017 £m
Current tax:		
UK corporation tax	246	300
Corporation tax – adjustments in respect of prior years	(12)	(3)
Total current tax	234	297
Deferred tax:		
Current year credit	(7)	(1)
Adjustments in respect of prior years	9	3
Effect of corporation tax rate change	-	(2)
Effect of deferred tax provided at different tax rates	(4)	-
Total deferred taxation	(2)	-
Tax charge	232	297

The actual tax charge differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK as follows:

Reconciliation of tax charge	2018 £m	2017 £m
Profit before tax	977	1,054
Tax calculated at a tax rate of 19% (2017: 20%)	186	211
Adjustments in respect of prior years	(3)	-
Banking surcharge	43	62
Expenses not deductible for tax purposes/(income not taxable):		
Depreciation on non-qualifying assets	1	-
Bank levy	8	8
Customer redress	-	19
Other	1	(1)
Effect of corporation tax rate change	-	(2)
Effect of deferred tax provided at different tax rates	(4)	-
Tax charge	232	297

10 Loans and advances to customers

	2018 £m	2017 £m
Prime residential mortgages	144,013	137,970
Specialist residential mortgages	33,141	33,149
Consumer banking	3,809	3,680
Commercial and other lending	9,658	11,202
	190,621	186,001
Fair value adjustment for micro hedged risk	1,043	1,370
Total	191,664	187,371

Loans and advances to customers in the table above are shown net of impairment provisions held against them. The fair value adjustment for micro hedged risk relates to commercial lending.

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for the Bank of England's (BoE) Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS). The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding.

Notes to the consolidated financial statements (continued)

10 Loans and advances to customers (continued)

Mortgages pledged and the nominal values of the notes in issue are as follows:

Mortgages pledged to asset backed funding programmes	Mortgages pledged	2018 Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
Group	£m	£m	£m	£m	£m
Covered bond programme	21,000	15,322	-	-	15,322
Securitisation programme	8,711	3,659	-	337	3,996
Whole mortgage loan pools	22,831	-	17,000	-	17,000
Total	**52,542**	**18,981**	**17,000**	**337**	**36,318**

Mortgages pledged to asset backed funding programmes	Mortgages pledged	2017 Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
Group	£m	£m	£m	£m	£m
Covered bond programme	19,322	14,927	-	-	14,927
Securitisation programme	10,412	3,622	-	448	4,070
Whole mortgage loan pools	16,136	-	10,747	2,101	12,848
Total	45,870	18,549	10,747	2,549	31,845

Note:
The prior year values for notes in issue for whole mortgage loan pools have been restated to show the nominal amounts on a consistent basis with the current year presentation.

The securitisation programme notes are issued by Silverstone Master Issuer plc. Silverstone Master Issuer plc is fully consolidated into the accounts of the Group.

At 4 April 2018 the whole mortgage loan pools are pledged at the BoE under the TFS. In the prior year, whole mortgage loan pools were pledged at the BoE under the TFS and Funding for Lending Scheme (FLS). Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. At 4 April 2018, £22.8 billion (2017: £16.1 billion) of pledged collateral provided a post-haircut drawdown capacity of £17.5 billion (2017: £12.8 billion), of which £17.0 billion (2017: £10.7 billion) of drawdowns were made. At 4 April 2018 there are no amounts undrawn following the closure of the BoE TFS and FLS.

Mortgages pledged include £8.7 billion (2017: £9.1 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.

Mortgages pledged are not derecognised from the Group balance sheet as the Group has retained substantially all the risks and rewards of ownership. The Group continues to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

Notes in issue which are held by third parties are included within debt securities in issue. Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn under the TFS. At 4 April 2018 the Group had outstanding TFS drawings of £17.0 billion (2017: £6.0 billion).

Notes in issue, held by the Group and undrawn, are debt securities issued by the programmes to the Group and mortgage loan pools that have been pledged to the BoE but not utilised.

In accordance with accounting standards, notes in issue and held by the Group are not recognised in the Group's balance sheet.

The Group established the Nationwide Covered Bond programme in November 2005. Mortgages pledged provide security for issues of covered bonds made by the Group. During the year ended 4 April 2018, €1.1 billion (£0.9 billion sterling equivalent) of notes were issued, and £0.8 billion sterling equivalent of notes matured.

Notes to the consolidated financial statements (continued)

10 Loans and advances to customers (continued)

The Group established the Silverstone Master Trust securitisation programme in July 2008. Notes are issued under the programme and the issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Group. The remaining beneficial interest in the pledged mortgages of £5.2 billion (2017: £7.0 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2018 a total of £0.8 billion sterling equivalent of notes matured. During the year ended 4 April 2018 £0.9 billion sterling equivalent notes were issued across sterling and US dollars.

11 Subordinated liabilities and subscribed capital

	2018 £m	2017 (note i) £m
Subordinated liabilities		
Subordinated notes	5,487	2,906
Fair value hedge accounting adjustments	42	45
Unamortised premiums and issue costs	(32)	(11)
Total	5,497	2,940
Subscribed capital		
Permanent interest-bearing shares	225	225
Fair value hedge accounting adjustments	40	57
Unamortised premiums and issue costs	(2)	(3)
Total	263	279

Note:
i. Comparatives have been restated to include accrued interest as detailed in note 2.

All of the Society's subordinated notes and permanent interest-bearing shares (PIBS) are unsecured. The Society may, with the prior consent of the Prudential Regulation Authority (PRA), repay the PIBS and redeem the subordinated notes early.

On 8 March 2018, to help meet forthcoming minimum requirements for own funds and eligible liabilities (MREL), the Group issued senior non-preferred notes, which are a class of subordinated liability that are senior to the existing Tier 2 eligible notes.

The senior non-preferred notes rank pari passu with each other and behind the claims against the Society of all depositors, creditors and investing members other than holders of Tier 2 subordinated notes, permanent interest-bearing shares (PIBS), Additional Tier 1 (AT1) capital and core capital deferred shares (CCDS) of the Society.

The Tier 2 subordinated notes rank pari passu with each other and behind the claims against the Society of all depositors, creditors and investing members other than holders of PIBS, AT1 capital and CCDS of the Society.

The PIBS rank pari passu with each other and the AT1 instruments, behind claims against the Society of the subordinated note holders but ahead of claims by the holders of CCDS.

Notes to the consolidated financial statements (continued)

12 Provisions for liabilities and charges

	Bank levy	FSCS	Customer redress	Other provisions	Total
	£m	£m	£m	£m	£m
At 5 April 2017	16	42	305	24	387
Provisions utilised	(37)	(26)	(110)	(14)	(187)
Charge for the year	45	-	34	6	85
Release for the year	-	(1)	(8)	(3)	(12)
Net income statement charge	45	(1)	26	3	73
At 4 April 2018	**24**	**15**	**221**	**13**	**273**
At 5 April 2016	22	84	227	10	343
Provisions utilised	(48)	(42)	(58)	(5)	(153)
Charge for the year	42	15	152	21	230
Release for the year	-	(15)	(16)	(2)	(33)
Net income statement charge	42	-	136	19	197
At 4 April 2017	16	42	305	24	387

The income statement charge for provisions for liabilities and charges of £25 million (2017: £136 million) includes the customer redress net income statement charge of £26 million (2017: £136 million), and the FSCS release of £1 million (2017: £nil).

The income statement charge for bank levy of £45 million (2017: £42 million) and other provisions charge of £3 million (2017: £19 million) are included within administrative expenses in the income statement.

Financial Services Compensation Scheme (FSCS)

The FSCS, the UK's independent statutory compensation fund for customers of authorised financial services firms, pays compensation if a firm is unable to pay claims against it.

Following the default of a number of deposit takers, the FSCS borrowed funds from HM Treasury, approximately £5 billion of which remains outstanding at 4 April 2018 (2017: £16 billion). This balance relates solely to the failure of Bradford & Bingley plc. The FSCS recovers the interest costs associated with this loan, together with ongoing management expenses, by way of annual levies on member firms.

UK Asset Resolution (UKAR) oversees the management of the closed books of Bradford & Bingley plc. In order to repay the funds borrowed from HM Treasury, on 25 April 2017 UKAR completed the first of two separate sales of Bradford & Bingley plc portfolios. It is anticipated that the second sale transaction will be completed by September 2018.

The balance sheet amount provided by the Group of £15 million (2017: £42 million) comprises £12 million of levies relating to the 2017/18 FSCS scheme year and £3 million relating to the 2018/19 scheme year.

Customer redress

During the course of its business, the Group receives complaints from customers in relation to past sales or conduct. The Group is also subject to enquiries from and discussions with its regulators, governmental and other public bodies, including the Financial Ombudsman Service (FOS), on a range of matters. Customer redress provisions are recognised where the Group considers it is probable that payments will be made as a result of such complaints and other matters.

The Group holds provisions of £221 million (2017: £305 million) in respect of the potential costs of remediation and redress in relation to historic sales of financial products and post sales administration. This includes amounts for past sales of PPI, non-compliance with consumer credit legislation and other regulatory matters.

The net income statement charge for the year mainly reflects updated assumptions for provisions previously recognised. This includes a £28 million charge in relation to PPI, driven primarily by an increase in the anticipated total number of complaints expected to be received in light of the Financial Conduct Authority (FCA) media campaign and complaints deadline of August 2019.

Notes to the consolidated financial statements (continued)

12 Provisions for liabilities and charges (continued)

It is considered appropriate for the Group to provide for the estimated total amount required to deal with all ongoing and future PPI complaints. The amount provided at 4 April 2018 therefore reflects the compensation and administrative costs associated with cases that the Group expects to uphold and the cost of processing invalid claims which the Group expects to receive. This estimate will be re-assessed on an ongoing basis in the light of actual claims levels observed.

Other provisions

Other provisions include provisions for severance costs and a number of property related provisions. Provisions are made for the expected severance costs in relation to the Group's restructuring activities where there is a present obligation and it is probable that the expenditure will be made.

13 Contingent liabilities

During the ordinary course of business, the Group receives complaints, is subject to threatened or actual legal proceedings, and manages regulatory enquiries, reviews, challenges and investigations. It also receives and reviews allegations of wrongdoing raised by employees and others and provides support and assistance, when it is appropriate to do so, to relevant Law Enforcement Agencies in connection with investigations they may undertake. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. Where it is concluded that it is more likely than not that a payment will be made a provision is recognised based on management's best estimate of the amount that will be payable. For other matters no provision is recognised but disclosure is made of items which are potentially material, either individually or in aggregate, except in cases where the likelihood of a liability crystallising is considered to be remote. Currently the Group does not expect the ultimate resolution of any such matters to have a material adverse impact on its financial position.

14 Retirement benefit obligations

Retirement benefit obligations on the balance sheet	Group	
	2018 £m	2017 £m
Present value of funded obligations	6,108	6,039
Present value of unfunded obligations	12	12
	6,120	6,051
Fair value of fund assets	(5,775)	(5,628)
Deficit at 4 April	**345**	423

Defined contribution pension schemes

The Group operates two defined contribution pension schemes in the UK – the Nationwide Group Personal Pension Plan (GPP) and the Nationwide Temporary Workers Pension Scheme. New employees are automatically enrolled into one of these schemes, with both schemes being administered by Aviva.

Outside of the UK, there are defined contribution pension schemes for a small number of employees in the Isle of Man and Ireland.

Defined benefit pension schemes

The Group has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day to day administration.

The Group's largest pension scheme is the Nationwide Pension Fund (the Fund). This is a contributory defined benefit pension scheme, with both final salary and career average revalued earnings (CARE) sections. The Fund was closed to new entrants in 2007 and since that date employees have been able to join the GPP.

Notes to the consolidated financial statements (continued)

14 Retirement benefit obligations (continued)

Most members of the Fund can draw their pension when they reach the Fund's retirement age of 65. Pension benefits accrued before 1 April 2011 vary in methodology; however most are based on 1/54th of final salary for each year of service. Pension benefits accrued after 1 April 2011 are usually based on 1/60th of average earnings, revalued to age of retirement, for each year of service (also called CARE).

In the event that a Fund member passes away, benefits may be payable in the form of a spouse/dependant's pension, lump sum (paid within 5 years of a Fund member beginning to take their pension), or as a refund of Fund member contributions. Fund members are also able to place redundancy severance into their pension.

Approximately 31% of the Fund's retirement benefit obligations have been accrued by current employees (active Fund members), 37% by former employees (deferred Fund members) and 32% by current pensioners and dependants. The average duration of the Fund's pension obligation is approximately 22 years reflecting the split of the obligation between current employees (27 years), deferred Fund members (25 years) and current pensioners (15 years).

The Group's retirement benefit obligations include £2 million (2017: £4 million) recognised in a subsidiary company, Nationwide (Isle of Man) Limited. This obligation relates to a defined benefit scheme providing benefits based on both final salary and CARE which was closed to new entrants in 2009.

The Group's retirement benefit obligations also include £12 million (2017: £12 million) in respect of unfunded legacy defined benefit arrangements.

The principal actuarial assumptions used are as follows:

Principal actuarial assumptions	2018 %	2017 %
Discount rate	2.45	2.40
Future salary increases	3.10	3.20
Future pension increases (maximum 5%)	2.90	2.95
Retail price index (RPI) inflation	3.10	3.20
Consumer price index (CPI) inflation	2.10	2.20

The assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancies. The assumptions made are illustrated in the table below:

Life expectancy assumptions	2018 years	2017 (note i) years
Age 60 at 4 April 2018:		
Males	28.0	27.9
Females	29.3	29.1
Age 60 at 4 April 2038:		
Males	29.2	28.8
Females	30.8	29.9

Note:

i. Comparatives have been restated to present life expectancy assumptions on a consistent basis with estimation methodology as at 4 April 2018. This does not impact the calculation of the defined benefit obligation.

Notes to the consolidated financial statements (continued)

14 Retirement benefit obligations (continued)

Changes in the present value of the net defined benefit liability (including unfunded obligations) are as follows:

Movements in the net defined benefit liability	2018 £m	2017 £m
Deficit at 5 April	423	213
Current service cost	95	60
Past service cost	5	4
Curtailment gains	(9)	(4)
Interest on net defined benefit liability	8	5
Return on assets less/(greater) than discount rate	1	(951)
Contributions by employer	(152)	(206)
Administrative expenses	4	4
Actuarial (gains)/losses on defined benefit obligations	(30)	1,298
Deficit at 4 April	345	423

Current service cost represents the increase in liabilities resulting from employees accruing service over the year. This includes salary sacrifice employee contributions.

Past service cost represents the increase in liabilities of the Fund arising from Fund members choosing to pay additional contributions (AVC's, pension credits) to boost their pension benefits.

Curtailment gains are in respect of Fund members made redundant during the year. Liabilities reduce as deferred Fund member pension benefits are linked to the Consumer Price Index (CPI), rather than the Retail Prices Index (RPI) which is used for the pension benefits for active Fund members.

The interest on the net defined benefit liability represents the annual interest accruing on the liabilities over the year, offset by the interest income on assets.

The £1 million relating to the return on assets less than the discount rate (2017: £951 million return greater than the discount rate), is driven by a reduction in long-term expected inflation over the year, partially offset by positive equity returns.

The £152 million of employer contributions includes deficit contributions of £86 million (2017: £149 million), with the remainder relating to employer contributions in respect of future benefit accrual. The Group estimates that its contributions to the defined benefit pension schemes (including deficit contributions under the current deficit recovery plan) during the year ending 4 April 2019 will be £127 million.

The £30 million actuarial gain (2017: £1,298 million loss) on the liabilities shown above is driven by:

- A £153 million gain (2017: £1,441 million loss) from changes in financial assumptions, including a 0.05% increase in the discount rate and a 0.10% decrease in assumed Retail Prices Index inflation, both of which decrease the value of the liabilities.
- A £97 million loss (2017: £144 million gain) due to updating to the latest industry standard actuarial model for projecting future longevity improvements, updating the long-term longevity improvement assumption from 1.25% to 1.50% per annum, and a Trustee decision to amend specific actuarial factors of the Fund as of 1 April 2018. The specific factors allow Fund members to take tax free cash lump sums when they retire on more favourable terms than previously.
- An experience loss on the assumptions of £26 million (2017: £1 million loss) reflecting the difference between the estimated long-term assumptions and the actual observed pension increases and deferred pension revaluations during the year ended 4 April 2018.

Notes to the consolidated financial statements (continued)

15 Core capital deferred shares (CCDS)

	Number of shares	CCDS £m	Share premium £m	Total £m
At 4 April 2017	5,500,000	6	525	531
Issuance	5,000,000	5	802	807
Issue costs			(13)	(13)
At 4 April 2018	**10,500,000**	**11**	**1,314**	**1,325**

In September 2017, the Group issued 5,000,000 of £1 core capital deferred shares (CCDS). These CCDS form a single series along with the CCDS previously issued in December 2013. The gross proceeds of the issuance were £807 million (£794 million net of issuance costs).

CCDS are a form of Common Equity Tier 1 (CET1) capital which have been developed to enable the Group to raise capital from the capital markets. Previously issued Tier 1 capital instruments, PIBS, no longer meet the regulatory capital requirements of CRD IV and are being gradually phased out of the calculation of capital resources under transitional rules.

CCDS are perpetual instruments. They rank pari passu to each other and are junior to claims against the Society of all depositors, creditors and investing members. Each holder of CCDS has one vote, regardless of the number of CCDS held.

In the event of a winding up or dissolution of the Society and if there were surplus available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £129.24 per share.

There is a cap on the distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £16.06 per share and is adjusted annually in line with CPI.

A final distribution of £28 million (£5.125 per share) for the financial year ended 4 April 2017 was paid on 20 June 2017 and an interim distribution of £54 million (£5.125 per share) in respect of the period to 30 September 2017 was paid on 20 December 2017. These distributions have been recognised in the statement of movements in members' interests and equity.

Since the balance sheet date the directors have declared a distribution of £5.125 per share in respect of the period to 4 April 2018, amounting in aggregate to £54 million. This has not been reflected in these financial statements as it is recognised in the year ending 4 April 2019, by reference to the date at which it was declared.

Notes to the consolidated financial statements (continued)

16 Other equity instruments

	Total £m
At 4 April 2018	**992**
At 4 April 2017	992

Other equity instruments are Additional Tier 1 (AT1) capital instruments. AT1 instruments rank pari passu to each other and to PIBS. They are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS.

AT1 instruments pay a fully discretionary, non-cumulative fixed coupon at an initial rate of 6.875% per annum. The rate will reset on 20 June 2019 and every five years thereafter to the five year mid swap rate plus 4.88%. Coupons are paid semi-annually in June and December.

A coupon of £34 million, covering the period to 19 June 2017, was paid on 20 June 2017 and a coupon of £34 million, covering the period to 19 December 2017, was paid on 20 December 2017. These payments have been recognised in the statement of movements in members' interests and equity.

A coupon payment of £34 million, covering the period to 19 June 2018, is expected to be paid on 20 June 2018 and will be recognised in the statement of movements in members' interests and equity in the financial year ending 4 April 2019.

The coupons paid and declared represent the maximum non-cumulative fixed coupon of 6.875%.

AT1 instruments have no maturity date. They are repayable at the option of the Society on 20 June 2019 and on every fifth anniversary thereafter. AT1 instruments are only repayable with the consent of the PRA.

If the end point CET1 ratio for the Society, on either a consolidated or unconsolidated basis, falls below 7% the AT1 instruments convert to CCDS instruments at the rate of one CCDS share for every £80 of AT1 holding.

RESPONSIBILITY STATEMENT

The Directors confirm that the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and income and expenditure of the Group as required by the Disclosure and Transparency rules (DTR 4.1.12). The Chief Executive's Review and the Financial Review together include a fair review of the development and performance of the business and the Group, and taken together with the primary financial statements, supporting notes and the Business and Risk Report provide a description of the principal risks and uncertainties faced.

A full list of the board of directors will be disclosed in the Annual Report and Accounts 2018.

Signed on behalf of the Board by

Mark Rennison
Chief Financial Officer

21 May 2018

OTHER INFORMATION

The financial information set out in this announcement which was approved by the Board on 21 May 2018 does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The Annual Report and Accounts 2017 have been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Annual Report and Accounts 2018 will be published on the website of Nationwide Building Society, nationwide.co.uk. The report of the auditor on those accounts is unqualified and did not draw attention to any matters by way of emphasis. The Annual Report and Accounts 2018 will be lodged with the Financial Conduct Authority and the Prudential Regulation Authority following publication.

A copy of this Preliminary report is placed on the website of Nationwide Building Society, nationwide.co.uk, from 22 May 2018. The Directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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