

Your building society On your side

**Annual Report
and Accounts
2013**



On your side

On your side

Our heritage dates back to 1846. Since then we have grown organically and through mergers to become the world's largest building society and the UK's largest mutual financial institution.

Our purpose is safeguarding our members' financial interests, helping them to save, helping them to buy their own homes and helping them to make the most of their money.

Our vision is to be people's first choice for financial services.

Nationwide



Front cover

Graham Beale, Chief Executive
pictured with Carole Henry at our
Threadneedle Street branch.

Inside cover

Chantal and Tamzin at our
Threadneedle Street branch.

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Matthew and Kirsten at our Threadneedle Street branch.



Overview



Financial highlights

Group Results 2009-2013		2009 (adjusted)	2010	2011	2012	2013
Total income						
Underlying	£m	2,091	2,061	1,947	2,143	2,522
Statutory	£m	2,236	2,135	2,067	2,178	2,357
Cost income ratio						
Underlying	%	59.5	60.6	63.9	61.0	54.8
Statutory	%	60.5	61.4	61.6	63.6	60.0
Profit before tax						
Underlying	£m	393	212	276	304	475
Statutory	£m	190	341	317	203	210
Customer balances						
Loans and advances to customers	£bn	155	152	149	154	160
Member savings balances	£bn	128	121	123	126	126
Total assets	£bn	202	191	189	196	191
Core Tier 1 ratio	%	12.0	12.2	12.5	12.5	12.3

Underlying results

These results have been prepared in line with International Financial Reporting Standards (IFRS). Where appropriate, certain aspects of the results are presented to reflect management's view of the Group's underlying performance with like for like comparisons of performance across years without the distortion of one off volatility and items which are not reflective of the Group's ongoing business activities.

Underlying profit before tax equates to statutory profit before tax adjusted for fair value losses from derivatives and hedge accounting of £165 million, a £68 million charge relating to Financial Services Compensation Scheme (FSCS) levies, transformation costs of £16 million and a charge of £16 million in relation to the bank levy.

Underlying profit before tax:

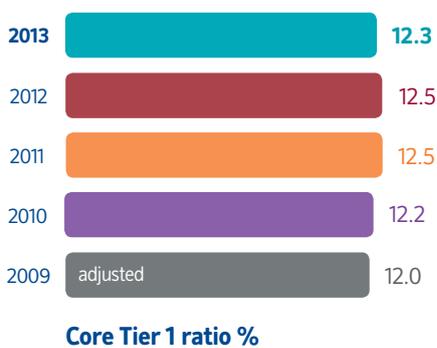
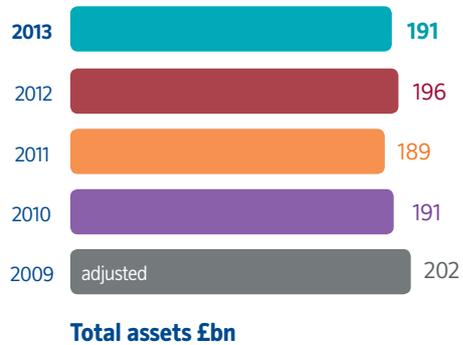
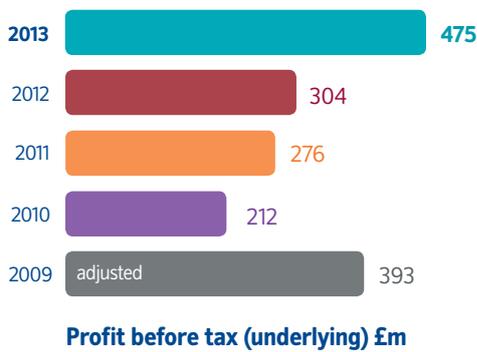
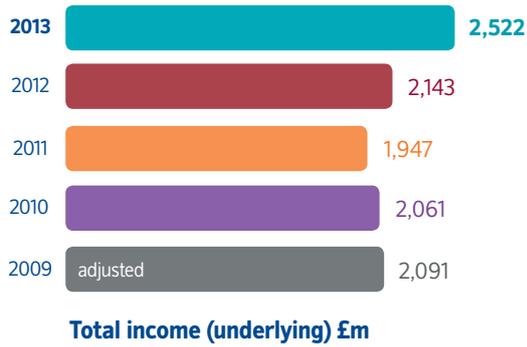
£475 million

Statutory profit before tax:

£210 million

Strong capital ratios with Core Tier 1 ratio of:

12.3%



Chairman's statement

Our core mutual purpose remains unchanged. The past twelve months have continued to raise challenges, both new and old, for all financial services companies. The economic recovery in the UK continues to proceed slowly, the Bank of England base rate has remained at record lows and transactions in the housing market have stalled at levels well below historic norms. In addition, many of our banking competitors have attracted headlines for the wrong reasons, with a range of allegations of malpractice and customer detriment.

Against this background, I am pleased to report that Nationwide has remained true to its heritage and values. Nationwide was formed in 1846 to provide finance for home ownership, funded through retail deposits and, although our business today is far more sophisticated, we have never forgotten that our core purpose is safeguarding our members' financial interests, helping them to save, helping them to buy their own homes and helping them to make the most of their money.

The success of our long term, member focused approach is evident in our delivery of another solid financial performance over the past year. Our business is strongly capitalised, has a high level of liquidity and, despite an increased impairment charge on our relatively small portfolio of legacy commercial real estate assets, our underlying profit has risen to £475 million. Our statutory profit is £210 million, our core asset quality remains very strong, our cost income ratio has materially reduced and our members have continued to benefit from an excellent range of products and services.

Great service for our members

There is little doubt that public trust in financial services has taken a significant hit in recent years, with one scandal following another and our banking competitors have responded by stressing their renewed focus on their customers. It is important that Nationwide is neither complacent nor seen to revel in the misfortunes of others, since problems can affect any organisation, but I am confident that as a business we have never lost sight of the critical importance of delivering outstanding service and long term value for you, our members. Nationwide has a longstanding and clearly defined set of principles that drive how we behave as a business, and a

culture that ensures we always aim to deliver the right outcomes for all of our customers, at all times:

- We offer consistent long term value
- We reward members with the deepest relationships
- Our pricing is transparent and fair
- We advise and help customers to make the best choice for their finances
- We never knowingly mislead
- We run our business efficiently to ensure we maximise member benefit
- Our service is demonstrably better than that of our competitors
- We are a responsible corporate citizen.

Our success in upholding our principles is evident in the support we have offered our members over the past year. As has been the case for many years, our mortgage members have enjoyed significant benefits, particularly existing members on our Base Mortgage Rate. In addition, we have demonstrated our commitment to supporting the housing market with a particular focus on providing mortgages to first time buyers; over the past year Nationwide accounted for (almost one in five of all new loans) to this crucially important sector of the market.

Our mutual status ensures a natural consumer focus; we do not need to be forced to put the customer at the heart of our business, because that is what we have been doing for over 150 years.

We have also delivered excellent products to existing homeowners, including the extension of our innovative Save to Buy products to home movers, reduced rates for further advances used to improve energy efficiency and launched an exclusive range of mortgage products for existing members.

The impact of the low base rate environment has been felt by savers across the industry, so we have made every effort to reward our loyal members, most notably through our unique Loyalty Saver product and, in April, our Flexclusive ISA for main current account members. We have also launched Savings Watch, which alerts members to any changes we make to their savings rates and to any new savings accounts which we launch.

I am delighted that we have been able to extend the benefits of membership to over 360,000 new current account customers, a growing number of whom have opened one of our new accounts that will drive our strategic growth in the banking market. We also delivered a customer focused approach to the Retail Distribution Review, by continuing to offer advice for all customers who are seeking to make financial planning decisions.

Developments in the regulatory environment

The regulatory response to the financial crisis has continued over the past year: the Financial Services Authority has been replaced by the Prudential Regulation Authority and the Financial Conduct Authority, and the Banking Reform Bill (implementing the proposals of the Independent Commission on Banking) is progressing through Parliament. In addition, the Parliamentary Commission on Banking Standards has considered a range of issues following the numerous scandals that have beset the banks, and its findings will undoubtedly have a significant influence over policy makers.

The ultimate test for all these reforms must be that they combine to create a financial sector that serves the needs of the economy, provides a better deal for customers and protects the taxpayer in the event of future crises. We believe that any changes should ensure fair competition and must not unfairly penalise those institutions, such as Nationwide, that have business models based on originating high volumes of low risk assets. It is particularly important that capital requirements are not set so high that they hinder our ability to support the UK mortgage market.

We are supportive of the proposals to implement a ring fence around banks' retail activities. Whilst this may create a number of banks that ostensibly look similar to building societies, we are confident that Nationwide presents a real and differentiated alternative for all customers. Our mutual status ensures a natural consumer focus; we do not need to be forced to put the customer at the heart of our business, because that is what we have been doing for over 150 years.

At last year's Annual General Meeting our members voted in favour of a rule change allowing Nationwide to issue a new external capital instrument to support our future development, whilst remaining true to our mutual principles. Over the past year we have received regulatory endorsement of this instrument, now termed Core Capital Deferred Shares (CCDS). While the Society has no current requirements for capital, we will look to establish CCDS in the market as and when appropriate.



I am delighted that Nationwide has been awarded Platinum status in Business in the Community's Corporate Responsibility Index.

Understanding the needs and views of our members

We place heavy emphasis on listening to the views of our members, since they are an essential ingredient in ensuring we deliver the right products and services to meet their needs. Our TalkBack events, at which members are able to make suggestions and comments to a number of Society directors and executive managers, have now been running for fifteen years, and this year were held in eight locations across the country.

Since June 2012 Nationwide has also invited a selection of members to join our online panel, Nationwide Connect, through which we have engaged with over 3,000 members. This new approach has proved to be an excellent way of generating and collecting feedback through more frequent engagement, and has firmly established the views of our members as an integral part of our business decision making.

Supporting our communities

As a member owned business Nationwide has a natural connection with local communities across the UK, which is reflected in our focused approach to corporate citizenship. This is embodied through 'Living on your side', our citizenship strategy that both reflects the priorities of our members and employees and supports our business objectives. Over the next five years we have committed to helping 750,000 into a home of their own (Your Home), enabling one million people to start saving (Your Money) and unlocking and investing £15 million into local communities as directed by members and employees (Your Community).

Your Home

We have reached over 168,000 people through Your Home over the past year. In addition to the significant numbers of first time buyers to whom we have provided mortgages, we have also used our impartial guides and trialled 'surgeries' in our branches to help equip potential buyers with the information they need when seeking to buy their first homes. In order to help those less fortunate, our £1 million, four year partnership with Shelter has supported almost 3,000 people in its first year.

Your Money

We have surpassed our year one target of helping 150,000 people to start saving through a combination of new product offerings, charity partnerships and improving money management skills. Nationwide became a founding partner of the National Numeracy charity, which aims to help one million

people improve their numeracy skills over the next five years, and we have provided grants to ten organisations to improve money management skills through our existing partnership with the Money Advice Trust.

Your Community

Having set ourselves a challenging target of unlocking and investing £1.75 million in the first year of our new approach, we are delighted to have reached £2.5 million through a combination of fundraising and employee volunteering.

Nationwide is staging a series of events to mark its 20th year in partnership with Macmillan Cancer Support, and I continue to be touched by the generosity of our members and employees who donate their time and money to support this most worthy of causes.

During the year we introduced Community Match and The Big Local to give our members and employees the opportunity to decide the areas to which our local charity donations should be directed. Community Match is now available in 530 branches and I am pleased to report that 1.2 million members have already participated by nominating and voting for their local good causes.

As part of Living on your side, we have committed to operating responsibly and sustainably, and we are making real progress: we have reduced waste going to landfill by more than two thirds; we have a new supplier code of practice which includes greater local sourcing; and, we are aiming for our carbon emissions in 2021 to be at or below the 2011 level and for water consumption to reduce by 10% by 2015. In recognition of our achievements, I am delighted that Nationwide has been awarded Platinum status in Business in the Community's Corporate Responsibility Index.

**Our partnership with
Macmillan Cancer Support
now dates back**

20 years.

Board changes

Since my last report we have welcomed Rita Clifton to the Board as a non executive director. Rita has held a broad range of senior management and director roles, with an expertise in both demonstrating how a company's brand is integral to its long term business strategy and in analysing and understanding customer perceptions and behaviour.

Matthew Wyles, previously our Group Distribution Director, stepped down from the Board in December 2012. Matthew, who joined the Board in August 2007 on the merger with Portman Building Society, was previously a director at Portman and played an important role in ensuring that the merger added tangible benefits to both existing and new members of the combined business. I would like to thank Matthew for the significant contribution he has made in helping transform our business and wish him well for the future.

Recognising the contribution of our employees

For the majority of our members, their experience of Nationwide is shaped in the first instance by their contact with our employees. Over the past year we have seen consistently high levels of service satisfaction, and I know how much effort our people put in to ensuring that our members receive the best possible service.

I remain very grateful to all our employees for their unceasing focus on doing the right thing for our members, demonstrating that Nationwide is on your side.

Outlook

The challenges facing the UK economy look set to continue, with interest rates likely to remain at historic lows for at least another twelve months, the future of the Eurozone still uncertain and the Government seeking ways to support a long term recovery in the mortgage market. However, Nationwide has weathered the financial crisis, has emerged as a stronger, more efficient business, and I look forward with confidence to sharing the benefits of our mutual approach with an increasing number of members.



Geoffrey Howe

Chairman
21 May 2013

Chief Executive's review

Financial performance

Our results for the year demonstrate the strength of our core business franchise, including strong growth in mortgage volumes, a significant improvement in our net interest margin, a material reduction in our cost:income ratio and continued delivery against our strategy to grow our share of the personal banking market. These positive developments have combined to drive an 18% rise in total income to £2.52 billion (2012: £2.14 billion).

Our underlying profit for the year was up 56% at £475 million (2012: £304 million), and statutory profit before tax was up 3% at £210 million (2012: £203 million). Our statutory profit before tax includes hedge accounting and valuation adjustments of £165 million for our risk hedging instruments (2012: £35 million gain) and £84 million for the impact of the Financial Services Compensation Scheme and bank levy (2012: £75 million).

Our retail credit quality remains high, with arrears rates well below industry averages and a reduction in provision charge of 32%, but our legacy commercial real estate assets continue to pose challenges to our short term profitability. Loans secured against commercial property have been affected by weak tenant demand and a resumption of declines in property values. Consequently the provision charge has increased this year to £493 million (2012: £247 million). We are working with our borrowers over the medium term to keep them in business and to protect members' interests.

A prudent and strong business

Our business continues to be underpinned by conservative lending standards, a strong capital base and high levels of liquidity, each of which reflect our mutual status and primary focus on providing residential mortgages and secure savings products for our members. Our mortgage arrears are significantly below the industry average, 77% of our funding comes from retail balances and our Core Tier 1 capital ratio is one of the strongest in the industry at 12.3% (2012: 12.5%).

Supporting the housing market

Over the past 12 months we have played a major role in supporting the UK housing market, increasing our lending by 17% to £21.5 billion (2012: £18.4 billion), and accounting for 15.1% (2012: 13.0%) of all mortgage lending, our highest ever market share. Our net lending for the year was £6.5 billion, well over double that achieved last year (2012: £2.7 billion) and equivalent to 108% of total net lending in the UK. In addition our net lending at £6.5 billion was significantly in excess of the £2.5 billion we drew down under the Funding for Lending Scheme.

We have placed a particular emphasis on providing mortgages to first time buyers, consistent with our mutual heritage as well as stimulating the housing market. During the year we helped over 42,000 people to take their first steps into home ownership, a 75% increase on last year (2012: 24,000). This means that one in every three of our new prime mortgages during the year was to a first time buyer and we accounted for almost one in five of all first time buyer mortgages in the UK. We have continued to make loans available for up to 95% of the value of the property through our Save to Buy scheme, and are active participants in government schemes aimed at boosting the supply of new properties and access to home finance.

We have played a major role in supporting the UK housing market, increasing our lending by 17%, and accounting for 15.1% of all mortgage lending, our highest ever market share.

With patterns of tenure evolving, our subsidiary The Mortgage Works (TMW) is an important provider of high quality loans to the buy to let sector. Over the past year, TMW gross advances were £3.3 billion (2012: £4.4 billion), representing 19.5% market share, with net lending of £1.6 billion (2012: £2.8 billion). Our total specialist mortgage book now stands at £25.0 billion (2012: £23.2 billion).

Over the past 12 months a number of lenders have unilaterally increased their standard variable mortgage rates for existing customers. We have maintained our Base Mortgage Rate (BMR) at 2% above Bank of England (BoE) base rate. We estimate the member benefit of our BMR pledge has been in the region of £800 million during the year, equating to an average of over £1,100 net benefit for each account per year when compared with the average standard variable rate charged by other lenders, conservatively estimated at 4%.

Delivering value for loyal members

As the Bank of England base rate has remained at its historic record low for yet another year, we have made every effort to look after the needs of our savings members.

During the year we have seen a change in regulatory requirements relating to the level of liquidity that we need to hold. As the requirement has fallen we have reduced our liquidity ratio from 13.7% to 11.1% and have maintained savings balances broadly flat at £126 billion. In doing so we have provided the most attractive rates of interest to our most loyal members, most notably through our Loyalty Saver account, which pays higher levels of interest according to length of membership and by year end had balances of £8 billion.

We have continued our campaign to persuade the Government to increase the cash ISA limit to make it equivalent to the annual equity ISA limit of £11,520. We strongly believe that the existing limit for cash ISAs of £5,760 is iniquitous and unfairly penalises those savers who prefer the security of cash savings over the greater volatility of equity markets.

Offering a genuine alternative

The past year has seen us take a huge stride forward in diversifying our business through the expansion of our personal banking services: we have launched two new personal current accounts, FlexDirect and FlexPlus, and opened over 365,000 new current accounts (2012: 359,000). We have seen 123,000 customers switching their main banking relationships to us, up 58% on last year. Our total current account base has risen to 5.2 million and our market share of main current accounts is 5.7% (2012: 5.1%).



We have been ranked number one for combined product service satisfaction amongst our high street peer group.

Our success in the personal loans market has continued for another year, during which we advanced 132,000 new loans, up 18% on 2011/12 (2012: 112,000). Our total gross lending was up 20% to £1.2 billion, representing a market share of 6.5%, the highest we have ever achieved.

Our banking product suite is completed by a range of high quality, good value credit cards. We were named as the company with the most responsible credit card lending practices and our Select Card was recognised as the best new credit card¹. We issued 350,000 new cards (2012: 357,000).

Our sales of home insurance products have increased by 20% on 2012, driven by the launch of two new products aimed at providing members with greater flexibility over the level of cover which best suits their needs.

In a market characterised by continued outflows from unit trusts and an overall reduction in net sales, our share of the investment market was 7.1% (2012: 7.3%), taking our assets under advice to £7.3 billion (2012: £6.7 billion). In addition to offering a broad range of funds through our investment panel, our unique high street annuity service has helped almost 1,800 retirees boost their pensions by an average of 17% when compared to their existing pension providers.

The implementation of the Retail Distribution Review in December 2012 has prompted a widespread retreat by our banking competitors from offering investment advice to the mass market. We do not believe that this was the intention of the new rules introduced by the Financial Services Authority, and have taken the decision that we should continue to offer advice to our members. Our stance provides another example of how Nationwide is different from the established banks.

Providing an exceptional customer experience

Our internal surveys show a continued growth in satisfaction with our branch, telephone and internet channels and we have also been ranked number one for combined product service satisfaction amongst our high street peer group². Customer service is a key focus for all employees, and building on our lead in customer satisfaction is one of our major strategic targets for the next five years. This naturally enhances our reputation, and we have been assessed as the most reputable financial services organisation in the UK, and the only one in the top 50, according to the Reputation Institute's annual survey.

There will of course be times when we fail to deliver the exceptional member experience for which we strive. Nationwide is the second largest savings provider, third largest mortgage provider (with approximately 11% share of each market) and is driving a rapid growth in our current account base, yet accounts for only 2% of total industry complaints. Further, of those complaints which are referred to the Financial Ombudsman Service (FOS), the percentage upheld in the customer's favour is around half the average level for the industry (23% compared with 45%). A recent survey by *Which? Magazine* found that customers of Nationwide, when compared with other high street financial services retailers, were the least likely to have experienced customer service problems over the past twelve months.

The issue of complaints about the sale of PPI has continued to pose challenges across the industry. We are not alone in experiencing high volumes of claims from people to whom we have never sold a policy; 43% of all claims against us fall into this category. It is particularly galling that almost three quarters of these claims continue to emanate from Claims Management Companies (CMCs), despite repeated calls for their activities to be better regulated. These fallacious claims are imposing unfair costs on our business, and directly impact the value that we are able to deliver to our members. We deal fairly with PPI claims; only 25% of our decisions are overturned by the FOS, compared with the industry average of 60%. We have made a further charge of £53 million for the year, taking our total cumulative charge for this issue to £181 million. As we have reiterated on many occasions, we encourage legitimate claims to be made directly to us, rather than through a CMC.

Over the past year

we have delivered a new banking platform and a mobile banking capability.

¹ 2013 Card and Payments Awards.

² For the financial year 2012/13 Source: GfK NOP's Financial Research Survey (FRS), 12 months of interviews conducted between April 2012 and March 2013, proportion of extremely/very satisfied customers minus proportion of extremely/very dissatisfied customers summed across current account, mortgage and savings, our high street peer group is defined as Barclays, Halifax, HSBC, Lloyds TSB, NatWest and Santander.

Transforming the business

We have delivered a range of programmes to improve our capacity and resilience and to allow us to improve the choice of product, service experience, advice and access provided to our members.

Our most notable achievement this year has been the implementation of a completely new core banking system that provides greater stability and flexibility, and has allowed us to expand our banking product suite. The benefits of our new system are already apparent, with increasing numbers of customers choosing Nationwide as their main current account provider. We will continue to develop our products to prove that while people may need a bank account, they do not need a bank.

The launch of our mobile banking app in November has fulfilled a growing demand to be able to manage your current account while on the move. It has been downloaded by over half a million members and is used on a daily basis by over 100,000 members.

Our long term strategy

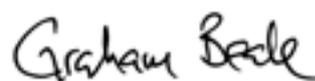
Our ambition is to be the first choice for financial services. We have had a strong year and have been rated first for customer satisfaction for each month of the year. We will continue to invest in the Society and our people to maintain our number one position.

In particular we recognise the need to develop and expand our presence in the personal current account market and to establish a market share of at least 10% to balance our existing shares of the mortgage and savings market. Over the past year we have delivered a new banking platform and a mobile banking capability. This follows the delivery in the last two years of a new data centre, new payment platforms and a new internet bank, and puts us in the position of having one of the most modern banking infrastructures in the UK.

Outlook

We do not expect any significant change in the strength of the UK economy over the next 12 months, with continuing low interest rates required to support economic growth. This low rate environment combined with relative stability in unemployment will support mortgage affordability, but represents an unfavourable environment for savers. House prices have flatlined throughout 2012 and the first quarter of 2013, and this trend also looks set to continue with the broad balance between weak demand and constrained supply resulting in no strong price movements in either direction.

Against this weak but stable backdrop the fundamentals of our performance during 2012/13 will continue in the coming year. We expect the strong margin recovery evident in our results to continue, albeit potentially at a slower pace, as the impact of mortgage repricing and balance growth is supported by low cost funding in both retail and wholesale markets. As a member owned institution we will seek to protect our loyal savers from low rates as much as possible, but recognise that we cannot defy market conditions. The general economic outlook will continue to hold back recovery in commercial real estate for at least the next financial year, although we are confident that our core business performance will allow us to comfortably absorb this impact.



Graham Beale

Chief Executive

21 May 2013

Our strategic goals

Our vision to be the first choice for financial services is supported by a number of challenging strategic goals.

The table below sets out our performance against last year's goals.

Strategic goal	KPI	Performance to date	
Number 1 for service satisfaction	Be the clear number 1 in service satisfaction, with a lead of at least 4% over the next best competitor	We have been one of the top performers for combined product satisfaction amongst our high street peer group, for the financial year ¹	
Deepening our customer relationships	Grow our base of valuable customer relationships to at least 7 million by 2017	We have succeeded in driving deeper and more valuable relationships with existing customers and have increased our base of valuable customer relationships to 6.3 million	
Core Tier 1 ratio	Have a Core Tier 1 ratio in the top quartile of our peer group comparison	Our Core Tier 1 ratio has remained at industry leading levels throughout the year	
Other income	Achieve £600 million of other income by 2017	Other income of £504 million increased in line with target	
Underlying profitability	Achieve £1 billion profit to support growth plans and maintain capital self-sufficiency	Underlying profitability of £475 million is above plan target for the year	
Employee enablement and engagement	Employee enablement and engagement scores in line with external high performance benchmarks	Employee engagement and enablement scores are in excess of the financial services benchmark and close to our strategic goal	

¹ Source: GfK NOP's Financial Research Survey (FRS), 3 month rolling data to March 2013, proportion of extremely and very satisfied customers minus proportion of extremely/very dissatisfied customers summed across current account, mortgage and savings, our high street peer group is defined as Barclays, Halifax, HSBC, Lloyds TSB, NatWest and Santander.

We are pleased with our performance against these goals over the past year and our strategic goals for 2013-18 are broadly unchanged, although we have added a measure to monitor progress against our vision of being first choice for financial services.

The strategic goals for the next five years are set out below:

- Be the first choice for financial services
- Be the clear number 1 for customer satisfaction, with a demonstrable lead (>6%) over the next best competitor
- Grow our base of valuable customer relationships to over 7.5 million
- Establish a Core Tier 1 ratio $\geq 15\%$ and be in the top quartile of our peer group
- Become self sufficient in capital with an underlying profit of £1 billion
- Run an efficient business with a cost income ratio of between 45% and 50%
- Achieve the external high performance benchmark of 73% for employee enablement and 75% for employee engagement.

Nationwide's disclosure philosophy

At Nationwide we continually aim to improve the quality and transparency of our disclosures to ensure that they are as clear and informative as possible. In particular, this year we have considered the recommendations of the Enhanced Disclosure Task Force (EDTF).

The Financial Stability Board (FSB) established the EDTF with a remit to broaden and deepen the risk disclosures of financial institutions in a number of areas, including risk management, liquidity and funding risk, credit risk and market risk. In October 2012 the EDTF issued its report 'Enhancing the risk disclosures of Banks'. We have developed our disclosures consistent with the principles and the recommendations set out by the EDTF in their report.

Our 2012 report included a number of disclosures consistent with the EDTF recommendations. For 2013 we have enhanced these disclosures to comply with the revised recommendations. These additional disclosures can be found in this document and in our Pillar 3 Disclosure (which can be found on our website at nationwide.co.uk, in the results and accounts section). The Pillar 3 Disclosure provides information about the basis on which we calculate capital requirements and on the management of risks faced by the Group.

Guide to the implementation of the EDTF recommendations in this document

Specific enhancements are made in the following areas:	Section
The Risk Management Report has been enhanced to show our risk appetite, approach to stress testing and planning, along with our top and emerging risks	Risk Management Report
Capital adequacy and risk weighted assets	Within the Pillar 3 Disclosure Section 3 – Capital resources Section 4 – Capital adequacy Section 5 – Credit risks
Funding & liquidity risk disclosures detailing our approach to liquidity risk management, stress testing scenarios and significant events, and details of funding including encumbrance and maturity analysis	Financial risk within the Risk Management Report and Business review
Market risk linkages to the accounting balance sheet and enhanced commentary on the Value at Risk model used by Nationwide. Enhanced disclosure on stress and sensitivity analysis	Financial risk within the Risk Management Report
Credit risk disclosures include greater focus on forbearance, impairment analysis and risk concentrations	Lending risk within the Risk Management Report and Business review

Definitions on risk terms have been included within each section along with the glossary of terms.

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Business review

Income statement overview

Underlying profit before tax equates to statutory profit before tax adjusted for a charge of £68 million in respect of the Financial Services Compensation Scheme (FSCS), restructuring costs of £16 million, the bank levy of £16 million and fair value losses from derivatives and hedge accounting of £165 million.

Year to 4 April 2013	Statutory profit	FSCS and bank levy	Restructuring costs	Movements on derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	2,018	-	-	-	2,018
Other income	504	-	-	-	504
Movements on derivatives and hedge accounting	(165)	-	-	165	-
Total income	2,357	-	-	165	2,522
Administrative expenses	(1,199)	16	16	-	(1,167)
Depreciation and amortisation	(216)	-	-	-	(216)
Pre provision underlying profit	942	16	16	165	1,139
Impairment losses	(591)	-	-	-	(591)
Provisions for liabilities and charges	(141)	68	-	-	(73)
Profit before tax	210	84	16	165	475

Year to 4 April 2012	Statutory profit	FSCS and bank levy	Restructuring costs	Movements on derivatives and hedge accounting	Underlying profit
	£m	£m	£m	£m	£m
Net interest income	1,623	-	-	-	1,623
Other income	520	-	-	-	520
Movements on derivatives and hedge accounting	35	-	-	(35)	-
Total income	2,178	-	-	(35)	2,143
Administrative expenses	(1,205)	16	61	-	(1,128)
Depreciation and amortisation	(180)	-	-	-	(180)
Pre provision underlying profit	793	16	61	(35)	835
Impairment losses	(428)	-	-	-	(428)
Provisions for liabilities and charges	(162)	59	-	-	(103)
Profit before tax	203	75	61	(35)	304

For the purposes of management reporting, the Group is organised into three business streams: Retail, Commercial and Head office functions. Nationwide is predominantly a retail focused operation which trades almost exclusively within the UK, with the exception of wholesale funding and liquidity management activities which are undertaken in both UK and overseas markets. The Group's operations do incorporate a commercial property lending business and a treasury non-core

portfolio which comprises approximately 30% of our treasury assets and includes loans to banks and asset backed securities. Both the commercial property loan portfolio and the treasury non-core portfolio include non-UK assets; the treasury non-core portfolio and a substantial part of the commercial loan portfolio are in managed run off and do not form part of the Group's future core strategy. This mix of activity is reflected in the business stream performance below.

Year to 4 April 2013	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net interest income	1,937	69	12	2,018
Other income	433	18	53	504
Total income	2,370	87	65	2,522
Expenses	(1,309)	(46)	(28)	(1,383)
Pre provision underlying profit	1,061	41	37	1,139
Impairment losses	(93)	(493)	(5)	(591)
Provisions for liabilities and charges	(73)	-	-	(73)
Underlying profit/(loss) before tax	895	(452)	32	475
FSCS levies	(68)	-	-	(68)
Restructuring costs	(3)	-	(13)	(16)
Bank levy	-	-	(16)	(16)
Losses from derivatives and hedge accounting	-	-	(165)	(165)
Profit/(loss) before tax	824	(452)	(162)	210

Year to 4 April 2012	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net interest income	1,470	71	82	1,623
Other income	502	18	-	520
Total income	1,972	89	82	2,143
Expenses	(1,201)	(38)	(69)	(1,308)
Pre provision underlying profit	771	51	13	835
Impairment losses	(139)	(247)	(42)	(428)
Provisions for liabilities and charges	(103)	-	-	(103)
Underlying profit/(loss) before tax	529	(196)	(29)	304
FSCS levies	(59)	-	-	(59)
Restructuring costs	(1)	-	(60)	(61)
Bank levy	-	-	(16)	(16)
Gains from derivatives and hedge accounting	-	-	35	35
Profit/(loss) before tax	469	(196)	(70)	203

Business review continued

Performance by income statement category

Net interest income

Net interest income, at £2,018 million was £395 million higher than the previous year.

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Net interest income	2,018	1,623
Weighted average total assets	193,832	195,612
	%	%
Net interest margin (NIM)	1.04	0.83

The Group's net interest margin has improved 21 basis points to 1.04% in the year to 4 April 2013 compared with the prior year. This includes £139 million of gains arising from the sale of investment securities as part of the management of our liquidity portfolio (2012: £98 million), release of excess credit fair value adjustments of £48 million (2012: £5 million) and an additional £44 million (2012: £102 million) from an update of our effective interest rate assumptions with respect to the recognition of mortgage and savings income.

The margin was supported in the year by the repricing of fixed rate mortgages and growth in customer balances reverting to our Standard Mortgage Rate (SMR). Margins have also been supported by the Government's Funding for Lending Scheme (FLS) which has driven down the market price of both new lending and funding since its introduction; this is beneficial to margins given the more rapid reprice profile of liabilities relative to assets. In addition, balance growth in both consumer banking and personal loans, and lower core liquidity holdings, have contributed to the improved margin performance.

FLS utilisation at 4 April 2013 amounted to £2.5 billion and the average utilisation during the year amounted to £960 million. The direct interest cost saving, relative to the Group's average cost of funding, as a result of this utilisation amounted to approximately £14 million and represented an impact of approximately 0.7 basis points on our net interest margin.

Nationwide's BMR promise continues to represent a significant distribution of value to our members in line with our mutual principles. Whilst this remains a significant opportunity cost and constraint on our margin recovery, balances have now reached their expected peak of £54 billion with natural redemption of balances expected to outweigh the relatively few balances still to revert onto BMR. The BMR promise capped rates at 2 percentage points above Bank of England base rate, which we estimate represents an opportunity cost of approximately £800 million by reference to standard variable rates available elsewhere in the market. All new business written since September 2009 will revert onto our SMR product.

Underlying other income

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Current account	125	123
Protection and investments	122	106
General insurance	126	103
Mortgage	41	47
Gain on mortgage portfolio acquisition	-	96
Credit card	28	33
Commercial	18	19
Other	44	(7)
Total underlying other income	504	520
Movement on derivatives and hedge accounting	(165)	35
Total statutory other income	339	555

Underlying other income of £504 million is marginally lower than 2012, however the prior year includes a gain of £96 million in relation to the acquisition of a portfolio of UK based prime residential mortgages. Income from protection and investments and from general insurance has continued to grow, in line with our strategic focus to diversify our income stream.

The 'Other' category in the current year largely relates to a gain of £43 million in connection with the repurchase of the Society's Permanent Interest Bearing Shares (PIBS). It also includes personal loan and other central fee income, offset by third party servicing fees in relation to the MySave savings product.

Excluding the impact of the repurchase of the PIBS in the current year and the prior year mortgage portfolio acquisition, underlying other income rose by 9% year on year.

Derivatives and hedge accounting

Nationwide uses derivative financial instruments to manage various aspects of risk. In doing so it complies with the Building Societies Act 1986, which limits the use of derivatives to the mitigation of consequences predominantly arising from changes in interest rates, exchange rates or other market indices.

Even though the Group uses derivatives exclusively for risk management purposes, income statement volatility arises due to accounting ineffectiveness of designated hedges, or because hedge accounting is not achievable. Management believes that this volatility arises from application of the accounting rules, which do not reflect the economic reality, and consequently it is excluded from underlying performance.

The £165 million loss (2012: £35 million gain) from derivatives and hedge accounting represents the change in fair value of derivative instruments offset, where applicable, by the change in fair value of the underlying asset or liability. The two main components of this year's loss were:

- A £74 million loss (2012: £63 million gain) as a result of continued volatility in the currency markets, particularly relating to sterling:euro basis risk which is economically hedged but where hedge accounting treatment is not available. In substance the current year loss reflects a reversal of the currency movements which led to a gain in the previous year; and
- A fair value hedge accounting loss of £113 million (2012: £61 million loss); within this amount was a gain of £84 million on micro hedge relationships and a loss of £203 million (2012: £25 million) principally arising from the amortisation of balances relating to past ineffectiveness on fixed rate mortgages. A significant element of these balances related to derivatives used to hedge pre-crisis five year fixed rate mortgages; these balances have now been fully amortised.

During the year the Group has enhanced its valuation methodology to reflect the latest market practice in calculating debit valuation adjustments (DVA) on fair valued liabilities and credit valuation adjustments (CVA) on fair valued assets within derivatives. A CVA of £22 million was largely offset by a DVA of £21 million, recognised in the income statement to reflect the movement in counterparty credit risk on fair valued derivative assets and own credit risk on fair valued derivative liabilities.

Business review continued

Underlying expenses

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Employee costs:		
Wages and salaries	480	477
Social security costs	47	45
Pension costs	72	62
	599	584
Other administrative expenses	568	544
Administrative expenses (underlying)	1,167	1,128
Depreciation and amortisation	216	180
Total underlying expenses	1,383	1,308
Restructuring costs	16	61
Bank levy	16	16
Total statutory expenses	1,415	1,385

Total underlying expenses amounted to £1,383 million, representing an increase of 6% over the previous year, driven primarily by continued investment in the Group's operational infrastructure. A significant element of this investment is necessary to meet new regulatory requirements, but it also includes discretionary investment focused on projects designed to broaden our product range and improve customer service such as our new banking platform, mortgage origination systems and internet bank. The strategic investment has resulted primarily in increases in technology depreciation and related run costs. This trend is expected to continue as many of these projects will incur a full annual charge in 2013/14 for the first time.

The Group's cost base also reflects inflationary pay awards of 2.5% and 4.4% with effect from 1 July in each of the last two years respectively.

The cost of processing invalid PPI claims amounts to approximately £35 million per year. This represents an incremental cost in 2013 as a result of a change to recognise these costs in administrative expenses as incurred rather than as part of our provision for customer redress as was the case in prior years. Our decision has been upheld in 75% of cases where claims were referred to FOS, and in total 43% of all claims received have been in respect of customers to whom we have never sold a policy.

The three year Cost Optimisation Programme completed in 2012/13, delivering annualised gross cost savings in excess of £200 million from business restructuring, revision of pension terms and increased efficiency. The programme will deliver an estimated £30 million of incremental savings in 2013/14 from further efficiency initiatives. These reductions have enabled the business to absorb a significant proportion of the increase in sales and service volumes that have supported income growth this financial year.

The Group has continued to invest in new cost reduction initiatives such as the ongoing changes to our sourcing arrangements and the integration of our Regional Brands as announced on 2 May 2013. This strategic integration programme will migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single branded Nationwide organisation. The programme will ensure the smooth transition of circa one million account holders and disposal of redundant infrastructure assets to deliver ongoing cost savings of £35 million per annum from 2015/16.

We have continued our progress towards achieving our medium term target of an underlying cost income ratio (CIR) of less than 50% in a normalised interest rate environment. Our CIR for the year on an underlying basis was 54.8% (2012: 61.0%).

Restructuring costs

These costs relate to the continuing restructuring of our business, largely in relation to the completion of our three year Cost Optimisation Programme and establishing a more efficient and flexible sourcing model for the Group's technology and business change support.

The Regional Brands integration programme is expected to result in total restructuring costs of £77 million, including a transformation charge of approximately £28 million in the first half of 2013/14 and £3 million in 2014/15 relating to the write down of assets, onerous leases and a reduction in headcount of 500 roles and costs of implementing the programme of approximately £21 million in 2013/14 and £25 million in 2014/15.

Impairment losses

Impairment losses for the year are £591 million (2012: £428 million) and comprise the following elements.

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Prime residential	(6)	13
Specialist residential	22	57
Residential lending	16	70
Consumer banking	79	69
Retail lending	95	139
Commercial lending	493	247
Other lending	1	4
Impairment losses on loans and advances to customers	589	390
Impairment losses on investment securities	2	38
Total	591	428

Retail impairments have fallen by 32% to £95 million (2012: £139 million) driven by a reduction in residential impairments from £70 million in 2012 to £16 million in 2013. Nationwide has maintained a consistent philosophy to retail lending over many years with a focus on prudent underwriting criteria. We place a heavy emphasis on managing the LTV profile of new secured lending, including restricting the volume of higher LTV lending and ensuring such loans are only advanced to customers with a high credit score and strong affordability assessments. As a result of our approach over a sustained period our mortgage arrears have outperformed industry averages by a significant margin and this continues to be the case. The low retail impairment charge during the year reflects the consistently high quality lending which is a feature of our business model, the stable house price environment, the low interest rate environment and relatively stable unemployment trends which are offsetting the pressure on household budgets.

Commercial loan impairments of £493 million (2012: £247 million) related exclusively to our Property Finance portfolio. The increased impairment charge for the year reflects the continuation of negative sentiment toward commercial real estate (CRE) and the uncertainty surrounding the economic

Bank levy

The £16 million charge in the current year compares with £16 million for the year ended 4 April 2012 which included £3 million for the three month period 1 January 2011 to 4 April 2011. No charge was provided in the accounts for the year to 4 April 2011 as the 2011 Finance Bill which introduced the bank levy had not been enacted by the balance sheet date. Two different rates were applied during the 2013 accounting period (2012: three different rates). The average of these rates was 0.098% (2012: 0.082%) for short term chargeable liabilities and 0.049% (2012: 0.041%) for long term chargeable liabilities. The Chancellor has announced a further increase in the rates from 1 January 2014 to 0.142% for short term chargeable liabilities and 0.071% for long term chargeable liabilities. The Group expects this to increase the levy chargeable in 2013/14 by £0.5 million.

outlook in the UK. We have noted our expectation that conditions for this market will not improve in the near term in our last two results announcements, and this continues to be our position with no evidence of recovery in tenant demand or capital values on the horizon. Availability of both equity and debt finance to support restructurings continues to be extremely limited and so resolution of problem cases increasingly revolves around long term asset management plans for potentially viable cases and better quality properties, combined with shorter term divestment strategies for weaker exposures.

Recovery prospects are case specific although the general trend of the London and prime property markets faring significantly better than regional locations and secondary properties is being maintained.

Our impairment losses during the year are attributable to both new provisions on cases which have become impaired during the year and additional amounts provided on already impaired cases, usually due to updated valuations, withdrawal of equity sponsor support or tenant maturities/failures.

Business review continued

The charge for the year includes an increase in the collective provision against unidentified impairments of £83 million reflecting the higher incidence of loss experienced over the last 12 months and a management overlay of £50 million to reflect inherent uncertainty over future cashflow estimates, particularly in relation to the timing and realisable value of property disposals.

Impairment losses on investment securities of £2 million (2012: £38 million) comprise a loss of £23 million on a single UK commercial mortgage backed security which was reported in our interim results, offset by £21 million which predominantly comprises impairment write backs in connection with asset disposals during the second half of the financial year.

Underlying provisions for liabilities and charges

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Underlying provisions for liabilities and charges – customer redress	73	103
FSCS	68	59
Statutory provisions for liabilities and charges	141	162

The charge of £73 million in relation to customer redress includes an increase in PPI provision of £53 million. In line with the wider industry, we have continued to experience a high volume of PPI complaints during 2012/13, a significant proportion of which relate to cases where there has been either no sale of a policy or no evidence of mis-selling. In light of this experience we have reassessed the ultimate level of complaints expected and the appropriateness of the PPI provision and, despite significant uncertainty over future volumes of claims, have made a further provision of £53 million.

Nationwide pays levies to the FSCS based upon its share of protected deposits. The charge of £68 million in the year is in respect of the levy for the 2013/14 scheme year including the first amount of the Group's share of the expected shortfall. Further information is provided in note 27.

The Group also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses have yet to be determined and hence no provision has been recognised.

Taxation

The tax charge arising on profits earned in the year to 4 April 2013 is £51 million (2012: £63 million). This represents an effective rate of tax of 24.3% (2012: 31.0%) which is in line with the statutory corporate tax rate of 24% (2012: 26%).

During the year the Group settled two outstanding tax matters relating to prior years. Consequently excess tax provisions of £43 million have been released and this accounts for £43 million of the total prior year credit of £44 million (2012: £27 million).

The Chancellor announced on 20 March 2013 that the corporation tax rate would reduce from 24% to 23%. As a result the Group has written off £7 million of its deferred tax asset which resulted in a £7 million credit to the income statement and a £14 million charge to other comprehensive income.

This results in an overall statutory tax charge for the period of £nil (2012: £24 million) as set out in the table below.

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Charge on profits for the year	51	63
Adjustment in respect of prior years	(44)	(27)
Effect of corporation tax rate change	(7)	(12)
Statutory tax charge	-	24

During the year to 4 April 2013 the Group's profit absorbed total taxes of £276 million (2012: £286 million) relating to the current year. This includes irrecoverable VAT, bank levy and employment and property taxes which represent costs to the Group

recognised as part of administrative expenses and depreciation, as shown below. With the exception of bank levy, all of these amounts are included in arriving at underlying profit.

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Corporate and deferred taxes, current year	51	63
Indirect taxes (irrecoverable VAT)	139	140
Employment taxes (Employer's National Insurance contributions)	47	45
Taxes on property	23	22
Bank levy	16	16
Total	276	286

In addition, the Group collected and remitted a further £454 million (2012: £436 million) of taxes to the UK and overseas

exchequers through deduction of taxes at source on payroll and customer accounts.

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Additional taxes collected and remitted		
Tax withheld at source (on savings accounts)	303	281
Payroll taxes	134	134
Indirect taxes (Insurance Premium Tax and VAT)	17	21
Total	454	436

Business review continued

Balance sheet

Loans and advances to customers

Lending remains predominantly concentrated on high quality secured products, with residential mortgages accounting for 85.0% of our total loans and advances to customers. This is an increase from 2012 (83.8%) but is broadly consistent with prior years.

Loans and advances to customers	4 April 2013		4 April 2012	
	£bn	%	£bn	%
Prime residential mortgages	110.6	69.4	105.6	68.7
Specialist residential mortgages	25.0	15.6	23.2	15.1
Total residential mortgages	135.6	85.0	128.8	83.8
Commercial lending	19.9	12.5	21.5	14.0
Other lending	0.4	0.3	0.5	0.3
Consumer banking	3.5	2.2	3.0	1.9
Gross balances	159.4	100.0	153.8	100.0
Impairment provisions	(1.2)		(0.8)	
Fair value adjustments for micro hedged risk	1.4		1.2	
Total	159.6		154.2	

Residential

Prime residential mortgages are primarily Nationwide branded advances made through our branch network and intermediary channels.

Specialist residential mortgages are made up of £22.4 billion of advances made through our specialist lending brands, TMW and UCB Home Loans Corporation Limited (UCB), and £2.6 billion arising from the acquisitions of the Derbyshire, Cheshire and Dunfermline portfolios in prior years. Buy to let mortgages make up 80% of total specialist lending, 13% relates to self-certification mortgages, 5% relates to near prime and just 2%, amounting to £0.4 billion, relates to sub prime. New specialist lending is restricted to buy to let.

The Group is committed to supporting the housing market and first time buyers in particular and as a result the average LTV of residential mortgages completed has increased to 67% (2012: 63%). This strategy is supported by a robust affordability assessment and credit scoring process that ensures asset quality remains within the Group's risk appetite. Within TMW there has been increased focus on attracting more experienced landlords. This has resulted in the proportion of first time landlord applications reducing from circa 23% to circa 10% by the end of the financial year. The average indexed LTV of residential mortgages at 4 April 2013 has remained broadly stable at 51% as a result of little change in house prices during the year.

Loan to value analysis: (analysis calculated on a volume basis)	4 April 2013	4 April 2012
	%	%
Total book		
<50%	47	50
50% - 60%	10	10
60% - 70%	12	11
70% - 80%	15	13
80% - 90%	11	10
90% - 100%	4	4
>100%	1	2
	100	100
Average LTV of stock (indexed)	51	50
Average LTV of new business*	67	63

*The average LTV for new business excludes further advances.

The table below shows that arrears on the Group's prime lending have reduced slightly, with a larger reduction in specialist arrears as a result of reducing arrears volumes and strong book growth in TMW. Our arrears performance

remains very favourable relative to the Council of Mortgage Lenders (CML) industry average, and our specialist lending arrears are below the overall industry measure that is inclusive of prime lending.

Cases more than 3 months in arrears as % of total book	4 April 2013	4 April 2012
	%	%
Prime	0.53	0.54
Specialist	1.75	1.87
Group	0.72	0.73
CML industry average	1.89	1.95*

*Restated by CML.

Total residential balance sheet provisions are £165 million, compared with £202 million at 4 April 2012, giving a coverage ratio against total balances of 0.12% (2012: 0.16%) and against balances more than three months in arrears of 12.8% (2012: 15.0%).

We maintain close relationships with customers experiencing financial difficulties and work with them to agree the most appropriate course of action. In the case of short term difficulty, we will seek to agree revised payment schedules with the customer, which may include a reduction to the contractual monthly payment due. If the customer can meet the interest portion of their repayment, we may grant a temporary interest only concession which would be non-arrears bearing so long as the customer continues to meet the terms of the new arrangement. Where this is not the case, arrears will continue to accrue and will be included in the arrears numbers reported

above. Payment holidays are also non-arrears bearing, but are only available on performing cases and a credit score assessment is included as part of the eligibility criteria to manage the risk to the Group.

If a customer demonstrates they are able to meet a payment schedule at a normal commercial rate for a period of six months, or if they are able to overpay such that six months' full payments are made in a four month period, and only if they request it, we may 'capitalise' the arrears on their account. This will result in an increased outstanding balance but no arrears, and consequently these cases will no longer be reported as in arrears.

The number of properties in possession has fallen significantly over the year to 600 (2012: 1,129) due to strong property sales and reduced intake of possessions. This represents 0.04% of our book, which compares well with the industry measure of 0.10%. The table below shows possessions as a percentage of book.

Business review continued

Possessions as % of total book (number of borrowers)	4 April 2013		4 April 2012
	Number of borrowers	%	%
Prime	190	0.02	0.02
Specialist	406	0.19	0.41
Group	596	0.04	0.08

Possessions as % of total book (number of properties)	4 April 2013		4 April 2012
	Number of properties	%	%
Prime	190	0.02	0.02
Specialist	410	0.18	0.40
Group	600	0.04	0.08
<i>Industry statistics</i>		0.10	0.12

Our approach to dealing with customers in financial difficulties combined with our historically cautious approach to lending, means that we only take possession of properties as a last resort. This is illustrated by the number of properties taken into possession compared with the total for the industry. During the year the properties taken into possession has reduced to 1,479 representing 4.6% (2012: 5.0%) of properties taken in by the industry as a whole, against our par share of all cases of 12.8% (2012: 12.4%).

Commercial

Our commercial lending portfolio of £19.9 billion (2012: £21.5 billion) comprises £10.2 billion secured on commercial property (Property Finance) (2012: £11.6 billion), £8.2 billion advanced to registered social landlords (RSL) (2012: £8.4 billion) and £1.5 billion advanced under Project Finance, principally via the Private Finance Initiative (PFI) (2012: £1.5 billion). Our Property Finance portfolio is diverse both in terms of sectors and geographic spread.

Following completion and letting of properties in relation to two large residual development finance loans we now have modest exposure to development finance whilst the direct non-UK element of our commercial property portfolio, amounting to £1.0 billion (2012: £1.1 billion), is principally in Germany with only a single exposure to Ireland.

The portfolio is actively monitored for evidence of impairment by reference to a range of factors which include significant financial difficulty of the borrower, payment default, granting of a concession in accordance with the Group's forbearance policies or other circumstances indicating the likelihood of a material change in cashflow expectations. Impaired Property Finance loans at 4 April 2013 amounted to £2,715 million (2012: £1,758 million) and provisions held against the portfolio amounted to £958 million (2012: £547 million) representing a coverage ratio of 35% (2012: 31%).

The proportion of our Property Finance balances classified as impaired and the provision coverage against these balances are shown below:

Property Finance Portfolio	4 April 2013	4 April 2012
	£m	£m
Gross balances	10,192	11,580
Impaired balances	2,715	1,758
Impaired balances as % of gross balances	27%	15%
Commercial provisions		
Individual	810	482
Collective	148	65
Total provisions	958	547
Provision coverage ratios		
Individual provisions as % of impaired balances	30%	27%
Total provisions as % of impaired balances	35%	31%
Total provisions as % of total gross balances	9%	5%

Estimated (indexed) collateral values in relation to the impaired balances disclosed above amount to £1,743 million (64% of impaired balances) at 4 April 2013 and £1,157 million (66% of impaired balances) at 4 April 2012.

There are no cases classified as impaired or with payment arrears in our RSL or PFI portfolios.

Economic uncertainty, ongoing funding pressures across the banking sector and a trend towards higher regulatory capital requirements for commercial real estate (CRE) lending have significantly reduced the availability of credit for refinance within the sector. Furthermore, current depressed property values mean that foreclosure on loans which are operating outside the original terms of their advance is unlikely to provide the best economic outcome, except in those cases where ongoing serviceability is unachievable and/or the prospects of any recovery in cashflow performance or capital value is unlikely. Our strategy remains one of prudent loss mitigation over the medium term in a market which is both cyclical and currently experiencing extremely low investor demand. We make refinance available for existing exposures where we are satisfied that we continue to have a constructive relationship with the borrower which recognises our interests, and can achieve a level of expected return which reflects current funding costs or where there is a realistic likelihood that recovery over the medium term in the hands of the borrower represents a better prospect than short term disposal. To the extent this strategy leads to

forbearance on loans which are renewed at 'off-market' interest rates or where the most likely outcome remains an ultimate financial loss, then impairment provisions are recognised in accordance with relevant accounting requirements.

Other lending

Other lending includes £219 million (2012: £262 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a reference portfolio of senior asset backed securities and unsecured lending of £217 million (2012: £231 million) relating to a student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the head office functions business segment.

Subsequent to the year end, the Group disposed of the investment in the £217 million student loan portfolio. This disposal will result in a £3 million gain in the Group's 2013/14 results.

Consumer banking

In consumer banking, the percentage of delinquent balances more than 30 days in arrears has shown an improvement on personal loans and credit card but increased marginally on FlexAccount. All books have increased in size year on year, and where published data is available our performance compared with the industry remains favourable.

	4 April 2013 Delinquent balances	4 April 2013 Balances before provisions	4 April 2013	4 April 2012
	£m	£m	%	%
FlexAccount (overdraft balances)	23.4	238.0	9.81	9.18
Personal loans	52.4	1,783.9	2.94	2.98
Credit cards	47.5	1,465.8	3.24	3.34

Business review continued

Capital structure

Capital is held by the Group to protect its depositors, cover its inherent risks, provide a cushion for stress events and to support its business strategy. In assessing the adequacy of its capital resources, Nationwide considers its risk appetite, the material risks to which it is exposed and the appropriate strategies required to manage those risks.

The Group is required to manage its capital in accordance with prudential rules issued by the PRA, and from 1 January 2008 the Group has complied with the rules which implement the EU Capital Requirements Directive (Basel II). Since 4 April 2009 the Group has predominantly calculated its capital requirement on an Internal Ratings Based (IRB) approach.

As at 4 April 2013, regulatory capital stood at £8.5 billion (2012: £9.0 billion) with the Group's total solvency ratio increasing to 19.1% (2012: 18.9%). The Core Tier 1 solvency ratio remains strong at 12.3% (2012: 12.5%).

Since July 2012, the capital requirement for the majority of the Group's commercial exposures, has been calculated using the Foundation IRB approach (previously Standardised). Specialised lending slotting criteria are used to calculate the capital for the Property Finance and Project Finance portfolios. This has led to an increase in expected losses and a decrease in the risk weighted assets attributable to commercial loans.

The European Parliament has now approved new capital reforms (referred to as CRD IV), which implement Basel III in Europe. The objective of the reform package is to improve the banking sector's ability to absorb shocks arising from financial and/or economic stress, thus reducing the risk of spill-over from the financial sector into the real economy. CRD IV legislation is expected to be implemented on 1 January 2014.

The key elements of CRD IV are as follows:

- Reduced capital resources through changes to the definition of capital and grandfathering of old instruments. Permanent Interest Bearing Shares (PIBS) and subordinated debt will be phased out over ten years from 2013. Over the period 2014-18, there will be changes and additions to capital deductions from Core Tier 1 and Tier 2 capital including pension deficit, AFS reserve, assets rated below BB- and expected loss.
- Increased capital requirements through Asset Value Correlations, Credit Value Adjustments and deferred tax assets.
- New limits and capital buffers. Higher thresholds for all forms of capital with an increased focus on Core Tier 1, with a potential requirement to hold a ratio of up to 12.5% including capital conservation, countercyclical and systemic risk buffers.
- Introduction of the Leverage Ratio. The Basel Committee is using a period to 2017 to test a minimum Tier 1 leverage ratio of 3%. Nationwide's existing Tier 1 leverage ratio on the Basel II basis is 3.3% and we expect to meet the 3% limit under the CRD IV rules well before the requirements come into effect.

Nationwide is currently assessing the impact of the reforms approved by the European Parliament. The actual impact of CRD IV on capital ratios is also dependent on the related EBA technical standards and the PRA's approach to implementation in those areas for which it is responsible. Nationwide has a strong track record of robust capital ratios and is confident that it is well positioned to maintain its overall capital strength through transition to the new rules.

To provide an indication of the potential impact on Nationwide of CRD IV, using the July 2011 draft rules, we have estimated our pro forma CRD IV Core Tier 1 ratio on a fully loaded basis at 9.1%, based on the 4 April 2013 capital position. The primary drivers behind the difference between Basel II and CRD IV ratios are changes to the treatment of any net pension fund obligation, the expected loss capital deduction (a change which has increased since the move to the IRB Slotting approach for commercial capital requirements) and an additional deduction to Core Tier 1 for unrealised losses. This Core Tier 1 ratio compares well relative to peers and places the Group in a strong position to meet the final requirements. Nationwide's Core Tier 1 ratio in the first year of the transitional period is subject to the PRA's approach to transitional measures and we expect to receive further clarity on this in the coming months. CRD IV capital and leverage estimates will be incorporated in Nationwide's Pillar 3 report, which will be available on our website from 19 June.

Nationwide issued €1.25 billion of Tier 2 capital in March 2013 to replenish the reduction in capital resulting from the tender of £350 million PIBS in December 2012 and call of £200 million subordinated debt in January 2013; and as part of our capital strategy to provide Nationwide with sufficient headroom against expected changes to capital requirements arising from CRD IV. Nationwide has also been working with the regulator to create a mutual Core Tier 1 instrument, now termed Core Capital Deferred Shares, which will allow access to external capital when required to support the Group's capital position and the achievement of its strategic objectives.

In common with all European banks, we are constantly reviewing the appropriateness of our capital structure. Future decisions with respect to capital calls are made in light of the then prevailing market, economic and regulatory conditions.

	4 April 2013	4 April 2012
	Basel II	Basel II
	£m	£m
General reserve	6,765	6,450
Regulatory adjustments and deductions (note 1):		
Prudential valuation adjustment (note 2)	-	(1)
Defined benefit pension fund adjustment (note 3)	263	383
Intangible assets (note 4)	(878)	(665)
Goodwill (note 4)	(16)	(16)
Excess of expected losses over impairment	(429)	(57)
Securitisation positions (50%)	(245)	(152)
Other (50%)	(6)	(6)
	(1,311)	(514)
Core Tier 1 capital	5,454	5,936
Permanent interest bearing shares (note 5)	1,304	1,625
Tax in respect of excess of expected losses over impairment (note 6)	136	20
Total Tier 1 capital	6,894	7,581
Dated subordinated debt (note 5)	2,281	1,475
Revaluation reserve	67	65
Collectively assessed impairment allowances	70	110
Deductions:		
Excess of expected losses over impairment (note 6)	(565)	(77)
Securitisation positions (50%)	(245)	(152)
Other (50%)	(6)	(6)
	(816)	(235)
Tier 2 capital	1,602	1,415
Total regulatory capital	8,496	8,996

	4 April 2013	4 April 2012
	Basel II	Basel II
	%	%
Key capital ratios (note 7):		
Core Tier 1	12.3	12.5
Tier 1 (note 6)	15.5	16.0
Total capital	19.1	18.9

Business review continued

	4 April 2013	4 April 2012
	Basel II	Basel II
Risk weighted assets (note 8):	£m	£m
Credit risk:		
Retail mortgages	16,953	15,958
Retail unsecured lending	6,485	5,755
Commercial loans	13,643	17,166
Treasury	2,802	3,632
Other	1,107	1,135
Total credit risk	40,990	43,646
Operational risk	3,398	3,760
Market risk	52	68
Total risk weighted assets	44,440	47,474

Notes

- (1) Certain deductions from capital are required to be allocated to Tier 1 and to Tier 2 capital. Deductions are subject to different treatment under the Internal Ratings Based approach (IRB) in respect of net expected loss over accounting provisions and certain securitisation positions. These are calculated in accordance with PRA guidance.
- (2) A prudential valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.
- (3) The regulatory capital rules allow the pension fund deficit to be added back to regulatory capital and a deduction taken instead for an estimate of the additional contributions to be made in the next five years, less associated deferred tax.
- (4) Intangible assets and goodwill do not qualify as capital for regulatory purposes.
- (5) Permanent interest bearing shares and subordinated debt include 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 lower Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity.
- (6) The tax in respect of the Tier 2 element of expected loss over impairment as at 4 April 2012, together with the Tier 1 ratio, has been restated to be consistent with the current treatment.
- (7) Solvency ratios are calculated as relevant capital divided by risk weighted assets.
- (8) The Basel II Pillar 1 capital requirements (risk weights) are calculated using the Retail IRB approach for prime mortgages (other than those originated by the Derbyshire, Cheshire and Dunfermline building societies) and unsecured lending; Foundation IRB and slotting for treasury and commercial portfolios (other than sovereign exposures); and the Standardised approach for all other credit risk exposures, including some treasury and commercial exposures that are exempt from using the IRB approach.

Funding and Liquidity

Funding Strategy

The Group has a strong and well diversified funding base, which continues to be predominantly funded by retail savings. Over the course of the financial year, we have continued to manage our balance sheet actively in response to conditions in both the retail and wholesale markets.

The Group aims to align the sources and uses of funding. As such, retail customer loans and advances are largely funded by customer deposits. Other assets including commercial customer loans, core liquidity and other treasury assets are funded by long term wholesale debt and equity.

These funding relationships are summarised below as at the balance sheet date:

Liabilities	2013	2012	2011
	£bn	£bn	£bn
Retail funding	132	132	128
Wholesale funding	43	49	46
Capital & reserves	10	10	10
Other	6	5	5
	191	196	189

Assets	2013	2012	2011
	£bn	£bn	£bn
Retail lending	137	130	125
Other lending	23	24	24
Core liquidity	17	25	19
Non-core treasury portfolio	7	9	13
Other	7	8	8
	191	196	189

We continue to maintain a high quality liquid asset portfolio consisting primarily of deposits at central banks and government bonds. In June 2012 the Bank of England (BoE) activated the Extended Collateral Term Repo (ECTR) facility with the aim of mitigating prospective risks to financial stability. In July 2012, the BoE and HM Treasury introduced the Funding for Lending Scheme (FLS), which, along with the ECTR, accepts the same broad range of collateral as the BoE's Discount Window Facility (DWF). In addition, the FSA notified firms of a relaxation to their stance on the definition of assets that count towards the Liquid Asset Buffer (LAB), which now allows a proportion of a firm's regulatory liquidity requirements to be met by collateral pre-positioned at the BoE's DWF. These developments have allowed the Group to reduce the volume of liquidity held such that the year end core liquidity ratio is 11.1% (2012: 13.7%).

The impact of the FLS on Nationwide's mortgage and savings business is covered in the Chief Executive's Review and elsewhere in this Business Review. In terms of volumes, Nationwide has made relatively limited use of the scheme, having drawn £2.5 billion as at 4 April 2013. Based on our lending to date and our current expectations for the remainder of 2013, we estimate our capacity under the scheme to be in the region of £15 billion to £20 billion. Whilst we would not currently expect to utilise our full capacity, we do expect to make continued use of the scheme during the remainder of the 2013/14 financial year.

Business review continued

Liquidity

Liquidity represents a key area of risk management for financial institutions. In recent years there has been an increased focus on liquidity from the regulatory authorities. The Group continues to enhance and strengthen its liquidity management systems and approach.

In December 2010, the Basel Committee on Banking Supervision (BCBS) announced proposals to introduce two new liquidity metrics as part of the implementation of Basel III. These are a short term liquidity stress metric, the Liquidity Coverage Ratio (LCR), and a longer term funding metric, the Net Stable Funding Ratio (NSFR). In January 2013, the BCBS announced revised guidelines in respect of the LCR and confirmed that work continues on the NSFR. The LCR is now expected to be implemented for reporting purposes from January 2015 with the full requirement for it to be met by January 2018 (originally full implementation was scheduled for January 2015). The NSFR is also expected to be implemented from January 2018. These measures remain subject to ongoing refinement and have not as yet been translated into UK regulation, so there remains uncertainty as to their final form. Nationwide continues to monitor its position relative to the anticipated requirement of both the LCR and NSFR. Based on current interpretations of the requirements, Nationwide currently holds sufficient high quality liquid assets and stable funding to meet the new measures.

High quality liquid assets needed to meet the LCR requirement generally comprise deposits held with central banks, unencumbered securities or whole loan pools that may be freely sold or are capable of generating funding through repurchase agreements (repos) or other similar arrangements either direct with those central banks to which the Group has access, or with market counterparties.

Nationwide ensures sufficient resources are available for day-to-day cash flow needs whilst enabling the Group to meet internal and regulatory liquidity requirements, which are calibrated to be resilient even in the event of unexpected outflows that could be seen across a range of stress scenarios. Liquid assets are managed centrally by the Treasury Division. All liquidity is held centrally to meet cash outflows seen in any entity across the Group with the exception of a small portfolio of assets held in our Irish branch, Nationwide (UK) Ireland (NUKI). These assets (£131 million sterling equivalent, 2012: £137 million) are held at NUKI to ensure compliance with local liquidity regulations.

The stock of liquid assets managed by Nationwide's Treasury Division fall into the following five categories:

Core liquidity

The Group maintains its high quality core liquidity portfolio through continued investment in highly liquid securities in line with the Liquid Asset Buffer (LAB) as defined by the PRA in BIPRU 12 which comprises:

- deposits held at, and securities issued by, the Bank of England (BoE); and
- highly rated debt securities of varying maturities issued by a restricted range of governments or multilateral development banks.

The calculation is made net of any core liquidity holdings that are subject to repurchase arrangements and includes assets held under reverse repurchase arrangements. It also excludes contingent liquidity available through capacity to draw against central bank funding schemes.

Other central bank eligible assets

In addition to the core liquidity portfolio, the Group holds a stock of unencumbered securities that are eligible for use in the funding operations of those central banks that we have access to. This figure does not include the value of self-issued RMBS and covered bonds that could also be drawn against in certain central bank operations. In terms of their relative liquidity characteristics, these assets may be viewed as the next tier below the core liquidity portfolio.

Other securities

Nationwide holds other third party assets (such as fixed rate investments) that are not eligible for central bank operations but may be capable of financing through third party repurchase agreements.

Self issued RMBS and covered bonds

The Group holds undrawn AAA notes issued under the Group's asset backed funding programmes. These self-issued securities represent eligible collateral for use in repurchase agreements with third parties or in central bank operations.

Whole mortgage loan pools pre-positioned at the BoE

The BoE began accepting loan portfolios as eligible collateral in the DWF from April 2011. Following confirmation that assets pre-positioned at the BoE would count as eligible collateral in the LAB, Nationwide commenced pre-positioning whole loan pools with the BoE during 2012.

The table below sets out the fair value of each of the above liquidity types as at 4 April 2013. The table is not a representation of the accounting balance sheet position as it includes off balance sheet liquidity (including self issued RMBS and covered bonds) but excludes any encumbered assets.

The carrying value of the liquidity portfolio as per the accounting balance sheet is shown in the table on page 107.

	4 April 2013	4 April 2012
	£bn	£bn
Core liquidity*	19.2	24.5
Other central bank eligible assets	1.4	2.5
Other securities	2.7	4.0
Self issued RMBS and covered bonds	14.0	16.3
Whole mortgage loan pools pre-positioned at the BoE	1.4	-
Total	38.7	47.3

The table below sets out the sterling equivalent of the liquidity portfolio categorised by issuing currency:

2013	GBP	EUR	USD	Total
	£bn	£bn	£bn	£bn
Core liquidity*	16.8	1.6	0.8	19.2
Other central bank eligible assets	0.1	1.3	-	1.4
Other securities	0.6	0.6	1.5	2.7
Self issued RMBS and covered bonds	14.0	-	-	14.0
Whole mortgage loan pools pre-positioned at the BoE	1.4	-	-	1.4
Total	32.9	3.5	2.3	38.7

*Core liquidity includes off balance sheet items, primarily treasury bills held through FLS participation. The average month end balance for core liquidity during the year was £21.0 billion.

Wholesale funding

An analysis of the Group's wholesale funding (made up of deposits from banks, other deposits and debt securities in issue as disclosed on the balance sheet) is set out in the table below:

Wholesale funding mix	4 April 2013		4 April 2012	
	£bn	%	£bn	%
Repo and other secured arrangements	1.2	2.8	3.7	7.5
Deposits, including PEB balances	8.7	20.0	7.8	15.9
Certificates of deposit	3.8	8.8	4.3	8.7
Commercial paper	4.0	9.2	3.7	7.5
Covered bonds	11.4	26.3	13.0	26.5
Medium term notes	4.7	10.8	7.1	14.5
Securitisations	7.6	17.5	7.4	15.1
Other	2.0	4.6	2.1	4.3
Total	43.4	100.0	49.1	100.0

Business review continued

The table below sets out an analysis of the currency composition of the Group's wholesale funding:

Currency composition of wholesale funds	USD	EUR	GBP	Other	Total
	£bn	£bn	£bn	£bn	£bn
Repo and other secured arrangements	-	0.2	1.0	-	1.2
Deposit	0.2	1.1	7.4	-	8.7
Certificate of deposit	0.2	0.1	3.5	-	3.8
Commercial paper	3.4	0.4	0.2	-	4.0
Covered bonds	-	9.4	1.7	0.3	11.4
Medium term notes	1.0	2.3	1.2	0.2	4.7
Securitisations	4.1	0.9	2.6	-	7.6
Other	0.1	1.1	0.8	-	2.0
Total at 4 April 2013	9.0	15.5	18.4	0.5	43.4
Total at 4 April 2012	10.6	18.2	19.9	0.4	49.1

During 2011/12 we were particularly active in the long term debt markets, issuing £7.9 billion against £3.5 billion of maturing long term deals, allowing us to pre-fund long term funding maturities of £4.9 billion during 2012/13. This pre-funding, combined with the advent of FLS and reduced regulatory liquidity requirements, has resulted in a minimal long term funding requirement for the Group during the last year.

Short term funding instruments in issue have decreased to £11.5 billion (2012: £11.9 billion). The average initial term of outstanding short term balances as at 4 April 2013 was 162 days (2012: 131 days).

The residual maturity profile of the Group's wholesale funding portfolio has shown a modest decline from 37 months to 35 months. Despite this, as a result of maturing long term deals and a fall in the overall wholesale funding portfolio, the proportion of funding that is categorised as long term (>1 year to maturity) has increased slightly to 62.2% (2012: 60.1%).

The table below sets out the residual maturity of the wholesale funding book:

Wholesale funding residual maturity	4 April 2013		4 April 2012	
	£bn	%	£bn	%
Less than one year	16.4	37.8	19.6	39.9
One to two years	7.3	16.8	3.7	7.6
Two to five years	11.8	27.2	16.8	34.2
More than five years	7.9	18.2	9.0	18.3
Total	43.4	100.0	49.1	100.0

The table below sets out a more detailed breakdown of the residual maturity on the wholesale funding book:

2013	Maturity of wholesale funding							
	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	Sub-total less than one year	Over one year but not more than two years	Over two years	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repo and other secured arrangements	-	-	0.2	-	0.2	1.0	-	1.2
Deposits, including PEB balances	3.1	1.3	0.9	0.5	5.8	0.1	2.8	8.7
Certificates of deposit	0.8	1.0	1.6	0.4	3.8	-	-	3.8
Commercial paper	1.0	2.0	1.0	-	4.0	-	-	4.0
Covered bonds	-	-	-	1.7	1.7	0.8	8.9	11.4
Medium term notes	-	0.1	-	0.2	0.3	1.6	2.8	4.7
Securitisations	-	-	-	0.4	0.4	3.4	3.8	7.6
Other	0.2	-	-	-	0.2	0.4	1.4	2.0
Total at 4 April 2013	5.1	4.4	3.7	3.2	16.4	7.3	19.7	43.4
Of which secured	0.2	-	-	2.1	2.3	5.5	14.1	21.9
Of which unsecured	4.9	4.4	3.7	1.1	14.1	1.8	5.6	21.5

2012	Maturity of wholesale funding							
	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	Sub-total less than one year	Over one year but not more than two years	Over two years	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Repo and other secured arrangements	-	-	-	-	-	1.7	2.0	3.7
Deposits, including PEB balances	2.8	1.3	0.8	0.4	5.3	-	2.5	7.8
Certificates of deposit	1.2	2.0	0.9	0.2	4.3	-	-	4.3
Commercial paper	2.3	0.9	0.5	-	3.7	-	-	3.7
Covered bonds	-	0.2	1.9	-	2.1	1.6	9.3	13.0
Medium term notes	-	1.6	1.3	-	2.9	0.1	4.1	7.1
Securitisations	-	-	-	-	-	0.3	7.1	7.4
Other	-	-	-	1.3	1.3	-	0.8	2.1
Total at 4 April 2012	6.3	6.0	5.4	1.9	19.6	3.7	25.8	49.1
Of which secured	-	0.2	1.9	1.3	3.4	3.4	17.5	24.3
Of which unsecured	6.3	5.8	3.5	0.6	16.2	0.3	8.3	24.8

External credit ratings

Our short and long term credit ratings from the major rating agencies as at 21 May 2013 are as follows:

	Long term	Short term	Subordinated	Date of last rating action/confirmation*
Standard & Poor's	A+	A-1	BBB+	December 2012
Moody's	A2	P-1	Baa1	February 2013
Fitch	A+	F1	A	October 2012

*The outlook for Moody's is Stable; the outlook for Standard & Poor's and Fitch is Negative.

Business review continued

Asset encumbrance

Group assets can be used to support funding or collateral requirements for secured funding, central bank operations or third party repurchase transactions. Assets that have been utilised for such purposes are classified as encumbered and pledged assets and cannot be utilised for other purposes. This includes excess collateral and collateral held in respect of undrawn self issued notes in secured funding vehicles and cash collateral posted.

Other encumbered assets are assets that cannot be utilised for secured funding due to legal or other reasons. This includes cash reserves supporting secured funding structures.

All other assets are defined as unencumbered assets. These comprise assets that are readily available to secure funding or meet collateral requirements and other unencumbered assets that are not subject to any restrictions but are not readily available for use.

Loans and advances to customers are only classified as available as collateral if they are already in such form that they can be used to raise funding without further management actions. All other loans and advances are conservatively classified as unencumbered other, although a proportion would be suitable for use in secured funding transactions.

An analysis of the Group's encumbered and unencumbered on balance sheet assets as at 4 April 2013 is set out below:

	Encumbered		Unencumbered		Total
	Pledged as collateral	Other	Available as collateral	Other	
	£m	£m	£m	£m	
Cash	-	3,788	3,848	250	7,886
Loans and advances to banks	1,588	-	-	934	2,522
Investment securities – available for sale	231	-	13,076	114	13,421
Loans and advances to customers	51,741	-	54,323	53,523	159,587
Derivative financial instruments	-	-	-	4,212	4,212
Other financial assets	-	-	-	900	900
Non financial assets	-	-	-	2,190	2,190
	53,560	3,788	71,247	62,123	190,718

In addition to the above, Nationwide holds other third party liquid assets and self issued notes off balance sheet that may be capable of financing through third party sale and repurchase agreements.

Treasury asset quality

Group treasury assets at 4 April 2013 were £23.8 billion (2012: £34.3 billion) and are held in two separate portfolios: the core liquidity portfolio and the non-core portfolio. At 4 April 2013, the core liquidity portfolio totalled £16.9 billion (2012: £24.8 billion), with the non-core portfolio totalling £6.9 billion (2012: £9.5 billion). The £7.9 billion decrease in the core liquidity portfolio is predominantly due to the sale of UK gilts following relaxation of regulatory liquidity rules permitting wider use of contingent liquidity.

The quality and liquidity of treasury assets has been maintained with over 71% of the total portfolio held in core liquidity exposures (2012: 72%). 97% of the total portfolio is rated A or better, with 85% rated AA or above (2012: 97% rated A or better, 84% rated AA or above).

We retain £1.1 billion of securities within the non-core portfolio domiciled in the 'peripheral' Eurozone countries. Of the £1.1 billion, 30% is rated AA or above and 58% is rated A or above. This exposure has reduced by 11% in the year to 4 April 2013 (including the impact of exchange rate movements). Further details can be found in the 'Country exposures' section.

A monthly review is undertaken of the current and expected future performance of all treasury assets. A governance structure exists to identify and review under-performing assets and highlight the likelihood of future losses. In accordance with accounting standards, assets are impaired where there is objective evidence that current events and/or performance will result in a loss.

Additional information on the treasury asset portfolio is disclosed on page 107.

Available for sale reserve

Out of a total of £23.8 billion of assets held in the core liquidity and non-core portfolios, £13.4 billion are held as available for sale (AFS), and under IFRS they are marked to market through other comprehensive income and fair value movements are accumulated in reserves. The non-AFS assets are loans and advances to banks or deposits with the BoE. Of the £13.4 billion of AFS assets, only £60 million are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 7.

Impairment losses on investment securities of £2 million (2012: £31 million) comprise a loss of £23 million on a single UK commercial mortgage backed security which was reported in

our interim results, offset by £21 million which predominantly comprises impairment write backs in connection with asset disposals during the second half of the financial year. The fair value movement of AFS assets that are not impaired currently has no effect on the Group's profit or its regulatory capital.

As at 4 April 2013, the balance on the AFS reserve had improved to £252 million negative, net of tax (2012: £356 million negative). The improvement in the AFS reserve reflects general market movements, partly offset by the sale of core liquidity and non-core assets which have shown a favourable movement in market value, resulting in gains which are recognised in the Group's net interest income.

	4 April 2013		4 April 2012	
	Fair value on balance sheet	Cumulative AFS reserve	Fair value on balance sheet	Cumulative AFS reserve
	£bn	£bn	£bn	£bn
Cash	7.9	-	8.1	-
Gilts	5.6	(0.7)	12.8	(1.0)
Non-domestic government bonds	2.3	(0.1)	2.4	-
Supranational bonds	1.0	(0.1)	1.4	(0.1)
US medium term notes	0.1	-	0.1	-
Core liquidity portfolio total	16.9	(0.9)	24.8	(1.1)
Loans and advances to banks	2.5	-	2.9	-
Residential mortgage backed securities (RMBS)	1.6	0.3	2.1	0.4
Commercial mortgage backed securities (CMBS)	0.4	0.1	0.5	0.1
Covered bonds	0.6	-	0.9	-
Collateralised loan obligations (CLO)	0.7	-	0.6	-
Financial institutions bonds	0.3	-	1.4	-
US student loan	0.5	-	0.7	0.1
Other investments	0.3	-	0.4	-
Non-core portfolio total	6.9	0.4	9.5	0.6
Positive AFS reserve before hedge accounting and taxation		(0.5)		(0.5)
Hedge accounting adjustment for interest rate risk		0.9		1.0
Taxation		(0.1)		(0.1)
Total value of AFS assets/negative AFS reserve (net)	23.8	0.3	34.3	0.4

Business review continued

Country exposures

The following section summarises the Group's direct exposure to institutions, corporates and other issued securities domiciled in the peripheral Eurozone countries. We have no direct sovereign exposure to these countries. The exposures are shown at their balance sheet carrying values.

4 April 2013	Greece	Ireland	Italy	Portugal	Spain	Total
	£m	£m	£m	£m	£m	£m
Mortgage backed securities	-	144	90	50	335	619
Covered bonds	-	71	-	22	326	419
Senior debt	-	-	25	-	17	42
Other assets	-	-	3	-	2	5
Other corporate	-	11	3	-	-	14
Total	-	226	121	72	680	1,099

4 April 2012	Greece	Ireland	Italy	Portugal	Spain	Total
	£m	£m	£m	£m	£m	£m
Mortgage backed securities	-	134	105	39	348	626
Covered bonds	-	71	-	17	334	422
Senior debt	-	31	36	-	96	163
Other assets	1	-	6	-	4	11
Other corporate	-	8	3	-	-	11
Total	1	244	150	56	782	1,233

Movements in our exposure to peripheral Eurozone countries since 4 April 2012 relate to disposals, maturities and fair value movements, and there has been no new investment in the year.

During the year the remaining £1 million Greek exposure was sold. In addition, £82 million of Spanish senior debt, £41 million of Spanish covered bonds, £31 million of Irish senior debt and £12 million of Italian senior debt matured during the year.

Nationwide has further indirect exposure to peripheral Eurozone countries as a result of a €100 million loan to a Luxembourg SPV, which has first loss exposure to a €2 billion portfolio of senior ranking European ABS assets. The sterling equivalent is £84.7 million (2012: £82.7 million). The geographical breakdown

of this portfolio is consistent with the position at 4 April 2012, and is as follows: UK 53%, Germany 16%, Spain 13%, Italy 7%, Netherlands 6%, Greece 3% and Portugal 2%. (2012: UK 51%, Germany 16%, Spain 14%, Italy 8%, Netherlands 6%, Greece 3% and Portugal 2%).

None of our exposures to the peripheral Eurozone countries are in default, and we have not incurred any impairment on these assets in the year. We continue to monitor closely the exposures to these countries.

In addition, the Group's exposure in respect of other Eurozone and rest of the world countries is shown below at their balance sheet carrying value.

4 April 2013	Finland	France	Germany	Netherlands	Other Eurozone	Total other Eurozone	USA	Rest of the World	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Government bonds	133	-	505	1,039	-	1,677	672	-	2,349
Mortgage backed securities	-	28	116	273	-	417	147	86	650
Covered bonds	21	-	89	18	-	128	29	21	178
Senior debt	21	33	-	50	9	113	57	42	212
Loans to banks	-	164	130	-	-	294	460	620	1,374
Other assets	-	109	-	-	-	109	1,085	1,001	2,195
Other corporate	10	44	840	16	-	910	-	-	910
Total	185	378	1,680	1,396	9	3,648	2,450	1,770	7,868

4 April 2012	Finland	France	Germany	Netherlands	Other Eurozone	Total other Eurozone	USA	Rest of the World	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Government bonds	75	-	169	1,049	-	1,293	1,104	-	2,397
Mortgage backed securities	-	34	114	239	41	428	110	147	685
Covered bonds	21	-	84	45	-	150	26	61	237
Senior debt	20	118	100	125	10	373	205	305	883
Loans to banks	-	127	41	-	-	168	490	766	1,424
Other assets	-	-	35	-	-	35	1,335	1,441	2,811
Other corporate	10	46	984	25	-	1,065	28	11	1,104
Total	126	325	1,527	1,483	51	3,512	3,298	2,731	9,541

The 'Other Eurozone' column represents exposures to Belgium £nil (2012: £44 million) and Luxembourg £9 million (2012: £7 million). The 'Rest of the World' column represents exposures to the following countries: Australia £96 million (2012: £290 million), Canada £404 million (2012: £532 million),

Denmark £4 million (2012: £24 million), Iceland £nil (2012: £6 million), Norway £nil (2012: £36 million), Sweden £nil (2012: £4 million), Switzerland £278 million (2012: £410 million) and Supranationals £988 million (2012: £1,429 million).

Business review continued

Pension fund (retirement benefit obligations)

The Group operates final salary and career average revalued earnings (CARE) defined benefit arrangements, primarily through the Nationwide Pension Fund (the Fund), as well as defined contribution arrangements. The net retirement benefit

liability for all defined benefit arrangements measured under IAS 19: *Employee Benefits* is £354 million (2012: £517 million). The movement in the net liability over the year comprises:

	Year to 4 April 2013	Year to 4 April 2012
	£m	£m
Net retirement benefit liability at 5 April	517	300
Service charge	55	50
Expected return on assets	(186)	(195)
Expected interest cost	172	166
Net actuarial (gain)/loss	(149)	494
Curtailment and past service	(1)	(2)
Employer contributions	(54)	(296)
Net retirement benefit liability at 4 April	354	517

The Fund was closed to new entrants in 2007 and the final salary section for existing members closed to further accrual in March 2011. Accrual in the CARE section continues for existing members, with a revised benefit structure in operation.

Following the results of the last triennial valuation of the Fund at 31 March 2010, the Group paid additional employer contributions of £241 million during the year ended 4 April 2012 which are included in comparative figures above.

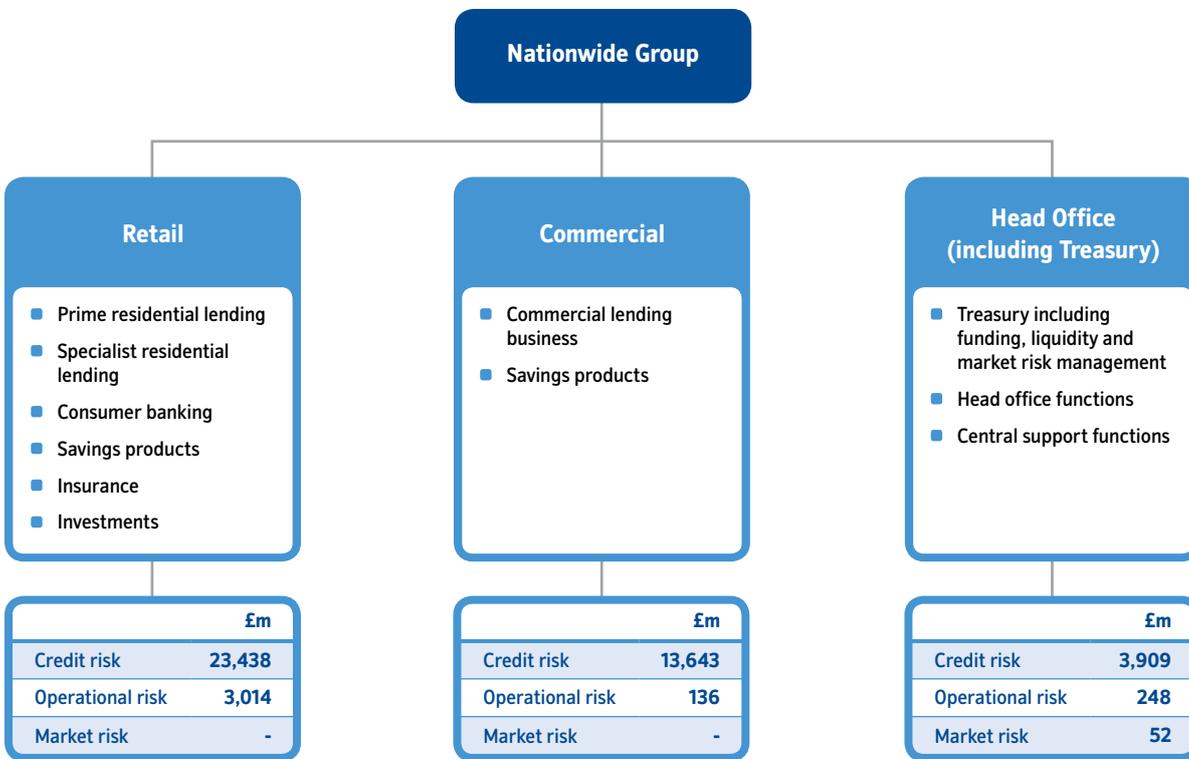
The decrease in the liability of the Fund at 4 April 2013 arises due to increases in both equity and bond asset values over the year, partly offset by the impact of 0.1% in the inflation assumptions which have increased the value of the pension liabilities.

Risk overview

Robust management of the risks inherent in running our business is at the heart of safeguarding our members' interests and delivering a sustainable business model. Our day to day business activities, whether they are offering a range of product choices, making sound lending decisions or managing our balance sheet all require effective management of risk.

The chart below is designed to provide a high level guide on how Nationwide's business activities are reflected in our risk measures and in our balance sheet.

Balance sheet amounts indicate the amount of assets and liabilities contributed by each area. We have shown regulatory capital risk weightings below to indicate the relative risks each area carries.



Whilst Nationwide accept that all of our business activities involve risk, to protect our membership we seek to manage the risks that arise from our activities appropriately. The principal risks inherent within the business are:

- lending risks (retail, commercial, treasury)
- financial risks (liquidity and funding, capital, market, pension)
- operational risk (including transformation risk)
- customer risk, compliance risk, and strategic risk.

Nationwide manages its risks within an Enterprise Risk Management Framework (ERMF) and has continued to strengthen its risk management frameworks and controls during the year.

There is a formal structure for monitoring and managing risks across the Group comprising a risk appetite approved by the Board, detailed risk management frameworks (including policies and supporting documentation), and independent governance and oversight of risk.

The statements of Board risk appetite set out, in both descriptive and quantitative form, the parameters within which the Group will operate. These influence the strategies for the management of the principal risk categories, more detailed risk appetite metrics, controls and procedures, and corporate strategy.

The Chief Risk Officer (CRO) has responsibility to oversee all risks for the Group and reports to the Chief Executive Officer.

Living on your side. Our citizenship strategy.



Citizenship at Nationwide is one of the ways we bring our mutuality to life – it’s integral to who we are. We are built on values that drive us to do our best for our members, and a vital part of this is supporting the communities in which they live and work.

Last year, we conducted extensive research into the views of our members, employees, suppliers, the government, think-tanks and NGOs, asking them what our citizenship strategy should focus on. The answer was clear – focus on those areas where you have real expertise and can have the greatest impact – housing, money management and supporting local communities.

As a direct result, in April 2012 we launched ‘Living on your side’, a five year strategy with three core pillars, **Your home**, **Your money** and **Your community**, each with an ambitious target to achieve by 2017 and underpinned by our commitment to continue operating our business in a responsible way.

The first year of ‘Living on your side’ has been a busy one. We have published our first citizenship report and set up our new ‘Living on your side’ website and enabled thousands of members to get involved in directing our support of communities. We have also launched new partnerships with Shelter and National Numeracy to help us achieve our goals. Importantly, over 1.3 million of our members got behind the agenda, as well as 30% of our employees through fundraising and volunteering.

Recognition

In April 2013, we were very proud to be awarded Platinum status in the Business in the Community Corporate Responsibility Index. We were the highest new entrant for 2013, indicating the extent to which our citizenship ethos is at the heart of our business. In fact, during the financial year we received a number of important awards:

- Business in the Community – Community Mark award
- Opportunity Now & Race for Opportunity Gold Standard
- Carbon Trust Data Verification
- Customer Contact Association (CCA) – Best Corporate Social Responsibility in Customer Contact
- Investors in People Gold Standard.

Governance

Each and every employee takes ownership of our citizenship strategy and all are encouraged to apply citizenship values to their daily work as well as getting involved in citizenship activities.

Overall accountability for citizenship rests with our senior management team and board of directors.

The people who take overall accountability for citizenship in Nationwide

Issue	Responsibility	Position
Occupational health and safety	Graham Beale	Chief Executive
Human rights	Graham Beale	Chief Executive
Employee engagement	Alison Robb	Group Director
Citizenship	Alison Robb	Group Director
Members/customers	Chris Rhodes	Executive Director, Group Retail
Supply chain	Mark Rennison	Group Finance Director
Environment	Tony Prestedge	Chief Operating Officer

Your Society

As your building society, we have a responsibility to conduct our business as you would want us to. That means managing our environmental impact. It means creating a working environment where all our people can flourish. And it means engaging our suppliers with our ethical approach.

Environment

Our biggest environmental impact is the energy we use to provide financial services to our members. In 2010/11 our total carbon footprint was 62,300 tonnes of carbon dioxide. This equates to the same amount of emissions from just under 20,000 homes*.

Since then, we have reduced our footprint by nearly 10% and this has been achieved by investing in energy saving technologies and working with our employees to lower energy use in our buildings. We are also proud to be the first retail financial services provider to achieve a Gold Ska** sustainability award for the environmentally friendly refurbishment of the branch in Oxford, and we plan to roll this out to further branches this year.

Our members are also exposed to rising energy bills and the physical effects of climate change. We can help members live more environmentally sustainable lives and save money on their utility bills and have done so in a number of ways:

- By providing a range of on-line facilities (reducing the need to travel), as well as paperless statements and online AGM packs
- By providing green products such as our new Green further advance which helps members who want to invest in reducing their energy bills
- By providing advice and guidance such as that contained in our Green Home Guide which you can find at NationwideEducation.co.uk

However, while we have done much already, we know we can do more by reducing the impacts of our own activities, developing solutions with our suppliers and helping our members save energy at home.

Workplace

In 2012 we were very proud to receive the Opportunity Now and Race for Opportunity Gold Standard awards as well as being placed in the Top 100 employers by Stonewall. We value our employees' opinions so we provide lots of opportunities for them to give feedback, especially when it comes to citizenship. We were pleased to see that 94% of our employees consider Nationwide to be a responsible company in our 2012 employee survey. Providing training and development opportunities is key to maintaining an engaged workplace, and our Investor in People Gold standard is indicative of our commitment to our employees.

Ethical policies

Rather than short term gains for shareholders, we are able to focus on achieving long term benefits for our members and doing so in a way which is sustainable. In November 2012 we published a new Supplier Code which outlines the ethical standards we work to and we expect from the companies we work with. It covers a range of subjects from human rights to environmental management and makes it clear we are committed to operating in an ethical way.

*Source: Energy Saving Trust.

**Ska rating is an environmental assessment tool and our rating was based on a retail pilot.

Your home

Having a safe, warm and comfortable place to call home is something everyone should be able to enjoy. Our aim is to help 750,000 people into a home of their own by 2017 and we are focusing on first time buyers, landlords and tenants in the rental market as well as homeless people or those at risk of losing their homes.

Our target for 2012/13 was to help 130,000 people, and we are pleased to announce we exceeded this by helping **168,633** people into a home of their own.

Supporting first time buyers

Enabling people to understand how the house buying process works is vital, so in addition to our existing first time buyer guide, this year we supported the first time buyer show and also piloted an evening surgery event to allow potential buyers to ask questions of the experts. We have also continued to support people through shared ownership schemes.

The private rental market

Getting the housing market going again is not just about buying houses, landlords who are trying to let their properties are also part of the solution. Through The Mortgage Works, a subsidiary of Nationwide Building Society, we have been helping people into rented homes and supporting new and experienced landlords.

Nationwide Foundation

Under the Foundation's 'Money Matters, Homes Matter, Families Matter' strategy, grants were made to a variety of charities supporting people in need with housing problems.

Homelessness and people at risk of losing their homes

In November we announced a new £1 million partnership with Shelter with the aim of helping 16,000 people to find or keep their home over the next four years. We are supporting projects including a Family Support Service in Birmingham, the Sheffield Homelessness Prevention and Resettlement (HPR) Fund and the Shelter Helpline. The Shelter projects we support helped 2,985 people last year.

Case Study: Supporting Shelter

Karen became homeless when she took a stand against a local drug dealer. She was forced out of her home and found private rented accommodation, but she lost this due to housing benefit delays. Karen and her daughter then spent six months in a B&B and temporary accommodation, none of which were suitable. Karen then moved to her permanent accommodation but she was finding it difficult to cope and had become agoraphobic, and was again threatened with eviction. The team at Shelter helped Karen to stop the eviction and to put payment plans in place. Karen has also received support in building her confidence again and is now getting out of the house and actively involved in activities with Shelter and the community.



Our aim is to help
750,000 people
into a home of their
own by 2017

Your money

Being able to manage your money and save a little regularly can help you to plan better for the future, enjoying the good times but being prepared for the bad. Our aim is to empower one million people to start saving, so we are focusing on championing saving, supporting financial education and helping people out of debt.

Our target for 2012/13 was to help 150,000 people, and we are pleased to announce we exceeded this by helping **175,320** to start saving.

Championing saving

We have continued to champion saving, with a focus on young people, this year through our education programme and our independent guides. For example, in April 2013, we launched a sponsored personal finance column in **First News**, the weekly newspaper for young people with the aim of increasing financial awareness and capability.

Supporting financial education

Problem: a lack of engaging financial education.

Solution: **NationwideEducation.co.uk**, our award winning website, provides free, independent money skills resources for students, teachers and parents. Since it launched in 2008 it has had over 44 million hits and over 1.7 million downloads.

Problem: a need for practical support from businesses.

Solution: our Schoolslink programme matches up volunteers with local schools to provide support with money skills and employability learning aligned to the curriculum. In our first year, we have started up 46 school links across the country.

Problem: a need for broader government support for financial education in schools.

Solution: our partnership with National Numeracy is enabling us to press for changes in the curriculum to provide a greater focus on these vital life skills.

Helping people out of debt

In 2012/13 we supported the **Money Advice Trust** Innovation Grants Programme, providing £65,000 of seed money for small initiatives aiming to tackle debt and money management related issues. We also provided £30,000 towards the Money Advice Trust's activities, including its frontline service National Debtline.

Partnering with National Numeracy

In October 2012 we announced a five year partnership with a new charity, National Numeracy, who aim to improve numeracy skills in adults and children across the UK. A lack of confidence with numbers is often a barrier to good money skills, so supporting people to feel more comfortable with both is the right approach. In 2013 we are supporting National Numeracy's Numeracy Challenge which launches this summer with the aim of raising the numeracy skills of 500,000 adults by 2016.

Nationwide Foundation

The Foundation's focus on financial exclusion continued in 2012/13, which was the final year of its 'Money Matters, Homes Matter, Families Matter' strategy. Jointly Nationwide and the Nationwide Foundation commissioned research to investigate the specific barriers some private tenants face in accessing and using financial services.



Case Study: Supporting Foresight in Grimsby through the Money Advice Trust Innovation Grants Scheme

Kevin has been attending skills sessions for people with learning difficulties run by Foresight for the last few years. At the moment he is attending personal budgeting and money management training which is backed up by one-to-one financial advice sessions.

Kevin said, "I really like coming to the Foresight centre. The people are really nice and they help me to look after my money better so I can do more things I enjoy".

Your community

You told us that local communities were crying out for support from us – and you were so right. Our aim is to invest and unlock £15 million into local communities by 2017 which should be directed by our members and employees. All we had to do was to provide the channels to enable people to tell us about those great local causes and you did.

Our target for 2012/13 was to invest and unlock at least £1.7 million, and we are pleased to announce we exceeded this by investing and unlocking £2.5 million. This can be broken down into:

- Contributions directed by members £800,000
- Contributions directed by employees £1.2 million
- Additional funds unlocked from other sources £490,000.

Empowering our members

In 2012/13 our members directed £800,000 of our contributions to charities and good causes. In November we launched our new 'Living on your side' website which enables members to get involved by applying for funding, nominating a charity or requesting volunteers. Members can also nominate causes in our branches.

Our in-branch charity voting scheme **Community Match** is now in over 500 branches across the country. So far over £135,000 has been donated to over 500 charities through the scheme. In March 2013 we launched the **Big Local**, our online charity voting scheme where charities can win a £5,000 donation. Members can also now vote for local charities to receive support at member events like TalkBacks and the Annual General Meeting. As a result of the 2012 AGM vote, a donation of £170,475 was made to Macmillan Cancer Support, which was used to fund projects to support people struggling to keep up with their mortgage or rent as a result of living with cancer.

This year we are celebrating 20 years in partnership with Macmillan Cancer Support. During this time we have raised over £6.4 million for the charity enabling it to help thousands of people living with cancer. We will be running our largest World's Biggest Coffee Morning ever in September with the aim of raising even more than the £51,000 raised in 2012.

At the end of March, Children's Hospice South West became the first winner of the Nationwide **Big Local** award, securing 53% of the public online vote. The prize was a donation of £5,000. The hospice provides specialist care, as well as joy and laughter to the children it looks after. It also provides valuable respite to their families.



Schoolslink Programme: Swindon College students visiting Nationwide House

Invest and unlock **£15 million** into local communities by 2017

Mobilising our employees

In 2012/13 our employees directed £1.2 million of our contributions to charities and good causes, and we saw employee involvement in citizenship activities jump from 6% to 30% which includes fundraisers and volunteers.

Volunteering

Allowing employees 14 working hours of volunteering time each year, making local opportunities available through schemes like Schoolslink and mobilising a force of 100 community champions to drive participation has enabled close to 2,500 of our employees to volunteer this year.

Fundraising

Over 2,500 employees have got involved in fundraising activities in 2012/13, from local charity events to national charity days like BBC Children in Need, Comic Relief and Macmillan Coffee Morning. They have helped us to raise a fantastic £700,000.

The Nationwide Foundation



Supporting communities
nationwide

The Nationwide Foundation is a registered charity of which Nationwide is the key benefactor. It gives grants to charities which support vulnerable people in the UK.

2012/13 was the final year of the Nationwide Foundation's three year grant making strategy, 'Money Matters, Homes Matter, Families Matter'. Under this strategy, grants were given to over 250 charities to help people affected by financial exclusion, financial abuse, housing problems and debt. For example:

- Advocates at Age UK Wirral worked with over 150 people with early onset dementia and their families. The support led to a financial gain for beneficiaries of £192,552 and their debts reduced by over £24,000.
- 1,412 rurally isolated older people received energy efficiency advice and support to tackle fuel poverty from the Centre for Sustainable Energy in Somerset.
- Over 2,600 vulnerable older people were supported to reduce debt and tackle housing issues in east Kent.

An independent evaluation of the strategy is available from summer 2013.

Next steps

During 2012/13, the Foundation undertook a review of its funding strategy. The Financial Inclusion Centre was engaged to independently review the UK's housing and finance sectors and identify areas where the Nationwide Foundation's future grants could achieve maximum impact. The research findings directed

the Foundation to look at what it could achieve in the housing sectors, aligning its activity with Nationwide's citizenship work.

The Nationwide Foundation's Board of Trustees agreed a new strategy encompassing a vision that everyone in the UK has access to a decent home which they can afford. From April 2013, the Nationwide Foundation's work began focusing on creating conditions which increase the number of decent affordable homes and which break down the barriers to their creation.

The intended outcomes are that:

- Empty properties are brought back into use as homes for people in need.
- The living conditions of vulnerable tenants in private rented sector homes improve.
- Alternative, scalable housing models provide more affordable homes and their value is recognised by other funders, lenders or government.

Community Land Trust Fund

The Nationwide Foundation continues to invest in the Community Land Trust Fund. A community land trust is a non-profit community-based organisation, which develops housing at permanently affordable prices and makes it available to local people who otherwise would be priced out of the market.

The image shows affordable homes in Cumbria created by Lyvennet Community Land Trust during 2012/13 which the Nationwide Foundation helped to finance.



Governance

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Board of directors

As at 4 April 2013



Top left: Graham Beale

Top right: Geoffrey Howe

Middle: Tony Prestedge and Chris Rhodes

Bottom right: Rita Clifton



1 Graham Beale BSc, ACA (54)

Term of Office:

Executive Director of Nationwide Building Society since April 2003, Chief Executive since April 2007.

Independent: No

Skills and experience (including directorships)

Graham joined the Society in 1985. He is a chartered accountant by training and was appointed to the Board as Group Finance Director in April 2003. He took up his current role as Chief Executive in April 2007. Prior to his appointment to the Board, he worked extensively in the Finance function and held a number of senior, general management positions within the Society. As Chief Executive, Graham leads the strategic direction of the Group and oversees its operation through chairing the Executive Committee which comprises the Executive and Group Directors. Graham is Chairman of the Financial Conduct Authority Practitioner Panel, a member of the Building Societies Association Council and a director of the British Bankers' Association.

2 Geoffrey Howe MA (Cantab) (63)

Term of Office:

Non Executive Director of Nationwide Building Society since January 2005, Chairman since July 2007.

Independent: Yes (upon appointment)

Skills and experience (including directorships)

Geoffrey has considerable regulatory, management and legal experience in financial services, insurance and investment markets. Geoffrey is currently the Chairman of Nationwide Building Society and of Jardine Lloyd Thompson Group plc. He is also a director of Close Brothers Group plc. He was formerly Chairman of Railtrack Group plc, a director of Investec plc, a director and General Counsel of Robert Fleming Holdings Limited and Managing Partner of international law firm Clifford Chance.

3 Tony Prestedge (43)

Term of Office:

Executive Director of Nationwide Building Society since August 2007.

Independent: No

Skills and experience (including directorships)

Tony is Nationwide's Group Chief Operating Officer and was previously Executive Director Group Development. He previously held a number of senior executive roles at Barclays PLC, including Managing Director Home Finance and Retail Support and Operations Director. He was a member of both Woolwich plc and Barclays Retail Banking Executive Committees. Tony is accountable for the Group's operational strategy, performance and transformation and his divisional reports include Customer Services and Product Operations, Telephone Channels, Digital Development, Transformation Delivery, Technology, Payments and Property Services. Tony is a board member of Opportunity Now.

4 Chris Rhodes BSc (Hons), ACA (50)

Term of Office:

Executive Director of Nationwide Building Society since April 2009.

Independent: No

Skills and experience (including directorships)

Chris joined Nationwide in April 2009 from Abbey Santander, where he was Director of Retail Distribution for Alliance and Leicester (A&L). Chris is the Group Retail Director and his responsibilities include Nationwide's retail product range, distribution and marketing. Chris has spent 20 years working in the financial services sector and his previous positions include Deputy Managing Director of Girobank and Retail Operations Director of A&L. In 2003 he was appointed as Managing Director Retail Banking for the entire A&L Group. In 2007 Chris moved to become Group Finance Director, a role he held until the merger with Santander in 2008.

5 Rita Clifton MA (Cantab), FRSA (55)

Term of Office:

Non Executive Director of Nationwide Building Society since July 2012.

Independent: Yes

Skills and experience (including directorships)

Rita holds a number of non executive roles including at BUPA and Populus and is a former non executive director of Dixons Retail plc. She is also a trustee of WWF-UK, and sits on the Assurance and Advisory Board for BP's carbon off-setting programme. Rita has over 20 years' senior management experience in a range of roles, with an expertise in demonstrating how brand is an integral part of long-term business strategy and in analysing and understanding consumer perceptions and behaviour. Her executive career has been in advertising, strategic marketing and market research; she was previously Chairman and Chief Executive at Interbrand UK Ltd, and prior to that Vice Chairman at Saatchi & Saatchi. During her career Rita has advised, at the most senior level, some of the UK's best known organisations, including British Airways, Barclays, BT, Citigroup, Visa and the British Army.

Board of directors

As at 4 April 2013



Top left: Mark Rennison

Top right: Michael Jary and Lynne Peacock

Middle: Alan Dickinson and Roger Perkin

Bottom right: Mitchel Lenson



Principal Committees	Membership
Audit Committee	Roger Perkin (Chairman), Rita Clifton, Alan Dickinson, Lynne Peacock
Board Risk Committee	Alan Dickinson (Chairman), Mitchel Lenson, Lynne Peacock, Roger Perkin
Remuneration Committee	Lynne Peacock (Chairman), Rita Clifton, Michael Jary
Nomination Committee	Geoffrey Howe (Chairman), Alan Dickinson, Lynne Peacock, Roger Perkin
Board IT Strategy and Transformation Committee	Mitchel Lenson (Chairman), Alan Dickinson, Michael Jary, Roger Perkin
Results Approval Committee	Geoffrey Howe (Chairman), Graham Beale, Roger Perkin, Mark Rennison

6 Mark Rennison BA, FCA (52)

Term of Office:

Executive Director of Nationwide Building Society since February 2007.

Independent: No

Skills and experience (including directorships)

Mark, a chartered accountant, is the Group Finance Director with responsibility for Finance, Treasury, Group Legal and Compliance, Group Internal Audit and Business Protection. He is a director of various Society subsidiaries. Prior to his appointment, Mark was a partner at PricewaterhouseCoopers LLP where he worked in the financial services practice with a specific focus on retail and corporate banking; whilst in professional practice, Mark also worked extensively with group treasury operations, leasing and asset finance businesses.

7 Michael Jary MA (Oxon), MBA, FRAS (49)

Term of Office:

Non Executive Director of Nationwide Building Society since January 2009.

Independent: Yes

Skills and experience (including directorships)

Michael is a partner of OC&C Strategy Consultants, a global strategy consulting firm with 15 offices worldwide, and served as Worldwide Managing Partner of the firm from 2005 to 2011. He is an advisor to the boards of leading retail and consumer companies in Europe, the USA and Asia. He is a regular commentator on the retail industry, the co-author of a number of books including "Retail Power Plays" and a guest lecturer at INSEAD Business School. He is also the Chairman of Duchy Originals and of The Prince's Social Enterprises.

8 Lynne Peacock BA (Hons) (59)

Term of Office:

Non Executive Director of Nationwide Building Society since July 2011.

Independent: Yes

Skills and experience (including directorships)

Lynne, a former Chief Executive of National Australia Bank's (NAB) UK business and Chief Executive of Woolwich plc, has over 25 years' senior management experience in a range of roles comprising brand development, mergers & acquisitions, change management and business transformation, including 15 years at Board level. During her time at NAB, Lynne was responsible for its businesses in the UK consisting of the Clydesdale and Yorkshire Bank. She became Chief Executive of Woolwich plc in October 2000 following its takeover by the Barclays Bank Group, having previously held a number of senior management and board positions at the Woolwich Building Society, both before and after its conversion to a public listed company in 1997. Lynne is a non executive director of Scottish Water and Standard Life plc.

9 Alan Dickinson MBA, BSc (Hons), FSS, FCIB, FCIBS (62)

Term of Office:

Non Executive Director of Nationwide Building Society since June 2010.

Independent: Yes

Skills and experience (including directorships)

Alan has spent more than 40 years in banking, originally joining the Royal Bank of Scotland in 1973, having started his career with Westminster Bank in 1968. He is an experienced retail and corporate banker and a former Executive Committee member of the RBS Group and Chief Executive of RBS UK. Alan is also a non executive director of Carpetright plc, Willis Limited, Brown Shipley & Co Limited and Frogmore Property Company Limited, a governor of the charity Motability and Honorary Treasurer of Surrey County Cricket Club.

10 Roger Perkin MA (Cantab), FCA (64)

Term of Office:

Non Executive Director of Nationwide Building Society since April 2010 and Senior Independent Director since July 2012.

Independent: Yes

Skills and experience (including directorships)

Roger is a former partner at Ernst & Young LLP and has spent 40 years in the accounting profession. During his time at Ernst & Young he worked with many blue chip clients and advised boards across the spectrum of financial services, including banking, insurance, fund management and private equity. He is also a non executive director at Electra Private Equity plc and Tullett Prebon plc and chairs the Audit Committee of both companies. Additionally, he is a trustee of two charities, Chiddingstone Castle and Crime Reduction Initiatives.

11 Mitchel Lenson MBA, BA (Hons), ACIB, FSI (58)

Term of Office:

Non Executive Director of Nationwide Building Society since July 2011.

Independent: Yes

Skills and experience (including directorships)

Mitchel has spent nearly 30 years in the financial services industry and is a former Group Chief Information Officer at Deutsche Bank with responsibility for IT and Operations for all operating divisions of the bank, including its retail banking operations. Mitchel was a member of the Executive Committee for both the Corporate and Investment Bank and the Private Client and Asset Management Division. He has also served as Managing Director, Global Head of Operations & Operations IT at UBS Warburg and as Director, Group Operations at Credit Suisse First Boston. Mitchel was a partner of Olivant & Co, an investment company providing strategic and operational expertise alongside investment capital to financial services businesses in Europe, the Middle East and Asia-Pacific and was a non executive director of NYFIX, a NASDAQ listed company.

Directors' report

For the year ended 4 April 2013

The directors have pleasure in presenting their Annual Report and Accounts for the year ended 4 April 2013.

As set out more fully in the Statement of Accounting Policies, this Annual Report and Accounts has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. All financial information given in this Directors' Report is taken solely from the statutory results prepared on this basis. Unaudited, like-for-like results which allow comparison between 2013 and 2012 are given in the Business Review.

The information that fulfils the requirements of the Accounting Standards Board's Reporting Standard 'Operating and Financial Review' (OFR) can be found in the following sections of the Annual Report and Accounts, which are incorporated into this report by reference:-

- Chairman's Statement
- Chief Executive's Review
- Business Review.

Business objectives

The principal purpose of the Society and its subsidiaries (the Group) is to provide a diverse range of personal financial services, offering competitive pricing and excellent service. Underpinning this objective are our core values, which are to be open, honest and fair in our dealings with customers, to deliver long term good value, and to provide a safe and secure home for our members' savings.

Business Review, future developments and Key Performance Indicators

The Group's business and future plans are reviewed in the Chairman's Statement, the Chief Executive's Review and the Business Review. The Group's principal Key Performance Indicators are reviewed in the Business Review.

Profits and capital

Profit before tax for the year ended 4 April 2013 was £210 million (2012: £203 million). The profit after tax transferred to the general reserve was £210 million (2012: £179 million).

Total Group reserves at 4 April 2013 were £6,580 million (2012: £6,159 million). Further details on the movements of reserves are given in the Group Statement of Movements in Members' Interests.

Gross capital at 4 April 2013 was £10,424 million (2012: £9,428 million) including £2,540 million (2012: £1,644 million) of subordinated debt and £1,304 million (2012: £1,625 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings at 4 April 2013 was 6.0% (2012: 5.2%) and the free capital ratio was 5.1% (2012: 4.5%). The Annual Business Statement gives an explanation of these ratios.

Mortgage arrears

The Group mortgage portfolios at 4 April 2013 included 2,415 mortgage accounts (2012: 2,793), including those in possession, where payments were more than 12 months in arrears. The total amount of principal loans outstanding in these cases was £334 million (2012: £420 million). The total amount of arrears in these cases was £28 million (2012: £34 million) or 0.02% (2012: 0.03%) of total mortgage balances. The mortgage arrears methodology is based on the Council of Mortgage Lenders' definition, which calculates months in arrears by dividing the balance outstanding by the latest contractual payment.

Charitable and political donations

Results for the year include charitable donations of £1,468,133 (2012: £1,511,579), including £567,500 (2012: £700,000) to the Nationwide Foundation, a report on which is given above. In addition the Society has contributed employee time for volunteering programmes at a cost of £382,875 in the year resulting in a total commitment to the community of £1,851,008. No contributions were made for political purposes. Time allowed to employees to carry out civic duties can amount to a donation. The Group supports a very small number of employees in this way.

Participation in the unclaimed assets scheme

The Society has participated in the Government-backed unclaimed assets scheme, whereby savings accounts that have been inactive for 15 years are eligible to be transferred into a central reclaim fund. The central reclaim fund has the responsibility for retaining sufficient monies to meet the costs of future reclaims for any previously transferred dormant account balances and to transfer any surplus to the Big Lottery Fund for the benefit of good causes which have a social or environmental purpose. The Society transferred £4,273,363 on 5 April 2012 to the Reclaim Fund Limited, the administrators of the unclaimed assets scheme. Subsequent to the year end the Society transferred an additional £3,781,868 to the scheme on 5 April 2013 so that total contributions from inception to that date are £40,378,342.

Creditor payment policy

The Group's policy is to agree the terms of payment with suppliers at the start of trading, ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations. The Group's policy is to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms.

The Society's creditor days were 15 days at 4 April 2013 (2012: 19 days).

Risk management

The Group seeks to manage all the risks that arise from its activities. There is a formal structure for monitoring and managing risk across the Group comprising a risk appetite agreed by the Board, detailed risk management policies, and independent governance and oversight of risk.

The financial risk management objectives and policies of the Group are shown in the Risk Management Report.

As a result of its normal business activities, the Group is exposed to a variety of risks, the most significant of which are:

- Lending risk
- Financial risk
- Operational risk
- Customer and compliance risk
- Strategic risk.

The Group has established a number of committees and policies to manage these risks. These are set out in the Risk Management Report and in the Report of the Directors on Corporate Governance.

In addition to these risks the Group is exposed to the effects of the economic cycle, particularly relating to the UK residential housing and commercial property markets, and the competitive nature of the UK personal financial services markets in which we operate. These are discussed in the Business Review.

Employees

Our culture is underpinned by PRIDE; this is understood by all our employees, delivers our member promise 'On your side' and is the combination of principles, values and behaviours that are both the core of our employment proposition and our ability to achieve fair customer outcomes. Our strategy aims to reach industry leading levels of employee engagement and enablement, maintaining our unique culture as the leading mutual financial services organisation.

A key component running through our strategy is the development of an inclusive culture in which employees can perform to their full potential. The Society reflects and represents its members and communities and through our Corporate Citizenship strategy we enable employees to support those communities with our volunteering programme.

We have continued to invest in the development of leaders and employees at every level, with a particular focus on identifying and developing key talent to ensure we have the capabilities and succession required to deliver our strategy. In addition, we recruit new talent that will support the delivery of our business objectives.

Our achievement of external recognition, including Investors in People Gold, Stonewall Top 100 and Times Top 50 Employers for Women awards and a Business in the Community Platinum

rating, enables us to benchmark our continuous improvement in communication, people management, recruitment and training.

The Society continues to consult actively with the Nationwide Group Staff Union. The Employee Involvement Committee, chaired by the Chief Operating Officer, acts as a forum where representatives from the business and the Union consult and share information on a range of business and employment issues to the benefit of our employees and our business.

It is the Society's policy to afford access to training, career development and promotion opportunities equally to all employees regardless of their race, creed, sex, marital status, age, physical or mental disability. Should employees become disabled, it is the Society's policy to continue their employment where possible with appropriate training and redeployment where necessary.

Directors' responsibilities in respect of the preparation of the Annual Report and Accounts

This statement, which should be read in conjunction with the Independent Auditors' Report, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, the directors' emoluments disclosures within the Report of the Directors on Remuneration, the Annual Business Statement and the Directors' Report.

As required by the Building Societies Act 1986 (the Act), the directors have prepared for the financial year, an Annual Report and Accounts which gives a true and fair view of the income and expenditure of the Society and the Group for the financial year and of the state of the affairs of the Society and the Group as at the end of the financial year, and which provides details of directors' emoluments in accordance with Part VIII of the Act and regulations made under it. The Act states that the requirements under international accounting standards achieve a fair presentation. In preparing the Annual Report and Accounts, the directors have:

- Selected appropriate accounting policies and applied them consistently
- Made judgements and estimates that are reasonable and prudent
- Stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepared the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority the directors have included a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group. This information is contained principally in the Business Review and the Risk Management Report.

Directors' report continued

In addition to the Annual Report and Accounts, as required by the Act the directors have prepared an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its connected undertakings.

In September 2010, the British Bankers' Association published a Code for Financial Reporting Disclosure (the BBA code). The BBA code sets out five disclosure principles together with supporting guidance. The principles are that UK financial institutions will:

- Provide high quality, meaningful and decision-useful disclosures
- Review and enhance their financial instrument disclosures for key areas of interest
- Assess the applicability and relevance of good practice recommendations to their disclosures acknowledging the importance of such guidance
- Seek to enhance the comparability of financial statement disclosures across the UK banking sector
- Clearly differentiate in their annual reports between information that is audited and information that is unaudited.

The Group and other major UK banks have continued to adopt the BBA code in their 2012/13 financial statements and the Group's financial statements have therefore been prepared in compliance with the code's principles.

The Group aims to continually enhance its disclosures and their usefulness to the readers of the financial statements in the light of developing market practice and areas of focus. This year we have continued to streamline and enhance disclosure to focus on significant information to assist readers, with specific focus on:

- Improved risk disclosures following the recommendations on qualitative principles and best practice of the Enhanced Disclosure Task Force published in October 2012
- Best practice and recommendations in accordance with the regulator's hot topics such as enhancing the report on the activities of the Audit Committee, loans subject to forbearance on the commercial and retail books and enhanced liquidity and funding disclosures.

A copy of the Annual Report and Accounts can be found on Nationwide Building Society's website at nationwide.co.uk (results and accounts section). The directors are responsible for the maintenance and integrity of statutory and audited information on the 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.

Directors' statement pursuant to the Disclosure and Transparency Rules

The directors confirm that, to the best of each person's knowledge and belief:

- The financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society
- The management report contained in the Business Review and the Risk Management Report includes a fair review of the development and performance of the business and the position of the Group and Society, together with a description of the principal risks and uncertainties that they face.

Directors' responsibilities in respect of Accounting Records and Internal Control

The directors are responsible for ensuring that the Society and its connected undertakings:

- Keep accounting records which disclose with reasonable accuracy the financial position of the Society and the Group and which enable them to ensure that the Annual Report and Accounts comply with the Building Societies Act
- Establish and maintain systems of control of its business and records, and of inspection and report.

The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Directors' responsibilities in respect of going concern

In preparing the financial statements the directors have satisfied themselves that it is reasonable for them to conclude it is appropriate to adopt the going concern basis in accordance with the Financial Reporting Council's guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' and IAS 1 Presentation of Financial Statements.

The Group meets its day to day liquidity requirements through managing both its retail and wholesale funding sources and is required to maintain a sufficient buffer over regulatory capital requirements in order to continue to be authorised to carry on its business.

The Group's business activities, its financial position and capital structure, together with factors likely to affect its future development and performance are set out in the Chief Executive's Review and the Business Review. In addition the Group's risk management and control processes for managing exposure to credit, liquidity, funding market and operational risks are described in the Risk Management Report.

The Group's forecasts and projections, taking account of possible changes in trading performance and funding retention, and including stress testing and scenario analysis, show that the Group will be able to operate at adequate levels of both liquidity and capital for the foreseeable future. Furthermore the Group's capital ratio is comfortably in excess of the Prudential Regulation Authority (PRA) requirement.

After making enquiries the directors 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 the financial statements.

Directors

The directors of the Society who were in office during the year and up to the date of signing the financial statements were:

Geoffrey Howe
(Chairman)

Graham Beale
(Chief Executive)

Tony Prestedge
(Chief Operating Officer)

Mark Rennison
(Group Finance Director)

Chris Rhodes
(Group Retail Director)

Rita Clifton
(Appointed to the Board 1 July 2012)

Alan Dickinson

Michael Jary

Mitchel Lenson

Lynne Peacock

Roger Perkin
(Senior Independent Director from 19 July 2012)

Former Directors:

Suzanna Taverne
(Retired from the Board 19 July 2012)

Robert Walther
(Deputy Chairman and Senior Independent Director until retired)
(Retired from the Board 19 July 2012)

Matthew Wyles
(Executive Director Group Distribution)
(Stepped down from the Board 3 December 2012)

The Board has agreed that in accordance with the revised UK Corporate Governance Code (see the Report of the Directors on Corporate Governance) that all the directors will stand for election or re-election on an annual basis. In accordance with these requirements Rita Clifton will stand for election and the remainder of the directors will stand for re-election at the 2013 Annual General Meeting.

None of the directors has any beneficial interest in equity shares in, or debentures of, any connected undertaking of the Society.

The auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors will be proposed at the AGM.

Geoffrey Howe
Chairman
21 May 2013

Report of the Directors on Corporate Governance

For the year ended 4 April 2013

Dear Member

The regulatory environment in which the Society operates has continued to evolve at a fast pace over the past twelve months and this is expected to continue in the year ahead with the Financial Services Authority (FSA) replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) with effect from 1 April 2013.

2012 saw considerable changes in the regulatory framework including changes to the UK Corporate Governance Code (the Code), Guidance on Audit Committees and the Stewardship Code. This has continued into 2013 when government legislation on directors' remuneration and narrative reporting comes into effect. Also the Financial Reporting Council will publish updated guidance on risk and internal control and the going concern assessment, and the European Commission will begin to implement its action plan on company law and corporate governance and its directive on gender diversity.

As recommended by the PRA, the Society takes into account the content of the Code and this report indicates how it has sought early compliance with the Building Societies Association's guidance thereon which applies to accounting periods beginning on or after 1 October 2012.

Although a number of these new and proposed regulations relate primarily to listed companies the Society seeks, where appropriate, to adopt best practice reporting in respect of corporate governance as you would expect from a leading retail financial services provider. However, it is important to remember that unlike the majority of our competitors we are not owned by shareholders whose prime objective is to maximise profits. As a member owned organisation we have a number of primary objectives of which optimising profit is one but not to the detriment of our mutual values. The Society's strategic goals are set out in this document and include the aim to be the clear number one in customer satisfaction, with a demonstrable lead over the next best competitor.

My Chairman's Statement provides an overview of the key areas of focus for the Board during the 2012/13 reporting period and this Report provides an update on the work and operation of the Board and the governance framework which seeks to ensure the Board continues to provide strong and effective leadership.

Geoffrey Howe

Chairman

What is the Board's role in running the Society?

The Board's primary role is to focus on the formulation of strategy and review of business performance, and it is also responsible for ensuring that risks are appropriately identified and managed, and that a sound system of internal controls is in place. Management's performance is monitored against the delivery of the Corporate Plan, which sets the Society's strategy for the next five years. The Corporate Plan is thoroughly reviewed annually and assessed on the basis of current and prospective market conditions. The Board is responsible for establishing the guidelines within which the business is managed and for ensuring the long term success of the Society, and must be aware of the Society's obligations to its members and other stakeholders and to ensure it is responsive to their changing demands.

Is the Society compliant with the UK corporate governance code?

The Board considers that the Society complied with the BSA Guidance for Building Societies on the Code (a copy of which is available on nationwide.co.uk) during 2012/13. The new Code requires disclosures on our business model and strategies for delivering our objectives and these are addressed in the Business Review and the Risk Management Report. This report sets out how the Society has applied the main principles and complied with the provisions of the Code.

What matters are reserved for the Board?

The Board's terms of reference are available at nationwide.co.uk and include a number of specific matters reserved to the Board. Outlined below is an overview of the principal matters:

Strategy and management

- Responsibility for the overall management of the Group
- Approval of the Group's long term objectives and commercial strategy
- Approval of the Group's annual operating and expenditure budgets
- Review of performance in the light of the Group's strategy, objectives, business plans and budgets
- Any material extension of the Group's activities.

Structure, capital and funding

- Changes relating to the Group's capital structure including capital raising activity
- Major changes to the Group's corporate structure
- Changes to the Group's management and control structure
- Any change to the Society's mutual status
- The principles of any new forms of wholesale funding and capital instruments.

Financial reporting and controls

Approval of:

- Preliminary announcements of interim and year end results
- The Annual Report and Accounts
- Any significant changes in accounting policies or practices
- Corporate expenditure over £10 million which either does not fall within the budget approved by the Board or falls within the application for financial investment appraisal process.

Internal controls and risk management

- Ensuring maintenance of a sound system of internal control and risk management
- Approval of the Group's risk appetite, risk management framework, key regulatory documents and Contingency Funding Plan
- The Board Risk Committee will advise the Board on risk matters and highlight significant risks.

Lending

Approval of:

- Recommendations from the Executive Risk Committee
- Treasury counterparty exposures in excess of the Executive Risk Committee's mandate.

Board membership

- Changes to the structure, size and composition of the Board, following recommendations from the Nomination Committee
- Ensuring adequate succession planning for the Board and senior management
- Appointments to the Board
- Appointment, reappointment or removal of the external auditor to be put to members for approval, following the recommendation of the Audit Committee.

Remuneration

- Determining the remuneration policy for the directors
- The introduction of new incentive plans for executive, group or divisional directors or major changes to existing plans.

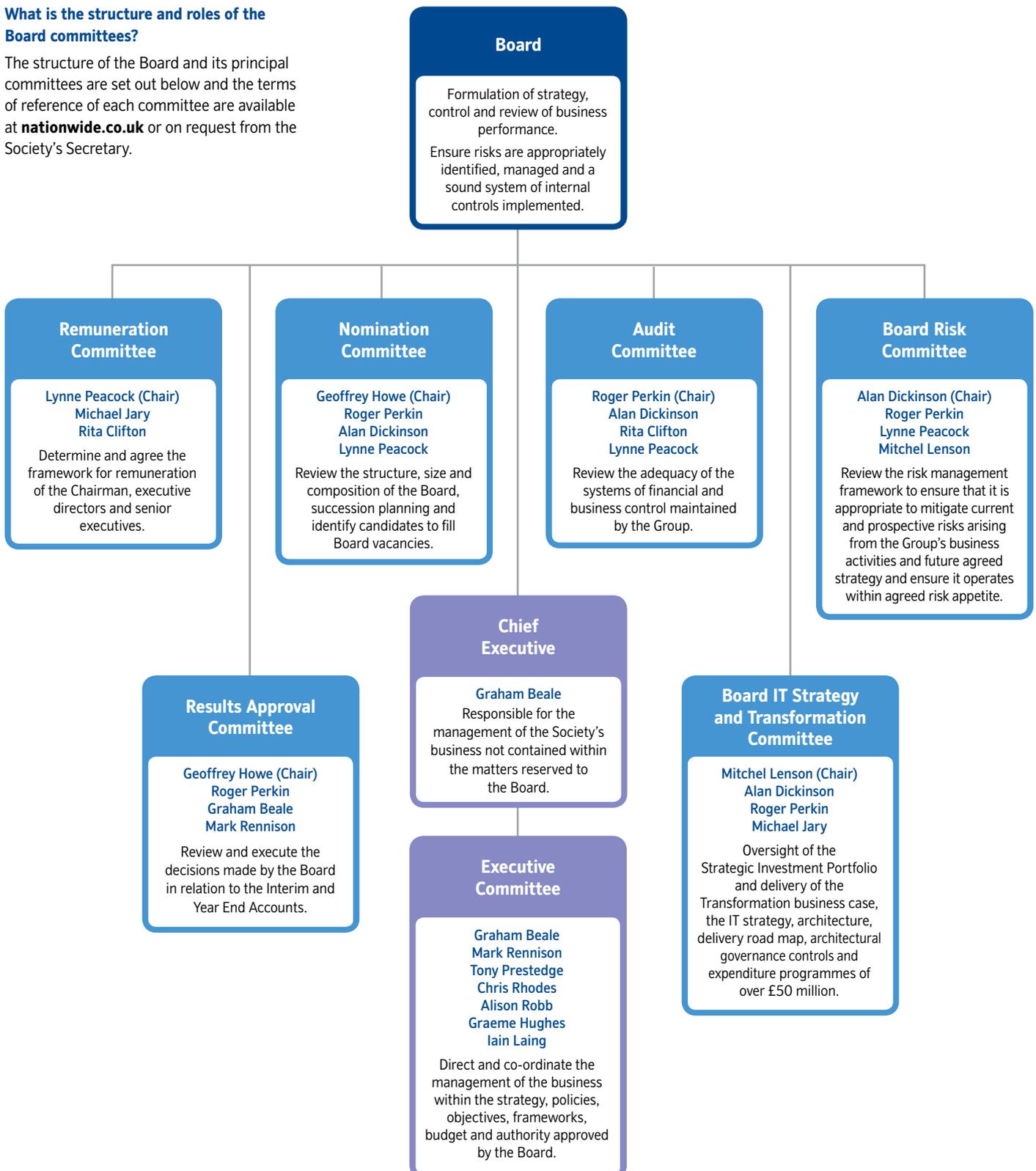
Corporate governance matters

- Undertaking a formal and rigorous review annually of its own performance, that of its committees and individual directors
- Review of the Group's overall corporate governance arrangements.

Report of the Directors on Corporate Governance continued

What is the structure and roles of the Board committees?

The structure of the Board and its principal committees are set out below and the terms of reference of each committee are available at nationwide.co.uk or on request from the Society's Secretary.



What roles do the Chairman and Chief Executive play in running the Society?

The roles of the Chairman and Chief Executive are separate and clearly defined and have been set out in writing and approved by the Board. No individual has unfettered powers of decision making.

The Chairman is responsible for ensuring a high quality of decision-making at Board level which is facilitated by focused and concise Board reporting, the provision of an open and inclusive forum which provides the opportunity for all directors to contribute to Board discussions, with a clear process for agreeing actions, timescales and responsibilities. The Chief Executive is responsible for directing and co-ordinating the management of the Group's business.

Summaries of the Chairman's and Chief Executive's roles are set out below:

Chairman

- Providing leadership to the Board of directors and management of Board meetings
- Ensuring the effectiveness of the Board of directors and the development and evaluation of directors
- Fostering a culture of open dialogue and mutual respect between executive and non executive directors
- Leading open and honest debate at Board meetings and constructive challenge to the executive decisions
- Together with the other Board members, setting and challenging the strategic direction and risk appetite of the Society
- Together with the other Board members, promoting the long term success of the Society and ensuring the accountability of the Society.

Chief Executive

- With the support of the Executive Committee, directing and co-ordinating the management of the Group's business generally
- With the support of the Executive Committee, leading the Executive Risk Committee to monitor the Group's risk profile and performance and oversight of the Group's risk management committees
- Implementing and monitoring systems for apportionment and oversight of responsibilities, controls and best practices, policies and processes within the Group
- Establishing and maintaining effective working relationships with the Chairman, the Board and all directors and officers of the Group and being available to the Chief Internal Auditor, the Compliance Officer and the Chief Risk Officer
- Establishing and maintaining effective working relationships with regulators, the Government, industry sector analysts, trade organisations and the media and strategically influencing and lobbying these bodies as and when appropriate in the best interests of the Group
- Promoting the Group, its good corporate image and social standing in the UK financial services industry.

What role does the Board of directors' play in running the Society?

As at 4 April 2013 the Board comprised the Chairman, four executive directors and six non executive directors. All of the non executive directors, including the Chairman at the time of his appointment, are considered to be independent based on the guidance in the Code. Biographical details of each of the directors, together with their Board Committee memberships are set out in the Board of directors section of this report.

The role of the Executive Committee is to direct and co-ordinate the management of the business within the strategy, policies, objectives, frameworks, budget and authority approved by the Board. This Committee acts as a decision making forum, comprising the executive and group directors who assist the Chief Executive with his responsibilities.

The non executive directors' role is to bring an external and independent view to support, and as necessary, challenge the work and recommendations of the senior management team. The roles and responsibilities of the non executive directors are set out in their appointment letters and additional job information summaries. Their key responsibilities, which are mainly supervisory, are to monitor business performance and provide constructive challenge, advice and recommendations on matters relating to the strategy and performance of the Society, present and future availability of resources, and standards of conduct, compliance and control throughout the Group generally. The non executive directors have a responsibility to bring independent judgement to discussions held by the Board, using their breadth of experience and understanding of the business to provide effective challenge.

Roger Perkin was appointed as the Senior Independent Director (SID) following the retirement of Robert Walther at the AGM in July 2012. The role of the SID is to provide support to the Chairman in his role of leading and managing the Board, ensuring the views of all other directors are conveyed to, and given due consideration by the Chairman, ensuring the views of members and other stakeholders are conveyed and in conjunction with the other non executive directors, leading the evaluation of the Chairman's performance and succession planning for the Chairman.

The Group's High Level Business Controls Manual sets out Board members' individual responsibilities, the Society's governance and management structure and delegated authorities to management. The manual is reviewed annually by the Audit Committee and regularly updated for developments in the Group's governance and management structure.

The non executive directors are expected to commit a minimum of 30 days per annum in exercise of their duties; however, membership of the various board committees extends this time commitment, particularly in respect of the committee chairs. The Chairman spends a minimum of two and a half days a week on the Society's business and details of his other directorships, which remained unchanged during the year, are in the Board of Directors section of this report. The Board believes that the Chairman remains wholly committed to his role and allocates sufficient time to meet its demands. As part of the director's performance review, as explained overleaf, consideration is given to ensuring that each director is able to allocate sufficient time to discharge their responsibilities effectively.

The Chairman and the non executive directors meet at least once a year without the executive directors present.

Report of the Directors on Corporate Governance continued

The attendance of individual Board members during the year, with the number of meetings each is eligible to attend shown in brackets, is set out below:

Current Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Board Risk Committee	Board IT Strategy & Transformation Committee	Results Approval Committee
Graham Beale*	13 (13)	-	-	-	-	-	2 (2)
Rita Clifton (Appointed as a director on 1 July 2012)	10 (10)	4 (5)	-	5 (5)	-	-	-
Alan Dickinson	13 (13)	6 (6)	5 (5)	-	6 (6)	4 (5)	-
Geoffrey Howe	13 (13)	-	5 (5)	-	-	2 (2)	1 (2)
Michael Jary	13 (13)	-	-	7 (7)	-	4 (5)	-
Mitchel Lenson	13 (13)	-	-	-	6 (6)	5 (5)	-
Lynne Peacock	13 (13)	6 (6)	3 (3)	7 (7)	2 (2)	-	-
Roger Perkin	13 (13)	6 (6)	5 (5)	-	6 (6)	4 (5)	2 (2)
Tony Prestedge*	13 (13)	-	-	-	-	-	-
Mark Rennison*	13 (13)	-	-	-	-	-	2 (2)
Chris Rhodes*	13 (13)	-	-	-	-	-	-

Former Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Board Risk Committee	Board IT Strategy & Transformation Committee	Results Approval Committee
Suzanna Taverne (Retired as a director on 19 July 2012)	4 (4)	2 (2)	-	1 (2)	-	-	-
Robert Walther (Retired as a director on 19 July 2012)	4 (4)	-	2 (2)	2 (2)	2 (2)	-	-
Matthew Wyles* (Ceased to be a director on 3 December 2012)	9 (9)	-	-	-	-	-	-

*Executive directors

What were the main issues considered by the Board during the year?

During the year the Board held 13 meetings, including a strategy conference in September.

At its scheduled meetings the matters considered by the Board included the following items:

- Regular reports from the Chief Executive and Group Finance Director covering updates on business performance, customer service/experience and financial position including capital, liquidity and funding
- Review of the interim and annual results
- Papers on people related developments including diversity and inclusion, board composition and succession planning
- Papers on business strategy
- Economic and market conditions and outlook
- Reports on the Group's overall risk profile relative to its stated risk appetite and limits
- Member engagement
- Regulatory reports and updates on market developments
- Minutes and reports from the chairs of the board committees and governance updates.

How has the Board's composition changed during the year?

As referenced in last year's report, following a review by the Nomination Committee, it had been agreed to further strengthen the Board through the recruitment of a non executive director with a strong market research/consumer background. In recommending appointments to the Board, the Nomination Committee considers the mix of relevant skills, knowledge and experience of the current directors and identifies where there are potential gaps and a role specification is produced for use by an external search consultant.

Following a comprehensive search the Nomination Committee recommended to the Board the appointment of Rita Clifton who has over 20 years' senior management experience in a range of roles, with an expertise in demonstrating how brand is an integral part of long term business strategy and in analysing and understanding consumer perceptions and behaviours. Her executive career has been in advertising, strategic marketing and market research; she was previously Chairman and Chief Executive at Interbrand UK Ltd, and prior to that Vice Chairman at Saatchi & Saatchi. Ms Clifton was appointed on 1 July 2012 and also holds several other non executive roles.

Robert Walther and Suzanna Taverne retired from the Board at the AGM in July 2012. On 3 December 2012, Matthew Wyles stood down from his executive responsibilities following a restructuring which involved the consolidation of all retail activities under the leadership of Chris Rhodes, Group Retail Director. Mr Wyles continued to be employed in an advisory capacity until April 2013.

In addition to fulfilling the requirements of the role specification all directors must meet the tests of fitness and propriety laid down by the regulators and are required to be registered as an 'approved person' in order to fulfil their 'controlled function' as a director. Additionally, members of the Society have the right under the Society's Rules to nominate candidates for election to the Board. No such nominations had been received by 4 April 2013, which was the deadline for the AGM in 2013.

The Board has agreed that in accordance with the Code all the directors will stand for election or re-election on an annual basis and in accordance with these requirements Rita Clifton will stand for election and the remainder of the directors will stand for re-election at the AGM in July 2013.

The terms and conditions of appointment of the non executive directors are available for inspection from the Group Secretary upon request.

Has the Board carried out an effectiveness review during the year?

The Board has a well-established induction and development programme for both new and existing directors which has been strengthened over the past few years. A comprehensive and structured induction programme is now in place to enable new directors to make an early and effective contribution. A formal development and training framework for non executive directors ensures that so far as possible they are provided collectively and/or individually with the inputs and information necessary for them to understand the business and raise effective challenge. The directors attend quarterly training/learning sessions to address a range of both Society specific and market related issues which during the year included the Retail Distribution Review, rating agencies and board risk appetite.

Twice yearly review meetings are held between the Chairman and each non executive director. As part of the process the Chairman identifies where there are opportunities to fill in any gaps in knowledge and/or expertise with appropriate training either from within the Society or externally and to also identify areas of the business on which that director might wish to focus. This regular dialogue between the Chairman and each of the non executive directors ensures that feedback is provided about the way the Board is working and how the director is contributing and can continue to contribute in the future and provides an important input into the analysis of the Board's ongoing performance.

For 2012/13 the evaluation of the Chairman's performance formed part of the Board evaluation process and involved input from all the Board members led by the SID. As was the case last year, it was concluded that the Chairman continued to lead the Board in a constructive and collaborative manner. Executive directors were assessed against agreed performance objectives by the Chief Executive, whose performance was in turn evaluated by the Chairman. There were two core elements to the executive

Report of the Directors on Corporate Governance continued

directors' objectives and targets, namely, divisional performance and individual leadership performance. Divisional performance was aligned to the strategic agenda items and quantitative and qualitative measures were used to determine the resultant outcome. Individual leadership performance was based on eight pre-determined success factors including leadership capability, corporate responsibility and reputation, strategic contribution, financial and risk management, and customer satisfaction.

In 2011/12 an alternative approach, which combined elements of external and internal evaluation, was adopted for the Board, committee and director evaluation process and the key outputs related to the Board composition, the dynamics of the Board debate and strategic priorities. In response to these issues a new non executive director was appointed in July 2012, a revised Board and Committee paper template was implemented in May 2012 and a schedule of strategic themes was agreed and incorporated into the Board forward agenda.

In accordance with the Code an external evaluation of the Board, its committees and the directors should be carried out every three years. For the 2012/13 reporting period Dr Tracy Long, from Boardroom Review was engaged to carry out a comprehensive performance review of the Board both collectively and as individuals and identify areas where it could improve its effectiveness. The outcome of this process will be reported in next year's report. Boardroom Review has no other connections with the Society.

Although an overview of the principal Board committees' performance formed part of the above external evaluation process the committees each carried out separate evaluations of their own performance, led by the committee chairmen, with input provided by each committee member and regular attendees. Recommendations from these evaluations were implemented during the year. In order to ensure that all the directors are fully aware of the issues being considered by each of the Board committees regular written updates are now provided by the committee chairmen and form a part of the formal Board reporting process, together with the circulation of the meeting minutes.

All directors have access to the services and advice of the Group Secretary and are able to obtain independent, professional advice on matters relating to their responsibilities. Under the Society's Rules and to the extent permitted by law, directors have been granted an indemnity by the Society in respect of any third party liabilities which they incur as a result of holding office. This policy was in force during the financial year and at the date of approval of this report.

The Board has an established conflicts of interest policy and has implemented procedures for reviewing and, as appropriate, authorising situations where conflict arises. Directors have an ongoing obligation to declare the nature and extent of any interest before an appointment is taken up or proposed contract,

transaction or arrangement is entered into. The Chairman or SID has been delegated with the authority to authorise interests and directors notify such interests as and when they arise and these are confirmed on an annual basis with the Nomination Committee reviewing the Register of Interests in April each year.

Does the Board have a succession policy?

During the year the Nomination Committee reviewed the Group's talent and succession strategy which focused on extending and strengthening the talent pipeline and increasing the available pool of talent for senior executive and director roles. Talent forums have been established and a range of programmes are in place to identify and develop talent across the business and include the Senior Executive Development Programme, Next Generation Leadership Programme, Future Leader Programme, Graduate Programme and various functional academies at divisional level.

The Board Composition and Succession Plan is reviewed by the Nomination Committee annually and if any changes are recommended they are then approved by the Board.

The Executive Committee executes the talent strategy and during the year a comprehensive review of senior executive talent with succession plans was carried out. Good progress was reported following the implementation of the talent strategy presented to the Board in November 2011.

In March 2013 the Board reviewed the talent and succession management strategy.

What role does the Nomination Committee play?

The Nomination Committee comprises Geoffrey Howe (Chairman), Roger Perkin, Alan Dickinson and Lynne Peacock.

The Nomination Committee keeps under review the structure, size and composition (including diversity) of the Board, and considers succession planning for Board members, group directors and divisional directors. Before any Board appointments are made, the Committee evaluates the balance of skills, knowledge and experience required and identifies suitable candidates, using external advisers, as appropriate, to facilitate the search. A role specification is drawn up for all Board appointments. See the section above headed 'How has the Board's composition changed during the year?' for more information on specific activity in the year.

During the year the Committee agreed a schedule of items for consideration which includes annual reviews of director development, the Register of Directors' Interests, Board composition and senior executive talent and succession, as well as papers on the time commitment of non executive directors and the annual Board effectiveness review process.

Annually the Committee reviews its own performance and terms of reference to ensure it is operating at maximum effectiveness, and recommends any changes considered necessary to the Board.

The services of Spencer Stuart, who have no other connection with the Society, were utilised in the recruitment of Rita Clifton.

Does the Board consider diversity and inclusion?

During the year both the Board and the Nomination Committee have remained committed to improving diversity and inclusion from a Board and Society wide perspective. This is articulated through our strategy and is demonstrated through the significant progress that has been made.

The strategy makes clear that our aim is to reflect the diversity of our membership in our employee base, achieve improved employee engagement and build our reputation in this area. The execution of the diversity and inclusion strategy has involved active executive sponsorship of the five diversity and inclusion groups, the establishment of employee-led networks for those groups and external recognition from the Times Top 50 for Women, Stonewall, Race for Opportunity and Opportunity Now. We are also focused on building a more diverse talent pipeline through our recruitment approach and development programmes.

With regard to gender diversity, all our preferred executive search suppliers have been required at our request to adopt the 2011 voluntary code of conduct that was drafted by leading search firms as a response to Recommendation 8 of the Davies Report into 'Women on Boards'. Nationwide has seen Board gender diversity enhanced through the appointment of Lynne Peacock and Rita Clifton as non executive directors. It remains our belief that establishing quotas or targets for the composition of the Board is not appropriate and the overriding issue is the selection of the best candidate, irrespective of background.

Considerable momentum has been achieved with regard to diversity and inclusion at Nationwide and we will continue to build on this by recognising further opportunities for the Board and the Society as a whole to enrich all aspects of diversity for the benefit of the organisation, our employees and our members.

What role does the Remuneration Committee play?

The Remuneration Committee comprises Lynne Peacock (Chair), Michael Jary and Rita Clifton.

The Remuneration Committee determines and agrees with the Board the framework for the remuneration of the Chairman, the executive directors and the other senior executives of the Society. A comprehensive review of its activities in the year is set out in the Report of the Directors on Remuneration.

What role does the Audit Committee play?

As at the date of this report the Audit Committee comprises four non executive directors: Roger Perkin (Chairman), Alan Dickinson, Lynne Peacock and Rita Clifton. Roger Perkin, a former partner at Ernst & Young LLP, has recent and relevant financial experience by virtue of his previous role, together with his other non executive directorships, and holds a relevant qualification.

By invitation, Audit Committee meetings are also attended by the Chairman of the Board, the Chief Executive, Group Finance Director, Divisional Director – Financial Reporting and Tax, Chief Risk Officer, Chief Internal Auditor and the external auditors.

The responsibilities of the Audit Committee are:

- Monitoring the integrity of the financial statements, including accounting policies, methods and judgements and the clarity of disclosure
- Keeping under review the adequacy and effectiveness of internal controls, including internal financial controls and controls over regulatory compliance
- Monitoring and reviewing the effectiveness of the Internal Audit and Compliance Oversight functions, including approval of the annual plans of both
- Overseeing the relationship with the external auditor, including monitoring objectivity and independence.

The Terms of Reference of the Audit Committee are available on the corporate governance section of the Nationwide website.

What activities were undertaken by the Audit Committee during the year?

The Committee held six meetings during the year, attendance at which is shown earlier in this report.

The main matters considered by the Committee during the year were:

Financial reporting

The Committee considered in detail a number of aspects of accounting policy and judgement, with emphasis on a number of specific items:

- The calculation of the effective interest rate for savings products, to ensure that where a bonus rate applies for an initial period, the bonus is recognised over an appropriate period of time, based on analysis of customer behaviour since these product types were introduced in 2009. The Committee concluded that sufficient evidence is available to establish a reliable expected life of these products, and that a change of period used to calculate the effective interest rate was appropriate.
- Impairment provisions for loan portfolios. Provision for credit losses is a key area of judgement, particularly in the current economic climate, and the Committee has reviewed the performance of loan portfolios and associated provisions regularly. The Committee also reviewed the decision to release fair value adjustments related to credit losses that were made against loans acquired when Nationwide merged with the Cheshire and Derbyshire building societies in 2008, and acquired parts of the business of the Dunfermline Building Society in 2009. This release reflects that there is now sufficient evidence of loan loss experience being lower than originally estimated to conclude that not all of the remaining fair value adjustment is needed to cover future credit losses on these loans.

Report of the Directors on Corporate Governance continued

- Impairment of Commercial loans has been a significant area of focus for the Committee, with detailed papers assessing both individual and collective provisions discussed. The Committee also considered in detail the implications for the Group of a letter from the Financial Services Authority to lenders concerning the application of loan impairment methodologies to Commercial Real Estate portfolios. In particular, the Committee discussed management's approach in using a range of trigger events for provision assessment, and consideration of re-financing risk. The Committee was satisfied with the overall calculation of provisions against the loan portfolio.
- Provisions for customer redress for sales of payment protection insurance (PPI). The volume and associated cost of PPI claims has continued to be significant. The basis of provision, including assumptions made regarding the number of claims, value of redress and cost of administration, was considered in some detail and the Committee was satisfied that the provision made represents management's best estimate of the liability associated with past sales.
- Fair values of derivatives and hedge accounting. This represents a potential source of volatility in the income statement and the Committee reviewed and was satisfied with the accounting for, and drivers of fair value changes in, derivatives used to hedge interest rate, currency and basis risk and the assessment of hedge effectiveness.
- Enhanced disclosures have been recommended by the 'Enhancing Risk Disclosures of Banks' report issued by the Enhanced Disclosure Task Force (EDTF) in October 2012. The Committee discussed the report and were satisfied that the Group will be in a position where it will comply or substantially comply with the recommendations of the EDTF.
- The Group's policy for inclusion of specific items within underlying profit in the income statement was discussed, and the principles to be used were agreed.

Internal control

During the year the Committee considered a number of aspects of internal control, including:

- Quarterly updates from Group Internal Audit setting out conclusions from their work across all areas of Nationwide's business. The Committee discussed in some detail any themes arising from audit reporting and actions taken by management to address them, and also the timeliness with which management addresses control issues raised in audit reports. The Committee approved the Audit Plan for the 2013/14 financial year.
- Quarterly updates from the Compliance Oversight function, giving details of the results of review work undertaken. Given the importance to Nationwide of delivering fair customer outcomes, the work of Compliance Oversight is heavily focused on retail conduct of business and the effectiveness of the regulatory control environment across the business, and the Committee discussed measures to

safeguard this in some detail throughout the year. The Compliance Oversight plan for 2013/14 was also approved.

- The Committee also received a number of updates on management of Conduct risk and proposed developments in Nationwide's approach to monitoring delivery of customer outcomes, which will continue to be a key area of focus.
- The Committee received updates on a number of key initiatives to further mature the control environment, including progress of the programme to enhance the financial control framework and in implementing an end to end process ownership model to formalise control accountabilities and improve process efficiency.
- Updates were received on Anti-Money Laundering controls and also on whistleblowing arrangements in place to enable employees to raise concerns in confidence. A summary of the concerns raised was reviewed; the number of reports has not changed significantly and no new significant matters were noted.
- A number of specific areas of internal control were discussed, with detailed papers presented by management. One such subject was the information technology control environment, following well-publicised technology issues in financial institutions, and the scope and results of recent Internal Audit work in this area. Papers on fraud management and oversight of third party administration of mortgage accounts were also presented, and the implications of any operational incidents were considered.

What is the oversight process for Internal Audit and External Audit?

Internal Audit

Each quarterly report presented by the Chief Internal Auditor included a summary of performance measures for Group Internal Audit, and a detailed paper was presented giving a detailed self-assessment of the effectiveness of Internal Audit. This includes confirmation that the internal audit function complies with the requirements of auditing standards set by the Institute of Internal Auditors (IIA), as well as feedback from management and details of key performance metrics. The Chief Internal Auditor also presented a paper summarising recent recommendations by the IIA for guidance on effective internal audit in financial institutions, and implications of this for Nationwide's audit function. Internal Audit's plans for development of the audit function, including resourcing, were discussed with the Committee.

External Audit

The Committee reviewed the proposed audit plan presented by the external auditor, including discussion of key risk areas to ensure that the focus of the audit work is fully understood, and of audit materiality assessment. The audit plan includes an explanation of how the external auditor works with Internal Audit to maximise efficiency. The Committee also approved the audit engagement letter and the proposed audit fee for the year.

The Committee carried out the annual formal assessment of the effectiveness of the external auditor. This included assessment of the expertise, resources and independence of the external auditors and the effectiveness of the audit process, taking into account the views of a number of business stakeholders as well as Audit Committee members. The conclusions were that the audit is carried out effectively, with robust and transparent discussions with management on key areas of judgement and clear, comprehensive reporting to the Committee.

Reports were provided by the external auditors at the conclusion of the review of the interim financial statements and the Annual Report and Accounts, which were considered by the Committee prior to recommending approval of the financial statements.

These reports set out:

- The work carried out on the areas of most significant risk, in particular where accounting assumptions and estimates had been applied, and how they had satisfied themselves that these were reasonable
- Their views on any judgements made in applying accounting policies
- A summary of any misstatements identified during the course of testing.

The principal matters discussed with the external auditors were those areas of accounting judgement and estimate noted above. There have been no disagreements with the external auditors.

In considering whether to recommend the reappointment of the external auditor, and also whether the external audit contract should be put out to tender, the Committee discussed the length of tenure of PricewaterhouseCoopers LLP (PwC) as external auditor, and the regular rotation of the audit partner. PwC has been auditor to the Society since 1991, and the last audit re-tender was in 2003. The Committee continues to be fully satisfied with the quality of the audit, including the objectivity and independence of PwC and has therefore recommended reappointment of PwC at the Annual General Meeting. The new requirement in the Corporate Governance Code means that the audit contract will be put out to tender at least every ten years, and under the transitional provisions this means that the contract will be re-tendered no later than 2019.

How is the objectivity and independence of the external auditor safeguarded?

In order to safeguard auditor objectivity and independence, the Audit Committee has a formal policy for the engagement of external auditors for non-audit services. The policy sets out permitted and prohibited services, and also specifies types of non-audit work which present a low risk to independence and are pre-approved as a matter of policy, and those which require specific Audit Committee pre-approval for each engagement. Before approving proposals to appoint the external audit firm for non-audit work, the Committee considers whether the firm is demonstrably

the most appropriate firm for the work, and evaluates threats to independence including the risk of self-review or involvement in management decisions. The Committee also considers the significance of the fees involved in the assignment and the cumulative value of non-audit fees paid to the firm. A schedule of fees for non-audit work was reviewed at each Committee meeting. The fees paid to the external audit firm for audit and non-audit services are set out in note 9 to the accounts, showing an increase in fees paid for non-audit services compared with the prior year. The Committee is sensitive to the level of non-audit fees paid and the potential for high levels of fees over a sustained period to affect objectivity. The Committee is satisfied that the requirement for the external auditor to demonstrate that they were the most appropriate firm to provide the services, given the particular circumstances of each assignment, was met in all cases.

To ensure independence, the Committee held private discussions with the external auditors, the Chief Risk Officer and the Chief Internal Auditor during the year. The Audit Committee Chairman held regular meetings with the Chief Internal Auditor, the Compliance function and the Group Finance Director during the year, as well as a number of meetings with representatives from the Financial Services Authority. The Chairmen of the Audit Committee and the Board Risk Committee also meet regularly to ensure that the activities of the two committees are appropriately co-ordinated.

How does the Audit Committee report to the Board and assess its effectiveness?

Immediately following each Audit Committee meeting, the Chairman of the Audit Committee provided a verbal update to the Society's Board of Directors on matters discussed by the Audit Committee. A formal written paper was also presented by the Chairman of the Audit Committee to the Board three times during the year, setting out matters considered by the Committee and conclusions reached.

The Audit Committee conducted a formal review of its effectiveness, including a detailed review of its activities and terms of reference against published guidance and best practice, and analysis of assessment questionnaires completed by Committee members and attendees including the Chairman of the Board, the Chief Executive, the Group Finance Director and the external auditors. The conclusion of this review was that the Committee is operating effectively.

As part of the ongoing training and development of Board members, the Committee members receive periodic updates on relevant business and technical subjects outside Committee meetings. This included hedge accounting, future changes to accounting standards and developments in Conduct of Business risk and control.

The Society has complied with the recommendations included in the Financial Reporting Council's Guidance on Audit Committees.

What role does the Board Risk Committee play?

Report of the Directors on Corporate Governance continued

The BRC comprises four non executive directors: Alan Dickinson (Chairman), Roger Perkin, Lynne Peacock and Mitchel Lenson. The Chairman of the Board and the Chief Executive are not members of the Committee although they usually attend meetings by invitation. The Group Finance Director and the Chief Risk Officer are expected to attend Committee meetings, with other directors and senior managers invited to attend, as appropriate. Under its terms of reference, the BRC's responsibilities include reviewing and making recommendations to the Board about risk appetite, detailed risk strategies, frameworks, policies, models and limits for risk as defined in the ERMF. The Committee is also responsible for reviewing and challenging the Group's assessment and measurement of key risks, providing oversight and challenge to the design and execution of stress testing, and monitoring the performance of the ERC.

The Committee met six times during the year and is scheduled to meet six times in 2013/14. During the year it monitored the Group's key risks and associated metrics, ensuring that any action undertaken to mitigate these risks are appropriate. It has also reviewed and recommended to the Board a revised risk appetite and considered the results of a number of stress testing scenarios, including the FSA Anchor Stress Test and reverse stress testing. The Committee also approved revisions and enhancements to the ERMF and risk strategies for the principle risks that set out the context and measures for the management of those risks.

Other areas of risk discussed include the Individual Liquidity Adequacy Assessment and Internal Capital Assessment submissions to the PRA, potential impacts of changing regulation, asset quality reviews (Retail, Commercial and Treasury), a review of the Society's Pension Fund investment strategy and risks, remuneration risk, and recovery and resolution plans. The Committee has also been informed by in-depth reviews of conduct of business risk, developments in the Eurozone, capital management, model risk, IT change management and controls in sales processes.

Following these reviews, the Committee is satisfied that the Group's risk appetite, Enterprise Risk Management Framework, risk policies, strategies and approach to stress testing are appropriate.

Does the Society have risk management and internal control procedures in place?

Nationwide's system of internal control is designed to enable the Group to achieve its corporate objectives within a managed risk profile, not to eliminate risk. The principal categories of risk inherent in the Group's business are described in greater detail in the Risk Management Report under the heading Controlling and Managing Risk, together with an explanation of the structure adopted within the Group for managing risk and enhancements made during the year. This section sets out the context of the

Board Risk Committee (BRC) and the Executive Risk Committee (ERC), and how they are supported by the Group Risk Oversight Committee (GROC) and the Risk Division; independent assurance is provided to the Board by the Audit Committee.

The Board has ultimate responsibility for risk management and control, which is reviewed by the Board during the year, and has articulated its appetite for risk. In the context of this risk appetite, the BRC has approved the Enterprise Risk Management Framework (ERMF) for the Group. The BRC is where non executive directors provide focus and oversight on risk governance matters including risk appetite, stress testing and the ERMF and to advise the Board of these.

The ERC reports into the Chief Executive and is responsible for ensuring a co-ordinated approach across all risks and has oversight of the various risk committees of the Group (as described in the Risk Management Report). The Chief Risk Officer, as a member of ERC, escalates oversight issues to the Board Risk Committee, where appropriate.

Performance against risk appetite is monitored monthly at the ERC, reported to the BRC at each meeting, and reported to the Board on a quarterly basis. Risk appetite monitoring includes a review of the Group's position against a number of key limits in relation to customer, financial, lending, operational, and strategic risks. Risk appetite is also monitored in the context of strategy in the corporate plan, macroeconomic indicators and other reporting.

The Risk Division ensures that appropriate risk management systems are in place across the Group's operations, providing expertise and support to the business and oversight of its management of risk on a day to day basis and to the specialist risk committees that support the ERC. The division also monitors regulatory, political and industry guidelines and indicators to ensure that the ERMF develops in line with best practice.

ERC is supported by the GROC to provide oversight across all risks faced by the Group. In turn, GROC is supported by a specialist oversight committee for model risk.

The Audit Committee, on behalf of the Board, is responsible for reviewing the adequacy and effectiveness of the Group's risk management and internal control processes. Following review by the Audit Committee and BRC, the Board is satisfied that the Society's systems for identifying, evaluating and managing risks are appropriate. This process has been in place throughout the financial year and as at the date of approval of this report accords with the provisions of the Turnbull Report.

How is member engagement encouraged by the Society?

As a mutual, the Society has a membership comprising around 15 million individuals, all of whom are the Society's customers. The Society actively seeks the views of members in various ways and the Board regularly reviews its member engagement activity.

Member TalkBack events (both face-to-face and via the internet)

give members an opportunity to ask questions or express views to directors. During the financial year TalkBack sessions were held in Belfast, Liverpool, Edinburgh, Cambridge, Brighton, Warwickshire, and Bournemouth. An average of well over one hundred members attended each event and had the chance to meet with directors and senior management. Such direct contact helps promote good corporate governance as it assists directors in their understanding of members' requirements, which are then discussed at Board level, and products and services can often be introduced or shaped to meet members' needs.

During the year the Society further developed the 'Your Nationwide' members' website. The site provides members with access to a wide range of information, including our latest performance figures for customer service and complaints, while inviting them to regularly interact with the Society. A section called 'You Asked, We Acted' gives feedback to highlight the action taken to address issues members have raised and an online service improvements suggestions facility is always available to receive members' ideas. Our monthly members' e-newsletter now reaches around 1.7 million members each month and we are actively working to encourage more members to register an email address and opt to receive the e-newsletter.

The Member Suggestion Scheme continues to enable members to express their views on an ongoing basis using a simple form which is available in any branch and online.

An external accredited research company continues to contact customers every month to gather feedback on their experiences for the Society's Service Tracker. Over the past year there has again been contact with around 15,000 customers each month.

The Society will send out AGM packs to over 7.5 million members who are eligible to vote. Members are sent voting forms and are encouraged to vote or appoint a proxy to vote if they cannot, or choose not to, attend the AGM. Voting is available by post, online at nationwide.co.uk or at the AGM. All votes and all proxy votes are counted under independent scrutiny. Results of the voting at the AGM are published on the Society's website.

At the AGM the Chief Executive will give a presentation on the main developments in the business and members present will have the opportunity to raise questions and put forward their views. All members of the Board are present at the AGM each year (unless exceptional circumstances prevent their attendance) and the chairmen of the principal Board Committees are available to answer questions.

Geoffrey Howe

On behalf of the Board
Chairman
21 May 2013

Report of the Directors on Remuneration

For the year ended 4 April 2013

Introduction

Dear Member

I am pleased to present the Remuneration Committee's report which sets out the pay, bonuses and benefits for the directors for the year to 4 April 2013. Executive directors are our highest paid roles and unlike in other financial institutions, there are no employees within the Society who earn more than them.

We have always tried to make this report transparent for our members and this year, in anticipation of the new reporting regulations on directors' pay, we have included some additional information to help our members understand what our directors could earn through our annual and medium term bonus plans, and how we measure the performance of the business.

The leadership team has delivered another strong performance this year. We have grown the number of customers with whom we have a multi-product relationship. Our Core Tier 1 ratio, a measure of financial strength, remained at industry leading levels. At the same time we have successfully completed a number of major transformation programmes which will improve the range of products and services we can offer, for example, the launch of new current accounts and our mobile banking app. We have also maintained our 1st position for customer satisfaction throughout the year which reflects the member focused approach which is at the heart of what we do.

It is in this context that I would like to share with you our remuneration policies and practices for our executive team, including the payments to our executive directors in respect of our performance during 2012/13.

The Chief Executive has requested not to receive the full variable pay allocation for 2012/13 for which he may otherwise have been eligible as a result of the strong business performance, and instead that the Remuneration Committee cap the payment, such that his variable pay shows no increase on 2011/12.

Nationwide is committed to best practice in corporate governance and therefore we provide full details of our directors' remuneration and ask our members to approve the Remuneration Report through an advisory vote at the Annual General Meeting. This report includes the key disclosure requirements of the UK Corporate Governance Code and follows market best practice.

On behalf of the Remuneration Committee, I recommend that you endorse our report.

Lynne Peacock

Chair of the Remuneration Committee



Summary

- No general salary increases for 2013/14, with two executive directors awarded increases reflecting additional responsibilities.
- Bonus payments triggered for both the annual and medium term schemes as a result of strong business performance.
- CEO requested a cap on his variable pay for 2012/13.
- Performance pay plans simplified and this report enhanced to provide disclosure in line with best practice.

Executive remuneration policy and principles

Our pay policy and framework is consistent with market practice for senior executive roles and enables us to motivate, reward and retain our leadership team to deliver value for our members. Our intention is to reward our executives at a level which is fair but not excessive. In summary:

- Base salaries are set at around the market median.
- We believe in pay for performance, and operate bonus schemes which reward our executive directors for the achievement of challenging key performance objectives over the short and medium term, based on our Corporate Plan.
- The performance of executive directors is assessed against a balanced scorecard of financial and strategic measures. This approach means that executive directors are not encouraged to focus on performance in a single area at the expense of other corporate priorities.
- The award levels under our bonus schemes have been reduced in recent years and are now at the lower end when compared with our main competitors. This means that the maximum potential total compensation levels for our executive directors are substantially below the market median.
- Our incentive programmes incorporate features to encourage sound risk management practices. These features include deferral of part of our bonus payments and the ability of the Remuneration Committee to reduce or cancel the deferred element if it emerges that the original assessment of performance was misleading or if performance declines substantially over the deferral period.

For 2012/13, the bonus awards were based on a range of financial and strategic measures, including underlying profitability, non-margin income, customer satisfaction and the development of new systems and products.

We are simplifying the way in which we will measure our performance for any awards made in 2013/14 by focusing on three core measures of our success:

- Financial health – measured in terms of our underlying profitability. This reflects our ability to operate a safe and secure Society, meet prudential requirements and invest for the future
- Growing our business – measured in terms of the number of current accounts, which is one of our strategic goals
- Customer satisfaction – to offer market leading product and service satisfaction.

The pay and conditions of the broader employee population are taken into account when determining executive pay. The Remuneration Committee reviews base pay levels, other elements of fixed remuneration and details of variable pay schemes offered to all employees each year, and is always mindful of ensuring that the pay policy for senior roles is consistent with the culture and values of the Society as a whole.

Within this report we have included new disclosures in line with the anticipated government reforms to remuneration reporting. Our intention is to adopt the new disclosure requirements in future years to the extent that they are applicable for a mutual organisation.

The main elements of remuneration for executive directors are:

		Element	Purpose and link to strategy	Operation
Total pay package	Fixed Pay	Base salary	Reflects the size of the role	The Committee reviews base salary on an annual basis taking into account market data for similar roles in the financial services sector. Other factors considered include the individual's skills, experience and performance and the approach being taken on salaries in the wider organisation.
		Benefits	Provides a market competitive package as part of fixed remuneration	Executive directors are entitled to a car allowance, access to shared drivers when required, fuel allowance, healthcare and mortgage allowance.
		Pension	Provides post-retirement benefits for participants in a cost efficient manner	Executive directors all receive a cash allowance in lieu of pension. G J Beale and M M Rennison are deferred members of the Group's defined benefit plans.
	Performance Pay (bonus schemes)	Annual Bonus Scheme	Rewards the achievement of individual and corporate targets for a single financial year	Maximum award: <ul style="list-style-type: none"> ■ CEO: 80% of salary ■ Other directors: 54% of salary Awards are paid in cash. Half is paid in June following the year end and the remaining half is paid in December.
		Medium Term Bonus Scheme	Rewards sustained strong performance over a three year performance cycle	Maximum award: <ul style="list-style-type: none"> ■ CEO: 120% of salary ■ Other directors: 81% of salary Awards are paid in cash. Two thirds of the award earned is paid in the final year of the three year cycle and the remaining one third is deferred for an additional year.

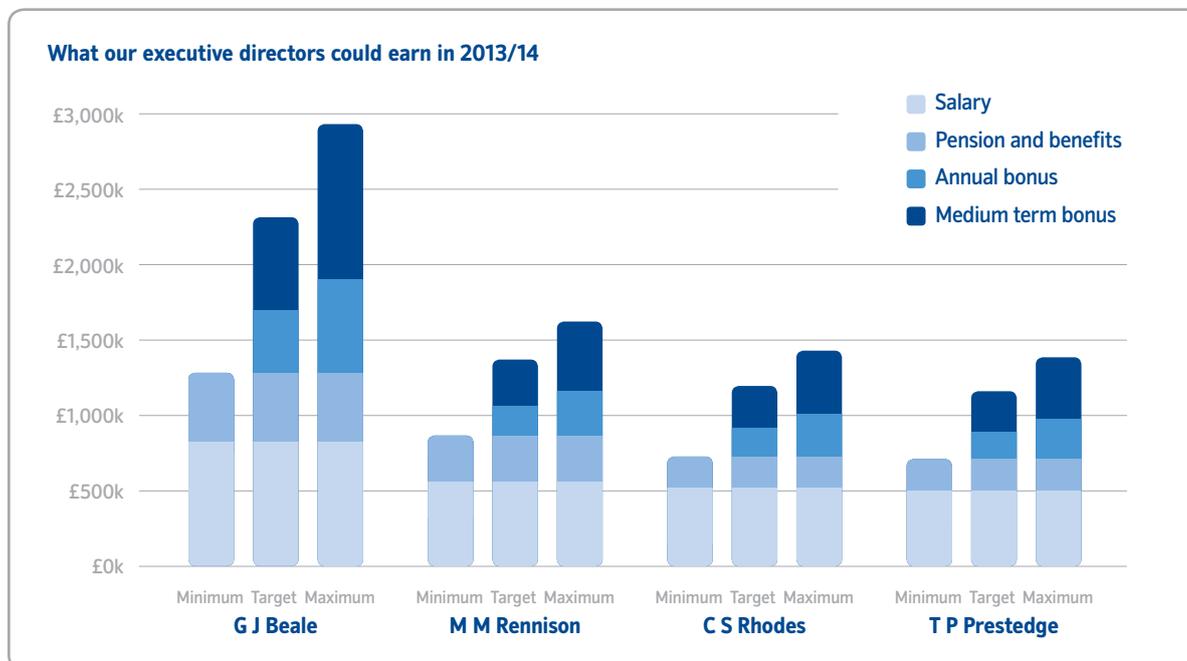
Report of the Directors on Remuneration

continued

What our executive directors could earn in 2013/14 based on performance

The chart below illustrates the amounts that executive directors would be paid under three different performance scenarios:

- **Minimum** – this shows the fixed elements of pay (salary, pensions and benefits)
- **Target performance** assuming we deliver target levels of performance against the measures set in our performance pay plans
- **Maximum performance** assuming our performance pay plans pay out in full – this would only occur where performance has been truly exceptional across all of the measures set.



Further information on individual remuneration elements

(a) Base salary

Base salaries were last increased with effect from 1 April 2011 and there is no general salary increase for directors for 2013/14.

However, two executive directors have been awarded salary increases in 2013 to reflect the increased responsibilities they have taken on following the restructure of the executive team.

The table below sets out the base salary levels for executive directors which were in effect during the year compared with the previous year, and the salaries as at 1 April 2013.

Base salary	2013/14	2012/13	2011/12
G J Beale	£825,000	£825,000	£825,000
T P Prestedge	£500,000	£470,000	£470,000
M M Rennison	£560,000	£560,000	£560,000
C S Rhodes	£520,000	£470,000	£470,000
M P V Wyles	-	£470,000	£470,000

(b) Variable pay

The Society operates two variable pay plans for executive directors:

- The annual bonus scheme, which rewards performance against challenging targets over the financial year
- The medium term bonus scheme, which is the deferred element of pay and rewards performance over the medium term.

These plans measure the Society's performance against a range of financial and strategic measures and are completely discretionary. The Remuneration Committee may reduce or cancel payments if it believes that the plan outcomes are not representative of the overall performance of the Society.

The maximum award levels under the annual bonus scheme and medium term bonus scheme are shown below. These are at the lower end of the market when compared with our main competitors, which reflects our policy of offering lower than market incentive opportunities in line with the Society's low risk appetite.

	Maximum award levels (% of salary)			
	Annual Bonus Scheme		Medium Term Bonus Scheme	
	2013/14	2012/13	2013-2016	2012-2015
CEO	80%	80%	120%	120%
Other directors	54%	54%	81%	81%

Annual Bonus Scheme

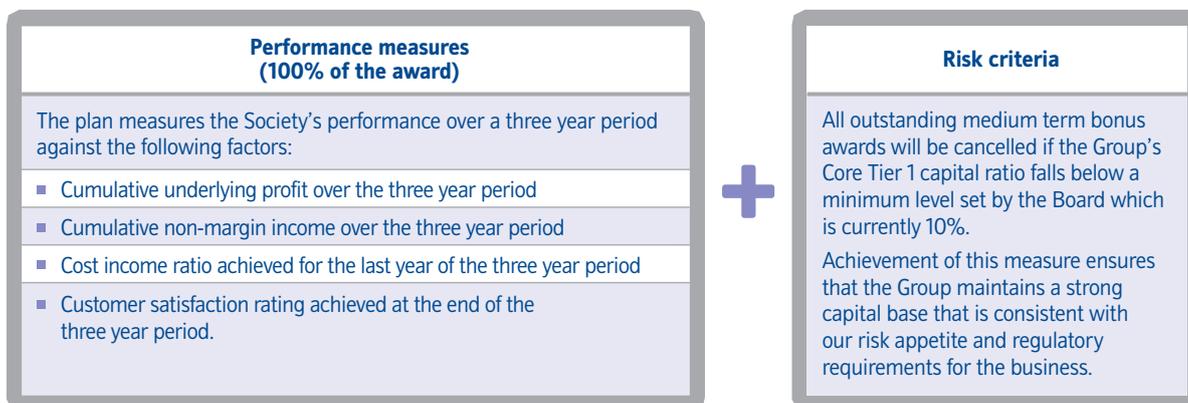
The annual bonus scheme has two performance elements. For the 2012/13 scheme the measures were:



The assessment of performance against a broad range of financial and strategic measures means that participants are not incentivised to focus on performance in a single area at the expense of other corporate priorities.

Medium Term Bonus Scheme

The medium term bonus scheme rewards sustained performance and the achievement of challenging financial targets over a three year performance cycle. A new three year performance cycle starts each year. For the 2010-2013 award cycle the measures were:

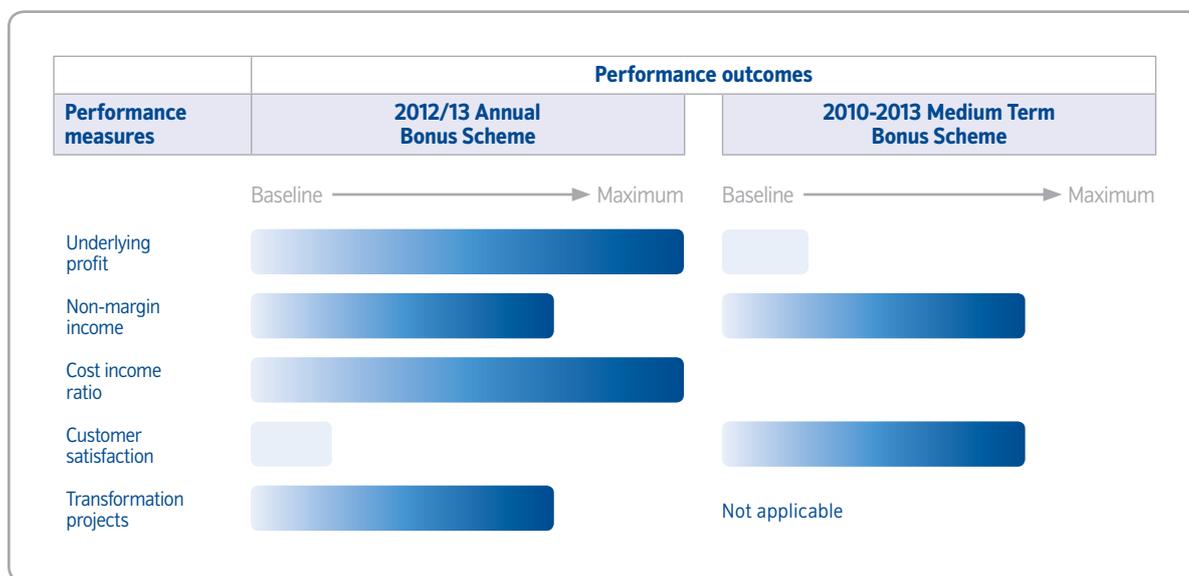


Report of the Directors on Remuneration continued

(c) Committee's assessment of performance in 2012/13

In reviewing the Society's performance against our annual key performance indicators and over the three year medium term bonus cycle, the Committee scrutinised performance and determined that the executive team had delivered a strong performance in a challenging economic environment.

The table below summarises our performance in 2013 against the targets set for our bonus schemes:

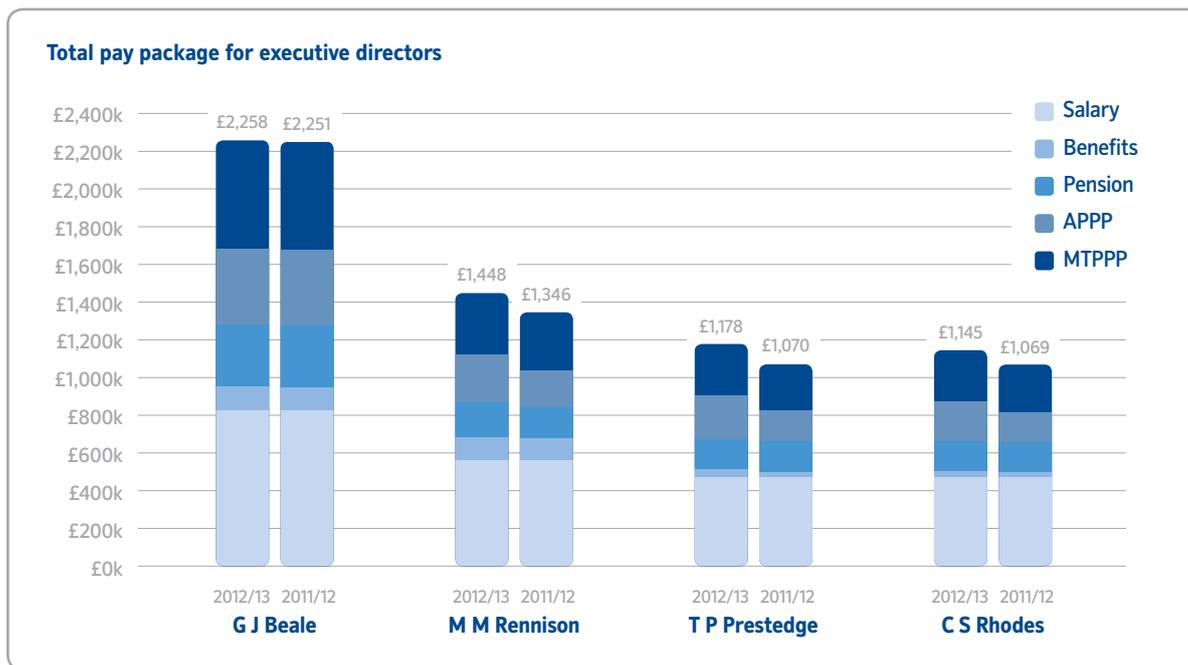


- Underlying profit – up over 56% at £475 million
- Non-margin income – contributed £504 million to overall income
- Cost income ratio – down to 54.8%, its lowest ever level, reflecting improved efficiency
- Customer satisfaction – ranked 1st in our peer group throughout the year for combined product and service satisfaction
- Transformation projects – delivered new banking platform and launch of mobile banking app.

In addition, the Committee confirmed that the risk criteria for the medium term bonus scheme had been met.

The Chief Executive has requested not to receive the full variable pay allocation for 2012/13 for which he may otherwise have been eligible as a result of the strong business performance, and instead that the Remuneration Committee cap the payment, such that his variable pay shows no increase on 2011/12.

Taking into account pensions and benefits, the total pay package received by executive directors for 2012/13 is illustrated below compared with the previous year.



(d) Pensions and benefits

Executive directors receive a cash allowance in lieu of pension. Cash allowances are set as a percentage of salary in accordance with their pre-existing terms of employment.

G J Beale and M M Rennison are deferred members of the Group's defined benefit plans.

Executive directors are entitled to a car allowance, fuel allowance, healthcare and mortgage allowance. They also have access to shared drivers.

(e) Executive directors' remuneration

The tables overleaf show the remuneration received for the years ended 4 April 2013 and 4 April 2012 as required to be reported under the Building Societies Act 1986 and have been audited by PricewaterhouseCoopers LLP.

Report of the Directors on Remuneration

continued

Audited information: Executive directors' pay

G J Beale has requested to cap his variable pay at levels no greater than 2012. Consequently, the Remuneration Committee reduced his potential annual and medium term bonuses by £209,088.

Executive directors	Fixed remuneration			Variable remuneration		Total Pay Package	Increase in accrued pension	Contractual/ other settlements (note 2)	Total including accrued pension and settlements
	Salary (note 1)	Benefits	Pension allowance	Annual Performance Pay	Medium Term Performance Pay				
2013	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
G J Beale	825	127	330	400	576	2,258	-	-	2,258
T P Prestedge	470	46	155	233	274	1,178	-	-	1,178
M M Rennison	560	122	185	250	331	1,448	-	-	1,448
C S Rhodes	470	36	155	210	274	1,145	-	-	1,145
M P V Wyles	318	41	111	-	-	470	-	1,373	1,843
	2,643	372	936	1,093	1,455	6,499	-	1,373	7,872

Executive directors	Fixed remuneration			Variable remuneration		Total Pay Package	Increase in accrued pension	Contractual/ other settlements	Total including accrued pension
	Salary	Benefits	Pension allowance	Annual Performance Pay	Medium Term Performance Pay				
2012	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
G J Beale	825	120	330	400	576	2,251	-	-	2,251
T P Prestedge	470	30	155	161	254	1,070	-	-	1,070
M M Rennison	560	119	161	192	312	1,344	2	-	1,346
C S Rhodes	470	29	155	161	254	1,069	-	-	1,069
M P V Wyles	470	29	124	161	254	1,038	2	-	1,040
	2,795	327	925	1,075	1,650	6,772	4	-	6,776

Notes:

- Includes salary for M P V Wyles up to 3 December 2012 when he stepped down from the Board.
- M P V Wyles' contractual settlement is made up of salary and benefits, including pensions allowance, for the period from 4 December 2012 to 30 April 2013, during which he was employed by the Society in an advisory capacity. In addition his settlement includes other payments he is entitled to including salary for the balance of his notice period, his 2012/13 annual bonus and his payment under the 2010-2013 Medium Term Bonus Scheme.

Audited information: Executive directors' pensions

All of the executive directors have ceased membership of the Society's defined benefit pension plans. No executive director accrued any additional pension entitlement during the year. The increases in accrued pensions shown in the table below are as a result of inflationary increases that are required by legislation. The increase in transfer values over the year reflect changes in the assumptions used to calculate pension transfer values for individual pension fund members.

The table below shows the value of the benefits as at 4 April 2013.

Executive directors	Accrued pension at 4.4.13	Accrued pension at 4.4.12	Transfer value at 4.4.13 (note 2)	Transfer value at 4.4.12	Change in transfer value (note 2)	Additional pensions earned in year	Transfer value of the increase	Directors' contributions in year
	£'000 (a)	£'000 (b)	£'000 (c)	£'000 (d)	£'000 (c)-(d)	£'000 (e)	£'000	£'000
G J Beale	274	268	6,242	5,001	1,241	-	-	-
M M Rennison	56	55	1,241	947	294	-	-	-
M P V Wyles (note 1)	60	58	1,464	1,146	318	-	-	-

Notes:

- M P V Wyles left the Society on 30 April 2013 and has a deferred benefit entitlement that will receive statutory increases until he chooses to commence the pension benefit, or transfers to another scheme.
- The Nationwide Pension Fund Trustees changed, with actuarial advice, the transfer value basis this year and the updated values reflect the fall in gilt yields. This has had the impact of increasing transfer values for most pension fund members, including executive directors.

Explanations:

- (a) and (b) show deferred pension entitlements at 4 April 2013 and 2012 respectively.
 (c) is the transfer value of the deferred pension in (a) calculated at 4 April 2013.
 (d) is the transfer value of the deferred pension in (b) calculated at 4 April 2012.
 (e) is the increase in pension built up during the year. A zero figure means that, after allowing for inflation, no additional pension was built up.

(f) Service Contracts

Executive directors' terms and conditions of employment are detailed in their individual contracts which include a notice period of 12 months. Each contract includes a provision for a termination payment in lieu of notice of up to a maximum of 12 months' salary and benefits. In addition, a payment may be made in respect of the annual bonus scheme and existing medium term bonus scheme awards depending on the circumstances and according to the rules of the plans.

Executive director	Service contract date	Date first appointed to the Board
G J Beale	3 March 2003	5 April 2003
M M Rennison	1 February 2007	1 February 2007
T P Prestedge	28 August 2007	28 August 2007
M P V Wyles	28 August 2007	28 August 2007
C S Rhodes	20 April 2009	20 April 2009

(g) Other directorships

None of the executive directors currently hold any paid external directorships.

(h) Former directors

M P V Wyles stepped down from the Board with effect from 3 December 2012. In accordance with his contract and Nationwide's standard terms, Mr Wyles is entitled to a lump sum payment equivalent to 12 months' pay and benefits.

He will continue to be eligible for payments from outstanding medium term bonus scheme awards. These payments will be made at the normal payments date, are subject to performance and will be reduced to reflect time in employment.

Chairman and non executive directors

The Chairman's fee is reviewed and approved by the Remuneration Committee. The fees paid to non executive directors are reviewed and approved by the executive directors and the Chairman. Fees are reviewed annually taking into account practice at other organisations as well as the time commitment for the role at Nationwide.

Non executive directors are paid a basic fee, with an additional supplement paid for serving on or chairing a Board Committee. Non executive directors do not take part in any bonus schemes or in any pension arrangement. The role of Senior Independent Director was introduced from July 2012 following the retirement from the Board of the Deputy Chairman. The fee policy was last reviewed in March 2013 at which point no changes were made.

Report of the Directors on Remuneration continued

Fee policy	Fees for 2013/14	Fees for 2012/13	Fees for 2011/12
Chairman	£300,000	£300,000	£300,000
Basic fee	£60,000	£60,000	£60,000
Senior Independent Director	£15,000	£15,000	-
Joint Deputy Chairman fee	-	£30,000	£30,000
Chairman of the Audit Committee or Board Risk Committee	£35,000	£35,000	£35,000
Member of the Audit Committee or Board Risk Committee	£10,000	£10,000	£10,000
Remuneration Committee Chairman	£25,000	£25,000	£25,000
Remuneration Committee member	£10,000	£10,000	£10,000
Nomination Committee member	£2,500	£2,500	£2,500

Additional fees may be paid for other committee responsibilities during the year.

Audited information: Non executive directors' fees

The total fees paid to each non executive director are shown below.

Non executive directors	2013	2012
	Society & Group Fees (note 1, 2) £'000	Society & Group Fees (note 1, 2) £'000
G M T Howe (Chairman)	300	300
Ms R Clifton	60	-
A P Dickinson	112	111
M K Jary	74	74
M A Lenson	85	55
Mrs L M Peacock	96	57
R K Perkin (Senior Independent Director)	122	111
Ms S Taverne	27	80
W Tudor John (Joint Deputy Chairman)	-	27
R P Walther (Joint Deputy Chairman)	43	131
Total	919	946
Pension payments to past directors in respect of services as directors (note 3)	402	396

Notes:

- R P Walther and Ms S Taverne retired from the Board on 19 July 2012 and Ms R Clifton was appointed to the Board on 1 July 2012. W Tudor John retired from the Board on 21 July 2011 and Mrs L M Peacock and M A Lenson were appointed to the Board on 18 July 2011.
- In addition to his non executive director fees, R P Walther also received additional fees as Chairman of the Investment Sub-Committee/Investment adviser of the Nationwide Pension Fund (£15,000).
- These are pension payments in respect of past non executive directors. The Society stopped granting pension rights to non executive directors who joined the Board after January 1990.

Future remuneration policy and potential impacts of regulation

Recent European legislation (Capital Requirements Directive IV) and the Prudential Regulation Authority (PRA) Remuneration Code will have an impact on the level and nature of variable pay that financial services firms can award to senior employees. We are reviewing our variable pay arrangements in light of these requirements and may be required to make changes to our remuneration arrangements.

Remuneration of eight highest paid senior executive officers – excluding main board

The pay details of the eight highest paid senior executive officers who are not main board directors are set out below. This is part of our ongoing commitment to transparency and meeting sector best practice on remuneration disclosure.

2013	Senior Executive Officers							
	1 £'000	2 £'000	3 £'000	4 £'000	5 £'000	6 £'000	7 £'000	8 £'000
Fixed (note 1)	334	258	275	278	268	89	236	237
Variable								
Cash bonus	222	281	193	185	161	43	147	139
Deferred cash bonus	29	28	39	39	29	-	26	25
Total variable	251	309	232	224	190	43	173	164
Contractual severance	-	-	-	-	-	282	-	-
Total pay package	585	567	507	502	458	414	409	401

Notes:

1. Fixed remuneration includes salary and car allowance.

Remuneration Committee Terms of Reference

The Remuneration Committee is responsible for determining the policy for the remuneration of the Chairman, the executive directors and group/divisional directors of the Society as well as any other employees who are deemed to fall within scope of the PRA Remuneration Code ('Code Staff') and, within the terms of the agreed policy, the specific remuneration packages for these roles. This includes approving the design of, and determining the performance targets for, any discretionary variable pay schemes operated by the Society for the benefit of employees within the Committee's remit, and approving the total annual payments under such schemes.

The Committee also oversees the remuneration policy throughout the Society, with a specific focus on the risks posed by remuneration policies and practices.

The Committee's terms of reference were last reviewed and updated in April 2013. The full terms of reference are available on the Society's website.

The members of the Remuneration Committee are all independent non executive directors of the Society and include a member of the Board Risk Committee. During the year the Committee members were: Robert Walther (Chairman of Remuneration Committee until July 2012 when he retired from the Board), Lynne Peacock (Chairman of the Remuneration Committee from July 2012), Suzanna Taverne (until July 2012, when she retired from the Board), Michael Jary and Rita Clifton (from July 2012 when she joined the Board).

The Committee met seven times during the year. Activities during the year included:

- Agreeing the performance targets for awards to be made under the annual bonus scheme and medium term bonus scheme, taking into account the Corporate Plan

- Reviewing the outcome of the bonus scheme awards which were paid in respect of the year
- Ongoing work in relation to the PRA Remuneration Code and how it applies to Nationwide as a mutual, with a particular focus on how to deliver a portion of the senior team's reward in the form of a non-cash instrument
- Agreeing the approach for executive director salary increases for 2013/14.

The Committee is supported by Geoffrey Howe (Chairman of the Board), the Group Director, People, Customer, Communication & Commercial, the Corporate HR Director and where appropriate the CEO, who is invited to attend Committee meetings to provide further background information and context to assist the Committee in their duties. The Remuneration Committee is also supported by the Board Risk Committee on risk related matters including incentive plan design, the assessment of specific performance measures, and wider issues relating to risk and business protection. In no case is any person present when their own remuneration is discussed.

In performing its duties, the Remuneration Committee draws on the advice of independent external consultants. During the year the Committee received advice on market rates of pay, best practice and remuneration trends from Ian Tinsley (formerly of Hay Group and retained as an independent adviser) and Hay Group and, from January 2013 from Deloitte LLP who were appointed following a tender process. As well as advising the Remuneration Committee, Deloitte also provided tax, corporate finance, risk, internal audit and consulting services to the Society during the year.

Lynne Peacock

Chair of the Remuneration Committee
21 May 2013

Risk Management Report

All disclosures in this section (pages 84 to 126) are unaudited unless otherwise stated.

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Controlling and managing risk

Enterprise Risk Management Framework

The Enterprise Risk Management Framework (ERMF) which applies to the Nationwide Group, including all trading divisions and subsidiaries, is structured around five headings:

Heading	Description
Risk culture	Sets out the values and behaviours present throughout the organisation that shape risk decisions across the Group.
Risk governance and control	Sets the risk categories, the Three Lines of Defence and how these are deployed, the committee governance structure, and standards for documentation and policy.
Risk strategy	Sets out the Board's risk appetite and overall strategy for risk management, connecting the Board's corporate plan and risk appetite with practical and detailed strategies, controls and limits to deliver this strategy without compromising risk appetite.
Risk measurement	Sets out the standards across the Group, encompassing risk data and systems, the use of models, reporting, and risk-based performance measurement.
Stress testing and planning	Sets out the approach to Group-wide stress testing, scenario analysis, contingency plans, and the interactions with other corporate processes.

The following sections describe the elements of the risk framework in more detail.

Enhancements to the ERMF have continued throughout the financial year with further refinement being incorporated for 2013/14, following the annual governance review. These changes are noted where appropriate.

The ERMF sections below are followed by more detailed information about the top and emerging risks and the principal risk categories facing the Group.

Risk culture

Within Nationwide, risk culture is defined as "the values, beliefs, knowledge and understanding about risk and the management of risk, advocated by the Board, shared and adopted by employees within the organisation". This risk focused 'tone from the top' is supported by appropriate levels of resource with the necessary skills.

The risk culture therefore sets out:

- our approach to maintaining a strong risk culture at Nationwide
- the risk culture statements to which all directors and staff are committed
- required ('do') and prohibited ('don't') behaviours at enterprise level.

The risk culture statements are grouped under four headings; 'shared understanding and attitude', 'clear communication', 'effective risk teams', and 'highest standards'. These risk culture statements were rolled out as part of the adoption of the Enterprise Risk Management Framework (ERMF) at the start of 2012/13. Through the understanding of these statements, the aim is to ensure that all staff are risk aware, communicate effectively about risk, and work together to recognise, manage and mitigate risk. In the final quarter of the year, a survey is undertaken to assess the effectiveness of the risk culture at Nationwide, the results of which feed into the objectives for the Risk Management Division for the next financial year.

Our approach to lessons learnt, where the concepts of continuous improvement and learning from our mistakes (and analysis of others' mistakes) are key components, supports the risk culture statements and enterprise-led behaviours.

Risk governance and control

Risk categorisation

Each type of risk which the Group faces is defined within the Enterprise Risk Management Framework’s risk categorisation model.

The five principal risk categories in the framework are as follows:

Risk category	Definition
Lending	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument (eg a bond) on time. Lending risk also encompasses extension risk and concentration risk.
Financial	The risk of Nationwide having inadequate earnings, cashflow or capital to meet current or future requirements and expectations. It includes loss or damage to the earnings capacity, market value or liquidity of the Group, arising from mismatches between the Group’s assets, funding and other commitments, and which may be exposed by changes in market rates, market conditions or Nationwide’s credit profile.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Customer and compliance	The risk that the organisation fails to design and implement operational arrangements, systems and controls such that it can maintain legal and regulatory compliance, deliver fair customer outcomes and achieve a positive experience for our customers.
Strategic	The risk of significant loss or damage arising from business decisions that impact the long term interests of the membership, or from an inability to adapt to external developments.

Under each of these principal risk categories, are more specific supporting risk categories describing increasingly granular risk types.

In addition to these principal categories of risk, model risk, which is defined below, is managed under a separate framework that applies across all risk categories and business areas where

models are used. Nationwide has a dedicated department within Risk Management Division to oversee model risk across the Group. The model risk framework ensures effective governance and oversight of models, and that standards are consistently applied. The department oversees the Group’s model risk profile and has specific responsibilities to undertake independent validations of models.

Risk category	Definition
Model risk	The risk that an adverse outcome (incorrect or unintended decision or financial loss) occurs as a direct result of weaknesses or failures in the design or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to Nationwide’s reputation.

The frameworks for the above risks (including associated risk appetite, limits, supporting policies and other documents) are reviewed annually or more frequently as appropriate. They

are also subject to continuous monitoring by the relevant governance committees. The Chief Risk Officer is responsible for monitoring all risks for the Group.

Controlling and managing risk continued

Risk governance and control (continued)

Three Lines of Defence

Nationwide continues to adopt the Three Lines of Defence model with the objectives of:

- making the Group resilient, compliant and efficient
- making risk appetite and risk exposure simple, transparent and controlled
- maintaining a strong risk culture.

The Group operates with clear independence of responsibilities for risk control, oversight and governance in accordance with best practice within the industry.

First line of defence	Second line of defence	Third line of defence
Every Nationwide employee is responsible for the risks that are a part of their day-to-day job. The first line of defence ensures all key risks within their operations are identified, mitigated and monitored by appropriate internal controls within an overall control environment.	Independent functions within Risk Management Division that are responsible for providing oversight and challenge of activities conducted in the first line.	Group Internal Audit provides independent assurance over the first and second lines of defence.

In organisational terms, the Three Lines of Defence model brings distinct separation between the elements of risk control (first line), independent oversight (second line) and audit assurance (third line).

First line risk control is provided by all relevant business units. These are supported by key control functions and, where risks apply across the Group, through an embedded network of risk representatives within the organisational areas under the control of executive and group directors.

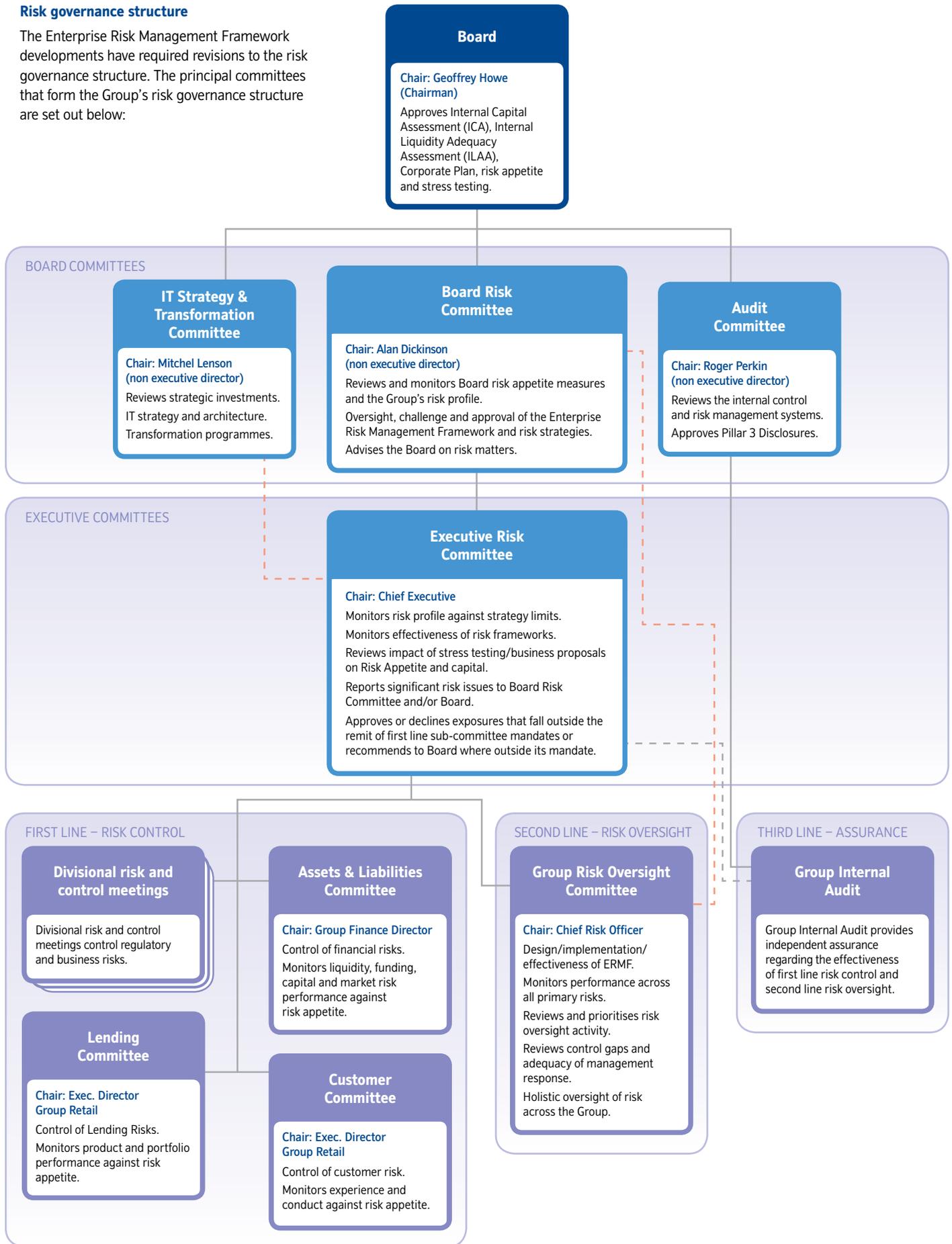
Second line oversight functions, independent from the first line, report into the Group Risk Director and the Group Compliance Director (reporting to the Chief Risk Officer). These functions are aligned to the principal risk categories and model risk to oversee the first line management of risk, including concentrations where appropriate.

The oversight teams maintain risk management frameworks, set standards, review policies, establish limits that are consistent with risk appetite, monitor and report on compliance with those limits.

Third line assurance is provided by Group Internal Audit, which ultimately reports to the Audit Committee. Information about the role and activities of the Audit Committee can be found in the Corporate Governance section of this report.

Risk governance structure

The Enterprise Risk Management Framework developments have required revisions to the risk governance structure. The principal committees that form the Group’s risk governance structure are set out below:



Risk Management Report

Specialist risk forums beneath committees provide advice

Controlling and managing risk continued

Risk governance and control (continued)

Risk governance structure at Group level

The Board Risk Committee and Audit Committee continue to provide support and insight to the Board. The Executive Risk Committee continues to ensure a co-ordinated management approach across all risks in operational terms. The remit and scope of risk reporting for each of these committees has been reviewed and revised to align to the new framework.

Beneath the second line Group Risk Oversight Committee there have been two specialist risk oversight committees:

- Operational Risk Oversight Committee (incorporating compliance risk and transformation risk). For 2013/14 the Board Risk Committee has agreed that this will be superseded by an Operational Risk Committee in the first line.
- Model Risk Oversight Committee.

The Chief Risk Officer chairs the Group Risk Oversight Committee and, as an attendee of the Board Risk Committee, has direct access to the Chair of the Board Risk Committee to escalate risk issues as appropriate.

Beneath the Customer Committee, Lending Committee and Assets and Liabilities Committee (ALCO) in the first line there are specialist forums and working groups that consider technical detail and reports, making recommendations to their parent committee as appropriate. In addition, all executive divisions hold risk and control meetings so that there is the opportunity to report and escalate risks across the entire organisation.

Risk strategy

Board risk appetite

The Board has set high-level risk appetite to enable Nationwide to:

- Identify and define the type and levels of risks it is willing to accept in both qualitative and quantitative terms.
- Describe the risks Nationwide is willing to take, and those it will not take, in pursuit of its strategic goals.
- Establish a framework for business decision making.

This high-level Board risk appetite is as follows:

“We maintain legal and regulatory compliance, deliver fair customer outcomes, and achieve a positive experience for customers.”

“We hold sufficient capital and liquidity resources, and sustain this with stable earnings, diverse sources of funding and minimal exposure to market and off-balance sheet risks.”

“We build high quality lending portfolios that seek to earn an adequate return.”

“We ensure controls are effective to minimise serious customer or business disruption.”

“We ensure that the business model and strategy are focused on securing the long-term needs of our membership.”

The Board risk appetite statements are further expanded into qualitative statements that are supported by a focused suite of Board risk metrics, limits and triggers, designed to cover all the Group’s risks. Board risk appetite is also incorporated in the corporate planning process and informs early warning signals in the recovery and resolution plan. Board risk appetite is reviewed annually.

Board risk appetite is supported by risk strategies for the principal risks that are approved by the Board Risk Committee. The risk strategies set out in detail how the risk is managed,

the key risks posed, and a more granular view of risk appetite including detailed limits and triggers that are monitored by first line risk committees. Reporting, limits and controls are therefore set in a hierarchy that links the Board’s tolerance for risk with on the ground risk taking actions and behaviour throughout the Group. Lower level metrics from first line risk committees are escalated to the Executive Risk Committee and the Board Risk Committee should they fall out of tolerance or breach risk appetite.

Risk measurement

Risk management approach

Nationwide has clear risk management objectives and a strategy to deliver them through core risk management processes put in place under ERMF. At a strategic level, our risk management objectives are to:

- Identify risks against the Corporate Plan and divisional objectives.
- Assess risk exposure by impact and likelihood.
- Respond to risks by evaluating the position against risk appetite and formulating associated management response.
- Monitor the agreed management action plans and updates.

In the course of such risk assessment, controls may be challenged, strengthened and risks mitigated within the context of risk appetite. The approach serves to help executives improve the control and co-ordination of risk taking across the business and to manage the risk profile in the context of corporate objectives.

Each of the Society's 'top and emerging risks' has associated risk metrics which provide insight into the impact and likelihood of the risk occurring. These are monitored within the Risk Governance structure.

The Society's Board risk appetite and supporting measures are also monitored within this Governance structure. These measures ensure appropriate coverage of all the principal risk categories facing the Society through a detailed suite of metrics in addition to key regulatory ratios, such as the Society's Core Tier 1 ratio.

Stress testing and planning

Group-wide stress testing is an integral part of the annual corporate planning process, the adequacy assessment processes for liquidity and capital, and the annual review of Group risk appetite. This is to ensure that the financial position and risk profile of the Group provide sufficient resilience to withstand the impact of stressed economic and market conditions

(systemic stress) or one-off events (idiosyncratic stress). Stress testing also informs early warning triggers, management actions and contingency plans to mitigate potential stresses and vulnerabilities, and recovery plans and as such is a key element of Nationwide's risk management framework. Stress tests are undertaken using a three phase approach:

Phase 1: Planning and preparation	Definition of the macro-economic stress scenario, market assumptions for Mortgages, Savings and Banking and business volume and margin assumptions.
Phase 2: Detailed modelling	Modelling of the scenario to understand its impact on Nationwide's profitability, balance sheet, capital and liquidity positions. Identification and quantification of mitigating management actions.
Phase 3: Review and report	Collation and presentation of the results for review and challenge through a hierarchy of risk management committees, culminating in the Board Risk Committee, before being sent to the PRA where appropriate.

The stress testing programme is overseen by the Board Risk Committee, with the process led by a centralised team within Group Finance. Macro-economic scenarios are designed to be both severe and plausible and are benchmarked against the FSA's own scenario framework to ensure that they are appropriately conservative.

At the Group level, stress test scenarios capture a wide range of macro-economic variables that are relevant to Nationwide's business model; for example, GDP, unemployment, asset prices including house prices, and interest rates. Additional idiosyncratic stresses are sometimes applied to these systemic stresses as part of a scenario to further assess the capital impacts on Nationwide's resilience.

Nationwide also undertakes reverse stress tests in which scenarios are specifically designed to result in the business model being no longer viable as measured by the breaching of regulatory minima on key capital ratios such as Core Tier 1 and Solo Surplus and eliminating forecast profitability.

Once scenarios have been analysed, relevant management actions are identified and applied to ensure that the business has the means to restore its capital adequacy within a suitable timeframe

(as guided by key stakeholders). These management actions are selected from a central record of all potential management actions which are subject to governance and are reviewed regularly against the Corporate Plan and the stress testing programme to ensure that they remain relevant and effective.

The stress testing process is detailed and comprehensive with analysis performed by relevant forecasting functions across Finance, Product Specialists and Risk and includes all aspects of the Group's balance sheet across all risk types. The results are forward looking covering a five year period in line with our planning horizon. Scenario design and all key economic, market and business assumptions are subject to governance through the relevant business areas and a specialist stress testing forum. If appropriate, the assumptions may also be submitted to ALCO.

The results are subject to detailed review, challenge and approval through a hierarchy of committees including ALCO, Executive Risk Committee and the Board Risk Committee, before being shared with the regulator. Should the Board Risk Committee conclude that available management actions would not deliver target capital metrics within a sufficient timeframe (for example, if the impact of a stress results in sustained breach of the Board's risk appetite metrics) the Corporate Plan will be amended accordingly.

Top and emerging risks

The identification, monitoring and management of top and emerging risks that could affect delivery of the Corporate Plan is integral to Nationwide's strategy for risk management. By their nature more than one risk category may be affected. Top and emerging risks are reported through to the Board and the Board Risk Committee.

The Society's top and emerging risks are identified through the process outlined in the risk measurement section and closely tracked throughout the governance structure. A suite of specific metrics is defined to track each of the top and emerging risks and these are reported to the Board Risk Committee. In addition, any developments to these risks are tracked and managed through the risk governance structure.

Nationwide considers its current top and emerging risks to be:

- slow growth in the UK economy
- eurozone uncertainty
- regulatory developments
- business transformation.

These are risks which, if not appropriately managed, would have the potential to significantly impact the Group Corporate Plan and which could impact multiple risk categories.

Slow growth in the UK economy

Growth in the UK economy is expected to remain subdued in the short to medium term, with interest rates expected to match this outlook. A continuation of austerity measures and high profile corporate failures could challenge the hitherto resilient UK labour market.

Potential impact

- If interest rates remain low for longer, margin pressure may be more protracted pressuring Group profitability and retained earnings.
- Worsening economic conditions could lead to increased retail loan losses in the medium term due to increased unemployment, falling house prices, and commercial loan losses due to increasing tenant failures and falling commercial property values.
- Worsening economic and market conditions could result in a prolonged closure of some or all wholesale markets, limiting our funding options and exerting pressure on liquidity positions.

Eurozone uncertainty

The risk of a Eurozone debt crisis is yet to be resolved, some risk of a full breakup or unilateral exit remains, and there is a non-negligible risk of a hard default happening over the next few years. Such a development could still have significant knock-on effects on other Eurozone member states and hence the value of treasury assets.

Potential impact

- While direct exposure to the peripheral Eurozone countries is limited, a break-up could result in significant treasury losses through redenomination of assets and impact the cost and availability of wholesale funding. Such an event would be significantly more severe in the event of contagion spreading throughout the Eurozone.

Regulatory developments

The regulators' expectations and the requirements they set for financial services providers are continually increasing, particularly in the areas of customer conduct, capital, and liquidity management. Significant regulatory changes that are expected to impact Nationwide are as follows:

- Whilst we expect to be able to meet them, the adoption and interpretation of Basel III, CRD IV and ICB could impose significant additional capital requirements. Uncertainty as to how CRD IV will ultimately be implemented will remain until final rules are published.
- The reorganisation of the regulatory landscape, with responsibilities split between the Financial Policy Committee, the Prudential Regulatory Authority and the Financial Conduct Authority could require additional focus on specific areas of regulatory interest.

Potential impact

- Proposed changes relating to capital including final determination of leverage ratio requirements, possibility of floors for risk weights applying to specific asset classes and the imposition of countercyclical buffers could impose capital requirements that adversely impact our business model, constraining growth or forcing retrenchment. The development of a capital instrument for mutuals goes some way to alleviating this concern; however, ultimately our capacity to issue new style capital remains at the discretion of investors.
- Increased demands to manage two regulators and the potential for overlap or differing requirements as the new bodies establish themselves.

Business transformation

We have made significant investment in transforming our products and delivery channels through the implementation of new systems and organisational structures. While this will enable us to provide improved services, the operational complexity of these activities, especially during transition periods increases the risk of system failures or process errors.

- Nationwide are working with the Payments Council to create a new current account seven day switching service to make switching easier, faster and more secure for customers. Seven Day Account Switching is an industry wide scheme and Nationwide is committed to meeting the scheme's deadlines to ensure inclusion in the scheme when it is launched later this year.
- The back book migration programme will migrate established customers' current accounts onto the new banking system which was launched in 2012. This programme of work will help reduce the operational risks of running concurrent banking platforms.

Potential impact

- The implementation of new systems and management structures could result in degraded system or control effectiveness. Failure of critical systems could restrict the Group's ability to provide services to customers.
- Transformation projects with mandatory deadlines imposed by regulators may expose the Group to unavoidable investment costs and the potential for regulatory sanctions that are not entirely within our control.

Lending risk

Lending risk is considered by reference to three sub-categories as follows:

Risk category	Definition
Retail (secured and unsecured)	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the prime mortgage, specialist lending or personal loan, credit card and banking portfolios.
Commercial	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the commercial lending portfolio.
Treasury	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument within the treasury liquidity and non-core portfolios.

Lending risk includes all aspects of credit risk including concentration risk and extension risk.

Comprehensive credit risk management methods and processes are established as part of the Group's overall governance framework to measure, mitigate and manage credit risk within its risk appetite. As a mutual, the Group maintains a conservative approach to risk as shown by the quality of its balance sheet as documented in the balance sheet section of the Business Review. Lending risk portfolios are managed within concentration limits and are subjected to stress testing and scenario analysis to simulate potential outcomes and calculate their associated impact.

Maximum exposure to credit risk

(Audited)

The following table presents the Group's maximum exposure to credit risk of on balance sheet and off balance sheet financial instruments before taking into account any collateral held or other credit enhancements and after allowance for impairment where appropriate. The maximum exposure to loss for off balance sheet financial instruments is considered to be their contractual nominal amounts.

2013	Carrying value	Commitments	Maximum credit risk exposure
	£m	£m	£m
Cash	7,886	-	7,886
Loans and advances to banks	2,522	423	2,945
Investment securities – AFS	13,421	-	13,421
Derivative financial instruments	4,212	-	4,212
FV adjustment for portfolio hedged risk	872	-	872
Loans and advances to customers	159,587	6,736	166,323
Investments in equity shares	28	-	28
	188,528	7,159	195,687

Lending risk continued

2012	Carrying value	Commitments	Maximum credit risk exposure
	£m	£m	£m
Cash	8,126	-	8,126
Loans and advances to banks	2,914	437	3,351
Investment securities – AFS	23,325	-	23,325
Derivative financial instruments	4,176	-	4,176
FV adjustment for portfolio hedged risk	1,330	-	1,330
Loans and advances to customers	154,169	4,853	159,022
Investments in equity shares	29	-	29
	194,069	5,290	199,359

In addition to the figures shown above, the Group has, as part of its retail operations, commitments of £7,169 million (2012: £6,721 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future,

subject to certain conditions. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

Retail (secured and unsecured) credit risks

Significant events/environment

The strategy for Nationwide has been to expand in the mortgage market, based on its well established risk assessment and control processes for retail secured lending. This includes credit policy, arrears management and underwriting, using both scorecards and an affordability assessment. The success of these controls is demonstrated by the continuing low arrears and impairment performance of the secured portfolios. Nationwide has been able to expand its lending in a controlled way which can be seen in its support of the first time buyer market at higher loan to values (LTVs), and in expanding its presence in the buy to let market through the TMW brand.

Initiatives to support the first time buyer market have included our Save to Buy product, which enables customers to access products up to 95% LTV where they have demonstrated a track record of saving prior to applying for the mortgage. The availability of the deposit and being able to demonstrate that the mortgage is affordable are critical factors in the mortgage application.

Nationwide withdrew from interest only lending in October 2012 (which at the time represented 3% of new mortgages). Existing interest only borrowers may retain (but not extend) their mortgages.

The continued low base rates and Government support through the Funding for Lending Scheme have supported competitive interest rates for secured lending.

Retail credit risk profile

The Group's loans and advances to customers continue to have a low risk profile when compared to industry benchmarks. The composition of lending has remained broadly consistent over the year.

By their nature, the Group's retail lending books comprise a large number of smaller loans which are broadly homogenous and have low volatility of credit risk outcomes and are intrinsically highly diversified.

Group loans and advances to customers, gross of impairment provisions can be analysed as follows:

Loans and advances to customers (Audited)	2013		2012	
	£m	%	£m	%
Prime residential mortgages	110,619	69	105,589	69
Specialist residential mortgages	24,939	16	23,258	15
Total residential mortgages	135,558	85	128,847	84
Consumer banking	3,488	2	2,968	2
Retail loan portfolio	139,046	87	131,815	86
Commercial lending	19,916	13	21,508	14
Other lending operations	436	-	493	-
Total gross balance	159,398	100	153,816	100

Geographical concentration

(Audited)

Residential mortgages are only secured against UK properties. The geographical split has not changed significantly over the year ended 4 April 2013 and is shown below:

Analysis calculated on a volume basis	2013	2012
	%	%
Greater London	22	22
Central England	22	22
Northern England	20	19
South East England (excluding London)	11	12
South West England	9	9
Scotland	9	9
Wales and Northern Ireland	7	7
Total	100	100

Specialist loans

(Audited)

The Group's residential mortgages include both prime and specialist loans. All new specialist lending is originated through The Mortgage Works (UK) plc (TMW), exclusively in the buy to let market. Self-certified lending was originated historically by both TMW and UCB (Nationwide's centralised lending subsidiary) but this type of lending was discontinued in 2009. The majority of near prime and sub prime balances were acquired from the Derbyshire and Cheshire building societies.

The make up of specialist lending is as follows:

	2013		2012	
	£m	%	£m	%
Self-certified	3,297	13	3,609	16
Buy to let	20,081	80	18,041	77
Near prime	1,162	5	1,201	5
Sub prime	399	2	407	2
Specialist lending	24,939	100	23,258	100

Prime mortgage assets acquired from the Bank of Ireland in December 2011, although acquired by TMW, are categorised as prime business.

Lending risk continued

Retail (secured and unsecured) credit risks (continued)

Loan to value

The quality of all new residential mortgage lending remains strong as focus remains on affordability and LTV ratios. The value of residential property is updated on a monthly basis to reflect changes in the Nationwide House Price Index (HPI). The total mortgage book as at 4 April 2013 is analysed by LTV band in the table below, along with an analysis of gross new residential mortgage lending during the year by borrower type:

Whole book analysis calculated on a volume (ie number of cases) basis: (Audited)	2013	2012
	%	%
Loan to value analysis:		
<50%	47	50
50% - 60%	10	10
60% - 70%	12	11
70% - 80%	15	13
80% - 90%	11	10
90% - 100%	4	4
>100%	1	2
	100	100
Average loan to value of stock (indexed)	51	50
Average loan to value of new business	67	63
New business profile:		
First time buyers	27	17
Home movers	29	25
Remortgagers	23	27
Buy to let	21	31
	100	100

Whole book analysis calculated on a value basis: (Audited)	2013	2012
	%	%
Loan to value analysis:		
<50%	28	30
50% - 60%	12	12
60% - 70%	17	16
70% - 80%	21	19
80% - 90%	15	15
90% - 100%	5	6
>100%	2	2
	100	100
Average loan to value of stock (indexed)	62	62
Average loan to value of new business	71	67
New business profile:		
First time buyers	26	17
Home movers	36	32
Remortgagers	22	26
Buy to let	16	25
	100	100

The new business profile and average loan to value of new business above exclude further advances.

Performance of the mortgage books has remained strong with the number of residential mortgages three or more months in arrears as a proportion of total mortgages reducing to 0.72% at 4 April 2013 (2012: 0.73%). This compares favourably with the CML industry average of 1.89% (2012: 1.95% restated by CML). The number of Group borrowers in possession of 596 (2012: 1,097) represents 0.04% of the total portfolio (2012: 0.08%).

Identifying impaired and non-performing loans

(Audited)

Impaired and non-performing loans are identified by arrears status. Impaired accounts are those defined as greater than or equal to three months in arrears, and also include accounts subject to possession, litigation and bankruptcy where arrears are greater than or equal to one month. Non-performing accounts represent those which are past due but not yet impaired.

The table below provides further information on retail loans and advances by payment due status:

	2013				
	Prime lending	Specialist lending	Consumer banking	Total	
	£m	£m	£m	£m	%
Not impaired:					
Neither past due nor impaired	108,223	23,059	3,363	134,645	97
Past due up to 3 months but not impaired	1,832	1,154	60	3,046	2
Impaired	564	726	65	1,355	1
	110,619	24,939	3,488	139,046	100

	2012				
	Prime lending	Specialist lending	Consumer banking	Total	
	£m	£m	£m	£m	%
Not impaired:					
Neither past due nor impaired	103,149	21,285	2,860	127,294	97
Past due up to 3 months but not impaired	1,873	1,189	48	3,110	2
Impaired	567	784	60	1,411	1
	105,589	23,258	2,968	131,815	100

The status past due up to three months but not impaired includes any asset where a payment due is received late or missed. The amount represents the entire financial asset rather than just the payment overdue. Loans on interest only or payment holiday concessions are initially categorised according to their payment status as at the date of concession, with subsequent revisions to this category assessed against the terms of the concession.

Individual provisions are assigned to accounts in possession and a collective provision is assigned to those less than three months past due and against the performing accounts.

Lending risk continued

Retail (secured and unsecured) credit risks (continued)

Impaired retail assets are further analysed as follows:

	2013				
	Prime lending	Specialist lending	Consumer banking	Total	
	£m	£m	£m	£m	%
Impaired status:					
Past due 3 to 6 months	260	297	41	598	44
Past due 6 to 12 months	190	208	24	422	31
Past due over 12 months	96	134	-	230	17
Possessions	18	87	-	105	8
	564	726	65	1,355	100

	2012				
	Prime lending	Specialist lending	Consumer banking	Total	
	£m	£m	£m	£m	%
Impaired status:					
Past due 3 to 6 months	268	279	37	584	41
Past due 6 to 12 months	184	200	23	407	29
Past due over 12 months	85	138	-	223	16
Possessions	30	167	-	197	14
	567	784	60	1,411	100

Possession balances represent loans against which the Group has taken ownership of properties pending their sale. Possession is only enforced once all other recovery options have been exhausted and this, together with the quality of our portfolio, is reflected in the Group's possession rate which is approximately 40% of the market average.

For performing accounts a behavioural scorecard is used to assign default probabilities and takes into consideration internal and external performance in addition to historic positions. The default probabilities are adjusted to reflect performance of accounts which are currently or have recently experienced forbearance activity.

The Group offers a number of support options to both secured and unsecured customers. The credit policies and provisioning treatment relating to these activities have been proactively reviewed over the year ended 4 April 2013 to ensure alignment to good practice as defined by the Regulator.

The options offered may be classified into three categories:

- Change in terms
- Forbearance
- Repair.

Change in terms

Changes in terms relate to a concession or permanent change, which results in amended monthly cash flows. The options available include:

- Payment holidays
- Interest only conversions
- Term extensions.

Payment holidays

Performing customers with loans on standard terms and conditions effective before March 2010, who are not experiencing financial difficulty and meet required criteria (including credit score), are permitted to apply for a payment holiday and make reduced or nil payments for an agreed period of time of up to 12 months (depending on reason).

As at 4 April 2013, 1,306 accounts (2012: 1,848 accounts) were subject to a payment holiday. The performance of customers who have taken a payment holiday is reflected within the Group's provisioning methodology.

Interest only conversions

Interest only conversions allow performing customers meeting required criteria to apply for an interest only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy in relation to interest only conversions in 2011/12, the facility was completely withdrawn in March 2012. The performance of interest only conversions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Term extensions

The Group allows performing customers to apply to extend the term of their mortgage. During the year ended 4 April 2013,

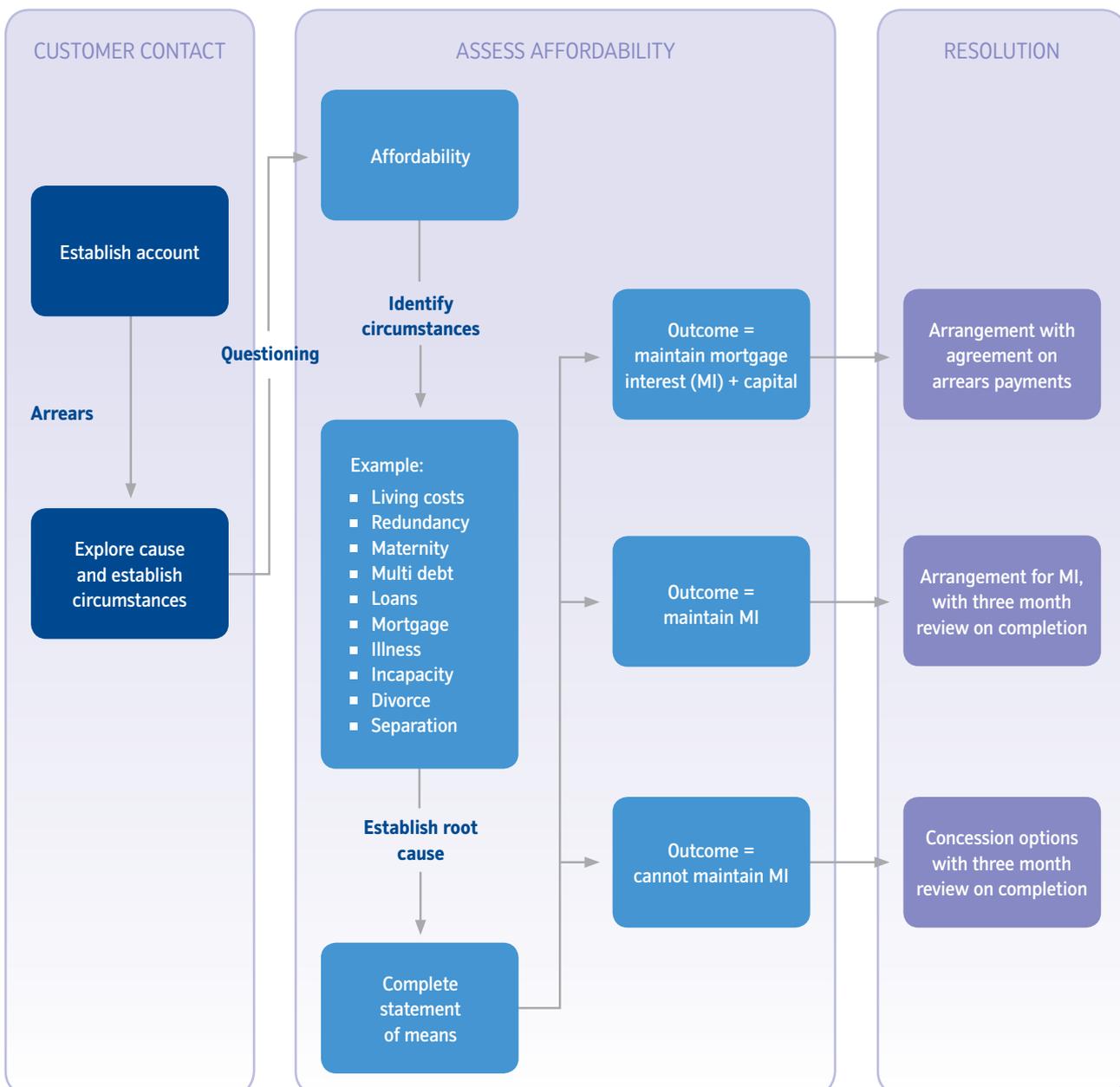
17,290 accounts (2012: 15,032 accounts) extended their term. The performance of term extensions is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Forbearance

The only forbearance option which the Group offers customers in financial distress is an interest only concession. Interest only concessions are offered to customers on a temporary basis with formal periodic review subject to an affordability assessment. The concession allows the customer to reduce monthly payments to cover interest only, typically for six months, and if made, the arrears status of the account will not increase, and will remain as at the beginning of the concession.

As at 4 April 2013, 1,913 accounts (2012: 2,474 accounts) representing 0.2% (2012: 0.2%) of total prime mortgage balances were on this concession. The Group's provisioning methodology reflects the latest performance on these accounts.

The following diagram shows the process which is carried out in deciding the appropriate action when a customer is offered forbearance:



Lending risk continued

Retail (secured and unsecured) credit risks (continued)

Repair

When a customer emerges from financial difficulty, the Group offers the ability to capitalise arrears, resulting in the account being repaired. Customers are only permitted to capitalise arrears where they have demonstrated their ability to meet a repayment schedule at normal commercial terms for a continuous six month period, or if they are able to overpay such that six months' payments are made in a four month period. During the year ended 4 April 2013, 187 accounts (2012: 546 accounts) had an arrears capitalisation. Once capitalised the loans are categorised as not impaired as long as contractual repayments are maintained. Capitalised accounts have a higher than average propensity to roll into arrears and this is recognised within the Group's provisioning methodology.

For those customers who are unable to repay their capital at term expiry, they may be offered a term extension. These extensions are typically on a capital and interest basis over a relatively short term, normally less than five years, and aim to recover the outstanding balance as quickly as possible whilst ensuring the monthly payment remains manageable to the customer. During the year ended 4 April 2013, 1,794 accounts (2012: 2,417 accounts) had an extension at term expiry. No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The options outlined above apply predominantly to the prime originated portfolio. The table below shows the stock of loans still on the books as at 4 April 2013 that have been subject to forbearance at some point:

	2013		2012	
	£m	% of total prime loans and advances	£m	% of total prime loans and advances
Change in terms	19,830	18	20,048	19
Forbearance	1,536	1	1,441	1
Repair	519	-	504	-

Please note that the above three categories are not mutually exclusive.

Retail collateral

(Audited)

Collateral held against past due or impaired retail residential mortgages is as follows:

	2013			
	Prime lending		Specialist lending	
	£m	%	£m	%
Past due but not impaired	1,827	100	1,141	99
Impaired	541	99	618	97
Possessions	17	94	72	83
	2,385	100	1,831	97

	2012			
	Prime lending		Specialist lending	
	£m	%	£m	%
Past due but not impaired	1,867	100	1,172	99
Impaired	532	99	595	96
Possessions	29	96	138	83
	2,428	100	1,905	97

Collateral held in relation to secured loans that are either past due or impaired is capped to the amount outstanding on an individual loan basis. The percentage, in the table above, is the cover over the value of the asset.

Negative equity on retail residential mortgages is shown below:

	2013		2012	
	Prime lending	Specialist lending	Prime lending	Specialist lending
	£m	£m	£m	£m
Past due but not impaired	5	13	6	17
Impaired	5	21	5	22
Possessions	1	15	1	29
	11	49	12	68

Consumer banking

In consumer banking, the percentage of delinquent balances more than 30 days in arrears has shown an improvement on personal loans and credit card, but increased marginally on FlexAccount. All books have increased in size year on year, and where published data is available our performance compared with the industry remains favourable.

	2013	2013	2013	2012
	Delinquent balances	Balances before provisions	%	%
	£m	£m	%	%
FlexAccount (overdraft balances)	23.4	238.0	9.81	9.18
Personal loans	52.4	1,783.9	2.94	2.98
Credit cards	47.5	1,465.8	3.24	3.34

The prior year analysis for personal loans has been amended to present the information on a consistent basis with the current year.

Unsecured customers have limited forbearance options. Credit card customers experiencing financial distress may agree a payment plan, which is typically less than the minimum payment. Additionally credit card and personal loan customers who have maintained the required payment performance over a sustained period may be re-aged. The volume of payment plans and re-aging is low and therefore no specific treatment is made within the Group's provisioning methodology.

Outlook for Retail (secured and unsecured) credit risks

In addition to the top and emerging risks described above, there are two events specific to the outlook for secured lending.

The Mortgage Market Review (MMR) published by the Financial Conduct Authority requires all mortgage lenders to enhance responsible lending controls for mortgages by 26 April 2014,

to ensure that the mortgages are affordable and thus minimise the risk of detrimental outcomes for customers. While responsible lending is already central to Nationwide's lending policy, MMR will require Nationwide to make changes to its systems and processes ahead of the regulatory deadline. This will include the introduction of a more comprehensive and customer specific affordability assessment for both new mortgages and for significant changes to existing mortgage contracts. The current non-advised sales process will also be withdrawn and all mediated sales, ie face to face and telephone, will be subject to regulation.

The March 2013 budget announced two major initiatives to further support the housing market under the Help to Buy scheme comprising an expanded equity loan scheme and a proposed mortgage indemnity scheme for people to borrow with a 5% deposit. Nationwide is active in these market segments and will seek to take part in schemes that are in the interests of its membership.

Lending risk continued

Commercial credit risks

The strategy for the commercial lending portfolio has been adjusted to reflect the challenging commercial real estate (CRE) environment. The assets presenting the greatest credit risks are now administered by a specialist team focused on restructuring troublesome facilities and minimising credit losses. As part of this activity, resources have been expanded and targeted to maintain a regime of close and continuous scrutiny over the highest value/highest risk cases.

As part of this control, a greater focus on assessing loans as they mature is in place, in order to highlight potential difficult situations and initiate appropriate management activity in advance of the maturity date.

Watchlist procedures are used to identify high risk cases and those that are a potential cause for concern, in order that risk mitigating action may be initiated at the earliest opportunity. Renewals and review frequencies are more intense for those borrowers perceived to be of higher risk.

In managing the portfolio we seek to reduce higher risk exposures whilst avoiding excessive losses which would be caused by making asset disposals into a depressed market. Portfolio analysis ensures that we identify and recognise the inherent risks and exposures within the portfolio.

Significant events/environment

The CRE market remained a challenge during 2012/13 with investor demand for secondary assets outside the South East and off the major arterial connections being weak. This led to further falls in capital values and significant haircuts on asset sales.

Banks across Europe have been reducing their exposures to higher risk assets through portfolio sales and individual asset disposals, further depressing prices for secondary assets in a market with limited demand for this asset type. There is a continued lack of finance for property investors, driven partly by

property outlook, but also by uncertainties around the capital treatment of commercial real estate lending.

The failure of prominent retailers during the year had a limited direct impact on the performance of the portfolio. Those borrowers exposed tended to benefit from a spread of tenants and have been able to absorb the impact pending successful re-letting of the units.

There has been a continuation of the trend for shorter lease profiles and of tenants exercising breaks. This reduces the certainty around cash flows and further exacerbates shifts in collateral values and difficulties in refinancing.

Impairments and provisions have increased during the year, with the provision coverage now 9.4% (2012: 4.7%) of the Property Finance portfolio.

Commercial and other lending: credit risk profile

(Audited)

Commercial lending comprises loans secured on commercial property, loans to registered social landlords and loans advanced in relation to Project Finance.

Other lending operations includes £219 million (2012: £262 million) of secured lending relating to a European commercial loan portfolio and a loan secured by a senior ABS reference portfolio, and unsecured lending of £217 million (2012: £231 million) relating to a student loan portfolio. These investments were acquired by the Treasury Division and are therefore held within the head office functions business segment.

Subsequent to the year end, the Group disposed of the investment that exposed it to the risk and rewards of the company which owned the £217 million unsecured lending relating to a student loan portfolio. This company was previously consolidated within the Group and was deconsolidated from the date of the disposal.

Commercial lending: risk concentrations

(Audited)

The Group's commercial loan portfolio on a gross basis comprises of the following:

	2013		2012	
	£m	%	£m	%
Property Finance	10,192	51	11,580	54
Registered social landlords	8,217	41	8,450	39
Project Finance	1,507	8	1,478	7
	19,916	100	21,508	100

Loans to registered social landlords are secured on residential property and loans advanced in relation to Project Finance are secured on cash flows from government backed contracts. The Group has never suffered losses on lending in these markets and there are currently no arrears of three months or more on these portfolios.

The Group's Property Finance portfolio is diversified by industry type, location and by borrower, with only low levels of exposure to development finance of £51 million (2012: £142 million).

Within the Property Finance portfolio is a non UK element of £1.0 billion (2012: £1.1 billion) which is almost entirely exposed to the German real estate market.

The proportion of Property Finance cases three months or more in arrears as at 4 April 2013 was 4.50%, and equates to 325 cases (2012: 3.66%, 299 cases).

An analysis of Property Finance sector concentrations is provided below:

	2013		2012	
	£m	%	£m	%
Retail	3,151	31	3,570	31
Office	2,321	23	2,670	23
Residential	1,707	17	1,913	16
Industrial and warehouse	1,683	16	2,006	17
Leisure and hotel	1,162	11	1,216	11
Other	168	2	205	2
	10,192	100	11,580	100

The prior year analysis has been amended to present the information on a consistent basis with the current year.

An analysis of Property Finance regional concentrations is provided below:

	2013		2012	
	£m	%	£m	%
London	3,208	31	3,530	30
South East	1,491	15	1,668	15
Rest of UK	4,467	44	5,268	45
Non UK	1,026	10	1,114	10
	10,192	100	11,580	100

In terms of counterparty concentration, the largest single commercial customer, including undrawn commitments, represents only 1.5% (2012: 1.4%) of the total book.

Commercial lending: credit performance

Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise from the portfolio. All commercial credit facilities are reviewed annually as a minimum and the Group has detailed processes to identify customers exhibiting, or who may be vulnerable to, financial distress and which prompt more frequent review, where appropriate.

Where such customers are identified, they are typically transferred at an early stage to the Commercial Specialist Support Unit to ensure that early warning signs are acted upon, appropriate action is taken and, where possible, the Group works with the customer to try to resolve the issues and to restore the loan to a financially viable position. These dedicated teams, supported by daily arrears monitoring and watchlists, maintain a focus on early intervention to minimise credit losses.

Non performing loans are defined as those with early stage arrears (less than three months), whilst impaired loans are those that:

- are three or more months in arrears, or
- have a provision applied when a loss event has been identified.

The Group will seek to support customers and restructure non-performing or impaired loans, but only where the Group's assessment of future cash flows provides sufficient evidence to suggest that such approach will serve to enhance prospects for full debt recovery.

The Group will when necessary refinance existing facilities at maturity but will classify the loan according to its risk profile:

- Restructures:** These loans will be extended on current market terms.
- Distressed restructures:** The term for these loans may not fully meet current market terms and as a result will typically be classed as forborne.

Lending risk continued

Commercial credit risks (continued)

Forbearance

The forbearance requests the Group receives are principally attributable to:

- Customers suffering temporary cash flow problems that impact the ability to service payments under existing terms. Such problems may be due to loss of tenants, void costs or the costs of securing new tenants such as refurbishments or the provision of rent free incentives.
- Breaches of documented loan to value, interest cover ratio or debt service cover ratio covenants caused by a fall in property values, the loss of income or increased repayments due to interest rate rises or scheduled increases in capital repayments.
- Inability to fulfil the obligation to fully repay at contractual maturity.

Watchlist procedures are used to identify high risk cases and those that are a potential cause for concern, in order that risk mitigating action may be initiated at the earliest opportunity. Renewals and review frequencies are more intense for those borrowers perceived to be of higher risk.

The Group's standard policy and approach to considering forbearance requests is contained in the Arrears Management Policy and the Commercial Lending Credit Policy. Implementation is controlled through the governance and control framework, which includes early warning and watchlist procedures for managing and monitoring the performance of these customers.

All forbearance requests are assessed and approved by the independent credit team in the Risk Management Division. Forbearance to address short term cash flow difficulties will typically be through the provision of a temporary amendment to the payment profile to align repayments with the secure income stream. In such cases there would be no element of debt or interest forgiveness and the Group would have to be satisfied with the ability to maintain payments and fully repay over time.

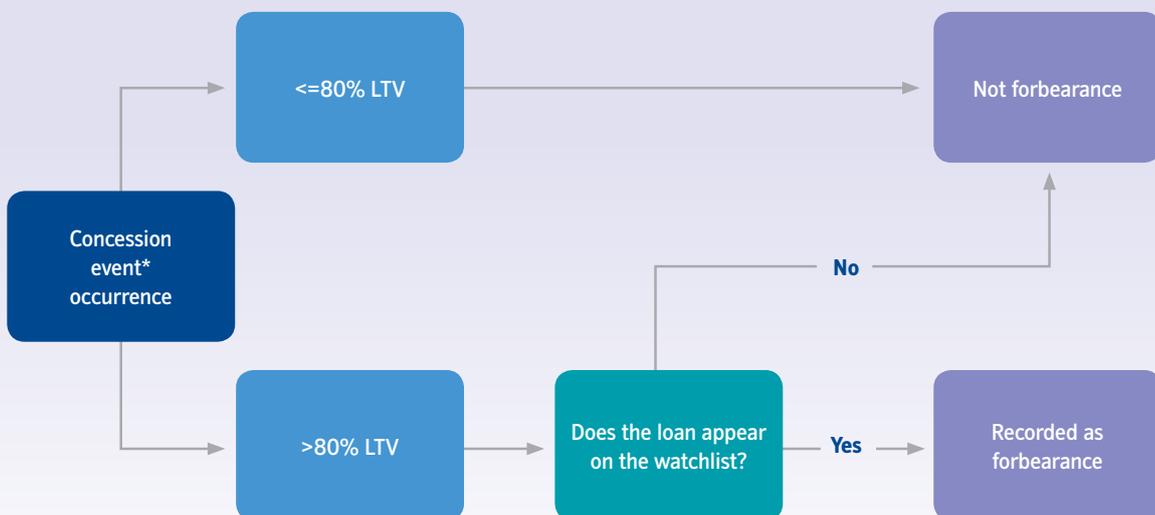
Forbearance to address covenant breaches would normally entail either a temporary or permanent waiver or amendment of the affected covenant. Each case would be considered on its own merits and the Group's response will depend upon the risk profile of the transaction.

The provision of extended facilities on maturity does not always represent forbearance. However, despite the exit position faced often looking far less attractive than that originally envisaged, the Group will still seek to support customers by providing refinancing over extended terms where the customer's ability to continue to service the debt and improve the risk profile over time can be evidenced.

The permanent waiver of either interest or capital or debt for equity swaps will only be considered in the most exceptional circumstances and always in relation to cases which have been reclassified as impaired.

Loans are no longer classified as forborne once a satisfactory track record has been established and the facility no longer requires more intensive monitoring under watchlist procedures.

The following flowchart demonstrates the decision process for commercial forbearance:



*Concession Events 1. Reduction in interest rate or principal due 2. Extension of maturity date 3. Weakening of security
4. Adjustment/non-enforcement of covenants 5. Equity interest in the borrower

Cases attracting a concession event are classified as forbore when their underlying credit risk differs from that of a performing loan and the terms extended exceed typical market standards.

Nationwide uses the watchlist to identify those cases with different credit risks characteristics and an LTV threshold to reflect prevailing market terms.

The table below provides details of lending subject to forbearance at the reporting date:

	2013	
	£m	%
Covenant breach	292	15
Extension at maturity	332	17
Revised repayment profile	48	3
Multiple forbearance events	800	41
Other	463	24
	1,935	100

Those loans restructured at maturity and subject to forbearance will typically include a contractual capital amortisation profile or a full cash sweep of surplus rental income to pay down the debt after permitted deductions for asset management fees and irrecoverable property costs. As long as contractual repayments are maintained these are no longer impaired, if applicable, but will retain a forbearance classification until no longer subject to special monitoring procedures. Lending subject to forbearance carries a credit impairment provision of £378 million.

During 2012/13 the policies and procedures relating to forbearance were enhanced to reflect evolving guidance. As a result of this, the table above is not directly comparable with that reported in the previous year.

In addition to the loans subject to forbearance, in the year to 4 April 2013 there were £182 million (2012: £683 million) of loans that were restructured at maturity but within current market terms and our risk appetite.

Other operations; Treasury corporate loan forbearance

One of the Group's subsidiaries Cromarty CLO Ltd (Cromarty) has a portfolio of loans to companies. Although the terms of the interest payments of the Society's loan to Cromarty are aggregated so that the Group does not have a forbearance position, Cromarty does agree repayment terms for its borrowers that are within the definition of forbearance.

Forbearance requests made by Cromarty's borrowers that cannot demonstrate they have robust business models, material market

shares and adequate cash flows tend to take the form of balance sheet restructures. Balance sheet restructures are often led by lenders and the terms attempt to balance the need to relieve companies of unsustainable debt burdens and to maximise returns for lenders. Restructures often result in principal reductions in debt outstanding, reduced margins on cash paying debt or the amendment of cash paying debt to payment in kind (PIK) debt. Other types of forbearance are detailed below.

As of 4 April 2013 fourteen borrowers in the Cromarty loan portfolio would be classed as in forbearance because at some point the borrowers have gone through a balance sheet restructure, or other types of forbearance such as amend and extend (A&E) request, payment default or a covenant breach. Of the £43 million of loans to these borrowers £28 million has gone through a balance sheet restructure, £9 million has completed an A&E request.

In the year to 4 April 2013 six borrowers in the Cromarty loan portfolio entered forbearance status. These loans have an outstanding balance of £16 million and impairment provisions of £2 million were raised against these loans.

In addition, loans and advances to customers include a revolving loan facility of £83 million which has been re-categorised as under forbearance following management review and the decision to extend the loan facility. The loan has been assessed for impairment and, as there has been no trigger event and no deterioration in the underlying securities, no impairment provision is required as at 4 April 2013.

Performance

The table below provides further information on the commercial lending and other lending operations by payment due status:

(Audited)	2013			
	Commercial		Other operations	
	£m	%	£m	%
Not impaired:				
Neither past due nor impaired	16,557	83	397	91
Past due up to 3 months but not impaired	644	3	6	1
Impaired	2,715	14	33	8
	19,916	100	436	100

Lending risk continued

Commercial credit risks (continued)

<i>(Audited)</i>	2012			
	Commercial		Other operations	
	£m	%	£m	%
Not impaired:				
Neither past due nor impaired	19,081	89	447	91
Past due up to 3 months but not impaired	669	3	4	1
Impaired	1,758	8	42	8
	21,508	100	493	100

The status past due up to three 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.

Loans in the analysis above which are not impaired have collective impairment allowances set aside to cover credit losses. The commercial mortgage assets acquired through

the acquisitions of the Derbyshire, Cheshire and Dunfermline building societies are assessed for impairment requirements on the same basis as the originated commercial book.

The £33 million (2012: £42 million) of impaired balances in other operations includes £27 million (2012: £30 million) relating to a European commercial loan portfolio and £6 million (2012: £11 million) relating to the unsecured student loan portfolio.

Impaired commercial and other operations assets are further analysed as follows:

<i>(Audited)</i>	2013			
	Commercial		Other operations	
	£m	%	£m	%
Impaired status:				
Past due 0 to 3 months	1,581	58	-	-
Past due 3 to 6 months	218	8	1	3
Past due 6 to 12 months	295	11	2	6
Past due over 12 months	620	23	30	91
Possessions	1	-	-	-
	2,715	100	33	100

<i>(Audited)</i>	2012			
	Commercial		Other operations	
	£m	%	£m	%
Impaired status:				
Past due 0 to 3 months	836	47	-	-
Past due 3 to 6 months	139	8	1	2
Past due 6 to 12 months	295	17	2	5
Past due over 12 months	487	28	39	93
Possessions	1	-	-	-
	1,758	100	42	100

Commercial assets totalling £2,629 million (2012: £1,450 million) have individual provisions against them.

Possession balances represent loans against which Nationwide has taken ownership of properties pending their sale. Assets over which possession has been taken are realised in an orderly manner via open market or auction sales to derive the maximum benefit for all interested parties, and any surplus proceeds distributed in accordance with the relevant insolvency regulations. The Group does not occupy repossessed properties for its business use or use assets obtained in its operations.

Commercial lending: collateral

(Audited)

Although collateral can be an important mitigant of credit risk, it is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than rely on the value of the security offered. In the event of default the Group may use the collateral as a source of repayment.

Primary collateral is a fixed charge over freehold or long leasehold properties but may be supported by other liens, floating charges over company assets, and occasionally unsupported guarantees. The collateral will have a significant effect in mitigating our exposure to credit risk.

The table below quantifies the value of fixed charges held against non-performing or impaired assets:

Collateral held against past due or impaired commercial lending	2013		2012	
	£m	%	£m	%
Past due but not impaired	623	97	631	94
Impaired	1,743	64	1,157	66
	2,366	70	1,788	74

Collateral held in relation to secured loans that are either past due or impaired is capped to the amount outstanding on an individual loan basis. The percentage, in the table above, is the cover over the asset.

The indexed value of the collateral is based on the most recent formal valuation. The index used is the Investment Property Databank (IPD) monthly index for the relevant property sector. Nationwide reserves the right to request a revaluation of any property currently charged in support of facilities advanced or upon an act of default. Whilst a revaluation is not automatically obtained, the merits of obtaining a revaluation are considered at each facility review and whenever a report is submitted to Risk Management Division.

Particular attention is paid to the status of the facilities, for instance whether it is, or is likely to require an impairment review where our assessment of potential loss would benefit from updated valuations, or there are factors affecting the property that might alter the case assessment and the most appropriate action to take.

A borrower level analysis by loan to value ratio of the Group's Property Finance portfolio is provided below. Housing, Project Finance and one commercial loan secured on floating charges are excluded from this analysis.

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 IPD monthly index is used.

LTV band	2013		2012	
	£m	%	£m	%
<75%	4,506	44	4,925	43
75% - 90%	936	9	1,475	13
90% - 100%	907	9	1,155	10
100% - 125%	1,823	18	2,471	21
>125%	2,020	20	1,554	13
	10,192	100	11,580	100

The level of negative equity based upon the indexation of property values for the non-performing and impaired assets is detailed below:

Negative equity on commercial lending	2013	2012
	£m	£m
Past due but not impaired	21	38
Impaired	972	600
Possessions	1	-
	994	638

Lending risk continued

Commercial credit risks (continued)

Outlook for commercial credit risks

The outlook remains negative as a result of the adverse market conditions and continuing regulatory scrutiny.

With income producing real estate slotting criteria absorbing capital from the industry as a consequence of the performance of the CRE market and regulatory expectations, there are limited funds available to act as a stimulus to drive asset values up, particularly for secondary assets. As a result the distribution between prime and secondary is likely to remain at current levels.

In the year ahead £2.6 billion of Property Finance facilities are due to mature. Of these, £1.7 billion is under watch and has been assessed with individual provisions held against these loans of £527 million. Of the remaining £0.9 billion almost all have an interest cover ratio of >130%.

Movements in impaired loans by credit risk segment (Audited)

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

	Prime	Specialist	Unsecured	Commercial	Other	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2012	567	784	60	1,758	42	3,211
Classified as impaired during the year	519	698	113	1,333	3	2,666
Transferred from impaired to unimpaired	(456)	(548)	(20)	(42)	(5)	(1,071)
Amounts written off	(60)	(193)	(82)	(211)	(3)	(549)
Repayments	(6)	(15)	(6)	(123)	(4)	(154)
At 4 April 2013	564	726	65	2,715	33	4,103

Loans that were classified as impaired at any point during the year and loans that have transferred into or out of impaired are based on the relevant status at each month end, when compared to the previous month end. Amounts written off reflect where the loan has been removed from the books, for example a residential property repossessed and sold. Repayments reflect payments made by the customer, reducing the outstanding balance.

There were no acquisitions during the year ending 4 April 2013, but all prior acquisitions are categorised in the same way as originated loans in the analysis above.

The large amount of write offs within specialist loans reflects the increased use of auctions in the year ended 4 April 2013 to sell possessions that have been held for longer than 12 months.

Unsecured accounts are written off when all avenues for recovering debt using internal resource have been exhausted or when accounts have reached a significant time in arrears.

The large number of commercial loans classified as impaired during the year reflects the continued recessionary market conditions which have been summarised in the commercial credit risks section.

Treasury credit risks

Significant events/environment

The Eurozone debt crisis has yet to be fully resolved. Measures such as the European Central Bank's Outright Monetary Transactions scheme, the agreement to provide Spain with a contingent emergency facility of €100 billion and the extension of Portugal's and Ireland's bailout packages have had some positive impact. However, Eurozone member states are suffering from a lack of economic growth and are struggling to meet austerity targets so a worsening of the crisis remains a possibility. The majority of Nationwide's peripheral Eurozone exposures are secured and in most cases are senior positions in securitisations that benefit from structural protection.

There is still a risk that fractures appear in the structure of the Eurozone. The full impact on markets, if a country were to leave the Eurozone, is difficult to predict. In the event that a country in which Nationwide holds assets leaves the Eurozone and introduces a new currency, then Nationwide may be exposed to risks associated with re-denomination. The Society is considering ways in which re-denomination risk can be mitigated.

Ratings agencies continue to review their securitisation rating methodologies and this has had a negative effect on the rating profile of the non-core portfolio. Moody's and Standard & Poor's have implemented harsher European retail mortgage backed securities and European commercial mortgage backed securities methodologies, respectively. Deteriorating asset performance remains a downgrade risk for banks and securitisations.

Impairments over the past financial year have been within management expectations, despite continuing difficult economic conditions. The available for sale reserve has improved slightly over the year, with price movements in the non-core portfolios offsetting those in the core liquidity portfolio. Market prices of non-core assets have improved as acute concerns about the Eurozone have receded.

Further impairments or losses could result from economic, financial system or sector weaknesses.

Credit risk within the Treasury Division arises primarily from the instruments held by Treasury for liquidity and investment purposes. This aspect of credit risk is managed by the Treasury Credit Risk function which underwrites all new facilities and monitors existing exposures. It also sets and monitors compliance with policy and limits, reporting to the Lending Committee. In addition, counterparty credit risk arises from the use of derivatives where market values are positive. Derivatives are only traded with highly-rated organisations and the vast majority include collateral agreements which are either active or have contingent rating triggers.

The Treasury Credit Risk function also monitors exposure concentrations against a variety of criteria including industry sector, asset class, individual counterparty and country of risk. The treasury exposure is well diversified across both industry sectors and jurisdictions. Nationwide has no exposure to emerging markets, hedge funds or credit default swaps and the majority of exposure has an investment grade rating. The Group's exposure to investments from Eurozone countries has been detailed in the Business Review.

Treasury assets

Treasury assets include cash, loans and advances to banks and investment securities available for sale. Treasury assets are categorised between core liquidity and non-core portfolios to better reflect the management of the portfolios and bring the analysis in line with PRA definitions in BIPRU 12.

Core liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks.

The non-core portfolio comprises available for sale assets held for investment purposes, plus balances in clearing accounts. Analysis of each of these portfolios by credit rating and geographical location of the issuers is set out in the table below:

<i>(Audited)</i>	2013	AAA	AA	A	Other	UK	US	Europe	Other
	£bn	%	%	%	%	%	%	%	%
Cash	7.9	100	-	-	-	100	-	-	-
Gilts	5.6	100	-	-	-	100	-	-	-
Non-domestic government bonds	2.3	71	29	-	-	-	29	71	-
Supranational bonds	1.0	100	-	-	-	-	5	93	2
Domestic government bonds	0.1	100	-	-	-	100	-	-	-
Core liquidity portfolio total	16.9	96	4	-	-	81	4	15	-
Loans and advances to banks	2.5	13	23	64	-	46	18	22	14
Residential mortgage backed securities (RMBS)	1.6	25	23	31	21	35	5	56	4
Commercial mortgage backed securities (CMBS)	0.4	-	29	39	32	42	19	39	-
Covered bonds	0.6	11	28	34	27	-	5	92	3
Collateralised loan obligations	0.7	17	79	4	-	31	69	-	-
Financial institution bonds	0.3	-	-	58	42	30	16	43	11
US student loans	0.5	22	52	14	12	-	100	-	-
Other	0.3	19	24	16	41	24	29	42	5
Non-core portfolio total	6.9	16	31	40	13	33	26	35	6
Total	23.8	73	12	12	3	66	11	21	2

Lending risk continued

Treasury credit risks (continued)

<i>(Audited)</i>	2012	AAA	AA	A	Other	UK	US	Europe	Other
	£bn	%	%	%	%	%	%	%	%
Cash	8.1	100	-	-	-	100	-	-	-
Gilts	12.8	100	-	-	-	100	-	-	-
Non-domestic government bonds	2.4	54	46	-	-	-	46	54	-
Supranational bonds	1.4	100	-	-	-	9	4	86	1
Domestic government bonds	0.1	100	-	-	-	100	-	-	-
Core liquidity portfolio total	24.8	96	4	-	-	85	5	10	-
Loans and advances to banks	2.9	-	23	77	-	31	17	17	35
Residential mortgage backed securities (RMBS)	2.1	41	27	23	9	45	4	41	10
Commercial mortgage backed securities (CMBS)	0.5	-	24	58	18	67	-	33	-
Covered bonds	0.9	54	23	12	11	28	3	63	6
Collateralised loan obligations	0.6	6	89	5	-	31	69	-	-
Financial institution bonds	1.4	-	9	64	27	20	14	50	16
US student loans	0.7	40	28	22	10	-	100	-	-
Other	0.4	32	20	18	30	25	61	14	-
Non-core portfolio total	9.5	19	27	45	9	32	22	30	16
Total	34.3	74	10	13	3	70	10	16	4

All assets shown above, other than cash and loans and advances to banks, are classified as available for sale investment securities.

Ratings are obtained from Standard & Poor's in the majority of cases, from Moody's if there is no Standard & Poor's rating available, and internal ratings are used if neither is available. Further details on Treasury asset quality (unaudited) can be found in the Business Review.

In assessing impairment, the Group evaluates among other factors, the normal volatility in valuation, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. An impairment loss of £2 million (2012: £31 million) net of write backs has been recognised in the income statement in respect of the non-core portfolios.

Collateral held as security for treasury assets is determined by the nature of the instrument. Core liquidity and non-core portfolios are generally unsecured with the exception of reverse repos, asset backed securities and similar instruments, which are secured by pools of financial assets. Within loans and advances is a reverse repo of £0.1 billion (2012: £0.1 billion) which is secured by gilts and cash pledged of £1.6 billion (2012: £2.3 billion) to Credit Support Annex (CSA) counterparties in relation to derivative liabilities to mitigate their credit exposure to Nationwide Group.

Derivative financial instruments

(Audited)

The fair value of derivative assets at 4 April 2013 was £4.2 billion (2012: £4.2 billion). Additional information on these assets is set out in note 16. The International Swaps and Derivatives Association (ISDA) Master Agreement is Nationwide's preferred agreement for documenting derivative activity. It is common for a CSA to be executed in conjunction with the ISDA Master Agreement. Under a CSA, cash and securities collateral is passed between parties to mitigate the market contingent counterparty risk inherent in the outstanding positions. Collateral is paid or received on a regular basis (typically daily or weekly) to mitigate the mark to market exposures on derivatives.

Nationwide's CSAs are two way agreements where both parties post collateral dependent on the exposure of the derivative. The only exception is within the Nationwide Covered Bond LLP where one way agreements have been entered into in favour of the Nationwide Covered Bond LLP. These CSAs are also subject to contingent rating triggers.

Where cash collateral is received to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks. Where cash collateral is given to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks. Where securities

collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

Netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. The Group's legal documentation for

derivative transactions grants legal rights of set off for those transactions. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market values on derivatives will offset positive mark to market values on derivatives in the calculation of credit risk, subject to an absolute exposure of zero.

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

	2013			2012		
	AA	A	Total	AA	A	Total
	£bn	£bn	£bn	£bn	£bn	£bn
Gross positive fair value of contracts	0.5	3.7	4.2	0.6	3.6	4.2
Netting benefits	(0.3)	(1.9)	(2.2)	(0.3)	(1.7)	(2.0)
Net current credit exposure	0.2	1.8	2.0	0.3	1.9	2.2
Collateral held	(0.1)	(1.5)	(1.6)	-	(1.1)	(1.1)
Net derivative credit exposure	0.1	0.3	0.4	0.3	0.8	1.1

Collateral held consists primarily of cash with £0.1 billion held in non-domestic government securities.

Collateral on certain derivative assets with a fair value of £0.4 billion (2012: £1.1 billion) is only triggered when the counterparty rating falls to a specified rating level. At 4 April 2013 the trigger event has not occurred and these assets are uncollateralised as a consequence. Our exposure to such counterparties is to AA or A rated banks.

A credit and debit valuation adjustment policy is applied to derivative exposures. A credit valuation adjustment (CVA) reflects counterparty credit and a debit valuation adjustment (DVA) reflects Nationwide's own credit quality on the derivative fair value. With the exception of a small number of legacy positions, all derivative counterparty positions are subject to CSA agreements.

The policy states that where the net exposure is an asset a credit valuation adjustment is applied and where the net exposure is a liability a debit valuation adjustment is applied. The CVA/DVA calculation uses readily observable and verifiable market data in the form of individual counterparty credit default swap spreads as a proxy for the probability of default. A CVA of £22 million and a DVA of £21 million were recorded in the income statement to reflect the movement in counterparty credit risk on fair valued derivative assets and own credit risk on fair valued derivative liabilities during the year.

Outlook for Treasury credit risks

The Eurozone debt crisis is being monitored closely. The lack of economic growth and political resistance to fiscal consolidation are concerns because they could delay progress in the reduction of very high sovereign debt burdens. This may result in the need for further bailouts or debt restructurings.

Financial risk

Financial risk is split into four sub-categories as follows:
(Audited)

Risk category	Definition
Liquidity and funding risk	Liquidity risk is the risk that the Group is unable to maintain all of the following capabilities: <ul style="list-style-type: none"> ■ to meet its financial obligations as they fall due (including any unexpected adverse cash flow) ■ to smooth out the effect of maturity mismatches, or ■ to maintain public confidence. Funding risk is the risk associated with the impact on the Group's cash flow from higher funding costs or the inability to access funding markets.
Capital management	The risk that: <ul style="list-style-type: none"> ■ The Group has, or expects in the future to have, insufficient capital to meet Board risk appetite, regulatory requirements or other stakeholder expectations. ■ The Group's capital requirements do not adequately reflect the risk inherent in the business, or ■ Capital is employed in a way that fails to optimise the Group's risk and reward trade off.
Market risk	The risk that the value of, or net income arising from, the Group's assets and liabilities changes as a result of changes to interest rates, exchange rates or equity prices.
Pension risk	The risk that the Group's funding obligations for a number of defined benefit pension schemes expose the Group to longevity risk and various market risks including interest rate risk, inflation risk and equity risk within those schemes.

Financial risk is managed within a framework of approved assets, currencies and capital instruments supported by detailed limits set by either the Board or ALCO under its delegated mandate. The Nationwide Board retains responsibility for approval of derivative classes that may be used for market risk management purposes, restrictions over the use of such derivative classes (within the limitations imposed under the Building Societies Act, Section 9A) and for asset classes that may be classified as liquidity.

Strategy in using financial instruments (Audited)

The Group accepts deposits from customers at fixed, floating and variable interest rates for various periods and seeks to earn an interest margin by investing these funds in high quality assets, predominantly mortgages. The Group uses derivative instruments to manage various aspects of risk which arise from this core activity. However, in doing so it complies with the Building Societies Act 1986 which limits the use of derivatives to the mitigation of consequences arising from changes in interest rates, exchange rates or other factors defined by the Act.

The principal risks to which the Group is exposed through its use of financial instruments are interest rate, foreign exchange, liquidity and funding and credit risk. The table below highlights the links between these risks and the balance sheet:

	2013 £m	Non-traded risk sensitivity				
		Liquidity risk	Interest rate risk	Foreign exchange risk	Credit risk	Equity risk
Assets						
Cash	7,886				✓	
Loans and advances to banks	2,522		✓	✓	✓	
Loans and advances to customers	159,587		✓	✓	✓	
Derivative financial instruments (assets)	4,212		✓	✓	✓	✓
Investment securities – available for sale	13,421	✓	✓	✓	✓	
Liabilities						
Shares (customer deposits)	125,574	✓	✓	✓		
Deposits from banks	3,230	✓	✓	✓		
Other deposits (including PEB deposits)	6,747	✓	✓			✓
Due to customers (including offshore deposits)	5,960	✓	✓	✓		
Debt securities in issue	33,429	✓	✓	✓		
Derivative financial instruments (liabilities)	3,885		✓	✓		✓
Subordinated liabilities	2,540	✓	✓	✓		
Subscribed capital (PIBS)	1,304	✓	✓	✓		
Retirement benefit obligations	354		✓			✓

Loans and advances to banks and customers

Loans and advances to banks tend to be short dated and fixed rate without embedded optionality. The primary risk on assets within loans and advances to customers is the credit risk of the borrower. Many of the Society's mortgage products are fixed rate and have embedded option features such as the option to complete or the option to prepay.

Investment securities – available for sale

These include bonds held by Group Treasury for liquidity and investment purposes.

Financial liabilities not designated at fair value (includes all liabilities noted above excluding PEB deposits and derivative financial instruments)

This includes all other liabilities subject to market risk.

The primary risk relating to these liabilities is interest rate risk. Some Group savings products also contain embedded options to access balances before maturity.

Financial liabilities designated at fair value

The Group's only liabilities designated at fair value are the protected equity bonds (PEBs). An accounting mismatch would occur if the debt was accounted for at amortised cost because the derivatives which economically hedge the market risk on the PEBs would be accounted for at fair value with changes recognised in the income statement.

Derivative financial instruments (assets and liabilities)

In line with Section 9A of the Building Societies Act, Nationwide Group only uses derivatives to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement in a particular financial year.

The principal derivatives used in balance sheet risk management are interest rate swaps, forward rate agreements, interest rate options, cross-currency swaps, interest rate futures, foreign exchange contracts, and equity index swaps. Derivatives are used to hedge balance sheet and income exposures arising, inter alia, from fixed rate mortgage lending, fixed rate savings products and funding and investment activities in foreign currencies or involving fixed rate instruments or instruments with embedded options. The Group has not used derivatives to mitigate credit risks during the year. Group risk exposures are recorded on the Society's information systems and monitored accordingly.

All exchange-traded instruments are subject to cash requirements under the standard margin arrangements applied by the individual exchanges. Such instruments are not subject to significant credit risk. Credit exposures arising on derivative contracts with all main counterparties are collateralised (eg with cash deposits) to mitigate credit exposures. All Group derivatives activity is contracted with OECD financial institutions.

Liquidity and funding risks

The Group's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both as to amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable it to meet financial obligations as they fall due, even during episodes of stress. This is achieved through maintaining a prudent level of high quality liquid assets, through management and stress testing of business cash flows and through management of funding facilities. The Group liquidity and funding risk approach is approved by ALCO and is reviewed by the Board as part of the annual approval of the Individual Liquidity Adequacy Assessment (ILAA) document.

Financial risk continued

Liquidity and funding risks (continued)

Nationwide remains well funded through retail and term wholesale funding. Due to a strong franchise, the wholesale market can be accessed for both unsecured and secured funding, thereby maintaining an appropriate maturity profile. Together with a strong market share of retail funding, Nationwide has flexibility to access stable funding from the most cost-effective sources.

Liquid assets are categorised according to their liquidity characteristics. The most liquid category of assets predominantly comprises holdings of unencumbered high quality sovereign issued securities and deposits with central banks and is aligned to the Liquid Asset Buffer (LAB) defined in BIPRU 12. Assets may be acquired through direct purchase, through repurchase agreements or through collateral swaps.

In addition to core liquidity holdings of £19.2 billion (2012: £24.5 billion); Nationwide holds £1.4 billion (2012: £2.5 billion) other central bank eligible assets, £2.7 billion (2012: £4.0 billion) other securities which can be used in repurchase agreements and £14.0 billion (2012: £16.3 billion) of undrawn AAA self-issued securities that could be used in repurchase agreements with third parties or in central bank operations, for contingency funding purposes. Also following confirmation that assets pre-positioned at the Bank of England would count as eligible collateral in the LAB, Nationwide commenced pre-positioning whole loan pools with the Bank of England during 2012. At 4 April 2013, the Group held £1.4 billion (2012: £nil) of unencumbered mortgage loans pre-positioned at the Bank of England.

The Board is responsible for setting limits for the minimum level of liquidity resources. A series of liquidity stress tests are performed daily which include stressed assumptions such as the outflows we would see if we had a credit rating downgrade, a proportion of retail funding balances being lost and the volume of pipeline mortgages which are expected to complete. The stress tests are run alongside our calculation of the regulatory liquidity requirement (ILG) and they represent our view on liquidity risks and therefore determine the required levels of liquidity. The Board has also set limits for the funding mix of the balance sheet.

ALCO is responsible for setting more detailed limits within the context of overall Board limits, including the level and maturity profile of funding, and for monitoring the composition of the Group balance sheet. Wholesale and retail funding maturities are monitored to ensure that there is not excessive concentration in future maturities. This enhances the ability of the Group to refinance maturing liabilities. A consolidated cash flow forecast is maintained on an ongoing basis and reviewed by the Weekly Trading Committee (WTC) which has responsibility for the monitoring of liquidity measures and limits.

Fixed rate sovereign debt securities are held for liquidity purposes. When swapped to a floating rate using an interest rate swap, it is possible that value changes in the underlying security and the interest rate swap will not exactly offset. As such, there is a risk that the overall value will fluctuate as a result of changes in the spread between the yield on the security and the prevailing swap rate. In economic terms this risk is only realised if the debt is sold ahead of maturity, however the application of accounting rules can result in volatility within a particular financial year.

A Contingency Funding Plan has been approved by ALCO and describes procedures and available actions to manage the Group's liquidity resources through a period of market-wide and/or Nationwide-specific disruption. This is reviewed every six months and various components are tested on a scheduled basis.

Significant events/environment

The Eurozone debt crisis has continued to lead to uncertainty in wholesale funding markets but the liquidity impact of this uncertainty has been mitigated during 2012/13 following action from the Bank of England and HM Treasury.

In June 2012, the Bank of England activated the Extended Collateral Term Repo (ECTR) facility and pledged to make liquidity available to solvent institutions as required. In addition, the Bank of England and HM Treasury launched the Funding for Lending Scheme (FLS) in July 2012. The scheme is designed to incentivise banks and building societies to boost lending to UK households and non-financial companies and, as such, the terms of the scheme are commercially attractive.

Nationwide remains a strongly-rated institution, both in absolute terms and relative to its peers and there have been no changes to Nationwide's credit ratings during the last year. However, Standard & Poor's placed Nationwide's long term credit rating on Negative Outlook in December 2012, partly as a result of a potential downgrade to the UK sovereign rating.

The Basel Committee on Banking Supervision (BCBS) announced revisions to the implementation of the Liquidity Coverage Ratio (LCR) in January 2013. Whilst the changes were broadly welcomed, there remains uncertainty around the final definition of the requirement.

Maturity of liquidity risk assets and liabilities (Audited)

The table below analyses the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. In practice, customer deposits will be repaid later than on the earliest date on which repayment can be required. Likewise, in practice, customer assets may be repaid ahead of their contractual maturity. As such, Nationwide uses past performance of each asset and liability class along with expert judgement to forecast the likely cash flow requirements of the Group.

Residual maturity 2013	Repayable on demand	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash	7,886	-	-	-	-	7,886
Loans and advances to banks	2,097	92	-	148	185	2,522
Investment securities – available for sale	-	30	455	2,533	10,403	13,421
Loans and advances to customers	697	3,334	5,721	26,671	123,164	159,587
Derivative financial instruments	-	169	491	1,585	1,967	4,212
Other financial assets	-	20	59	537	292	908
Total financial assets	10,680	3,645	6,726	31,474	136,011	188,536
Liabilities						
Shares	77,103	8,765	20,246	17,877	1,583	125,574
Deposits from banks	1,688	248	250	1,001	43	3,230
<i>Of which repo</i>	-	12	190	1,000	-	1,202
Other deposits	362	2,050	1,345	2,990	-	6,747
Due to customers	3,812	846	1,183	119	-	5,960
Secured funding – ABS and covered bonds	-	153	2,118	12,424	6,177	20,872
Senior unsecured	-	4,943	3,217	2,722	1,675	12,557
Derivative financial instruments	-	57	144	1,124	2,560	3,885
Other financial liabilities	-	4	21	125	-	150
Subordinated liabilities	-	130	169	1,536	705	2,540
Subscribed capital	-	3	-	352	949	1,304
Total financial liabilities	82,965	17,199	28,693	40,270	13,692	182,819
Net liquidity gap	(72,285)	(13,554)	(21,967)	(8,796)	122,319	5,717

Financial risk continued

Liquidity and funding risks (continued)

Residual maturity 2012	Repayable on demand	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Assets						
Cash	8,126	-	-	-	-	8,126
Loans and advances to banks	2,197	377	-	148	192	2,914
Investment securities – available for sale	-	144	1,756	6,261	15,164	23,325
Loans and advances to customers	835	1,775	4,750	26,926	119,883	154,169
Derivative financial instruments	-	164	650	1,735	1,627	4,176
Other financial assets	-	70	307	555	427	1,359
Total financial assets	11,158	2,530	7,463	35,625	137,293	194,069
Liabilities						
Shares	67,469	7,614	28,794	21,267	473	125,617
Deposits from banks	836	314	53	2,145	22	3,370
<i>Of which repo</i>	-	-	-	1,192	-	1,192
Other deposits	356	2,582	1,049	2,260	652	6,899
Due to customers	3,791	467	1,212	363	-	5,833
Secured funding – ABS and covered bonds	-	248	3,227	13,395	6,429	23,299
Senior unsecured	-	8,010	2,920	2,747	1,878	15,555
Derivative financial instruments	-	116	288	1,294	2,589	4,287
Other financial liabilities	-	2	36	240	-	278
Subordinated liabilities	-	-	-	438	1,206	1,644
Subscribed capital	-	-	349	329	947	1,625
Total financial liabilities	72,452	19,353	37,928	44,478	14,196	188,407
Net liquidity gap	(61,294)	(16,823)	(30,465)	(8,853)	123,097	5,662

Liquid assets include cash, loans and advances to banks and available for sale investment securities. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

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

The following is an analysis of gross undiscounted contractual cash flows payable under financial liabilities:

Gross contractual cash flows 2013	Repayable on demand	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Shares	77,103	8,981	20,672	18,603	1,647	127,006
Deposits from banks	1,688	255	268	1,045	45	3,301
Other deposits	362	2,077	1,400	3,110	-	6,949
Due to customers	3,812	855	1,194	124	-	5,985
Secured funding – ABS and covered bonds	-	62	2,631	13,302	6,745	22,740
Senior unsecured	-	4,929	3,408	3,238	1,949	13,524
Derivative financial instruments	-	257	675	2,038	704	3,674
Other financial liabilities	-	5	23	130	-	158
Subordinated liabilities	-	4	273	2,075	764	3,116
Subscribed capital	-	10	60	563	1,106	1,739
Total financial liabilities	82,965	17,435	30,604	44,228	12,960	188,192
Off balance sheet commitments	-	4,842	351	1,227	739	7,159

Gross contractual cash flows 2012	Repayable on demand	Up to 3 months	3-12 months	1-5 years	More than 5 years	Total
	£m	£m	£m	£m	£m	£m
Shares	67,469	7,925	29,412	22,250	495	127,551
Deposits from banks	836	332	104	2,281	24	3,577
Other deposits	356	2,623	1,129	2,481	703	7,292
Due to customers	3,791	481	1,235	386	-	5,893
Secured funding – ABS and covered bonds	-	65	2,514	15,033	7,366	24,978
Senior unsecured	-	7,948	3,924	5,012	1,870	18,754
Derivative financial instruments	-	395	977	2,575	751	4,698
Other financial liabilities	-	4	42	255	-	301
Subordinated liabilities	-	4	290	841	954	2,089
Subscribed capital	-	10	431	588	1,143	2,172
Total financial liabilities	72,452	19,787	40,058	51,702	13,306	197,305
Off balance sheet commitments	-	3,213	371	1,084	622	5,290

The analysis of gross contractual cash flows above differs from the analysis of residual maturity due to the inclusion of interest accrued at current rates for the average period until maturity on the amounts outstanding at the balance sheet date.

Liquidity stress testing

To ensure resilience, liquidity stress testing is carried out against a number of scenarios, including those prescribed by the regulator. These scenarios consider a range of liquidity and economic factors and the consequent impact on the Group over multiple time horizons. Liquidity risk is managed against limits using a number of these scenarios including an idiosyncratic stress scenario, a market-wide stress scenario and a combination of the two including the deemed impact of potential rating agency downgrades. Assumptions used in internal liquidity stress tests are reviewed on a regular basis with changes proposed to ALCO for approval on a quarterly basis.

The primary period over which internal liquidity stress testing is performed is 30 business days (circa six weeks). Beyond this, additional actions detailed in the Contingency Funding Plan (CFP) would be utilised if required. Nationwide aims to maintain liquidity resources of at least 100% of the outflows seen under each of the internal stress tests. As at 4 April 2013, potential outflows under the most severe stress test (the combined idiosyncratic and market-wide stress scenario) were modelled at £22.3 billion. Nationwide ensures that liquidity resources are maintained in excess of both the internal and regulatory assessments. Regulatory assessments are performed over a three month period.

Financial risk continued

Liquidity and funding risks (continued)

Included within the liquidity stress tests are the impacts of a number of potential events that could lead to the Group experiencing unexpected cash outflows. The table below details the key assumptions used in scenario modelling:

Liquidity risk driver	Downside modelling assumptions used
Retail funding	Significant unexpected outflows are experienced and no new money is received.
Wholesale funding	Substantial outflows are seen at contractual maturity as Nationwide is seen as a greater credit risk. This behaviour is driven by deemed credit rating downgrade assumptions (wholesale funding comprises 22.5% of total funding).
Off balance sheet	Contractual outflows in relation to asset-backed funding as a result of deemed credit rating downgrades. Outflows are experienced as a result of other off balance sheet commitments such as the mortgage pipeline.
Intra-Group	Subsidiaries recall a proportion of funding provided to the parent.
Marketable and non-marketable assets	Reduced asset values are assumed in recognition of the stressed conditions assumed.

Within the Contingency Funding Plan, a range of actions are detailed that the Group would be able to take in the event of a funding stress, including the utilisation of self-issued retail mortgage backed securities and covered bonds (via repurchase agreement), allowing us to maintain adequate liquidity resources.

Outlook

The ongoing availability of funding through central bank schemes (such as ECTR and FLS) means that the current benign funding environment for solvent UK banks and building societies is likely to continue. However, a material deterioration in the Eurozone could threaten this outlook.

Whilst uncertainties remain, greater clarity is likely to be provided over the coming year of the new Basel III liquidity requirements. Nationwide will continue to monitor unfolding events and the implementation of these metrics in the UK.

Capital management

In order to ensure that the Group continues to meet its capital requirements, whilst supporting growth within risk appetite (defined in part by the maintenance of capital self-sufficiency through the cycle), capital is managed above regulatory minima, to meet expectations of other key external stakeholders and to be amongst the best in market compared to peers. Nationwide's strategy is therefore to optimise capital requirements and to support this through stable earnings.

In terms of capital requirements, the Group started moving towards the Internal Ratings Based (IRB) modelling approach in May 2008. The Group will continue to develop its IRB models in accordance with the roll out plan included within its IRB Waiver approval from the regulator. On an annual basis, the Group conducts an Internal Capital Adequacy Assessment Process to assess the Group's capital adequacy and determine the levels of

capital required going forward to support the current and future risks of the business.

Significant events/environment

CRD IV seeks to implement the Basel III framework via regulations that are currently being finalised. Implementation of CRD IV was originally intended by the European authorities to begin from 1 January 2013 (consistent with the Basel III implementation timetable), but has been delayed until 1 January 2014 according to our current expectations. Otherwise, the timetable for implementation of CRD IV is anticipated to be broadly in line with Basel III, with full implementation by, at the latest, 2022.

While the regulatory landscape evolves at a European level, the UK is moving forward with legislating its Banking Reform Bill following the Independent Commission on Banking (ICB) report in 2011. A draft of the Bill was published in October 2012, in the form of framework legislation to put in place the architecture to implement the reforms, with detailed policy being provided for through secondary legislation. The Government plans to introduce all necessary legislation as soon as Parliamentary time allows, and has confirmed its commitment to completing all legislation by the end of this Parliament in May 2015. Banks and building societies will be expected to comply with all of the measures proposed in the white paper by 2019, as the ICB recommended.

The ICB recommendations on reforms also leave open the possibility of capital and leverage requirements in excess of the minimum requirements prescribed by Basel III and/or CRD IV. The ICB recommendations and the UK Government's response supporting such recommendations include proposals to increase capital and loss absorbency to levels that exceed the proposals under Basel III. These requirements, as well as the other recommendations of the ICB, are expected to be phased in between 2015 and 2019.

Nationwide monitors regulatory changes at a UK and European level and, based on current understanding of the reforms, is confident it is well positioned in terms of its overall capital strength. All the above regulatory changes are reflected in the Group's capital management plan based on its understanding of the latest developments. Nationwide has a strong track record of robust capital ratios and is confident that it is well positioned to maintain its overall capital strength.

Outlook

Nationwide issued €1.25 billion of Tier 2 capital in March 2013 to replenish the reduction in capital resulting from the tender of £350 million of Permanent Interest Bearing Shares in December 2012 and call of £200 million of subordinated debt in January 2013 and as part of our capital strategy to provide Nationwide with sufficient headroom against expected changes to capital requirements arising from CRD IV. Nationwide has also been working with the regulator to create a mutual Core Tier 1 instrument, now termed Core Capital Deferred Shares, which will allow access to external capital when required to support the Group's capital position and the achievement of its strategic objectives.

Market risk

The Board risk appetite statements for market risks are:

- Management should take only those market risks that are required to support its primary business lines (ie no trading book risks), including hedging strategies designed to neutralise structural exposure to interest rate and basis risks.
- Management should ensure stability of earnings through focus on recurrent sources of income.

There are no material changes to our policies and practices for the management of market risk although the Enterprise Risk Management Framework has introduced greater consistency in the way policies are expressed. An enhanced measure of swap spread risk relating to the Group's holdings of swapped government debt has been introduced.

Significant events/environment

Low and flat interest rates have continued to dominate, driven by reduced expectations for economic growth. Base rates remain unchanged, but underlying rates in longer term debt securities markets, principally gilts, have fallen.

A significant proportion of the Society's mortgages earn Base Mortgage Rate (BMR), which the Society has guaranteed will never be more than 2% above the Bank of England base rate. This rate is significantly lower than the equivalent Standard Variable Rate (SVR) charged by peers, or the Standard Mortgage Rate (SMR) on to which the more recent Society mortgage advances mature. This has the effect of compressing the Society's mortgage margins and reducing the flexibility with which these margins can be managed. However, the BMR portfolio is well seasoned, has low loan to value, low arrears rates and low possession rates. The low risk nature of the portfolio partly compensates the low margin it yields. The introduction of the Funding for Lending Scheme (FLS) and the improving situation in Europe have helped keep funding costs low which has supported net interest income and narrowed the spread between swap rates and gilt yields as well as lowering foreign exchange basis spreads.

Market risk management (Audited)

Market risk only arises in the banking book as Nationwide does not have a trading book. The principal financial risks that affect the Group are listed below together with the types of risk reporting measures used:

Risk type	Reporting measure
Interest rate risk	Sensitivity/value at risk
Basis risk	Earnings at risk
Spread risk	Sensitivity/value at risk
Foreign exchange risks	Value at risk
Product option risks	Sensitivity

Exposure is managed using a combination of:

- sensitivity measures (such as net interest income, PV01 and PV200)
- value at risk (VaR) measures and recognising the limitations of VaR
- stress analysis.

Sensitivity analysis (PV01 sensitivity) (Audited)

The sensitivity analysis used to assess the change in value of the Group's current net worth against a one basis point (0.01%) parallel shift in interest rates is known as PV01 sensitivity. As is the case with VaR (see below), this analysis is done on a daily basis, separately for each currency (but with the main risk arising from sterling exposures) and in aggregate.

Value at risk (VaR) (Audited)

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. In its day-to-day monitoring Nationwide uses a 99% confidence level and assumes the position remains static for ten days.

VaR is based predominantly on historical data. The model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

The VaR model used by Nationwide incorporates underlying risk factors based on interest rate and foreign exchange volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years, equally weighted. Exposures against limits are reviewed daily by management. Actual outcomes are monitored periodically to test the validity of the assumptions and factors used in the VaR calculation.

Although a valuable guide to risk, VaR needs to be viewed in the context of the following limitations:

- VaR models often under predict the likelihood of extreme events and over predict the benefits of diversification in those extreme events.
- The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence.
- The VaR model uses historical data to predict future events. In periods of heightened volatility the model is likely to under predict market risks and in periods of low volatility it is likely to over predict market risks.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Financial risk continued

Market risk (continued)

Stress analysis (Audited)

In recognition of its limitations VaR is augmented with stress testing to evaluate the potential impact of more extreme, though plausible, events or movements in a set of financial variables.

Standard PV01 sensitivity analysis for interest rate risk exposures is supplemented by the production of stressed sensitivity measures. A much more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01, this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily.

Each quarter, the residual interest rate risk and foreign exchange positions are also subjected to a range of stressed scenarios designed to highlight potential losses in extreme situations. The results of these stresses are presented to the Balance Sheet Risk Forum to aid insight into the accuracy of the VaR numbers and to reveal scenarios in which the Group may make losses on its residual interest rate and foreign currency positions.

A range of metrics are regularly produced focusing on the crystallisation of product option risks under stressed events.

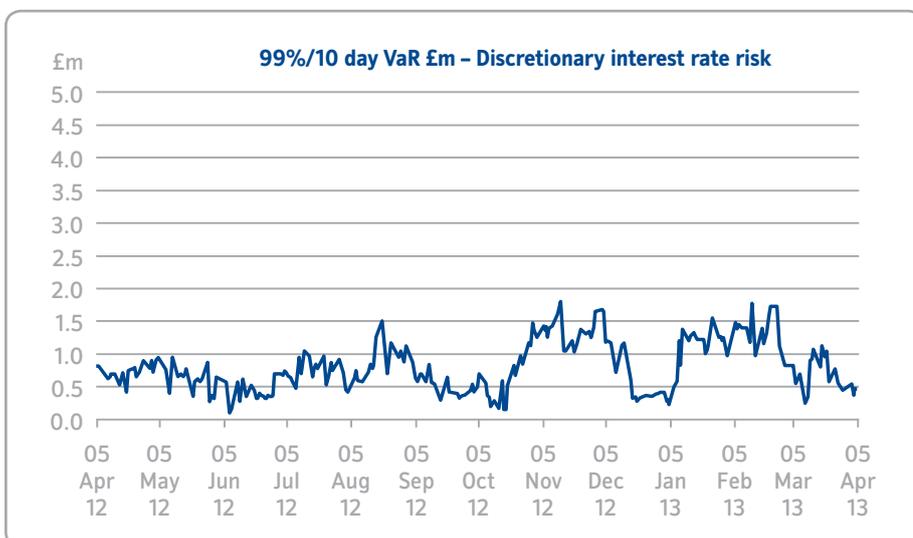
Group net interest income projections are also calculated under a range of stressed interest rate scenarios.

Interest rate risk (Audited)

The main market risk faced by the Group is interest rate risk which primarily arises from our retail and commercial assets and liabilities, our core liquidity holdings, and wholesale funding activities. Interest rate risks relating to retail and commercial products are managed via the use of proxy tickets. For example a number of retail mortgages with similar interest rate risk characteristics are aggregated into a single proxy ticket. These tickets are regularly reconciled to the balance sheet.

Interest rate risks generated by these activities are offset against each other, and the remaining net exposure to interest rate risk is managed on a continuous basis, within parameters set by ALCO, using a combination of derivatives and cash instruments (such as loans, deposits and bonds). The information below highlights how tightly managed the Group's exposure is to this risk:

	2013			2012		
	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m
VaR	0.8	1.8	0.1	0.5	1.4	0.1
Sensitivity analysis (PV01)	-	0.1	(0.1)	-	0.1	(0.1)
Stress testing (PV200: all currencies)	7.9	22.3	(16.2)	6.8	21.0	(7.9)



Earnings risk (sensitivity of net interest income (NII)) (Audited)

Earnings risk or net interest income risk is the risk that Nationwide's net interest income is adversely affected by a change in the level of interest rates. The sensitivity of Group net interest margin to changes in interest rate is measured monthly using a dynamic forecasting model and interest rate scenarios, and is calculated for a forward period of 12 months incorporating

the impact of prepayment and access options embedded within fixed rate retail products.

The scenarios are based on the projected hypothetical yield curves and the Group's current interest rate risk profile. However, they do not incorporate management actions that would be undertaken to mitigate the effect of interest rate risk.

The table below sets out the effect on future net interest income of rises and falls in rates:

Potential favourable/(adverse) impact on net interest income	2013
	£m
+200 basis points shift	352
+100 basis points shift	173
-25 basis points shift	(51)
-50 basis points shift, floored at 1bp	(117)

Key points

- The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios.
- The -50 basis point shift is floored at 1bp to prevent rates from turning negative.
- The reported sensitivity will vary over time due to a number of factors such as market conditions and strategic changes to the balance sheet mix and should not therefore be considered predictive of future performance.

The contractual terms of products and transactions determine the flexibility to manage net interest margin. In the current low interest rate environment, this flexibility has been constrained by a natural floor, at zero percent, for banking and savings rates, and a contractual ceiling for Base Mortgage Rate (BMR) products, relative to the base rate. New mortgages written by the Society do not contain a contractual cap relative to base rate in order to increase the Society's flexibility in this regard.

Basis risk

Where assets and liabilities reprice at the same time but in line with a different interest rate basis, the Group is exposed to basis risk. For example, where assets reprice with reference to Bank of England base rate but liabilities reprice with reference to 3 month Libor, a basis risk exists. Basis risk is managed using a holistic approach incorporating a projection of balance sheet exposure net of derivatives. An earnings at risk number is calculated over the next year under a stressed rate scenario. Group exposure is limited with mitigating actions being taken by ALCO.

Swap spread risk

Nationwide is required to hold a substantial core liquidity portfolio. These assets are predominantly fixed rate government securities and hence are accompanied by interest rate swaps to hedge the Society against general movements in interest rates. However, there remains a residual risk associated with the possible movements in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects that the market value of the swapped core liquidity portfolio can move up and down on a day-to-day basis. For example the market value falls if the yield of sovereign debt increases more than swap rates, as the market value loss of the sovereign debt is higher than the mark to market profit on the swap. The risk is only crystallised if the sovereign debt and associated swap are sold.

These market value movements are monitored carefully, while the risk is controlled via sensitivity and VaR limits. Exposures are monitored daily and reported monthly to ALCO.

Foreign exchange risk (Audited)

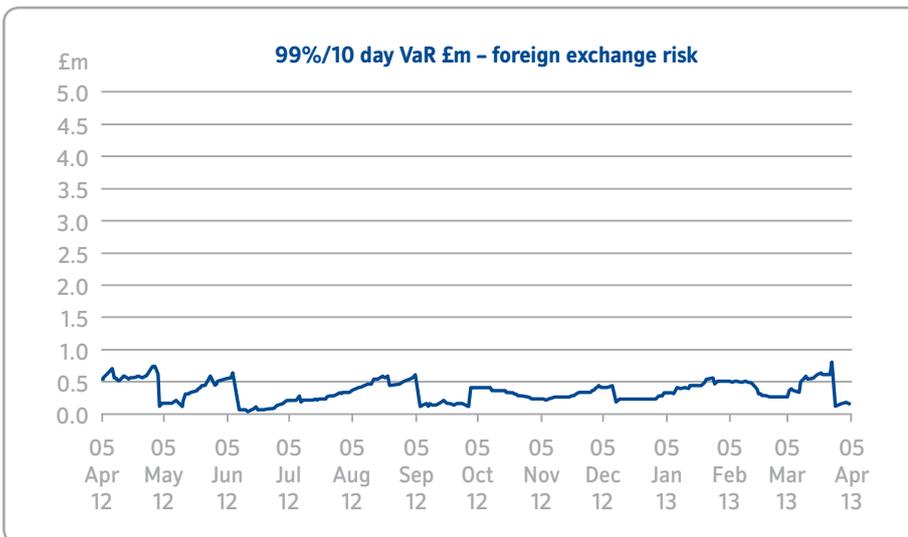
The Group runs very little foreign exchange risk with exposures mainly created by any residual mismatch between wholesale funding issuance and liquidity holdings in euros and dollars. As with interest rate risk, the remaining net exposure is managed on a continuous basis, within parameters set by ALCO, using a combination of currency swaps, foreign exchange spot and forward transactions and cash instruments (such as loans, deposits and bonds).

Financial risk continued

Market risk (continued)

Foreign currency exposure is hedged through natural offset on the balance sheet or by using derivatives to reduce currency exposures to acceptable levels. ALCO sets and monitors limits on net currency exposure. The information below highlights how low the remaining exposure to foreign exchange risk is:

Foreign exchange risk	2013			2012		
	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m
VaR	0.3	0.8	-	0.3	0.7	-



Product option risks

Potential losses from market risks also arise as a result of customers exercising options embedded in fixed rate products resulting in required changes to hedging. The key product risks are prepayment risk (early redemption or overpayment of fixed rate mortgages), access risk (early withdrawal of fixed rate savings), and attrition risk (higher or lower take up of fixed rate mortgages). They are quantified and assessed from a set of bespoke models that are used to predict customer behaviour in response to changes in interest rates. The forecast cost relating to these scenarios is then monitored. These stressed risk measures are subject to a set of triggers and are reported to the Balance Sheet Risk Forum and ALCO, along with a set of proposed management actions where necessary.

Stressed losses are predicted for each risk by simulating future interest rate paths and calculating the resulting profit or loss for each. This determines a loss distribution from which an extreme percentile is calculated. Regulatory capital requirements are determined to cover these stressed losses during the Individual Capital Assessment (ICA) and these requirements are also recalculated and reported monthly to Capital Management with

explanations of any significant movements. These are collated and reported onwards to the Capital and Stress Testing Forum, ALCO and the Executive Risk Committee.

Model performance is back tested through a process where observed interest rates are applied to the same models to generate a model-predicted 'actual' profit or loss. These results are compared to the observed profit or loss to ensure that model accuracy is continually assessed and the potential impact on results is known. These results are then used to inform model development during the annual review process and can result in model parameters being re-estimated where appropriate. A good example of this is the prepayment risk model – the first version of the model was developed in 2007 and little experience of a falling rate environment existed at that time. Therefore, assumptions around the behaviour of mortgage customers in such an environment were considered and built into the model. Following the rate decrease that occurred in 2008/2009 these assumptions were observed to be excessively conservative, the behaviour was better understood and the next model recalibration addressed this.

Model validation

The risk associated with market risk models is controlled and managed through the Nationwide Model Risk Framework. A key element of the Nationwide Model Risk Framework is the model validation policy which requires that all new models are validated by an independent oversight team prior to use. The oversight team review and challenge the entire model build process considering model purpose, suitability of data, justification for the chosen modelling approach and any model assumptions or statistics. The validation process identifies model strengths and weaknesses, assesses the potential impact of these and suggests appropriate mitigating actions. The review findings are finally presented to the Model Risk Oversight Committee (MROC) which is responsible for approving models as fit for purpose.

Following approval and then implementation, model risk is assessed by the first line Modelling team by comparing key model results with actual observed behaviour and also monitoring any assumptions built into the models. A set of performance metrics are assessed monthly for each model in terms of accuracy and associated impact on results and all models are also subject to a more thorough periodic review, at least annually, to ensure they remain fit for purpose. Both these monthly and annual processes enable any model weakness to be identified in a timely manner and provide guidance on future model development by highlighting the elements of a model where improvements may be obtained. The independent oversight team review monthly model monitoring and the periodic reviews are presented to MROC.

Outlook

Flat interest rates are expected to dominate the market outlook.

The Eurozone debt crisis is expected to continue to impact liquid asset pricing and basis pricing between assets, currencies, and associated derivatives. This impacts the market value of such instruments prior to maturity.

Pension obligation risk

The Group has funding obligations for a number of defined benefit schemes, the most significant being the Nationwide Pension Fund ('the Fund'), which is closed to new entrants. Pension risk is the risk that the returns from the Fund's assets, together with ongoing employer and member contributions, will be insufficient to cover the projected obligations of the Fund over time. The return on assets, which includes equities and bonds, will vary with movements in equity prices and interest rates. The projection of the Fund's obligations includes estimates of mortality, inflation, future salary rises and discount factors; the actual outturn of which may differ from the estimates. The Fund is also exposed to possible changes in pension legislation.

Significant events/environment

The continuation of low gilt yields has resulted in lower discount rates being applied in valuation of pension liabilities, resulting in an increase in the present value of fund liabilities and ongoing volatility in the valuation of these liabilities as gilt yields vary.

Nationwide responded to a Department for Work and Pensions call for evidence related to the statutory objectives of the Pensions Regulator and the potential use of asset and liability smoothing in scheme valuations.

Outlook

To mitigate pension risks, management, together with the Trustees of the Fund, review regular reports prepared by the Fund's independent actuaries and investment consultants to assess these risks and take appropriate actions which may, for example, include adjusting the investment strategy, adjusting contribution levels, hedging inflation risks and/or hedging interest rate risks. Importantly, the Fund will undergo its next triennial valuation in 2013/14.

Operational risk

Nationwide defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk encompasses transformation risk.

This definition is further refined into ten key risk and control policy areas:

Risk category	Definition
Business continuity	The risk of damage to the Group as a result of loss or failure arising from the Group being unable to continue business operations in the event of significant operational disruption or arising from loss or damage to physical assets or staff from a natural disaster or other events.
Financial crime	The risk that we fail to maintain systems and controls that are effective in preventing the risk that they might be used to further financial crime.
Financial reporting, accounting, management and taxation	The risk of damage to the Group as a result of loss or failure arising from the operational risks associated with the publication of the financial statements, adherence to accounting standards, compliance with tax laws and codes, maintenance of the general ledger and management of financial resources.
Information management	The risk of damage to the Group as a result of loss or failure arising from failure to ensure accuracy and completeness of data and information aligned with agreed business standards. And/or failure to provide accessibility of data and information required for key business processes, key decision making and regulatory and compliance obligations.
Information security	The risk of damage to the Group, its customers and employees as a result of loss or failure arising from the inadequate design or failure to apply appropriate security controls.
Information technology	The risk of damage to the Group as a result of loss or failure arising from technology services not supporting business objectives due to performance, availability and/or functionality.
People	The risk of damage to the Group as a result of loss or failure due to our inability to recruit, develop, reward and retain the required people resources.
Premises and physical assets	The risk of damage to the Group as a result of loss or failure arising from criminal prosecution, injury or losses arising as a consequence of a failure to ensure that premises and physical assets are fully compliant, effectively maintained and in good working order, or that they are adequately secured and protected.
Third party	The risk of damage to the Group as a result of loss or failure arising from buying decisions (including outsourcing, off-shoring and joint ventures, acquisitions or set up of a separate company), setting up a contract, management of a third party and uncontrolled spend or buying.
Transformation	The risk of damage to the Group as a result of loss or failure arising from formally managed project activities that seek to deliver change in Nationwide's capabilities.

Significant events/environment

The Group continues to invest in new products and services for a growing customer base. Whilst Nationwide's operations are well controlled, resulting in a market leading level of customer service delivery, customer and regulator expectations of consistent, stable, and responsive service are steadily increasing. This has led to investment in and the successful introduction of a new SAP banking platform during 2012/13. Acknowledging the scale of regulatory change and the current macro-economic environment, management of operational risk remains a priority and continued improvement is a key focus for management.

Outlook/emerging risks

Nationwide's operational risk profile is informed by risk assessments from the business and by review and challenge by both the second line Operational Risk team and the Operational Risk Oversight Committee.

A programme of continuous control improvements has been adopted to respond to the main risks and threats that Nationwide faces. Key areas of investment and continual development include:

- **Financial crime;** as a retail organisation, external fraud remains the highest Basel category of incident frequency and loss; however for Nationwide, these remain within appetite. Financial criminals and fraudsters continue to innovate and develop new strategies to exploit weaknesses in financial firms' processes and consumer behaviour. This is especially prevalent in the context of cyber-crime. The Society's Strategic Fraud Initiative (SFI) responds to new financial crime opportunities created by globalisation, open borders and global payments solutions, whilst maintaining the focus on traditional forms of fraud such as theft of card data.
- **Financial reporting and information management;** increased regulatory requirements for data means that a robust control environment is essential and investment has been prioritised to ensure this is strengthened to enable timely and accurate data for decision making and to respond to the heightened regulatory reporting demands.

- **Information security;** remains an area of investment to ensure we remain industry leaders in information security and cyber-crime controls during adverse economic conditions.
- **Information technology;** a continuation of large and complex IT deployments is anticipated as Nationwide invests in its infrastructure. These are carefully monitored and planned to minimise disruption to customers with strong service introduction controls in place to promote successful deployments.
- **People;** we will continue to invest in succession planning, talent development, leadership development and training of all staff. Rewards and incentives are aligned with corporate strategy and focus upon customer outcomes and experience. In addition benchmarking of salary and benefits packages at all levels will continue.
- **Third party management;** we will continue to evolve in this area from a risk profile perspective. A programme of work is in place to strengthen the control environment in this area and gain greater understanding of how key controls are applied by suppliers and are operating effectively.
- **Transformation;** programmes are governed by the Nationwide Change Framework, which ensures robust internal controls such as risk assessment of planned changes and rigorous testing of planned updates to systems. It also ensures that regular reviews of programmes take place, considering resource requirements and risks to delivery.
- Nationwide's risk profile for 2012/13 included an incident relating to duplication of certain payments. The Group has robust continuity plans in the event of failure of a mission critical activity such as payments. These centre on minimising the impact to customers, whilst focusing on recovery of systems or services within a reasonable time period.

This approach has been designed to ensure control investment is directed towards areas of highest risk, whilst reducing the cost and impact of controls when delivering to our customers.

Customer and compliance risk

Customer and compliance risk is split into the following sub-categories:

Risk category	Definition
Firm and culture	The risk that we fail to design and implement operational arrangements, systems and controls that achieve compliance, and embed a corporate culture where fair customer outcomes and the achievement of a positive experience is central to our values and behaviour.
Product design	The risk that our products and services (including contracts and terms and conditions) are not designed, developed and operated to deliver fair customer outcomes and compliance.
Financial promotions	The risk that our advertising, promotions and customer communications are not fair, clear or are misleading.
Sales	The risk that customers are not provided with sufficient or clear information to make an informed decision or, where customers receive advice, it is not suitable and does not take into account their individual circumstances.
After sales	The risk that post sale customer services (including claims and switching) are not designed and implemented to achieve fair customer outcomes, and product performance is not as customers have been led to expect, or are not compliant.
Customer experience	The risk that our customers do not have a positive experience.
Redress	The risk that customer complaints are not handled effectively or promptly, are not in accordance with our regulatory obligations and fail to deliver a fair decision and outcomes for our customers.
Prudential standards	The risk that the design and operation of our systems and controls fail to maintain compliance with prudential requirements.
Legal risk	The risk that our systems and controls fail to manage legal compliance and/or potential losses from litigation or regulatory action exceed operational risk tolerances.
Regulatory processes	The risk that we fail to identify, implement, and manage legal and regulatory changes in a timely fashion, do not ensure accurate regulatory reporting, or meet regulatory notification requirements.

Significant events/environment

Customer risk, including retail conduct risk, was elevated to become a primary risk under the ERMF at the half year in response to increased expectations from the Board and the regulator. The wider elements of legal and compliance risk have since been incorporated into the scope of this customer and compliance risk category. This risk category now measures in one place how the Group maintains legal and regulatory compliance, delivers fair customer outcomes and achieves a positive experience for our customers. This approach reflects the focus the Group is bringing to the management of these risks, and its commitment to being 'On your side'.

Significant regulatory change this year included the implementation of the Retail Distribution Review, which aimed to increase professional standards and market transparency in the

retail advice arena. We have maintained our commitment to advised sales of certain products through this change.

To ensure the delivery of fair customer outcomes and the effective identification and management of conduct and customer experience risks, we have designed, developed and implemented key control frameworks for the purposes of designing products and how these products are sold and the service propositions we provide to our customers.

The Product Design and Sales frameworks provide the business with a robust mechanism to ensure that the customer is fully considered throughout the design and sale of products. The Service Proposition framework provides the business with a robust mechanism to ensure that the customer is fully considered throughout the execution of a service proposition.

These simple but effective frameworks are used by anyone with accountability and responsibility for the development of new, changes to and withdrawal of existing products, sales policies/processes and service propositions. Ultimately, these frameworks are designed to ensure the customer is at the centre of our culture and ensure that we serve our customers in an open, honest, fair, safe and secure manner, we treat customers fairly and we comply with all relevant legal and regulatory requirements.

We also implemented new requirements for packaged bank accounts, increasing the measures taken to enable customers' understanding of their eligibility for the individual elements of the account.

Outlook

The Group continues to develop and enhance the framework and strategy for customer and compliance risk management.

The regulatory framework and general financial services environment continues to move through a period of change. The UK regulator has internally separated for the supervision of prudential matters (PRA) and conduct regulation (FCA). Other specific regulatory changes include regulation of products and distribution, in particular the implementation of the Retail Distribution Review (RDR) and Mortgage Market Review (MMR).

A revised remuneration structure has been put in place for 2013/14 where sales staff are no longer incentivised by individual sales and value targets, but for behaviours that will reward people for their inputs – the way we look after, listen to and advise our customers.

Strategic risk

Strategic risk is split into the following sub-categories:

Risk category	Definition
Business model risk	The risk associated with failing to adopt an appropriate business model, set appropriate goals and targets in the Corporate Plan, or adapt to external developments.
Reputation risk	The risk that arises from material adverse publicity resulting in a loss of confidence from key stakeholders sufficient to threaten the strategic objectives of the business.
Strategic initiatives risk	The risk that the Society enters into strategic initiatives that undermine the business model, or does not enter into appropriate strategic initiatives that would enhance the business model.

Strategic risk focuses on large, longer term risks that could become a material problem for the Group. Whilst all business areas are responsible for managing their own risks, management of strategic risk is primarily the responsibility of senior management and committees whose remit encompasses all the risk categories on a Group combined basis.

The management of strategic risk is intrinsically linked to the corporate planning and stress testing processes, and is further supported by the regular provision of consolidated business performance and risk reporting data to the Board and senior risk committees.

Reputation risk is inherent in all risk categories where actions and incidents can affect whether people trust, and wish to do business with, Nationwide. Reputation is monitored via incident reporting, media monitoring, business performance, complaints monitoring and both internal and external benchmarking.

A number of the top and emerging risks have the potential to affect more than one risk category and could have significant impact on the business model if these were to crystallise in the same timeframe. In addition, regulatory changes affecting several risk categories have the potential to threaten the viability of the mutual model.

To manage strategic risk, the Group therefore focuses on serving both current and future members while maximising member benefit. Activities are centred on mainstream UK retail personal financial services, with participation in other non-member businesses only where these activities fit with core capabilities, diversify risks, and earn a premium return for members. The Group also operates as a single business unit, with organisational and legal structures aligned to this, which ensures no material exposure to Group 'contagion' risk.



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Patricia at Threadneedle Street branch.



Independent Auditors' Report

To the members of Nationwide Building Society

We have audited the Group and Society annual accounts of Nationwide Building Society for the year ended 4 April 2013 which comprise the income statements, statements of comprehensive income, balance sheets, statements of movements in members' interests and cash flow statements for the Group and Society and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities set out on pages 57 to 59, the directors are responsible for the preparation of the annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for, and only for, the Society's members as a body in accordance with Section 78 of the Building Societies Act 1986 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the annual accounts. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited annual accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's and the Society's affairs as at 4 April 2013 and of the Group's and the Society's income and expenditure and cash flows for the year then ended, and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group annual accounts, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986
- the information given in the Directors' Report for the financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts, and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

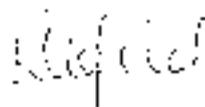
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Society or
- the Society annual accounts are not in agreement with the accounting records or
- we have not received all the information and explanations and access to documents we require for our audit.

Other matter

At the request of the directors, we have also audited the part of the Report of the Directors on Remuneration that is described as having been audited. In our opinion, the part of the Report of the Directors on Remuneration to be audited has been properly prepared as if the Society was required to report in accordance with the Companies Act 2006.



Richard Oldfield Senior Statutory Auditor

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 May 2013

Income statements

For the year ended 4 April 2013

	Notes	Group		Society	
		2013 £m	2012 £m	2013 £m	2012 £m
Interest receivable and similar income	3	5,581	5,353	5,583	5,390
Interest expense and similar charges	4	(3,563)	(3,730)	(3,883)	(4,145)
Net interest income		2,018	1,623	1,700	1,245
Fee and commission income	5	558	515	548	505
Fee and commission expense	6	(113)	(96)	(113)	(96)
Income from investments		13	10	87	496
Other operating income/(loss)	7	46	91	48	(3)
(Losses)/gains from derivatives and hedge accounting	8	(165)	35	(58)	(56)
Total income		2,357	2,178	2,212	2,091
Administrative expenses	9	(1,199)	(1,205)	(1,161)	(1,158)
Depreciation and amortisation		(216)	(180)	(216)	(180)
Impairment loss on loans and advances to customers	11	(589)	(390)	(572)	(327)
Impairment losses on investment securities	15	(2)	(38)	(2)	(35)
Provisions for liabilities and charges	27	(141)	(162)	(141)	(162)
Profit before tax		210	203	120	229
Taxation	12	-	(24)	57	49
Profit after tax		210	179	177	278

The notes on pages 137 to 193 form part of these Accounts.

Statements of comprehensive income

For the year ended 4 April 2013

	Notes	Group		Society	
		2013 £m	2012 £m	2013 £m	2012 £m
Profit after tax		210	179	177	278
Other comprehensive income/(expense):					
Items that will not be reclassified to the income statement					
Actuarial gain/(loss) on retirement benefit obligations:					
Actuarial gain/(loss) before tax	31	149	(494)	148	(493)
Taxation (charge)/credit	12	(43)	109	(43)	109
		106	(385)	105	(384)
Revaluation gain/(loss) on property:					
Revaluation before tax		3	(8)	3	(8)
Taxation	12	-	4	-	4
		3	(4)	3	(4)
Effect of tax rate change on other items through the general reserve	12	(2)	(4)	(1)	(3)
		107	(393)	107	(391)
Items that may subsequently be reclassified to the income statement					
Available for sale investments:					
Fair value movements taken to equity		258	(272)	239	281
Amount transferred to income statement		(115)	(78)	(88)	(78)
Taxation	12	(39)	(63)	(41)	(65)
		104	131	110	138
Other comprehensive income/(expense)		211	(262)	217	(253)
Total comprehensive income/(expense)		421	(83)	394	25

The notes on pages 137 to 193 form part of these Accounts.

Balance sheets

At 4 April 2013

	Notes	Group		Society	
		2013	2012	2013	2012
		£m	£m	£m	£m
Assets					
Cash		7,886	8,126	7,886	8,126
Loans and advances to banks	14	2,522	2,914	2,394	2,850
Investment securities – available for sale	15	13,421	23,325	13,403	23,246
Derivative financial instruments	16	4,212	4,176	2,663	2,433
Fair value adjustment for portfolio hedged risk		872	1,330	872	1,330
Loans and advances to customers	17	159,587	154,169	132,922	128,768
Investments in equity shares	18	28	29	28	29
Investments in Group undertakings	19	-	-	25,918	24,957
Intangible assets	20	894	681	882	669
Property, plant and equipment	21	886	945	878	938
Investment properties		8	9	8	9
Accrued income and expenses prepaid		147	129	1,170	1,317
Deferred tax assets	22	154	229	135	192
Current tax assets		15	-	8	13
Other assets		86	67	151	111
Total assets		190,718	196,129	189,318	194,988
Liabilities					
Shares		125,574	125,617	125,574	125,617
Deposits from banks	23	3,230	3,370	1,868	2,730
Other deposits	24	6,747	6,899	14,476	13,333
Due to customers	25	5,960	5,833	1,167	1,301
Fair value adjustment for portfolio hedged risk		150	278	150	278
Debt securities in issue	26	33,429	38,854	24,340	28,735
Derivative financial instruments	16	3,885	4,287	4,764	4,763
Other liabilities	4	251	349	6,347	8,427
Provisions for liabilities and charges	27	318	295	318	295
Accruals and deferred income	28	366	369	365	365
Subordinated liabilities	29	2,540	1,644	2,540	1,644
Subscribed capital	30	1,304	1,625	1,304	1,625
Deferred tax liabilities	22	30	28	13	14
Current tax liabilities		-	5	-	-
Retirement benefit obligations	31	354	517	353	516
Total liabilities		184,138	189,970	183,579	189,643
General reserve		6,765	6,450	5,930	5,648
Revaluation reserve		67	65	67	65
Available for sale reserve		(252)	(356)	(258)	(368)
Total reserves and liabilities		190,718	196,129	189,318	194,988

The notes on pages 137 to 193 form part of these Accounts.

Approved by the Board of Directors on 21 May 2013.

G M T Howe Chairman; G J Beale Director and Chief Executive; M M Rennison Group Finance Director

Group statement of movements in members' interests

For the year ended 4 April 2013

	General reserve	Revaluation reserve	AFS reserve	Total
	£m	£m	£m	£m
At 5 April 2012	6,450	65	(356)	6,159
Profit for the year	210	-	-	210
Net movement in available for sale reserve	-	-	104	104
Revaluation of property	-	3	-	3
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(2)	-	-	(2)
Net actuarial gain on retirement benefit obligations	106	-	-	106
Total comprehensive income	315	2	104	421
At 4 April 2013	6,765	67	(252)	6,580

For the year ended 4 April 2012

	General reserve	Revaluation reserve	AFS reserve	Total
	£m	£m	£m	£m
At 5 April 2011	6,659	70	(487)	6,242
Profit for the year	179	-	-	179
Net movement in available for sale reserve	-	-	131	131
Revaluation of property	-	(4)	-	(4)
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(4)	-	-	(4)
Net actuarial loss on retirement benefit obligations	(385)	-	-	(385)
Total comprehensive (expense)/income	(209)	(5)	131	(83)
At 4 April 2012	6,450	65	(356)	6,159

The notes on pages 137 to 193 form part of these Accounts.

Society statement of movements in members' interests

For the year ended 4 April 2013

	General reserve	Revaluation reserve	AFS reserve	Total
	£m	£m	£m	£m
At 5 April 2012	5,648	65	(368)	5,345
Profit for the year	177	-	-	177
Net movement in available for sale reserve	-	-	110	110
Revaluation of property	-	3	-	3
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(1)	-	-	(1)
Net actuarial gain on retirement benefit obligations	105	-	-	105
Total comprehensive income	282	2	110	394
At 4 April 2013	5,930	67	(258)	5,739

For the year ended 4 April 2012

	General reserve	Revaluation reserve	AFS reserve	Total
	£m	£m	£m	£m
At 5 April 2011	5,756	70	(506)	5,320
Profit for the year	278	-	-	278
Net movement in available for sale reserve	-	-	138	138
Revaluation of property	-	(4)	-	(4)
Reserve transfer	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	(3)	-	-	(3)
Net actuarial loss on retirement benefit obligations	(384)	-	-	(384)
Total comprehensive (expense)/income	(108)	(5)	138	25
At 4 April 2012	5,648	65	(368)	5,345

The notes on pages 137 to 193 form part of these Accounts.

Cash flow statements

For the year ended 4 April 2013

	Group		Society	
	2013	2012	2013	2012
Notes	£m	£m	£m	£m
Cash flows (used in)/generated from operating activities				
Profit before tax	210	203	120	229
Adjustments for:				
Non-cash items included in profit before tax	36 899	378	763	561
Changes in operating assets	36 (6,615)	(4,801)	(6,239)	(6,043)
Changes in operating liabilities	36 (6,174)	7,392	(6,343)	7,373
Interest paid on subordinated liabilities	(93)	(114)	(93)	(114)
Interest paid on subscribed capital	(88)	(91)	(88)	(91)
Purchase of retail mortgages portfolio	-	(1,104)	-	-
Taxation	(27)	(37)	7	(1)
Net cash flows (used in)/generated from operating activities	(11,888)	1,826	(11,873)	1,914
Cash flows generated from/(used in) investing activities				
Purchase of investment securities	(3,010)	(13,140)	(3,010)	(13,140)
Sale and maturity of investment securities	14,030	12,570	13,951	12,565
Purchase of property, plant and equipment	(53)	(192)	(53)	(192)
Sale of property, plant and equipment	10	8	10	8
Purchase of intangible assets	(295)	(213)	(295)	(213)
Proceeds from the sale of an investment in equity shares	12	72	12	2
Dividends received from non-Group entities	6	5	6	5
Net cash flows generated from/(used in) investing activities	10,700	(890)	10,621	(965)
Cash flows generated from/(used in) financing activities				
Maturity of subordinated liabilities	(200)	(360)	(200)	(360)
Redemption of subscribed capital	(305)	-	(305)	-
Issue of subordinated liabilities	1,068	-	1,068	-
Net cash flows generated from/(used in) financing activities	563	(360)	563	(360)
Net (decrease)/increase in cash	(625)	576	(689)	589
Cash and cash equivalents at start of year	10,700	10,124	10,636	10,047
Cash and cash equivalents at end of year	36 10,075	10,700	9,947	10,636

The notes on pages 137 to 193 form part of these Accounts.

Notes to the Accounts

1 Statement of accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB), and as adopted by the European Union, and with those parts of the Building Societies Act 1986 and Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) applicable to organisations reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, land and buildings, available for sale assets, certain investments in equity shares and certain other deposits and derivatives. As stated in the Directors' Report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the accounts. A summary of the Group's accounting policies is set out below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Further details on critical accounting estimates are given in note 2.

Changes in accounting policy

The following IFRS pronouncements, relevant to the Group, were adopted with effect from 5 April 2012:

- IFRS 7 Disclosures – Transfers of Financial Assets:
The amendment requires additional disclosures to help evaluate risk exposures relating to the transfer of financial assets and the effect of those risks on an entity's financial position, particularly those that involve securitisation of financial assets. Additional disclosure is provided in note 17.
- IAS 12 Deferred Tax – Recovery of Underlying Assets:
The amendment provides a practical approach for measuring deferred tax liabilities and assets when investment property is measured using the fair value model in IAS 40 Investment Property. The amendment has had no significant impact for the Group.
- IAS 1 Presentation of Items of Other Comprehensive Income (early adopted). This change requires the grouping of items presented in the statements of other comprehensive income on the basis of whether they are potentially reclassifiable to the income statement in subsequent periods.

Notes to the Accounts continued

1 Statement of accounting policies (continued)

Future accounting developments

The following pronouncements, relevant to the Group, have been adopted by the EU but are not effective at 4 April 2013 and have therefore not been applied in preparing these financial statements:

Pronouncement	Nature of change	Effective date
IFRSs 10 – 12 and amendments to IAS 27 and 28	<p>A package of five new and revised standards addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities.</p> <p>We are currently assessing whether there are any unconsolidated entities that will be consolidated under the new standards and amendments. Enhanced disclosures will be required of interests in other entities.</p>	Accounting periods (AP) beginning on or after 1 January 2014
IFRS 13 Fair Value Measurement	<p>Replaces guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard provides guidance on the calculation of the fair value of financial and non-financial assets and liabilities and additionally requires enhanced disclosures.</p> <p>With the exception of the enhanced disclosures, the new standard is not expected to have a material impact for the Group.</p>	AP beginning on or after 1 January 2013
IAS 19 Employee Benefits	<p>Updates the recognition, presentation and disclosures of retirement benefit plans. The most significant impact for the Group is the replacement of the expected return on plan assets and interest cost with a single measurement of net interest income (or expense) based on the net retirement benefit asset (or obligation).</p> <p>If the revised standard had applied in the year ended 4 April 2013 profit before tax would have been approximately £42 million lower with an equivalent increase in other comprehensive income. There would have been no impact on the Group's net assets or reserves.</p> <p>When the standard is implemented, in the accounts for the year ended 4 April 2014, the comparatives will be restated.</p>	AP beginning on or after 1 January 2013
IFRS 7 Offsetting Disclosures	Requires additional disclosures to enable users to evaluate the effect of netting arrangements, including rights of set off, of financial assets and liabilities.	AP beginning on or after 1 January 2013
IAS 32 Offsetting Financial Assets and Financial Liabilities	Clarifies existing offsetting criteria. The amendment is not expected to have an impact for the Group.	AP beginning on or after 1 January 2014

1 Statement of accounting policies (continued)

The following pronouncements, relevant to the Group, are neither adopted by the EU nor effective at 4 April 2013 and has therefore not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments	<p>The new standard addresses Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement and requires financial assets to be classified as at amortised cost or at fair value. The available for sale (AFS) category for financial assets, currently used by the Group, will no longer be available.</p> <p>Financial liabilities will be treated as at present under IAS 39, with the exception that where the Group opts to fair value, the movement in fair value due to own credit risk would be directly recognised in other comprehensive income unless this results in an accounting mismatch. The Group has only opted to fair value its liabilities on protected equity bonds.</p> <p>The IASB is currently proposing amendments to the above classification and measurement requirements of IFRS 9 Phase 1.</p> <p>Phases 2 and 3 of IFRS 9 will address the impairment of financial assets and general (micro) hedge accounting respectively.</p> <p>IFRS 9 will have a significant impact for the Group, the full extent of which is currently being considered.</p>	AP beginning on or after 1 January 2015
IFRIC 21 Levies	<p>The interpretation clarifies the accounting for government imposed Levies in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.</p> <p>The impact on the Group is currently being assessed.</p>	AP beginning on or after 1 January 2014

Notes to the Accounts continued

1 Statement of accounting policies (continued)

Basis of consolidation

The Group accounts consolidate the assets, liabilities and results of the Society and all of its subsidiaries and consistent accounting policies are used throughout the Group for the purposes of the consolidation.

Subsidiaries are all entities, including special purpose entities, over which the Society has the power to govern the financial and operating policies generally. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases. Upon consolidation, inter-company transactions, balances and unrealised gains on intra-Group transactions are eliminated.

Investments in subsidiary undertakings are stated in the Society accounts at cost less provisions for any impairment in value. The directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Certain special purpose entities have year ends other than 31 March and are therefore consolidated using internal management accounts prepared to that date. Adjustment is made for individually significant transactions arising between 31 March and the Society's year end.

Securitisation transactions

The Group has securitised certain mortgage loans by the transfer of the loans to special purpose entities (SPEs) controlled by the Group. The securitisation enables a subsequent issuance of debt, either by the Society or the SPEs, to investors who gain the security of the underlying assets as collateral. The SPEs are fully consolidated into the Group accounts.

The transfers of the mortgage loans to the SPEs are not treated as sales by the Society. The Society continues to recognise the mortgage loans on its own balance sheet after the transfer because it retains their risks and rewards through the receipt of substantially all of the profits or losses of the SPEs. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the SPEs.

As explained in note 17, the Group has also entered into self issuances of debt to be used as collateral for repurchase ('repo') and similar transactions. Investments in self issued debt and the equivalent deemed loan, together with the related income, expenditure and cash flows are not recognised in the Society's financial statements. This avoids the 'grossing-up' of the financial statements that would otherwise arise.

To manage interest rate risk, the Society enters into derivative transactions with the SPEs, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. In accordance with IAS 39, these internal derivatives are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans are not derecognised. Cash flows arising from these internal derivatives are accounted for on an accruals basis. All other derivatives

relating to securitisations are treated as explained in the derivatives and hedge accounting policy below.

Interest receivable and interest expense

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges) but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate and all other premiums or discounts above or below market rates.

Interest income on available for sale assets, derivatives and other financial assets at fair value through the income statement is included in interest receivable and similar income. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

Fees and commissions not directly attributable to generating a financial instrument are recognised on the accruals basis as services are provided, or on the performance of a significant act.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Committee. The Executive Committee, which is responsible for allocating resources and assessing performance of operating segments, has been identified as the chief operating decision maker. For further information see note 13.

No segmental analysis is presented on geographical lines because substantially all of the Group's activities are in the United Kingdom, with a small level of operations in the Isle of Man and the Republic of Ireland.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the consideration transferred for an acquisition over the fair value of the Group's share of the net identifiable assets (including the fair value of contingent liabilities) of the acquired business at the date of acquisition. Goodwill on acquisitions is carried at cost less accumulated impairment losses and is included as an intangible asset.

1 Statement of accounting policies (continued)

Goodwill is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to cash generating units. If the carrying value of the cash generating unit exceeds its recoverable value, goodwill is considered impaired. The estimation of recoverable value is based on value in use calculations incorporating forecasts by management of post tax profits for the subsequent five years, discounted at a risk-adjusted interest rate appropriate to the cash generating unit. While forecasts are compared with actual performance, expected profits naturally reflect management's view of future performance.

(b) Computer software

IAS 38 Intangible Assets requires the capitalisation of certain expenditure relating to software development costs. Software development costs are capitalised if it is probable that the asset created will generate future economic benefits. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Web development costs are capitalised where the expenditure is incurred on developing an income generating website.

Software costs, including computer application software licences, are recognised as intangible fixed assets and amortised using the straight line method over their useful lives (three to ten years). The amortisation periods used are reviewed annually.

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

(c) Other intangibles

Other intangibles, which largely represent core deposit intangibles acquired by the Group, are amortised using the straight line method over their estimated useful lives of between five and ten years. The amortisation period is reviewed annually.

Other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount, based on value in use calculations.

Leases

The Group has entered into operating leases for land and buildings. Operating leases are leases that do not transfer substantially all the risks and rewards incidental to ownership to the lessee. Operating lease payments and receipts are charged or credited to the income statement on a straight line basis over the life of the lease.

Taxation including deferred tax

Corporation tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Tax related to the fair value re-measurement of available for sale assets, which is charged or credited to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently reclassified from other comprehensive income to the income statement together with the deferred gain or loss.

Tax related to movements in the valuation of property, which are charged or credited to other comprehensive income and accumulated in the revaluation reserve, is also credited or charged to other comprehensive income and accumulated in the revaluation reserve.

Tax related to actuarial losses or gains on retirement benefit obligations, which are charged or credited to other comprehensive income, is also credited or charged to other comprehensive income.

Deferred income tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred income tax assets and liabilities related to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle on a net basis.

Property, plant and equipment

Freehold and long leasehold properties comprise mainly branches and office buildings.

Branches and non-specialised buildings are stated at revalued amounts, being the fair value, determined by market based evidence, at the date of the valuation less any subsequent accumulated depreciation and subsequent impairment. Valuations are completed annually, as at 4 April, by independent surveyors.

Increases in the valuations of branches and non-specialised buildings are credited to other comprehensive income except where they reverse decreases for the same asset previously recognised in the income statement, in which case the increase in the valuation is recognised in the income statement.

Notes to the Accounts continued

1 Statement of accounting policies (continued)

Decreases in valuations are recognised in the income statement except where they reverse amounts previously credited to other comprehensive income for the same asset, in which case the decrease in valuation is recognised in other comprehensive income.

Other property, plant and equipment, including specialised administration buildings and short leasehold buildings, are included at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments. Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Land is not depreciated. Depreciation on other assets commences when the assets are ready for their intended use and is calculated using the straight line method to allocate their cost or valuation over the following estimated useful lives:

Branches and non-specialised buildings	60 years
Specialised administration buildings	up to 60 years
Short leasehold buildings	the period of the lease
Plant and machinery	5 to 15 years
Equipment, fixtures, fittings and vehicles	3 to 10 years

Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

Gains and losses on disposals are included in other operating income in the income statement.

Investment properties

Investment properties, which comprise properties held for rental, are stated at fair value. The properties are revalued annually, as at 4 April, by independent surveyors supported by market evidence. Changes in fair value are included in the income statement. Depreciation is not charged on investment properties.

Employee benefits

(a) Pensions

The Group operates a number of defined benefit and defined contribution pension arrangements. A defined benefit plan is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.

The liability recognised in the balance sheet in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and assumptions agreed with the Group. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions. Actuarial gains and losses are recognised in full, in the year they occur, in other comprehensive income.

The Group also operates defined contribution arrangements. A defined contribution arrangement is one into which the Group and the employee pay fixed contributions, without any further obligation to pay further contributions. Payments to defined contribution schemes are charged to the income statement as they fall due.

Past service costs are recognised immediately in the income statement, unless the changes to the benefits are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

(b) Other post retirement obligations

The Group provides post retirement healthcare to a small number of former employees. The Group recognises this obligation and the actuarial gains and losses in a similar manner to the defined benefit pension plans.

(c) Other long term employee benefits

The cost of bonuses payable 12 months or more after the end of the year in which they are earned is recognised in the year in which the employees render the related service and when there is an obligation to pay a bonus under the terms of the scheme.

(d) Short term employee benefits

The cost of short term employee benefits, including wages and salaries, social security costs and healthcare for current employees, is recognised in the year of service.

1 Statement of accounting policies (continued)

Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled and it can be reliably estimated.

Nationwide has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised to the extent it can be reliably estimated and when Nationwide has an obligation in accordance with IAS 37. The amount provided is based on information received from the FSCS, forecast future interest rates and our historic share of industry protected deposits.

Financial assets

The Group classifies its financial assets at inception into the following four categories:

(a) Financial assets at fair value through the income statement

This category consists of derivative financial assets. The Group does not hold any financial assets classified as held for trading.

Assets in this category are carried at fair value. The fair values of derivative instruments are calculated by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

Gains and losses arising from the changes in the fair values are recognised in the income statement.

The Group has a practice of fair valuing a portion of mortgage commitments on the balance sheet to alleviate an accounting mismatch. The fair value of mortgage commitments is included within other assets. Movements in the fair value are included in (losses)/gains from derivatives and hedge accounting in the income statement.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's residential and commercial mortgage loans, unsecured lending, loans to banks and cash are classified as loans and receivables.

Loans are recognised when the funds are advanced to customers. Loans and receivables are carried at amortised cost using the effective interest rate method less provisions for impairment.

Loans and receivables acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. The fair value at acquisition becomes the new amortised cost for acquired loans and receivables. Fair value adjustments are made to reflect both credit and interest rate risk associated with the acquired loan assets.

For a portfolio acquisition the fair value is normally assumed to be the transaction price (i.e. the consideration paid). However, the fair value may differ from the transaction price in certain circumstances. In these circumstances the fair value is based on a valuation technique whose variables only

include data from observable markets (for example, interest rates prevailing for similar instruments). Where such circumstances exist, an immediate gain or loss is recognised on acquisition, being the difference between the consideration paid and the fair value. The gain or loss on the acquisition is included in other operating income.

The fair value adjustment in relation to interest rate risk is amortised to the income statement over the remaining life of the assets. In the case of the fair value adjustment for credit risk, the balance is reduced by actual write offs of loans during the period. Additionally, a review is performed to ensure that the amount of the credit loss fair value adjustment still held is adequate to cover future expected losses. This review identifies any additional amount of provision to be immediately recognised where the remaining adjustment is less than incurred losses on the loans, or any surplus amount of fair value adjustment which can be released to the income statement as it is no longer required to cover future expected losses. Further information is provided in note 3.

(c) Available for sale (AFS)

AFS assets are non-derivative financial assets that are not classified into either of the two categories above. AFS assets are measured at fair value using, in the majority of cases, market prices or, where markets have become inactive, prices obtained from market participants. In sourcing valuations, the Group makes use of a consensus pricing service, in line with standard industry practice. In cases where market prices or prices obtained from market participants are not available, discounted cash flow models are used. Further information is provided in note 34.

Interest on available for sale assets is recognised using the effective interest rate (EIR) method.

Unrealised gains and losses arising from changes in the fair values are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, which are recognised in the income statement. Gains and losses arising on the sale of AFS assets are recognised in the income statement, including any cumulative gains or losses previously recognised in other comprehensive income, which are reclassified to the income statement.

(d) Investments in equity

Investments in equity include certain investments which are held at fair value. Movements in fair value, except impairments, are recognised in other comprehensive income and accumulated in the AFS reserve.

The Group has not classified any financial assets into the held to maturity category and has not reclassified any financial assets between categories.

Purchases and sales of financial assets are accounted for at trade date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all of the risks and rewards of ownership have been transferred.

The impact of hedging on the measurement of financial assets is detailed in the derivatives and hedge accounting policy below.

Notes to the Accounts continued

1 Statement of accounting policies (continued)

Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include:

- i) indications that the borrower or group of borrowers is experiencing significant financial difficulty
- ii) default or delinquency in interest or principal payments, or
- iii) debt being restructured to reduce the burden on the borrower.

The Group first assesses whether objective evidence of impairment exists either individually for assets that are separately significant or individually or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions are deducted from the appropriate asset values in the balance sheet.

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the provision is adjusted and the amount of the reversal is recognised in the income statement.

Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

Retail loans

For retail loans cash flows are estimated based on past experience combined with our view of the future considering the following factors:

- i) our exposure to the customer
- ii) based on the number of days in arrears at the balance sheet date, the likelihood that a loan will progress

through the various stages of delinquency and ultimately be written off

- iii) the amount and timing of expected receipts and recoveries
- iv) the realisable value of any security at the estimated date of sale
- v) the likely deduction of any costs involved in the recovery of amounts outstanding.

The provision methodology recognises previous arrears as a driver of future possible default and therefore accounts which have either capitalised arrears or have been in arrears in the last 12 months typically attract a higher provision level.

Commercial loans

In assessing objective evidence of a loss event for commercial loans, the following key indicators are considered:

- i) contractually due payments exceeding 35 days in arrears
- ii) high loan to value or low interest cover ratio
- iii) other covenant breaches
- iv) loss of significant tenants or other decreases in tenant quality
- v) the probability of the borrower entering bankruptcy
- vi) restructuring of the debt relating to the borrower's financial difficulties ('forbearance')
- vii) local economic conditions (for example, where this impacts on the value of underlying collateral).

Where there is objective evidence of impairment, we assess cash flows on a case by case basis considering the following factors:

- i) our aggregate exposure to the customer
- ii) the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations
- iii) the amount and timing of expected receipts and recoveries
- iv) the likely dividend available on liquidation or bankruptcy
- v) the extent of other creditors' claims ranking ahead of Nationwide's, and the likelihood of other creditors continuing to support the borrower
- vi) the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident
- vii) the realisable value of security at the expected date of sale (or other credit mitigants) and likelihood of successful repossession
- viii) the likely deduction of any costs involved in recovery of amounts outstanding
- ix) when available, the secondary market price of the debt.

1 Statement of accounting policies (continued)

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or are considered to be past due.

Where a loan is renegotiated on different terms such that it is substantially a different loan, the loan is derecognised and a new loan is recognised at its fair value.

For those loans, for which no individual impairment is recognised, a collective impairment assessment is made, taking account of the following factors:

- i) size of the loan
- ii) arrears status
- iii) historical loss experience
(adjusted for current market conditions)
- iv) estimated period between impairment occurring and the loss being identified ('emergence period').

(b) Available for sale (AFS) assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for AFS assets, the cumulative loss, measured as the difference between the current amortised cost and the current fair value, less any impairment loss on that asset previously recognised, is recognised in the income statement.

A subsequent decline in the fair value of an AFS asset is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income.

If the fair value of an AFS debt asset increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value. Impairment losses recognised on AFS equity shares cannot be reversed.

Financial liabilities

Borrowings, including shares, deposits, debt securities in issue and subordinated liabilities are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

With the exception of deposits relating to the sale of protected equity bonds all borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method. The Group does not hold any financial liabilities classified as held for trading.

Permanent interest bearing shares (subscribed capital) are classified as financial liabilities.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

Borrowings that are designated as hedged items are subject to measurement under the hedge accounting requirements described in the derivatives and hedge accounting policy below.

The financial liabilities of dormant shares and deposit accounts have been extinguished when balances have been transferred to the Government-backed unclaimed asset scheme under the terms of the Dormant Accounts and Building Society Accounts Act 2008 with no impact on the income statement.

Protected equity bonds (PEBs)

Certain non-derivative financial liabilities relating to the sale of PEBs by the Group on behalf of Legal & General, included within other deposits, have been designated at fair value upon initial recognition in the balance sheet. Changes in fair value are recognised through the income statement in gains from derivatives and hedge accounting. The PEBs are economically matched using equity-linked derivatives, which do not meet the requirements for hedge accounting. Recording changes in fair value of both the derivatives and the related liabilities through the income statement most closely reflects the economic reality of the transactions. In so doing, this accounting treatment eliminates a measurement inconsistency that would otherwise arise from valuing the PEBs at amortised cost and the derivatives at fair value.

In measuring fair value, separate debit valuation adjustments are made for own credit risk to the extent not already included in the PEBs valuation.

Income received from Legal & General upon inception of the PEB transaction is deferred and recognised in interest expense and similar charges in the income statement on an effective interest basis over the term of the product where it partially offsets interest incurred on the equity-linked derivatives.

Derivatives and hedge accounting

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk and are not used for speculative purposes.

(a) Derivative financial instruments

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties. For collateralised positions the Group uses discount curves based on overnight indexed swap rates, and for non-collateralised positions the Group uses discount curves based on term Libor rates.

In the first instance fair values are calculated using mid prices. With the exception of derivatives hedging liabilities relating to the sale of PEBs, an adjustment is then made to derivative assets and liabilities to value them on a bid and offer basis respectively. The bid-offer adjustment is calculated on a portfolio basis and reflects the costs that would be incurred if substantially all residual net portfolio market risks were closed out using available hedging instruments or by disposing of or unwinding actual positions. The methodology for determining the bid-offer adjustments involves netting between long and short positions and the grouping of risk by strike and term in accordance with hedging strategy.

Notes to the Accounts continued

1 Statement of accounting policies (continued)

Bid-offer spreads are derived from market sources such as broker data and are reviewed periodically. The derivatives hedging PEBs are not traded in an active market and are therefore valued at mid price.

In measuring fair value, separate credit valuation and debit valuation adjustments are made for counterparty or own credit risk to the extent not already included in the valuation.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks. Where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks.

Where securities collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

(b) Embedded derivatives

A number of complex contracts contain both a derivative and a non-derivative component, in which case the derivative is termed an embedded derivative. If the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract, and the overall contract itself is not carried at fair value, the embedded derivative is accounted for separately and reported at fair value with gains and losses being recognised in the income statement.

(c) Hedge accounting

When transactions meet the criteria specified in IAS 39, the Group applies fair value hedge accounting. In a micro hedge, the carrying value of the underlying asset or liability ('the hedged item') is adjusted for the hedged risk to offset the fair value movement of the related derivative. In the case of a portfolio hedge, an adjustment is included in the fair value adjustments for portfolio hedged risk category on the balance sheet to offset the fair value movement in the related derivative.

To qualify for hedge accounting the hedge relationship must be clearly documented at inception and the derivative must be expected to be highly effective in offsetting the hedged risk. Effectiveness must be tested throughout the life of the hedge relationship.

The Group discontinues hedge accounting when:

- i) it is evident from testing that a derivative is not, or has ceased to be, highly effective as a hedge
- ii) the derivative expires, or is sold, terminated or exercised or
- iii) the underlying item matures or is sold or repaid.

The Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge.

If the derivative no longer meets the criteria for hedge accounting, the cumulative fair value hedge adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the underlying item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Sale and repurchase agreements (including stock borrowing and lending) and collateralised total return swaps

Investment and other securities may be lent or sold subject to a commitment to repurchase them at a predetermined price (a repo) or a right to continue to receive all future cash flows and changes in capital value on collateral pledged (a total return swap). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership (typically, the interest rate risk and credit risk on the asset) remain within the Group, and the counterparty liability is included separately on the balance sheet as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a reverse repo) or settle all future cash flows and changes in capital value to a third party on collateral held (a reverse total return swap) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans, and the securities are not included in the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

Foreign currency translation

The consolidated financial statements are presented in sterling, which is the functional currency of the Society. Items included in the financial statements of each of the Group's entities are measured using their functional currency. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the year end.

1 Statement of accounting policies (continued)

Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement as disclosed in notes 3 and 4.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: cash, treasury bills and other eligible bills, loans and advances to banks, other amounts due from banks and short term government securities.

Contingent liabilities

During the ordinary course of business the Society is subject to threatened or actual legal proceedings. All such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the

likelihood of incurring a liability. The Society does not disclose the contingent liabilities associated with such claims where they cannot reasonably be estimated or where such disclosure could be seriously prejudicial to the conduct of the claims.

IFRS disclosures

For ease of reference, certain audited IFRS disclosures, which in previous years have been reported in the Notes to the Accounts, are included within the Risk Management Report as follows:

- Lending risk (pages 91 to 109)
- Financial risk – including liquidity and funding risk (pages 110 to 120)

These disclosures (where marked as 'audited') are covered by the Independent Auditors' Report on page 130.

2 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 and liabilities within the following financial year. The most significant areas where judgements and estimates are made are disclosed in the following notes:

Area of significant judgement and estimate	Note
Mortgage effective interest rates (EIR)	3
Savings EIR	4
Impairment provisions on loans and advances	11
Impairment of available for sale assets	15
Provisions for customer redress	27
Retirement benefit obligations (pensions)	31

Notes to the Accounts continued

3 Interest receivable and similar income

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
On residential mortgages	4,851	4,924	3,677	3,871
On other loans:				
Connected undertakings	-	-	1,247	1,147
Other	1,130	1,158	1,080	1,095
On investment securities	1,280	1,071	1,260	1,075
On other liquid assets	49	56	48	54
Foreign exchange differences	-	-	-	4
Net expense on financial instruments hedging assets	(1,915)	(2,051)	(1,915)	(2,051)
Expected return on pension assets (note 31)	186	195	186	195
	5,581	5,353	5,583	5,390

Included within interest receivable and similar income is interest accrued on loans three or more months in arrears: Group £43 million, Society £20 million (2012: Group £54 million, Society £23 million) and the unwind of the discount on the impairment provisions: Group £46 million, Society £42 million (2012: Group £35 million, Society £32 million). Further detail is included in note 11.

Interest receivable on residential mortgages includes adjustments to reflect the changes in the Group's effective interest rate assumptions, including a charge of £18 million (2012: credit of £32 million) in respect of an update of early redemption charges and a credit of £2 million (2012: £70 million) which resulted from an update to the assumptions applicable to the recognition of mortgage fee income.

Interest receivable on residential mortgages also includes a £48 million (2012: £nil) release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and core parts of the Dunfermline Building Society.

In the year ended 4 April 2012, interest receivable on other loans, which are primarily commercial loans and loans to registered social landlords included a £5 million release of excess credit risk fair value adjustments in relation to the balances taken on through the acquisition of the Derbyshire and Cheshire building societies and the Dunfermline registered social landlord loan portfolio.

Interest receivable on investment securities includes a net gain of £139 million (2012: £98 million) relating to the sale of investment securities as part of the management of the liquidity portfolio.

Critical accounting estimates and judgements

The Group uses the effective interest rate (EIR) method to recognise income from certain financial assets (including residential and commercial mortgages) held at amortised cost. To calculate the appropriate EIR recognition the Group makes assumptions of the expected lives of financial instruments and the level of income to be recognised, including the anticipated level of early redemption charges for residential mortgages. Certain fees in relation to residential mortgages are recognised over the deal period to which they relate.

The impact of a one year change in the expected lives assumption would be a £4 million change to the value of the loans. The impact of a 10% change in the anticipated level of future early redemption charges would be a change to the value of the loans of £7 million.

4 Interest expense and similar charges

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
On shares held by individuals	2,741	2,826	2,741	2,826
On subscribed capital	89	96	89	96
On deposits and other borrowings:				
Subordinated liabilities	96	108	96	108
Connected undertakings	-	-	347	318
Other	210	252	96	151
On debt securities in issue	944	1,093	738	914
Foreign exchange differences	-	12	21	-
Net income on financial instruments hedging liabilities	(689)	(823)	(417)	(434)
Pension interest cost (note 31)	172	166	172	166
	3,563	3,730	3,883	4,145

Interest expense is net of a £60 million credit (2012: £nil) which resulted from an update of the Group's effective interest rate assumptions in relation to the savings accounts which offer an initial bonus.

Critical accounting estimates and judgements

The Group's effective interest rate (EIR) adjustment for savings bonus interest allocates the cost of bonus interest across the estimated life of the savings balance and is therefore dependent on management's estimates of savings balance profiles and in particular the level of balances retained beyond the end of the bonus period. If the retention expectation at the point of bonus expiry is reduced by 10% (in absolute terms) the EIR adjustment would result in the cost of bonus interest being over a shorter average life and increase the current year income statement charge by £3 million.

5 Fee and commission income

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Mortgage related fees	34	37	25	29
Banking and savings fees	242	235	242	235
General insurance fees	160	140	159	138
Other insurance fees	43	32	43	32
Other fees and commissions	79	71	79	71
	558	515	548	505

Notes to the Accounts continued

6 Fee and commission expense

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Banking and savings fees	95	88	95	88
Other fees and commissions	18	8	18	8
	113	96	113	96

7 Other operating income/(loss)

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Gain on portfolio acquisition	-	96	-	-
Net gain on redemption of subscribed capital	43	-	43	-
Loss on revaluation of property, plant and equipment	-	(6)	-	(6)
Rental income	5	5	4	5
Loss from sale of property, plant and equipment	-	(3)	-	(3)
Other	(2)	(1)	1	1
	46	91	48	(3)

Other operating income for the year ended 4 April 2013 includes a £43 million net gain from the redemption of subscribed capital, redemption related fees and associated swap breakage income. Further details are included in note 30.

The gain on portfolio acquisition in the year ended 4 April 2012 relates to the acquisition of a portfolio of UK based prime residential mortgages from the Bank of Ireland in December 2011 for consideration of £1,104 million. The gain on acquisition reflects the extent to which the price paid for the portfolio was lower than a comparative market valuation, derived from interest rates prevailing for similar quality mortgages at the transaction date.

8 (Losses)/gains from derivatives and hedge accounting

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Derivatives designated as fair value hedges	503	(108)	249	(886)
Fair value movement attributable to hedged risk	(616)	47	(382)	808
Losses from fair value hedge accounting (note i)	(113)	(61)	(133)	(78)
Derivatives economically hedging mortgage commitments	(64)	-	(64)	-
Fair value movement attributable to mortgage commitments (note ii)	78	-	78	-
Net gain from mortgage pipeline (note ii)	14	-	14	-
Fair value (losses)/gains from other derivatives (note iii)	(66)	96	61	22
	(165)	35	(58)	(56)

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 of the derivative was not exactly offset by the change in fair value of the asset or liability being hedged; 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) As a result of increased mortgage lending, the Group recommenced electing to fair value a portion of its mortgage commitments during the year ended 4 April 2013 and doing so has reduced the accounting mismatch with derivatives hedging mortgage commitments.
- (iii) Other derivatives are those used for economic hedging but which are not in an IAS 39 hedge accounting relationship because hedge accounting is not achievable.

Notes to the Accounts continued

9 Administrative expenses

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Employee costs:				
Wages and salaries	413	415	403	402
Bonuses	67	62	67	61
Social security costs	47	45	46	44
Pension costs (note 31)	72	62	71	60
	599	584	587	567
Other administrative expenses	584	605	558	575
Bank levy (note 27)	16	16	16	16
	1,199	1,205	1,161	1,158
Other administrative expenses include:				
Property operating lease rental	31	43	31	43
Other property costs	77	76	77	75
Postage and communications	66	68	66	68
Computer costs	104	99	104	99
Marketing and advertising	28	32	28	32
Money transmission and other bank costs	42	47	41	46
Legal, professional and consultancy	52	48	50	44
Training, education and other staff related costs	76	106	74	104
Other	108	86	87	64
	584	605	558	575

Administrative expenses include £16 million (2012: £61 million) of restructuring costs, including a release of £7 million relating to severance provisions (2012: charge of £20 million) and a charge of £1 million (2012: £8 million) relating to onerous lease and other property related provisions. The remaining restructuring costs relate primarily to changes to parts of the business as part of the Group's cost optimisation programme and other initiatives.

The bonus charges within the employee costs in the above table include deferred bonuses for the Group and Society of £1 million (2012: £1 million). Deferred bonuses remain subject to a further assessment of performance up until the point of payment.

Deferred bonuses are paid to directors and senior executives as part of the Medium Term Bonus Scheme based upon a three year performance period. In accordance with Prudential Regulation Authority (PRA) requirements, one third of the medium term bonus award is subject to a deferral for a period of one year. This deferred element may be reduced at the Remuneration Committee's discretion if it emerges that the original assessment of performance was misleading or if performance against the scheme measures declines substantially over the one year deferral period. Deferred bonuses are awarded in cash.

9 Administrative expenses (continued)

The deferred bonuses are expected to be charged to the income statement in the following years:

	Group and Society			
	Actual	Actual	Expected	Expected
	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m
Bonus plan cycle:				
2009-2012	1	-	-	-
2010-2013	-	1	-	-
2011-2014	-	-	2	-
2012-2015	-	-	-	2
Income statement charge for deferred bonuses	1	1	2	2

The deferred element of the Medium Term Bonus Scheme was introduced for the first time in relation to the 2009-2012 plan cycle.

Directors' emoluments are shown as part of the Report of the Directors on Remuneration in accordance with Schedule 10A, paragraphs 1 to 9 of the Building Societies Act 1986.

The remuneration of the external auditors, PricewaterhouseCoopers LLP, is set out below:

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Audit fees for the Group and Society statutory audit	1.8	1.6	1.8	1.5
Fees payable for other services:				
Audit of subsidiaries pursuant to legislation	0.3	0.5	-	-
Audit-related assurance services	0.5	0.5	0.5	0.5
Total audit and audit-related assurance services	2.6	2.6	2.3	2.0
Other assurance services	0.8	-	0.8	-
All other services	1.7	1.0	1.7	1.0
	5.1	3.6	4.8	3.0

The Group's policy in relation to the use of its auditors on non-audit engagements sets out the types of services they are generally precluded from performing. All non-audit services, where the fee is expected to exceed a de minimis limit, are subject to pre-approval by the Audit Committee.

Fees in relation to 'other assurance services' and 'all other services' above relate primarily to work undertaken in relation to the Group's issuance programmes and regulatory projects.

Notes to the Accounts continued

10 Employees

	Group		Society	
	2013	2012	2013	2012
The average number of persons employed during the year was:				
Full time	12,720	13,156	12,679	13,111
Part time	4,299	4,550	4,294	4,547
	17,019	17,706	16,973	17,658
Society:				
Central administration	8,676	9,019	8,676	9,019
Branches	8,297	8,639	8,297	8,639
Subsidiaries	46	48	-	-
	17,019	17,706	16,973	17,658

The 2012 analysis of employee numbers has been revised to reflect the legal employment position of staff supporting subsidiaries, but employed by the Society's central administration function.

Central administration employee numbers include employees engaged in direct customer facing operations in administrative centres.

11 Impairment provisions on loans and advances to customers

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

2013 Group	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2012	40	162	80	547	14	843
(Credit)/charge for the year	(6)	22	79	493	1	589
Amounts written off during the year	(9)	(87)	(100)	(130)	(3)	(329)
Amounts recovered during the year	1	4	30	2	2	39
Transfer from credit loss fair value adjustment	7	35	-	86	-	128
Unwind of discount	(1)	(3)	(2)	(40)	-	(46)
At 4 April 2013	32	133	87	958	14	1,224

2012 Group	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2011	40	161	90	463	11	765
Charge for the year	13	57	69	247	4	390
Amounts written off during the year	(13)	(55)	(104)	(135)	(3)	(310)
Amounts recovered during the year	1	2	27	1	2	33
Unwind of discount	(1)	(3)	(2)	(29)	-	(35)
At 4 April 2012	40	162	80	547	14	843

The Group impairment provision of £1,224 million at 4 April 2013 (2012: £843 million) comprises individual provisions of £871 million (2012: £574 million) and collective provisions of £353 million (2012: £269 million).

11 Impairment provisions on loans and advances to customers (continued)

Excess credit loss fair value adjustments relating to loans acquired from the Derbyshire, Cheshire and Dunfermline building societies have been released to interest receivable as disclosed in note 3. The presentation of the remaining credit fair value adjustment

has been amended so that it is now shown as part of the Group's impairment provision, rather than being presented as a separate deduction from the carrying value of the loans.

2013 Society	Prime residential	Consumer banking	Commercial lending	Total
	£m	£m	£m	£m
At 5 April 2012	40	80	541	661
(Credit)/charge for the year	(6)	79	494	567
Amounts written off during the year	(9)	(100)	(121)	(230)
Amounts recovered during the year	1	30	2	33
Transfer from credit loss fair value adjustment	7	-	17	24
Unwind of discount	(1)	(2)	(39)	(42)
At 4 April 2013	32	87	894	1,013

2012 Society	Prime residential	Consumer banking	Commercial lending	Total
	£m	£m	£m	£m
At 5 April 2011	40	90	454	584
Charge for the year	13	69	241	323
Amounts written off during the year	(13)	(104)	(126)	(243)
Amounts recovered during the year	1	27	1	29
Unwind of discount	(1)	(2)	(29)	(32)
At 4 April 2012	40	80	541	661

The Society impairment provision of £1,013 million at 4 April 2013 (2012: £661 million) comprises individual provisions of £754 million (2012: £482 million) and collective provisions of £259 million (2012: £179 million).

The Society's impairment loss on loans and advances to customers in the income statement of £572 million (2012: £327 million)

includes a £5 million (2012: £4 million) provision relating to the Society's loans to two subsidiary undertakings, driven by the impairment of unsecured lending and corporate loans held within the subsidiaries. The Group figures above include the impairment of the underlying corporate loans within other lending and the underlying unsecured lending within consumer banking.

Critical accounting estimates and judgements

In accordance with the accounting policy described in note 1, impairment is measured as the difference between an asset's carrying amount and the present value of management's estimate of discounted future cash flows.

Key assumptions included in the measurement of impairment include the probability of any account going into default, the probability of defaulted accounts progressing to possession and the eventual loss incurred in the event of forced sale or write off. These assumptions are based on observed historical data and updated as management considers appropriate to reflect current conditions and the Group's strategy for the book. The accuracy of the impairment provision would therefore be affected by unexpected changes in these assumptions.

To the extent that actual cash flows in relation to retail loans and advances differ from those estimated by 10%, the impairment provision would change by an estimated £46 million. For residential mortgages the estimate of future house price index (HPI) movements is also a key assumption in estimating the eventual loss. To the extent that future HPI movements were to differ from expectations by 5%, the impact on the impairment provision would be £15 million.

In calculating the provisions for commercial loans, estimates of discounted cash flows are made on the basis of the planned strategy for each loan. These estimates include assumptions for underlying property values and future expected cash flows for rental income and any maintenance, redevelopment or refurbishment expenditure on the properties. Commercial property values are driven by estimates of current and expected future rental incomes and by property yields, which are updated based upon industry wide data available for different property sectors. To the extent that actual cash flows differ from those estimated by 10% on impaired loans, the impairment provision on commercial loans would change by an estimated £216 million.

Notes to the Accounts continued

12 Taxation

The current year tax charge of £51 million (2012: £63 million) has been offset by prior year adjustments of £44 million (2012: £27 million) and the impact of the change in corporation tax rate on deferred tax of £7 million (2012 rate change impact £12 million) to result in a tax charge of £nil (2012: £24 million).

During the year the Group settled two outstanding tax matters relating to prior years. Consequently excess tax provisions of £43 million have been released. This accounts for £43 million of the total prior year credit of £44 million (2012: £27 million).

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Current tax:				
UK corporation tax	33	25	3	(57)
Corporation tax – adjustment in respect of prior years	(29)	(25)	(31)	(1)
Total current tax	4	-	(28)	(58)
Deferred tax (note 22):				
Current year	18	38	(5)	25
Adjustment in respect of prior years	(15)	(2)	(18)	(5)
Effect of corporation tax rate change	(7)	(12)	(6)	(11)
Total deferred taxation	(4)	24	(29)	9
Tax charge/(credit)	-	24	(57)	(49)

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

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Profit before tax	210	203	120	229
Tax calculated at a tax rate of 24% (2012: 26%)	50	53	29	59
Adjustments in respect of prior years	(44)	(27)	(49)	(6)
Effect of different tax rates in other countries	(4)	(5)	-	-
Expenses/(income) not taxable/deductible for tax purposes:				
Building depreciation	2	1	1	1
Non-taxable dividend received	-	-	(18)	(128)
Bank levy	4	4	4	4
Other	-	10	(17)	32
Previously unrecognised losses	(1)	-	(1)	-
Effect of corporation tax rate change	(7)	(12)	(6)	(11)
	-	24	(57)	(49)

12 Taxation (continued)

The tax on items through other comprehensive income is as follows:

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Available for sale investments	40	63	41	65
Revaluation of property	-	(4)	-	(4)
Actuarial gain/(loss) on retirement benefit obligations	43	(109)	43	(109)
Effect of corporation tax rate change on other items through the general reserve	2	4	1	3
	85	(46)	85	(45)

The Group tax charge through the available for sale reserve of £40 million (2012: £63 million) is made up of a charge of £36 million (2012: £67 million) through deferred tax and a charge of £4 million (2012: £4 million credit) through current tax.

At 4 April 2013, other liabilities on the Group balance sheet of £251 million (2012: £349 million) included third party income tax withheld on interest paid to customers and payable to the tax authorities of £90 million (2012: £110 million).

13 Operating segments

For management reporting purposes, the Group is organised into the following business groupings:

- Retail
- Commercial
- Head office functions.

These business groupings reflect how management assesses performance and makes decisions on allocating resources to the business on the basis of product and customers. Revenues from external and internal customers are allocated to the appropriate business segment.

Retail

Retail functions include prime residential lending, specialist residential lending, consumer banking, retail funding (savings products), commercial deposits which are managed by the retail business, insurance and investments. The distribution channels supporting these products are also included in this segment.

Commercial

This segment comprises the commercial lending business.

Head office functions

Head office functions include treasury operational and income generation activities, head office and central support functions, commercial deposits received and managed by the Treasury Division and the result arising from the funds transfer pricing methodology relating to the funding of other segments.

Head office and central support functions includes executive management, corporate secretariat, legal services, human

resources, strategy and planning, finance, risk management, capital management, corporate affairs, property services and internal audit.

Funds transfer pricing methodology

Funds transfer pricing is the mechanism by which the Group recognises the internal cost of funds and allocates this cost between different product groups and business segments to derive individual product margin and net interest receivable. Under the Group's methodology, a single cost of funds representing the weighted average cost of retail and wholesale funding is allocated across the Group and is updated on a quarterly basis, to reflect the opportunity cost of funding and the relative performance of the different business segments, based on current market cost of funds.

However, within the Commercial Division, the transfer price charged to long term social housing and Project Finance lending is set to reflect the lower average historic cost of wholesale funding which was available when this book was originated. This reflects the nature of this lending which did not envisage the current marginal cost of borrowing and is assessed based on the movements in the Group's cost of wholesale funding. All other assets in the Commercial Division will continue to be charged the weighted average current cost of retail and wholesale funds, in line with other assets.

The retail and commercial business segments are charged for the benefit of free capital as part of the funds transfer pricing mechanism, based upon regulatory capital metrics.

Notes to the Accounts continued

13 Operating segments (continued)

Segmental results are as follows:

2013		Retail	Commercial	Head office functions	Total
	Notes	£m	£m	£m	£m
Net income/(expense) from external customers		2,284	794	(1,060)	2,018
(Charge)/revenue from other segments		(347)	(725)	1,072	-
Net interest income		1,937	69	12	2,018
Other income	i	433	18	53	504
Total revenue		2,370	87	65	2,522
Expenses	ii	(1,309)	(46)	(28)	(1,383)
Impairment and other provisions	iii	(166)	(493)	(5)	(664)
Underlying profit/(loss) before tax		895	(452)	32	475
FSCS levies		(68)	-	-	(68)
Restructuring costs		(3)	-	(13)	(16)
Bank levy		-	-	(16)	(16)
Losses from derivatives and hedge accounting		-	-	(165)	(165)
Profit/(loss) before tax		824	(452)	(162)	210
Taxation					-
Profit after tax					210
Total assets	iv	138,810	20,371	31,537	190,718
Total liabilities		131,184	526	52,428	184,138

13 Operating segments (continued)

2012		Retail	Commercial	Head office functions	Total
	Notes	£m	£m	£m	£m
Net income/(expense) from external customers		2,198	866	(1,441)	1,623
(Charge)/revenue from other segments		(728)	(795)	1,523	-
Net interest income		1,470	71	82	1,623
Gain on acquisition of mortgage portfolio		96	-	-	96
Other income	i	406	18	-	424
Total revenue		1,972	89	82	2,143
Expenses	ii	(1,201)	(38)	(69)	(1,308)
Impairment and other provisions	iii	(242)	(247)	(42)	(531)
Underlying profit/(loss) before tax		529	(196)	(29)	304
FSCS levies		(59)	-	-	(59)
Restructuring costs		(1)	-	(60)	(61)
Bank levy		-	-	(16)	(16)
Gains from derivatives and hedge accounting		-	-	35	35
Profit/(loss) before tax		469	(196)	(70)	203
Taxation					(24)
Profit after tax					179
Total assets	iv	131,549	22,157	42,423	196,129
Total liabilities		131,344	92	58,534	189,970

Notes

- (i) Other income excludes losses and gains from derivatives and hedge accounting which are shown separately.
- (ii) Expenses exclude restructuring costs and bank levy which are shown separately.
- (iii) Impairment and other provisions includes impairment losses on loans and advances to customers, provisions for liabilities and charges (excluding FSCS) and impairment losses on investment securities.
- (iv) Retail assets include goodwill arising on the acquisitions of The Mortgage Works (UK) plc and the Derbyshire Building Society.

14 Loans and advances to banks

Loans and advances to banks for the Group and Society at 4 April 2013 include £185 million (2012: £192 million) of mandatory reserve deposits with the Bank of England.

Notes to the Accounts continued

15 Investment securities – available for sale

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Government and supranational investment securities	8,984	16,546	8,984	16,546
Listed private sector investment securities	4,437	6,779	4,419	6,700
	13,421	23,325	13,403	23,246

Investment securities include items with a carrying value of £231 million (2012: £1,325 million) which have been sold under sale and repurchase agreements (see note 23 for details of the associated liabilities). These assets have not been derecognised as the Group has retained substantially all the risks and rewards of ownership. The Group is unable to use, sell or pledge the transferred assets for the duration of the transaction and remains exposed to any associated interest rate risk or credit risk of the assets. The decrease in the value of investment securities during the year ended 4 April 2013 was due primarily to the sale of UK gilts and asset backed securities.

Certain notes with a carrying value of £1,250 million (2012: £1,250 million) issued by Silverstone Master Issuer plc to the Society under the asset backed funding programmes (note 17) have also been sold under sale and repurchase agreements. In accordance with accounting standards these notes are not recognised by the Society.

The proceeds and accrued interest of the sale and repurchase agreements of £1,207 million (2012: £2,145 million) are included within deposits from banks (note 23).

At 4 April 2013 the Group holds collateral under reverse total return swaps of £188 million (2012: £188 million). In line with accounting standards, the collateral is not recognised in the accounts and therefore is not reflected in the table above. The related proceeds of £149 million (2012: £149 million) are included in loans and advances to banks.

The impairment loss on investment securities of £2 million in the year ended 4 April 2013 (2012: £38 million) comprises an impairment loss amounting to £23 million on UK commercial mortgage backed securities (CMBS), offset by a write back on sale of US asset backed investments of £19 million (2012: £31 million charge) and a write back of a previously impaired position of £2 million (2012: £nil). In the year ended 4 April 2012 there were £7 million of impairment losses in respect of investments in a private equity portfolio managed by the Treasury Division. Further information on treasury credit risk is included in the Risk Management Report.

Critical accounting estimates and judgements

The Group determines that available for sale assets are impaired when it is considered that there is objective evidence of impairment. In determining whether this evidence exists, the Group evaluates, among other factors, the normal volatility in valuation together with consideration of the appropriateness of valuations under the current market conditions, evidence of deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. This determination is supported by rigorous credit assessment overseen by the Risk Management Division.

16 Derivative financial instruments

All derivative financial instruments are held for risk mitigation purposes, although not all derivatives are designated as hedging derivatives under the terms of IAS 39. The table below analyses

derivatives between those designated as hedging instruments and those which, whilst in economic hedging relationships, are not designated as hedging instruments:

	2013			2012		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
a) Society						
Derivatives designated as fair value hedging instruments:						
Interest rate swaps	70,247	1,128	3,674	86,538	1,194	3,996
Other derivatives not designated in hedge accounting relationships:						
Cross currency interest rate swaps	16,321	266	251	19,765	531	142
Caps, collars and floors	469	-	1	666	2	3
Forward foreign exchange	7,016	152	22	6,443	-	60
Forward rate agreements	5,490	-	-	5,190	1	-
Swaptions	344	2	27	349	3	28
Interest rate futures	1,304	-	-	4,424	-	-
Interest rate and equity index swaps	41,280	1,115	789	73,516	702	534
	142,471	2,663	4,764	196,891	2,433	4,763
b) Subsidiaries						
Derivatives designated as fair value hedging instruments:						
Interest rate swaps	11,342	1,390	-	13,182	1,126	-
Other derivatives not designated in hedge accounting relationships:						
Cross currency interest rate swaps	13,648	1,186	152	17,414	1,389	296
Intra Group derivative elimination	(31,679)	(1,027)	(1,031)	(35,622)	(772)	(772)
Group	135,782	4,212	3,885	191,865	4,176	4,287

Contract/notional amount indicates the amount on which payment flows are derived at the balance sheet date and does not represent amounts at risk.

For valuing collateralised derivatives the Group uses discount curves based on overnight indexed swap (OIS) rates, whilst for non-collateralised derivatives the Group uses discount curves based on term Libor rates.

Notes to the Accounts continued

16 Derivative financial instruments (continued)

Group	2013			2012		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Derivatives have remaining maturities as follows:						
In not more than one year	62,626	660	201	105,073	814	404
In more than one year	73,156	3,552	3,684	86,792	3,362	3,883
	135,782	4,212	3,885	191,865	4,176	4,287

Society	2013			2012		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets £m	Liabilities £m		Assets £m	Liabilities £m
Derivatives have remaining maturities as follows:						
In not more than one year	59,929	253	214	101,317	330	404
In more than one year	82,542	2,410	4,550	95,574	2,103	4,359
	142,471	2,663	4,764	196,891	2,433	4,763

17 Loans and advances to customers

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Prime residential mortgages	110,587	105,549	108,955	103,544
Specialist residential mortgages	24,806	23,096	1,014	1,055
Consumer banking	3,401	2,888	3,401	2,888
Commercial lending	18,958	20,961	18,056	20,005
Other lending	422	479	83	80
	158,174	152,973	131,509	127,572
Fair value adjustment for micro hedged risk	1,413	1,196	1,413	1,196
	159,587	154,169	132,922	128,768

Maturity analysis

Loans and advances to customers have remaining contractual maturities as follows:

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Repayable on demand	1,921	1,630	1,856	1,607
Other loans and advances by residual maturity repayable:				
In not more than three months	3,334	2,881	3,271	2,756
In more than three months but not more than one year	5,712	5,452	5,627	5,362
In more than one year but not more than five years	26,502	26,113	25,231	25,014
In more than five years	121,929	117,740	96,537	93,494
	159,398	153,816	132,522	128,233
Impairment provision on loans and advances (note 11)	(1,224)	(843)	(1,013)	(661)
Fair value adjustment for micro hedged risk	1,413	1,196	1,413	1,196
	159,587	154,169	132,922	128,768

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced by the Group or Society, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

The maturity analysis for the year ended 4 April 2012 has been revised to reflect more appropriately the maturity of certain commercial loans.

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). 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 Accounts continued

17 Loans and advances to customers (continued)

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

	2013				
	Mortgages pledged	Notes in issue			Total notes in issue
		Held by third parties	Held by the Group		
	£m		£m	Drawn £m	Undrawn £m
Covered bond programme	21,856	11,376	-	4,500	15,876
Securitisation programme	24,994	7,606	1,250	12,291	21,147
Whole mortgage loan pools	4,891	-	3,490	1,401	4,891
Other secured lending programmes	-	-	-	-	-
	51,741	18,982	4,740	18,192	41,914

	2012				
	Mortgages pledged	Notes in issue			Total notes in issue
		Held by third parties	Held by the Group		
	£m		£m	Drawn £m	Undrawn £m
Covered bond programme	32,109	13,024	-	6,764	19,788
Securitisation programme	26,172	7,404	1,250	12,291	20,945
Whole mortgage loan pools	-	-	-	-	-
Other secured lending programmes	2,225	1,500	-	-	1,500
	60,506	21,928	1,250	19,055	42,233

The whole mortgage loan pools are pre-positioned at the BoE under the FLS. No loans are issued when pre-positioning the mortgage loan pools at the BoE. Instead, the whole pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. Therefore, values shown under notes in issue are the whole mortgage loan pool notional balances.

Mortgages pledged include £3.6 billion (2012: £4.5 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 or Society balance sheets as the Group has retained substantially all the risks and rewards of ownership. The Group and Society continue 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 and held by third parties are included within debt securities in issue (note 26).

Notes in issue, held by the Group and drawn are:

- Debt securities issued by the programmes to the Society which have been used as collateral in sale and repurchase agreements with third parties, and
- Whole mortgage loans securing amounts drawn under the FLS at 4 April 2013 of £2.5 billion.

Notes in issue, held by the Group and undrawn are debt securities issued by the programmes to the Society and mortgage loan pools that have been pledged to the BoE FLS but not utilised. The majority of these are held to provide collateral for potential future use in repurchase agreements or central bank operations.

In accordance with accounting standards, notes in issue and held by the Group are not recognised by the Group or Society in their balance sheets.

17 Loans and advances to customers (continued)

The Society established the Nationwide Covered Bond programme in November 2005. Mortgages pledged provide security for issues of covered bonds made by the Society. During the year ended 4 April 2013 \$2.0 billion and €3.5 billion (£4.3 billion sterling equivalent) of notes matured. There were no new issuances in the year.

The Society established the Silverstone Master Trust securitisation programme in July 2008. Mortgages pledged are held by Silverstone Finance Trustee Limited. The proceeds of notes issued by this programme of £21.1 billion (2012: £20.9 billion) have been used to purchase a share of the beneficial interest in the mortgages pledged for the benefit of the note holders. The remaining beneficial interest in the pledged

mortgages of £4.0 billion (2012: £5.2 billion) stays with the Society and incorporates 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. There was no further securitisation activity during the year ended 4 April 2013.

The following table sets out the carrying value of the transferred assets and liabilities for the Silverstone Master Trust.

2013						
	Carrying value			Fair value		
	Transferred assets	Associated liabilities	Total	Transferred assets	Associated liabilities	Total
	£m	£m	£m	£m	£m	£m
Securitisation programme	24,994	(21,147)	3,847	23,875	(21,750)	2,125

2012						
	Carrying value			Fair value		
	Transferred assets	Associated liabilities	Total	Transferred assets	Associated liabilities	Total
	£m	£m	£m	£m	£m	£m
Securitisation programme	26,172	(20,945)	5,227	25,157	(21,933)	3,224

The BoE began accepting loan portfolios as eligible collateral in the Discount Window Facility from April 2011 and for the FLS from August 2012. Nationwide commenced pre-positioning whole mortgage loan pools in the FLS in November 2012. At 4 April 2013 the Group had an outstanding FLS drawing of £2.5 billion.

The Society holds cash deposited by the covered bond programme of £2.0 billion (2012: £1.4 billion) and by the Silverstone programme of £1.8 billion (2012: £1.2 billion).

Notes to the Accounts continued

18 Investments in equity shares

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
At 5 April	29	103	29	32
Additions	-	2	-	-
Disposals	(10)	(67)	(10)	-
Increase/(decrease) in fair value	9	(2)	9	(3)
Impairment	-	(7)	-	-
At 4 April	28	29	28	29

Investments in equity shares include investments of £27 million (2012: £28 million) carried at fair value. £7 million (2012: £16 million) of the Group's investments in equity shares relate to participation in industry wide banking and credit card service operations.

During the year ended 4 April 2013 the Group sold £10 million of equity investments relating to participation in an industry

wide credit card service operation. In the year ended 4 April 2012 investments in equity shares with a carrying value of £65 million were sold at a fair value of £68 million to the Nationwide Pension Fund. Further details are provided in note 35.

During the year ended 4 April 2012 an impairment charge of £7 million was recognised in respect of an investment in a private equity portfolio.

19 Investments in Group undertakings

	Shares	Loans	Total
	£m	£m	£m
At 5 April 2012	388	24,569	24,957
Additions	-	5,796	5,796
Impairment	-	(5)	(5)
Disposals, redemptions and repayments	(27)	(4,803)	(4,830)
At 4 April 2013	361	25,557	25,918

	Shares	Loans	Total
	£m	£m	£m
At 5 April 2011	387	20,010	20,397
Additions	1	8,024	8,025
Impairment	-	(8)	(8)
Disposals, redemptions and repayments	-	(3,457)	(3,457)
At 4 April 2012	388	24,569	24,957

19 Investments in Group undertakings (continued)

During the year ended 4 April 2013 the Society received dividend payments of £74 million (2012: £489 million) and payments of £27 million (2012: £nil) relating to capital reductions and the redemption of preference shares from subsidiary undertakings.

The impairment charge for the year ended 4 April 2013 includes £2 million relating to a subsidiary that holds a corporate loan portfolio and £3 million relating to a subsidiary that holds a

portfolio of unsecured lending. The £5 million impairment is included in impairment loss on loans and advances to customers in the income statement.

Audited accounts are prepared for all the Group's principal subsidiaries. The interests of the Society in its principal subsidiary undertakings, as at 4 April 2013 are set out below:

100% held subsidiary undertakings	Nature of business
Nationwide International Limited *	Offshore deposit taker
Nationwide Syndications Limited	Syndicated lending
The Mortgage Works (UK) plc *	Mortgage lender
UCB Home Loans Corporation Limited *	Mortgage lender
Derbyshire Home Loans Limited *	Mortgage lender
E-Mex Home Funding Limited *	Mortgage lender

* Regulated entities which are subject to regulations which require them to maintain capital at agreed levels and so govern the availability of funds for distribution as dividends.

All of the above subsidiary undertakings are limited liability companies, which are registered in England and Wales and operate in the UK, except for Nationwide International Limited which is registered and operates in the Isle of Man.

The Group has interests in a number of entities which give rise to the risks and rewards that are in substance no different than if they were owned by the Group. As a consequence, these entities are consolidated in the Group accounts.

The principal interests of the Society in these entities as at 4 April 2013 are set out below:

Other subsidiary undertakings	Nature of business	Country of registration	Country of operation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	England and Wales	UK
Silverstone Master Issuer plc	Funding vehicle	England and Wales	UK

For smaller subsidiaries the Group has adopted the audit exemptions under Section 479A of the Companies Act 2006 which became available in the Department for Business Innovation & Skills (BIS) regulations published in September

2012. In order to fulfil the requirements of these regulations the Society guarantees all outstanding liabilities of the exempted subsidiary undertakings in respect of the year ended 4 April 2013.

Notes to the Accounts continued

19 Investments in Group undertakings (continued)

The Group has adopted the audit exemption for the following subsidiary undertakings for the year ended 4 April 2013:

Unaudited subsidiary undertakings	
Confederation Mortgage Services Limited	Nationwide Anglia Property Services Limited
Dunfermline BS Nominees Limited	Nationwide Investments (No 1) Limited
Exeter Trust Limited	Nationwide Trust Limited
First Nationwide	NBS Fleet Services Limited
Jubilee Mortgages Limited	Staffordshire Leasing Limited
LBS Mortgages Limited	The Derbyshire (Premises) Limited
Monument (Sutton) Limited	

All of the above unaudited subsidiary undertakings are limited liability companies, with exception of First Nationwide which is an unlimited company, and are registered in England and Wales and operate in the UK.

In addition, the Group has adopted the exemptions under Section 394A of the Companies Act 2006 not to prepare accounts for the following dormant subsidiary undertakings:

Dormant subsidiary undertakings	
at.home nationwide limited	Nationwide International Limited
Ethos Independent Financial Services Limited	Nationwide Lease Finance Limited
Longwide Limited	Nationwide Overseas (UK) Limited
Nationwide Financial Service Limited	Nationwide Mortgage Corporation Limited
Nationwide Healthcare Trustee Limited	Nationwide Pension Fund Trustee Limited
Nationwide Home Loans Limited	Nationwide Pension Fund Nominee Limited
Nationwide Housing Trust Limited	Nationwide Property Services (NBS) Limited
Nationwide Independent Financial Services Limited	

All of the above dormant subsidiary undertakings are limited liability companies and are registered in England and Wales.

20 Intangible assets

2013 Group	Computer software		Total computer software	Other intangible assets	Goodwill	Total
	Externally acquired	Internally developed				
	£m	£m	£m	£m	£m	£m
Cost						
At 5 April 2012	387	448	835	42	16	893
Additions	75	227	302	-	-	302
Disposals	(38)	(12)	(50)	-	-	(50)
At 4 April 2013	424	663	1,087	42	16	1,145
Accumulated amortisation and impairment						
At 5 April 2012	136	52	188	24	-	212
Amortisation charge	23	59	82	4	-	86
Impairment in the year	-	3	3	-	-	3
Disposals	(38)	(12)	(50)	-	-	(50)
At 4 April 2013	121	102	223	28	-	251
Net book value						
At 4 April 2013	303	561	864	14	16	894

2012 Group	Computer software		Total computer software	Other intangible assets	Goodwill	Total
	Externally acquired	Internally developed				
	£m	£m	£m	£m	£m	£m
Cost						
At 5 April 2011	342	315	657	42	16	715
Additions	71	142	213	-	-	213
Disposals	(26)	(9)	(35)	-	-	(35)
At 4 April 2012	387	448	835	42	16	893
Accumulated amortisation and impairment						
At 5 April 2011	142	33	175	11	-	186
Amortisation charge	20	28	48	4	-	52
Impairment in the year	-	-	-	9	-	9
Disposals	(26)	(9)	(35)	-	-	(35)
At 4 April 2012	136	52	188	24	-	212
Net book value						
At 4 April 2012	251	396	647	18	16	681

Intangible assets at 4 April 2013 include £155 million (2012: £340 million) of assets in the course of construction. These assets relate mainly to the Group's investment in new systems platforms to meet the future needs of the business. To the extent that these new systems platforms are not yet ready for use by the business, no amortisation has been charged against these assets.

Software costs capitalised during the year ended 4 April 2013 relate mainly to new systems platforms and are being amortised over estimated useful lives predominantly of either five years or, for some systems platforms, ten years.

In the year ended 4 April 2013 £12 million (2012: £14 million) of borrowing costs have been capitalised using a capitalisation rate of 2.39% (2012: 2.73%).

An impairment loss of £3 million has been recognised in the year to 4 April 2013 in respect of point of sale software relating to a product that was discontinued during the year.

An impairment loss of £9 million was recognised in the year to 4 April 2012 in respect of core deposit intangible assets which were recognised on the acquisition of the Derbyshire, Cheshire and Dunfermline building societies.

Computer software of £320 million at 4 April 2012, predominantly in relation to new systems platforms, has been re-classified between the externally acquired and internally developed intangible assets categories to present more accurately the nature of these assets.

The Society's intangible assets are as shown above for the Group, except that they exclude £12 million of goodwill relating to the acquisition of The Mortgage Works (UK) plc, which is only recognised at Group level.

Notes to the Accounts continued

21 Property, plant and equipment

2013 Group	Branches and non-specialised buildings	Specialised administration buildings	Short leasehold buildings	Total land and buildings	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 5 April 2012	232	186	48	466	120	968	1,554
Additions	1	-	-	1	26	48	75
Revaluation	3	-	-	3	-	-	3
Disposals	(5)	-	-	(5)	(15)	(138)	(158)
At 4 April 2013	231	186	48	465	131	878	1,474
Accumulated depreciation and impairment							
At 5 April 2012	-	71	33	104	68	437	609
Depreciation charge	-	2	1	3	17	103	123
Impairment in the year	-	3	-	3	1	-	4
Disposals	-	-	-	-	(14)	(134)	(148)
At 4 April 2013	-	76	34	110	72	406	588
Net book value							
At 4 April 2013	231	110	14	355	59	472	886

2012 Group	Branches and non-specialised buildings	Specialised administration buildings	Short leasehold buildings	Total land and buildings	Plant and machinery	Equipment, fixtures, fittings and vehicles	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 5 April 2011	248	185	47	480	104	936	1,520
Additions	2	1	1	4	22	115	141
Revaluation	(14)	-	-	(14)	-	-	(14)
Disposals	(4)	-	-	(4)	(6)	(83)	(93)
At 4 April 2012	232	186	48	466	120	968	1,554
Accumulated depreciation and impairment							
At 5 April 2011	-	67	32	99	59	414	572
Depreciation charge	-	4	1	5	15	99	119
Disposals	-	-	-	-	(6)	(76)	(82)
At 4 April 2012	-	71	33	104	68	437	609
Net book value							
At 4 April 2012	232	115	15	362	52	531	945

Group property, plant and equipment at 4 April 2013 includes £8 million (2012: £7 million) of land and buildings held by subsidiary undertakings.

Property, plant and equipment includes £81 million (2012: £184 million) of assets in the course of construction.

In the year ended 2013 an impairment charge of £4 million was made which related primarily to a former technology centre.

22 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method at the standard UK corporation tax rate.

In addition to the changes in rates of corporation tax disclosed below and within note 12, a number of further changes to the UK corporation tax system were announced in the March 2013 UK Budget Statement. Legislation to reduce the main rate of

corporation tax from 23% to 21% from 1 April 2014 is expected to be included in the Finance Act 2013. Further reductions to the main rate are proposed to reduce the rate by 1% to 20% from 1 April 2015. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The movements on the deferred tax account are as follows:

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
At 5 April	201	182	178	142
Income statement (charge)/credit	(3)	(36)	23	(20)
Income statement effect of corporation tax rate change	7	12	6	11
Available for sale investments	4	-	-	-
Property revaluation	1	2	-	2
Retirement benefit obligations	(36)	129	(36)	128
Tax losses utilised	(36)	(53)	(36)	(53)
Effect of corporation tax rate change in other comprehensive income	(14)	(35)	(13)	(32)
Taxation on items through other comprehensive income	(81)	43	(85)	45
At 4 April	124	201	122	178

Deferred tax assets and liabilities are attributable to the following items:

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Deferred tax assets				
Accelerated depreciation	(63)	(54)	(63)	(54)
Property revaluation	3	2	-	-
Tax losses carried forward	87	84	87	83
Retirement benefit obligations	81	123	81	123
Provisions for loan impairment	11	17	6	7
Other provisions	35	57	24	33
	154	229	135	192
Deferred tax liabilities				
Accelerated tax depreciation	(1)	(1)	-	-
Property revaluation	(12)	(13)	(12)	(13)
Other provisions	(17)	(14)	(1)	(1)
	(30)	(28)	(13)	(14)
Net deferred tax asset	124	201	122	178

Notes to the Accounts continued

22 Deferred tax (continued)

The majority of deferred tax assets are anticipated to be recoverable after one year. The Group considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax asset. The tax losses carried forward have been assessed for recoverability against the Group's five year corporate

plan forecast. The losses are expected to be fully utilised within three to four years. There is no time limit for utilising tax losses brought forward in the UK.

As at 4 April 2013 the Group and Society held no unused capital losses (2012: Group and Society £5 million) for which no deferred tax asset is recognised.

The deferred tax (credit)/charge in the income statement comprises the following temporary differences (note 12):

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Accelerated tax depreciation	12	43	12	43
Retirement benefit obligations	4	72	4	72
Provisions for loan impairment	6	2	2	2
Other	25	13	4	(4)
Tax losses carried forward	(44)	(94)	(45)	(93)
Effect of corporation tax rate change	(7)	(12)	(6)	(11)
	(4)	24	(29)	9

23 Deposits from banks

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Deposits from banks are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	6	10	6	10
Repayable on demand	1,688	836	346	196
Other amounts owed to banks with residual maturity repayable:				
In not more than three months	242	306	242	306
In more than three months but not more than one year	250	53	250	53
In more than one year but not more than five years	1,001	2,145	1,001	2,145
In more than five years	43	20	23	20
	3,230	3,370	1,868	2,730

For the Group and Society, deposits from banks include £1,207 million (2012: £2,145 million) in respect of sale and repurchase agreements. The carrying value of assets of

£231 million (2012: £1,325 million) sold under sale and repurchase agreements is included within investment securities – available for sale (see note 15).

24 Other deposits

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Other deposits are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	5	10	14	26
Repayable on demand	362	356	4,137	3,143
Other deposits with residual maturity repayable:				
In not more than three months	2,045	2,572	2,685	2,851
In more than three months but not more than one year	1,345	1,049	4,566	4,137
In more than one year but not more than five years	2,990	2,260	3,074	2,524
In more than five years	-	652	-	652
	6,747	6,899	14,476	13,333

The Society's other deposits for the year ended 4 April 2013 include £8,089 million (2012: £6,790 million) of deposits from subsidiary undertakings.

Other deposits comprise wholesale deposits placed with the Treasury Division and amounts relating to the sale of PEBs by the Group on behalf of Legal & General.

The PEBs are held in the Group and Society at a fair value of £2,985 million (2012: £2,890 million) based on management's best estimate of the amounts that will be paid at contractual maturity.

Changes in fair value of the PEB liability are recognised in the income statement. A loss of £160 million (2012: £179 million) was recognised by the Group and Society during the year ended 4 April 2013. This impact is offset by changes in fair value of associated derivatives which are also recognised in the income statement.

The minimum amount on an undiscounted basis that the Group and Society are contractually required to pay at maturity for the PEBs is £2,794 million (2012: £2,863 million). The maximum additional amount which would also be payable at maturity in respect of additional investment returns on two tranches with a combined fair value of £80 million (2012: £77 million) is uncapped. The maximum additional amount which would also be payable at maturity in respect of additional investment returns on all other tranches is £1,140 million (2012: £1,169 million). The payment of additional investment returns is dependent upon performance of certain specified stock indices during the period of the PEB. The Group has entered into equity-linked derivatives with external counterparties which economically match the investment returns on the PEBs.

25 Due to customers

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Amounts due to customers are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	43	40	4	5
Repayable on demand	3,812	3,779	865	985
Other amounts owed to customers with residual maturity repayable:				
In not more than three months	803	457	70	67
In more than three months but not more than one year	1,183	1,201	198	221
In more than one year but not more than five years	119	356	30	23
	5,960	5,833	1,167	1,301

Amounts due to customers in the Group include savings deposit balances held in the Group's offshore subsidiary Nationwide International Limited. Amounts classified as due to customers do not confer membership rights.

Notes to the Accounts continued

26 Debt securities in issue

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Certificates of deposit and commercial paper	7,849	7,952	7,849	7,952
Fixed and floating rate notes	16,120	21,977	15,926	20,270
Other debt securities	7,898	7,677	268	260
	31,867	37,606	24,043	28,482
Fair value adjustment for micro hedged risk	1,562	1,248	297	253
	33,429	38,854	24,340	28,735
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	99	195	132	192
Residual maturity repayable:				
In not more than one year	10,091	13,616	9,663	12,776
In more than one year	21,677	23,795	14,248	15,514
	31,867	37,606	24,043	28,482
Fair value adjustment for micro hedged risk	1,562	1,248	297	253
	33,429	38,854	24,340	28,735

Debt securities in issue in the Group and Society include £18,982 million (2012: £21,928 million) secured on certain loans and advances to customers. Further information is given in note 17.

27 Provisions for liabilities and charges

Group	Bank levy	FSCS	Customer redress	Other provisions	Total
	£m	£m	£m	£m	£m
At 5 April 2012	5	111	105	74	295
Provisions utilised	(13)	(46)	(36)	(31)	(126)
Charge for the year	16	68	73	8	165
Release for the year	-	-	-	(16)	(16)
Net income statement charge/(release)	16	68	73	(8)	149
At 4 April 2013	8	133	142	35	318
At 5 April 2011	-	94	19	52	165
Provisions utilised	(11)	(42)	(17)	(15)	(85)
Charge for the year	16	59	103	59	237
Release for the year	-	-	-	(22)	(22)
Net income statement charge	16	59	103	37	215
At 4 April 2012	5	111	105	74	295

27 Provisions for liabilities and charges (continued)

The income statement charge for provisions for liabilities and charges of £141 million includes the FSCS charge of £68 million and the customer redress charge of £73 million.

The bank levy charge of £16 million and other provisions release of £8 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 from eligible depositors. The FSCS is funded by levies on the industry.

Following the default of a number of deposit takers, the FSCS borrowed funds from HM Treasury, which total approximately £18 billion, to meet the compensation costs for customers of those firms. The FSCS recovers the interest cost, together with ongoing management expenses, by way of annual levies on member firms. While it is anticipated that the majority of the borrowings will be repaid wholly from recoveries from the institutions concerned, the FSCS has advised of an expected shortfall.

At current rates and based on latest information which is subject to change, the Group's share of the expected shortfall would total approximately £132 million which, in line with the intentions of the FSCS on timing of resultant levies, the Group expects to be recognised over three years beginning in the year ended 4 April 2013. A provision of £44 million has been recognised in the year ended 4 April 2013 in respect of the Group's share of the expected shortfall for the 2013/14 scheme year.

The Group also has a potential exposure to future levies resulting from the failure of the Dunfermline Building Society. The quantification and timing of such losses have yet to be determined.

The amount provided by the Group of £133 million is in respect of the 2012/13 and 2013/14 scheme years (2012: £111 million in respect of the 2011/12 and 2012/13 scheme years).

Customer redress

The Group holds a provision for customer redress which reflects management's best estimate of the cost of complaints related to past sales of financial products, including PPI. The closing provision of £142 million reflects the costs of redress and associated administration that will be payable in relation to claims we expect to uphold.

The Group has continued to experience a high volume of PPI complaints during the financial year, a significant proportion of which relate to cases where there has been either no sale or no evidence of mis-selling. In light of this experience, the Group has continued to re-assess the ultimate level of complaints expected and the appropriateness of the provision. Further costs in relation to invalid claims are recognised in administrative expenses as incurred.

Of the Group's charge for the year ended 4 April 2013 in relation to PPI of £53 million (2012: £103 million) approximately 30% relates to the cost of processing claims, rather than the cost of customer redress.

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 present obligation and it is probable that the expenditure will be made. All components of the net charge/(credit) for other provisions in the years ended 4 April 2013 and 4 April 2012 are included within administrative expenses.

Critical accounting estimates and judgements

Customer redress provisions

The customer redress provision in relation to PPI is calculated based upon management's best estimate of complaint volumes, referral rates to the Financial Ombudsman Service (FOS), uphold rates internally and with the FOS, response rates from customer contact activity relating to our previous sales of PPI, average redress payments and complaint handling costs. The main sensitivity to the provision estimate is the back-book response rate, with each 1% increase in the expected level of complaints increasing the required provision by approximately £2 million. A 1% change in either the uphold rates or the average redress paid would also change the provision by approximately £1 million.

28 Accruals and deferred income

Accruals and deferred income for the Group and Society include £40 million (2012: £37 million) of interest accrued on subordinated liabilities, £13 million (2012: £17 million) of interest accrued on subscribed capital and £64 million (2012: £89 million) of deferred income in relation to PEBs.

Income received in relation to PEBs is deferred and recognised in the income statement on an effective interest basis over the term of the product. Movements in the PEBs balance are as follows:

	Group and Society	
	2013	2012
	£m	£m
At 5 April	89	94
Additions	-	16
Releases	(25)	(21)
At 4 April	64	89

Notes to the Accounts

29 Subordinated liabilities

	Group and Society	
	2013	2012
	£m	£m
5¼% Subordinated notes due 2014 (\$225m)	148	142
5% Subordinated notes due 2015 (\$400m)	264	252
5¼% Subordinated notes due 2018 (£)	-	200
8½% Subordinated notes due 2018 (£)	125	125
6.73% Subordinated loan due 2019 (£)	15	15
6.75% Subordinated loan due 2020 (€750m)	635	620
5.25% Subordinated loan due 2020 (£)	150	150
6.5% Callable reset subordinated notes 2022 (£)	30	30
4.125% Subordinated loan due 2023 (€1,250m)	1,059	-
	2,426	1,534
Fair value adjustment for micro hedged risk	130	119
Unamortised premiums and issue costs	(16)	(9)
	2,540	1,644

All of the Society's subordinated liabilities are unsecured. The Society may, with the prior consent of the Prudential Regulation Authority (PRA), redeem some of the subordinated notes early as follows:

- All or some of the 8½% notes due 2018 at the higher of par (100%) or the benchmark 8¾% 2017 gilt, by giving not less than 30 nor more than 60 days notice to the holders.
- All of the 6.73% subordinated loan due 2019 may be redeemed on 7 April 2014, five years before the final maturity date, by giving no less than two days notice to the holders. In the event that the Society does not redeem the notes early the interest rate will convert to a rate referenced to the then current five year gilt rate plus 3.1%.
- All of the 5.25% subordinated loan due 2020 may be redeemed on 23 November 2015, five years before the final maturity date, by giving not less than 30 days notice to the holders. In the event that the Society does not redeem the notes early the interest rate will convert to a floating rate equal to the then current 3 month Libor plus 1.54%.
- All or some of the 6.5% notes due 2022 on 1 March 2017 and 1 September 2017. If the issue is not repaid on the first call date, the coupon will be reset to yield 300 basis points over the prevailing five year gilt benchmark. These notes were acquired on the acquisition of the Cheshire Building Society.

- All, but not some only, of the 4.125% notes due 2023 at par (100%) may be redeemed on 20 March 2018, by giving not less than 30 nor more than 60 days notice. In the event the Society does not redeem the notes on 20 March 2018 the interest rate will convert to the five year swap rate plus 3.3%.

The 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 permanent interest bearing shares) of the Society.

The interest rate risk arising from the issuance of fixed rate subordinated liabilities has been mitigated through the use of interest rate swaps.

In November 2012 the Group, with the consent of the FSA, redeemed early all of the £200 million 5¼% subordinated notes due 2018 at par.

30 Subscribed capital

	Group and Society	
	2013	2012
	£m	£m
Floating rate permanent interest bearing shares (converted 2012/13)	3	350
6.875% Permanent interest bearing shares	30	30
7.971% Permanent interest bearing shares	200	200
7.25% Permanent interest bearing shares	60	60
6.25% Permanent interest bearing shares	125	125
5.769% Permanent interest bearing shares	400	400
7.859% Permanent interest bearing shares	100	100
Floating rate permanent interest bearing shares	10	10
6% Permanent interest bearing shares	140	140
	1,068	1,415
Fair value adjustment for micro hedged risk	270	248
Unamortised premiums and issue costs	(34)	(38)
	1,304	1,625

Notes to the Accounts continued

31 Retirement benefit obligations

	Group	
	2013	2012
	£m	£m
Present value of funded obligations	3,813	3,594
Fair value of fund assets	(3,471)	(3,089)
	342	505
Present value of unfunded obligations	12	12
	354	517

The Group operates both defined benefit and defined contribution arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund. This is a contributory defined benefit arrangement, with both final salary and career average revalued earnings (CARE) sections. The Fund was closed to new entrants in 2007. Since that date new employees are able to join a defined contribution arrangement. The final salary section of the Fund was closed to future service on 31 March 2011. Service already built up in the final salary section will continue to be linked to final salary; future benefits will accrue within the CARE section. The Group retirement

benefit obligation of £354 million (2012: £517 million) includes £1 million (2012: £1 million) relating to a separate pension fund operated for a subsidiary company.

The assets of the pension funds are held and managed by the funds' trustees separately from the assets of the Group. Contributions to the funds are assessed in accordance with the advice of the independent actuaries and are agreed between the trustees and the Group. The contribution rates applicable for the year ended 4 April 2013, including employees' contributions payable under salary sacrifice arrangements, varied between 9.0% and 23.3%.

The amounts recognised in the income statement are as follows:

	Group	
	2013	2012
	£m	£m
Defined benefit current service cost	55	50
Defined contribution cost	19	16
Past service	4	-
Curtailed	(6)	(4)
Included in employee costs (note 9)	72	62
Expected return on pension assets (note 3)	(186)	(195)
Pension interest cost (note 4)	172	166
	58	33

31 Retirement benefit obligations (continued)

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

	Group	
	2013	2012
	£m	£m
At 5 April	3,606	2,995
Current service cost	55	50
Past service cost	5	2
Curtailement	(6)	(4)
Pension interest cost	172	166
Employee contributions	1	1
Actuarial losses	70	467
Benefits paid	(78)	(71)
At 4 April	3,825	3,606

The actuarial losses of £70 million for the year ended 4 April 2013 arose primarily due to an increase in the inflation rates used which increased the measurement of the defined benefit obligation. The actuarial losses of £467 million for the year ended 4 April 2012 arose primarily due to a reduction in the discount rate used. Further details are included in the Business Review.

The past service cost of £5 million (2012: £2 million) includes amounts that were provided for in previous years as part of the Group's restructuring costs.

Changes in the fair value of plan assets for the pension funds are as follows:

	Group	
	2013	2012
	£m	£m
At 5 April	3,089	2,695
Expected return on assets	186	195
Actuarial gains/(losses)	219	(27)
Contributions by employer	54	296
Employee contributions	1	1
Benefits paid	(78)	(71)
At 4 April	3,471	3,089

The actual return on assets was 13.3% (2012: 6.3%). Contributions paid by the Group in the year included additional deficit contributions of £nil (2012: £241 million).

Notes to the Accounts continued

31 Retirement benefit obligations (continued)

The major categories of plan assets for the pension funds, stated at fair value, are as follows:

	Group	
	2013	2012
	£m	£m
Listed equities	1,516	1,245
Government bonds	893	903
Corporate bonds	448	308
Infrastructure	229	188
Property	204	198
Private equity investments	164	133
Cash	104	46
Other assets and liabilities	(87)	68
	3,471	3,089

None of the funds' assets are invested in the Nationwide Group (2012: £nil).

£497 million of the plan assets (2012: £421 million) have been valued using inputs which are not based on observable market data and represent Level 3 assets as defined in IFRS 7. These assets include private equity investments, infrastructure and certain property investments.

Government bonds include an item with a carrying value of £110 million (2012: £nil) which has been sold under a sale and repurchase agreement. The asset has not been derecognised as the Fund has retained substantially all the risks and rewards of ownership. The proceeds of the sale and repurchase agreement of £110 million (2012: £nil) are included within other assets and liabilities in the above table.

The amounts recognised in respect of pension obligations in the statements of comprehensive income are as follows:

	Group	
	2013	2012
	£m	£m
Cumulative actuarial losses at 5 April	(711)	(217)
Actuarial gains/(losses) in the year	149	(494)
Cumulative actuarial losses at 4 April	(562)	(711)

Actuarial gains and losses in respect of pension obligations and plan assets for the current and the previous years are as follows:

	Group				
	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Experience gains/(losses) on plan liabilities	5	(31)	68	55	12
Changes in actuarial assumptions	(75)	(436)	84	(617)	186
Actuarial (losses)/gains on plan liabilities	(70)	(467)	152	(562)	198
Experience gains/(losses) on plan assets	219	(27)	(38)	393	(519)
	149	(494)	114	(169)	(321)

31 Retirement benefit obligations (continued)

The present value of the defined benefit obligation and the fair value of plan assets for the current and previous years are:

	Group				
	2013	2012	2011	2010	2009
	£m	£m	£m	£m	£m
Present value of defined benefit obligation	3,825	3,606	2,995	2,976	2,267
Fair value of plan assets	3,471	3,089	2,695	2,468	1,936
Total deficit	354	517	300	508	331

The principal actuarial assumptions used were as follows:

	Group	
	2013	2012
	%	%
Discount rate	4.8	4.8
Expected return on plan assets	5.7	6.2
Future salary increases	4.4	4.3
Future pension increases	2.1-3.7	2.0-3.7
Retail price index (RPI) inflation	3.4	3.3
Consumer price index (CPI) inflation	2.4	2.3

To derive the expected rate of return on plan assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class.

Assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The expected overall return was then calculated based on the asset allocation at 4 April 2013. This resulted in the selection of the 5.7% assumption as at 4 April 2013 (2012: 6.2%). A deduction is made for the expenses of the Fund.

The assumptions on mortality are based on standard mortality tables which allow for future mortality improvements. The assumptions made are illustrated by the following years of life expectancy at age 60:

	2013	2012
Retire at 4 April 2013		
Males	28.5	28.4
Females	30.9	30.8
Retire at 4 April 2033		
Males	30.5	30.4
Females	31.6	31.5

The Group estimates that its contributions to the defined benefit pension funds during the year ended 4 April 2014 will be £46 million.

Critical accounting estimates and judgements

The Group has to make assumptions on the discount rate, expected return on pension plan assets, mortality, inflation and future salary rises when valuing its net pension liability and the cost of benefits provided. Changes in assumptions could affect the reported liability, service cost and expected return on pension plan assets.

The impact of a 0.1% increase in the inflation assumption would be to increase the carrying value of the pension obligations by approximately £75 million and vice versa. The impact of a 0.1% increase in the discount rate would be to reduce the value of the pension obligations by approximately £86 million and vice versa. The impact of a one year increase in the life expectancy at age 60 would be to increase the value of the pension obligations by approximately £93 million and vice versa.

Notes to the Accounts continued

32 Capital and leasing commitments

Capital commitments	Group and Society	
	2013	2012
	£m	£m
Capital expenditure contracted for but not provided for in the Accounts	80	102

The Group leases various offices, branches and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation, renewal rights and in some cases contingent rent payable.

Future minimum payments under operating leases relating to land and buildings were as follows:

Leasing commitments at 4 April	Group	
	2013	2012
	£m	£m
Amounts falling due:		
Within one year	31	31
Between one and five years	100	90
After five years	169	126
	300	247

£2 million of the leasing commitments arise in a subsidiary of the Group (2012: £2 million).

Future minimum lease payments receivable under non-cancellable operating leases were as follows:

Leasing payments receivable as lessor at 4 April	Group and Society	
	2013	2012
	£m	£m
Amounts falling due:		
Within one year	6	5
Between one and five years	14	12
After five years	18	13
	38	30
Subleasing payments receivable under non-cancellable subleases	16	10

33 Contingent liabilities

The Society does not expect the ultimate resolution of any threatened or actual legal proceedings to have a significant adverse impact on the financial position of the Society.

34 Classification and measurement

The following tables summarise the classification of carrying amounts of the Group's financial assets and liabilities.

2013 Group	Available for sale	Loans and receivables	Fair value through the income statement	Liabilities at amortised cost	Total
	£m	£m	£m	£m	£m
Financial assets					
Cash	-	7,886	-	-	7,886
Loans and advances to banks	-	2,522	-	-	2,522
Investment securities	13,421	-	-	-	13,421
Derivative financial instruments	-	-	4,212	-	4,212
Fair value adjustment for portfolio hedged risk	-	872	-	-	872
Loans and advances to customers	-	159,587	-	-	159,587
Investments in equity shares	28	-	-	-	28
Other financial assets	-	-	8	-	8
Total financial assets	13,449	170,867	4,220	-	188,536
Other non-financial assets					2,182
Total assets					190,718
Financial liabilities					
Shares	-	-	-	125,574	125,574
Deposits from banks	-	-	-	3,230	3,230
Other deposits	-	-	2,985	3,762	6,747
Due to customers	-	-	-	5,960	5,960
Fair value adjustment for portfolio hedged risk	-	-	-	150	150
Debt securities in issue	-	-	-	33,429	33,429
Derivative financial instruments	-	-	3,885	-	3,885
Subordinated liabilities	-	-	-	2,540	2,540
Subscribed capital	-	-	-	1,304	1,304
Total financial liabilities	-	-	6,870	175,949	182,819
Other non-financial liabilities					1,319
Total liabilities					184,138

The other financial assets amount represents the fair value movement in mortgage commitments entered into where a loan has not yet been made.

Notes to the Accounts continued

34 Classification and measurement (continued)

2012 Group	Available for sale	Loans and receivables	Fair value through the income statement	Liabilities at amortised cost	Total
	£m	£m	£m	£m	£m
Financial assets					
Cash	-	8,126	-	-	8,126
Loans and advances to banks	-	2,914	-	-	2,914
Investment securities	23,325	-	-	-	23,325
Derivative financial instruments	-	-	4,176	-	4,176
Fair value adjustment for portfolio hedged risk	-	1,330	-	-	1,330
Loans and advances to customers	-	154,169	-	-	154,169
Investments in equity shares	29	-	-	-	29
Total financial assets	23,354	166,539	4,176	-	194,069
Other non-financial assets					2,060
Total assets					196,129
Financial liabilities					
Shares	-	-	-	125,617	125,617
Deposits from banks	-	-	-	3,370	3,370
Other deposits	-	-	2,890	4,009	6,899
Due to customers	-	-	-	5,833	5,833
Fair value adjustment for portfolio hedged risk	-	-	-	278	278
Debt securities in issue	-	-	-	38,854	38,854
Derivative financial instruments	-	-	4,287	-	4,287
Subordinated liabilities	-	-	-	1,644	1,644
Subscribed capital	-	-	-	1,625	1,625
Total financial liabilities	-	-	7,177	181,230	188,407
Other non-financial liabilities					1,563
Total liabilities					189,970

34 Classification and measurement (continued)

Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the balance sheets at fair value:

2013	Group		Society	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to banks	2,522	2,522	2,394	2,394
Loans and advances to customers:				
Residential mortgages	135,393	130,871	109,969	106,737
Consumer banking	3,401	3,413	3,401	3,413
Commercial lending	20,371	20,752	19,469	19,738
Other lending	422	422	83	83
Financial liabilities				
Shares	125,574	125,316	125,574	125,316
Deposits from banks	3,230	3,232	1,868	1,870
Other deposits	6,747	7,126	14,476	14,855
Due to customers	5,960	5,958	1,167	1,167
Debt securities in issue	33,429	34,003	24,340	25,923
Subordinated liabilities	2,540	2,566	2,540	2,566
Subscribed capital	1,304	1,012	1,304	1,012

2012	Group		Society	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Loans and advances to banks	2,914	2,914	2,850	2,850
Loans and advances to customers:				
Residential mortgages	128,645	123,655	104,599	99,557
Consumer banking	2,888	2,900	2,888	2,900
Commercial lending	22,157	21,930	21,201	20,974
Other lending	479	480	80	80
Financial liabilities				
Shares	125,617	125,968	125,617	125,968
Deposits from banks	3,370	3,570	2,730	2,930
Other deposits	6,899	6,900	13,333	13,334
Due to customers	5,833	5,836	1,301	1,301
Debt securities in issue	38,854	38,684	28,735	29,464
Subordinated liabilities	1,644	1,513	1,644	1,513
Subscribed capital	1,625	1,121	1,625	1,121

Notes to the Accounts continued

34 Classification and measurement (continued)

Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received based on expectations of future interest rates and future loan repayment profiles. For fixed rate loans, discount rates are based on the market offer rates currently available for equivalent fixed rate products. For retail variable rate loans, estimated future cash flows are discounted at the currently available market standard variable interest rate. Similar types of retail loan products are grouped together and the expected capital cash flows are discounted at the differential between the current product rate and the standard variable rate to determine fair value. The fair value estimations do not incorporate adjustments for future credit risk, however, incurred loss provisions are deducted from the fair value amounts.

Shares, deposits and borrowings

The estimated fair value of shares and deposits with no stated maturity, (including non-interest bearing deposits) is the amount repayable on demand. The estimated fair value of fixed interest rate shares, deposits and other borrowings without quoted market price represents the discounted amount of estimated

future cash flows based on expectations of future interest rates, customer withdrawals and interest capitalisation. For variable interest rate deposits, estimated future cash flows are discounted using current market interest rates for new debt with similar remaining maturity. For fixed rate shares and deposits, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

Debt securities in issue

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Fair value measurement

The following table provides an analysis of financial assets and liabilities held on the Group balance sheet at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

2013 Group	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets				
Investment securities – AFS	8,641	4,720	60	13,421
Investments in equity shares	-	-	28	28
Derivative financial instruments	-	3,828	384	4,212
Other financial assets	-	8	-	8
	8,641	8,556	472	17,669
Financial liabilities				
Derivative financial instruments	-	(3,875)	(10)	(3,885)
Other deposits – PEBS	-	-	(2,985)	(2,985)
	-	(3,875)	(2,995)	(6,870)

34 Classification and measurement (continued)

2012 Group	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Financial assets				
Investment securities – AFS	16,493	6,756	76	23,325
Investments in equity shares	9	-	20	29
Derivative financial instruments	-	3,942	234	4,176
	16,502	10,698	330	27,530
Financial liabilities				
Derivative financial instruments	-	(4,250)	(37)	(4,287)
Other deposits – PEBs	-	-	(2,890)	(2,890)
	-	(4,250)	(2,927)	(7,177)

Level 1: Fair value derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.

Level 2: Fair value derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. most investment grade and liquid bonds, asset backed securities, certain collateralised debt obligations (CDOs), collateralised loan obligations (CLOs) and OTC derivatives.

Level 3: Inputs for the asset or liability are not based on observable market data (unobservable inputs), e.g. private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.

Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made. The Group recommenced the practice of fair valuing a portion of the mortgage commitments on the balance sheet during the year.

The Group's Level 1 portfolio comprises highly rated government securities for which traded prices are readily available. During the year ended 4 April 2013, the Group has reduced this portfolio in response to the changing regulatory environment created by the Funding for Lending Scheme (FLS). There were no significant transfers between the Level 1 and 2 portfolios during the year.

Asset valuations for Level 2 AFS investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 AFS assets are valued from models. Level 2 derivative assets and liabilities are valued from discounted cash flow models using yield curves based on observable market data.

The main constituents of the Level 3 portfolio are as follows:

Investment securities – AFS

The Group's £60 million Level 3 AFS investment securities at 4 April 2013 comprise mainly £59 million of CDOs, including CDOs with a fair value of £13 million that are subject to impairment. Substantially all of these securities are priced from internal models based on observable and unobservable performance assumptions.

Investments in equity shares

The Level 3 investments in equity shares of £28 million at 4 April 2013 consist primarily of an interest in a fund which is supported by zero coupon bonds of an A rated bank. External valuations are used to obtain the fair value of the instrument.

Derivative financial instruments

Level 3 assets and liabilities in this category are equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in the PEB product. The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party.

Other deposits – PEBs

This category relates to deposit accounts with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEBs liability is valued at a discount to reflect the time value of money, overlaid by a fair value adjustment representing the expected return payable to the customer. The fair value adjustment has been constructed from the valuation of the associated derivative as valued by an external third party.

Notes to the Accounts continued

34 Classification and measurement (continued)

Level 3 portfolio – movements analysis

The table below analyses movements in the Level 3 portfolio:

2013 Group	Investment securities – AFS	Investments in equity shares	Net derivative financial instruments	Other deposits – PEBs
	£m	£m	£m	£m
At 5 April 2012	76	20	197	(2,890)
(Losses)/gains recognised in the income statement:				
Net interest expense	-	-	(52)	-
Gains/(losses) from derivatives and hedge accounting	-	-	174	(160)
Impairment losses on investment securities	(23)	-	-	-
Gain recognised in other comprehensive income – fair value movement taken to equity	3	8	-	-
Settlements	-	-	55	65
Transfers into Level 3	4	-	-	-
At 4 April 2013	60	28	374	(2,985)

2012 Group	Investment securities – AFS	Investments in equity shares	Net derivative financial instruments	Other deposits – PEBs
	£m	£m	£m	£m
At 5 April 2011	95	98	12	(2,125)
Gains/(losses) recognised in the income statement:				
Net interest income/(expense)	1	-	(53)	-
Gains/(losses) from derivatives and hedge accounting	-	-	185	(179)
Impairment losses on investment securities	(9)	(7)	-	-
Loss recognised in other comprehensive income – fair value movement taken to equity	(6)	(6)	-	-
Issues	-	-	-	(635)
Additions	-	2	-	-
Settlements	-	(67)	53	49
Transfers out of Level 3	(5)	-	-	-
At 4 April 2012	76	20	197	(2,890)

34 Classification and measurement (continued)

Level 3 portfolio – sensitivity analysis

The table below provides sensitivity analysis of reasonably possible alternative valuation assumptions for the assets in the Level 3 portfolio.

2013 Group	Carrying value	Increase in fair value	Decrease in fair value
	£m	£m	£m
Investment securities – AFS:			
Collateralised debt obligations	60	15	(11)
Investments in equity shares	28	-	(7)
	88	15	(18)
Increases/(decreases) in fair value would be recognised in:			
Income statement		5	(2)
Statement of other comprehensive income (accumulated in the AFS reserve)		10	(16)
		15	(18)

2012 Group	Carrying value	Increase in fair value	Decrease in fair value
	£m	£m	£m
Investment securities – AFS:			
Collateralised debt obligations	53	16	(30)
Commercial mortgage backed securities (CMBS)	23	16	(15)
Investments in equity shares	20	2	(4)
	96	34	(49)
Increases/(decreases) in fair value would be recognised in:			
Income statement		23	(20)
Statement of other comprehensive income (accumulated in the AFS reserve)		11	(29)
		34	(49)

Reasonable alternative assumptions applied take account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The scenarios applied are considered for each product and varied according to the quality of the data and variability of the underlying market.

Any increases in fair values of the PEB deposit would be offset by decreases in the fair values of the associated PEB derivative financial instruments and vice versa. Any resultant impact is deemed by the Group to be insignificant so these items have therefore been excluded from the table above.

The sensitivities for other items are described below:

Investment securities – AFS

- Collateralised debt obligations**
 Sensitivities on these assets, where there are no alternative pricing sources, have been calculated by applying a range of probable scenarios against our current valuation process, resulting in a range of possible prices.
- Commercial mortgage backed securities**
 Sensitivities on these assets, which are subject to impairment, have been derived from a modelled approach using estimated expected losses at legal maturity and risk adjusted discount rates.

Investments in equity shares

Sensitivities in these holdings have been based on the prices seen in these holdings in the preceding 12 months. As the highest price in the previous 12 months was equal to the current price, there is no upper sensitivity of fair value.

Notes to the Accounts continued

35 Related party transactions

Subsidiary, parent and ultimate controlling party

The Group is controlled by Nationwide Building Society, the ultimate parent, which is registered in England and Wales. Details of principal subsidiary undertakings can be found in note 19.

Key management compensation

The directors of the Society are considered to be the key management personnel as defined by IAS 24 Related Party Disclosures.

Total compensation for key management personnel for the year by category of benefit was as follows:

	2013	2012
	£'000	£'000
Short term employee benefits	5,963	6,068
Post employment benefits	-	4
Other long term benefits	1,455	1,650
Contractual/other settlements	1,373	-
Total key management personnel compensation for the year	8,791	7,722

35 Related party transactions (continued)

Transactions with related parties

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and the payment and recharge of administrative expenses. The

volumes of related party transactions, outstanding balances at the year end, and the related income and expenses for the year are as follows:

	Society subsidiaries		Group and Society key management personnel	
	2013	2012	2013	2012
	£m	£m	£m	£m
Loans payable to the Society				
Loans outstanding at 5 April	24,569	20,010	0.6	0.6
Loans issued during the year	5,796	8,024	0.5	0.2
Loans impaired	(5)	(8)	-	-
Loan repayments during the year	(4,803)	(3,457)	(0.3)	(0.2)
Loans outstanding at 4 April	25,557	24,569	0.8	0.6
Deposits payable by the Society				
Deposits outstanding at 5 April	6,790	7,602	3.6	2.1
Deposits issued during the year	1,605	960	10.2	9.0
Deposit repayments during the year	(306)	(1,772)	(9.4)	(7.5)
Deposits outstanding at 4 April	8,089	6,790	4.4	3.6
Net interest income				
Interest receivable	1,247	1,147	-	-
Interest expense	347	318	-	-
Other income and expenses				
Dividends payable to the Society	74	489	-	-
Fees and expenses paid to the Society	16	14	-	-
Other balance sheet items				
Accrued income and expenses prepaid due to the Society	1,030	1,196	-	-
Other liabilities payable by the Society	6,113	8,100	-	-

On 19 July 2011 the Group sold, at arm's length, private equity holdings with a carrying value of £65 million, to the Nationwide Pension Fund, a related party, for £68 million. The assets were included previously within investments in equity shares and the resulting profit of £3 million was included in income from investments in the year ended 4 April 2012.

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group.

A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and directors of the Society or persons connected with directors of the Society.

The register will be available for inspection by members at the Annual General Meeting on 24 July 2013 and during normal office hours at the Society's principal office (Nationwide House, Pipers Way, Swindon) during the period of 15 days prior to the meeting.

Transactions with Group companies

Transactions with Group companies arise in the normal course of business. Interest on outstanding loans and deposits accrues at a transfer price rate agreed between the Society and its subsidiary undertakings.

The Society does not charge the net defined benefit cost to the subsidiary undertakings that participate in the Nationwide Pension Fund. The pension cost to these subsidiary undertakings equals the contributions payable to the Fund.

Notes to the Accounts continued

36 Notes to the cash flow statements

	Group		Society	
	2013	2012	2013	2012
	£m	£m	£m	£m
Non-cash items included in profit before tax				
Net increase in impairment provisions	381	78	352	77
Impairment losses on investment securities	2	38	2	35
Depreciation and amortisation	216	180	216	180
Loss on sale of property, plant and equipment	-	3	-	3
Interest on subordinated liabilities	96	108	96	108
Interest on subscribed capital	89	96	89	96
Loss on the revaluation of land and buildings	-	6	-	6
Gain on acquisition of retail mortgages portfolio	-	(96)	-	-
Losses/(gains) from derivatives and hedge accounting	165	(35)	58	56
Gain on the redemption of subscribed capital	(43)	-	(43)	-
Gain on the sale of investments in equity shares	(7)	-	(7)	-
	899	378	763	561
Changes in operating assets				
Loans and advances to banks	7	(153)	7	(153)
Investment securities	(1,116)	(1,215)	(1,098)	(1,222)
Derivative financial instruments and fair value adjustment for portfolio hedged risk	257	124	170	(644)
Deferred tax assets	75	(11)	57	(29)
Loans and advances to customers	(5,799)	(3,630)	(4,506)	(495)
Other operating assets	(39)	84	(869)	(3,500)
	(6,615)	(4,801)	(6,239)	(6,043)
Changes in operating liabilities				
Shares	(43)	3,065	(43)	3,065
Deposits from banks, customers and others	(165)	1,785	147	1,094
Derivative financial instruments and fair value adjustment for portfolio hedged risk	(530)	1,312	(127)	1,649
Debt securities in issue	(5,425)	1,046	(4,395)	(3,345)
Deferred tax liabilities	2	(8)	(1)	(7)
Retirement benefit obligations	(163)	217	(163)	217
Other operating liabilities	150	(25)	(1,761)	4,700
	(6,174)	7,392	(6,343)	7,373
Cash and cash equivalents				
Cash	7,886	8,126	7,886	8,126
Loans and advances to banks repayable in 3 months or less	2,189	2,574	2,061	2,510
	10,075	10,700	9,947	10,636

36 Notes to the cash flow statements (continued)

Changes in operating liabilities include movements in the Group's wholesale funding balances of deposits from banks, other deposits and debt securities in issue. These are considered operating activities as they relate to the Group's lending activity and liquidity management and so form part of the normal course of business. Movements in subordinated liabilities and subscribed capital are considered financing activities because these form part of our capital management for solvency purposes.

The Group is required to maintain balances with the Bank of England which, at 4 April 2013, amounted to £185 million (2012: £192 million). These balances are included within loans and advances to banks on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature.

37 Post balance sheet event

On 2 May 2013, Nationwide announced the commencement of a strategic programme of work to migrate the customers, products and distribution channels currently branded Dunfermline, Cheshire and Derbyshire into a single branded Nationwide organisation. The programme will ensure the smooth transition of circa one million account holders and disposal of assets to deliver ongoing cost savings from 2015/16.

38 Capital management

The Group is subject to the capital requirements imposed by its regulator the Prudential Regulation Authority (PRA), formerly the Financial Services Authority (FSA). Regulatory capital comprises the Group's general reserve, revaluation reserve, permanent interest bearing shares (PIBS) and subordinated debt, subject to various adjustments required by the capital rules.

During the year the Group complied with the capital requirements set by the PRA. Further unaudited details about the Group's capital position can be found in the Business Review.

39 Registered office

Nationwide is a building society, incorporated and domiciled in the United Kingdom.
The address of its registered office is:

Nationwide Building Society
Nationwide House
Pipers Way, Swindon
SN38 1NW

Other information

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Annual business statement

For the year ended 4 April 2013

1 Statutory percentages

	2013	Statutory limit
	%	%
Lending limit	13.42	25.0
Funding limit	22.47	50.0

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997 and the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as $(X-Y)/X$ where:

X = business assets, being the total assets of the Group plus impairment provisions on loans and advances to customers less liquid assets, property, plant and equipment, intangible fixed assets and investment properties as shown in the Group balance sheet

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as $(X-Y)/X$ where:

X = shares and borrowings, being the aggregate of:

- i) the principal value of, and interest accrued on, shares in the Society;

- ii) the principal of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society excluding offshore deposits; and

- iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking, less any amounts qualifying as own funds

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

Securitised assets and related liabilities are excluded from the lending limit and funding limit calculations in line with the Building Societies Act 1986 as updated by the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2 Other percentages

	2013	2012
	%	%
As a percentage of shares and borrowings:		
▪ Gross capital	6.0	5.2
▪ Free capital	5.1	4.5
▪ Liquid assets	13.6	19.0
Profit for the financial year as a percentage of mean total assets	0.11	0.09
Management expenses as a percentage of mean total assets	0.73	0.72

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, deposits from banks, other deposits, amounts due to customers and debt securities in issue
- 'Gross capital' represents the aggregate of general reserve, revaluation reserve, available for sale reserve, subscribed capital and subordinated liabilities

- 'Free capital' represents the aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible fixed assets
- 'Liquid assets' represent the total of cash, loans and advances to banks and investment securities
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3 Information relating to directors and other officers (unaudited) At 4 April 2013

Directors			
Name and date of birth	Occupation	Date of appointment	Other directorships
G M T Howe MA (Cantab) Chairman 3 September 1949	Lawyer	1 January 2005	Gateway Electronic Components Limited Jardine Lloyd Thompson Group plc (Chairman) Close Brothers Group plc The Cavendish School Charitable Trust Limited
G J Beale BSc, ACA 19 October 1958	Chief Executive Officer	5 April 2003	
T P Prestedge 12 February 1970	Chief Operating Officer	28 August 2007	Nationwide Anglia Property Services Limited Dunfermline BS Nominees Limited Monument (Sutton) Limited The Derbyshire (Premises) Limited Opportunity Now
M M Rennison BA, FCA 9 August 1960	Group Finance Director	1 February 2007	Confederation Mortgage Services Limited Exeter Trust Limited First Nationwide LBS Mortgages Limited Nationwide Anglia Property Services Limited Nationwide Housing Trust Limited Nationwide Investments (No.1) Limited Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited Staffordshire Financial Services Limited NBS Fleet Services Limited Staffordshire Leasing Limited
C S Rhodes BSc (Hons), ACA 17 March 1963	Group Retail Director	20 April 2009	at.home nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Jubilee Mortgages Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited The Nationwide Foundation National Numeracy

Annual business statement continued

For the year ended 4 April 2013

3 Information relating to directors and other officers (unaudited) (continued)

At 4 April 2013

Directors			
Name and date of birth	Occupation	Date of appointment	Other directorships
A P Dickinson MBA, BSc (Hons), FSS, FCIB, FCIBS 12 June 1950	Non Executive Director	15 June 2010	Kennington Oval Limited Frogmore Property Company Limited Carpetright plc Motability (Governor) Willis Limited Brown Shipley & Co Ltd (Chairman)
M K Jary MA (Oxon), MBA, FRAS 15 June 1963	Management Consultant	1 January 2009	Duchy Originals Limited OC&C Peleus Advisors LLP OC&C Services LLP OC&C Strategy Consultants International (Netherlands) PCF Social Enterprises Limited The Michael Jary Charitable Trust (Chairman)
R K Perkin MA (Cantab), FCA 30 April 1948	Company Director	20 April 2010	Electra Private Equity plc Electra Private Equity Investments plc Crime Reduction Initiatives Bower Bequest Trustee Company Limited Tullett Prebon plc
Ms R Clifton 30 January 1958	Non Executive Director	1 July 2012	Populus Limited WWF-UK Henley Festival Ltd The British United Provident Association Limited The Conservation Volunteers TCV Employment and Training Services Ltd BTCV BrandCap Ltd Rita Clifton Limited
Mrs L M Peacock BA (Hons) 26 December 1953	Company Director	18 July 2011	Hawkins Residents Limited Scottish Water Scottish Water Business Stream Holdings Limited Scottish Water Horizons Holdings Limited Standard Life plc Standard Life Charitable Trust
M A Lenson MBA, BA (Hons), ACIB, FSI 17 September 1954	Company Director	18 July 2011	Eclipse Film Partners No.4 LLP Eclipse Film Partners No.39 LLP The Invicta Film Partnership No.37 LLP Elysian Fuels 1 LLP Elysian Fuels 2 LLP MVA Consultant Services Limited Cartesuis AG

Documents may be served on any of the directors
c/o The Group Secretary, Nationwide Building Society,
Nationwide House, Pipers Way, Swindon, Wiltshire SN38 1SN.

Directors' service contracts

The standard terms for new executive director appointments include a contractual notice period of 12 months. Four executive directors have contracts on this basis; they are G J Beale, M M Rennison, T P Prestedge and C S Rhodes.

Directors' share options

No director or other officer, including connected persons, has any rights to subscribe for shares in, or debentures of, any connected undertaking of the Society.

3 Information relating to directors and other officers (unaudited) (continued) At 4 April 2013

Officers		
Name	Occupation	Directorships
G P Hughes	Group Director (Distribution)	The Nationwide Foundation
Miss A J Robb	Group Director (People, Customer, Communication & Commercial)	NBS Fleet Services Limited Dunfermline BS Nominees Limited
I G Laing	Chief Risk Officer	Derbyshire Home Loans Limited E-Mex Home Funding Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited
R Aldrich	Divisional Director (HR Business Partnering and Operations)	Nationwide Healthcare Trustee Limited
A J Alexander	Group Risk Director	Confederation Mortgage Services Limited Ethos Independent Financial Services Limited Exeter Trust Limited Jubilee Mortgages Limited Monument (Sutton) Limited Nationwide Healthcare Trustee Limited NBS Fleet Services Limited Staffordshire Financial Services Limited Staffordshire Leasing Limited The Derbyshire (Premises) Limited
Ms D Bailey	Divisional Director (Group Services)	Cheshire Property Services Limited Nationwide Anglia Property Services Limited Nationwide International Limited
L Banda	Divisional Director (Branch Network North)	MBL Financial Services Limited MBL Holdings Limited Mortgage Brain Limited Premier Processing Services Limited The Mortgage Trading Exchange Limited St Joseph's Catholic College
M Boyle	Divisional Director (Business Transformation)	
Mrs M Faull	Divisional Director (Financial Reporting & Tax)	Bow Arts Trust (Trustee) FHS Solutions Ltd
B P Glover	Divisional Director (Commercial)	at.home nationwide Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Longwide Limited Nationwide Housing Trust Limited Nationwide Lease Finance Limited Nationwide Mortgage Corporation Limited Nationwide Syndications Limited
M Goldman	Divisional Director (Central Distribution)	

Annual business statement continued

For the year ended 4 April 2013

3 Information relating to directors and other officers (unaudited) (continued) At 4 April 2013

Officers		
Name	Occupation	Directorships
Mrs J Groves	Divisional Director (Customer Experience)	
S Hamilton	Divisional Director (Enterprise Development)	
G M Heaton	Divisional Director (Branch Network South)	
T K Kaye	Divisional Director (Customer Service & Operations)	The Mortgage Works (UK) plc
Mrs E J Kelly	Divisional Director (Group Legal & Compliance) (General Counsel)	HF Trust Ltd
A McQueen	Divisional Director (Customer Strategy & Marketing)	
R S Napier	Divisional Director (Mortgages & Savings)	Confederation Mortgage Services Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited Exeter Trust Limited Jubilee Mortgages Limited LBS Mortgages Limited Staffordshire Financial Services Limited The Mortgage Works (UK) plc UCB Home Loans Corporation Limited
S G Nowell	Divisional Director (Business Protection)	
Mrs A Obey	Divisional Director (Audit) (Chief Internal Auditor)	Centre for Sustainable Energy (Trustee)
G Pilkington	Divisional Director (Banking, Insurance and Investments)	Nationwide Trust Limited Visa UK Limited Nationwide Pension Fund Trustee Limited Nationwide Pension Fund Nominee Limited
L Raybould	Divisional Director (Financial Performance)	
P A Townsend	Divisional Director (Treasury)	First Nationwide Nationwide Lease Finance Limited Nationwide Investments (No.1) Limited Nationwide Pension Fund Nominee Limited Nationwide Pension Fund Trustee Limited Silverstone Funding (No.1) Limited Silverstone Master Issuer plc Silverstone PECO Limited Silverstone Securitisation Holdings Limited

Glossary

The following glossary defines the terminology used within the Annual Report and Accounts to assist the reader and to facilitate comparison with publications by other financial institutions:

Arrears	A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan payment is unpaid or overdue. Such a customer can also be said to be in a state of delinquency. When a customer is in arrears, the entire outstanding balance is said to be delinquent, meaning that delinquent balances are the total outstanding loans on which payments are overdue.
Asset backed securities (ABS)	Securities that represent an interest in an underlying pool of referenced assets. The referenced pool can comprise any assets which attract a set of associated cash flows, including credit card assets, but are commonly pools of residential or commercial mortgages. Investors in these securities have the right to cash received from future payments (interest and/or principal) on the underlying asset pool.
Average loan to value (LTV)	A ratio which expresses the total balance outstanding on mortgages to the aggregate appraised value of the properties.
Bank levy	A levy that has applied to certain UK financial institutions (including Nationwide) and the UK operations of foreign banks since 1 January 2011. The levy is based on a percentage of the chargeable equity and liabilities of the institution at the balance sheet date.
Basel II	The Basel Committee on Banking Supervision's statement of best practice that defines the methods by which firms should calculate their regulatory capital requirements to retain sufficient capital to protect the financial system against unexpected losses. Basel II became law in the EU Capital Requirements Directive and was implemented in the UK via the regulatory Handbook.
Basel III	In December 2010, the Basel Committee on Banking Supervision issued the Basel III rules text, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. The standards will be phased in gradually from 2013.
Basis point	One hundredth of a per cent (0.01 per cent). 100 basis points is one per cent. Used in quoting movements in interest rates and yields on securities.
BIPRU	The prudential sourcebook for banks, building societies and investment firms which sets out detailed prudential requirements for the companies that they regulate.
Buy to let mortgages	Buy to let mortgages are those mortgages offered to customers purchasing residential property as a rental investment.
Capital ratios	Key financial ratios measuring the Group's capital adequacy or financial strength. These include the Core Tier 1 ratio, Tier 1 ratio and total solvency ratio.
Capital requirements	Amount to be held by the Group to cover the risk of losses to a certain confidence level.
Capital resources	Capital held, allowable under regulatory rules, less certain regulatory adjustments and deductions that are required to be made. Capital includes the general reserve, revaluation reserve, collectively assessed impairment allowances for products measured on a standardised basis, permanent interest bearing shares and subordinated debt.
Career average revalued earnings (CARE)	A defined benefit pension arrangement where the pension benefit accrued by the employee is based on pensionable salary earned each year, revalued by the Retail Price Index (RPI) to retirement (or, if earlier, the date the employee leaves the scheme).
Certificates of deposit	Bearer-negotiable instruments acknowledging the receipt of a fixed term deposit at a specified interest rate.
Collateralised debt obligations (CDO)	Securities issued by a third party which reference ABS and/or certain other related assets purchased by the issuer. Nationwide has not established any programmes creating CDOs but has invested in instruments issued by other banking groups.
Collateralised loan obligations (CLO)	A security backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).
Commercial lending	Loans secured on commercial property, loans to registered social landlords and loans relating to Project Finance.
Commercial mortgage backed securities (CMBS)	Securities that represent interests in a pool of commercial mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Commercial paper (CP)	An unsecured promissory note issued to finance short term credit needs, which specifies the face amount paid to investors on the maturity date.
Commercial real estate	Includes office buildings, industrial property, medical centres, hotels, retail stores, shopping centres, multifamily housing buildings, warehouses, garages and industrial properties.

Glossary continued

Consumer banking	Comprises credit card, unsecured personal lending and our FlexAccount (current account) products.
Contractual maturity	The final payment date of a loan or other financial instrument, at which point the entire remaining outstanding principal and interest is due to be repaid.
Core Tier 1 capital	Total Tier 1 capital (see definition below) excluding permanent interest bearing shares (PIBS).
Core Tier 1 capital ratio	Core Tier 1 capital as a percentage of risk weighted assets.
Cost income ratio	A ratio that represents the proportion of management expenses (i.e. administrative expenses, depreciation and amortisation) to total income. The Group calculates the cost income ratio on an underlying basis.
Coverage ratio	Impairment allowances (provisions) as a percentage of the loans and advances to which they relate.
Covered bonds	Debt securities backed by a portfolio of mortgages that is segregated from the issuer's other assets solely for the benefit of the holders of the covered bonds. The Group issues covered bonds as part of its funding activities.
Credit default swap	An arrangement where the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of the protection. A credit default swap is a contract where the protection seller receives premium or interest related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.
Credit derivative	A financial instrument that derives its value from the credit rating of an underlying instrument carrying the credit risk of the issuing entity. The principal type of credit derivatives are credit default swaps.
Credit risk	The risk that a borrower or counterparty fails to pay the interest or to repay the capital on a loan or other financial instrument.
Credit spread	The premium over the benchmark or risk-free rate required by the market to accept a lower credit quality.
Credit valuation adjustment (CVA)	The difference between the risk-free value of a portfolio of trades and the market value which takes into account the counterparty's risk of default. The CVA therefore represents an estimate of the change to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures.
Currency swap	An arrangement in which two parties exchange specific principal amounts of different currencies at inception and subsequently interest payments on the principal amounts. Often, one party will pay a fixed rate of interest, while the other will pay a floating rate (though there are also fixed-fixed and floating-floating arrangements). At the maturity of the swap, the principal amounts are usually re-exchanged.
Customer deposits	Money deposited by account holders. Such funds are recorded as liabilities in the balance sheet within shares or due to customers.
Debt restructuring	The changing of the terms and provisions of outstanding debt agreements. Restructuring may be done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as debt or interest charge alteration.
Debt securities	See investment securities.
Debt securities in issue	Transferable certificates of indebtedness of the Group to the bearer of the certificates. These are liabilities of the Group and include certificates of deposit.
Default	Circumstances in which the probability of default is taken as 100% for the purposes of the calculation of regulatory capital and compliance with Basel II. This is defined as when a borrower reaches a predefined arrears status or where a borrower is considered unlikely to repay the credit obligation in full without the lender taking action such as realising security.
Deferred tax asset	Corporate income taxes recoverable in future periods as a result of deductible temporary differences (being differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods) and the carry forward of tax losses and unused tax credits.

Deferred tax liability	Corporate income taxes payable in future periods as a result of taxable temporary differences (being differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods).
Defined benefit obligation	The present value of expected future payments required to settle the obligations of a defined benefit plan resulting from employee service.
Defined benefit plan	A pension or other post retirement benefit plan under which the Group has an obligation to provide agreed benefits to current and former employees. The entity bears the risk that its obligation may increase or that the value of the assets in the fund may fall.
Defined contribution pension plan	A pension plan under which the Group pays fixed contributions as they fall due into a separate entity (a fund) and has no further legal or constructive obligations.
Delinquency	See arrears.
Derivative	A contract or agreement whose value changes with movements in an underlying index such as interest rates, foreign exchange rates, share prices or indices, and which requires no initial investment or an initial investment that is smaller than would be required for other types of contracts with a similar response to market factors. The principal types of derivatives are swaps, forwards, futures and options.
Effective interest rate method (EIR)	The method used to measure the carrying value of a financial asset or a liability. EIR allocates associated interest income or expense to produce a level yield, either to maturity or to the next re-pricing date.
Effective tax rate	The tax charge in the income statement as a percentage of profit before tax.
Enterprise Risk Management Framework (ERMF)	Enterprise Risk Management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite in order to provide reasonable assurance regarding the achievement of entity objectives.
Expected loss (EL)	A Basel II calculation under the IRB approach to estimate the potential losses on current exposures due to potential defaults over a one year time horizon. It is the product of PD, LGD and EAD.
Exposure	The maximum loss that a financial institution might suffer if a borrower, counterparty or group fails to meet their obligations or if assets and off balance sheet positions have to be realised.
Exposure at default (EAD)	A Basel II parameter used in IRB approaches to estimate the amount outstanding at the time of default.
Financial Conduct Authority (FCA)	The statutory body responsible for conduct of business regulation and supervision of UK authorised firms from 1 April 2013. The FCA also has responsibility for the prudential regulation of firms that do not fall within the PRA's scope.
Fair value adjustments – in respect of business combinations	Fair value adjustments arise on acquisition when assets and liabilities are acquired at fair values that are different from the carrying values in the acquired entity.
Final salary pension arrangements	A defined benefit pension arrangement where the pension payable is based on the employee's final pensionable salary.
Financial services compensation scheme (FSCS)	The UK's compensation fund of last resort for customers of authorised financial services firms. The FSCS may pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it, usually because it has stopped trading or has been declared in default. The FSCS is funded by the financial services industry.
Forbearance	A term generally applied to arrangements, for example interest only concessions, which are provided to support customers experiencing temporary financial difficulty. The aim of forbearance arrangements is to avoid foreclosure and repossession, and ensure sustainability of the customer's relationship with the Group.
Foreign exchange risk	Foreign exchange risk is the risk that the sterling value of, or net income from, assets and liabilities that are denominated in foreign currency changes as a consequence of changes to foreign exchange rates.
Foundation IRB approach	A method of calculating credit risk capital requirements using internal PD models but with PRA supervisory estimates of LGD and conversion factors for the calculation of EAD.
Free capital	The aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
Funding for Lending Scheme (FLS)	Scheme launched by the Bank of England in July 2012 to incentivise banks and building societies to lend to UK households and non-financial companies through reduced funding costs, the benefits of which are passed on to UK borrowers in the form of cheaper and more easily available loans.
G10	The Group of Ten comprises the eleven industrial countries that have agreed to participate in the International Monetary Fund's (IMF's) General Arrangements to Borrow.
Gain on portfolio acquisition	The amount by which the initial fair value of the acquired assets exceeds the transaction price of the assets.

Glossary continued

Gross capital	The aggregate of general reserve, revaluation reserve, available for sale reserve, subscribed capital and subordinated liabilities.
Gross lending	New lending advanced to customers during the year.
IASB – International Accounting Standards Board	The independent standard setting body of the IFRS Foundation. Its members are responsible for the development and publication of International Financial Reporting Standards (IFRSs) and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee.
Impaired loans	Impaired loans are those loans which are three or more months in arrears, or which have individual provisions raised against them.
Impairment allowances	Provisions held against assets on the balance sheet. The provisions represent management's best estimate of losses incurred in the loan portfolio at the balance sheet date.
Impairment losses	An impairment loss is the reduction in value that arises following an impairment review of an asset that determines that the recoverable amount is less than its carrying value.
Indexed LTV (Loan to value)	A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis whereby the value of the property is updated on a regular basis to reflect changes in the house price index (HPI).
Individual liquidity adequacy assessment (ILAA)	The process and document that define Nationwide's liquidity management framework, risk appetite and measurement.
Individual liquidity guidance (ILG)	Guidance from the PRA on a firm's required quantity of liquidity resources and funding profile.
Individually/collectively assessed impairment allowances	Assets are assessed individually for impairment where there is objective evidence that impairment loss has occurred. Collectively assessed assets are measured using appropriate statistical techniques where a portfolio comprises homogenous assets and the collective assessment takes account of losses that will have taken place but are not yet identified.
Interchange	Income paid to a credit card issuer for the clearing and settlement of a sale or cash advance transaction.
Interest rate option	A contract that gives the holder the right (but not the obligation) to buy or sell a given bond or enter an interest rate derivative at a fixed price on or before a specific date. Options are traded over the counter and are only used by the Group to hedge interest rate exposures.
Interest rate swap	A contract under which two counterparties agree to exchange periodic interest payments on a predetermined monetary principal, the notional amount.
Internal capital adequacy assessment process (ICAAP)	The Group's own assessment, as part of Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements for credit, market and operational risks as well as for other risks including stress events.
Internal ratings based approach (IRB)	A Basel II approach for measuring exposure to credit risks. IRB approaches are more sophisticated and risk sensitive than the Standardised Approach and may be Foundation or Advanced. IRB approaches may only be used with PRA permission.
International Swaps and Derivatives Association (ISDA) master agreement	A standardised contract developed by ISDA and used to enter into bilateral derivatives transactions. The contracts grant legal rights of set off for derivative transactions with the same counterparty. This reduces the credit risk of the derivatives to the extent that negative values offset positive values.
Investment grade	The highest range of credit ratings, from AAA to BBB, as measured by external credit rating agencies.
Investment securities	Assets representing certificates of indebtedness of credit institutions, public bodies or other undertakings excluding those issued by central banks. Sometimes referred to as debt securities.
Investment Property Databank (IPD) index	Measures the performance of the prime commercial real estate (CRE) market in the UK on a monthly basis, reporting on a number of key data series (including capital value returns, total returns, income returns, rental values and void rates) against the performance of other key asset classes including UK equities and UK gilts.
Level 1 fair values	Fair values derived from unadjusted quoted prices in active markets for identical assets or liabilities, e.g. G10 government securities.
Level 2 fair values	Fair values derived from inputs other than quoted prices either directly (i.e. a price) or indirectly (i.e. derived from prices), e.g. used for most investment grade and liquid bonds, asset backed securities, certain collateralised debt obligations (CDOs), collateralised loan obligations (CLOs) and OTC derivatives.

Level 3 fair values	Fair values derived from inputs that are not based on observable market data (unobservable inputs), e.g. used for private equity investments, derivatives including an equity element, deposits including an equity element, some CDOs and certain asset backed securities and bonds.
Leverage ratio	A supplementary measure of risk adjusted capital requirements, defined as the ratio of Tier 1 capital to total exposures.
Libor (London Interbank Offered Rate)	A benchmark interest rate at which banks can borrow funds from other banks in the London interbank market.
Liquidity and funding risk	Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due (including any unexpected adverse cash flow). Funding risk is the risk that the Group is unable to access funding markets or only do so at excessive cost.
Liquidity coverage ratio (LCR)	This is a liquidity metric which aims to ensure that a firm maintains an adequate level of liquidity to meet its needs for a 30 calendar day time horizon under a severe stress scenario.
Loan to deposit ratio	Represents loans and advances to customers divided by the aggregate of shares, other deposits and amounts due to customers.
Loan to value ratio (LTV)	A ratio which expresses the amount of a mortgage as a percentage of the value of the property. The Group calculates residential mortgage LTV on an indexed basis such that the value of the property is updated on a regular basis to reflect changes in the house price index (HPI).
Loans past due/past due loans	Loans are past due when a counterparty has failed to make a payment when contractually due.
Loss given default (LGD)	A Basel II parameter used in IRB approaches to estimate the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Main current account	The primary or sole current account used by the holder.
Management expenses	The aggregate of administrative expenses, depreciation and amortisation.
Market risk	The risk that the value of, or net income arising from, the Group's assets and liabilities changes as a result of changes to interest rates or exchange rates.
Medium term notes (MTN)	Corporate notes continuously offered by a company to investors, through a dealer, across a range of maturity periods.
Member	A person who has a share investment or a mortgage loan with the Society.
Monoline Insurer	An entity which specialises in providing credit protection to the holders of debt instruments in the event of default by the debt security counterparty. This protection is typically held in the form of derivatives such as credit default swaps referencing the underlying exposures held.
Mortgage backed securities (MBS)	A category of asset backed security that represents interests in a group of mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Near prime	Loans to borrowers with marginally weakened credit histories such as a County Court Judgement (CCJ) or default less than or equal to £1,000 or with one missed mortgage payment in the last 12 months.
Negative equity	The difference between the outstanding balance on a loan and the current value of any security held where the security value is lower than the outstanding balance.
Net assets	The difference between total assets and total liabilities.
Net interest income	The difference between interest receivable on assets and similar income and interest paid on liabilities and similar charges.
Net interest margin	Net interest income as a percentage of weighted average total assets.
Net stable funding ratio (NSFR)	A liquidity ratio, currently proposed under Basel III, to calculate the proportion of long term assets that are funded by stable, long term funding sources (customer deposits and long term wholesale funding).
OECD	Used to refer to member countries of the OECD (Organisation for Economic Co-operation and Development). The OECD has 34 member countries, including (but not limited to) key European countries, the United States, Canada and Japan.
Operational risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events.
Overnight indexed swap (OIS) rate	A rate reflecting the overnight interest typically earned or paid in respect of collateral exchanged. OIS is used in valuing collateralised interest rate derivatives.
Over the counter (OTC)	Contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. They offer flexibility because, unlike standardised exchange-traded products, they can be tailored to fit specific needs.
Permanent interest bearing shares (PIBS)	Unsecured, deferred shares of the Society that are a form of Tier 1 capital. PIBS rank behind the claims of all subordinated debt holders, depositors, creditors and investing members of the Group. Also known as subscribed capital.

Glossary continued

Prime residential mortgages	Prime mortgages are mainstream residential loans, which typically have a higher credit quality and fit standard underwriting processes. As such, they are likely to have a good credit history, and pass a standard affordability assessment at the point of origination.
Private equity investments/holdings	Equity holdings in operating companies not quoted on a public exchange.
Probability of default (PD)	A Basel II parameter used in IRB approaches to estimate the probability that a borrower will default on their credit obligations in the next 12 months.
Protected equity bond (PEB)	A deposit account with the potential for stock market correlated growth linked to the performance of specified stock market indices. The PEB protects an investor's original investment amount against reductions in the linked stock market indices, whilst providing potential for upside from movements in the stock markets over a fixed term.
Provision coverage ratio	The ratio of impairment allowances (provisions) to the corresponding loan balances.
Prudential Regulation Authority (PRA)	The statutory body responsible for the prudential supervision of banks, building societies, insurers and a small number of significant investment firms in the UK from 1 April 2013. The PRA is a subsidiary of the Bank of England.
Renegotiated loans	Loans and advances may be renegotiated either as part of an ongoing customer relationship with a creditworthy customer or in response to a borrower's financial difficulties. In the latter case, the renegotiated loan may no longer be treated as past due or impaired if there is no change to the estimated future flows. Individually significant loans whose terms have been renegotiated are subject to ongoing review to determine if they remain past due or impaired.
Repurchase agreement (repo)/reverse repurchase agreement (reverse repo)	An agreement that allows a borrower to use a financial security as collateral for a cash loan. In a repo, the borrower agrees to sell a security to the lender subject to a commitment to repurchase the asset at a specified price on a given date. For the party selling the security (and agreeing to repurchase it in the future) it is a repo; for the counterparty to the transaction (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or reverse repo.
Residential mortgage backed securities (RMBS)	A category of asset backed security that represents interests in a group of residential mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and/or principal).
Retail IRB approach	A Basel II approach for measuring exposure to retail credit risks. The method of calculating credit risk capital requirements uses internal PD, LGD and EAD models. IRB approaches may only be used with PRA permission.
Retail loans	Loans to individuals rather than institutions, including residential mortgage lending and consumer banking.
Risk appetite	The articulation of the level of risk that the Group is willing to accept (or not accept) in order to safeguard the interests of the Society's members whilst achieving business objectives.
Risk weighted assets (RWA)	The value of assets after adjustment under the Basel II capital rules to reflect the degree of risk they represent.
Securitisation	A process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. A company transfers assets to a special purpose entity (SPE) which then issues securities backed by the assets. The Group has established securitisation structures as part of its funding activities. These securitisation structures use retail mortgages as the asset pool. In addition, the Group invests in various securitisation structures in its treasury portfolio.
Securitisation position	An investment in a securitisation structure.
Shares	Funds deposited by a person in a retail savings or current account with the Society. Such funds are recorded as liabilities for the Society.
Shares and borrowings	The total of shares, deposits from banks, other deposits, amounts due to customers and debt securities in issue.
Sovereign exposures	Exposures to governments, ministries, departments of governments, embassies, consulates and exposures on account of cash balances and deposits with central banks.

Special purpose entities (SPEs)	Entities that are created to accomplish a narrow and well defined objective. There are often specific restrictions or limits around their ongoing activities. The Group uses a number of SPEs, including those set up under securitisation programmes. Where the Group has control of these entities or retains the risks and rewards relating to them they are consolidated within the Group's results. This term is used interchangeably with SPV (special purpose vehicle).
Specialist residential lending	Consists of buy to let, self-certified and other non-standard mortgages.
Standardised approach	The basic method used to calculate credit risk capital requirements under Basel II. In this approach the risk weights used in the capital calculation are determined by PRA supervisory parameters. The Standardised approach is less risk-sensitive than IRB.
Stress testing	A process which involves identifying possible future adverse events or changes in economic conditions that could have unfavourable effects on the Group (either financial or non-financial), assessing the Group's ability to withstand such changes, and identifying management actions to mitigate the impact.
Structured investment vehicles (SIVs)	Special purpose entities (SPEs) which invest in diversified portfolios of interest earning assets to take advantage of the spread differentials between the assets in the SIV and the funding cost.
Subordinated debt/liabilities	A form of Tier 2 capital that is unsecured and ranks behind the claims of all depositors, creditors and investing members but before the claims of holders of permanent interest bearing shares (PIBS).
Sub prime	Loans to borrowers that typically have weakened credit histories such as payment delinquencies and potentially more severe problems such as County Court Judgements (CCJs) or default greater than £1,000, more than one missed mortgage payment in the last 12 months or discharged bankruptcies. Sub prime borrowers may also display higher risk characteristics as measured by credit scores, or other criteria indicating heightened risk of default.
Subscribed capital	See permanent interest bearing shares (PIBS).
Tier 1 capital	A component of regulatory capital comprising general reserves from retained profits and permanent interest bearing shares (PIBS), less goodwill, intangible assets and other regulatory adjustments.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	A further component of regulatory capital comprising the property revaluation reserve, qualifying subordinated debt and the collective impairment allowance (for exposures treated on a Basel II Standardised basis), less certain regulatory deductions.
Trading book	A regulatory classification consisting of positions in financial instruments or commodities held by a bank with intention to trade. The Group does not run a trading book.
Transformation costs	Costs, included within administrative expenses, which are directly related to business combinations or the restructuring of parts of the business.
Unaudited	Financial information that has not been subjected to the audit procedures undertaken by the Group's external auditor.
Underlying profit	The purpose of this measure is to reflect management's view of the Group's underlying performance for the reader of the Annual Report and Accounts with like for like comparisons of performance across years without the distortion of one off volatility and items which are not reflective of the Group's ongoing business activities. Underlying profit is not designed to measure sustainable levels of profitability as that 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.
Unencumbered	Assets not used to secure liabilities or otherwise pledged.
Unfunded	Exposures where a commitment has been made to provide future funding but the funds have not been released.
Value at risk (VaR)	A technique that estimates the potential loss that could occur on risk positions as a result of future movements in market rates and prices over a specified time horizon and to a given level of statistical confidence. In its day to day monitoring, Nationwide uses a 10 day horizon and a 99% confidence level.
Wholesale lending	Lending to larger businesses, financial institutions and sovereign entities.
Write off	The point where it is determined that an asset is irrecoverable, or it is no longer considered economically viable to try and recover the asset or final settlement is reached and the shortfall written off. In the event of write off, the customer balance is removed from the balance sheet and the impairment provision held against the asset is released.

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