Delivering value for our members

Annual Report and Accounts 2015

Nationwide

On your side

Delivering value for our members

Because we're owned by our members, not shareholders.

Because we're a building society and our mutual values ensure we put our members first.

Because delivering value for our members is the reason why we exist.

Contents

Strategic Report

The Strategic Report on pages 6 to 53 has been approved by the board of directors and signed on its behalf by:

Graham Beale
Chief Executive
21 May 2015

Delivering the kind of service that makes your life easier

'Dear Mr Beale
My husband and I are in the process of selling our bungalow and purchasing a flat in Wimborne. I am writing to you because we were so impressed with Mrs Jones, our mortgage adviser, that I wanted to commend her on a first class professional service, delivered so well, with patience at all times, and a wonderful friendly approach. She explained everything so clearly. She is an asset to Nationwide and her enjoyment of her position shines through.'

The thank you letters and emails we receive from customers like Mr and Mrs Street are perhaps the most tangible sign of the impact we have on members' lives. But those personal tributes are part of a bigger picture. In the 2015 UK Customer Satisfaction Index we were the only high street financial services provider to make the top ten.

2015 Society highlights

A strong Society. Profit is important as it allows us to grow and invest in the Society for our members. Our Common Equity Tier 1 ratio and our leverage ratio are key measures of our financial strength. Our cost income ratio is a key measure of our efficiency.

Underlying profit 2015

£1,216 million

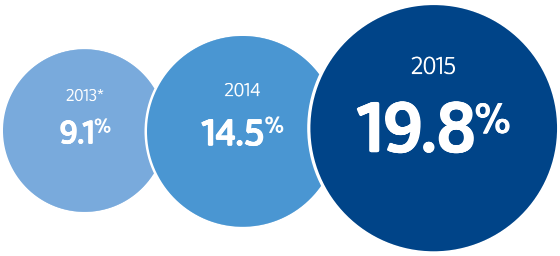
Statutory profit before tax 2015

£1,044 million

	2011	2012	2013	2014	**2015**
Underlying profit	£244 million	£267 million	£433 million	£924 million	**£1,216 million**
Statutory profit before tax	£285 million	£166 million	£168 million	£677 million	**£1,044 million**

Common Equity Tier 1 (CET1) ratio

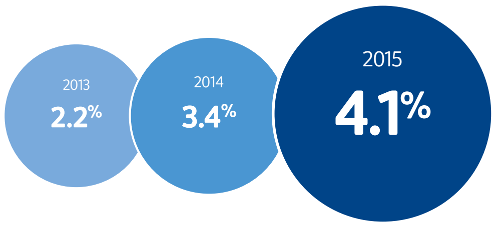
‘Peer group leading’



*On 1 January 2014 CRD IV was introduced. Our 4 April 2013 figure is shown on a proforma basis as if these rules had applied then.

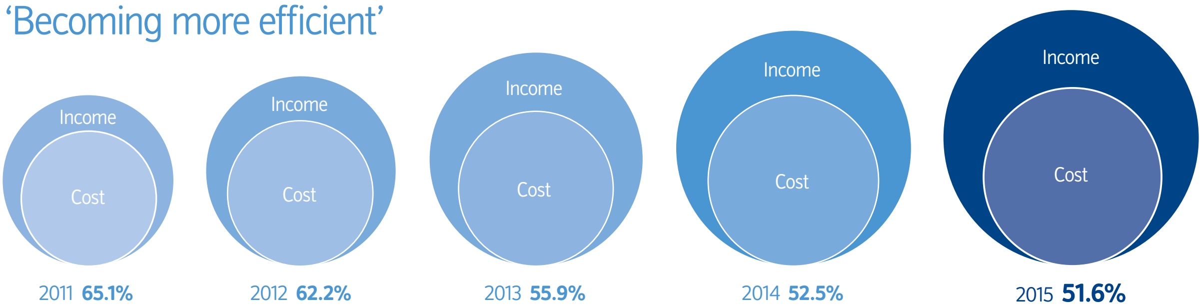
Leverage ratio

‘Stronger balance sheet’



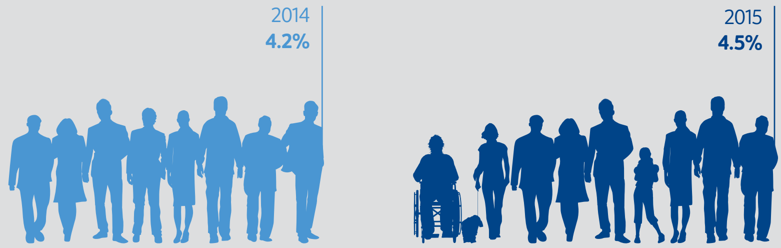
Cost income ratio

‘Becoming more efficient’



Members first. We exist to help our members buy homes, save and make the most of their money. How have we performed in those areas and how satisfied are our members with the Society's products and service?

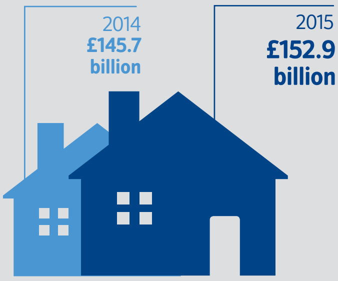
Our customer satisfaction lead over our next best high street competitor*



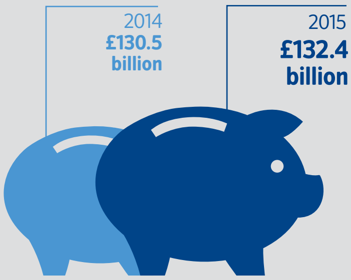
Greater focus on help and advice in branch

Nationwide Now, our new video link advice service, is already installed in 162 branches.

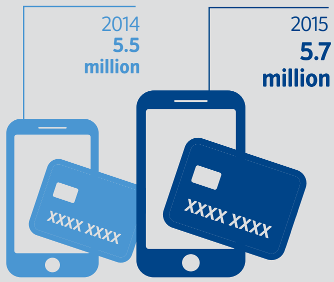
Mortgages



Member deposits



Current accounts



Building a better society. At all times we seek to operate ethically and responsibly and help to build a better society. It's not something extra we do, it underpins everything we do.

First high street financial services organisation to get the Carbon Trust Triple Standard.

6th in the Sunday Times' list of the top 25 best big companies to work for, up from 11th last year.

99% and five stars in the 2015 BITC Corporate Responsibility Index.

We made The Times' list of the UK's top 50 employers for women for the third year running.

First high street financial services provider to become a Principal Partner of the Living Wage Foundation.

To read more on our progress go to pages 26 35

*Source: GfK NOP's Financial Research Survey (FRS), proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as Barclays, Halifax, HSBC, former Lloyds TSB Group (including Lloyds Bank, TSB and C&G), NatWest and Santander, 3 month ending data March 2015 vs March 2014 – difference in lead is not statistically significant, c15,000 adults interviewed per quarter.

2015 Chairman's statement

2014/15 has been my final year as Chairman of Nationwide, and I will leave the Society with a profound sense of pride at what we have achieved and the value we are delivering for our members.

Underlying strength

As a mutual building society, Nationwide is a business which prioritises the delivery of value for our members, who are also our owners. I am delighted to report that in my final year as your Chairman we have delivered a set of results which reflect the success of our strategy and our financial strength: underlying profitability in excess of £1 billion, improved efficiency and significantly improved capital levels which are amongst the very best in the UK.

The delivery of profit is entirely consistent with our mutual status, since any business needs to generate funds to support future growth, invest for the future and ensure capital ratios meet regulatory requirements. However, unlike our plc banking peers we do not pursue a policy of profit maximisation to reward third party shareholders. Instead, we aim to optimise profit; that is, to retain only the profit we need to secure the future health of the business, with any excess being returned to our members through a combination of better products and better services. Our approach enables us to take a long term view rather than chasing quick returns, hence our continued support for all sectors of the mortgage market and our focus on rewarding the loyalty of our members.

Our Common Equity Tier 1 and leverage ratios of 19.8% and 4.1% respectively speak to our current strength, and our recent passing of the Bank of England's first concurrent stress testing exercise provides confidence that we are safe and secure for the long term.

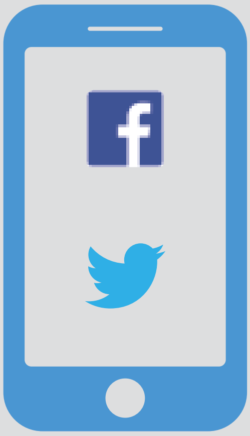
An evolving business

It would be easy to overlook how far Nationwide has travelled in recent years, both in terms of navigating external challenges and implementing significant change across all aspects of our business.

When I joined the Board in 2005 Nationwide was delivering excellent results and growing rapidly. However, with hindsight it is clear that we had achieved significant growth during an economic and housing boom, but were failing to invest sufficiently for the future – many of our systems were decades old and would not have supported a business fit for the digital age. To address this challenge in the eye of a financial storm took courage; it would have been easy to delay a decision, citing financial pressures. Our executive team should take much credit for displaying fortitude in the face of adversity, building a persuasive case and seeing through delivery to the point where we now have modern systems which will support our ambitious plans. Our banking system is the most visible change and is already delivering huge benefits, allowing us to expand our range of current accounts and to close gaps in our portfolio. However, since 2007 we have also delivered amongst other things a new data centre, a new payments system, a new mortgage origination system and Nationwide Now, which connects members to mortgage, personal banking and financial consultants via a high definition video link; we have launched mobile banking apps and in recent months have begun trialling new branch designs aimed at improving service and meeting the needs of all our members.

We have achieved much over the past decade, but the pace of change is accelerating and we are evolving our business to provide all members with the products and services they require. A growing number of members are choosing to interact with us more frequently through digital channels, but we recognise that many still value the convenience and reassurance provided by our branches; whatever their preferences, we will ensure we offer the facilities that our members demand, and we continue to see a major role for our branch network in the future.

Keeping up to date with Nationwide 24/7



Loyalty Saver balances have reached over

£20 billion

Delivering value

The creation and delivery of tangible benefits for our members is central to everything we do. In a competitive market this does not mean that we will always have the best priced products; what it does mean is that our products will always offer long term good value, we will be open, honest and transparent, and that we will strive to deliver the highest possible level of member service.

The impact of the financial crisis continues to be felt by savers in particular, with the Bank of England keeping interest rates at historic lows. The past two years in particular have seen all savings providers cutting rates, and although our mutual status is an advantage it does not isolate us from prevailing market conditions. In common with other providers we have to balance our flows of savings and lending; failure to do so would leave us with excess funds, which would impact our long term ability to invest in the business. We do not take the decisions to reduce rates lightly, and have sought wherever possible to shield our most loyal members from the low rate environment. Our Loyalty Saver balances have now reached over £20 billion and we offer a range of exclusive mortgage and savings products for members who have their main banking relationship with us.

Listening to members

Engaging in a meaningful way with you, our members, is critical to our success, allowing us to understand your needs and priorities and take action to address them where possible. For many years we have held a series of member TalkBack sessions, giving you an opportunity to speak directly to our executive managers and directors; this year hundreds of members have attended events held in different venues across the country. We place real value on the feedback received, and a number of our products and services can be traced directly to what you have told us at TalkBack sessions.

We recognise that face to face events allow us to meet only a fraction of our members, so we also run Online TalkBacks and our Member Suggestion Scheme, which can be completed either online or in a branch. We have been pleased to receive over 1,000 responses during the year, each of which has been carefully considered and, where appropriate, implemented. At first sight some of the changes seem quite small; for example, providing more shelf space in branches to help members organise documents before they reach the counter, or reordering our automated telephone greeting, but getting these small things right helps us to keep improving our member service. And some suggestions have resulted in more major change – by listening to you we have introduced a system that warns card customers more quickly if we suspect they may be victims of fraud.

The importance of social media is growing by the day and we are determined not to be left behind. We have a Facebook page and a Twitter account so members can keep up to date with our latest news and contact us 24/7. Our monthly member e-newsletter containing news on our latest products, services and competitions has continued to be popular, reaching over three million members each month. And we believe in absolute transparency; through our website you can access information on what and how we are doing, including our latest performance figures for service and complaints.

Direct feedback initiated by our members is always welcome, but we also use an independent research company to contact around 12,000 consumers every month in order to gather feedback on their experiences of dealing with us. In addition, we have over 6,000 members signed up to our online research panel 'Nationwide Connect', providing feedback on a variety of topics.

Around 12,000
customers contacted every month for research

Regulation

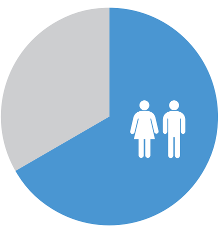
The past year has continued to be a busy period of regulatory reform, with all financial services organisations being required to operate to ever higher prudential and conduct standards. This has included the implementation of the Mortgage Market Review, the FCA assuming responsibility for the Consumer Credit Act and an enhanced level of regulatory reporting.

We remain supportive of regulators as they seek to raise standards across the industry. However, a healthy supply of products and new entrants is essential to the long term health of financial services, and we will continue to urge that new and existing regulation should neither stifle competition nor ignore the responsibilities of consumers.

We are supportive of the Banking Standards Board, the new body charged with promoting high standards across banks and building societies in the UK. We have been closely engaged with the Council's work from the outset and are pleased that it is paying due regard to customer outcomes as it develops its approach to standards and assessment.

Supporting our communities

As the UK's largest mutual, we have never forgotten that we should add value to the communities in which we work, both local and national, and that we should seek to minimise our impact on the environment.



Almost two thirds of our employees are involved in volunteering or fundraising

A detailed update on our approach can be found in the Citizenship report, but there are a number of highlights which illustrate our focus on doing the right thing under our strategic approach of 'Living on your side', which is now reaching the end of its third year:

- we have helped a further 179,000 people into a home
- our ongoing support for Shelter has assisted over 7,000 people during the year
- we have helped a further 259,000 people start saving
- almost two thirds of our employees are involved in volunteering or fundraising, ranking Nationwide in the top four employers in the UK in this respect
- we produced 11% less carbon and used 25% less water compared with 2011 and from February 2015 we have diverted all of our waste from landfill; as a result, we were the first high street financial services organisation to receive the Carbon Trust Triple Standard for waste, water and carbon
- we have offset all of this year's carbon production, and have so far planted almost 13,000 trees in UK woodlands accessible to the community
- Business in the Community has awarded us five stars in its annual Corporate Responsibility Index, the highest rating for a financial services company
- we are a Principal Partner of the Living Wage Foundation.

Helped a further 179,000 people into a home of their own

We remain committed to achieving greater diversity across our entire workforce, and have continued to make good progress. Our executive team is actively engaged in sponsoring our diversity agenda, and we run five employee networks focusing on women, faith and belief, disability, ethnicity, and sexual orientation. The networks aim to raise awareness and promote an inclusive and accessible environment, in addition to providing development and networking opportunities. We have been recognised for our approach by, among others, the Race for Opportunity Now and the Sunday Times. Amongst our successes has been increasing the percentage of females in our senior roles to 26.3%. Further details can be found in the 'Our people' section of this report.

We are a Principal Partner of the Living Wage Foundation

To read more about our citizenship strategy go to pages 42 51

Commitment of our employees

Aiming to provide our members with exceptional service is easy; delivering it on a consistent basis is more challenging. We have been ranked number one for customer service satisfaction amongst our high street peer group for over three years[1], and that we have maintained this level of service for yet another year speaks volumes for the quality and commitment of our people. I am constantly impressed by the dedication they bring to their work and their focus on member outcomes. We endeavour to look after our people well and we expect a lot in return, and I would like to place on record my thanks to all the employees with whom I have had the pleasure of working at Nationwide over the past decade.

Your board of directors

As announced in last year's Annual Report and Accounts, Alan Dickinson stepped down from the Board after four years at our Annual General Meeting in July 2014, and David Roberts joined as Chairman Elect on 1 September 2014.

Michael Jary is to retire from the Board after the Annual General Meeting in July 2015. Michael joined the Board in 2009 and has served with distinction, using his experience and skills to help transform Nationwide into the modern mutual we are today. I am immensely grateful to Michael and wish him well in the future.

With the Society in great shape, Graham Beale our Chief Executive has agreed with the Board that this is the right time to plan for the future and it is intended he will retire at or around the date of the AGM in July 2016. He has led the Society safely through the worst financial crisis in living memory and at the same time created a truly modern mutual, with the needs of our members at the forefront of all that we do, and he has positioned the organisation for a digital world – ready to embrace the future and continue to innovate for the benefit of our members. In the meantime Graham will continue to lead the Society and will remain, as always, focused on the job in hand. Your Board will now begin the search for his successor.

Chairman Elect, David Roberts, has a deep understanding of the opportunities and challenges we face.

To learn more about David Roberts see page 59

A closing comment

When I step down from the Board after the Annual General Meeting I will have had the privilege of having been a director of Nationwide for ten years, the last eight of which I have served as your Chairman. This has, to say the least, been a challenging period for all financial services companies, but I am proud of the manner in which Nationwide has coped throughout the financial crisis, rebuilding our strength, investing for the future and doing the right things for our members. We have ensured that our business is in great shape, staffed by great people and with modern technology systems that will allow us to share the benefits of mutuality with more people in the years ahead. Your Society is in good hands, managed by a strong executive team and with a new Chairman who has a deep understanding of the opportunities and challenges we face over the medium term and has the best interests of members at heart.

[1] GfK NOP's Financial Research Survey (FRS), proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as Barclays, Halifax, HSBC, former Lloyds TSB Group (including Lloyds Bank, TSB and C&G), NatWest and Santander, 12 month rolling data between Sept 2012-March 2015, c60,000 adults interviewed per annum.

Chief Executive's review

Succeeding by doing the right thing

Nationwide has demonstrated yet again that it is possible to offer a mutual alternative to the established banks, focusing on doing the right thing and operating with fairness, honesty and transparency.

This is quite a contrast to some of the behaviours seen elsewhere in the industry as evidenced by the fines that have been reported. We are the UK's largest savings brand, the second largest savings and mortgage provider and have a relationship with one in four households. We have continued to support the mortgage market, provided good value products to our savers and seen increasing numbers of people taking advantage of our growing range of personal current accounts.

We have launched new products and services, including improved technologies to give our members greater choice in how they do business with us. All of this has been achieved by putting the interests of our members centre stage and an approach based on honesty, transparency and fairness.

This focus has contributed to an improvement in underlying profit for the year ended 4 April 2015 which increased by 32% to £1,216 million and statutory profit which rose 54% to £1,044 million. Our Common Equity Tier 1 (CET1) ratio now stands at 19.8% (2014: 14.5%) and our leverage ratio is 4.1% (2014: 3.4%), with our profit generation giving us confidence in meeting the new regulatory capital requirements.

Delivering next generation banking

The last financial year has seen mobile technology cement digital banking as both an essential part of our members' daily lives and our customer proposition. We support over 2.3 million digitally active customers and our Mobile Banking app has been used over 165 million times in the year. Our digital credentials were endorsed by being named Best Online Banking Provider in the Your Money Direct Awards. We have continued to provide new and innovative solutions with upgrades to our Mobile Banking app, app enhancements to support Android Wear and Apple smartwatches, the roll-out of contactless cards and the expansion of Nationwide Now. This innovative service connects members to mortgage, personal banking and financial consultants via a high definition video link; the service is already available in over 160 of our branches and by November will have been rolled out to 400, improving access to our services, providing additional capacity in our branches and creating 200 new jobs in the UK.

We see real value in our branch network as a gateway to next generation banking for our members. We intend to invest £500 million over the next five years to transform and modernise our branches, giving them a new look and feel that creates an environment in which we will provide help and advice at key stages in members' lives.

Great service

We aim to stand out from the crowd through the ongoing quality of our service. We have been ranked number one for customer satisfaction for three and a half years[1], and our lead over our nearest competitor at the year end was 4.5%[2] (2014: 4.2%). We continue to account for only a fraction of total industry complaints (2.5%) despite our size, and of all cases referred to the Financial Ombudsman Service 91% of our decisions are upheld, compared with the industry average of 48%, demonstrating our focus on doing the right thing.

[1] GfK NOP's Financial Research Survey (FRS), proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as Barclays, Halifax, HSBC, former Lloyds TSB Group (including Lloyds Bank, TSB and C&G), NatWest and Santander 12 month rolling data between Sept 2012-March 2015, c60,000 adults interviewed per annum.
[2] 3 month ending data March 2015 vs March 2014 – difference in lead is not statistically significant, c15,000 adults interviewed per quarter.

It is not only our own members who have rated us so highly; during the past 12 months we have won a number of awards and been recognised for our approach to business, including being rated in the UK Customer Satisfaction Index as the top financial services provider on the high street.

Our approach to delivering the right outcomes can be seen through our recent change to our credit card proposition. Unlike the majority of our competitors, we have amended our balance transfer offer, so that any customer who has transferred their existing balance to Nationwide will no longer be charged interest on any monthly spend, so long as that spend is paid off in full at the end of the month during the balance transfer promotional period.

Consistent support for the housing market

The past financial year saw a number of competing forces cause the near term outlook for the UK mortgage market to become less predictable and challenge consumer sentiment.

The Mortgage Market review went live in April 2014 with the greater requirements of affordability assessments lengthening processes and leading to some capacity constraints. First time buyers continued to benefit from the Government's Help to Buy schemes, while localised concerns of excessive house price inflation in London were addressed by the Financial Policy Committee imposing additional constraints on lenders. Sentiment was further affected by uncertainty over the Scottish Referendum and the UK general election, with the consequence being a marked slowing of activity during the second half of the financial year, despite a supportive macroeconomic background.

First time buyer activity in particular was subdued in the second half of our financial year, down around 13% compared with the first half. Alongside the market slowdown, competition amongst lenders has intensified in recent months, with new mortgage rates driven to record lows.

Through our continued support of the mortgage market, we have again outperformed our par shares of lending, albeit at narrower levels than last year, accounting for gross and net market shares of 13.4% and 31.2% respectively (2014: 14.9% and 70.8%). Our average loan to value in the year was 66%, down on last year's 69%, as we align to a new 'post crisis' risk appetite. This is reflected in a modest reduction in the growth of our gross and net lending for the year, with gross lending of £27.1 billion (2014: £28.1 billion) and net lending of £7.1 billion (2014: £9.9 billion). The net lending growth of £7.1 billion has resulted in us becoming the UK's second largest mortgage lender.

We have a relationship with one in four households.

Named Best Online Banking Provider in the Your Money Direct Awards.

We rewarded our longstanding members with the launch of our Loyalty Rate Mortgage initiative in October. In addition, we estimate that our Base Mortgage Rate (BMR), capped at 2% above the Bank of England base rate, provides an annual saving of around £1,100 for our average BMR borrower when compared to the standard variable rates charged by other major lenders.

We have continued to support first time buyers by helping almost 46,000 people take their first steps on the housing ladder (2014: 58,100). We have played an active role in the Government's Help to Buy Shared Equity Scheme, accounting for 32% of all cases over the past year, and our own Save to Buy product continues to offer access to mortgages up to 95% LTV.

We also play a significant role in supporting a balanced approach to housing tenure by the provision of high quality buy to let loans through our subsidiary, The Mortgage Works (TMW). Over the past year TMW gross advances accounted for £4.7 billion of our total mortgage lending, representing a 16% share of buy to let gross lending. Our total specialist mortgage book now stands at £28.3 billion, representing 19% of our total residential lending portfolio.

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

Supporting our savers in challenging markets

We are acutely aware that rates available to savers continued to be challenged by the low interest rate environment. Market rates have drifted down throughout the year, in part to stay in step with lower mortgage rates. We take our responsibility to our saving members very seriously but we are not immune from trading conditions in the savings and mortgage markets and the impact on prevailing rates.

We aim to pay interest rates which are competitive and offer long term good value, and we actively monitor the rates paid by our national competitors to ensure that this is the case. In the final quarter of our financial year we reluctantly reduced our rates to align with the changes that occurred in the market. Balance growth slowed due to the launch of National Savings and Investment Pensioner Bonds, which offer interest rates materially above market levels. Over the three months to March 2015 NS&I balances increased by £12 billion, equivalent to the entire growth of the market in the quarter and attracting funds that would otherwise have been deposited with traditional savings providers. Despite these changes, we have grown our member deposit balances in the year by £1.9 billion (2014: £4.9 billion).

There was some good news for savers in the early part of the year, with an equalisation of ISA rules meaning that up to £15,000 could be deposited in cash ISA accounts. This led to an extended ISA season and ISA balances in the 12 months to March 2015 increasing by £25 billion, over double that of the same period a year ago. Nationwide accounted for 14.3% of the increase in ISA balances, well above our natural share.

We have continued to reward loyalty: our Loyalty Saver balances increased over the year by £3.6 billion and now stand at £20.7 billion. We estimate that the member value from Loyalty Saver was in the region of £150 million. During the year we took the decision to improve the interest rates for existing members by imposing an interest rate floor on our historic accounts and by simplifying the terms and conditions to remove withdrawal restrictions and complicated bonus arrangements. Around 4.5 million members benefited from this unilateral action, which we undertook in the interests of fairness. In addition, all members who held savings accounts in one of our regional brands were migrated to Nationwide accounts at a rate equal to or better than they previously received, with over 150,000 members benefiting from higher rates as a result of the transfer.

We are open and transparent in encouraging members to register for details of new product launches and rate changes through our SavingsWatch service, with over one million members signed up. We have sent annual savings statements to over nine million members as part of our Savings Promises, providing details of their accounts, current interest rates and the top variable savings rates we have available.

To read more about our objectives and how we measure success see our Strategic review on pages 26 35

FlexOne, an account designed for the youth market and which has proved popular, with around **69,000 accounts** opened in the first five months since launch.

Being a modern mutual

Nationwide is committed to mutuality on a broader scale than the traditional mortgage and savings focused model. As a modern mutual we have long recognised the importance of expanding our presence in the personal current account market to provide a full service, multi-channel offering to a growing number of loyal members.

Over the past year we have opened 469,000 new current accounts, a 9% increase in openings (2014: 430,000). This increase has been supported by the latest addition to our product range, FlexOne, an account designed for the youth market and which has proved popular, with around 69,000 accounts opened in the first five months since launch. Not only have we been pleased with the volume of these new accounts, but we have also seen the vast majority being opened in our branch network, supporting our view that branches have a critical role to play in our future.

We have continued to be a net beneficiary of the seven day current account switching service, accounting for an average of 8.4% of account switches in the year. We now have in excess of 5.7 million current accounts and our market share of main and standard packaged accounts as at February 2015 had risen to 6.8% (2014: 6.2%). Looking forward, we have set ourselves the strategic target of reaching a 10% share of the current account market by 2020.

Regulation

We support the aim of the Competition and Markets Authority to improve competition in the personal current account market, which continues to be dominated by the established banks. We have made significant investment in our current account product and the underlying systems and processes. We have expanded our presence in this market in a controlled manner, without resorting to short term marketing incentives, but by doing so our market share has reached only 6.8%. We would encourage the CMA to focus on three areas: transparency; simplicity; and comparability, thereby ensuring that customers are able to make informed decisions about their current account provider, the quality of service and the various products on offer.

Over the past year we have opened 469,000 new current accounts.

We are proud that Nationwide has been ranked as the sixth best big company to work for by the Sunday Times.

Being a great employer

Our people are central to providing exceptional service to our members. We believe that being a great employer and employing great people offers us a genuine competitive advantage, and we are proud that Nationwide has been ranked as the sixth best big company to work for by the Sunday Times, up from eleventh in 2014. We have also been named as a Top 50 Employer for Women for the third successive year. This external recognition supports the results of our internal employee survey, which shows a record level of employee engagement over the past year.

We have taken a leading role in the campaign for fair pay for everyone. Having become accredited as a Living Wage employer, we subsequently became a Principal Partner of the Living Wage Foundation.

Playing our role in society

We take our broader responsibility to society seriously and aim to play a supportive part in the communities in which we operate. We have recently scored 99% in the 2015 Business in the Community Corporate Responsibility Index, giving us a five star rating and have been confirmed as a finalist in the BITC Responsible Business of the Year awards. Our ongoing commitment to our citizenship agenda has been demonstrated over the past year through activities such as our support for Shelter, our recent launch of a service designed to help customers affected by cancer to manage their financial affairs and the award of the Carbon Trust Triple Standard. In addition, we have committed to plant one tree for every employee of the Society to create a number of woodlands throughout the country. This amounts to an initial 17,000 trees and about 3,000 more trees each year going forward. The first woodland, Ravens Retreat, has been planted near Brinkworth, a few miles from our head office in Swindon.

A good financial performance

Robust business volumes and an improved net interest margin have contributed to a 9% increase in total underlying income to £3,152 million (2014: £2,895 million). Our underlying profit for the year was £1,216 million (2014: £924 million), an increase of 32%, and statutory profit before tax was £1,044 million (2014: £677 million), an increase of 54%.

Underlying costs have increased by 7% reflecting the growth of our business and continued significant investment in products and services. However, this has been more than offset by income growth, resulting in our underlying cost income ratio improving further to 51.6% (2014: 52.5%).

This level of profitability is approaching our strategic target of generating ongoing retained earnings of at least £1 billion per annum in order to support future growth, invest in the business and sustain strong capital ratios.

We have continued to adopt a prudent approach to mortgage lending, evident in our three month arrears ratio of only 0.49%, compared with the industry average of 1.30%. Significant progress has been made in reducing our exposure to legacy, non-core commercial real estate lending, reducing outstanding balances by 49% (£3.8 billion) during the year. Our total exposure now stands at £4.0 billion (2014: £7.8 billion), of which £1.8 billion is non-core (2014: £5.0 billion). We have seen a further improvement in the outlook for the commercial real estate sector and this, combined with deleveraging, has significantly reduced our commercial impairment charge to £52 million (2014: £309 million).

A strong Society

Our strong financial performance, combined with our commercial asset deleveraging, has resulted in our CET1 ratio increasing to 19.8% (2014: 14.5%), the best in our peer group by a significant margin. In addition, our leverage ratio has improved to 4.1% (2014: 3.4%). We are confident that our current and projected financial performance will in itself be sufficient to achieve our leverage ratio strategic target of 5% by 2020, thereby ensuring we meet all foreseeable future regulatory capital requirements.

We took part in the Bank of England's (BoE) concurrent stress testing exercise last year and were pleased that the BoE's findings confirmed that we would be able to withstand a severe economic downturn particularly designed to affect residential lenders such as ourselves.

In managing our business we have identified four key risk areas which capture the top and emerging risks which are closely tracked throughout our governance structure comprising: macroeconomic and market uncertainty, business resilience, innovation to support the digital transformation and conduct challenges. These themes and our response to them are considered further in the 'Top and emerging risks' section of the Business and Risk Report.

To read more about our citizenship strategy see pages 42 51

Outlook

We expect the UK recovery to continue with the Bank of England base rate starting to rise in the first half of 2016, although there remains uncertainty about the exact timing. We believe that future interest rate increases thereafter are likely to be gradual in nature.

The housing market is expected to remain resilient with any dampening of activity from modest increases in interest rates offset by a strengthening labour market and an under-supply of housing stock.

The UK retail financial services sector will continue to be influenced by the regulatory agenda including the Basel Committee's revised approach to capital floors, the EBA's consultation on resolution requirements and the implementation of the EU mortgage credit directive. UK banks also have to prepare for the introduction of retail ring fencing, a change that is not applicable to Nationwide, although the Group meets the expected requirements today.

The Group has a consistent strategy against which it will continue to deliver. We are confident that we are in an excellent position to generate a sustainable level of performance allowing us to invest further across the business, albeit with growth at a more moderate pace compared with the past two years. We also expect to generate more value for members in the future as we optimise profits to provide better products and services, to support our communities more widely and to continue to stand out as the only truly national alternative to the established banks.

Planning for the future

It has been a privilege to serve as a Board director for over 12 years and as Chief Executive since 2007 but I recognise the need to plan for the future. Nationwide is in great shape and is demonstrating how a mutual building society can make a real and refreshing difference in the financial services sector. Succession of leadership is best dealt with from a position of strength and hence the time has come for the Society to identify and appoint its next Chief Executive. In the meantime, there is lots to do and there are exciting opportunities ahead, so it is very much business as usual.

17,000 trees

We have committed to plant one tree for every employee of the Society to create a number of woodlands throughout the country.

2015 Financial review

Income statement overview

Profit after tax on a statutory basis is set out below. Results have been presented to reflect management's view of underlying profit performance consistent with previous financial years. Underlying profit equates to statutory profit before tax adjusted for charges in respect of the Financial Services Compensation Scheme (FSCS), bank levy, transformation costs and fair value gains or losses from derivatives and hedge accounting.

Statutory profit before tax for the year ended 4 April 2015 was £1,044 million, up 54% compared with the prior year (2014: £677 million). Underlying profit was £1,216 million, up 32% compared with the prior year (2014: £924 million). Increased statutory profit has been driven mainly by the continued improvement in net interest income, up 19% to £2,861 million, and reduced impairment losses, down 34% to £251 million. These improvements have been offset in part by increased administrative expenses, up 6% to £1,706 million, and lower other income, down 41% to £291 million. Other income in the prior period included a gain of £125 million relating to redemption of permanent interest bearing shares (PIBS).

Year to 4 April 2015	**Statutory profit £m**	**FSCS and bank levy £m**	**Transformation costs £m**	**Losses from derivatives and hedge accounting £m**	**Underlying profit £m**
Net interest income	2,861	-	-	-	2,861
Other income	291	-	-	-	291
Losses from derivatives and hedge accounting	(9)	-	-	9	-
Total income	3,143	-	-	9	3,152
Administrative expenses	(1,706)	28	52	-	(1,626)
Pre provision underlying profit	1,437	28	52	9	1,526
Impairment losses	(251)	-	-	-	(251)
Provisions for liabilities and charges	(142)	83	-	-	(59)
Profit before tax	1,044	111	52	9	1,216
Tax	(205)				
Profit after tax	839				

Year to 4 April 2014	Statutory profit £m	FSCS and bank levy £m	Transformation costs £m	Losses from derivatives and hedge accounting £m	Underlying profit £m
Net interest income	2,403	-	-	-	2,403
Other income	492	-	-	-	492
Losses from derivatives and hedge accounting	(51)	-	-	51	-
Total income	2,844	-	-	51	2,895
Administrative expenses	(1,611)	17	75	-	(1,519)
Pre provision underlying profit	1,233	17	75	51	1,376
Impairment losses	(383)	-	-	-	(383)
Provisions for liabilities and charges	(173)	104	-	-	(69)
Profit before tax	677	121	75	51	924
Tax	(128)				
Profit after tax	549				

Our Financial Statements can be found on pages 186 269

Net interest income

	Year to 4 April 2015 £m	Year to 4 April 2014 £m
Net interest income	2,861	2,403
Weighted average total assets	195,429	191,604
	%	%
Net interest margin (NIM)	**1.46**	1.25

Net interest income for the year was £2,861 million, £458 million higher than the prior year as a result of lower retail funding costs and growth in retail assets. Weighted average total assets increased by 2.0% as growth in retail assets more than offset deleveraging of out of policy treasury assets and non-core commercial assets during the year. Net interest margin improved by 21 basis points on an annualised basis to 1.46% consistent with the trend achieved over the last two financial years.

Savings rates have continued to fall across the industry and this has led to lower retail funding costs, underpinning the continued improvement in the net interest margin. We continue to be competitively positioned relative to the market in order to demonstrate our commitment to our savings members in a low interest rate environment. We estimate that our average margin on savings balances, measured against relevant market indices (swaps or Libor), was circa 80 bps over the year in comparison to circa 110 bps during the year to 4 April 2014. We have also benefited modestly from reduced spreads in the wholesale markets with an average spread of 81 bps (2014: 87 bps).

The downward trend in funding costs is not expected to continue and competition in the mortgage market has intensified during the last 12 months; in consequence we do not anticipate significant growth in our NIM during the next financial year.

Retail mortgage net interest income has remained broadly stable year on year, with lower pricing being offset by the lower cost of funding. Base Mortgage Rate (BMR) balances have reduced by £8 billion to £43 billion at 4 April 2015 due to a combination of normal monthly capital repayments and redemptions. This decline in balances does not materially impact margin.

Net interest income for the year includes £47 million of losses (2014: £52 million) arising from the sale of out of policy treasury assets and £23 million of losses (2014: £23 million) due to other strategic divestment activity, including the part disposal of our Equity Release assets and disposal of certain commercial lending assets. A further £23 million charge (2014: £30 million gain) has occurred due to movements in effective interest rate balances for our mortgage and savings products.

Other income

	Year to 4 April 2015 £m	Year to 4 April 2014 £m
Current account and savings	83	111
General insurance	88	101
Protection and investments	75	82
Mortgage	20	30
Credit card	26	29
Commercial	15	17
Gain on redemption of subscribed capital	-	125
Other	(16)	(3)
Total underlying other income	**291**	492
Losses from derivatives and hedge accounting	(9)	(51)
Total statutory other income	**282**	441

Total underlying other income has reduced by £201 million to £291 million, primarily due to a one-off profit during the prior year of £125 million relating to the redemption of subscribed capital. In addition other fees charged to customers have fallen by £76 million, as a result of our decision to remove the monthly unauthorised overdraft charge to members from July 2014, coupled with reduced sales volumes in general insurance, protection and investments; the latter following the introduction of new sales practices as part of our implementation of the Retail Distribution Review.

The £16 million cost in other income includes the full year cost of the £8.5 billion drawdown of FLS, amounting to approximately £21 million, the majority of which was drawn in the second half of the year ended 4 April 2014.

Details of fair value movements relating to derivatives and hedge accounting are provided in note 7 to the accounts.

Administrative expenses

	Year to 4 April 2015 £m	Year to 4 April 2014 £m
Employee costs	**671**	636
Other administrative expenses	**661**	601
Administrative expenses (underlying)	**1,332**	1,237
Depreciation, amortisation and impairment	**294**	282
Total underlying administrative expenses	**1,626**	1,519
Transformation costs	**52**	75
Bank levy	**28**	17
Total statutory administrative expenses	**1,706**	1,611
Cost income ratio – underlying basis (%)	**51.6**	52.5
Cost income ratio – statutory basis (%)	**54.3**	56.6

Underlying administrative expenses have increased by 7% to £1,626 million, reflecting ongoing investment in the business and increased employee costs. At a statutory level administrative expenses have increased by 6% to £1,706 million.

The year on year increase in employee costs reflects the impact of annual pay awards averaging 2.4% and 2.5% respectively in each of the last two years, and growth in bonus costs of £14 million driven by improving business performance and higher numbers of employees. Employee numbers have increased by 1.9% in the year as we continue to strengthen Risk and Control functions in light of the evolving regulatory agenda and build business capability to support our developing digital strategy.

Other administrative expenses have increased by £60 million. This reflects continued enhancement of our digital capability, including Nationwide Now, mobile and tablet banking, together with investment in IT resilience, regulatory programmes and brand development. The reported year on year increase is net of cost savings realised from integration of the regional brands and a reduction in administration costs for activity in relation to customer complaints.

Transformation costs of £52 million relate to investment to enable IT support and development to be delivered in a more efficient and resilient manner which is now nearing completion, combined with the integration of the Dunfermline, Cheshire and Derbyshire brands. Transformation costs are expected to reduce significantly in future periods.

Across the year, underlying income growth has run ahead of cost growth, resulting in an improvement in both the statutory and underlying cost income ratios to 54.3% (2014: 56.6%) and 51.6% (2014: 52.5%) respectively.

Impairment losses

	Year to 4 April 2015 £m	Year to 4 April 2014 £m
Residential lending	58	-
Consumer banking	89	60
Retail lending	147	60
Commercial lending	52	309
Other lending	34	11
Impairment losses on loans and advances to customers	233	380
Impairment losses on investment securities	18	3
Total	**251**	383

Impairment losses for the year of £251 million are 34% lower than in the year ended 4 April 2014 primarily as a result of a significant improvement in the level of impairment incurred on our commercial lending portfolio.

Residential mortgage impairments have continued to benefit from house price growth of 5.1% albeit at a lower rate compared to the last financial year (2014: 9.5%). With interest rates remaining low, improvement in earnings growth and with our prudent underwriting approach, we have seen a continued decline in arrears levels throughout the year. The impairment charge for the year includes £44 million from updates to our credit risk provision assumptions which have been refined to reflect updated segmental analysis of losses across the book, whilst also taking into account the impact of the prolonged low interest rate environment.

Consumer banking impairments have increased by 48% to £89 million (2014: £60 million), primarily as a result of a one-off credit included in 2014 of £27 million relating to an update to model assumptions for late stage recoveries on defaulted balances. Excluding this adjustment, the underlying increase in consumer banking impairment is £2 million consistent with stable underlying portfolio performance.

Commercial lending impairments relate exclusively to commercial real estate (CRE) lending, with no arrears in our registered social landlords and Project Finance portfolios. The lower level of commercial lending impairments in the year of £52 million (2014: £309 million) reflects continued stabilisation of the commercial real estate market and the successful delivery of our deleveraging strategy which has seen impaired balances reduce by £2.5 billion to £0.6 billion (2014: £3.1 billion). The level of impaired balances as a proportion of our total CRE exposure has fallen from 39% to 15%, reflecting the deleveraging and resolution of impaired assets.

Other lending impairments of £34 million (2014: £11 million) and impairment losses on investment securities of £18 million (2014: £3 million) relate to the out of policy treasury asset deleveraging activity undertaken during the year.

Provisions for liabilities and charges

	Year to 4 April 2015 £m	Year to 4 April 2014 £m
Underlying provisions for liabilities and charges – customer redress	59	69
FSCS levies	83	104
Total provisions for liabilities and charges	**142**	173

The charge for customer redress provisions of £59 million (2014: £69 million) relates to estimated costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory matters.

More information, including details of the decrease in the FSCS charge, is included in note 26 to the accounts.

Taxation

The statutory tax charge for the year of £205 million (2014: £128 million) represents an effective tax rate of 19.6% (2014: 18.9%), which is lower than the statutory rate in the UK of 21% (2014: 23%). The lower effective rate is due principally to net adjustments with respect to prior periods of £16 million (2014: £18 million) and a £7 million credit (2014: £15 million) relating to the effect of the change in the UK corporation tax rate on deferred tax balances. Further information is provided in notes 11 and 21 to the accounts.

In addition to the corporation tax charge, we also incurred taxes of £273 million (2014: £251 million) including irrecoverable VAT, bank levy, employment and property taxes, all of which are charged to profit before tax as part of administrative expenses and depreciation. With the exception of the bank levy, all of these amounts are recognised in arriving at underlying profit.

Balance sheet

The year on year balance sheet growth of 3% reflects an increase in low risk residential mortgage assets, in line with our aim of maintaining a low risk balance sheet. This has been partly offset by continued deleveraging of non-core commercial lending assets and out of policy treasury assets which is now largely complete.

The increase in other financial assets relates to growth in liquid assets in line with our early adoption of emerging regulatory liquidity standards: our Liquidity Coverage Ratio (LCR) at 4 April 2015 was 119%.

Assets

	4 April 2015 £m	**%**	4 April 2014 £m	%	Change %
Residential mortgages	**152,885**	***89***	145,660	*87*	5
Commercial lending	**14,594**	***9***	18,164	*11*	(20)
Consumer banking and other lending*	**3,820**	***2***	4,005	*2*	(5)
	171,299	***100***	167,829	*100*	2
Impairment provision	**(652)**		(1,288)		(49)
Loans and advances to customers*	**170,647**		166,541		2
Other financial assets	**22,721**		21,285		7
Other non-financial assets	**2,212**		2,067		7
Total assets	**195,580**		189,893		3
Key ratios	**%**		%		%
Return on assets	**0.43**		0.29		0.14pp
Asset quality					
Residential mortgages					
Proportion of residential mortgage accounts 3 months+ in arrears	**0.49**		0.63		(0.14)pp
Average indexed loan to value of residential mortgage book	**47**		48		(1)pp
Average loan to value of new residential lending	**66**		69		(3)pp
Commercial property finance					
Total CRE gross balances (£m)	**4,043**		7,764		(48)
Impaired balances (£m)	**608**		3,065		(80)
Total provision as % of impaired balances	**53**		33		20pp

*Comparative balances have been restated for the reclassification of certain amounts in relation to overdrawn current accounts as detailed in note 1 to the accounts.

Residential mortgages

Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let (BTL) lending. Gross mortgage lending in the period was £27.1 billion (2014: £28.1 billion), representing a market share of 13.4% (2014: 14.9%). Despite lower absolute levels of mortgage lending our market share of new business of 13.4% is ahead of our market share of stock of 12.1% (2014: 11.6%).

Mortgage balances grew by £7.2 billion, of which £5.2 billion was prime lending and £2.0 billion related to BTL lending. The loan to value (LTV) profile of new lending, weighted by volume, reduced to 66% (2014: 69%). The rise in house prices has continued in the period, reducing the average LTV of the portfolio to 47% (2014: 48%). Our residential mortgage arrears have reduced to 0.49% (2014: 0.63%) and continue to be significantly lower than the Council of Mortgage Lenders (CML) industry average. The performance of our residential portfolios continues to be underpinned by the sustained low interest rate environment and is also now benefiting from broader market conditions, including low levels of unemployment and a return to growth in household incomes.

The level of impaired balances fell by £260 million to £895 million (2014: £1,155 million) reflecting lower arrears. However, impairment provisions have increased by £8 million to £110 million (2014: £102 million) due to refinements in credit risk modelling assumptions this year which reflect a segmental review of actual loss experience and take account of the impacts of the prolonged low interest rate environment which tends to suppress affordability pressure and has reduced the propensity for arrears cases to migrate to possession.

Commercial lending

Commercial lending includes commercial real estate (CRE) loans of £4.0 billion (2014: £7.8 billion), a reduction of 48% during the year achieved through proactive deleveraging and repayment. Commercial lending balances also include loans to housing associations of £7.8 billion (2014: £8.1 billion) and a portfolio of loans made under the Government's Project Finance initiative amounting to £1.4 billion (2014: £1.4 billion). The balance sheet total for commercial lending quoted above includes £1.4 billion (2014: £0.9 billion) of fair value adjustments relating to loans where we have hedged associated financial risks, typically interest rate risk. This leaves £1.8 billion of remaining non-core CRE assets (2014: £5.0 billion).

We have undertaken minimal amounts of new lending during the year, with activity being concentrated on ongoing management of the existing portfolio with particular focus on the managed work out of weak CRE exposures, and the acceleration of deleverage plans where market conditions have allowed. During the year, we have deleveraged over £1.6 billion of non-core CRE loans and we have reduced other CRE exposures by a further £2.2 billion through repayment and managed workout of individual exposures.

The level of impaired balances as a proportion of our total CRE exposure has fallen from 39% to 15%, reflecting deleveraging and resolution of impaired asset positions. Total provision coverage against impaired balances has increased from 33% to 53%.

The planned deleveraging strategy which has been executed during the last two years has now largely been completed, reducing substantially the level of commercial credit risk on the balance sheet. Deleveraging of our remaining CRE exposures which are outside our risk appetite will continue but at a slower pace than has been evident over the last two financial years.

Consumer banking and other lending

Consumer banking comprises retail balances relating to personal loans of £1.8 billion (2014: £1.9 billion), credit cards of £1.8 billion (2014: £1.7 billion) and current account overdrafts of £0.2 billion (2014: £0.3 billion). Unsecured lending through personal loans has been lower in the last year following a tightening of our lending criteria and increased competition in the market. Credit card lending continues to grow, reflecting increased growth in consumer borrowing over the period. Delinquency within our unsecured portfolios remains stable.

Further details of our lending and lending risks are provided in the Business and Risk Report.

Other financial assets

Other financial assets total £22.7 billion (2014: £21.3 billion) and comprise liquidity and investment assets held by our Treasury division amounting to £18.8 billion (2014: £18.0 billion), derivatives with positive fair values of £3.3 billion (2014: £3.0 billion) and fair value adjustments and other assets of £0.6 billion (2014: £0.3 billion).

Further details of our treasury portfolios are included in the Business and Risk Report.

Liabilities

	4 April 2015 £m	4 April 2014 £m	Change %
Member deposits	**132,373**	130,468	1
Debt securities in issue	**28,105**	28,557	(2)
Other financial liabilities	**23,767**	20,621	15
Other liabilities (note i)	**1,594**	1,341	19
Total liabilities	**185,839**	180,987	3
Members' interests and equity	**9,741**	8,906	9
Total members' interests, equity and liabilities	**195,580**	189,893	3
Key ratios	**%**	%	
LCR	**119.3**	90.7	
Wholesale funding ratio (note ii)	**23.3**	22.7	

Notes:
i. Comparative balances have been restated for the reclassification of certain amounts in relation to overdrawn current accounts as detailed in note 1 to the accounts.
ii. The wholesale funding ratio shown in the table is calculated on an internal management basis which includes all sources of funding, including securitisations.

Member deposits

Member deposits have increased by £1.9 billion to £132.4 billion (2014: £130.5 billion) driven by current account inflows and capitalised interest on member deposits. We estimate our share of the balance growth in the UK deposit market for the year to be 3.4% (2014: 12.1%), which reflects the launch of NS&I Pensioner Bonds which were priced at highly attractive rates and have caused wider impacts on market pricing. We continue to offer competitive savings and current account propositions which offer long term good value and seek to support members in the current low base rate environment.

Debt securities in issue

Debt securities in issue of £28.1 billion (2014: £28.6 billion) are used to raise funding in wholesale markets to finance core activities. The balance remains broadly in line with the year ended 4 April 2014, reflecting the replacement of contractual maturities during the year with new wholesale funding issuances, as we maintain a diverse funding mix and presence in the wholesale markets.

The wholesale funding ratio has increased to 23.3% (2014: 22.7%). Off-balance sheet Funding for Lending Scheme (FLS) drawings totalling £8.5 billion are unchanged from the 2014 year end and are excluded from the calculation of the wholesale funding ratio. Further details on funding and liquidity are included in the Business and Risk Report.

Other financial liabilities

Other financial liabilities include commercial deposits, non-member savings and bank deposits of £17.2 billion (2014: £15.3 billion), PIBS of £0.4 billion (2014: £0.6 billion), subordinated debt of £2.1 billion (2014: £2.3 billion) and derivatives and fair value adjustments of £4.0 billion (2014: £2.4 billion). Derivatives and fair value adjustments largely comprise interest rate and other derivatives taken out to hedge our core lending and funding activities.

More details are included in the Business and Risk Report.

Capital structure

	4 April 2015 (note i) £m	4 April 2014 £m
Capital resources		
Common Equity Tier 1 (CET1) capital	7,279	5,849
Total Tier 1 capital	8,271	6,841
Total regulatory capital	9,950	8,925
Risk weighted assets (RWAs)	36,804	40,455
Leverage exposure	200,665	199,188
CRD IV capital ratios	%	%
CET1 ratio	19.8	14.5
Leverage ratio (note ii)	4.1	3.4

Notes:
i. Data in the table is reported under CRD IV on an end point basis.
ii. The leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure. The comparative has been restated to align to the revised definition.

CET1 capital resources have increased over the period by approximately £1.4 billion. This increase is the result of a strong trading performance and a reduction in the excess of expected losses over impairment provisions, primarily as a result of continued deleveraging of the non-core commercial real estate portfolio and out of policy treasury assets.

Risk weighted assets reduced over the period by approximately £3.7 billion due to continued deleveraging. In addition, retail mortgage RWAs are lower than at 4 April 2014 as a result of house price inflation reducing effective risk weights by more than the impact of increases in retail mortgage balances due to new lending.

The movements described above have resulted in an increase in the CET1 ratio to 19.8% (2014: 14.5%). The leverage ratio has increased to 4.1% (2014: 3.4%) driven by the increase in CET1 capital resources described above outweighing the increase in leverage exposure driven by asset growth.

Under the FPC's proposed leverage ratio framework, announced in October 2014, leverage ratio requirements from 2019 could be up to 4.95%. This comprises a minimum requirement of 3% plus a supplementary leverage ratio buffer and a countercyclical leverage ratio buffer. The supplementary leverage ratio buffer is expected to be subject to FPC consultation later in 2015, in order to determine the size of this buffer that is to be applied to each individual institution, with the expectation that the buffer will be no higher than 1.05%. The countercyclical leverage ratio buffer will likely be based upon the risk-based countercyclical buffer at up to 0.9% for UK exposures, although it is currently set at 0%. The Group's strategic target of 5% reflects its desire to maintain strong levels of capital relative to regulatory expectations.

The Group considers that the proposals announced by the FPC form the basis of a sensible regulatory approach to leverage. The final calibration of the supplementary requirement represents an opportunity to ensure that the overall leverage requirement is both proportionate and sensitive to firms with low risk business models, such as building societies which provide diversity within the UK financial system and strong support for the housing market. The Group is confident that it will comfortably meet the requirements as they are introduced.

More details of the capital position are within the Business and Risk Report on pages

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Strategic review

Nationwide is the world's largest building society, with over 14 million members who are also our owners. Our core purpose is enshrined in legislation and has remained broadly unchanged for over 160 years: safeguarding members' financial interests, helping them to save, helping them to buy their own homes and helping them to make the most of their money.

1 Legal framework

- Statutory limits are set by the Building Societies Act 1986
- Minimum of 75% of assets secured on residential properties
- Wholesale funding not to exceed retail funding
- Owned by members not shareholders

2 Consequences

- Stakeholder and member interests aligned
- Predominantly retail funded
- Asset concentration in UK residential mortgages
- Longer term strategic focus

3 Practical implications

- Member service and consistent member proposition
- Stable and less complex earnings profile
- Low credit risk
- Longstanding presence in mortgage and savings markets

We offer the only truly national alternative to the UK's established banks. As a mutual our difference comes from optimising, not maximising, our profit, as we do not have to balance the needs of shareholders. We retain only sufficient earnings to ensure the financial safety and security of our business; the remainder is reinvested into the Society to provide consistently good value products and industry leading customer service for our members. For this reason we invest heavily in our culture and our people, who are committed to ensuring we deliver the right customer outcomes.

Our low risk business model is focused mainly on the provision of retail financial services, almost exclusively in the UK. Reflecting our heritage, our balance sheet comprises primarily residential mortgages funded through retail savings and, to a lesser extent, wholesale funding.

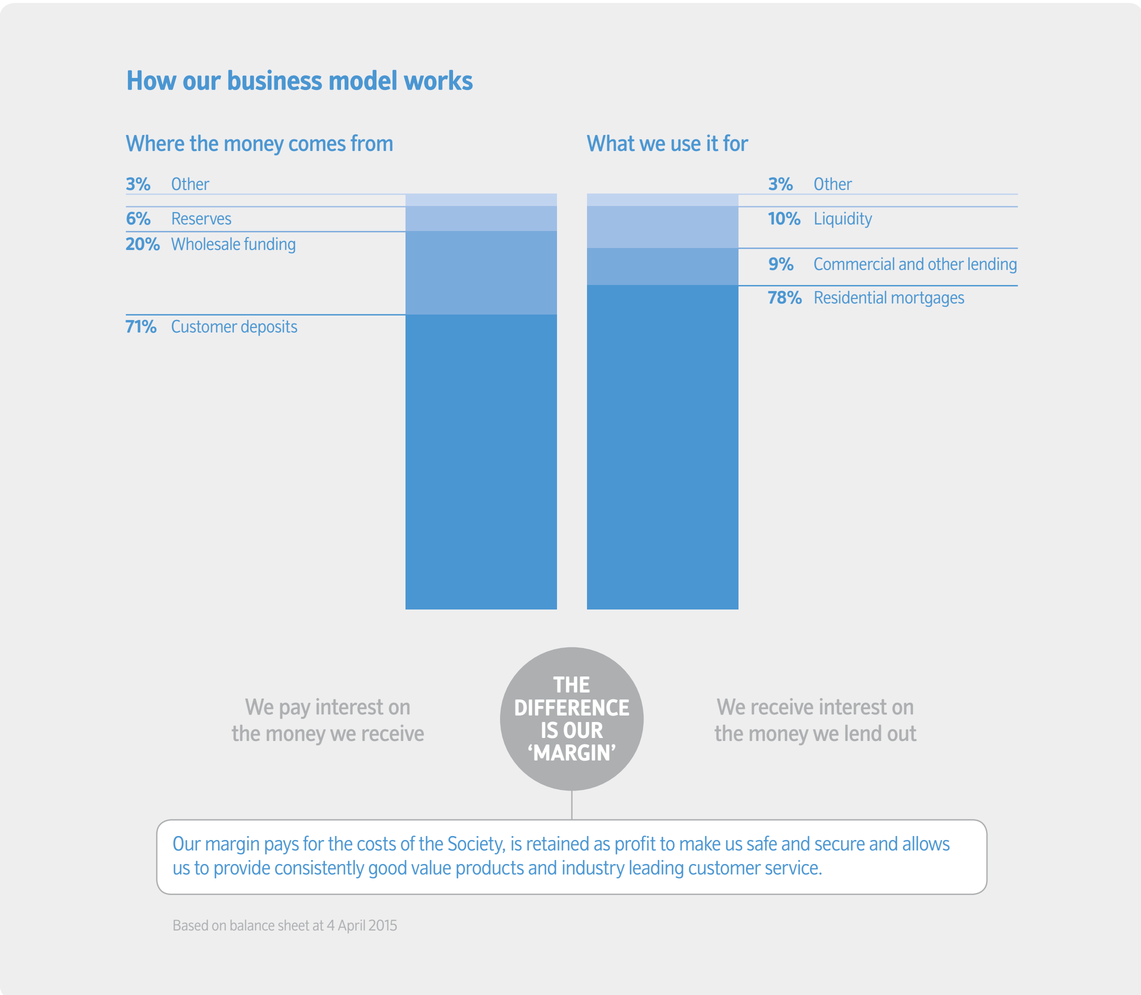
In our traditional products, mortgages and savings, we are the second largest provider in the UK, with over 12% of total residential mortgage balances and over 10% of total retail savings balances.

We have recognised for some time that to be a full service, scale player we need to diversify our business model by offering a suite of complementary personal banking services to new and existing members, thereby enabling us to build deeper, long term relationships. We took our first steps in offering current accounts in 1987 and have since made steady progress in building our market share to almost 7% today.

We also offer competitive consumer lending products, financial planning services, general insurance and protection products, and undertake a limited range of specialist activities including buy to let lending, commercial lending and deposit-taking for small and medium sized enterprises (SMEs).

How our business works

We have over 160 years' experience of looking after the interests of our members. Our approach to providing financial services is straightforward – we offer a broad range of competitive mortgages, savings and other financial products, while charging as little as possible for day to day services.



In the early 19th century it was broadly the case that banking products and services were available to the wealthy while workers found it hard to get credit to buy secure and long term homes. Building societies played a major role in addressing the problem, enabling ordinary people to save and borrow money for land and materials with which to build their own homes. This was a solution built first and foremost on the needs of the people.

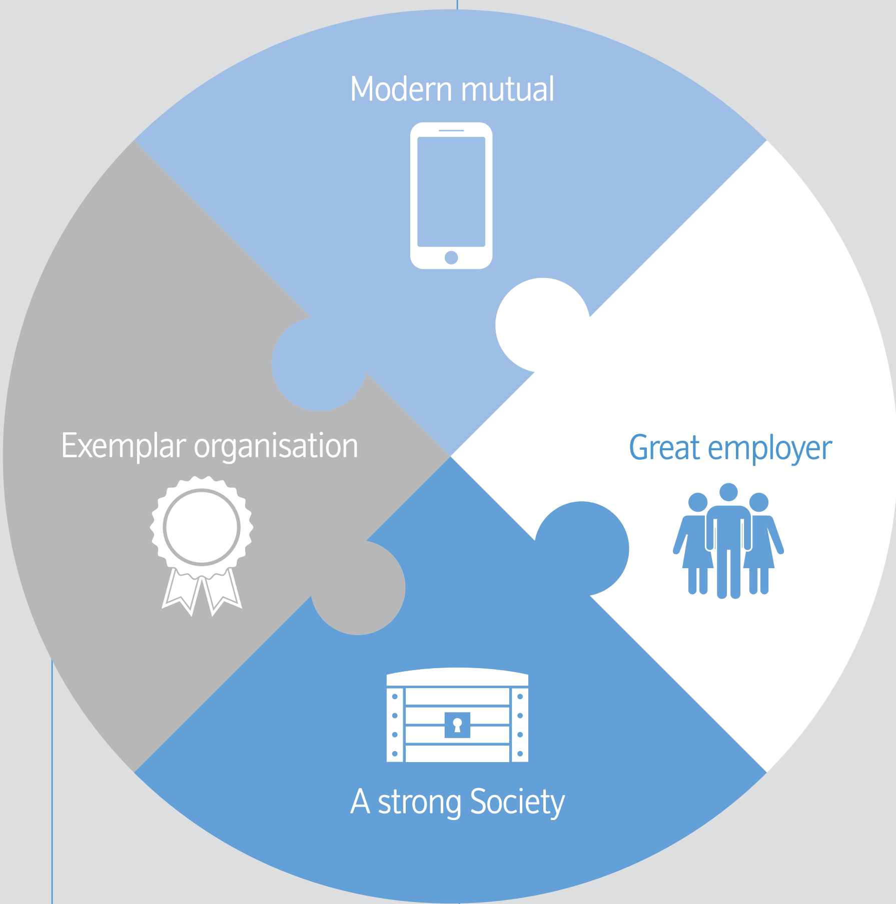
Life has changed dramatically over the past 160 years but, despite the increasingly complex regulatory environment and the recent financial crisis, at Nationwide we have remained solid, stable, dependable and faithful to our mutual heritage – committed to doing the right thing by our members.

Nationwide makes a profit by generating a margin on the difference between the rates paid on member deposits and other funding, and the rates and fees charged for mortgages and other lending. Around 90% of our income is derived from the spread between rates charged to borrowers and rates paid on funding; the balance relates to fees and charges from provision of banking products and ancillary fees charged for originating and servicing customer relationships, net of amounts paid to third party suppliers who support this activity. This income covers the costs of administering our business, including credit losses and the cost of capital, with the surplus accumulating as profit to support our capital strength and to reinvest in delivering improved products and services to our members.

For over 160 years Nationwide has remained solid, stable and dependable.

Our strategy

Our success owes much to the stability and steady evolution of our long term strategy in support of our vision to be the UK's first choice financial services provider.



Modern mutual

Nationwide is committed to mutuality on a broader scale than simply the provision of mortgages and savings. We are a modern mutual providing a full service, multi-channel offering to a growing number of loyal members.

We aim to protect and consolidate our top two position in mortgages and savings, while pursuing our ambition to build scale in our business by reaching a 10% market share in our third core product, personal current accounts. With greater use of tablet and mobile technology, we will deliver next generation banking by creating an 'always available' environment, using digitally enabled services and simplified processes to allow members to choose when, where and how they wish to engage with us.

We will continue to differentiate ourselves in the market through our service and brand. Our branches will be refocused to deliver help and advice, enhancing our reputation as a trusted organisation. In addition, our sales and service capacity will be increased through wider deployment of Nationwide Now, enabling us to meet our members' needs more effectively.

By developing a bigger voice through emotionally engaging advertising campaigns we will shape an iconic brand which appeals to a broader range of consumers across traditional and digital channels. In doing so we aim to close the gap on our banking peers for spontaneous brand recognition.

Great employer

Our people embody our culture, are ambassadors for our mutual approach and offer us a genuine competitive advantage. Our strong principles are expressed across Nationwide through our PRIDE behaviours (full details of which can be found in the 'Our people' section of this report), which foster a culture where our people are focused exclusively on delivering the right customer outcomes and a level of customer service that is demonstrably better than that of our peers.

We will attract and retain an efficient, high performing workforce ready to meet the changing organisational requirements of a modern mutual. To support this we will develop our leadership pipeline and build an increasingly diverse workforce where all employees are fully engaged and inspired and have the interests of our members at heart. We plan to invest heavily in our talent management programmes, including a significant increase in the number of graduates and apprentices across our business, to create a deep pool of resources to meet current and future capability requirements.

Our corporate citizenship strategy will ensure that we are recognised as a role model both in our local communities and nationally (see the Citizenship report for further details).

A strong Society

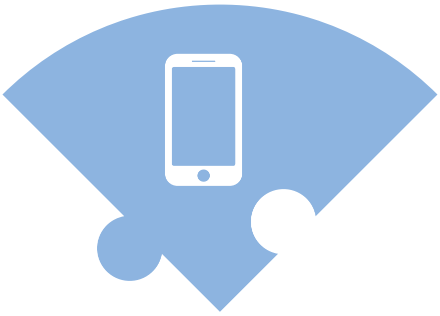
Nationwide provides a trusted home for our members' money. We will continue to secure the confidence of our members by maintaining a low risk appetite and ensuring our assets remain of the highest quality, underpinned by strong levels of liquidity and capital. By optimising our profits we will be able to preserve the financial security and safety of our business, invest in new products and services and offer long term good value for our members. This financial discipline will be supported by a strong governance and risk framework (see the 'Managing risk' section in the Business and Risk Report for further details).

Exemplar organisation

We aspire to be an exemplar organisation and for our members and other key stakeholders to trust us to do the right thing. Our culture is focused on delivering good conduct and fair customer outcomes at all times. We will continue to maintain strong regulatory relationships, acting within both the letter and spirit of regulation, and we will champion our members' interests in an evolving marketplace, placing them at the heart of everything that we do.

Strategic priorities

In order to achieve our strategy, we have the following key priorities:



Modern mutual

- Achieve a 10% market share of personal current accounts by 2020
- Deliver 'next generation banking', through automation, simplification and self-service, with a branch network focused on delivering help and advice
- Build an iconic brand so that UK consumers know who we are and what we stand for

Great employer

- Create a flexible, multi-skilled workforce that's both passionately committed to our members and able to deliver the requirements of 'next generation banking'
- Ensure our people feel engaged and enabled and are operating at the kind of level achieved by employees of other high performing organisations

Exemplar organisation

- Foster a culture that is focused on doing the right thing, delivering good conduct and fair customer outcomes at all times
- Champion our members' interests, placing them at the heart of everything we do

A strong Society

- Fulfil the optimal profit model by building a sustainable business
- Maintain a strong, low risk balance sheet, justifying our members' trust in us
- Maintain peer group leading capital ratios
- Offer greater value to our growing member base

How we measure our success

Modern mutual

What we measure and why	Performance	Strategic target	Commentary
Market leading satisfaction			
Delivering leading levels of customer satisfaction will be a key point of differentiation to our peer group, offering a compelling alternative to the established banks.	2011 **0.8%** 2012 **1.8%** 2013 **2.3%** 2014 **4.2%** 2015 **4.5%**	1st + 6%	At the end of March 2015 our lead over our nearest competitor[1] stood at 4.5% compared with 4.2% at the same time last year. [1]GfK NOP's Financial Research Survey (FRS), proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as Barclays, Halifax, HSBC, former Lloyds TSB Group (including Lloyds Bank, TSB and C&G), NatWest and Santander, 3 month ending data March 2015 vs March 2014 – difference in lead is not statistically significant, c15,000 adults interviewed per quarter.
Grow our membership			
We judge our success by measuring the number of our members with whom we have active and substantial relationships, since this provides insight to the long term commitment of members to our brand.	2011 **6.1m** 2012 **6.2m** 2013 **6.3m** 2014 **6.6m** 2015 **6.7m**	8.1m main relationships[2] [2]Main personal current account (PCA) customers, mortgage/ savings customers > £5k	We currently have 14.4 million members, of whom 6.7 million have a substantial relationship with Nationwide, broadly in line with our target and up around 100,000 over the year. The main contribution to the growth has come through an increase in current account members.
Grow and protect our market shares			
We will maintain a top 2 position in our heritage markets of mortgages and savings. We will grow our current account market share to 10%, demonstrating our commitment to being a diversified, modern mutual with the scale to offer a true alternative to the banks.	Mortgage market share (stock) 2011 **10.4%** 2012 **10.6%** 2013 **11.1%** 2014 **11.7%** 2015 **12.1%** Savings market share (stock) 2011 **11.1%** 2012 **11.0%** 2013 **10.5%** 2014 **10.6%** 2015 **10.2%** Current account market share (stock) 2011 **4.9%** 2012 **5.1%** 2013 **5.7%** 2014 **6.2%** 2015 **6.8%**	Mortgages: 13% market share Savings: 10% market share PCA: 10% market share	We ended the financial year as the second largest provider of mortgages and savings in the UK, with market shares of 12.1% and 10.2% respectively. Our current account market share has reached 6.8%, slightly below our target for the year, due to fiercely competitive market conditions.
Next generation banking			
We offer a choice of access to meet our members' evolving needs, enhancing our position as a dynamic, modern mutual and supporting our current account ambitions. We measure our success by tracking the number of our current account members who transact through our online bank or mobile app at least once a month.	2011 **1.5m** 2012 **1.7m** 2013 **1.9m** 2014 **2.1m** 2015 **2.3m**	4m digitally active members[3] [3]Source: eBench markers active current account customers	We currently have just over 2.3 million members transacting online or using our mobile app, in line with our annual target.
Being 1st choice with an iconic brand			
A strong, iconic brand, effective both in digital and traditional media, is essential to attract new members across all life stages, supporting in particular our current account market share aspirations. We measure our success by tracking our rating for both prompted and spontaneous brand awareness.	2013 **1st** 2014 **1st** 2015 **1st**	Brand consideration: 1st[4] Spontaneous awareness: top 5[4] [4]Source: Millward Brown	We have retained our lead for prompted brand consideration, but are behind target at only 7th place for spontaneous awareness. We will seek to boost our brand through enhanced marketing during 2015/16.

Great employer

What we measure and why	Performance	Strategic target	Commentary
Engaged and enabled employees			
Having highly engaged and enabled employees will be a key source of competitive advantage as we strive to maintain industry leading levels of customer satisfaction, grow our business and move to a differentiated help and advice model in branches. We measure progress through our annual employee survey.	**Employee engagement** FS Norm = 66% HP Norm = 73% 2011 **64%** 2012 **69%** 2013 **68%** 2014 **77%** 2015 **79%** **Employee enablement** FS Norm = 67% HP Norm = 71% 2011 **72%** 2012 **70%** 2013 **68%** 2014 **75%** 2015 **75%**	≥High performance benchmark for engagement and enablement[5] [5]Source: Hay Group Financial Services industry benchmark	Over the past year our employee engagement score increased by 2% to 79% and our enablement score remained stable at 75%, both consistently outperforming the levels achieved by our peers. In addition, over 90% of our employees are proud to work for Nationwide. We deliver such performance through a culture which values diversity, develops talent and rewards people fairly. HP Norm: High performance normalised scores FS Norm: Financial services normalised scores
Great corporate citizen			
Our commitment to being a leading corporate citizen is consistent with our mutual heritage and supports our drive to make a difference to people's lives in the communities in which we operate. We have a broad series of local measures which we use to judge our progress towards our strategic goal.		5* BITC accreditation	We have delivered significant value to our communities over the past year, including helping a further 179,000 people into a home, a further 259,000 people to start saving and unlocking and investing £4.5 million through a combination of member and employee activity. We were also recognised by Business in the Community as a leading responsible business, achieving our strategic aim of being awarded 5 stars in its Corporate Responsibility Index.

Strong Society

What we measure and why	Performance	Strategic target	Commentary
Financially sustainable			
Running a robust and efficient Society allows us to invest in the services that members value most and to deliver increasing value over time. We measure our performance through the level of retained profit.	2011 **£224m** 2012 **£152m** 2013 **£178m** 2014 **£549m** 2015 **£839m**	Post-tax profit ≥£1bn p.a.	We have made significant strides towards optimal profitability, with post-tax profit reaching £839 million for the year.
Efficient business			
We run Nationwide efficiently, managing costs prudently and ensuring that our income is derived in a manner that supports our business and adds demonstrable value to our members. We demonstrate our commitment to efficiency by targeting an underlying long term cost income ratio of at or below 50%.	2011 **65.1%** 2012 **62.2%** 2013 **55.9%** 2014 **52.5%** 2015 **51.6%**	Cost income ratio ≤50%	Our cost income ratio has improved by 90 basis points over the year to 51.6%.
Financially robust			
Strong capital ratios are the ultimate demonstration of our core strength, providing confidence to our members that they can place their trust in us to safeguard their finances.	2013 **2.2%** 2014 **3.4%** 2015 **4.1%**	Leverage ratio 5%	Our leverage ratio ended the year at 4.1%, up from 3.4%.[6] Our progress is in line with our long term plan to achieve a ratio of a minimum 5%. [6]The leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure. The comparative has been restated to align to the revised definition.

Risk overview

Our mutual model ensures we are focused on securing the long-term needs of our members whilst maintaining a balance sheet primarily invested in UK residential property and an investment grade liquidity portfolio. Sound management has reduced our exposure to higher risk assets over recent years and retained profits have allowed investment in ongoing service development and strengthened our capital position.

In common with other retail financial services organisations, the nature of our business results in a number of inherent risks which are continuously monitored and managed. The principal risk categories are as follows:

1

Lending

The risk that a borrower or counterparty fails to pay interest or to repay principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk.

2

Financial

The risk of the Group having inadequate earnings, cash flow or capital to meet current or future requirements and expectations.

3

Operational

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

4

Compliance, conduct and customer experience

The risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, an unfair outcome being created for customers, or customers having a less than positive experience.

5

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.

We address these risks by:

- operating a single integrated business model which is well understood and underpinned by strong governance
- adopting an enterprise-wide risk management framework that covers all our risks and is centred around the three lines of defence model
- effectively managing risks within risk appetite that is set by the Board and which reflects the evolution of risks facing us
- maintaining sufficient liquidity and capital to ensure we are able to survive severe but plausible market and economic stresses.

High quality lending and financial strength are at the core of our approach to risk.

High quality lending

Residential mortgages remain at the heart of our mutual business model representing over 89% of total lending. This is supplemented by unsecured consumer lending and property-based commercial lending.

Throughout the year interest rates have remained low and the unemployment rate has continued to decline and whilst the annual pace of house price growth has slowed, there is little evidence of a significant price correction or imminent deterioration in market sentiment. As a result, risk indicators across our portfolios of prime and buy to let mortgages have continued to strengthen with arrears rates and loan to value on both new lending and historic lending down on last year.

With the Bank of England signalling that interest rates are likely to increase slowly and the outlook for employment in the UK remaining positive, the Group does not anticipate a significant change in performance. However, macroeconomic factors may disrupt this and while it is not our central expectation, if a reversal in the UK housing market occurred then it would lead to increased risk for both borrowers and the Group. In this context the Group continues to develop robust and responsible lending policies to ensure that lending remains affordable and sustainable, even as the market becomes more competitive.

During 2014/15, we continued to make significant progress in exiting higher risk commercial exposures, with total commercial real estate lending reducing by £3.8 billion to £4.0 billion.

Financial strength

Over the year we have continued to enhance the financial strength of the business. Improved profitability and effective funding have allowed us to exceed regulatory prudential requirements whilst also investing in developing our products and services. At the same time the Group has maintained a strong balance sheet.

Our Common Equity Tier 1 capital ratio has increased to 19.8% (2014: 14.5%) and our Liquidity Coverage Ratio is 119.3%, ahead of our commitment to achieve a ratio of at least 100% before introduction of this measure in October 2015. Whilst we have demonstrated, in the 2014 concurrent stress test exercise, that our business is able to absorb even an extreme shock and still meet liquidity and capital regulatory requirements, there is a risk that prudential regulation increases capital or liquidity requirements further. We consider that we are well placed to respond to this eventuality.

Top and emerging risks

While we are a low risk organisation, we inevitably face challenges that pose strategic risks to the delivery of our planned objectives and introduce operational risks as we continue to embrace the digital revolution.

Macroeconomic and market uncertainty

The Group's financial position continues to strengthen with increasing profitability and deleveraging of the highest risk lending books. However, a number of factors could affect the Group's financial and lending risks. These include ongoing political uncertainty in the Eurozone and potential economic weakness that could adversely impact the operating environment of the Group.

There is also potential for the UK banking landscape to change as a result of a referendum on EU membership or the output of the Competition and Markets Authority (CMA) review. In addition, a reversal in the UK economy accompanied by deterioration in the housing market could increase credit losses significantly, while rising competition could compress core margins below sustainable levels.

Business resilience

Business and IT resilience remain critical to delivering widely available, excellent service to members as tolerance of service disruption has reduced significantly in a digitally-enabled environment. The pace of change and the need to build on existing legacy IT systems and processes can increase complexity and requires careful management.

At the same time, the increasing sophistication of cyber criminals means that guarding against cyber attacks remains a major focus to ensure that we can keep pace in preventing, detecting and responding to attacks to safeguard the Group and its members.

Innovation

The pace of technological development continues to create a period of significant change in financial services. The Group has delivered significant digital change over the past year and will continue to develop new and existing technology to deliver a market-leading proposition and enhance customer experience.

As the scale and pace of digital change intensifies there is a risk that we do not keep pace and may be left with unattractive customer propositions with resulting damage to reputation and underlying viability. There is a further risk that we invest in technologies which become outdated before the end of their expected lives. We carefully monitor the cost of keeping pace with change, particularly in the face of the intense competition seen across the retail banking market to ensure that our business model remains financially balanced.

Conduct challenges

We are committed to delivering great member experience and fair outcomes for all our customers. However, in the current landscape of rapid technology changes and shifts in the regulatory environment, conduct risks may arise. The Group may be exposed in the future to retrospective sanction if regulatory expectations evolve more slowly than the business. Alternatively regulatory intervention, intended to ensure good customer outcomes, may increase both complexity for members and execution risk for the Society.

Dealing effectively with regulation is an important part of running a modern financial institution. Nationwide's business model and member focus put us in a good position to meet regulatory expectations of our conduct. The Group has not been subject to the same level of regulatory censure as its main competitors, reflecting its commitment to delivering good conduct and fair customer outcomes. This is borne out by the Group having far fewer complaints to the Financial Ombudsman Service upheld when compared to the industry as a whole.

Further details on risk management and top and emerging risks can be found in the Business and Risk Report.

For further information on how we manage and monitor risks, see the Business and Risk Report on pages 94 185

Our people

Our people are employed to deliver an exceptional experience for our members and we aim to support them in doing this by being a **great employer.**

Our annual employee survey indicates that our people are more engaged and enabled than ever. Our results are well above the norm not only for financial services providers, but for high performing companies in general. Over the past year our employee engagement score increased by 2% to 79% (HP Norm: 73%) and our enablement score remained at 75% (HP Norm: 71%). In addition, over 90% of our employees are proud to work for us and believe our Citizenship agenda is having an impact.

These levels of employee enablement and engagement are achieved by developing an exceptional member-focused culture, at the core of which is our PRIDE ethos:

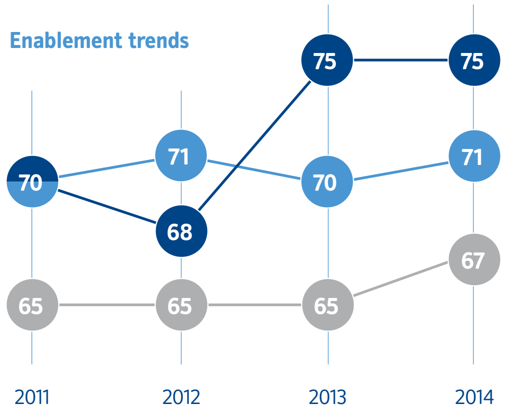
Putting members first
Rewarding relationships
Inspiring trust
Doing the right thing
Excelling at service

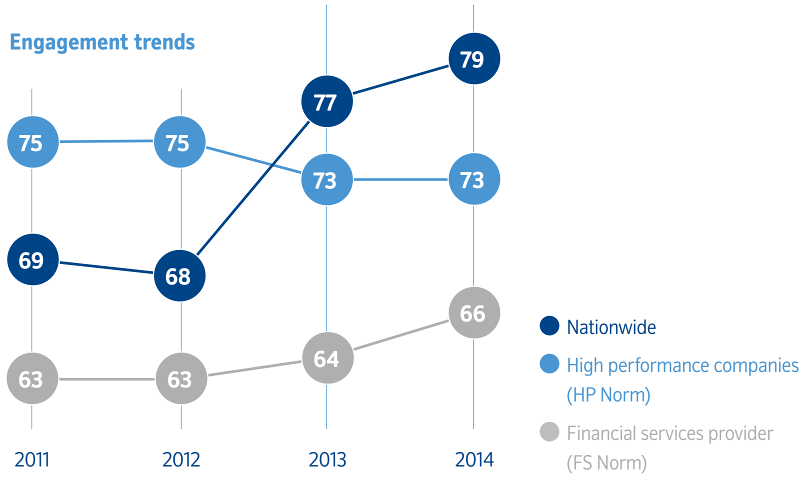
Employee Enablement is a measure of the extent to which employees feel well equipped to succeed.

Employee Engagement is a measure of the extent to which employees feel motivated to deliver.

We measure our success in the delivery of a great place to work through an annual employee survey which is independently run by the Hay Group plc. The latest results of this annual survey, as at December 2014, are shown on this page.

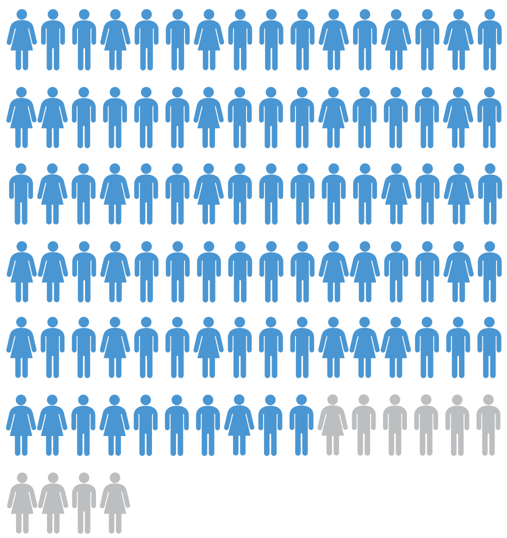
Benchmarks against which we are measured are:
HP Norm: High performance normalised scores
FS Norm: Financial services normalised scores





Performance, reward and recognition

Our reward principles enable Nationwide to deliver our Corporate Plan and provide high standards of service to our customers. We ensure that they are aligned to our members' interests, are competitive within the market, enable our people to have choice and flexibility, and are reflective of our mutual ethos.



90% of our employees are proud to work for us

Leadership and emerging talent

Our business results pay testimony to a leadership team that has delivered a strong financial performance, the highest levels of customer satisfaction and best-in-class employee engagement levels in our sector.

Our 'Emerging Talent' programme, which encompasses the attraction of apprentices, summer interns, industrial placements and graduates, is an important part of our overall people strategy as it enables us to attract and retain our workforce of the future. Since launching our first apprentice programme in 2013, we have seen it grow and develop, adding more value across the business.

Culture and diversity

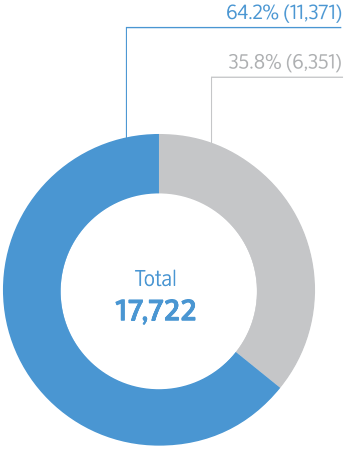
We value people from all backgrounds, ensuring an inclusive approach that celebrates diversity. We run five employee networks as a key part of our diversity and inclusion agenda, representing: women; faith and belief; disability; ethnicity; and sexual orientation. The networks aim to raise awareness and support developmental and networking opportunities. These also help us develop an inclusive and accessible environment, where diversity is celebrated and employees feel comfortable to be themselves at work; all of our networks are open to all of our people.

We can only continue to meet the needs of our increasingly diverse customer base if we celebrate diversity within Nationwide.

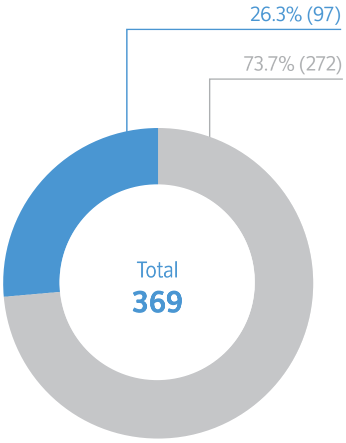
Female representation

The charts below show the number and proportion of Society employees, senior managers and directors of each sex as at 4 April 2015. A senior manager is an employee who has responsibility for planning, directing or controlling the activities of the Society, or a strategically significant part thereof.

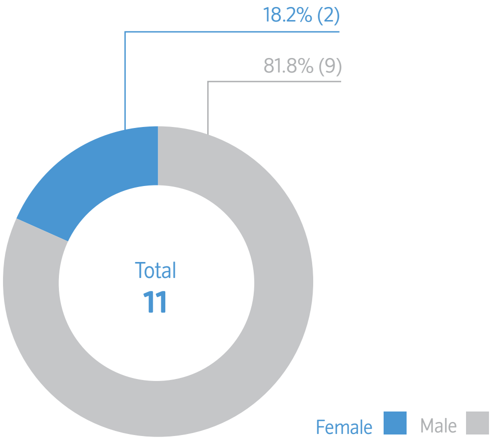
Total



Senior managers



Board



This year our diversity agenda has seen us achieve:

Looking forward

As we move into an increasingly digital world the requirements of our leaders will change. We will ensure that our development schemes continue to support our members' needs and will continue to create a pipeline of future executive leaders.

We will focus on our diversity training to ensure our managers feel confident in leading and developing a diverse workforce, and responding appropriately to an increasingly diverse customer base.

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

For the Nomination Committee report see pages 80 81

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Citizenship report

Our five year citizenship strategy is built on feedback received from you, our members, and so we focus on three key areas that are at the heart of our business: **Your Home, Your Money and Your Community**.

In addition, we continue to deliver successfully on our ambition to run our business responsibly, by managing our impact on the environment, creating a great place to work and by ensuring everything we do is ethically grounded. We call this **Your Society.** The following pages tell you how we have performed in all four areas.

LIVING
On your side

Your Home

179,000
people helped into a home of their own this year.

Your Money

259,000
people helped to start saving this year.

Your Community

£4.5 million
channelled into local communities this year.

Your Society

As a mutual, we will stay true to our values and run our business in a responsible and ethical way.

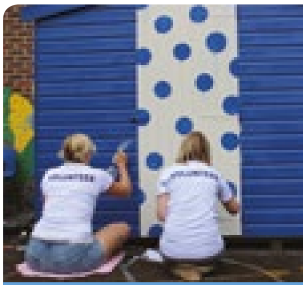
Your Environment | Your Workplace | Your Ethical Business

Corporate Citizenship, the corporate responsibility consultancy, are the providers of an ISAE 3000-based assurance on our reporting this year.

Back to **Contents**

Throughout Nationwide there are members and employees working side by side on things that matter to make a real difference in many ways. Here are just a few:

- delivering lessons in schools focusing on financial literacy and employability skills
- volunteering together to directly improve the facilities available in charities chosen by members
- fundraising for national and local charities – £1,733,000 raised
- planting trees in our first Nationwide Woodlands creation event in Wiltshire – in partnership with Wiltshire Wildlife Trust
- monthly employee payroll giving – donating to Macmillan and Shelter
- holding cake sales and coffee mornings – over £143,000 raised while supporting Macmillan's World's Biggest Coffee Morning
- employee befriending service to tackle isolation and provide companionship for older people – in partnership with Age UK
- skills sharing to enhance the skills of volunteers working in charities.



Did you know?

- **93,000** children are homeless in Britain today [1]
- **30%** of UK households have no savings at all [2]
- **20%** reduction has been seen in voluntary sector funding since 2008 [3]
- **5 million** working people in the UK earn less than the Living Wage [4]
- **12%** of the UK is forest compared to the EU average of 45% [5]
- **743,000** young people are unemployed [6]

Our Living on your side strategy supports all of these challenges.

Sources: – Shelter. 2 – The Savings & Investments Policy Project 'Our Financial Future', June 2014. 3 – NCVO. 4 – Living Wage Foundation. 5 – Forestry Commission 2014. 6 – Department of Work and Pensions 2015.

Independent recognition

Our Citizenship agenda is a core part of how we operate as a business, staying true to our mutual values of doing the right thing. Building on our previous success in this area, we're delighted that Nationwide scored 99% in the 2015 Business in the Community Corporate Responsibility Index – giving us a five star rating, the highest possible.

Governance

While our citizenship strategy is owned by all our employees, overall accountability for it rests with our senior management team and the board of directors.

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

Alison Robb Group Director
- Employee engagement
- Citizenship

Chris Rhodes Executive Director, Group Retail
- Members/customers

Tony Prestedge Chief Operating Officer
- Supply chain
- Environment

Citizenship report

Your Home

549,000 people helped into a home of their own since 2012 against our target of 750,000 by 2017.

With **179,000** helped this year, we're nearly three quarters of the way there.

Preventing families becoming homeless

Nationwide fund Shelter to work with vulnerable families who could lose their homes. We fund the following Shelter services:

- **Birmingham Family Support Service** empowers families to tackle poor housing, help victims of domestic abuse and provides budgeting advice
- **Sheffield Education Training Learning Project** gives the opportunity to access education and training courses which support people back into work and improve their housing conditions
- **Shelter Housing Advice Line** gives callers detailed housing advice which prevents homelessness and helps people move away from poor housing conditions.

Proudly supporting Shelter

Supporting military families into a home

We are proud to be supporting military families into a home of their own. We know that military families can face barriers securing housing and that this is often because they need to move so frequently. Nationwide has taken steps to support Armed Forces families such as by producing a guide for military personnel detailing the steps to take to secure a home and making sure that our products support military families when they have to move.

Supporting older people at home

Nationwide has been working in partnership with the **Elderly Accommodation Counsel** (EAC). Their Live Safely and Well At Home campaign focuses on preventing trips, falls and hazards in the home and so helps to reduce crisis admissions to hospitals. We support a telephone advice service, which gives older people information regarding future housing options, including remaining at home or living in a supported home, such as sheltered accommodation.

5,000 older people supported by EAC to remain in their homes.

73%

Our 5 year target is to help **750,000 people** into a home of their own.

We're nearly three quarters of the way there.

Employees and members raised an incredible **£49,500 for Shelter** at Christmas and donated **1,563** shoeboxes.

During 2015 we have helped Shelter prevent **7,000 families** from becoming homeless.

Target was 3,000.

In 2015 Nationwide donated

£873,000

to the Nationwide Foundation to support its Decent Affordable Homes strategy.

Supporting Shelter's Family Support Service

'I am a single mum of five beautiful children and was a victim of domestic abuse for 12 years.

When I was first referred to Shelter in 2011, I really thought I didn't need their help. For me, Shelter meant homelessness. But they became like family and my support network.

I was then referred to the Nationwide funded project within the Family Support Service which is how I met my Support Worker. She has supported me with housing repairs, benefits and bills, DLA forms for my son and carer allowance for myself. She also guided me into counselling as she understood I was in need of emotional support.

My confidence is overall a lot better than before. Shelter and their team have helped me and my family get back up off our knees and helped us in our struggle to achieve our goals.'

Proudly supporting

Shelter

Citizenship report

Your Money

259,000 people helped to start saving this year against a target of 205,000.

632,000 helped since 2012 towards a target of 1 million by 2017.

Empowering people to save

We've empowered 259,000 people to start saving and manage their money better via innovative products and services. This includes Impulse Saver, our unique mobile banking tool which allows customers to move money between their accounts without logging in, making it easy to save little and often. Since its launch in May 2014, we've seen over 250,000 transactions using the app. We've also launched FlexOne, a current account for 11-17 year olds. This includes access to a special regular savings account, as well as to a wealth of fun and informative educational resources about managing money, including films, games and guides.

Talking Numbers

Talking Numbers is our initiative to improve the everyday number skills of 200,000 young people by 2017. Working with teachers and partner organisations, we've created a wide range of interactive activities designed to make maths relevant and boost young people's confidence and skills. From how to get the best deal when shopping, to planning a rock concert, the emphasis is on showing the practical uses and benefits of number skills. This year, via Talking Numbers and with all the volunteering our employees have done in schools and clubs we've reached 83,000 young people.

National Numeracy

In March 2012 we launched a four-year partnership with National Numeracy, a charity that aims to change attitudes towards maths, as well as improve levels of everyday number skills in the UK. Its Challenge Online launched in March 2014 – an interactive website which helps people to understand and improve their numeracy skills. This is part of National Numeracy's call to action to everyone in the UK to improve their numeracy skills; the key is instilling the belief that maths is valuable in everyday life and anyone can improve their skills with a 'can do' attitude. Since launch, just over 50,000 people have registered for the Challenge Online so far.

Over **50,000** people registered for National Numeracy Challenge Online.

632,000
new savers since 2012.

83,000
TALKING NUMBERS

Number of young people reached by Talking Numbers and employee volunteering.

Greenwood Academy

Part of Talking Numbers, Rock Club is all about making maths fun and dispelling the myths about it being boring and irrelevant to life after school. Year 6 and 7 pupils use maths skills to plan their own rock concert with the added incentive of winning tickets to Rock Assembly, a real live concert at Wembley.

Pupils from Greenwood Academy in Birmingham used their maths to manage a budget, design stage layouts and lighting, estimate quantities for catering and pick the best play list. 88% of pupils said it was 'brilliant', 78% said they felt that their maths skills had improved and 96% said that it made them want to do better at school.

We focus on schools where over 30% of students receive free school meals and in 2015 we plan to roll Rock Club out to 8,000 students via our partnership with the charity The Transformation Trust.

91% of pupils said they enjoyed taking part in Rock Club.

Citizenship report

Your Community

£4.5 million channelled into local communities this year against a target of **£4.4 million,** **£11 million** since 2012 towards a target of £15 million by 2017.

Volunteering Side by Side – working together

Side by Side is all about creating a greater positive impact across the UK by connecting our members and employees. Together we want to support local causes close to people's hearts. We piloted the scheme in Bournemouth in May 2014. Nationwide members and employees gave 500 hours of volunteering time to come together to support James Burns House, Victoria Education Centre, Autism Wessex and Bournemouth Churches Housing Association. They helped with property and garden maintenance, wheelchair accessibility, developing employability skills and providing memorial facilities for lost friends. A wider programme will be launched later this year.

SIDEBYSIDE
Volunteering together in your community

Community Match and Big Local – funding charities close to your heart

We support over 1,000 local charities across the UK, each directed by our local members. Charities are nominated by members and are then voted on in branch with Community Match and online with Big Local. All selected charities receive donations, with those receiving the most votes receiving up to £5,000.

The Big Local

Community Match

Macmillan – our partnership goes from strength to strength

We've supported Macmillan for over 20 years through fundraising, volunteering and donations. In response to Macmillan's 'Counting on your support' campaign, our Executive Committee, led by Chief Executive Graham Beale, visited the Macmillan Cancer Centre at University Hospital London in November 2014 to understand more about the requirements of people affected by cancer. It's part of our commitment to vulnerable customers who face unique financial issues due to their circumstances. We're also funding further research into the long-term financial impacts of a cancer diagnosis, to help provide better support in the future.

Proud to support
WE ARE MACMILLAN. CANCER SUPPORT

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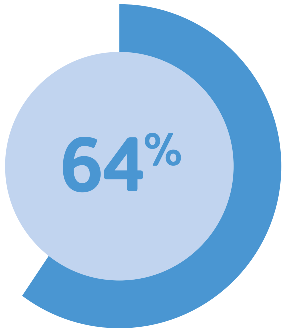
£1,447,000
raised for charity by employees.

The value of employees volunteering their time was **£1.2 million** (all employees are given 14 hours to volunteer during company time each year).



Nationwide employees involved in citizenship.

Saint Catherine's Hospice

Saint Catherine's Hospice in Scarborough, is one of 1,010 charities that benefited from our community funding. The hospice cares for patients, their families and friends when they need it most. The charity was one of three nominated for the £5,000 award at the end of 2014. David Marshall, Director, Funding Development, said: "We were delighted to win and receive the £5,000, but more than this the profile it gave the hospice was incredible. Our communities got behind the vote, and social media went mad, with supporters voting for us and sharing with their friends."

The funding provided by Nationwide helped Saint Catherine's Hospice develop their services and the voting process gave an opportunity to raise their profile and share messages about the care they provide.

Over 5,000 employees donate their pennies every pay day to either Shelter or Macmillan – together raising **£37,000**.

Citizenship report

Your Society

Your Environment – creating woodlands

We're planning to plant a tree for every current and future employee. That's 17,000 with up to an additional 3,000 trees per year. This will help to reduce our environmental impact and provide long lasting community benefit. Creating and maintaining woodland sites also provides an exciting opportunity for members and employees to work together. Employees have already engaged with over 4,000 shoppers around the UK during the Big Positive Weekend roadshow – shoppers chose a pledge to be more sustainable and in turn over 4,000 trees have been planted.

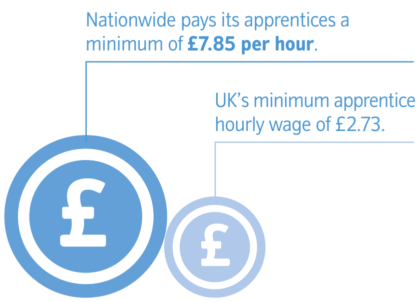
In March 2015 over 100 Nationwide volunteers planted 3,000 trees in three days at our first ever woodlands site in Wiltshire. More woodlands are planned and sites will be spread across the UK.

12,680
trees planted.

Your Workplace – developing careers

We're supporting the UK workforce of the future by more than doubling the number of apprentice, graduate and intern opportunities to 245. This will include 80 advanced apprentices, 15 higher apprentices, 100 graduates and 50 industrial placements.

We strongly believe by taking on more apprentices we are not only helping people start their careers but also improving our workforce by identifying, developing and retaining talented people from various different backgrounds with fresh ideas.



Your Ethical Policies – Principal Partner of Living Wage Foundation

We were the first high street financial services provider to become a Principal Partner of the Living Wage Foundation. The Foundation encourages employers across the UK to pay their employees a Living Wage. This is worth nearly £150 a month more than the minimum wage and can make a real difference to the finances of working families. As the country's largest building society, we wanted to take a leading role in the campaign for fair pay. We played a major part in Living Wage Week and were the first national organisation to promote the Living Wage on the high street.

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Supporting a Living Wage

In April 2014 we were the first major high street brand to become a principal partner of the Living Wage Foundation, and we are proud to play our part in encouraging other organisations to raise the level of minimum pay across the economy. The social and residential care sector is one area where low pay is commonplace.

It doesn't have to be that way.

The charitable organisation and residential care provider, Abbeyfield, is a Living Wage employer. All their directly employed staff receive the Living Wage. Louise Turner is a Care Assistant who has worked at their Brown's Field House in Cambridge since October 2013. 'I love working at Abbeyfield. The atmosphere is good. We chat and make our residents laugh. I treat the residents the way I would expect to be treated myself and give them the dignity they need.'

Since receiving the Living Wage, Louise has been able to take her two three-year-old and her five-year-old grandchildren out more often for the type of treats that many grandparents take for granted. 'It is lovely to watch them have fun and to be able to buy them the bits and pieces, like clothes, they need – and that helps out my children.'

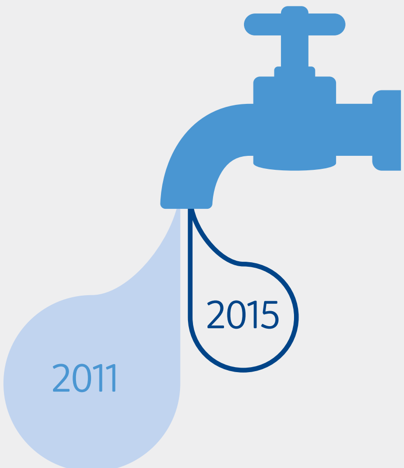
Find out more at livingwage.org.uk

100% of our waste is now diverted from landfill.

First high street financial services organisation to get the Carbon Trust Triple Standard.

Our carbon footprint is **11%** less than it was in 2011.

Chief Executive, Graham Beale, working with local school children and volunteers at our first woodland planting event in Wiltshire.



We now use **25%** less water than in 2011.

The Nationwide Foundation

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

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

Bringing **empty properties** back into use as homes for people in need.

Improving the living conditions of vulnerable tenants in the **private rented sector**.

Funding **alternative, scalable housing** models to provide more affordable homes.

Empty properties

In 2015, funding from the Nationwide Foundation created 35 homes for 80 people in need. These decent, affordable homes have all been renovated from long-term empty properties.

Over 100 people not in employment or education have worked on the refurbishments, providing them with the opportunity to gain construction qualifications and DIY skills, and therefore increasing their employability.

In some cases, the future tenants work on the properties, helping create a real sense of ownership and commitment to their new homes and neighbourhoods.

created for people in need.

Private rented sector

Generation Rent is funded by the Nationwide Foundation and is the UK's only national organisation dedicated to working to improve conditions and raise standards in the private rented sector for vulnerable tenants. Renting in the private sector is the only housing tenure available to many tenants. Problems facing some tenants include unaffordable rents, insecurity of tenure and poor standards of accommodation and often tenants feel unable to tackle these problems.

The Nationwide Foundation's funding of Generation Rent has helped to raise political and public awareness of the challenges in this housing sector.

Improving
conditions and raising standards.

Nationwide makes an annual donation to the Nationwide Foundation, which for 2014/15 was £873,000.

Alternative housing models

The Nationwide Foundation is committed to the development of alternative, scalable models for affordable housing. Funding in 2015 has been given in support of:

- Self-build housing – the National Custom & Self Build Association began research which will lead to more opportunities for people to build or commission their own affordable homes
- Co-operative housing – the Wales Co-operative Centre commenced work supporting the development of Welsh communities whereby residents democratically control and manage their affordable homes
- Social rent homes – the New Economics Foundation developed proposals for changing the way that housing associations and local authorities agree the types of homes that are built on a site: this should result in the availability of more social rent homes
- Community land trusts (CLTs) – the National CLT Network provided grants for feasibility days and technical assistance to emerging CLTs, enabling them to plan and build more affordable homes.

©Ronnie Hughes

ThirdSector Business Charity Awards 2014 Winner

Best Corporate Foundation winner at the Business Charity Awards 2014.

2014 THE CHARITY AWARDS WINNER

Grantmaking and Funding winner at the Charity Awards 2014.

Strategic Report

Governance

Meeting the financial needs of our younger customers

In 2014 we launched FlexOne, a current account designed specifically for teenagers and young people. Offering a Visa contactless debit card or cash card as well as access to our Mobile Banking app, it also provides access to an exclusive FlexOne Regular Saver account.

Just as importantly, we have a range of educational material at nationwide.co.uk/flexone and also at nationwideeducation.co.uk to help young people get to grips with managing money.

'My mum recommended it,' says 17 year old Jacob Hughes. 'I think she liked the fact that Nationwide doesn't charge me anything for using my account. I like the fact that I can check my balance on my phone. I can also tweet any queries I have and get an answer 24/7.'

In November 2014, a month after its launch, FlexOne came top in the Which? best children's bank account table.

Board of directors

As at 4 April 2015

Meet the people who are standing for election or re-election to your Board including David Roberts. David is seeking election as a director and if elected will take over from your current Chairman, Geoffrey Howe, after the AGM.

Graham Beale BSc, FCA (56)

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

Skills and experience (including directorships)
Graham joined the Society in 1985 and has developed extensive experience and understanding of both retail financial services and the mutual building society sector. This has been established over a period of almost 30 years and during this time the Society has grown and expanded to become one of the leading financial service providers in the UK as well as being the largest mutual financial institution and building society. In his role as Chief Executive, Graham is responsible for managing the Society in accordance with the strategy which remains firmly rooted in the Society's mutual heritage. Prior to joining Nationwide, Graham trained and qualified as a chartered accountant. Graham is a member of the FCA Practitioner Panel and was Chairman of the Panel for two years to April 2015. He sits on the Council of the Building Societies Association, having been its Chairman during 2009 and 2010 and chaired its Remuneration and Nomination Committee from 2011 to 2014. He is a Director of the British Bankers' Association. Previously, he has been a director of VISA Europe, 2007 to 2011.

Rita Clifton CBE, MA (Cantab), FRSA (57)

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, ASOS and Populus and is a former non executive director of Dixons Retail plc. She is also a fellow 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.

Geoffrey Howe MA (Cantab) (65)

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.

Michael Jary MA (Oxon), MBA, FRAS (51)

Term of Office:
Non Executive Director of Nationwide Building Society since January 2009.

Independent: Yes

Skills and experience (including directorships)
Michael is Chairman of Fairtrade Foundation, the charity working for better prices and decent conditions for farmers in the developing world. He is also Chairman of Duchy Originals, the organic food company founded by HRH The Prince of Wales, and of The Prince's Social Enterprises, a group which gifts its profits to The Prince of Wales's Charitable Foundation. He is a partner and one of the founding team of OC&C Strategy Consultants, a global strategy consulting firm, and an expert in retail and consumer industries.

Mitchel Lenson MBA, BA (Hons), ACIB, FSI (60)

Term of Office:
Non Executive Director of Nationwide Building Society since July 2011.

Independent: Yes

Skills and experience (including directorships)
Mitchel has spent over 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 previously 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 and BCS, an AIM listed company. Mitchel is currently a non executive director of Currency Cloud.

Lynne Peacock BA (Hons) (61)

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 and acquisitions, change management and business transformation, including almost 20 years at Board level. During her time at NAB, Lynne was responsible for its businesses in the UK consisting of Clydesdale and Yorkshire Banks. 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.

Roger Perkin MA (Cantab), FCA (66)

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 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, chairing the Audit Committee of both companies, and Friends Life Group Limited. Additionally, he is a trustee of two charities, Chiddingstone Castle and Crime Reduction Initiatives.

Tony Prestedge (45)

Term of Office:
Executive Director of Nationwide Building Society since August 2007.

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, Group Security and Property Services. Tony is a board member of Opportunity Now.

Mark Rennison BA, FCA (54)

Term of Office:
Executive Director of Nationwide Building Society since February 2007.

Skills and experience (including directorships)
Mark, a chartered accountant, is the Group Finance Director with responsibility for Finance, Treasury and Corporate Development. He is also 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.

Chris Rhodes BSc (Hons), ACA (52)

Term of Office:
Executive Director of Nationwide Building Society since April 2009.

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. Chris is a board member of National Numeracy.

David Roberts BSc (Hons), MBA, CFifs (52)

Term of Office:
Non Executive Director and Chairman Elect of Nationwide Building Society since September 2014.

Independent: Yes

Skills and experience (including directorships)
David joined the Board on 1 September 2014 as Chairman Elect and Chairman of the Board Risk Committee. From 2010-2014, he was on the Board of Lloyds Banking Group, where he was Group Deputy Chairman and Chairman of the Board Risk Committee. David has many years of experience at board and executive level in retail and commercial banking in the UK and internationally. He joined Barclays in 1983 and held various senior management positions culminating in Executive Director, member of the Group Executive Committee and Chief Executive, International Retail and Commercial Banking, a position he held until December 2006. He is a former non executive director of BAA plc and Absa Group SA, and was Chairman and Chief Executive of Bawag PSK AG, Austria's second largest retail bank. David is a non executive director of NHS England and is a member of the Strategy Board of Henley Business School at the University of Reading.

The combined experience of the executive and non executive directors ensures that the Board has the expertise it needs to drive forward the Society's strategic objectives.

Principal Committees and their director memberships

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

Principal Committees	Membership
Executive Committee	Graham Beale Chief Executive (Chairman) Mark Rennison Group Finance Director Tony Prestedge Chief Operating Officer Chris Rhodes Executive Director Group Retail Julia Dunn Chief Compliance Officer Graeme Hughes Group Director Distribution Iain Laing Chief Risk Officer Alison Robb Group Director People, Customer Communications and Commercial

Directors' report

For the year ended 4 April 2015

The directors have pleasure in presenting their Annual Report and Accounts for the year ended 4 April 2015.

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 (IFRSs) 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, underlying results which allow comparison between 2015 and 2014 are given in the Strategic Report and the Business and Risk Report.

The information that fulfils the requirements of the Accounting Standards Board's reporting standard 'Operating and Financial Review' (OFR) can be found in the Strategic Report of this Annual Report and Accounts, which also includes the Chairman's statement and the Chief Executive's review, and is incorporated into this report by reference.

Business objectives

The principal purpose of the Society and its subsidiaries (the Group) is to safeguard its members' financial interests, help them to save, help them to buy their own homes and help them to make the most of their money. The Group aims to run a low risk business model, providing a full range of personal financial services including mortgages, savings, banking and insurance. The Group also undertakes a limited range of specialist activities including buy to let lending, commercial lending and deposit taking for SMEs.

Strategic Report, future developments and key performance indicators

The Group's business and future plans are reviewed in the Strategic Report, together with the Group's principal key performance indicators.

Profits and capital

Profit before tax for the year ended 4 April 2015 was £1,044 million (2014: £677 million). The profit after tax transferred to the general reserve was £839 million (2014: £549 million).

Total Group reserves at 4 April 2015 were £8,218 million (2014: £7,383 million). Further details on the movements of reserves are given in the Group statement of movements in members' interests and equity.

Gross capital at 4 April 2015 was £12,277 million (2014: £11,776 million) including £531 million (2014: £531 million) of core capital deferred shares (CCDS), £992 million (2014: £992 million) of other equity instruments, £2,121 million (2014: £2,269 million) of subordinated debt and £415 million (2014: £601 million) of subscribed capital. The ratio of gross capital as a percentage of shares and borrowings at 4 April 2015 was 6.9% (2014: 6.8%) and the free capital ratio was 6.0% (2014: 5.9%). The Annual business statement includes an explanation of these ratios.

Mortgage arrears

The Group mortgage portfolios at 4 April 2015 included 1,760 mortgage accounts (2014: 2,349), including those in possession, where payments were more than 12 months in arrears. The total amount of principal loans outstanding in these cases was £235 million (2014: £314 million). The total amount of arrears in these cases was £20 million (2014: £27 million) or 0.01% (2014: 0.02%) 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 £2,212,619 (2014: £1,815,557), including £1,500,000 (2014: £858,333) to the Nationwide Foundation; further details on the Foundation are provided in the Strategic Report. In addition the Society has contributed employee time for volunteering programmes at a cost of £1,219,929 (2014: £1,342,178), resulting in a total commitment to the community of £3,432,548 (2014: £3,157,735). 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 £4,878,326 on 7 April 2015 to the Reclaim Fund Limited, the administrators of the unclaimed assets scheme. The total contributions from inception to that date are £51,317,218.

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 10 days at 4 April 2015 (2014: 12 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 frameworks, and independent governance and risk oversight.

The risk management objectives and risk framework of the Group are shown in the Business and Risk 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
- compliance, conduct and customer experience risk
- strategic risk.

The Group has established a number of committees, frameworks and policies to manage these risks. These are set out in the Business and Risk Report and in the Report of the directors on corporate governance.

The Business and Risk Report also details those risks which are considered the Group's top and emerging risks that could affect the delivery of the Corporate Plan.

In compliance with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) Country-by-Country Reporting Regulations 2013, effective 1 January 2014, the Group will publish additional information, in respect of the year ended 4 April 2015, by 31 December 2015. This information will be available by that date on Nationwide's website: **nationwide.co.uk**

Employees

Nationwide has a culture focused on delivering an exceptional customer experience at all times. This culture is underpinned by PRIDE:

- Putting members first
- Rewarding membership
- Inspiring trust
- Doing the right thing
- Excelling at service.

PRIDE is understood by all our employees, supports the delivery of our member promise of being 'On your side' and is the combination of principles, values and behaviours which form the basis of our employment proposition and our ability to achieve fair customer outcomes. As a key element of our corporate strategy, we aim to achieve industry leading levels of employee engagement and enablement, maintaining our unique culture as the leading mutual financial services organisation and have achieved levels above industry benchmarks.

If we are to deliver our strategic aims, we must maintain an inclusive culture in which employees can perform to their full potential. As a national organisation with local representation, the Society aims to contribute to each of its communities; our Corporate Citizenship strategy enables employees to support those communities through our volunteering programme.

Directors' report continued

We have continued to invest in the development of leaders and employees at every level of the Society, 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 recognise that we must also deliver a steady flow of new talent to our business, and actively recruit from external sources. This includes award winning graduate programmes and apprenticeship schemes, which are being expanded.

We have a range of ongoing initiatives supporting our diversity policies on gender, ethnicity, sexual orientation, age and disability. Our approach to diversity and inclusion is widely recognised and has led to a number of awards including being named as one of the top 50 employers for women by The Sunday Times and being a finalist in the RFO awards 2014. In addition, the 2014 Business in the Community gender and race survey resulted in Nationwide being one of only two financial services organisations in the Top Ten Private Organisations list.

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 ethnicity, faith and belief, gender, marital status, age or 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.

For further details on the Society's people strategy please see the 'Our people' section of the Strategic Report.

Environment

In June 2014 we were the first high street financial services provider to be awarded the Carbon Trust Triple Standard for the work we have done to manage and reduce the environmental impacts of our business.

Over the last twelve months we reduced electricity consumption by 3.3%, gas by 8.7% and water by 6.0%. We have also made significant changes to the way we manage our waste and from February 2015 100% of our waste is now diverted from landfill.

The majority of carbon emissions are from the energy we use to provide financial services to our members. Energy is used to power our IT infrastructure, our branches, online banking and our administration centres. In order to minimise energy use we have fine-tuned our building management systems and controls to make sure everything is working as efficiently as possible. We have also changed the layout of our data halls and increased the operating temperature which has resulted in significant energy savings without compromising service and resilience.

We remain committed to reducing energy use and supporting the transition to renewable energy. Through our 'Power Challenge' we have reduced energy use in our branch network by over 2 million kWh – enough to power 650 average UK households. Through these reductions and supporting the development of wind power in India, we became carbon neutral in 2014, based on our Scope 1 and 2 emissions (all our direct greenhouse gas emissions and indirect emissions from the purchase of electricity).

Further details of our activities can be found in our Citizenship report and on Nationwide Building Society's website at **nationwide.co.uk** (citizenship section). A summary of our greenhouse gas emissions performance is as follows:

	Year to 4 April 2015	Year to 4 April 2014	Baseline year 4 April 2011
Carbon dioxide (CO_2e)[1] in tonnes[2]			
Scope 1 emissions			
Energy	**3,498**	4,020	4,890
Travel	**2,243**	2,208	2,448
Scope 2 emissions			
Electricity	**46,245**	43,090	50,802
Total Scope 1 and 2 emissions[3]	**51,986**	49,318	58,140
Total carbon dioxide (CO_2e) in tonnes per FTE	**2.90**	2.80	3.46
Water use (cubic metres)	**191,242**	205,254	259,718

Notes:
1. CO_2e is an abbreviation of 'carbon dioxide equivalent' and is the internationally recognised measure of greenhouse emissions.
2. When calculating our carbon emissions for 2015 we have used the new DEFRA 2014 conversion factors which mean our reported carbon footprint has increased from 2014; however it remains 10.6% below our baseline year. If the emissions factors had remained the same, our footprint would be 18.5% below baseline.
3. Scope 1 covers direct combustion of fuels and company owned vehicles and Scope 2 covers emissions from electricity and steam purchased for own use.

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 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.

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 in the Strategic Report and the Business and Risk Report. 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.

The British Bankers' Association Code for Financial Reporting Disclosure (the BBA Code), published in September 2010, 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 2014/15 financial statements and the Group's financial statements have therefore been prepared in compliance with the BBA 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:

- further development of the improved risk disclosures following the recommendations on qualitative principles and best practice of the Enhanced Disclosure Task Force
- best practice and recommendations in accordance with the regulator's hot topics such as including further quantitative and qualitative disclosures regarding forbearance activities and providing granularity around the disclosure of the fair value of loans at amortised cost, and
- the development of the Society's Strategic Report in compliance with the disclosure requirements of the 2012 UK Corporate Governance Code to provide additional context to the financial statements with insight into the business model and the Group's main corporate objectives.

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' report continued

Directors' statement pursuant to the disclosure and transparency rules

The directors confirm that, to the best of each director'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 Strategic Report and the Business and Risk 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 for control of its business, records, inspection and reports.

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 that 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 the management of 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, along with its financial position, capital structure, risk management approach and factors likely to affect its future performance are described in the Strategic Report and the Business and Risk 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 ratios and its total capital resources are comfortably in excess of PRA requirements.

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.

Fair, balanced and understandable

The directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's performance, strategy and business model.

Details of the governance procedures which have been embedded to support this can be found in the Audit Committee report.

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	
Alan Dickinson	(resigned 17 July 2014)
Michael Jary	
Mitchel Lenson	
Lynne Peacock	
Roger Perkin	
David Roberts	(appointed 1 September 2014)

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 all of the directors will stand for re-election at the 2015 AGM with the exception of Geoffrey Howe and Michael Jary who will retire at the AGM and David Roberts who is standing for election.

Michael Jary has a holding of 836 core capital deferred shares in Nationwide Building Society. None of the directors has any other beneficial interest in equity shares in, or debentures of, any connected undertaking of the Society. 50% of awards to directors from the 2014/15 Directors' Performance Pay Plan and 2011-14 Medium Term Performance Pay Plans will be linked to the value of the Society's core capital deferred shares, details of which have been provided in the Report of the directors on remuneration.

The auditors

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

Geoffrey Howe
Chairman, 21 May 2015

Report of the directors on corporate governance

For the year ended 4 April 2015

Dear Member,

This is my last report to you as Chairman of Nationwide as I will be retiring from the Board at the AGM in July. Subject to member approval I will be succeeded by David Roberts, who has been Chairman Elect and a non executive member of the Board since 1 September 2014. During my time in office, governance and risk management have been key areas of focus for the Board and the last 12 months have seen a continuation of this theme, with new legislation and guidelines being issued with which Nationwide must comply.

Digital developments

In the last couple of years, there has been a dramatic change in the way in which many businesses, including those in financial services, interact with their customers, with a significant increase in the provision of digital and mobile services. While this has created real opportunities for Nationwide, and we have been at the forefront of this revolution in introducing our award-winning Mobile Banking app, it is important that, as a member-focused business, we also continue to provide a wide range of different ways in which our customers can engage with us. Whether that is through mobile, online, over the telephone or face-to-face, the Board is very aware of the implications for customers when things don't go to plan and how important it is that problems are quickly put right.

A key strategic target for Nationwide is to provide market leading levels of customer satisfaction. During the year we have therefore introduced a new executive led Weekly Service Committee, whose primary focus is to make sure we achieve this target. We are also aware, as you will be, that the financial services sector has recently seen a number of well publicised cases where firms' IT systems have frustrated, or sometimes prevented altogether, customers completing important transactions. To ensure we address this, we have revised the remit of the IT Strategy and Resilience Committee of the Board, formerly known as the Board IT Strategy & Transformation Committee, so that it is now much more focused on ensuring the robustness, resilience and reliability of our IT systems and, as a crucial part of that, how any interruption of service, and impact on customers, is kept to an absolute minimum.

Changing regulatory agenda

In July 2014, the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA), the two bodies that authorise and regulate the Society's activities, published proposals (which are to be introduced in 2016) reflecting the recommendations of the Parliamentary Commission on Banking Standards, which was set up by the Government to address behaviour and conduct in the financial services industry. The new proposals, which we are currently working through to ensure we can comply by the required date, are intended to create a new framework to encourage individuals in banking to take greater responsibility for their actions and to make it easier for firms and regulators to hold individuals to account when things go wrong.

Board diversity

Nationwide's policy on diversity and inclusion has been an important focus for your Board over a number of years. The implementation of our strategy has seen an improvement in female representation in the executive population where a strengthening pipeline of talent has been identified. I am also delighted to report that by July 2015 we expect to have complied with Lord Davies' 2011 report on the representation of women in the boardroom and will have met our target of 25% of women on the Board.

However, diversity is much broader than gender alone and ethnicity is one area that has seen a number of initiatives introduced which should result in an increased representation across Nationwide in the coming years. Further details on our diversity strategy are contained in the Nomination Committee report.

Succession planning

The governance framework under which the Society operates continues to ensure strong and effective leadership. Of particular importance is the regular review of the Board's composition, talent and succession planning to ensure that we have the requisite skills, capabilities and experience at Board level to support the Society in achieving its strategic priorities and objectives as well as meeting regulatory expectations. A senior management and directors' development programme is well established and underpins leadership capability and succession at this level. During the year consideration was also given to strengthening your Board's capabilities and the Nomination Committee instigated searches for three new non executive directors. Details of these appointments will be announced as soon as confirmed. As previously reported, in addition to these appointments, David Roberts was appointed as Chairman Elect on 1 September 2014. Michael Jary will retire from the Board on 23 July 2015, having served as a director since January 2009. It is intended that Graham Beale will retire as Chief Executive at or around the date of the AGM in 2016 and a search will now commence for his successor.

UK Corporate Governance Code

During the year, the Society complied with the Building Societies Association's guidance on the UK Corporate Governance Code (the Code) published in October 2012, a copy of which is available on the Society's website, and I have set out in this report an explanation of how the principles and provisions of the Code have been applied by your Board. A new version of the Code was published in October 2014 with key changes relating to the assessment and reporting of going concern, business viability, risk management and remuneration. The new Code applies to financial years commencing on or after 1 October 2014 and therefore the Society will report against this version of the Code in next year's Annual Report and Accounts.

Governance and risk management

As a major player in the UK financial services sector, it is imperative that we have in place robust risk management and control frameworks. Your Board seeks to balance the interests of members and a broad range of stakeholders, including suppliers, customers, regulators, the community and employees. Further details of the work of the Board, Audit Committee, Board Risk Committee and Nomination Committee are set out in this report. The Board plays a crucial role in setting the tone for the organisation and in reinforcing and developing the cultural and ethical stance on important issues.

Looking to the future

I have thoroughly enjoyed my time as Chairman of the Board and would like to thank all my colleagues, past and present, as well as you, the members and owners of our Society. I leave you in excellent hands with my successor David Roberts who will take over from me as Chairman at the conclusion of the AGM in July. David has had a distinguished career in the financial services sector and is very well qualified to take your Society forward.

I firmly believe that Nationwide is well placed to satisfy our target of providing market leading customer satisfaction and I look forward to continuing my relationship as a member of the Society.

Geoffrey Howe
Chairman

UK Corporate Governance Code principles

The Code is a guide to a number of key components of effective Board practice and is based upon the underlying principles of good governance: accountability, transparency, probity and focus on sustainable success over the longer term. The Board remains committed to ensuring that it adopts best practice, while acknowledging that, as the largest building society and a member-owned organisation, there may be occasions where it is not possible or, indeed, appropriate to comply. However, where this is the case, an explanation of our positioning will be provided. The main principles of the Code cover five specific areas, namely: Leadership, Effectiveness, Accountability, Remuneration and Relations with members. This report sets out how the Society has complied with each of these main principles and the Code provisions associated with them.

Leadership

The Board and its committees: The Group's governance structure is based on the leadership principles in the Code. The key activities of the Board and its committees are documented and planned on an annual basis. The Board's primary role is to focus on the formulation of strategy and review of business performance and also to ensure that risks are identified and managed, and that a sound system of internal controls is in place. The Board considers the components of the five year Corporate Plan in the months leading up to its formal approval in March each year. Performance against delivery of the Corporate Plan is regularly monitored throughout the year. The Corporate Plan is developed on the basis of current and prospective market conditions and incorporates a range of economic assumptions such as the Bank of England base rate, inflationary expectations, forecasts of the size of the mortgage and savings market and the regulatory environment in which Nationwide operates. It is the Board's role to establish the guidelines within which the business is managed with the aim of ensuring the Group's long term success. It is important that the Society responds in a timely and considered way in what is a fast moving and evolving market place and for the Board to ensure that it is aware of ever changing demands, particularly as a result of the speed of response required to address the digital agenda.

The Board's terms of reference are reviewed on an annual basis and include a number of specific matters reserved to the Board. A copy is available at **nationwide.co.uk**, along with the terms of reference of the Board's principal committees. The structure and an overview of the roles of the principal Board committees as at 4 April 2015 are set out overleaf.

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Report of the directors on corporate governance continued

Board

Responsible for formulating strategy, control and review of business performance.

Set risk appetite and ensure risks are appropriately identified and managed, with a sound system of internal controls.

Remuneration Committee

Responsible for determining and agreeing the framework for remuneration of the Chairman, executive directors and senior executives.

Nomination Committee

Responsible for reviewing the structure, size and composition of the Board, as set out in the Board Composition and Succession Plan. Responsible for reviewing all appointments to the Board and its committees and the appointment of all group and divisional directors. Give full consideration to succession planning for Board members and for group and divisional directors.

Audit Committee

Responsible for financial reporting and external audit, internal controls and risk management systems, internal audit, compliance oversight, whistleblowing, fraud and bribery prevention.

Board Risk Committee

Responsible for advising the Board on current and potential future risk exposure. Responsible for the Enterprise Risk Management Framework (ERMF) including risk appetite, risk monitoring, and risk adjustments to remuneration. Responsible for oversight of risk management.

Chief Executive

Responsible for the management of the Society's business not contained within the matters reserved to the Board.

Results Approval Committee

Responsible for reviewing and executing the decisions made by the Board in relation to periodic financial reporting.

Executive Committee

Responsible for directing and co-ordinating the management of the business within the strategy, policies, objectives, frameworks, budget and authority approved by the Board.

IT Strategy and Resilience Committee

Responsible for providing oversight of the strategic investment portfolio and delivery of the transformation business case, the IT strategy architecture, delivery road map, governance controls, IT resilience strategy and programmes with expenditure of over £50 million.

Directors' roles and responsibilities: The roles and responsibilities of the board members are set out in writing and outlined below is a summary of the key responsibilities of the Chairman, Chairman Elect, Chief Executive, Senior Independent Director (SID) and the non executive directors:

Role	Responsibilities
Chairman	• Provide leadership to the board of directors and management of board meetings • Ensure the effectiveness of the board of directors and the development and evaluation of directors • Foster a culture of open dialogue and mutual respect between the executive and non executive directors • Lead open and honest debate at board meetings and the constructive challenge to the executive directors • Together with the other board members, challenge the strategic direction and risk appetite of the Society • Together with the other board members, promote the long term success and ensure the accountability of the Society
Chairman Elect	• Support the Chairman in carrying out his responsibilities, to chair the Board Risk Committee and ensure a smooth transition to the role of Chairman with effect from the conclusion of the AGM in July 2015
Chief Executive	• Lead the Executive Committee to direct and co-ordinate the management of the Group's business generally • Lead the Executive Risk Committee to monitor the Group's risk profile and performance, the impact of key current and emerging risks, the effectiveness of risk policies and processes, to authorise specific transactions and to oversee the Group's risk management committees and report to the Board Risk Committee • Implement and monitor systems for the apportionment and oversight of responsibilities, controls and best practices, policies and processes within the Group which maintain the Group's reputation for operational efficiency and high standards of business conduct • Establish and maintain effective working relationships with the Chairman, the Board and all directors and officers of the Group and be available to the Chief Internal Auditor, the Chief Compliance Officer and the Chief Risk Officer • Establish and maintain effective working relationships with regulators, the Government, industry sector analysts, trade organisations and the media and strategically influence and lobby these bodies as and when appropriate in the best interests of the Group • Promote the Group, its good corporate image and social standing in the UK financial services industry as the leader of the number one retail financial services provider
Senior Independent Director	• Provide a sounding board for the Chairman • Provide support for the Chairman in delivering his objectives • Be available to members should such a situation arise where it is necessary for concerns to be conveyed to the Board other than through the Chairman or Chief Executive
Non Executive Director	• Contribute to the open and honest debate at Board meetings and provide constructive challenge to the executive decisions • Bring an independent judgement to bear on the strategic direction and risk appetite of the Society • Promote the long term success of the Society and ensure that the Society is appropriately accountable to members and other stakeholders • Evaluate the performance of the Chairman and, where appropriate, contribute to succession planning for the Chairman

Details of the skills, experiences and other directorships, together with committee memberships are set out in the 'Board of directors' section of this report.

All of the non executive directors are considered to be independent based upon the guidance in the Code, including the Chairman at the time of his appointment.

Report of the directors on corporate governance continued

The role of the non executive directors is to use their skills and experience to bring an independent view to support and challenge the work and recommendations of the executive team. The letters of appointment and additional job information summaries set out the roles and responsibilities of the non executive directors. Each non executive director is selected to bring not only a broad range of business knowledge and experience but also to provide specific skills in key areas such as information technology, strategy, brand, finance, risk and banking.

Amongst their key responsibilities are the monitoring of business performance and providing constructive challenge, advice and recommendations on matters relating to the strategy and performance of the Group, present and future availability of resources, and standards of conduct, compliance and control. As part of the ongoing governance arrangements, the Chairman and the non executive directors meet at least twice a year without the executive directors present.

Board members' individual responsibilities are set out in the Group's High Level Business Control Manual (HLBCM). This document includes details of the governance and management structure and management's delegated authorities.

Attendance at meetings: The attendance of Board members during the year, with the number of meetings each may have attended shown in brackets, is set out below.

The Board held 14 meetings during the year, including an annual strategy conference in September. A Board forward agenda has been developed which sets out the main issues to be considered in the year ahead and this is supplemented by topical issues on any items requiring Board consideration.

Directors	Board	Audit Committee	Nomination Committee	Remuneration Committee	Board Risk Committee	IT Strategy & Resilience Committee**** (From January 2015)	Results Approval Committee
Graham Beale*	14 (14)	-	-	-	-	-	2 (2)
Rita Clifton	14 (14)	8 (9)	-	8 (8)	-	-	-
Alan Dickinson**	4 (4)	2 (2)	2 (2)	-	4 (4)	1 (1)	-
Geoffrey Howe	14 (14)	-	7 (7)	-	-	-	2 (2)
Michael Jary	13 (14)	-	-	8 (8)	-	3 (3)	-
Mitchel Lenson	14 (14)	-	-	-	8 (9)	3 (3)	-
Lynne Peacock	12 (14)	8 (9)	7 (7)	8 (8)	9 (9)	-	-
Roger Perkin	14 (14)	9 (9)	7 (7)	-	7 (9)	2 (2)	2 (2)
Tony Prestedge*	13 (14)	-	-	-	-	-	-
Mark Rennison*	14 (14)	-	-	-	-	-	2 (2)
David Roberts***	9 (9)	5 (5)	5 (5)	-	5 (5)	2 (2)	-
Chris Rhodes*	14 (14)	-	-	-	-	-	-

*Executive Directors **Left the Society on 17 July 2014 ***Joined the Society on 1 September 2014
**** Formerly known as Board IT Strategy & Transformation Committee, number of meetings is for the full year

Board agenda items: The following items were reviewed on a regular basis during the period under review:

- monthly reports from the Chief Executive and Group Finance Director covering business performance, customer service, regulatory and market developments and the financial position including capital, liquidity and funding
- the interim and annual results and the interim management statements
- papers on the distributions to holders of core capital deferred shares (CCDS) and Additional Tier 1 (AT1) capital and related matters
- papers on the business strategy and Corporate Plan
- reports on the Group's overall risk profile relative to its stated risk appetite and limits and quarterly updates from the Chief Risk Officer and Chief Compliance Officer
- papers on conduct risk, customer outcomes and complaints
- progress reports on digital developments
- reports from the Nationwide Foundation and on citizenship
- reports on member engagement and customer experience
- papers on succession planning, talent leadership and people related developments
- regulatory reports
- minutes and reports from the chairs of the Board committees and governance updates.

Effectiveness

Board composition and succession policy: The Board has a composition and succession plan which is reviewed on an annual basis by the Nomination Committee and the Board. It provides guidance on the structure, size and composition of the Board and its committees and the identification and selection of suitable candidates for appointment to the Board and its committees.

During the year Roger Perkin, in his role as SID, led a process in conjunction with the Nomination Committee and external search consultants, JCA Group, to identify a new non executive director to succeed the Chairman in July 2015. Details were provided in the Annual Report and Accounts 2014 of the appointment of David Roberts to the Board on 1 September 2014. David will succeed Geoffrey Howe at the conclusion of the AGM in July 2015.

Alan Dickinson retired as a non executive director with effect from the conclusion of the AGM in July 2014; and as a consequence of that and the forthcoming retirements of the Chairman and Michael Jary at the AGM in July 2015, the Nomination Committee commenced a search for three new non executive directors. In order to supplement the Board's current skill set, role specifications were drawn up and Spencer Stuart was appointed to assist in the search for an individual with digital experience, a new Chair for the Board Risk Committee and a candidate with senior level 'multi-channel' retail experience. It is expected that a number of new non executive director appointments will be announced as soon as confirmed. Spencer Stuart has no other connection with the Group.

All directors must meet the tests of fitness and propriety laid down by the PRA and the FCA, in addition to fulfilling the requirements of the role specification, and must be registered as an 'approved person' in order to fulfil their controlled function as a director. The 'approved person' framework will be replaced in March 2016 with a new Senior Managers Regime. Under this regime, the directors will be subject to regulatory approval for their allocated responsibilities. The directors' fitness and propriety will be assessed and they must follow the regulatory code of conduct.

Members of Nationwide also have the right to nominate candidates for election to the Board, subject to Nationwide's rules and compliance with the PRA's and FCA's requirements. No such nominations had been received by 4 April 2015, which was the deadline for the AGM in 2015.

The Board continues to comply with the Code provision which recommends that each of the directors stands for re-election on an annual basis.

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

The Executive Committee executes the talent strategy and during the year good progress has been maintained in developing the Group's talent and succession strategy to extend and strengthen the talent pipeline and to increase the available pool of talent for senior executive and director roles. Updates on talent, succession and leadership matters have been presented to the Board and Nomination Committee during the year.

Directors' time commitment: The amount of time non executive directors are expected to commit in exercise of their duties is largely dependent upon the responsibilities that they take on and will be significantly greater for those chairing a Board committee. As part of the recruitment process for non executive directors, the individual time commitment is agreed upon appointment and reviewed annually thereafter. The time commitment for each non executive director will take into account inter-alia, whether the appointee is: the chair or a member of a Board Committee(s); external executive responsibilities; and regulatory requirements, but would normally be a minimum of 30 days per annum.

The Chairman spends a minimum of two and a half days a week on Nationwide's business. Details of his other directorships during the year are set out in the Annual business statement and have not changed.

The Nomination Committee considers that each non executive director continues to allocate sufficient time to discharge their responsibilities effectively and this requirement is reviewed annually.

Professional development: The Board has a comprehensive induction and development programme for both new and current directors. A structured and tailored induction programme enables new directors to make an early and effective contribution. The Board also receives regular, at least quarterly, training sessions to address a range of both Group specific and market related issues. During the year, a number of such sessions were held covering regulatory developments, branch technology, remuneration, anti-money laundering and anti-bribery and corruption.

Board, committee and director evaluations: Each executive director's performance was assessed against agreed objectives set by the Chief Executive, whose performance was in turn evaluated by the Chairman. Details of how the executive directors' performance is measured and assessed are set out in the Report of the directors on remuneration.

The Chairman's annual performance review is carried out by Roger Perkin, in his role as the SID, together with the other directors. It was concluded that the Chairman has fulfilled his role very effectively, allocating the time required to meet the demands placed upon the Chairman of the largest building society operating in an increasingly competitive market place.

The Chairman meets with each non executive director twice a year to review performance and to discuss development and training opportunities using both internal and external resource. This process ensures a two way feedback mechanism to assess how the Board is working and reviews the directors' contribution and provides an important element in the analysis of the Board's ongoing performance.

Report of the directors on corporate governance continued

An internal effectiveness review of the Board was carried out in April 2015. The Chairman, in conjunction with the Group Secretary developed a schedule of questions based around four key themes: Board composition and operation, strategy, communication and risk, together with an open question seeking directors' views on ways in which Board effectiveness could be further improved. The questionnaire was circulated in advance of a focused discussion which took place in April, following which the Chairman prepared a paper setting out an action plan to address the issues raised. The main areas of focus related to: ways in which the content and quality of committee papers could be further improved, the potential impact of the Senior Manager's Regime upon the Board's governance processes, the way in which strategic issues were addressed by the Board and ways in which the Board could improve its engagement with customer focused issues. A follow up to the review will be carried out in November 2015.

Each of the principal Board committees carries out a separate evaluation of its own performance, led by the committee chairs, with input provided by each committee member and regular attendees. Recommendations from the evaluations are implemented during the year, as appropriate.

Independent professional advice: All directors have access to the services and advice of Simon Waite, the Group Secretary, and are able to obtain independent, professional advice on matters relating to their responsibilities.

Accountability

The Board is accountable to the members of the Society and seeks to balance their interests with the broader range of stakeholders, including suppliers, customers, regulators, the community and employees.

The Board is responsible for ensuring that the Group maintains a sound system of internal control to support its strategy and objectives. The Board approves the Group's risk appetite and metrics, and key regulatory returns on the Internal Capital Adequacy Assessment Process and the Individual Liquidity Adequacy Assessment. The Board receives regular reports and assessments of the Group's risk and control processes, and recommendations from the Board Risk Committee on matters spanning all principal risk categories and risk appetite.

The Board has delegated to the Board Risk Committee responsibility to approve the Enterprise Risk Management Framework (ERMF) and principal risk strategies, including associated risk appetite limits and metrics. The ERMF is an enterprise-wide framework through which board risk appetite is clearly articulated and provides the framework for the management of risk appetite across the business.

An annual review of the ERMF is undertaken by the Board Risk Committee covering all components of the framework. Key areas included in the review are the effectiveness of the risk governance structure and the adequacy of the frameworks and risk strategies for all the principal risk types.

No significant remedial actions were required as a consequence of the review that concluded in March 2015; however, the Group continues to develop and revise the ERMF to ensure that it is appropriate for the size and complexity of the organisation, reflects internal requirements, and remains responsive to emerging developments and regulatory change.

The Board has delegated to the Audit Committee oversight of management of the relationship with the Society's auditors, details of which are set out in the Audit Committee report. Group Internal Audit provides the Audit Committee with a report of audit work carried out during the year. This is accompanied by a report from the Compliance Division based on the programme of compliance reviews performed during the year.

The effectiveness of the internal control system is kept under review by the Board and the Audit Committee through regular reporting that includes information about reviews conducted by the Risk Division, the Compliance Division and Group Internal Audit. The Audit Committee receives reports from the Society's auditor, PricewaterhouseCoopers LLP, and has a discussion with the auditor at least once a year without management present, to ensure that there are no unresolved issues of concern. The chairs of the Board Risk Committee and the Audit Committee are accountable to the Board and both submit regular reports to the Board covering the committees' activities which provide the opportunity to highlight any areas of concern.

We are well advanced in our response to the Senior Manager Regime, which includes the refresh of job definitions and allocation of responsibilities to individual senior roles across the Group.

Further information on the risk management and internal control arrangements are set out in the Board Risk Committee Report and Business and Risk Report.

Conflicts of interest and directors' indemnity: The Board has in place a conflicts of interest policy which incorporates procedures for reviewing and, as appropriate, authorising situations where conflict arises. Directors are required to declare the nature and extent of any interest before an appointment is taken up or any 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. These are confirmed on an annual basis with the Nomination Committee reviewing the Register of Interests in April each year.

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.

Remuneration

Role of the Remuneration Committee: The Remuneration Committee has been delegated authority by the Board to determine 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.

Relations with members

Member communication: We seek the views of our members in a variety of ways. Our aim is to make it as easy as possible for members to talk to us so that we really understand their needs and priorities.

Relations with members

Face to face

Member TalkBack events provide an opportunity to talk to, question and listen to our directors. During the financial year, we held TalkBack sessions in York, Cheltenham, Glasgow, Nottingham, Newbury and Sheffield and over 600 members attended. In addition, we have run over 100 specialist events, focusing on topics our members have told us they find most valuable: inheritance tax planning and house buying.

This direct contact, which has taken place each year since 1997, ensures directors hear about and understand our members' needs face to face. Many of our products and services can be traced back to comments and suggestions received at these events.

Online

Our online TalkBacks provide another way for members to interact with our directors, to ask questions and make suggestions on our products and services. In addition, members can use our Member Suggestion Scheme either online or in branch. We received over 1,000 ideas via this scheme during the year. You can find a list of some of the major changes made in response to members' suggestions in the 'You Asked, We Acted' section of 'Your Nationwide' at **nationwide.co.uk** Through our website, members can also access information on what we are doing and how, including our latest performance figures for customer service and complaints.

Social media and e-newsletter

We have a Facebook page (22,000 fans) and a Twitter account (20,600 followers), so members can keep up to date with our latest news and contact us 24/7. Our monthly members' e-newsletter containing news on our latest products, services and competitions has continued to be popular. It now reaches over three million members each month and we actively encourage members to sign up to receive news about the Society in this way.

The research we commission

An independent research company continues to contact our customers every month to gather feedback for our Service Tracker. Over the past year they phoned around 12,000 customers each month. In addition, we have over 6,000 members signed up to our online customer research panel 'Nationwide Connect', who give feedback on a variety of topics. They complete surveys and help shape the way we communicate with other members. This year the panel helped develop our communications for the changes to ISA rules as well as for our Annual General Meeting (AGM).

The information we provide for the AGM

We will send out AGM packs to around 7.8 million members who are eligible to vote. 7.2 million members receive their packs by post, while 600,000 receive the information by email.
We tell them about:

- our financial results
- those standing for election to the Society's Board
- some of the ways in which we are committed to being 'on your side'
- ways in which they can get more involved with the Society.

Members can vote by post, online or in person at the AGM. An independent organisation oversees the count and we publish the results on our website. The whole Board attends the AGM, at which the Chief Executive gives a presentation on our performance over the year. Members have the opportunity to raise questions and make their views known, while the chairs of the principal Board committees are available to answer questions.

Geoffrey Howe
on behalf of the Board
Chairman
21 May 2015

Report of the directors on corporate governance continued

Audit Committee report 2014/15

Summary of responsibilities **Oversight of financial reporting and external audit, internal controls and risk management systems, internal audit, compliance oversight, whistleblowing, fraud and bribery prevention.**	**Other regular attendees** Geoffrey Howe (Chairman of the Board) Graham Beale (Chief Executive) Mark Rennison (Group Finance Director) Iain Laing (Chief Risk Officer) Julia Dunn (Chief Compliance Officer) Anne Obey (Chief Internal Auditor) Michele Faull (Divisional Director, Financial Reporting and Tax) Lee Raybould (Divisional Director, Financial Performance) Representatives from PricewaterhouseCoopers LLP (external auditors)
Governance The Committee was in place throughout the year and held nine meetings. The Committee Chairman provided a verbal update to the Board following each Committee meeting, and a formal report to the Board three times during the year.	
Committee members Roger Perkin (Chairman) David Roberts (appointed 15 October 2014) Lynne Peacock Rita Clifton	**Former committee member** Alan Dickinson

Dear Member,

I have now chaired Nationwide's Audit Committee for five years, which has been a period of significant change in the UK, in particular with increased public and regulatory focus on financial services organisations, a continual drive to raise standards of control and regulatory compliance, and changes to requirements for financial reporting.

The key role of the Audit Committee is to ensure that the financial statements published by Nationwide are fairly presented, and are prepared using appropriate judgements. The Committee also keeps under review the effectiveness of internal controls and risk management systems, including those relating to regulatory compliance, and oversees the relationship of the Group with its external audit firm. During the year our meetings covered the following areas:

Financial reporting

A significant part of our time was spent on our review of the interim and year end financial statements, and also the interim management statements published in August 2014 and February 2015. In addition we have reviewed this year the content and presentation of the Summary Financial Statement to ensure that it is helpful and informative to members. In considering these financial statements, we discussed in detail management's analysis and conclusions on the main areas of judgement; this year the more significant matters related to:

- impairment provisions for loan portfolios. We discussed in some detail refinements made to the models for provisions against residential mortgages, debating with management changes to assumptions to ensure that they were fully substantiated, and also satisfying ourselves that the provisions properly and prudently reflected the impairment in the portfolio. This is particularly important this year as we believe there is a risk that the current low interest rate environment makes it more difficult to identify events leading to impairment. We continued to review provisions against commercial lending and treasury assets, although these are less material than in recent years.
- amounts recognised in the accounts for defined benefit pension liabilities, focusing on the important market assumptions used to calculate the pension deficit and the position of these assumptions relative to market benchmarks.
- updates to the effective interest rate balances on savings products, particularly to ensure that the accounting treatment correctly reflects changes to products.
- ensuring that provisions for customer redress are based on the most up to date information available, considering in detail the background and the assumptions made.
- hedge accounting: we reviewed the impacts of hedge accounting on the financial statements, in particular focusing on the implementation of cash flow hedge accounting and the effect on income statement volatility.
- capitalisation of costs of information technology development: in view of the significant investment needed to deliver next generation banking, it is important that these costs are accounted for in accordance with the relevant accounting standards. We have reviewed the outcomes and conclusions of the work carried out by management.

In addition to these, we considered a number of matters relating to the overall presentation of the financial statements, including:

- whether the 2015 Annual Report and Accounts are fair, balanced and understandable. This means considering whether we are satisfied that the overall portrayal of Nationwide fairly represents the performance of the business against its strategy, and also whether the important messages about the results, are clearly explained and can be understood by the reader. In considering this, we were provided with a report by management setting out the review processes used to assess the overall presentation of the financial statements. This included review by a group of members of senior management including some who are not involved in the reporting processes and are able to give an independent view. The conclusions of the group were that the Annual Report and Accounts are clear, consistent, balanced, open and appropriately focused on the more material items. After consideration of the report from the group, and our own review of the financial statements, we concluded that we could recommend to the Board that the Annual Report and Accounts are fair, balanced and understandable.
- whether it is appropriate to assume in the preparation of the accounts that Nationwide will continue as a going concern. We considered factors including profitability, levels of capital, the availability of funding and liquidity and the risk and implications were there to be a rating agency downgrade. Our conclusions were that the profitability, balance sheet and capital position are robust and that it was appropriate to prepare the accounts on a going concern basis.

In concluding on these matters we also considered the views of PricewaterhouseCoopers LLP (PwC), the external auditors. There were no disagreements between management and the audit firm. The external auditor's report sets out the key areas of focus considered by them in relation to their statutory audit; these matters were considered by the Committee in its assessment of areas of judgement in the financial statements as set out above.

Monitoring the effectiveness of internal controls

To inform our consideration of the effectiveness of internal controls, we received and discussed a number of reports during the year:

Internal audit reports: The Audit Committee approved the Internal Audit plan for the year, and discussed in detail quarterly reports from Group Internal Audit as well as an annual report giving an overall assessment of the effectiveness of internal control. The reports included the key matters raised from their work, including common issues and themes, as well as management's effectiveness in taking prompt action to address issues reported.

Compliance oversight reports: Similarly, we approved the annual Compliance Oversight plan, and discussed quarterly reports and an annual report setting out the results of compliance reviews. These again included the overall results of their oversight work, the more significant issues and themes arising and the effectiveness of action taken to resolve issues.

External audit reports: Following the audit of the prior year Annual Report and Accounts, the external auditors provided the Committee with an Internal Controls Report setting out control weaknesses identified during the audit process and actions agreed with management.

Financial controls framework: The work carried out over the last three years to enhance the documentation and testing of key financial reporting processes and controls reporting was completed this year. In the course of the year we received a number of updates from management, including information on the more significant control weaknesses identified and the status of activity to improve controls.

Reports from management: During the year we invited members of the senior management team to our meetings to discuss the more significant issues raised by Internal Audit, Compliance Oversight and the external auditors. These discussions are important in demonstrating to the Audit Committee that management takes internal control seriously, and that action is taken swiftly to resolve any important issues.

Report of the directors on corporate governance continued

External auditors

As well as discussing the views of the external audit firm on the results of their audit work, the Audit Committee is responsible for oversight of the relationship with the firm and the effectiveness of the audit process. During the year this included:

Audit plan: Reviewing the proposed audit plan in advance of the annual audit, when we discussed the key audit risks and the audit approach to these and other significant items in the financial statements.

Audit engagement letter: Approving the audit engagement letter and the proposed audit fee for the year.

Reports on audit results: Review and discussion of formal reports provided by the audit firm which set out their conclusions, particularly on the significant judgements made by management in preparing the financial statements.

Independence: Assessing the measures in place to safeguard the objectivity and independence of the external audit firm. The Society has a formal policy for the appointment of the external audit firm for non-audit services. This policy sets out permitted and prohibited services, and also specifies types of non-audit work which we are satisfied do not threaten 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 PwC for non-audit work, we consider whether the firm is clearly the most appropriate firm for the work, and consider any threats to independence such as the risk of the firm reviewing their own work, or being directly involved in management decisions. We also consider the overall value of the fees for individual assignments, and the total annual value of fees paid to the firm. We are particularly aware of the potential for high levels of fees over a sustained period to affect objectivity, and we therefore reviewed a detailed schedule of fees for non-audit work at each of our meetings in the year. The fees paid to PwC for audit and non-audit services are set out in the 'notes to the accounts'. As a further safeguard to independence, we held a private discussion with the external auditors during the year to ensure that they had an opportunity to raise any relevant issues directly with Committee members.

Audit effectiveness: Carrying out a formal assessment of the effectiveness of the external audit firm, and of the audit process. In completing this, we considered the expertise, resources and independence of the firm, including feedback from senior management. This included views on whether the audit team showed robust and independent assessments of accounting matters, whether the team members had appropriate skills and expertise and also the quality of reporting to and discussion with the Audit Committee.
We also discussed the results of the recent Audit Quality Thematic Review by the Financial Reporting Council.
Our conclusions were that the audit process was robust and effective.

Audit firm reappointment: Considering whether it was appropriate for us to recommend the reappointment of the audit firm, and also whether the audit should be put out to tender. In considering a potential audit tender we took into account the length of tenure of PwC as auditor to the Society, and the fact that the audit partner was rotated for the 2015 audit. PwC has been auditor to the Society since 1991, and the last audit re-tender was in 2003. We continue to be fully satisfied with the quality of the audit, and with the objectivity and independence of PwC, and have therefore recommended reappointment of PwC at the Annual General Meeting.
There have been a number of changes in regulation of the external audit market, which mean that a new firm will be appointed as Nationwide's auditor no later than in relation to the 2020 year end, and also that from that date there will be restrictions on the type and amount of non-audit work the audit firm is permitted to carry out for Nationwide.
We discussed the implications of these changes and the timetable for a process to select the incoming audit firm, which is likely to commence late in 2017.

Internal Audit

Internal Audit plays a key role in providing independent assessment and challenge of governance, risk and control at Nationwide. As well as approving the Internal Audit plan and considering the results of their work, the Audit Committee is responsible for the oversight of Group Internal Audit. During the year we therefore:

- approved the Internal Audit Charter which sets out the role and expectations of Internal Audit.
- monitored the adequacy of Internal Audit resources, including the financial budget and the availability of external specialists to bring additional expertise when appropriate. We were satisfied that Group Internal Audit has adequate resources available.
- commissioned and discussed the findings of an external quality assessment of the Internal Audit function, and reviewed Internal Audit's action plan to address the matters raised in the report.

I met monthly with the Chief Internal Auditor, and spent some time with the Internal Audit team discussing the priorities for their work, and as a Committee we held a private discussion with the Chief Internal Auditor. We also held a number of workshops with Internal Audit during the year, discussing audit planning and priorities as well as continued progress in developing the audit function.

Compliance Oversight

Compliance Oversight also plays an important role in monitoring Nationwide's compliance with regulatory requirements and, critically, ensuring that we continue to deliver fair customer outcomes. The Audit Committee approved the Compliance Oversight plan for the year, and discussed with the Chief Compliance Officer the resources available to complete the planned programme of work. Regular reports from Compliance Oversight also gave updates on progress in delivering the Compliance Oversight plan, and we held private discussions to discuss progress with the Chief Compliance Officer as necessary.

Other activities

During the year we carried out a range of other activities including:

- completing the annual review of the effectiveness of the Audit Committee, which included a detailed review of our work against published guidance and best practice, and feedback from Committee members and attendees. We concluded that the Committee continued to operate effectively.
- carrying out our annual review of whistleblowing arrangements in place to enable employees to raise concerns in confidence. The paper prepared by management set out details of the types of concerns raised by employees, with thematic analysis; no new significant matters were noted in the year, and the number of reports made was similar to the prior year.
- discussing briefings from management on a number of issues, some of which were discussed in Committee meetings and others in workshops together with other Board members. These included the Senior Managers' Regime, remuneration, anti-money laundering and anti-bribery and corruption.

In addition to attending formal Audit Committee meetings, members of the Committee continue to visit Nationwide's various business areas to meet management and to ensure that they have an in-depth understanding of the business and its risks. We also met individually with representatives of the PRA and the FCA during the year as part of the regulatory supervisory process.

Reporting to the Board

Immediately following each Audit Committee meeting I provided a verbal update to the board of directors on matters discussed by the Audit Committee. I also presented a formal written paper to the Board three times during the year, giving details of the Committee's discussions and conclusions.

Roger Perkin
Chairman –
Audit Committee

Report of the directors on corporate governance continued

Board Risk Committee report

Summary of responsibilities **Responsible for advising the Board on current and potential future risk exposure. Responsible for the Enterprise Risk Management Framework (ERMF) including risk appetite, risk monitoring, and risk adjustments to remuneration. Responsible for oversight of risk management.**	**Committee members** David Roberts (Chairman, appointed 1 September 2014) Roger Perkin Mitchel Lenson Lynne Peacock
Governance The Committee was in place throughout the year and held six scheduled meetings and three special meetings (capital adequacy, stress testing assumptions and results). The Committee provides a formal report to the Board on a quarterly basis. The Committee oversees the Executive Risk Committee, which is the management committee responsible for ensuring a co-ordinated risk management approach across all risks. Further detail about the ERMF including three lines of defence, risk appetite and the risk committee structure can be found in the Business and Risk Report.	**Other regular attendees** Geoffrey Howe (Chairman of the Board) Graham Beale (Chief Executive) Mark Rennison (Group Finance Director) Iain Laing (Chief Risk Officer) Julia Dunn (Chief Compliance Officer) **Former committee member** Alan Dickinson

Dear Member,

I have had the privilege of spending the last six months at Nationwide. In addition to immersing myself in the business and preparing to take over as Chairman of the Board in July, I have been fulfilling the role of Chairman of the Committee since September 2014. This has provided me with real insight into the way the Society manages risk, and how this supports our mutual model.

Committee purpose and responsibilities

The Committee provides oversight and advice to the Board in relation to risk-related matters and allows for a subset of non executive directors to provide more focus on risk than would be possible in board meetings. In addition to the regular attendees from management, we invite subject matter experts to present on a variety of topics. Each meeting considers the current and emerging risk exposures of the Group and performance against board risk appetite. The Committee also considers future risk strategy, and risk frameworks and determines board risk appetite. It considers challenges and approves risk strategies across all risk categories, designed to ensure that the Group remains within risk appetite metrics. Matters considered by the Committee in the year included:

Board risk appetite: This included an annual review of risk appetite. Lessons learnt from the Committee discussions during the year resulted in wider coverage of financial risk metrics under stress, enhancements in monitoring business and IT resilience, and more granular lending risk metrics.

Lending risk: Reviews included mortgage collateral, prime mortgage lending to the new build sector, the potential for over-indebtedness in unsecured credit, deleveraging in the commercial real estate portfolio,and interest only mortgage lending.

Financial risk: Core responsibilities include reviewing capital and liquidity adequacy, and the Pillar 3 disclosures. In addition, the Committee reviewed the investment strategy of the defined benefit pension fund focusing on the inherent market risks (including equity risk), the long-term objectives and risk appetite.

Operational risk: Reviews covered the scenario analysis programme, people risk, fraud risk, business and IT service resilience, and the overall operational risk strategy.

Compliance, conduct and customer experience risk: Reviews included consumer credit, product and service terms and conditions, changes to the Senior Managers' Regime consultation, sales process review, as well as a review of fraud risk from a conduct perspective, and conduct relating to interest only mortgages.

Strategic risk: Matters covered included developments in model risk validation and governance, and a review of the economic and political landscape, including consideration of alternative economic scenarios.

ERMF: Annual review and approval of changes to the framework, a review of risk culture, governance reviews, and risk adjustments to remuneration.

Risk reporting is comprehensive across all risk categories. The Committee monitors the risk profile against Board risk appetite. More granular risk appetite metrics are escalated when a trigger or limit has been breached. In addition, we also consider longer-term risks to delivering the Corporate Plan and emerging issues that could present risks in the future. These 'Top and Emerging' risks are presented within the Business and Risk Report.

Interaction with the Board occurs through a verbal update to the Board after each Committee meeting. In addition, a quarterly report to the Board summarises the Committee activities undertaken, discussions held and anticipated activities for the coming quarter and is accompanied by reports from both the Chief Risk Officer and Chief Compliance Officer covering their respective areas and forthcoming plans.

The operation of the Committee has changed little during the year other than a change of Chairman. The annual effectiveness review resulted in some minor revisions to our terms of reference. The Committee has been in existence for over five years, most of which were under the chairmanship of Alan Dickinson, who stood down from the Board at the last AGM. I became interim Chairman of the Committee in September 2014, and will continue until I become Chairman of the Board in July 2015.

The last 12 months have seen continued progress in risk management at Nationwide. In particular, strengthened controls for lending risks, and deleverage of non-core assets in the commercial and treasury portfolios. We continue to improve our capital position and have focused significant effort on ensuring our stress testing capability is in line with the expectations of the regulator. The results of the 2014 industry-wide stress testing exercise demonstrate that we are resilient to a severe stress.

Over the next 12 months the Committee will continue to focus on oversight of macroeconomic and market uncertainty, business resilience, innovation to support the digital proposition and conduct challenges. We are also engaged in the next iteration of industry-wide stress testing. It is clear that regulatory and industry expectations of improvements in risk management continue to rise. However, perhaps more fundamentally, the expectations of members and the general public of the safety, security, resilience and ethics of large financial institutions are rightfully very high. The Committee engages fully with management in order to oversee the strengthening in the Society's business operations, to meet these rising standards to safeguard members' interests, and to continue to serve our members to the best of our ability.

David Roberts

Chairman –
Board Risk Committee

Report of the directors on corporate governance continued

Nomination Committee report

Summary of responsibilities

Responsible for regularly reviewing the structure, size and composition of the Board, as set out in the Board Composition and Succession Plan.

Review all appointments to the Board and its committees and the appointment of all group and divisional directors. Give full consideration to succession planning for Board members and for group and divisional directors.

Governance

The Nomination Committee has been in place throughout the year and held seven meetings. The Committee is chaired by the Chairman of the Society and although he is not deemed to be independent, the other three members are independent non executive directors, in accordance with the provisions of the Code. The SID, Roger Perkin, led the process for the appointment of a successor to the Chairman.

Committee members

Geoffrey Howe (Chairman)
David Roberts (appointed 1 September 2014)
Lynne Peacock
Roger Perkin

Other regular attendees

Graham Beale (Chief Executive)
Alison Robb (Group Director, People, Customer Communications and Commercial)
Ann Brown (Divisional Director, Human Resources)

Former committee member

Alan Dickinson

Dear Member,

Over the last 12 months we have seen an increasingly busy agenda for the Nomination Committee and, as I referred to earlier, it is important that there continues to be a strong focus on the Board's composition (including diversity) and succession planning in order for the Society to retain its position as a leading provider in the financial services sector. Also of great importance for the Committee has been the development and composition of the senior executive team and this will continue to be a key area of focus as the Society seeks to develop its own talent and to promote from within the business. Upon my retirement, David Roberts will take over as Chair of the Committee and I am very confident that he will continue to ensure that the Committee identifies experienced and suitably qualified Board members to ensure that we further strengthen the Board's composition for the years ahead.

The composition of the Board has changed during the year following the retirement of Alan Dickinson at the AGM in July 2014 and subsequent appointment of David Roberts as Chairman Elect in September 2014. Michael Jary and I will retire from the Board at the AGM in July 2015. The target for Board membership is 11 to 12 directors in order to have sufficient breadth of knowledge, skills and experience to ensure the optimum size for a strong and effective decision making forum. As at 4 April 2015 your Board consisted of six non executive directors, four executive directors and myself, as Chairman. It is expected that a number of new non executive director appointments will be announced as soon as confirmed. It is also intended that Graham Beale will retire from the Board at or around the date of the AGM in 2016.

The process undertaken by the Committee to identify my successor was set out in last year's Report of the directors on corporate governance and further details of the role taken in identifying new non executive directors is set out in this document.

During the year the Committee has also addressed a wide range of issues including:

- executive and non executive director development
- the Board effectiveness review process
- a review of talent in the branch network
- the Chairman Elect's induction programme and non executive directors' induction and development
- changes at divisional director level
- annual review of the directors' register of interests
- an annual review of the Committee's effectiveness and its terms of reference
- the ongoing time commitment of non executive directors.

Specific attention has been paid to leadership, talent and succession matters, including the selection and on-boarding of my successor. Consideration is currently being given to the future leadership capability needed at director level to deliver our strategic ambitions and develop as a modern, mutual society. This will inform much of the forward agenda for director development activity, which will continue to be overseen by the Committee.

More broadly, talent forums led by our business leaders are in place to identify and develop talent across the Society. Our corporate talent programmes continue to deliver successful outcomes and are available at every level of the organisation, including our expanding emerging talent programmes for graduates and apprentices and programmes for managers, senior managers and executives.

Following on from the Committee's review of its own performance, it was agreed that although good progress had been made in addressing diversity within Nationwide, particularly from a gender perspective, an increased focus of attention was required on the wider diversity agenda, including ethnicity.

To build upon the progress made and achieve the strategic aims, the following areas of focus were identified:

- achieve a greater diversity balance in the talent and recruitment pipeline
- targeted activity and progression of the ethnicity agenda
- delivery in the disability agenda
- support to our multi-generational workforce
- investigation of the under-representation of women in areas in which it is typically difficult to recruit and retain staff
- greater engagement and education in diversity and inclusion through a blended learning programme.

Executive sponsorship remains key to the success and delivery of the Society's diversity agenda from an internal and external perspective. During the year there has been continued board membership and sponsorship of the Opportunity Now awards 2013-15, support for the 28-40 research campaign, board membership of Race for Opportunity, the provision of a disability awareness and education day in Swindon, and the continued development of the Women in Nationwide network. Employee networks continue to be successful and benefit greatly from their executive sponsorship and relationship. Five employee networks are now established; gender, ethnicity, faith and belief, disability and LGBT. Each network has defined ambitions, terms of reference, objectives and action plans.

In relation to diversity, the following targets have been agreed: 33% of the entire director population (divisional directors and above) to be female and 8–15% of the entire director population to be Black Asian Minority Ethnic (BAME) by 2020.

Geoffrey Howe
Chairman –
Nomination Committee

2015 Report of the directors on remuneration

For the year ended 4 April 2015

Introduction

Dear Member,

I am pleased to present the Remuneration Committee's report, including details of the directors' pay for the year to 4 April 2015.

Our policy

At the last AGM, our members overwhelmingly approved our new remuneration policy, which has set the framework for this past year. The policy reduces total potential performance pay levels going forward. It also ensures that performance pay awards are deferred and remain 'at risk' over a longer time frame. In addition, this year, in response to new regulatory requirements, we have introduced provisions which allow the Society to claw back performance pay awards for up to seven years after they are awarded.

How the directors have performed

The leadership team has continued to deliver another strong performance in line with our strategy. We are first for customer satisfaction amongst our peer group; we are becoming increasingly efficient and we are continuing to develop mutually rewarding relationships with our members. Our financial position remains strong and secure, our profits are up and we have significantly strengthened our capital position. We continue to invest in new products and technologies, including secure and mobile digital banking services, so we can now offer our members greater choice and flexibility for more of their financial needs.

The impact on directors' performance pay

Our excellent results have led to payments being awarded under our new simplified single Directors' Performance Pay Plan for the year, and details of how they have been calculated are set out in this report.

The table showing the single total figure of remuneration for each executive director includes both awards under the new Directors' Performance Pay Plan for 2014/15 and legacy payouts under the directors' previous medium-term plan.

When you add the legacy medium term awards to the current year's performance pay it shows that directors' total pay has increased, but this is a result of the transition to our new one year performance pay plan. These legacy plans conclude in 2016 and going forward, the DPPP has reduced the overall performance pay opportunity for directors and increased the level of deferral required.

Further context

Nationwide's executive directors have day-to-day responsibility for running the world's biggest building society and the UK's 2nd largest savings and mortgage provider. In delivering the stretching targets which they have been set, the Committee considers that they have delivered real benefits for the Society and all of our members.

The wider picture

We are committed to ensuring that all of our employees are paid a fair and competitive rate for their role. During the year we became a principal partner of the Living Wage Foundation, supporting the wider initiative to raise the level of minimum pay across the economy.

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

Lynne Peacock

Chair of the Remuneration Committee

Remuneration policy

The remuneration policy that was approved by members at the 2014 AGM remains unchanged. In implementing the policy for this year, the Committee has introduced clawback provisions within the Directors' Performance Pay Plan (DPPP).

A summary of the remuneration policy is set out below. It does not replace or override the full approved policy, which is available at **nationwide.co.uk**

In applying this policy, the Committee is guided by the need to ensure executives are appropriately motivated and rewarded to deliver value for our members.

	Operation	Maximum opportunity
Base salary	• Reviewed annually, taking into account market data, individual skills, performance and experience, and the approach to salaries throughout Nationwide.	No maximum opportunity for base salary or benefits.
Benefits	• Include car benefits, healthcare and insurance benefits.	
Pension	• Executive directors receive a cash allowance in lieu of pension.	Maximum allowance is 40% of salary.

Directors' Performance Pay Plan (DPPP)	• Rewards annual performance against challenging financial and strategic measures and key individual objectives.
	• Key measures within the Corporate Plan have to be achieved for target pay-out and considerably exceeded for maximum pay-out.
	• Deferral periods have increased so that:
	  • 40% of the award is paid following the performance period;
	  • 60% is deferred for between three and five years.
	• 50% of awards are linked to the value of the Society's core capital deferred shares.
	• Awards are subject to clawback for up to seven years.
		Maximum opportunity varies by role but will not exceed regulatory limits.

Chairman fees	• Normally reviewed and approved by the Remuneration Committee on an annual basis.	No maximum opportunity, but fee levels take into account time commitment for the role and practice at other organisations.
Non executive director fees	• Normally reviewed and approved by the Executive Committee and the Chairman on an annual basis. • Non executive directors receive a basic fee. • An additional supplement is paid for serving on or chairing a Board Committee. • Non executive directors do not participate in any performance pay or pension arrangement.	

Report of the directors on remuneration continued

Further details about clawback are set out below.

What is clawback?	Clawback is where the Society requires an individual to repay all or part of a variable pay award after payment has been made.
Which awards does it apply to?	The new clawback requirement will apply to payments made under the 2014/15 DPPP and any future variable pay plans. Awards are subject to clawback for up to seven years from when the award is made. This requirement will continue to apply if the individual leaves employment with the Society.
When would this be used?	Any decision about clawback will be taken by the Remuneration Committee. The circumstances in which this might be applied include: • an individual has participated in conduct which resulted in significant losses • an individual has failed to meet appropriate standards of fitness and propriety • there has been a material failure of risk management • there is reasonable evidence of fraud or material dishonesty • the Society has become aware of misbehaviour and/or material error that would have resulted in the relevant award being withheld had it been known about at the time the relevant award was made.

Annual report on remuneration

Base salary

For 2015 the Committee has determined that base salaries will be increased by 2% for all executive directors.

The table below sets out the base salary levels for executive directors which were in effect during the year, and their revised salaries as at 1 April 2015.

Base salary	2015/16	2014/15	% Increase
G J Beale	£893,000	£875,000	2%
T P Prestedge	£536,000	£525,000	2%
M M Rennison	£602,000	£590,000	2%
C S Rhodes	£557,000	£546,000	2%

Current variable remuneration – Directors' Performance Pay Plan (DPPP)

2014/15 was the first year of operation for the DPPP. This is now the only performance pay plan which directors participate in on an ongoing basis.

The maximum award level under the DPPP is 160% of salary for the CEO and 120% of salary for other executive directors, which remains the same for 2015/16 as it was for 2014/15.

The plan rewards individual performance and the attainment of challenging strategic and financial corporate metrics.

The measures fall within the following broad areas and ensure focus on delivering benefits for our members:

Member measures (75% of award)
Customer satisfaction (25%)
Growing customer relationships (25%)
Financial efficiency (25%)

+

Individual performance (25% of award)
Individual performance objectives reflecting each individual's contribution towards the delivery of the Corporate Plan.

Payments are made at the discretion of the Remuneration Committee who may reduce or cancel payments if it believes that the plan outcomes are not representative of the overall performance of the Society. The Society also has the ability to clawback performance pay awards for up to seven years after they were awarded if the Remuneration Committee considers it appropriate to do so.

Outcomes for DPPP 2014/15

A risk gateway must be passed before any payment is made under the plan, based on measures of statutory profit and CET1 capital ratio, and this gateway was achieved in 2014/15.

In reviewing performance under the DPPP during 2014/15, the Committee then assessed the Society's performance against three equally weighted measures:

Measure	Performance target range: threshold – maximum	Performance relative to targets	Outcome	Performance pay achieved (% of salary)	
				CEO	Executive directors
Customer satisfaction rating (based on three month rolling average)	1st – 1st with a lead of 6%	Above target	1st in our peer group with a 4.5% lead[1]	30.6%	22.5%
Growing customer relationships	6.6m-7.1m	Above threshold	Deep relationships established with 6.7 million customers	22.0%	16.0%
Financial efficiency (cost income ratio)	54.6%-49.9%	Above target	Cost income ratio reduced to 51.6%	30.6%	22.5%
Total performance pay achieved based on Group performance				**83.2%**	**61.0%**

[1] Source: GfK NOP's Financial Research Survey (FRS), proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as Barclays, Halifax, HSBC, former Lloyds TSB Group (including Lloyds Bank, TSB and C&G), NatWest and Santander, 3 month ending data March 2015, c15,000 adults interviewed per quarter.

For the element based on individual performance, performance has been assessed as follows:

Executive director	Performance pay achieved (% of salary) / maximum available	Comments
G J Beale	35.8% / 40%	Above target for individual performance, reflecting his overall leadership of the Society.
T P Prestedge	26.7% / 30%	Above target for individual performance, reflecting the achievement of plan objectives around transformation, infrastructure and costs.
M M Rennison	26.7% / 30%	Above target for individual performance, reflecting his leadership of the Society's strong financial performance for the year.
C S Rhodes	23.3% / 30%	Above target for individual performance, reflecting strategic successes such as the launch of FlexOne and the roll out of Nationwide Now.

40% of each individual's award vests in June 2015 and the remaining 60% is deferred, with 30% paid after three years and 30% after five years. 50% of both the upfront and deferred portions is linked to the performance of the Society's core capital deferred shares (CCDS). These elements are subject to a six month retention period and so will be paid to participants in the following December.

Report of the directors on remuneration continued

Legacy variable remuneration – Medium Term Performance Pay Plan (MTPPP)

The MTPPP was replaced by the single annual scheme from 2014/15, although historic awards under the 2012-15 award cycle remained due for payment. After this cycle, there is only one remaining cycle to be paid, in relation to 2013-16.

The MTPPP rewards sustained performance and the achievement of challenging financial targets over a three year performance cycle. For the 2012-2015 award cycle the measures were:

Performance measures (100% of the award)

The plan measures the Society's performance over a three year period against the following equally weighted factors:

- Customer satisfaction rating achieved at the end of the three year period
- Cumulative underlying profit over the three year period
- Cost income ratio achieved for the last year of the three year period
- Cumulative non-margin income over the three year period.

+

Risk criteria

All outstanding medium term performance pay awards will be cancelled if the Group's Core Tier 1 capital ratio falls below a minimum level set by the Board.

Achievement of this measure ensures that the Group maintains a strong capital base that is consistent with our risk criteria and regulatory standards for the business.

The maximum award level under the plan was 120% of salary for the CEO and 81% of salary for other executive directors.

Outcomes for MTPPP 2012-15

In reviewing performance under the 2012-15 MTPPP, the Committee assessed the Society's performance against the following measures. These targets were set at the start of the plan in 2012, with performance assessed over a three year period.

Measure	Performance target range: threshold – maximum	Performance relative to targets	Outcome	Performance pay achieved (% of salary)	
				CEO	Executive directors
Customer satisfaction rating (based on six month rolling average)	1st – 1st with a lead of 6%	Maximum	1st in our peer group with a 6.9% lead	30.0%	20.3%
Cumulative underlying profit	£932m-£1,514m	Maximum	Cumulative underlying profit of £2,574m achieved over period	30.0%	20.3%
Financial efficiency (cost income ratio) achieved in final year	65%-57%	Maximum	Cost income ratio reduced to 51.6%	30.0%	20.3%
Cumulative non-margin income	£1,249m-£1,668m	Above threshold	Cumulative non-margin income of £1,280m achieved over period	11.4%	8.1%
Total performance pay achieved				**101.4%**	**69.0%**

In addition, the Committee confirmed that the risk criteria for the MTPPP had been met.

Two thirds of each individual's award vests in June 2015 and the remaining one third is deferred for an additional year until June 2016. For each portion vesting, 50% will be paid in cash in the respective June. The remaining 50% of each portion is linked to the performance of the Society's CCDS. These elements are subject to a six month retention period and so will be paid to participants in the following December.

CEO remuneration for the past six years

The table below shows details of the CEO's remuneration for the previous six years.

	Total remuneration £'000	Annual performance pay earned as % of maximum available	Medium term performance pay earned as % of maximum available
2014/15	£3,278	74.4%	84.5%
2013/14	£2,571	83.3%	74.9%
2012/13	£2,258	60.6%	41.7%
2011/12	£2,251	60.6%	40.7%
2010/11	£1,961	75.4%	76.9%
2009/10	£1,539	33.8%	61.7%

The CEO's total remuneration for 2014/15 includes awards under the new DPPP for 2014/15 and legacy payouts under the directors' previous medium-term plan. The transition from our old plan to the new one year plan means the total remuneration figures have increased compared with last year. However, following the transition period into the new plan his variable remuneration opportunity will decrease.

Change in remuneration of CEO

The change in remuneration (base salary, benefits and annual performance pay only) for the CEO from 2013/14 to 2014/15 compared to the average for all other employees is as follows:

	Salary	Benefits	Annual performance pay*	Current variable pay plans**
CEO	+6.06%	+4.19%	+89.42%	-19.35%
Average employee	+5.25%	+12.18%	+11.96%	+1.15%

* This figure compares the change from the CEO's award under the Annual Performance Pay Plan (APPP) 2013/14 to his award under the new one year plan DPPP 2014/15, and so is not a like-for-like comparison. Under the new remuneration framework, the single DPPP replaced the previous two performance pay plans and the overall variable remuneration opportunity for directors was reduced.

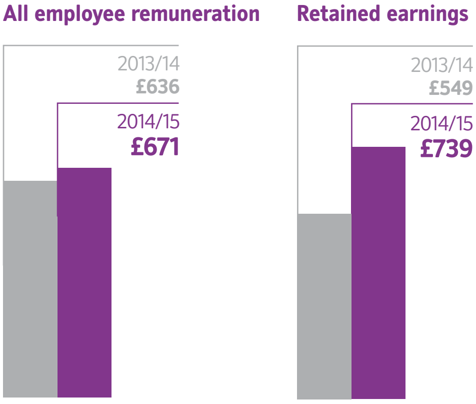
** These alternative figures show the change based on the current plans in place for each year (APPP and MTPPP for 2013/14 vs DPPP for 2014/15).

Report of the directors on remuneration continued

Relative importance of spend on pay

The chart below illustrates the amount spent on remuneration paid to all employees of the Group, compared with retained earnings. The format of this chart has been changed from last year where remuneration was compared against profit after tax as following the issuance of new capital instruments we believe that retained earnings provides a better basis against which to assess the relative importance of the spend on pay.

Relative importance of spend on pay (£m)



Payroll costs represent 39% of total administrative expenses. The Group profit after tax for the year was £839 million, £100 million of which was paid as distributions and the remaining £739 million is held as retained earnings.

Executive directors' remuneration – Audited information

Where indicated, the tables in the following section have been audited by PricewaterhouseCoopers LLP.

These disclosures are included in compliance with the Building Societies Act 1986 and other mandatory reporting regulations, as well as the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which the Society has voluntarily adopted.

The table below shows the total remuneration for each executive director for the years ended 4 April 2015 and 4 April 2014.

As previously disclosed, in 2014/15 the existing performance pay arrangements for directors (the Annual Performance Pay Plan (APPP) and Medium Term Performance Pay Plan (MTPPP)) were replaced with a simplified single plan – the Directors' Performance Pay Plan (DPPP) – leading to a reduction in the overall performance pay opportunity and an increase in the level of deferral.

The table below shows the awards made under the DPPP for performance in 2014/15. During the transition to the new plans, the table also shows legacy awards that remain due in respect of the MTPPP from previous years. The total pay package excluding legacy payments is disclosed to allow like-for-like comparisons and to reflect the ongoing position where the DPPP is the only performance pay plan available to directors.

The performance pay plan awards shown are the total award under each plan, rather than the amount that is paid straightaway. For DPPP awards, only 40% of the award is payable in 2015 and the remainder is deferred for up to five years.

Table of single total figure of remuneration for each executive director *(Audited)*

Executive directors	Salary	Benefits (note i)	Pension allowance	Current variable remuneration (note ii)	*Legacy variable remuneration (note iii)*	*Total pay package including legacy*	Total pay package excluding legacy
	Fixed remuneration						
2015	**£'000**	**£'000**	**£'000**	**£'000**	***£'000***	***£'000***	**£'000**
G J Beale	**875**	**123**	**350**	**1,042**	***888***	***3,278***	**2,390**
T P Prestedge	**525**	**47**	**173**	**460**	***362***	***1,567***	**1,205**
M M Rennison	**590**	**114**	**195**	**517**	***407***	***1,823***	**1,416**
C S Rhodes	**546**	**38**	**180**	**460**	***377***	***1,601***	**1,224**
Total	**2,536**	**322**	**898**	**2,479**	***2,034***	***8,269***	**6,235**
2014							
G J Beale	825	124	330	1,292	-	*2,571*	2,571
T P Prestedge	500	44	165	533	-	*1,242*	1,242
M M Rennison	560	110	185	609	-	*1,464*	1,464
C S Rhodes	520	36	172	554	-	*1,282*	1,282
Total	2,405	314	852	2,988	-	*6,559*	6,559

Notes:

i. Taxable benefits include private medical cover, car allowance and the use of a company vehicle and driver when required for business purposes.

ii. Current variable remuneration consists of the performance pay plans that were agreed in respect of the year. For 2015 this reflects the DPPP which was in operation for the first time. For 2014 current variable remuneration includes the APPP and MTPPP. The components of this plan and details of the performance measures are described on pages 84 to 85.

iii. Legacy variable remuneration consists of the MTPPP for 2012-15. Although the plan was discontinued for years starting after 2014, the nature of the plan which measures business performance over a three-year period means that there are awards in 2015 in respect of the MTPPP plans initiated in 2012. The components and performance measures of this plan are described on page 86.

Audited information: Executive directors' pensions

G J Beale and M M Rennison have ceased ongoing participation in the Society's defined benefit pension plans and have become deferred members. No executive director accrued any additional pension entitlement during the year. The change in accrued pensions shown in the table below is 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 normal retirement age for the Society's pension plans ranges from 60 to 65.

Table of the value of pension benefits for executive directors *(Audited)*

Executive directors	**Accrued pension at 4 April 2015**	Accrued pension at 4 April 2014	**Transfer value at 4 April 2015**	Transfer value at 4 April 2014	**Change in transfer value (note i)**	**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	**285**	282	**6,390**	6,132	**258**	**-**	**-**	**-**
M M Rennison	**58**	57	**1,304**	1,211	**93**	**-**	**-**	**-**

Notes:

i. The transfer value basis is set by the Nationwide Pension Fund Trustee. Since 4 April 2014 the Trustee has reviewed the transfer value basis that is applicable to all Fund members, including directors. The transfer values at 4 April 2015 reflect this updated basis as well as the financial conditions at the calculation date.

Explanations:

(a) and (b) show deferred pension entitlements at 4 April 2015 and 2014 respectively.
(c) is the transfer value of the deferred pension in (a) calculated at 4 April 2015.
(d) is the transfer value of the deferred pension in (b) calculated at 4 April 2014.
(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.

Report of the directors on remuneration continued

Other directorships

Executive directors and members of senior management may be invited to become non executive directors of other companies, subject to the agreement of the Society. These appointments provide an opportunity to gain broader experience outside Nationwide and therefore benefit the Society. Providing that appointments are not likely to lead to a conflict of interest, executive directors may accept non executive appointments and retain the fees received. With effect from 1 July 2014, the number of external appointments that executive and non executive directors can hold is limited as required under CRD IV.

C S Rhodes was a director of Visa Europe Limited and Visa Europe Services Incorporated from 1 May 2013 to 29 April 2015. He received total fees of £28,566 (2014: £16,800) for services during the year ended 4 April 2015. These fees have been voluntarily assigned to the Group.

Payments for loss of office

No directors received any payments for loss of office during the year.

Payments to past directors

M P V Wyles stepped down as an executive director on 3 December 2012. The £94,000 agreed settlement reflects his award under the 2012-15 MTPPP. This is the last performance pay plan in which he will participate.

Table of single total figure of remuneration for former executive director *(Audited)*

Former executive director	Salary	Benefits	Pension	Total pay package	Agreed settlements	Total including settlements
M P V Wyles	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
2015	**-**	**-**	**-**	**-**	**94**	**94**
2014	-	-	302	302	105	407

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.

2015	Senior executive officers							
	1 £'000	2 £'000	3 £'000	4 £'000	5 £'000	6 £'000	7 £'000	8 £'000
Fixed (note i)	**375**	**340**	**332**	**337**	**279**	**259**	**253**	**256**
Variable								
Cash bonus	**267**	**264**	**251**	**191**	**189**	**192**	**178**	**169**
Deferred cash bonus	**243**	**244**	**232**	**213**	**175**	**180**	**164**	**157**
Total variable	**510**	**508**	**483**	**404**	**364**	**372**	**342**	**326**
Total remuneration	**885**	**848**	**815**	**741**	**643**	**631**	**595**	**582**

Notes:
i. Fixed remuneration includes base salary and car allowance.

Chairman and non executive directors

The fee policy was last reviewed in March 2015. Fees for the Remuneration Committee Chairman and membership of other committees have been increased to reflect the responsibilities of these roles and to bring fee levels more in line with practice in other financial services organisations. The Chairman's fee will be increased from the appointment of the new Chairman to bring this in line with market rates.

Fee policy	Fees for 2015/16	Fees for 2014/15
Chairman (note i)	£375,000	£310,000
Basic fee	£62,000	£62,000
Senior Independent Director (note ii)	£30,000	£30,000
Chairman of the Audit Committee or Board Risk Committee	£35,000	£35,000
Member of the Audit Committee or Board Risk Committee	£15,000	£12,500
Remuneration Committee Chairman	£30,000	£25,000
Remuneration Committee member	£15,000	£12,500
Nomination Committee member	£3,000	£3,000

Notes:
i. David Roberts will succeed Geoffrey Howe as Chairman with effect from the conclusion of the AGM in July 2015. He joined Nationwide's Board as a non executive director and Chairman Elect on 1 September 2014. For the period following 1 September 2014 he received a fee of £150,000 per annum for the role of Chairman Elect. The revised Chairman fee for 2015/16 will apply from when Mr Roberts takes up his role in July 2015.
ii. The Senior Independent Director fee of £30,000 from 2014/15 is inclusive of committee membership fees. Committee Chairman fees will continue to be paid.

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

Audited information: Single total figure of remuneration for non executive directors

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

(Audited)	2015	2014
	Society and Group fees	Society and Group fees
	£'000	£'000
G M T Howe (Chairman)	310	300
Ms R Clifton	87	80
A P Dickinson (note i)	47	112
M K Jary	79	74
M A Lenson	89	85
Mrs L M Peacock	115	107
R K Perkin (Senior Independent Director)	127	127
D Roberts (Chairman Elect)	88	-
Total	942	885
Pension payments to past non executive directors (note ii)	286	285

Notes:
i. A P Dickinson retired from the Board on 17 July 2014.
ii. The Society stopped granting pension rights to non executive directors who joined the Board after January 1990.

Report of the directors on remuneration continued

Remuneration Committee Terms of Reference

The Remuneration Committee is responsible for determining remuneration strategy and policy for the remuneration of the Chairman, the executive directors and group and divisional directors of the Society as well as any other employees who are deemed to fall within scope of the PRA Remuneration Code 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 performance pay plans operated by the Society for the benefit of employees within the Committee's remit, and approving the total annual payments under such plans.

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 May 2014. 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: Lynne Peacock (Chairman of the Committee), Michael Jary and Rita Clifton.

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

- agreeing the performance targets for awards to be made under the DPPP, taking into account the Corporate Plan
- reviewing the outcome of the performance pay plan 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
- agreeing the approach for executive director base salary increases for 2015/16.

The Committee is attended by the Chairman of the Board, and is supported by the Group Director, People, Customer, Communication & Commercial, the Divisional Director, Human Resources and where appropriate the CEO, who is invited to attend Committee meetings to provide further background information and context to assist the Committee in its duties. The Remuneration Committee is also supported by the Board Risk Committee on risk related matters including performance pay 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 Deloitte LLP, who were appointed by the Committee following a tender process.

Deloitte is a member of the Remuneration Consultants Group and as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

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. The Committee is satisfied that the advice received is objective and independent, and reviews annually all other services provided by Deloitte to ensure this continues to be the case. Deloitte's fees are charged on a time and expenses basis. Their fees for advice provided to the Committee during 2014/15 were £245,300.

Voting at AGM

A resolution to approve the 2013/14 'Report of the directors on remuneration' was passed at the 2014 AGM. At the same time a resolution was passed to approve the Remuneration Policy. Votes were cast as follows:

	Report of the directors on remuneration	Remuneration Policy
Votes in favour	750,547 (92.8%)	738,438 (91.4%)
Votes against	58,323 (7.2%)	69,518 (8.6%)
Votes withheld	12,440	13,341

Lynne Peacock
Chair of the Remuneration Committee
21 May 2015

Business and Risk Report

All disclosures in this section (pages 96 to 185) are unaudited except the tables marked as audited.

Further information on risk management can be found in the Pillar III disclosures which are available at **nationwide.co.uk**

Looking after our existing customers

The launch of our Loyalty Rate Mortgages initiative in September 2014 means that our existing mortgage customers don't have to shop around when they come to the end of their deal.

If they choose to switch to a new deal with us they'll always be offered our best rates, and with our Loyalty Rate Mortgages initiative we'll beat the high street too. Each and every week, we check the remortgage rates on offer from Barclays/Woolwich, Halifax, HSBC, Lloyds, NatWest/RBS and Santander – then we beat them.*

That was just the reassurance Amy and Tony Evans needed. 'It meant we didn't have to worry about shopping around,' says Amy. 'There's more to life than houses, there's certainly more to life than mortgages. But at the same time you don't want to end up paying more than you have to. So well done Nationwide. It's just the sort of thing a building society, our building society, should be doing.'

*Please check **nationwide.co.uk** for full terms and conditions.

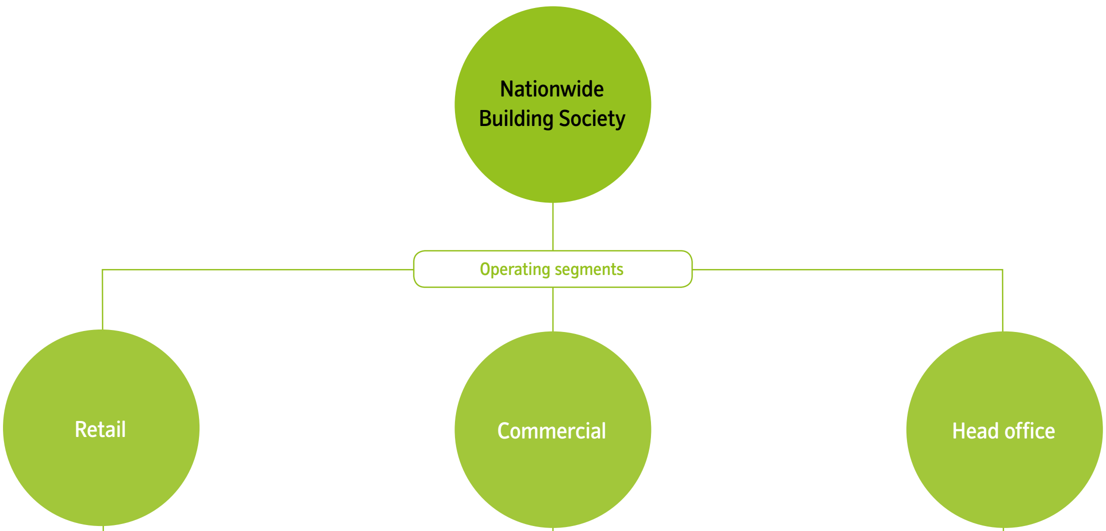
Business and Risk Report

Introduction This Business and Risk Report explains in greater detail the Group's business, the risks it is exposed to and how it manages those risks.

As the risks of the organisation are managed on a Group basis, and given the dominant position of the Society within the Group structure, the disclosures in the Business and Risk Report are on a consolidated basis covering the activities of both the Group and the Society.

The Group is organised into three business streams: Retail, Commercial and Head office functions. The Group is predominantly a retail focused operation which trades almost exclusively within the UK. Wholesale funding is accessed by the Group from both UK and overseas markets.

The chart below shows the Group's business model and how these activities are reflected in its risk measures. The regulatory risk weighted assets below indicate the relative risks each area carries as at 4 April 2015. Please see the 'Solvency risk' section of this report for further details regarding the Group's capital position.



Business activities

Retail	Commercial	Head office
• Prime residential lending • Specialist residential lending • Consumer banking • Savings products • Insurance • Investments	• Commercial real estate lending • Social housing lending • Project Finance lending	• Treasury including funding, liquidity and market risk management • Head office functions • Central support functions

Regulatory risk weighted assets as at 4 April 2015

	Retail £m		Commercial £m		Head office £m
Credit risk	21,395	Credit risk	7,646	Credit risk	3,535
Operational risk	4,124	Operational risk	54	Operational risk	50
Market risk	-	Market risk	-	Market risk	-

Principal risks

Whilst the Group accepts that all of its business activities involve risk, it seeks to protect its members by managing the risks that arise from its activities appropriately. The principal risks inherent within the business are described in the table below:

Risk category	Definition
Lending	The risk that a borrower or counterparty fails to pay interest or to repay principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk.
Financial	The risk of the Group having inadequate earnings, cash flow 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, which may be exposed by changes in market rates, market conditions or the Group's credit profile.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Compliance, conduct and customer experience	The risk that the Group exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, an unfair outcome being created for customers or customers having a less than positive experience.
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.

In addition to these principal categories of risk, model risk, which the Group is exposed to, is managed under a separate framework across all risk categories and business areas where models are used.

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 the Group'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.

In addition to the above principal risks that are inherent in the Group's business, the Group identifies, monitors and manages the top and emerging risks that could affect delivery of the Corporate Plan as an integral element of its risk and management strategy.

Business and Risk Report continued

Top and emerging risks

The Group's top and emerging risks are identified through the process outlined in the 'Managing risk' section, and are closely tracked throughout the governance structure. The Group continues to keep these risks under close observation through risk reporting and metrics where appropriate.

The Group sees four themes to its top and emerging risks: macroeconomic and market uncertainty, business resilience, innovation to support the digital proposition, and conduct challenges. These themes and the Group's response to these are considered further in the relevant risk sub-sections.

Macroeconomic and market uncertainty

The Group's financial position continues to strengthen, with increasing profitability and deleveraging of the highest risk lending assets. However, economic and political uncertainty in both the UK and the Eurozone present four main areas that could affect the Group's financial and lending risks:

- **Ongoing political uncertainty in the Eurozone and potential economic weakness could adversely impact the operating environment of the Group**
  Ongoing political tensions and persistent weak economic growth from the Eurozone may affect the UK's financial stability particularly if accompanied by a loss of confidence, potentially leading to an increase in funding costs.
- **Potential for change in the UK banking landscape**
  A shift in the political environment, a referendum on EU membership, or the output of the Competition and Markets Authority (CMA) review could fundamentally alter the landscape of UK financial services.
- **A reversal in the UK economy accompanied by deterioration in the housing market could increase credit losses significantly**
  Government policies, the low interest rate environment, and a significant flow of overseas buyers stimulate the housing market. There is a risk that these conditions may reverse, increasing credit losses in the Group's mortgage portfolios and depressing the wider economy, resulting in debt extension.
- **Rising competition could compress core margins below sustainable levels**
  The margin earned on the Group's core products may be compressed through increased competition in an already competitive market. Improvement in market conditions could lead to a loosening of credit policies or an increase in funding costs. Margin management may be constrained should interest rates remain lower for longer than expected.

Business resilience

The pace of technological development is creating a period of significant change in financial services. The Group must use new and existing technology to deliver a market leading proposition. In line with the wider financial services market, three key areas pose risks to achieving its goals:

- **Rising customer expectations could exceed the Group's ability to provide a highly reliable and widely available service**
  The Group's implementation of new systems, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations for service availability are rising with a significantly lower tolerance of service disruption. The Group must ensure it manages service provision ahead of rising customer expectations to maintain its goal of being number one for customer service.
- **The ever-increasing sophistication of cyber criminals raises the likelihood and severity of cyber attacks and money laundering**
  Security controls need to keep pace to prevent, detect and respond to any threats or attacks. In recognition of the cyber risk facing both the Group and the financial sector in general, the Group continues to focus its efforts on investing in appropriate technology and processes.
- **Legacy systems**
  The pace of transformation may require enhancements to existing processes on legacy systems with potential impacts on service experience.

Top and emerging risks continued

Innovation

The Group has delivered significant digital change over the past year, including updates to mobile and internet banking and new payment technology. Branch experience has also evolved with the introduction of digital technology such as 'Nationwide Now', whilst still offering more traditional products and services that are so important to many of the Group's members. The Group will continue to develop new and existing technology to deliver a market-leading proposition, however, two key areas pose risks to achievement of the Group's goals:

- **The scale and pace of required change may outstrip the Group's capacity to transform**
  The scale and pace of change could create delivery challenges and may lead to disruption of the Group's operating environment and distribution strategy or require process enhancements on legacy systems.
- **New ways of doing business**
  The development of new business models or technologies may disrupt the Group's operating environment or distribution strategy and in a fast-paced environment there is the potential for new technologies to become outdated before the end of their expected lives.

Conduct challenges

The member-focused nature of the Group's business model puts it in a good position to meet future conduct requirements. However, the following pose risks to achievement of the Group's goals:

- **The Group's digital strategy may lead to poor customer outcomes and/or experience**
  Management focus on delivery of new products and services may not give adequate consideration for customers that do not require or are unable to transact through digital channels. In addition the rapid pace of digital transformation presents the potential risk that the Group is exposed to retrospective conduct issues if regulation fails to keep up with the pace of change.
- **Known and unknown legacy conduct issues may increase in scale and severity**
  Regulation regarding the treatment of customers and good conduct more generally continues to be a focus for the industry. It is possible that in consideration of how past business was conducted the Group may be judged as not having complied fully with law and regulation or be regarded as not having been fair or reasonable in the treatment of customers. In addition, unforeseen conduct issues may arise in existing products or from new processes being supported by legacy systems.
- **The regulatory landscape is changing and may lead to increased risks**
  As a consumer focused business operating in highly regulated markets the Group is subject to complaints and threatened or actual legal proceedings in the ordinary course of business. In addition, at a sector level, the incidence of regulatory reviews, challenges and investigations is increasing. Regulatory expectations in respect of conduct standards increase the risk of future sanctions, fines or customer redress.

Business and Risk Report continued

Lending risk

Lending risk is the risk that a borrower or counterparty fails to pay interest or to repay the principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk.

This section provides information on the Group's exposure to lending risk arising from loans and advances, together with details of the level of collateral held, and impairment charges raised against these loans during the period. It also provides information about the lead risk factors and key performance indicators for each of the Group's loan portfolios.

The Group manages lending risk for each of the following portfolios:

Portfolio	Definition
Residential mortgages	Residential mortgages including prime and specialist lending.
Consumer banking	Consumer banking including personal loans, credit card and banking portfolios.
Commercial lending	Commercial lending including the Group's commercial real estate lending, loans under the Project Finance initiative and social housing loans.
Other lending	Lending in respect of structured portfolios.
Treasury assets	Treasury liquidity and discretionary portfolios.

Maximum exposure to lending risk

Lending risk largely arises from the Group's exposure to loans and advances to customers, which account for 88.5% (2014: 88.9%) of the Group's total lending risk exposure. Within this, the Group's exposure relates primarily to residential mortgages which account for 89.5% (2014: 87.3%) of total loans and advances to customers and which are comprised of high quality assets with low occurrences of arrears and possessions. The increase in the proportion of residential mortgages reflects the Group's strategy of exiting non-core commercial lending.

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

The Group's maximum exposure to lending risk has risen from £196 billion to £201 billion in line with the growth in residential mortgage loans, offset by a reduction in commercial lending, and the increase in liquidity assets held.

Lending risk continued

Maximum exposure to lending risk	**4 April 2015**					
	Gross balance	**Less: Impairment provisions**	**Carrying value**	**Commitments (note i)**	**Maximum lending risk exposure**	**% of total lending risk exposure**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	
Cash	**4,325**	**-**	**4,325**	**-**	**4,325**	**2**
Loans and advances to banks	**3,392**	**-**	**3,392**	**408**	**3,800**	**2**
Investment securities – AFS	**11,037**	**-**	**11,037**	**-**	**11,037**	**5**
Derivative financial instruments	**3,337**	**-**	**3,337**	**-**	**3,337**	**2**
Fair value adjustment for portfolio hedged risk	**592**	**-**	**592**	**-**	**592**	**-**
Loans and advances to customers	**171,299**	**(652)**	**170,647**	**7,162**	**177,809**	**89**
Investment in equity shares	**26**	**-**	**26**	**-**	**26**	**-**
Total	**194,008**	**(652)**	**193,356**	**7,570**	**200,926**	**100**

Maximum exposure to lending risk	4 April 2014					
	Gross balance	Less: Impairment provisions	Carrying value	Commitments (note i)	Maximum lending risk exposure	% of total lending risk exposure
(Audited)	£m	£m	£m	£m	£m	
Cash	5,342	-	5,342	-	5,342	3
Loans and advances to banks	2,110	-	2,110	408	2,518	1
Investment securities – AFS	10,563	-	10,563	-	10,563	5
Derivative financial instruments	3,020	-	3,020	-	3,020	2
Fair value adjustment for portfolio hedged risk	221	-	221	-	221	-
Loans and advances to customers (note ii)	167,829	(1,288)	166,541	7,415	173,956	89
Investment in equity shares	29	-	29	-	29	-
Total	189,114	(1,288)	187,826	7,823	195,649	100

Notes:

i. In addition to the figures shown above the Group has, as part of its retail operations, revocable commitments of £8,081 million (2014: £7,662 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.

ii. Comparatives have been restated for the reclassification of certain amounts in relation to overdrawn current accounts, as detailed in note 1 to the accounts.

Business and Risk Report continued

Lending risk continued

Maximum exposure to lending risk from the Group's loans and advances to customers is further analysed as follows:

Loans and advances to customers	**4 April 2015**					
	Gross balance	**Less: Impairment provisions**	**Carrying value**	**Commitments (note i)**	**Maximum lending risk exposure**	**% of total lending risk exposure**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	
Residential mortgages	**152,885**	**(110)**	**152,775**	**5,676**	**158,451**	**89**
Consumer banking	**3,791**	**(216)**	**3,575**	**32**	**3,607**	**2**
Commercial lending	**14,594**	**(322)**	**14,272**	**1,379**	**15,651**	**9**
Other lending	**29**	**(4)**	**25**	**75**	**100**	**-**
Total	**171,299**	**(652)**	**170,647**	**7,162**	**177,809**	**100**

Loans and advances to customers	4 April 2014					
	Gross balance	Less: Impairment provisions	Carrying value	Commitments (note i)	Maximum lending risk exposure	% of total lending risk exposure
(Audited)	£m	£m	£m	£m	£m	
Residential mortgages	145,660	(102)	145,558	5,578	151,136	87
Consumer banking (note ii)	3,829	(173)	3,656	34	3,690	2
Commercial lending	18,164	(1,001)	17,163	1,728	18,891	11
Other lending	176	(12)	164	75	239	-
Total	167,829	(1,288)	166,541	7,415	173,956	100

Notes:
i. In addition to the figures shown above the Group has, as part of its retail operations, revocable commitments of £8,081 million (2014: £7,662 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.
ii. Comparatives have been restated for the reclassification of certain amounts in relation to overdrawn current accounts, as detailed in note 1 to the accounts.

The Group's off-balance sheet commitments relate largely to mortgage pipeline, undrawn overdraft facilities and undrawn credit card facilities, all of which are short term in nature. As a result, no further analysis of the maturity of the Group's off balance sheet commitments is provided.

Residential mortgages

Lending and new business

The Group's residential mortgages comprise prime and specialist loans. Prime residential mortgages are mainly Nationwide branded advances made through the Group's branch network and intermediary channels; all new specialist lending is limited to buy to let mortgages and originated through The Mortgage Works (UK) plc (TMW). The mix between prime and specialist lending has remained stable over the period; within specialist lending the proportion of buy to let has increased to 86% (2014: 83%) as all other types of specialist lending are closed to new business.

Residential mortgage balances	2015		2014	
(Audited)	£m	%	£m	%
Prime	124,549	81	119,319	82
Specialist	28,336	19	26,341	18
Total residential mortgages	152,885	100	145,660	100
Buy to let	24,370	86	21,932	83
Self-certified	2,634	9	2,960	11
Near prime	952	4	1,037	4
Sub prime	380	1	412	2
Specialist	28,336	100	26,341	100

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

During the year, additional controls have been applied to ensure that the profile of new lending remains within the Group's risk appetite so that the Group continues to lend in a responsible, affordable and sustainable way.

From October 2014, the Financial Policy Committee (FPC) has introduced a 15% limit to the proportion of new lending that may be written at income multiples of 4.5 and above. This limit applies to residential mortgages, excluding buy to let. The Group's proportion of new lending at income multiples of 4.5 or higher has averaged 4% over the second half of the financial year, comfortably within the FPC limit and in line with the Group's overall approach to lending.

New business by borrower type is set out below:

New business by borrower type	2015	2014
	%	%
Home movers	32	32
First time buyers	26	31
Remortgagers	23	22
Buy to let	18	14
Other	1	1
Total	100	100

Note: All new business measures exclude further advances. Percentages are calculated on a value basis.

Lending to first time buyers during the year has reduced to 26% (2014: 31%). This is a result of changes in the Group's risk appetite relating to the average loan to value (LTV) of prime new lending. These changes allow the Group to mitigate the lending risk that it is exposed to from advances to first time buyers whilst still remaining committed to supporting schemes and initiatives that promote home ownership for this type of borrower.

Business and Risk Report continued

Residential mortgages continued

Lending risk

The Group's residential mortgage lending continues to have a low risk profile when compared to industry benchmarks. This reflects the Group's strategy of responsible lending which is supported by a robust affordability assessment and credit scoring process that ensures asset quality remains within the Group's risk appetite.

The composition of loans comprises a large number of relatively small loans which are broadly homogenous, have low volatility of lending risk outcomes and are intrinsically highly diversified. The Group monitors the following lead indicators and performance statistics for residential lending:

- LTV and lending risk concentration
- arrears (particularly arrears of more than three months)
- impaired loans
- possessions
- interest only mortgages
- negative equity loans
- change in terms, forbearance and repair.

LTV and lending risk concentration

The average LTV on the overall stock has improved by 1% to 47% (2014: 48%) on a volume basis, primarily due to the growth in house prices.

LTV of loan stock and new business	2015	2014
	%	%
Average loan to value of stock (indexed) by volume	47	48
Average loan to value of new business by volume	66	69
Average loan to value of stock (indexed) by value	56	58
Average loan to value of new business by value	69	73

Note: The average value of new business above excludes further advances.

LTV is measured both on a volume basis (number of loans) and by value (based on mortgage balances at the balance sheet date for stock and at inception for new business). The details in the remainder of this section use value based calculations to enable better understanding of the balance sheet composition.

The Group calculates a value based approach by weighting the account level LTV by the individual loan balance to arrive at an average LTV. This approach most accurately reflects the exposure at risk to the Group. The Group notes that its banking peers adopt a variety of different approaches to calculating their LTVs. This includes approaches where LTV is calculated at a total portfolio level, comparing total balances to total collateral held, with no capping of collateral at an individual loan level.

On a value basis, the average LTV on the overall stock has improved by 2% to 56% (2014: 58%).

Residential mortgages continued

The average LTV of new business during the period has improved by 4% to 69% (2014: 73%) on a value basis, reflecting the lower LTV profile on new lending.

The proportion of new business written at higher LTVs (above 80%) has reduced to 22% (2014: 33%), as shown in the table below.

New residential lending – distribution of loans by original LTV band	2015	2014
	%	%
Loan to value analysis:		
0% to 60%	26	19
60% to 75%	42	38
75% to 80%	10	10
80% to 85%	10	15
85% to 90%	11	16
90% to 95%	1	2
Total	100	100

The geographical concentration of the portfolio has remained broadly stable during the period, with gross lending in Greater London representing 33% of total loans (2014: 32%).

The analysis of the Group's residential mortgage portfolio split between performing and non-performing loans and by geographical segment, as set out below, shows that the Group's proportion of non-performing loans has decreased by 0.4% to 2.3% (2014: 2.7%). In addition, the value of partially collateralised non-performing loans has reduced to £135 million (2014: £198 million), an improvement of 32%, with the shortfall in collateral reduced to £26 million (2014: £36 million).

Business and Risk Report continued

Residential mortgages continued

Residential mortgage balances by LTV and region *(Audited)*	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total	
2015	£m	£m	£m	£m	£m	£m	£m	£m	%
Performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	21,388	8,168	5,778	6,752	4,528	2,716	1,924	51,254	
50% to 60%	11,785	4,345	3,164	3,479	2,283	1,481	900	27,437	
60% to 70%	9,490	6,470	4,864	4,594	3,191	2,102	1,211	31,922	
70% to 80%	4,582	5,535	6,079	2,788	2,592	2,688	1,595	25,859	
80% to 90%	1,476	2,148	3,000	821	952	1,192	912	10,501	
90% to 100%	42	228	860	41	76	249	323	1,819	
	48,763	26,894	23,745	18,475	13,622	10,428	6,865	148,792	97.3
Not fully collateralised									
– LTV more than 100% (A)	9	13	105	3	5	36	389	560	0.4
– Collateral value on A	*7*	*11*	*97*	*3*	*4*	*34*	*322*	*478*	
– Negative equity on A	*2*	*2*	*8*	*-*	*1*	*2*	*67*	*82*	
Total performing loans	48,772	26,907	23,850	18,478	13,627	10,464	7,254	149,352	97.7
Non-performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	441	156	111	115	68	44	52	987	
50% to 60%	287	98	69	70	44	26	25	619	
60% to 70%	210	141	115	90	66	43	33	698	
70% to 80%	78	138	148	69	56	53	37	579	
80% to 90%	12	93	116	24	35	32	35	347	
90% to 100%	1	26	91	1	4	14	31	168	
	1,029	652	650	369	273	212	213	3,398	2.2
Not fully collateralised									
– LTV more than 100% (B)	1	7	33	2	1	4	87	135	0.1
– Collateral value on B	*1*	*6*	*29*	*2*	*1*	*3*	*67*	*109*	
– Negative equity on B	*-*	*1*	*4*	*-*	*-*	*1*	*20*	*26*	
Total non-performing loans	1,030	659	683	371	274	216	300	3,533	2.3
Total residential mortgages	49,802	27,566	24,533	18,849	13,901	10,680	7,554	152,885	100
Geographical concentration	33%	18%	16%	12%	9%	7%	5%	100%	

Residential mortgages continued

Residential mortgage balances by LTV and region *(Audited)*	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total	
2014	£m	£m	£m	£m	£m	£m	£m	£m	%
Performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	16,771	7,405	5,587	5,916	4,165	2,664	1,899	44,407	
50% to 60%	8,889	3,576	2,758	2,764	1,839	1,305	832	21,963	
60% to 70%	10,703	5,097	4,240	3,712	2,615	1,915	1,155	29,437	
70% to 80%	6,418	6,196	5,860	3,721	2,917	2,456	1,492	29,060	
80% to 90%	1,972	3,213	3,401	1,488	1,359	1,352	915	13,700	
90% to 100%	38	424	1,102	72	108	244	331	2,319	
	44,791	25,911	22,948	17,673	13,003	9,936	6,624	140,886	96.7
Not fully collateralised									
– LTV more than 100% (A)	7	31	188	4	8	56	510	804	0.6
– Collateral value on A	*5*	*29*	*177*	*3*	*6*	*53*	*414*	*687*	
– Negative equity on A	*2*	*2*	*11*	*1*	*2*	*3*	*96*	*117*	
Total performing loans	44,798	25,942	23,136	17,677	13,011	9,992	7,134	141,690	97.3
Non-performing loans									
Fully collateralised									
LTV ratio:									
Up to 50%	366	149	110	104	62	50	50	891	
50% to 60%	229	85	69	59	34	26	25	527	
60% to 70%	292	139	114	87	58	40	37	767	
70% to 80%	187	162	157	95	70	61	42	774	
80% to 90%	55	134	146	63	53	38	37	526	
90% to 100%	5	67	127	14	16	20	38	287	
	1,134	736	723	422	293	235	229	3,772	2.6
Not fully collateralised									
– LTV more than 100% (B)	2	14	52	3	3	10	114	198	0.1
– Collateral value on B	*2*	*13*	*47*	*2*	*2*	*10*	*86*	*162*	
– Negative equity on B	-	*1*	*5*	*1*	*1*	-	*28*	*36*	
Total non-performing loans	1,136	750	775	425	296	245	343	3,970	2.7
Total residential mortgages	45,934	26,692	23,911	18,102	13,307	10,237	7,477	145,660	100
Geographical concentration	32%	19%	16%	12%	9%	7%	5%	100%	

Business and Risk Report continued

Residential mortgages continued

Arrears

Performance of the mortgage portfolios continues to improve with the number of residential mortgages more than three months in arrears reducing in both the prime and specialist mortgage books. The Group's more than three months in arrears' percentage of 0.49% compares favourably with the Council of Mortgage Lenders (CML) industry average of 1.30%.

The strong arrears performance is supported by favourable economic conditions and a continued low interest environment.

Number of cases more than 3 months in arrears as % of total book	2015 %	2014 %
Prime	**0.36**	0.46
Specialist	**1.12**	1.53
Group	**0.49**	0.63
CML industry average	**1.30**	1.59

Impaired loans

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

Non-performing accounts include all impaired loans and also loans which are past due but not impaired, including any asset where a payment due is received late or missed. The non-performing loan 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.

The table below provides information on residential mortgages by payment due status. Over the period the Group's proportion of impaired loans has fallen to 0.6% (2014: 0.8%).

Residential mortgage balances by payment status	2015				2014			
	Prime lending	Specialist lending	Total		Prime lending	Specialist lending	Total	
(Audited)	£m	£m	£m	%	£m	£m	£m	%
Performing:								
Neither past due nor impaired	**122,424**	**26,928**	**149,352**	**97.7**	116,998	24,692	141,690	97.3
Non-performing:								
Past due up to 3 months but not impaired	**1,729**	**909**	**2,638**	**1.7**	1,817	998	2,815	1.9
Impaired	**396**	**499**	**895**	**0.6**	504	651	1,155	0.8
Total	**124,549**	**28,336**	**152,885**	**100.0**	119,319	26,341	145,660	100.0

Residential mortgages continued

Whilst metrics indicating the quality of the Group's mortgage assets have improved, they have reached a level from which the rate of improvement is expected to be slow. Credit risk impairment assumptions have been subject to a comprehensive review during the year following the prolonged low interest rate environment. This has led to an increase in provision of £44 million from updated assumptions, most notably to expected sale proceeds for properties in possession. As a result, the provision balance has increased to £110 million (2014: £102 million). The impairment position is summarised below:

Residential mortgage balances impairment	2015		2014	
	£m	%	£m	%
Impaired balances/% of book:				
Prime	396	0.32	504	0.42
Specialist	499	1.76	651	2.47
Total	895	0.59	1,155	0.79
Impairment provisions/coverage:				
Prime	22	5.6	18	3.6
Specialist	88	17.6	84	12.9
Total	110	12.3	102	8.8
Impairment charge/(credit) for the year:				
Prime	13		-	
Specialist	45		-	
Total	58		-	

Individual impairment provisions are assigned to accounts in possession and a collective provision is assigned to all other accounts. Impaired residential mortgages are analysed further below:

Impaired residential mortgage balances by payment due dates	2015				2014			
	Prime	Specialist	Total		Prime	Specialist	Total	
	£m	£m	£m	%	£m	£m	£m	%
Impaired status:								
Past due 3 to 6 months	190	207	397	45	225	269	494	43
Past due 6 to 12 months	120	143	263	29	164	183	347	30
Past due over 12 months	72	97	169	19	100	138	238	21
Possessions	14	52	66	7	15	61	76	6
Total	396	499	895	100	504	651	1,155	100

Business and Risk Report continued

Residential mortgages continued

Possessions

The Group only takes possession of properties as a last resort and possession balances represent loans against which the Group has taken ownership of properties pending their sale.

The number of properties in possession has remained low at 409 (2014: 522). Possession stock represents 0.03% of the Group's book compared to the industry average of 0.05%.

Possessions as a percentage of total book (number of properties)	2015		2014	
	Number of properties	%	Number of properties	%
Prime	151	0.01	174	0.01
Specialist	258	0.10	348	0.14
Group	409	0.03	522	0.03
CML industry average		0.05		0.08

Interest only mortgages

The Group does not offer any new advances for prime residential mortgages on an interest only basis. However, the Group has historical balances which were originally advanced as interest only mortgages or where the Group agreed a change in terms to an interest only basis (this option was withdrawn in 2012).

The interest only proportion of the Group's residential mortgages (including the total balance where part of the balance is interest only) is 30.7% (2014: 33.3%). This includes buy to let, the majority of which is advanced on an interest only basis. The interest only proportion of the prime mortgage book has reduced to 17.7% (2014: 21.4%).

The Group manages maturities on interest only mortgages closely, engaging with customers to ensure the loan is redeemed or to agree a strategy for repayment, such as term extension. Further details regarding the Group's policy on helping its members through term extensions are included in the 'Repair' section below.

Interest only mortgages	Term expired (still open)*	Due within one year	Due after one year and before two years	Due after more than two years	Total	% of total
2015	£m	£m	£m	£m	£m	%
Prime	57	376	538	21,115	22,086	17.7
Specialist	95	122	220	24,473	24,910	87.9
Total	152	498	758	45,588	46,996	30.7

Interest only mortgages	Term expired (still open)*	Due within one year	Due after one year and before two years	Due after more than two years	Total	% of total
2014	£m	£m	£m	£m	£m	%
Prime	57	364	507	24,650	25,578	21.4
Specialist	62	85	157	22,691	22,995	87.3
Total	119	449	664	47,341	48,573	33.3

*Term expired amounts relate to balances where a formal capital repayment plan has yet to be agreed with the borrower.

Residential mortgages continued

Negative equity loans

Collateral held against residential mortgages is the Group's principal method of mitigating lending risk on these loans. Negative equity on non-performing residential mortgages, being the excess of loan balances over collateral held, continues to reduce due to the growth in house prices over the year, as shown below:

Negative equity of residential mortgages	2015		2014	
	Prime	Specialist	Prime	Specialist
	£m	£m	£m	£m
Past due but not impaired	2	7	4	6
Impaired	2	9	3	16
Possessions	-	6	-	7
Total	4	22	7	29

Note: Collateral held is capped at the amount outstanding on an individual loan basis.

Managing lending risk on residential mortgages

At times, customers face financial difficulty and in these cases the Group seeks to find a solution to mitigate losses to the Group and to support residential mortgage customers where possible through a change in terms, forbearance or repair. Collectively, these loans are classified as renegotiated. The following sections analyse each category of renegotiated loans.

Change in terms

Changes in terms in line with existing underwriting appetite result in an amended monthly cash flow from:

- payment holidays
- term extensions
- payment concessions, or
- permanent interest only conversions (withdrawn March 2012).

Loans which have been subject to changes in terms at any point since January 2008 have reduced by £948 million to £12,213 million. These figures include balances that have reverted to normal terms (loans where payment holidays have ended and payments have recommenced). Where loans have been subject to more than one type of change in term they are recorded in each category and multiple events are then eliminated, as set out below:

Residential mortgage balances subject to change in terms since January 2008	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total
2015	£m	£m	£m	£m	£m	£m	£m	£m
Payment holidays	1,011	781	712	522	329	265	270	3,890
Term extensions	2,045	1,318	1,137	921	655	449	464	6,989
Payment concessions	272	171	170	102	72	41	63	891
Interest only conversions	687	329	301	251	183	89	150	1,990
Gross total	4,015	2,599	2,320	1,796	1,239	844	947	13,760
Elimination of multiple events	(436)	(312)	(261)	(207)	(132)	(78)	(121)	(1,547)
Total	3,579	2,287	2,059	1,589	1,107	766	826	12,213

Business and Risk Report continued

Residential mortgages continued

Residential mortgage balances subject to change in terms since January 2008	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total
2014	£m	£m	£m	£m	£m	£m	£m	£m
Payment holidays	1,140	877	796	585	370	295	297	4,360
Term extensions*	2,114	1,421	1,203	986	691	474	487	7,376
Payment concessions	272	174	166	105	71	41	61	890
Interest only conversions	769	361	328	286	204	100	161	2,209
Gross total	4,295	2,833	2,493	1,962	1,336	910	1,006	14,835
Elimination of multiple events	(471)	(332)	(283)	(229)	(149)	(86)	(124)	(1,674)
Total	3,824	2,501	2,210	1,733	1,187	824	882	13,161

*Restated following a review of the classifications used. Previously disclosed total of £7,403 million was found to include items which had never been subject to a term extension. This also impacts the tables below where indicated.

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. £3,890 million of loans have been subject to payment holidays at any point since January 2008 and are still on the books at 4 April 2015 (2014: £4,360 million); of these only £90 million remain on a payment holiday as at 4 April 2015 (2014: £98 million). The performance of payment holidays 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; £6,989 million of loans have been subject to term extensions at any point since January 2008 and are still on the books at 4 April 2015 (2014: £7,376 million). During the period, £948 million of loans (2014: £2,082 million) had terms extended. 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.

Payment concessions

Customers in arrears may be offered a temporary payment concession allowing them to make reduced or nil payments for an agreed period of time. £891 million of loans have been subject to payment concessions at any point since January 2008 and are still on the books at 4 April 2015 (2014: £890 million); of these only £16 million remain subject to payment concessions as at 4 April 2015 (2014: £21 million).

Permanent interest only conversions

Historically, performing customers who meet specific criteria could apply for a permanent interest only conversion, normally reducing their monthly commitment. Following tightening of the Group's policy, this facility was completely withdrawn in March 2012, although a temporary interest only arrangement may be available under forbearance as described below. £1,990 million of loans have been subject to interest only conversions at any point since January 2008 and are still on the books at 4 April 2015 (2014: £2,209 million). 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.

Residential mortgages continued

Forbearance

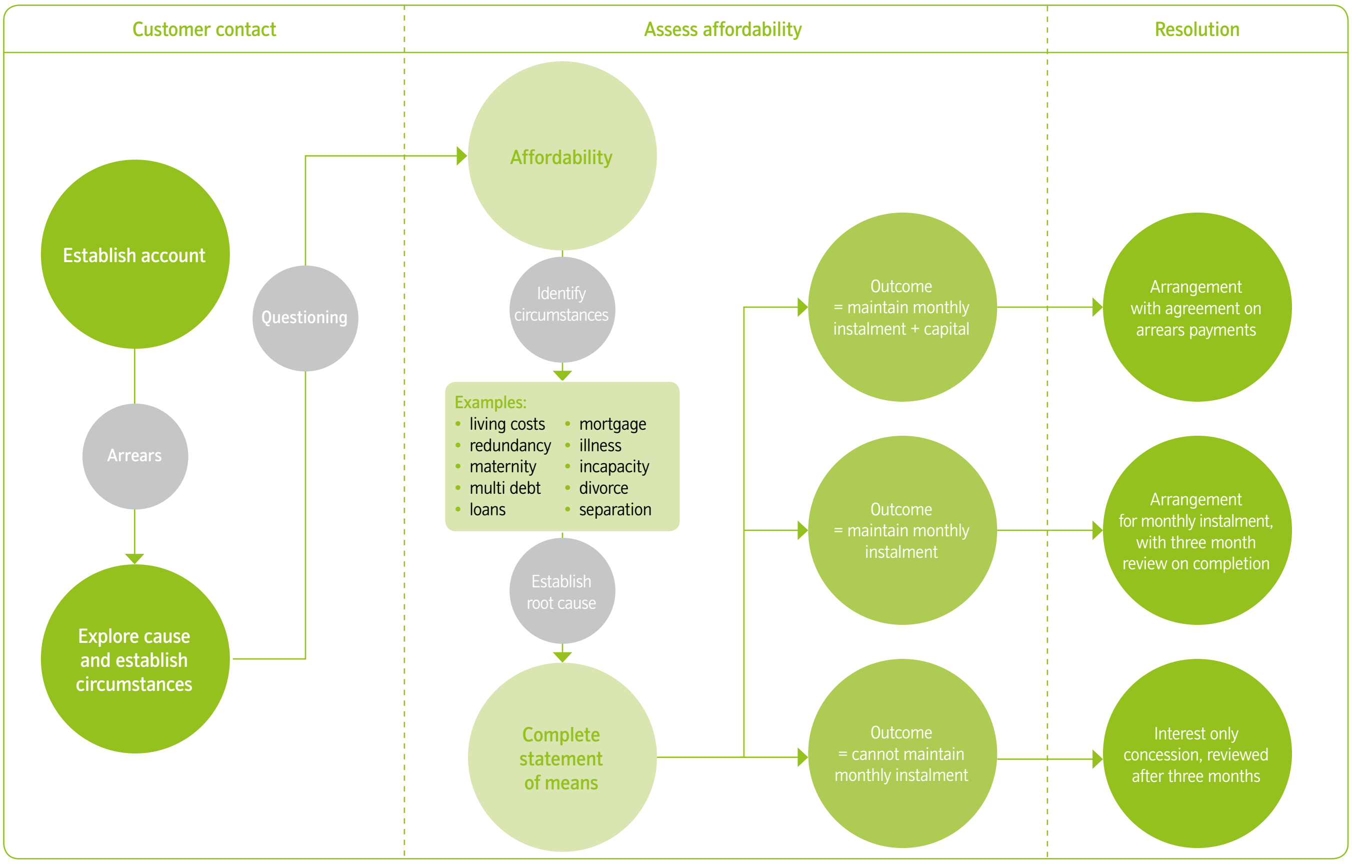
Forbearance takes place when a concession is made on the contractual terms of a loan to a customer as a result of financial difficulties. The only forbearance option which the Group offers customers in financial distress is a temporary interest only concession. As at 4 April 2015, only £123 million of balances (2014: £171 million) representing 0.08% (2014: 0.12%) of total mortgage balances were on this concession, reflecting the strong underlying performance of the portfolio.

The Group's provisioning methodology reflects the latest performance on these accounts.

The table below provides details of the current balances of loans that have been subject to forbearance arrangements at any point since January 2008, by region. These balances are not included in the interest only conversions balances in the change of terms table above.

Residential mortgage balances subject to forbearance since January 2008	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total
	£m	£m	£m	£m	£m	£m	£m	£m
2015								
Temporary interest only concessions	**369**	**344**	**349**	**193**	**121**	**101**	**121**	**1,598**
2014								
Temporary interest only concessions	379	364	363	202	128	107	124	1,667

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



Business and Risk Report continued

Residential mortgages continued

Repair

The Group offers two forms of repair: capitalisation and term extension at term expiry, as set out below.

Capitalisation

When a customer emerges from financial difficulty, the Group offers the ability to capitalise arrears, resulting in the account being repaired. Once capitalised, the loans are categorised as not impaired as long as contractual repayments are maintained. £430 million of loans have had an arrears capitalisation at any point since January 2008 and are still on the books at 4 April 2015 (2014: £420 million). At the start of the period the Group introduced a new proactive contact strategy for customers eligible for capitalisation. During the year ended 4 April 2015, £50 million of loans (2014: £7 million) were repaired through capitalisation.

Term extension (at term expiry)

Customers on interest only mortgages who are unable to repay their capital at term expiry 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. £484 million of loans have had an extension at term expiry at any point since January 2008 and are still on the books at 4 April 2015 (2014: £466 million); of these £153 million of loans had an extension at term expiry during the year ended 4 April 2015 (2014: £180 million). No provisioning methodology adjustment is made for these accounts as a result of the low balance and LTV profile.

The table below provides details of the current balances of loans which have been repaired at any point since January 2008, by region. It is possible for a loan to have more than one category of repair and in the table below both are shown and multiple events are then eliminated.

Residential mortgage balances subject to repair since January 2008	**Greater London**	**Central England**	**Northern England**	**South East England (excluding London)**	**South West England**	**Scotland**	**Wales and Northern Ireland**	**Total**
2015	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Capitalisations (note i)	**140**	**79**	**81**	**55**	**33**	**17**	**25**	**430**
Term extensions	**164**	**86**	**63**	**60**	**47**	**30**	**34**	**484**
Gross total	**304**	**165**	**144**	**115**	**80**	**47**	**59**	**914**
Elimination of multiple events	**(2)**	**-**	**(1)**	**-**	**(1)**	**-**	**-**	**(4)**
Total	**302**	**165**	**143**	**115**	**79**	**47**	**59**	**910**

Residential mortgage balances subject to repair since January 2008	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total
2014	£m	£m	£m	£m	£m	£m	£m	£m
Capitalisations (note i)	144	76	76	56	32	13	23	420
Term extensions (note ii)	155	86	56	63	45	28	33	466
Gross total	299	162	132	119	77	41	56	886
Elimination of multiple events	(2)	-	-	(1)	-	-	-	(3)
Total	297	162	132	118	77	41	56	883

Notes:
i. Amounts shown in the table reflect the full amount of the loan.
ii. Restated following a review of the classifications used. Previously disclosed total of £1,142 million was found to include items which had never been subject to a term extension.

Residential mortgages continued

Total renegotiated loans

The table below shows the stock of loans still on the books as at 4 April 2015 that have been renegotiated at any point since January 2008:

	2015		2014	
	£m	% of total residential mortgages	£m	% of total residential mortgages
Change in terms*	12,213	8	13,161	9
Forbearance	1,598	1	1,667	1
Repair*	910	1	883	1
Gross total	14,721	10	15,711	11
Elimination of multiple events	(1,108)	(1)	(1,137)	(1)
Total	13,613	9	14,574	10

*2014 comparatives have been restated following a review of the classifications used. Previously disclosed totals of £13,188 million (change in terms) and £1,555 million (repair) included items which had never been renegotiated.

The table below splits by mortgage type, and region, the current balances of loans which have been renegotiated at any point since January 2008, together with the impairment provisions held on these renegotiated loans. Loans which are on special terms at the balance sheet date are also disclosed. These comprise loans where the terms have been changed temporarily and which, as at the balance sheet date, are still subject to payment holidays or concessions and forborne loans which are still on temporary interest only terms.

The value of loans still on special terms has reduced to £228 million at 4 April 2015 (2014: £290 million).

Residential mortgage balances subject to renegotiation since January 2008	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total
2015	£m	£m	£m	£m	£m	£m	£m	£m
Prime	3,408	2,291	2,049	1,563	1,071	801	803	11,986
Specialist	553	274	278	200	151	57	114	1,627
Total	3,961	2,565	2,327	1,763	1,222	858	917	13,613
Of which loans are still on special terms: (note ii)								
Prime	58	41	37	29	16	15	13	209
Specialist	5	3	4	2	1	1	3	19
Total	63	44	41	31	17	16	16	228
Total impairment provision on renegotiated loans:								
Individually assessed	-	1	1	-	1	-	1	4
Collectively assessed	-	2	4	1	-	1	5	13
Total	-	3	5	1	1	1	6	17

Business and Risk Report continued

Residential mortgages continued

Residential mortgage balances subject to renegotiation since January 2008	Greater London	Central England	Northern England	South East England (excluding London)	South West England	Scotland	Wales and Northern Ireland	Total
2014	£m	£m	£m	£m	£m	£m	£m	£m
Prime (note i)	3,684	2,530	2,224	1,714	1,160	864	864	13,040
Specialist (note i)	513	259	256	200	144	52	110	1,534
Total	4,197	2,789	2,480	1,914	1,304	916	974	14,574
Of which loans are still on special terms: (note ii)								
Prime	73	50	46	33	22	15	17	256
Specialist	9	7	7	4	2	1	4	34
Total	82	57	53	37	24	16	21	290
Total impairment provision on renegotiated loans:								
Individually assessed	-	1	1	-	-	1	2	5
Collectively assessed	1	4	5	2	1	1	6	20
Total	1	5	6	2	1	2	8	25

Notes:
i. Amounts have been restated following a review of the classifications used. Previously disclosed totals of £13,476 million and £1,668 million, for prime and specialist mortgage balances respectively, were found to include items which had never been renegotiated.
ii. Special terms refer to loans which are actively subject to a payment holiday, a payment concession or a temporary interest only concession. They do not include term extensions, permanent interest only conversions or capitalisations.

Environment and outlook

Throughout the period interest rates have remained low and the unemployment rate has continued to decline. Although the annual pace of house price growth has slowed, there is little evidence of a significant price correction or imminent deterioration in market sentiment.

It is in the context of these favourable economic conditions that risk indicators have improved and arrears have fallen. Robust credit assessment and affordability controls have helped to ensure that arrears rates have remained low in recent years.

With unemployment expected to remain low, incomes to rise gradually and with the Bank of England signalling that interest rates are likely to increase slowly, the Group does not anticipate a significant change in performance.

Interest rate increases are expected to result in a modest increase in arrears as households who have not fully recovered their finances start to feel the pressure of increased mortgage costs. While it is not our central expectation, if a reversal in the UK housing market occurred then it would lead to increased risk for both the borrower and the Group. It is in this context that the Group continues to develop robust and responsible lending policies to ensure that lending remains affordable and sustainable, even as the market becomes more competitive.

Consumer banking

Overview

Consumer banking includes balances relating to the unsecured portfolios for current accounts, credit cards and personal loans.

The total consumer banking balance has remained broadly stable at £3,791 million (2014: £3,829 million), representing 2.1% (2014: 2.3%) of total loans and advances to customers. The Group has continued to apply robust lending risk management policies in an increasingly competitive market.

Consumer banking balances	2015		2014	
(Audited)	£m	%	£m	%
Overdrawn current accounts*	248	7	267	7
Personal loans	1,799	47	1,907	50
Credit cards	1,744	46	1,655	43
Total consumer banking	3,791	100	3,829	100

*Comparative has been restated (previously disclosed balance was £300 million) as detailed in note 1 to the accounts.

Business and Risk Report continued

Consumer banking continued

Lending risk

The Group monitors and reports lending risk on consumer banking portfolios primarily on delinquency status, since no security is held against the loans. The performance of the portfolios is closely monitored, with corrective action taken when appropriate to ensure risk appetite is met.

Total non-performing balances, excluding balances which are in charge-off, have decreased by £12 million to £171 million (2014: £183 million).

Consumer banking by payment due status	2015				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
(Audited)	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	198	1,646	1,623	3,467	91
Non-performing:					
Past due up to 3 months	16	53	30	99	
Impaired:					
Past due 3 to 6 months	4	14	12	30	
Past due 6 to 12 months	4	18	3	25	
Past due over 12 months	3	14	-	17	
	27	99	45	171	5
Charged off (note i)	23	54	76	153	4
Total non-performing	50	153	121	324	
Total	248	1,799	1,744	3,791	100
Non-performing loans as % of total (excluding charged off balances)	11%	6%	3%	5%	

Consumer banking continued

Consumer banking by payment due status	2014 (note ii)				
	Overdrawn current accounts (note iii)	Personal loans	Credit cards	Total	
(Audited)	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	221	1,754	1,561	3,536	92
Non-performing:					
Past due up to 3 months	13	68	30	111	
Impaired:					
Past due 3 to 6 months	4	17	12	33	
Past due 6 to 12 months	4	17	3	24	
Past due over 12 months	3	12	-	15	
	24	114	45	183	5
Charged off (note i)	22	39	49	110	3
Total non-performing	46	153	94	293	
Total	267	1,907	1,655	3,829	100
Non-performing loans as % of total (excluding charged off balances)	9%	6%	3%	5%	

Notes:
i. Charged off balances are balances on accounts which are closed to future transactions. An amendment was made in 2014 to hold these accounts on the balance sheet for an extended period whilst recovery procedures take place (currently these balances are held for a maximum of up to 36 months, depending upon the product).
ii. Where appropriate, past due statuses have been restated to be presented on a basis which is consistent with the current period.
iii. Comparative has been restated as detailed in note 1 to the accounts.

Business and Risk Report continued

Consumer banking continued

Impairment provisions

Impairment provisions have increased from £173 million in 2014 to £216 million in 2015. This is due to the increase in provisions on charged off balances, which have grown by £45 million to £139 million (2014: £94 million), in line with the increase in charged off balances remaining on the balance sheet.

The impairment provisions excluding charged off balances have remained broadly stable, reflecting benign and stable economic conditions, including the continued low base rate environment.

This has resulted in a provision coverage ratio on total non-performing loans (excluding charged off balances) of 45% (2014: 43%), reflecting the continuing overall quality of the Group's unsecured lending.

Consumer banking impairment provisions	2015			
	Overdrawn current accounts	Personal loans	Credit cards	Total
	£m	£m	£m	£m
Impairment provisions excluding charged off balances	11	37	29	77
Impairment provisions on charged off balances	20	50	69	139
Total impairment provisions	31	87	98	216
Provision coverage ratio on total non-performing loans (excluding charged off balances) (note i)	41%	37%	64%	45%
Provision coverage ratio on total non-performing loans (including charged off balances) (note ii)	62%	57%	81%	67%

Consumer banking impairment provisions	2014			
	Overdrawn current accounts	Personal loans	Credit cards	Total
	£m	£m	£m	£m
Impairment provisions excluding charged off balances	13	37	29	79
Impairment provisions on charged off balances	19	34	41	94
Total impairment provisions	32	71	70	173
Provision coverage ratio on total non-performing loans (excluding charged off balances) (note i & iii)	54%	32%	64%	43%
Provision coverage ratio on total non-performing loans (including charged off balances) (note ii & iii)	70%	46%	74%	59%

Notes:
i. Calculated as the ratio of total impairment provisions excluding charged off balances to total non-performing balance excluding charged off balances.
ii. Calculated as the ratio of total impairment provisions to total non-performing balance.
iii. Non-performing loan balances have been restated to be presented on a basis which is consistent with the current period.

Consumer banking continued

Impairment losses

Impairment losses for the year are £89 million (2014: £60 million). The £29 million increase reflects the one off credit of £27 million in 2014 which arose from updated recovery assumptions in respect of previously charged off balances.

Consumer banking impairment losses	Current accounts	Personal loans	Credit cards	Total
	£m	£m	£m	£m
Impairment losses for the year to 4 April 2015	**16**	**34**	**39**	**89**
Impairment losses for the year to 4 April 2014	14	26	20	60

Managing lending risk on consumer banking

The Group's approach is to reduce lending risk through good lending decisions. When customers do face financial difficulty the Group seeks to find a solution to support the customer and to mitigate losses, through either a proactive management of exposure, forbearance or arrears management.

Proactive management of exposure

Account performance is monitored on an ongoing basis using a range of factors including credit scores and information held by the credit reference agencies. For credit card and current account customers, this may result in the proactive reduction of credit limits or other changes in terms. In addition to this, unsecured customers may be contacted by a specialist team to discuss their financial commitments and consider available options to improve their financial position in a sustainable manner.

Arrears management

When a customer has, or expects to have, difficulty in meeting contractual payments, the Group will work with them to try to find a manageable solution. This will involve a full review of the customer's individual circumstances, including establishing the root cause behind the arrears, likely duration of this situation and monthly income and expenditure, before an outcome is agreed. The range of potential renegotiation outcomes includes change in terms, forbearance or repair.

All these options, described more fully below, aim to alleviate payment difficulty and bring the account back into a sustainable position. In certain circumstances, the loan agreement is terminated or charged off, to avoid ongoing member detriment such as unsustainable fees and charges.

Change in terms

This occurs when there is a temporary concession or permanent change which results in an amended monthly cash flow. The Group may agree a repayment plan to bring the account to a performing position over a set time period, or a plan which is typically less than the minimum contractual payment for an agreed time period. Changes in terms are not offered as a means of forbearance to assist customers already in financial difficulty and interest is not suppressed during this period.

Forbearance

This takes place when a concession on the contractual terms of a loan is made to a customer as a result of financial difficulties. The only forbearance option offered on the unsecured portfolios is an interest-suppressed payment concession, where the Group agrees a repayment plan which is typically less than the minimum contractual payment for an agreed time period, without interest being charged. The performance of forborne accounts is in line with that of the wider portfolio and therefore no adjustment is made to the Group's provisioning methodology for these loans.

Repair

Any action that brings a loan back to a performing position is classified as repair. This is only offered to customers who have shown that they are no longer in financial difficulty. The conditions and treatments vary by product, and can include capitalisation of arrears on loans and credit cards, and a reducing overdraft limit on current accounts.

Business and Risk Report continued

Consumer banking continued

The balances at the balance sheet date which have been subject to a change in terms, forbearance or repair at any point since March 2010 are summarised in the table below. It is possible for borrowers to have more than one type of renegotiation and in this instance they are shown in both categories and multiple events are eliminated.

During the year ended 4 April 2015, £88 million (2014: £122 million) of unsecured balances have been renegotiated. This has reduced from 2014 due to better payment rates arising from an improved credit environment.

Balances subject to renegotiation since March 2010	**2015**			
	Current accounts	**Personal loans**	**Credit cards**	**Total**
	£m	**£m**	**£m**	**£m**
Change in terms	**31**	**131**	**22**	**184**
Forbearance	**15**	**27**	**52**	**94**
Repair	**18**	**1**	**28**	**47**
Elimination of multiple events	**(30)**	**(18)**	**(15)**	**(63)**
Total	**34**	**141**	**87**	**262**

Balances subject to renegotiation since March 2010	2014			
	Current accounts	Personal loans	Credit cards	Total
	£m	£m	£m	£m
Change in terms	33	133	23	189
Forbearance	14	21	47	82
Repair	15	1	27	43
Elimination of multiple events	(28)	(14)	(15)	(57)
Total	34	141	82	257

Environment and outlook

The regulatory environment continues to evolve with current reviews taking place on market practices, fees and competition across both the credit card and current accounts industry. This follows on from new responsible lending requirements introduced last year as part of a move of responsibility for this from the Office of Fair Trading to the Financial Conduct Authority. As a responsible lender, the Group is well placed to embrace any new regulation or industry practices rolled out in 2016.

Interest rates have been maintained at historic lows and confidence in the UK economy is growing. Notwithstanding this, the Group keeps under close review the impact of any increase in rates, along with other macroeconomic factors such as average debt levels. The Group continues to invest in new risk systems. This is expected to both enhance the credit decisions across all unsecured lending products as well as reduce the time to implement new risk strategies. In addition, policies are modified as required to maintain the quality of its consumer banking portfolios and to ensure fair customer outcomes.

Commercial lending

Lending

The Group's commercial loan portfolio represents 8.4% (2014: 10.3%) of the total loans and advances to customers and, on a gross basis, comprises the following:

Commercial lending balances	2015		2014	
(Audited)	£m	%	£m	%
Commercial real estate (CRE)	4,043	31	7,764	45
Registered social landlords (note i)	7,786	59	8,063	47
Project Finance (note ii)	1,383	10	1,457	8
Total commercial lending	13,212	100	17,284	100
Fair value adjustment for micro hedged risk	1,382		880	
Total	14,594		18,164	

Notes:
i. Loans to registered social landlords are secured on residential property.
ii. Loans advanced in relation to Project Finance are secured on cash flows from government or local authority backed contracts.

During the year, the commercial loan portfolio has been substantially de-risked, principally as a result of the strategic reduction of exposure to non-core, higher risk assets.

CRE loans have reduced by £3,721 million to £4,043 million (2014: £7,764 million), with approximately half of this reduction relating to portfolio sales of non-core CRE loans. As a result of managed exit activity, exposure to non-performing loans has reduced by £2,445 million to £685 million.

Focus has turned to developing a low risk commercial loan portfolio which is well spread across geographic locations, property sectors and tenant profile.

The reduction in CRE assets has led to an increase in the percentage of commercial lending represented by the registered social landlord and Project Finance portfolios. These are established, fully performing portfolios where there has been no new lending during the year (2014: £34 million to existing borrowers). There have been no losses incurred on either of these portfolios, no amounts are in arrears and there are no instances of forbearance. In view of the lower risk nature of these portfolios, the remainder of this section focuses almost exclusively on the CRE portfolio.

Lending risk

Lending risk in the commercial loan portfolio is linked to delinquency and the availability of collateral to cover any loan balances. The Group 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 difficulties which prompt more frequent review.

The Group monitors lead indicators and performance statistics on particular groups of loans, as set out below:

- LTV and credit risk concentration
- arrears
- impaired loans
- collateral
- negative equity loans
- forbearance.

LTV and credit risk concentration

As set out in the following tables, credit risk in the commercial lending book has improved over the year.

Non-performing loans have reduced by £2,445 million to £685 million, largely as a result of the controlled reduction of impaired loans, and now represent 17% (2014: 40%) of the CRE portfolio.

Performing loans have also reduced by £1,276 million to £3,358 million, principally due to amortisation, pre-payments, redemptions at maturity and the managed work out of non-core CRE loans.

Business and Risk Report continued

Commercial lending continued

The overall proportion of partially collateralised non-performing loans has reduced to 13% (2014: 32%) and the shortfall on collateral for non-performing CRE loans has reduced by £609 million during the year to £241 million (2014: £850 million).

CRE lending balances by LTV and region 2015	London	South East	Rest of UK*	Non UK	Total	%
(Audited)	£m	£m	£m	£m	£m	
Performing loans						
Fully collateralised						
LTV ratio:						
less than 25%	255	19	47	-	321	
25% to 50%	877	189	351	-	1,417	
51% to 75%	510	249	449	-	1,208	
76% to 90%	117	25	220	-	362	
91% to 100%	-	6	17	-	23	
	1,759	488	1,084	-	3,331	82
Not fully collateralised						
– LTV more than 100% (A)	2	-	25	-	27	1
– Collateral value on A	*1*	*-*	*24*	*-*	*25*	
– Negative equity on A	*1*	*-*	*1*	*-*	*2*	
Total performing loans	1,761	488	1,109	-	3,358	83
Non-performing loans						
Fully collateralised						
LTV ratio:						
less than 25%	-	-	1	-	1	
25% to 50%	18	14	20	-	52	
51% to 75%	14	16	15	-	45	
76% to 90%	5	6	39	-	50	
91% to 100%	3	2	26	-	31	
	40	38	101	-	179	4
Not fully collateralised						
– LTV more than 100% (B)	3	140	354	9	506	13
– Collateral value on B	*2*	*92*	*162*	*9*	*265*	
– Negative equity on B	*1*	*48*	*192*	*-*	*241*	
Total non-performing loans	43	178	455	9	685	17
Total CRE loans	1,804	666	1,564	9	4,043	100
Geographical concentration	45%	16%	39%	0%	100%	

Commercial lending continued

CRE lending balances by LTV and region 2014	London	South East	Rest of UK*	Non UK	Total	%
(Audited)	£m	£m	£m	£m	£m	
Performing loans						
Fully collateralised						
LTV ratio:						
less than 25%	168	46	43	-	257	
25% to 50%	590	171	361	-	1,122	
51% to 75%	1,034	391	502	87	2,014	
76% to 90%	201	87	307	62	657	
91% to 100%	18	14	106	3	141	
	2,011	709	1,319	152	4,191	54
Not fully collateralised						
– LTV more than 100% (A)	159	73	119	92	443	6
– Collateral value on A	*147*	*56*	*84*	*86*	*373*	
– Negative equity on A	*12*	*17*	*35*	*6*	*70*	
Total performing loans	2,170	782	1,438	244	4,634	60
Non-performing loans						
Fully collateralised						
LTV ratio:						
less than 25%	39	1	2	-	42	
25% to 50%	4	5	16	-	25	
51% to 75%	24	38	65	83	210	
76% to 90%	6	44	70	24	144	
91% to 100%	8	8	92	61	169	
	81	96	245	168	590	8
Not fully collateralised						
– LTV more than 100% (B)	179	358	1,656	347	2,540	32
– Collateral value on B	*88*	*271*	*1,060*	*271*	*1,690*	
– Negative equity on B	*91*	*87*	*596*	*76*	*850*	
Total non-performing loans	260	454	1,901	515	3,130	40
Total CRE loans	2,430	1,236	3,339	759	7,764	100
Geographical concentration	31%	16%	43%	10%	100%	

*Includes lending to borrowers based in the Channel Islands.

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

Business and Risk Report continued

Commercial lending continued

The following table provides details of the Group's sectoral and regional CRE concentrations, together with an impairment analysis in respect of these concentrations.

Portfolio disposals of non-core CRE loans have impacted the geographic and sectoral concentrations of the portfolio. Notwithstanding this impact, the commercial lending exposure remains well spread across sectors, geographic regions, borrowers and assets.

CRE lending balances and impairment provisions by type and region	London	South East	Rest of UK*	Non UK	Total
2015	**£m**	**£m**	**£m**	**£m**	**£m**
Retail	596	376	422	9	1,403
Office	223	105	339	-	667
Residential	613	103	309	-	1,025
Industrial & warehouse	55	46	331	-	432
Leisure & hotel	185	34	151	-	370
Other	132	2	12	-	146
Total CRE lending	**1,804**	**666**	**1,564**	**9**	**4,043**
Impairment provision					
Retail	2	41	39	4	86
Office	2	18	64	-	84
Residential	1	2	25	-	28
Industrial & warehouse	-	1	84	-	85
Leisure & hotel	1	1	36	-	38
Other	-	-	1	-	1
Total impairment provision	**6**	**63**	**249**	**4**	**322**

CRE lending balances and impairment provisions by type and region	London	South East	Rest of UK*	Non UK	Total
2014	£m	£m	£m	£m	£m
Retail	884	450	1,215	277	2,826
Office	475	242	653	149	1,519
Residential	390	198	536	122	1,246
Industrial & warehouse	405	206	557	127	1,295
Leisure & hotel	248	126	341	78	793
Other	28	14	37	6	85
Total CRE lending	2,430	1,236	3,339	759	7,764
Impairment provision					
Retail	32	42	186	113	373
Office	48	24	146	14	232
Residential	9	5	36	8	58
Industrial & warehouse	4	10	159	26	199
Leisure & hotel	42	21	73	3	139
Other	-	-	-	-	-
Total impairment provision	135	102	600	164	1,001

*Includes lending to borrowers based in the Channel Islands.

Commercial lending continued

Over the year, liquidity in the lending market has improved, enabling steady refinancing of good quality assets. Capital and rental values have improved for prime assets in London and the surrounding regions, and other regional locations and secondary assets are showing stronger signs of recovery for both rents and investor appetite.

Arrears

The table below provides information on the Group's CRE lending by payment due status:

CRE lending balances by payment status	2015		2014	
(Audited)	£m	%	£m	%
Performing:				
Neither past due nor impaired	3,358	83	4,634	60
Non-performing:				
Past due up to 3 months but not impaired*	77	2	65	1
Impaired	608	15	3,065	39
Total non-performing	685	17	3,130	40
Total	4,043	100	7,764	100

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

Impaired loans

No losses have been experienced on the registered social landlord or Project Finance portfolios and there is no non-performance within these portfolios. As a result, impairment provisions are only needed against the CRE portfolio, for which impairment provisions and impairment losses are set out in the table below:

CRE lending balances impairment position	2015	2014
(Audited)	£m	£m
Gross balances	4,043	7,764
Impaired balances	608	3,065
Impaired balances as % of gross balances	15%	39%
Impairment provisions		
Individual	313	921
Collective	9	80
Total impairment provisions	322	1,001
Provision coverage ratios		
Individual provisions as % of impaired balances	51%	30%
Total provisions as % of impaired balances	53%	33%
Total provisions as % of total gross balances	8%	13%
Estimated collateral against impaired balances		
Estimated collateral on impaired loans	367	2,216
Estimated collateral as a % of impaired balances	60%	72%
Impairment losses for the year	52	309

Business and Risk Report continued

Commercial lending continued

The level of impaired balances as a proportion of our total CRE exposure has fallen from 39% to 15%, as a result of the strategic reduction of exposure to non-core, higher risk assets. Of the impaired balances, commercial assets totalling £597 million (2014: £2,988 million) have individual provisions against them.

Total provision coverage against impaired balances has increased from 33% to 53%. This reflects the impact of a higher proportion of impaired balances approaching maturity of resolution against the backdrop of a significantly reduced level of impaired balances.

The reduced level of impairment reflects a stronger UK commercial property market and the progress made in resolving non-performing loans. Recovery prospects are case specific, although in general the London, core regional centres and prime property markets continue to fare better than peripheral regional locations and secondary or tertiary properties. The fall in the collective provision reflects these factors.

The table below shows the payment due status of impaired loans:

Impaired CRE balances by payment due dates	**2015**		2014	
(Audited)	**£m**	**%**	£m	%
Impaired (note i):				
Past due 0 to 3 months	**413**	**68**	2,125	69
Past due 3 to 6 months	**59**	**10**	152	5
Past due 6 to 12 months	**56**	**9**	334	11
Past due over 12 months	**79**	**13**	442	15
Possessions (note ii)	**1**	**-**	12	-
Total	**608**	**100**	3,065	100

Notes:
i. Impaired loans include those balances which are more than 3 months in arrears, or have a provision against them.
ii. Possession balances represent loans for which the Group has taken ownership of security pending sale. Assets in possession 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 or otherwise use for any purposes any repossessed assets.

Collateral

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 solely 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 security, floating charges over company assets, and occasionally unsupported guarantees. The collateral will have a significant effect in mitigating the Group's exposure to credit risk.

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 and therefore no collateral is held on these loans.

Commercial lending continued

The table below quantifies the estimated value of indexed collateral held against non-performing or impaired assets:

Collateral held against past due or impaired CRE lending balances	2015		2014	
(Audited)	£m	%	£m	%
Past due but not impaired	77	100	64	98
Impaired	367	60	2,216	72
Total	444	65	2,280	73

Notes:
i. Collateral held is capped at the amount outstanding on an individual loan basis.
ii. The percentage, in the table above, is the average cover over the asset.
iii. The indexed collateral value is based on the most recent valuation indexed using the IPD monthly index for the relevant property sector.

Negative equity loans

The level of negative equity based upon indexed property values for the non-performing and impaired assets is detailed below:

Negative equity on CRE lending	2015	2014
	£m	£m
Past due but not impaired	-	1
Impaired	240	840
Possessions	1	9
Total	241	850

Forbearance

Forbearance occurs when concessions are made, on the contractual terms of a loan, when the borrower is facing or about to face difficulties in meeting its financial commitments.

The concession 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, or
- Inability to fulfil the obligation to fully repay at contractual maturity.

All concession requests are assessed and approved by the independent credit team in Group Risk. Concessions 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 available 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.

Concessions 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.

Concession requests, as a result of cases reaching loan maturity, arise where the borrower is unable to secure refinancing or repay the facility due principally to the lack of available refinancing in the market or under performance against business plans. In those circumstances the Group may allow a further period of time to try and reach a mutually acceptable outcome.

Business and Risk Report continued

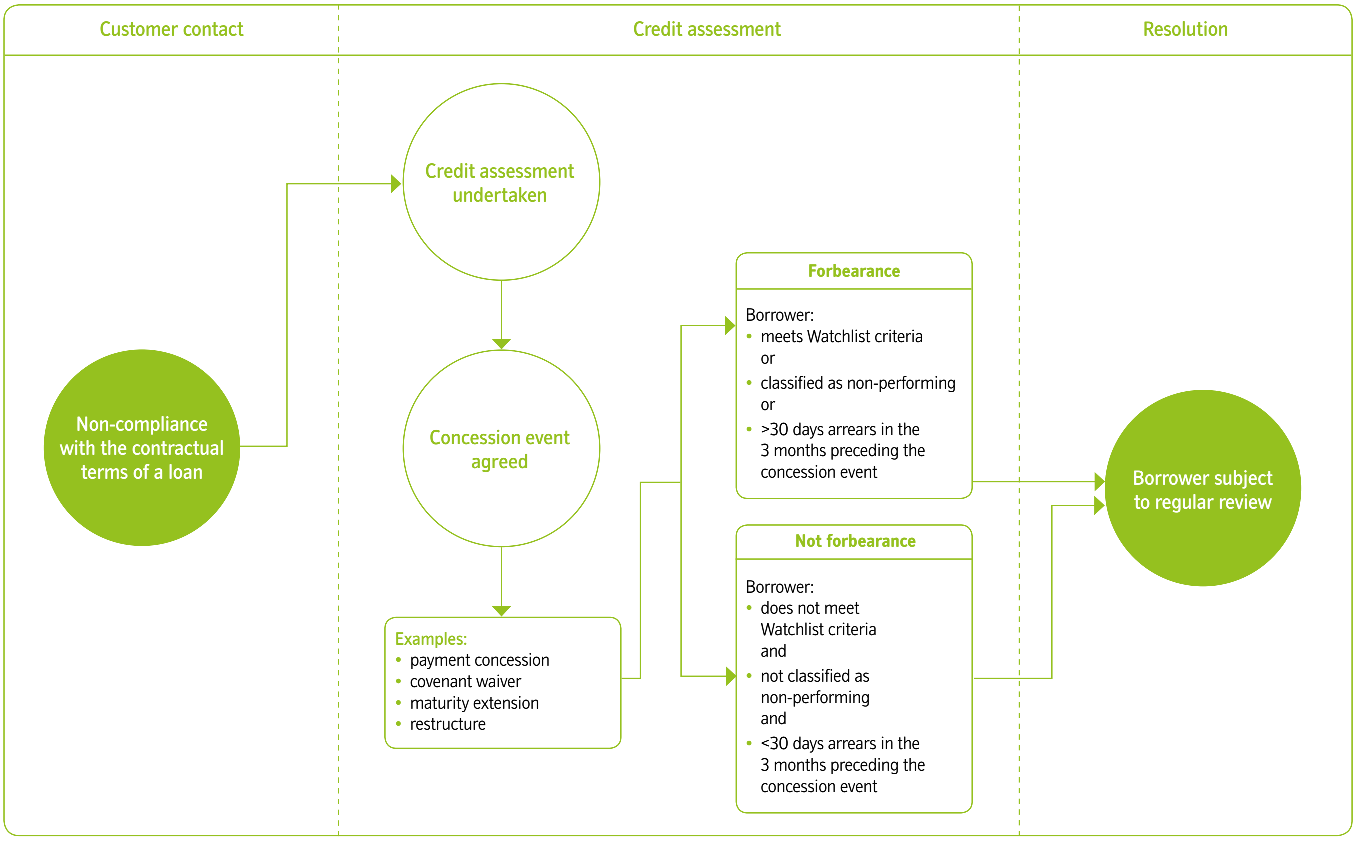
Commercial lending continued

The provision of extended facilities on maturity does not always represent forbearance. 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. Those restructured cases, with loan to value ratios greater than 80%, will be classed as forborne.

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.

During the year, the Group's policy and approach to considering and recording forbearance requests has been amended to align to the European Banking Authority (EBA) reporting requirements.

The following flowchart demonstrates the decision process for commercial forbearance:



Commercial lending continued

The table below provides details of lending that is subject to forbearance at any point since September 2012:

CRE lending subject to forbearance	2015		2014	
	£m	%	£m	%
Covenant breach	180	18	402	15
Extension at maturity	87	9	90	3
Multiple forbearance events	639	63	1,985	73
Other	106	10	257	9
Total	1,012	100	2,734	100

Minor changes in the approach to recognising forbearance to align with EBA definitions have been made this year. Had the current methodology been used last year, CRE lending subject to forbearance since September 2012 would have reduced by £68 million to £2,666 million. CRE exposures subject to forbearance have decreased over the year to £1,012 million principally as a result of the controlled exit from non-core CRE loans and now represent 25% of CRE loan balances (2014: 35%).

In many cases up to date valuations obtained as part of an extension will have resulted in a breach of the underlying LTV covenant and hence these cases are now reported as showing multiple forbearance events.

There is no forbearance on the registered social landlord or Project Finance portfolios.

Environment and outlook

The Group's activity to de-risk its commercial portfolio is now largely complete. In addition, continued economic improvement has led to a sustained recovery of the commercial property market, fuelled by increased liquidity and rising investor confidence. The recovery in capital and rental values, which was previously focused on prime assets in London and the South East, has extended to prime and good secondary properties in the core regional centres. The increase in investment in the regions is partially attributed to the London and South East markets reaching a peak, with yields in these areas starting to show signs of moderation.

The private residential rental sector has continued to expand. In the absence of new development, both the prime and secondary office markets remain buoyant, and in the industrial sector good demand is no longer limited to prime properties and is now evident across most regions. The retail sector continues to be affected by structural changes brought about by factors such as increased internet shopping and the decline of many high streets. As a result, whilst returns on prime retail properties are largely back to the pre-recession levels, the secondary retail market remains subdued.

The outlook for commercial credit risk remains broadly stable. Commercial property activity in 2015/16 is currently anticipated to be on a par with that seen in 2014/15, with capital and rental values for prime and good secondary properties in both London and the core regional centres being sustained as a result of strong occupier demand.

Business and Risk Report continued

Other lending

Overview

The total other lending portfolio of £29 million (2014: £176 million) represents 0.02% (2014: 0.11%) of the Group's loans and advances to customers. As part of the deleveraging of legacy treasury assets that are outside of current credit policy, the sale of a €100 million loan exposed to a portfolio of senior ranking European ABS assets has been completed.

The remaining lending portfolio now primarily consists of secured loans relating to a European commercial loan facility which is held by one of the Group's subsidiaries, Cromarty CLO Ltd (Cromarty).

The table below provides further information on other lending balances by payment due status:

Other lending balances by payment due status	2015		2014	
(Audited)	£m	%	£m	%
Performing:				
Neither past due nor impaired	19	66	69	39
Non-performing:				
Past due up to 3 months but not impaired*	-	-	-	-
Impaired	10	34	107	61
Total non-performing	10	34	107	61
Total	29	100	176	100
Impairment provisions/coverage ratio	4	40	12	11
Impairment losses for the year	34		11	

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

Other lending continued

The other lending impairment loss of £34 million (2014: £11 million) includes £33 million in relation to the €100 million loan exposure that has now been sold. As a result of this disposal, impaired balances have reduced by £97 million to £10 million.

Impaired other lending assets are further analysed as follows:

Other lending impaired balances aging analysis	2015		2014	
(Audited)	£m	%	£m	%
Impaired:				
Past due 0 to 3 months	5	50	82	77
Past due 3 to 6 months	-	-	-	-
Past due 6 to 12 months	-	-	8	7
Past due over 12 months	5	50	17	16
Total	10	100	107	100

Managing other lending risk

The Group adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise, from its other lending portfolio including strategies to maximise recoveries when required.

Forbearance

Cromarty holds a portfolio of loans to companies and although the terms of the interest payments of the Society's loan to Cromarty are aggregated so that it does not have a forbearance position, Cromarty does agree repayment terms for its borrowers that are within the definition of forbearance.

Forbearance in relation to Cromarty's borrowers that cannot demonstrate they have robust business models generating adequate debt servicing coverage tends to take the form of balance sheet restructures, often led by lenders; the terms of these attempt to balance the need to relieve companies of unsustainable debt burdens and to maximise returns for lenders. As at 4 April 2015, five borrowers with loans totalling £9 million (2014: 12 borrowers with loans totalling £38 million) in the Cromarty loan portfolio would be classed as in forbearance.

Business and Risk Report continued

Movements in all impaired loans by lending risk segment

The table below shows 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.

Movement in impaired loan balances (note i)	**Prime mortgages**	**Specialist mortgages**	**Consumer banking (note ii)**	**Commercial lending**	**Other lending**	**Total**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 5 April 2014	504	651	182	3,065	107	4,509
Classified as impaired during the year	**370**	**461**	**118**	**112**	**5**	**1,066**
Transferred from impaired to unimpaired	**(431)**	**(513)**	**(14)**	**(194)**	**(8)**	**(1,160)**
Amounts written off	**(39)**	**(102)**	**(51)**	**(638)**	**(42)**	**(872)**
Disposals	**-**	**-**	**-**	**(1,452)**	**(43)**	**(1,495)**
Repayments	**(8)**	**2**	**(10)**	**(285)**	**(9)**	**(310)**
At 4 April 2015	**396**	**499**	**225**	**608**	**10**	**1,738**

Movement in impaired loan balances (note i)	Prime mortgages	Specialist mortgages	Consumer banking (note ii)	Commercial lending	Other lending	Total
(Audited)	£m	£m	£m	£m	£m	£m
At 5 April 2013	564	726	63	2,715	33	4,101
Classified as impaired during the year	464	598	118	825	92	2,097
Transfer from written off to charged off	-	-	59	-	-	59
Transferred from impaired to unimpaired	(476)	(558)	(16)	(21)	(11)	(1,082)
Amounts written off	(40)	(114)	(45)	(362)	-	(561)
Repayments	(8)	(1)	3	(92)	(7)	(105)
At 4 April 2014	504	651	182	3,065	107	4,509

Notes:

i. Loans that were classified as impaired and loans that have transferred into or out of the impaired classification are based on the relevant status at each month end, when compared to the previous month end. Amounts written off reflect cases where the loan has been removed from the balance sheet, for example a residential property repossessed and sold. Repayments reflect payments made by the customer, reducing the outstanding balance.

ii. Impaired loan balances have been restated to be presented on a basis which is consistent with the current period.

Treasury assets

Overview

The Group's treasury portfolio is held primarily for liquidity management purposes and, in the case of derivatives, market risk management. Treasury assets represent 11.3% (2014: 11.1%) of the Group's total assets.

Treasury asset balances	2015	2014
(Audited)	£bn	£bn
Cash	4.3	5.3
Loans and advances to banks	3.4	2.1
Investment securities	11.1	10.6
Treasury liquidity and investment portfolio	18.8	18.0
Derivative assets*	3.3	3.0
Total treasury portfolio	22.1	21.0

*Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. As at 4 April 2015 the Group had derivative liabilities of £4.0 billion (2014: £2.4 billion).

New investment activity in the Group's treasury portfolio remains limited, predominately in senior AAA rated investment securities with the strategic aim of supporting liquidity requirements.

During the year, significant deleveraging of out of policy legacy treasury assets was undertaken. These investment securities were acquired prior to the financial crisis and are no longer approved in the Group's Treasury Credit Policy. The total balance of out of policy assets reduced from £1.8 billion to £0.7 billion, through targeted sales, maturities and amortisation.

These assets continue to be actively managed with opportunities to exit positions assessed against prevailing market conditions and the financial implications for the Group. An impairment loss of £18 million (2014: £3 million) net of write backs has been recognised in the income statement in respect of these assets.

Liquidity and investment portfolio

The Group's liquidity and investment portfolio on the balance sheet at 4 April 2015 of £18.8 billion (2014: £18.0 billion) is held in three separate portfolios: primary liquidity, other central bank eligible assets and other assets. Primary liquidity comprises cash and highly rated debt securities issued by governments or multi-lateral development banks. The remaining two portfolios comprise available for sale assets held for investment purposes and loans and advances to banks.

The decrease in the primary liquidity portfolio to £11.0 billion (2014: £12.3 billion) is a consequence of liquidity management planning, which saw an increase in other Central Bank eligible liquidity.

Business and Risk Report continued

Treasury assets continued

Counterparty credit quality

The analysis of the on-balance sheet liquidity and investment portfolios by credit rating and geographical location of the issuers, set out in the tables below, indicates that counterparty credit quality has remained stable with 71% of investments rated at AAA (2014: 71%).

Liquidity and investment portfolio by credit rating	2015	AAA	AA	A	Other	UK	US	Europe	Other
(Audited)	£bn	%	%	%	%	%	%	%	%
Primary liquidity portfolio:									
Cash	4.3	100	-	-	-	100	-	-	-
Gilts	5.0	100	-	-	-	100	-	-	-
Non-domestic government bonds	1.2	21	79	-	-	-	25	75	-
Supranational bonds	0.5	90	10	-	-	-	-	-	100
Primary liquidity portfolio total	11.0	91	9	-	-	85	3	8	4
Other Central Bank eligible portfolio:									
Residential mortgage backed securities (RMBS)	1.1	82	12	6	-	38	-	62	-
Covered bonds	1.0	96	-	-	4	44	-	48	8
Other	0.3	90	-	-	10	35	-	65	-
Other Central Bank eligible portfolio total	2.4	88	6	3	3	40	-	57	3
Other portfolio:									
Loans and advances to banks	3.4	10	30	60	-	49	16	15	20
RMBS	0.9	35	7	53	5	86	-	11	3
Commercial mortgage backed securities (CMBS)	0.1	-	19	70	11	15	78	7	-
Collateralised loan obligations	0.5	75	21	4	-	59	41	-	-
Covered bonds	0.1	100	-	-	-	100	-	-	-
Student loans	0.2	-	64	36	-	-	100	-	-
Other	0.2	42	25	13	20	40	13	47	-
Other portfolio total	5.4	22	26	50	2	55	19	13	13
Total	18.8	71	13	15	1	70	7	16	7

Note: Ratings used 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.

Treasury assets continued

Liquidity and investment portfolio by credit rating	2014	AAA	AA	A	Other	UK	US	Europe	Other
(Audited)	£bn	%	%	%	%	%	%	%	%
Primary liquidity portfolio:									
Cash	5.3	100	-	-	-	100	-	-	-
Gilts	4.5	100	-	-	-	100	-	-	-
Non-domestic government bonds	1.8	35	65	-	-	-	22	78	-
Supranational bonds	0.7	100	-	-	-	-	-	-	100
Primary liquidity portfolio total	12.3	91	9	-	-	80	4	11	5
Other Central Bank eligible portfolio:									
RMBS	0.8	42	29	17	12	12	-	88	-
Covered bonds	0.5	29	17	34	20	29	5	66	-
Other	0.1	54	-	-	46	-	-	100	-
Other Central Bank eligible portfolio total	1.4	38	22	23	17	18	2	80	-
Other portfolio:									
Loans and advances to banks	2.1	15	10	75	-	53	17	23	7
RMBS	0.7	28	4	57	11	70	8	16	6
CMBS	0.2	-	24	38	38	40	29	31	-
Collateralised loan obligations	0.6	50	44	-	6	52	48	-	-
Financial institution bonds	0.1	-	-	100	-	-	-	-	100
Student loans	0.4	29	51	17	3	3	97	-	-
Other	0.2	-	29	6	65	26	48	26	-
Other portfolio total	4.3	23	19	51	7	49	29	17	5
Total	18.0	71	12	14	3	68	9	18	5

Note: Ratings used 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.

The above analysis does not include off-balance sheet funding, including £8.5 billion of primary liquidity representing short dated UK Treasury bills held as a result of FLS drawings. These are included in the analysis of funding in the 'Financial risk' section of this report.

The quality and liquidity of treasury assets has been maintained with 99% of the total portfolio rated A or above, and 84% rated AA or above (2014: 97% rated A or above, 83% rated AA or above). Primary liquidity exposures make up 59% of the total portfolio (2014: 68%).

In assessing impairment the Group evaluates, among other factors, normal volatility in valuation, evidence of deterioration in the financial health of the obligor, industry and sector performance, and operational and financing cash flows.

Collateral held as security for treasury assets is determined by the nature of the instrument. Treasury liquidity portfolio assets 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 to banks is a reverse repo of £0.1 billion (2014: £0.1 billion) which is secured by gilts.

Available for sale reserve

Out of a total of £18.8 billion (2014: £18.0 billion) on balance sheet treasury liquidity and investment portfolio, £11.1 billion (2014: £10.6 billion) is held as available for sale (AFS). Under IFRS, AFS assets are marked to market through other comprehensive income and fair value movements are accumulated in reserves. Of the £11.1 billion of AFS assets, only £12 million (2014: £71 million) are classified as Level 3 (valuation not based on observable market data) for the purposes of IFRS 13. Details of fair value movements can be found in notes 36 and 37 to the accounts.

Business and Risk Report continued

Treasury assets continued

The table below shows the fair value carrying amount and AFS reserve for the treasury liquidity and investment portfolio.

Fair value of treasury assets and AFS reserve	**2015**		2014	
	Fair value on balance sheet	**Cumulative AFS reserve**	Fair value on balance sheet	Cumulative AFS reserve
(Audited)	**£bn**	**£bn**	£bn	£bn
Cash	**4.3**	(note i)	5.3	(note i)
Gilts	**5.0**	**(0.5)**	4.5	(0.2)
Non-domestic government bonds	**1.2**	**(0.1)**	1.8	(0.1)
Supranational bonds	**0.5**	**-**	0.7	-
Primary liquidity portfolio total	**11.0**	**(0.6)**	12.3	(0.3)
Residential mortgage backed securities (RMBS)	**1.1**	**-**	0.8	-
Covered bonds	**1.0**	**-**	0.5	-
Other investments	**0.3**	**-**	0.1	-
Other Central Bank eligible liquidity portfolio total (note ii)	**2.4**	**-**	1.4	-
Loans and advances to banks	**3.4**	(note i)	2.1	(note i)
RMBS	**0.9**	**-**	0.7	0.1
Commercial mortgage backed securities (CMBS)	**0.1**	**-**	0.2	-
Covered bonds	**0.1**	**-**	-	-
Collateralised loan obligations (CLO)	**0.5**	**-**	0.6	-
Financial institutions bonds	**-**	**-**	0.1	-
Student loans	**0.2**	**-**	0.4	-
Other investments	**0.2**	**-**	0.2	-
Other portfolio total (note ii)	**5.4**	**-**	4.3	0.1
Total treasury liquidity portfolio	**18.8**		18.0	
Positive AFS reserve before hedge accounting and taxation		**(0.6)**		(0.2)
Hedge accounting adjustment for interest rate risk		**0.6**		0.3
Taxation		**-**		-
Total value of positive AFS reserve (net)		**-**		0.1

Notes:
i. Not applicable.
ii. Including out of policy assets totalling £0.6 billion (2014: £1.6 billion).

As at 4 April 2015, the balance on the AFS reserve had improved to £26 million positive, net of tax (2014: £51 million negative). The improvement in the AFS reserve reflects general market movements and the disposal of legacy assets.

The fair value movement of AFS assets that are not impaired has no effect on the Group's profit.

Treasury assets continued

Country exposures

The Group holds £315 million (2014: £782 million) of securities which are domiciled in the peripheral Eurozone countries; these are held outside of primary liquidity. Of the £315 million, 74% is rated A or above and 53% is rated AA or above (2014: 72% rated A or above, 39% rated AA or above). This exposure has reduced by 60% in the year to 4 April 2015 resulting predominantly from the disposal of legacy Spanish assets, maturities and fair value and exchange rate movements.

The Group continues to actively manage these exposures that remain outside of current credit policy.

The following table summarises the Group's exposure to issuers in the peripheral Eurozone countries. The Group has no direct sovereign exposure to these countries and does not hold any exposure to Greek debt. The exposures are shown at their balance sheet carrying values.

Peripheral Eurozone country exposures	**2015**				
	Ireland	**Italy**	**Portugal**	**Spain**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Mortgage backed securities	**-**	**45**	**32**	**206**	**283**
Covered bonds	**-**	**-**	**-**	**29**	**29**
Other corporate	**-**	**3**	**-**	**-**	**3**
Total	**-**	**48**	**32**	**235**	**315**

Peripheral Eurozone country exposures	2014				
	Ireland	Italy	Portugal	Spain	Total
	£m	£m	£m	£m	£m
Mortgage backed securities	14	75	49	299	437
Covered bonds	39	-	22	281	342
Other corporate	-	3	-	-	3
Total	53	78	71	580	782

Note: None of the Group's exposures to the peripheral Eurozone countries detailed in the table above are in default, and the Group has not incurred any impairment on these assets in the year.

Country exposure in respect of other balance sheet items

Following the sale of a loan to a Luxembourg SPV the Group no longer has any indirect exposure to peripheral Eurozone countries.

Business and Risk Report continued

Treasury assets continued

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

Analysis of country exposures (other than peripheral Eurozone)	Finland	France	Germany	Netherlands	Total Eurozone	USA	Rest of the world	Total
2015	£m	£m	£m	£m	£m	£m	£m	£m
Government bonds	231	-	253	411	895	305	-	1,200
Mortgage backed securities	-	4	-	551	555	49	27	631
Covered bonds	21	125	37	27	210	-	315	525
Senior debt	-	-	-	-	-	-	495	495
Loans to banks	-	146	229	-	375	527	823	1,725
Other assets	-	88	169	-	257	420	-	677
Other corporate	2	7	5	3	17	-	-	17
Total	**254**	**370**	**693**	**992**	**2,309**	**1,301**	**1,660**	**5,270**

Analysis of country exposures (other than peripheral Eurozone)	Finland	France	Germany	Netherlands	Total Eurozone	USA	Rest of the world	Total
2014	£m	£m	£m	£m	£m	£m	£m	£m
Government bonds	170	-	438	778	1,386	388	-	1,774
Mortgage backed securities	-	12	41	334	387	109	57	553
Covered bonds	-	-	-	-	-	27	-	27
Senior debt	-	-	-	-	-	-	39	39
Loans to banks	-	103	151	-	254	364	385	1,003
Other assets	-	99	42	-	141	793	666	1,600
Other corporate	10	24	567	36	637	-	3	640
Total	180	238	1,239	1,148	2,805	1,681	1,150	5,636

The Group remains active in the above Eurozone jurisdictions and in the USA. The above balances are affected by asset pay downs, plus fair value and exchange rate movements.

Derivatives and collateral

The Group does not use any derivatives for trading or speculative purposes. As part of the Group's risk management, derivatives are used 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 fair value of derivative assets at 4 April 2015 was £3.3 billion (2014: £3.0 billion) and the fair value of derivative liabilities was £4.0 billion (2014: £2.4 billion).

The International Swaps and Derivatives Association (ISDA) Master Agreement is the Group's preferred agreement for documenting derivative transactions. It is common for a Credit Support Annex (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) to mitigate the mark to market exposures on derivatives.

The Group'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.

Treasury assets continued

CSA 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 transactions with the same overall counterparty. Accordingly, the credit risk associated with such contracts is reduced to the extent that negative mark to market values offset positive mark to market values on derivatives in the calculation of credit risk within each netting agreement.

As a result of CSA netting agreements, outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event. Under CSA arrangements, netting benefits of £1.9 billion (2014: £1.4 billion) are available and £1.3 billion of collateral (2014: £1.4 billion) is held.

Cash is the only collateral currently held. The following table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral:

Derivative credit exposure	2015			2014		
	Counterparty credit quality			Counterparty credit quality		
	AA	A	Total	AA	A	Total
(Audited)	£bn	£bn	£bn	£bn	£bn	£bn
Gross positive fair value of contracts	0.4	2.9	3.3	0.2	2.8	3.0
Netting benefits	(0.3)	(1.6)	(1.9)	(0.2)	(1.2)	(1.4)
Net current credit exposure	0.1	1.3	1.4	-	1.6	1.6
Collateral held – cash	(0.1)	(1.2)	(1.3)	-	(1.4)	(1.4)
Net derivative credit exposure	-	0.1	0.1	-	0.2	0.2

Net derivative credit exposure decreased during the year due to both increased netting benefits and additional collateral received, triggered on the downgrade of a derivative counterparty, in relation to a previously uncollateralised credit exposure.

Managing treasury credit risks

Credit risk within the Treasury Division arises primarily from the instruments held by Treasury for operational, liquidity and investment purposes. This aspect of credit risk is managed by the Treasury Credit Risk function which approves all new credit limits and monitors existing exposures. It also sets the policy and limits that are approved by the Group's Lending Committee and is responsible for the continuous monitoring of credit risk through risk reporting and metrics established to measure, mitigate and manage credit risk.

The Treasury Credit Risk function is subject to regular independent review and challenge by Risk Management Oversight in accordance with the Group's risk governance framework.

A monthly review is undertaken of the current and expected future performance of all treasury assets. An established 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 or performance will result in a loss.

In addition, counterparty credit risk arises from the use of derivatives; these are only traded with highly-rated organisations and are collateralised under market standard documentation.

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 Group has no exposure to emerging markets, hedge funds or credit default swaps and the majority of exposure has an investment grade rating.

Environment and outlook

The continued sale of legacy assets, together with an improving market environment supports the improving risk profile of the treasury asset portfolios. The number of assets showing signs of credit deterioration has reduced, with ongoing performance monitoring underpinned by robust risk governance processes.

New investment activity remains limited to a small number of established asset classes with proven credit performance, primarily with the aim of supporting liquidity requirements and predominantly at senior AAA levels.

Business and Risk Report continued

Financial risk

The Group is exposed to the following financial risks:

Risk category	Definition
Liquidity and funding	Liquidity risk is the risk that the Group is unable to raise cash to settle its financial obligations as they fall due and maintain public and stakeholder confidence. Funding risk is the risk that the Group is unable to realise assets or otherwise raise funds on reasonable terms and/or within reasonable timescales.
Solvency (capital)	The risk that the Group fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators.
Market	The risk that the value of, or net income arising from, the Group's assets and liabilities is impacted as a result of market prices or rate changes.
Pension	The risk that the value of the Fund's assets will be insufficient to meet the estimated liabilities of the Fund. Pension risk can adversely impact the Group's capital position and/or result in increased cash funding obligations to the Fund.
Earnings	The risk that a source of income or value is unable to continue to add the expected value, due to changes in market, regulatory or other environmental factors.

Financial risk is managed within a framework of approved assets, currencies and capital instruments supported by detailed limits set by either the Board or the Assets and Liabilities Committee (ALCO) under its delegated mandate. The Board retains responsibility for approval of derivative classes that may be used for market risk management purposes, for 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.

Liquidity and funding risk

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 the Group to meet financial obligations as they fall due, even during episodes of stress. This is achieved through the management and stress testing of business cash flows and the setting of appropriate risk limits to maintain a prudent funding mix, maturity profile and level of high quality liquid assets.

To manage liquidity and funding risk the Group monitors the following:

- funding profile
- wholesale funding sources, currency and maturity profile
- total liquidity
- maturity of liquidity assets and liabilities
- asset encumbrance
- external credit ratings.

Funding profile

The Group aims to align its sources and uses of funding. As such, retail customer loans and advances are largely funded by customer deposits. Non-retail lending including commercial customer loans, primary liquidity and other treasury assets are largely funded by wholesale debt and equity, as set out below:

Assets	2015	2014	Liabilities	2015	2014
	£bn	£bn		£bn	£bn
Retail mortgages	152.8	145.6	Retail funding	138.5	135.9
Treasury (including liquidity portfolio)	18.8	18.0	Wholesale funding	39.2	37.7
Other retail lending	3.6	3.7	Capital and reserves	12.3	11.5
Commercial/other lending	14.2	17.2	Other liabilities	5.6	4.8
Other assets	6.2	5.4			
Total	195.6	189.9	**Total**	195.6	189.9

The Group loan to deposit ratio as at 4 April 2015 was 115.6% (2014: 115.8%).

Business and Risk Report continued

Liquidity and funding risk continued

Wholesale funding

On-balance sheet wholesale funding has increased by £1.5 billion to £39.2 billion as a result of increased deposits, certificates of deposits and covered bonds, partially offset by a reduction in commercial paper and securitisations. The wholesale funding portfolio is made up of a range of unsecured and secured instruments to ensure the Group has a diversified funding base. This incorporates a range of maturities and counterparties from different sectors, including banks, other financial institutions, corporates and investment funds.

Wholesale funding sources	2015		2014	
	£bn	%	£bn	%
Deposits, including PEB balances	11.0	28.1	9.2	24.4
Certificates of deposit	3.1	7.9	2.6	6.9
Commercial paper	2.4	6.1	3.5	9.3
Covered bonds	11.3	28.8	9.5	25.2
Medium term notes	5.2	13.3	5.1	13.5
Securitisations	4.8	12.2	6.9	18.3
Other	1.4	3.6	0.9	2.4
Total	39.2	100.0	37.7	100.0

The Group's wholesale funding ratio was 23.3% at 4 April 2015 (2014: 22.7%).

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

Wholesale funding currency	USD	EUR	GBP	Other	Total
	£bn	£bn	£bn	£bn	£bn
Deposits, including PEB balances	0.3	0.6	10.1	-	11.0
Certificates of deposit	0.1	0.1	2.9	-	3.1
Commercial paper	1.7	0.6	0.1	-	2.4
Covered bonds	-	9.4	1.8	0.1	11.3
Medium term notes	1.4	2.4	1.2	0.2	5.2
Securitisations	1.8	1.3	1.7	-	4.8
Other	0.1	1.0	0.3	-	1.4
Total at 4 April 2015	5.4	15.4	18.1	0.3	39.2
Total at 4 April 2014	7.6	13.4	16.3	0.4	37.7

To mitigate cross-currency refinancing risk, the Group ensures it holds liquidity in each currency to cover at least the next ten business days of wholesale funding maturities.

Liquidity and funding risk continued

Managing the maturity profile is key to maintaining the Group's ongoing liquidity position. The following tables set out the Group's wholesale funding balances based on contractual maturity date (residual maturity):

Wholesale funding – residual maturity	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Sub-total less than one year	Over one year but not more than two years	Over two years	Total
2015	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Deposits, including PEB balances	3.8	1.8	1.3	2.1	9.0	1.2	0.8	11.0
Certificates of deposit	0.5	1.3	0.8	0.5	3.1	-	-	3.1
Commercial paper	1.1	1.2	0.1	-	2.4	-	-	2.4
Covered bonds	-	-	0.9	1.5	2.4	1.1	7.8	11.3
Medium term notes	-	-	0.2	-	0.2	-	5.0	5.2
Securitisations	-	-	-	1.2	1.2	1.3	2.3	4.8
Other	-	-	-	-	-	-	1.4	1.4
Total at 4 April 2015	5.4	4.3	3.3	5.3	18.3	3.6	17.3	39.2
Of which secured	-	-	0.9	2.7	3.6	2.4	10.1	16.1
Of which unsecured	5.4	4.3	2.4	2.6	14.7	1.2	7.2	23.1
% of total	13.8	11.0	8.4	13.5	46.7	9.2	44.1	100.0

Wholesale funding – residual maturity	Not more than one month	Over one month but not more than three months	Over three months but not more than six months	Over six months but not more than one year	Sub-total less than one year	Over one year but not more than two years	Over two years	Total
2014	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Deposits, including PEB balances	3.4	1.4	0.6	0.7	6.1	1.3	1.8	9.2
Certificates of deposit	0.9	1.0	0.3	0.4	2.6	-	-	2.6
Commercial paper	1.2	1.8	0.5	-	3.5	-	-	3.5
Covered bonds	-	0.1	-	0.7	0.8	2.7	6.0	9.5
Medium term notes	-	-	0.1	1.5	1.6	0.2	3.3	5.1
Securitisations	-	-	-	3.3	3.3	1.7	1.9	6.9
Other	-	-	-	-	-	0.1	0.8	0.9
Total at 4 April 2014	5.5	4.3	1.5	6.6	17.9	6.0	13.8	37.7
Of which secured	-	0.1	-	4.0	4.1	4.4	7.9	16.4
Of which unsecured	5.5	4.2	1.5	2.6	13.8	1.6	5.9	21.3
% of total	14.6	11.4	4.0	17.5	47.5	15.9	36.6	100.0

The proportion of on-balance sheet funding with more than one year to maturity, which excludes the off-balance sheet FLS drawings, is 53.3% (2014: 52.5%) and increased following re-engagement with long term wholesale funding markets during the year.

FLS drawings, which are held off-balance sheet, have a flexible and maximum maturity of four years. After including FLS drawings, the residual maturity profile of the Group's wholesale funding portfolio has increased to 40 months (2014: 34 months) and the proportion of funding that is categorised as long-term has increased to 61.6% (2014: 61.3%). As at 4 April 2015, the primary liquidity pool including FLS represented 107% (2014: 116%) of wholesale funding maturing in less than one year, assuming no rollovers.

Business and Risk Report continued

Liquidity and funding risk continued

Total liquidity

The Group ensures it has sufficient resources to meet day-to-day cash flow needs and to meet internal and regulatory liquidity requirements which are calibrated to ensure the Group has sufficient liquidity, both in terms of amount and quality, in a range of stress scenarios across multiple risk drivers and time horizons.

The table below sets out the sterling equivalent fair value of each of the five liquidity types as at 4 April 2015 by issuing currency. The table is not a representation of the accounting balance sheet position as it includes off-balance sheet liquidity (FLS treasury bills), excludes any encumbered assets and includes collateral swaps. The carrying value of the liquidity portfolio as per the accounting balance sheet is shown in the 'Treasury assets' section of this report.

Liquid assets	2015				2014			
	GBP	EUR	USD	Total	GBP	EUR	USD	Total
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Primary liquidity*	18.4	0.8	0.4	19.6	19.0	1.3	0.5	20.8
Other Central Bank eligible assets	0.7	1.5	0.1	2.3	0.2	1.2	-	1.4
Other securities	1.5	0.6	0.5	2.6	1.3	0.8	0.9	3.0
Self-issued RMBS and covered bonds	-	-	-	-	14.0	-	-	14.0
Whole mortgage loan pools pre-positioned at the BoE	13.5	-	-	13.5	2.1	-	-	2.1
Total	34.1	2.9	1.0	38.0	36.6	3.3	1.4	41.3

*Primary liquidity includes off-balance sheet items, primarily treasury bills held through FLS participation. The average month end balance for primary liquidity during the year was £22.0 billion (2014: £19.9 billion).

The Group maintains a high quality primary liquidity portfolio through continued investment in highly liquid securities in line with the Liquid Asset Buffer (LAB) as defined by the PRA in BIPRU 12.7, comprising:

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

The Group also holds a secondary portfolio of other central bank eligible assets that are eligible for use in the funding operations of those central banks that it has access to. In terms of their relative liquidity characteristics, these assets may be viewed as the second tier of liquidity after the primary liquidity portfolio.

Other securities, such as RMBS, are held that are not eligible for central bank operations but can be monetised through repurchase agreements with third parties or through sale.

For contingent funding purposes, self-issued securities, issued under the Group's RMBS and covered bond programmes, represented eligible collateral for use in repurchase agreements with third parties or in central bank liquidity operations. These self-issued securities were replaced during the year with unencumbered mortgage assets that are pre-positioned at the Bank of England.

The Group's liquid assets are held and managed centrally by the Group's Treasury Division with the exception of a small portfolio of assets held in its Irish branch, Nationwide (UK) Ireland (NUKI). These assets, which totalled £146 million sterling equivalent (2014: £128 million), are held by NUKI to comply with Irish liquidity regulations.

Liquidity and funding risk continued

Maturity of liquidity assets and liabilities

The table below segments the carrying value of financial assets and financial liabilities into relevant maturity groupings based on the contractual maturity date (residual maturity). In practice, customer behaviours mean that liabilities are often retained for longer than their contractual maturities and assets are repaid faster. This gives rise to mismatches in the re-pricing of assets and liabilities on the Group's balance sheet.

The balance sheet structure is managed by ALCO and the Weekly Trading Committee and referenced in designing new product propositions. For forecasting purposes, the Group uses judgement and past behavioural performance of each asset and liability class to anticipate likely cash flow requirements of the Group.

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and 12 months	Due between one and two years	Due between two and five years	Due more than five years	Total
2015	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets									
Cash	4,325	-	-	-	-	-	-	-	4,325
Loans and advances to banks	2,923	2	-	61	-	87	-	319	3,392
Investment securities – available for sale	5	14	19	1	122	219	1,830	8,827	11,037
Loans and advances to customers	2,450	1,198	1,713	1,893	1,739	7,272	19,361	135,021	170,647
Derivative financial instruments	42	115	153	322	110	452	573	1,570	3,337
Other financial assets	-	12	-	2	10	126	224	256	630
Total financial assets	9,745	1,341	1,885	2,279	1,981	8,156	21,988	145,993	193,368
Liabilities									
Shares	97,712	1,464	5,837	5,380	6,353	8,353	6,326	948	132,373
Deposits from banks	1,479	391	10	64	6	-	24	-	1,974
Other deposits	2,582	1,458	1,565	923	584	1,205	759	-	9,076
Due to customers	3,727	441	1,318	254	224	42	113	-	6,119
Secured funding – ABS and covered bonds	4	15	944	2,810	22	2,514	3,153	8,071	17,533
Senior unsecured	1,640	2,467	1,005	339	235	746	2,676	1,464	10,572
Derivative financial instruments	64	31	13	27	25	345	791	2,752	4,048
Other financial liabilities	1	2	-	1	1	1	8	-	14
Subordinated liabilities (note iii)	-	-	387	153	-	-	960	621	2,121
Subscribed capital (note iii)	-	3	-	-	-	130	11	271	415
Total financial liabilities	107,209	6,272	11,079	9,951	7,450	13,336	14,821	14,127	184,245
Net liquidity difference	(97,464)	(4,931)	(9,194)	(7,672)	(5,469)	(5,180)	7,167	131,866	9,123
Cumulative liquidity difference	(97,464)	102,395)	(111,589)	(119,261)	(124,730)	(129,910)	(122,743)	9,123	

Business and Risk Report continued

Liquidity and funding risk continued

Residual maturity	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and 12 months	Due between one and two years	Due between two and five years	Due more than five years	Total
2014	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Cash	5,342	-	-	-	-	-	-	-	5,342
Loans and advances to banks	1,647	-	-	-	-	61	87	315	2,110
Investment securities – available for sale	4	15	37	152	103	284	1,037	8,931	10,563
Loans and advances to customers (note ii)	2,974	1,305	2,056	1,933	1,715	7,069	19,795	129,694	166,541
Derivative financial instruments	7	22	25	34	79	802	663	1,388	3,020
Other financial assets	-	1	3	2	3	25	68	148	250
Total financial assets	9,974	1,343	2,121	2,121	1,900	8,241	21,650	140,476	187,826
Liabilities									
Shares	90,633	3,076	6,409	5,118	8,025	10,903	3,035	3,269	130,468
Deposits from banks	1,579	310	35	31	8	21	-	-	1,984
Other deposits	1,777	1,066	537	304	357	1,293	1,801	-	7,135
Due to customers	3,865	504	1,308	291	204	22	14	-	6,208
Secured funding – ABS and covered bonds	6	106	60	3,302	672	4,471	3,067	5,705	17,389
Senior unsecured	2,107	2,811	915	191	1,729	196	1,493	1,726	11,168
Derivative financial instruments	34	27	40	55	43	120	543	1,529	2,391
Other financial liabilities	-	2	5	7	8	11	-	-	33
Subordinated liabilities (note iii)	-	-	125	-	-	411	1,053	680	2,269
Subscribed capital (note iii)	3	-	-	199	8	128	11	252	601
Total financial liabilities	100,004	7,902	9,434	9,498	11,054	17,576	11,017	13,161	179,646
Net liquidity difference	(90,030)	(6,559)	(7,313)	(7,377)	(9,154)	(9,335)	10,633	127,315	8,180
Cumulative liquidity difference	(90,030)	(96,589)	(103,902)	(111,279)	(120,433)	(129,768)	(119,135)	8,180	

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. Amounts have been restated for the reclassification of certain amounts in relation to elements of overdrawn current accounts as detailed in note 1 to the accounts.
iii. Certain financial liabilities do not have a contractual maturity date but are callable (subject to regulatory approval) at the Group's option. The maturity date for these financial instruments is determined based on the probability of the Group exercising these options.

The net surplus of financial assets over financial liabilities increased by £943 million to £9,123 million which is primarily attributable to retained profits for the year. Liquid assets include cash, loans and advances to banks, and available for sale investment securities, which in aggregate have increased by £739 million to £18,754 million over the year. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

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

Liquidity and funding risk continued

The gross undiscounted contractual cash flows payable in respect of financial liabilities increased, reflecting growth in shares and other deposits and an increase in derivative liabilities, as set out below. The analysis of gross contractual cash flows 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.

Gross contractual cash flows 2015	**Due less than one month (note i)**	**Due between one and three months**	**Due between three and six months**	**Due between six and nine months**	**Due between nine and 12 months**	**Due between one and two years**	**Due between two and five years**	**Due more than five years**	**Total**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Shares	97,712	1,568	5,930	5,456	6,411	8,494	6,478	977	133,026
Deposits from banks	1,479	392	10	64	6	-	25	-	1,976
Other deposits	2,582	1,477	1,579	933	591	1,223	773	-	9,158
Due to customers	3,727	448	1,322	256	225	44	115	-	6,137
Secured funding – ABS and covered bonds	36	20	971	2,846	187	2,797	3,771	8,068	18,696
Senior unsecured	1,640	2,471	1,048	344	337	897	3,053	1,640	11,430
Derivative financial instruments	101	166	226	181	204	698	1,325	2,056	4,957
Other financial liabilities	1	2	-	1	1	1	8	-	14
Subordinated liabilities (note ii)	-	4	315	154	49	88	1,233	588	2,431
Subscribed capital (note ii)	1	5	4	7	4	163	52	307	543
Total financial liabilities	107,279	6,553	11,405	10,242	8,015	14,405	16,833	13,636	188,368

Gross contractual cash flows 2014	Due less than one month (note i)	Due between one and three months	Due between three and six months	Due between six and nine months	Due between nine and 12 months	Due between one and two years	Due between two and five years	Due more than five years	Total
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m	£m
Shares	90,633	3,213	6,529	5,217	8,101	11,071	3,240	3,386	131,390
Deposits from banks	1,579	311	35	31	8	21	-	-	1,985
Other deposits	1,777	1,086	553	318	370	1,332	1,844	-	7,280
Due to customers	3,865	512	1,313	293	205	22	14	-	6,224
Secured funding – ABS and covered bonds	55	69	777	2,758	1,255	4,407	3,783	6,085	19,189
Senior unsecured	2,108	2,813	980	188	1,769	357	1,789	1,786	11,790
Derivative financial instruments	58	135	251	154	201	494	795	753	2,841
Other financial liabilities	-	2	5	7	8	11	-	-	33
Subordinated liabilities (note ii)	16	4	49	4	60	502	1,422	703	2,760
Subscribed capital (note ii)	1	5	12	7	212	22	201	327	787
Total financial liabilities	100,092	8,150	10,504	8,977	12,189	18,239	13,088	13,040	184,279

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. Certain financial liabilities do not have a contractual maturity date but are callable (subject to regulatory approval) at the Group's option. The maturity date for these financial instruments is determined based on the probability of the Group exercising these options.

Business and Risk Report continued

Liquidity and funding risk continued

Asset encumbrance

From time to time the Group encumbers assets to support funding initiatives or serve as collateral. Assets that have been so utilised, and thus cannot be utilised for other purposes, are classified as encumbered. The Group's principal forms of encumbrance are secured funding and third party repurchase transactions, with encumbrance also resulting from excess collateral balances and cash collateral posted. Other encumbered assets are those which cannot be utilised for secured funding due to legal or other reasons.

All other assets are defined as unencumbered. These comprise assets that are readily available to secure funding or meet collateral requirements and 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, with management action, a proportion would be suitable for use in asset-backed funding transactions.

An analysis of the Group's encumbered and unencumbered on-balance sheet assets as at 4 April 2015 is set out below. The table does not include off-balance sheet assets received by the Group as part of its participation in the FLS, which the Group is permitted to re-use. This disclosure is not designed to identify assets that would be available in the event of a resolution or bankruptcy.

Asset encumbrance	Encumbered		Unencumbered		Total
	Pledged as collateral	Other	Available as collateral	Other	
2015	£m	£m	£m	£m	£m
Cash	-	2,218	1,947	160	4,325
Loans and advances to banks	2,308	327	-	757	3,392
Investment securities – available for sale	266	-	10,654	117	11,037
Loans and advances to customers	45,518	-	78,890	46,239	170,647
Derivative financial instruments	-	-	-	3,337	3,337
Other financial assets	-	-	-	630	630
Non-financial assets	-	-	-	2,212	2,212
Total	48,092	2,545	91,491	53,452	195,580

Asset encumbrance	Encumbered		Unencumbered		Total
	Pledged as collateral	Other	Available as collateral	Other	
2014	£m	£m	£m	£m	£m
Cash	-	4,615	539	188	5,342
Loans and advances to banks	887	325	-	898	2,110
Investment securities – available for sale	231	-	10,200	132	10,563
Loans and advances to customers*	58,276	-	60,620	47,645	166,541
Derivative financial instruments	-	-	-	3,020	3,020
Other financial assets	-	-	-	250	250
Non-financial assets	-	-	-	2,067	2,067
Total	59,394	4,940	71,359	54,200	189,893

*Amounts have been restated for the reclassification of certain amounts in relation to elements of overdrawn current accounts as detailed in note 1 to the accounts.

Liquidity and funding risk continued

Repurchase agreements

The Group undertakes securities financing transactions in the form of repurchase agreements (repo) to demonstrate liquidity of the securities held in the Group's Liquid Asset Buffer (LAB). Cash is borrowed in return for pledging securities as collateral and because settlement is on a 'delivery versus payment' basis, the main credit risk arises from intra-day changes in the value of the collateral. This is largely mitigated by the Group's collateral management processes.

From a liquidity perspective, the main risk is that during a period of stress the Group has insufficient repo market capacity to rapidly monetise the LAB. To mitigate this risk, repo market capacity is assessed via a quarterly review process. This is supplemented by the frequent execution of bilateral repos to maintain credit lines and anonymous transactions via a central counterparty clearing house, such as the London Clearing House, using an electronic trading platform.

LAB securities funding transactions currently have no impact on either funding or encumbered asset reporting due to the short-term nature of the transactions, meaning they do not impact the income statement. Repo transactions convert UK government bonds (highly liquid securities) into cash, so there is a negligible movement in the liquidity position.

Managing liquidity and funding risk

The Group's management of liquidity and funding risks 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 management and stress testing of business cash flows, and the setting of appropriate risk limits (which are outlined further below), to maintain a prudent funding mix, maturity profile and level of high quality liquid assets. The Group's approach to liquidity and funding risk is managed by ALCO and the Board as part of the annual review of the Individual Liquidity Adequacy Assessment (ILAA) document.

The Board is responsible for setting risk appetite with respect to levels of liquidity and funding risks. This is articulated through the Board's risk appetite statements. The Board translates this into limits which define the minimum level of liquid resources, the funding mix of the balance sheet, the maturity profile of funding and levels of encumbrance. ALCO is responsible for setting more detailed limits within Board limits, including the composition of liquid assets and concentration of funding, and for monitoring the composition of the Group's balance sheet. Wholesale and retail funding maturities are monitored to ensure there are no excessive concentrations in future maturities. This enhances the ability of the Group to refinance maturing liabilities. The Balance Sheet Risk Committee (BSRC) sets more detailed limits and is responsible for monitoring liquidity and funding risks. A consolidated cash flow forecast is maintained on an ongoing basis and reviewed by the Weekly Trading Committee (WTC) which has responsibility for monitoring liquidity metrics.

A Contingency Funding Plan (CFP) has been approved by ALCO and describes metrics which would indicate an emerging market-wide or Nationwide-specific stress. It also details procedures and a range of available actions that the Group could take in the event of a liquidity or funding stress, thereby allowing adequate liquidity resources to be maintained. The CFP is reviewed every six months and tested at least annually. The Group also has a Recovery Plan which describes potential actions that could be utilised in a more extreme stress.

Business and Risk Report continued

Liquidity and funding risk continued

Liquidity stress testing

To mitigate liquidity and funding risks generated by its business activities, the Group holds a portfolio of liquid assets as detailed in the 'Treasury assets' section of this report. A series of liquidity stress tests are performed daily against a number of scenarios, including those prescribed by the regulator. The internal stress tests are run to assess the Group's minimum liquidity requirement alongside the calculation of the prescribed regulatory Individual Liquidity Guidance (ILG). Together they represent the Group's view of the required levels of liquidity to be held. The future regulatory stress test, the Liquidity Coverage Ratio (LCR), is run to ensure compliance ahead of full implementation from 1 October 2015.

The Group aims to maintain liquidity resources of at least 100% of the anticipated outflows seen under each of the internal and regulator-prescribed stress tests. The scenarios include an idiosyncratic stress, a market-wide stress and a combination of the two. The stress scenarios consider a range of factors and the consequent impact on the Group's cash flows over multiple time horizons. The stress is assumed to be most severe in the first ten business days. Assumptions used in internal liquidity stress tests are reviewed regularly with changes proposed to ALCO for approval and approved annually by the Board as part of the ILAA process.

The primary period over which internal liquidity stress testing is performed is 30 business days (circa six weeks) with a three-month assessment also being performed against which CFP capacity is assessed.

As at 4 April 2015, potential outflows under the most severe 30 business day stress test (the combined idiosyncratic and market-wide stress scenario) were modelled at £22.1 billion (2014: £22.8 billion). The risk drivers detailed below are linked to the outflow assumptions. The liquidity assessed as eligible in the stress testing, which includes liquidity and mortgage inflows, as a percentage of stressed outflows equated to 128% (2014: 128%).

The table below details the key assumptions used in modelling the liquidity stress scenarios:

Liquidity risk driver	Modelling assumptions used
Retail funding	Significant unexpected outflows are experienced with no new deposits received.
Wholesale funding	Following assumed credit rating downgrades, there is no rollover of maturing wholesale funding and no new wholesale funding is received.
Off-balance sheet	Contractual outflows in relation to asset-backed funding programmes as a result of credit rating downgrades. Outflows are experienced as a result of other off-balance sheet commitments such as the mortgage pipeline. Inflows from mortgages or retail and commercial loans are assessed on a behavioural basis and therefore take into account expected overpayments and underpayments.
Intra-group	We continue to provide funding to subsidiaries.
Marketable assets	Asset values are reduced in recognition of the stressed conditions assumed.

Liquidity and funding risk continued

External credit ratings

In February 2015, Standard & Poor's placed a number of European banks' ratings, including the Society's ratings, on Credit Watch negative to reflect the possible removal of government support. This Credit Watch placement is expected to be resolved before the end of June 2015. In March 2015, as a consequence of the publication of its new bank rating methodology, Moody's placed the Society's long-term deposit and senior unsecured debt and issuer ratings on review for upgrade as part of a global bank ratings action. Moody's has indicated that it expects to conclude the large majority of its reviews in the first half of 2015. The outcome of the rating reviews, which are part of an industry-wide reassessment of government support embedded within the ratings of all major UK banks, is uncertain. However, in recognition of the Group's capital and current profitability we are satisfied any ratings reassessment will not affect the ability to fund the business.

The Society's short and long term credit ratings from the major rating agencies as at 21 May 2015 are as follows:

	Long term	Short term	Subordinated	Outlook	Date of last rating action/confirmation
Standard & Poor's	A	A-1	BBB-	Credit Watch negative	February 2015
Moody's	A2	P-1	Baa1	Ratings under Review (Up)	March 2015
Fitch	A	F1	A-	Stable	July 2014

The table below sets out the amount of additional collateral the Group would need to provide in the event of a one and two notch downgrade by external credit rating agencies. This reduced during the year following changes made to the legal covenants in respect of the Group's asset-backed securitisation programme as agreed by the required majority of noteholders.

	Cumulative adjustment for a one notch downgrade	Cumulative adjustment for a two notch downgrade
	£bn	£bn
4 April 2015	**3.8**	**4.2**
4 April 2014	9.0	9.0

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

Business and Risk Report continued

Liquidity and funding risk continued

Significant events in regulatory environment

The Group continues to monitor its position relative to the short-term liquidity stress metric, the LCR, which is due to be implemented by 1 October 2015 and measures the amount of high-quality liquid assets relative to estimated net stressed cash outflows within a 30 calendar day period; and the longer-term funding metric, the Net Stable Funding Ratio (NSFR), which measures the available amount of funding relative to the required amount of stable funding over a one year horizon.

Following the finalisation of the LCR delegated act, which sets out detailed requirements for the LCR in Europe, the PRA published their consultation paper (CP27/14) setting out proposals for transition to its new liquidity regime. It is proposed that the UK LCR glide path will be introduced at a minimum 80% from 1 October 2015, rising to 100% by 1 January 2018 and from 1 October 2015 the existing UK primary regulatory liquidity measure, the ILG, will be replaced by the LCR.

In October 2014, the Basel Committee on Banking Supervision published its final NSFR standard with a minimum requirement of 100% to be introduced from 1 January 2018. The final European NSFR standard is not expected until 2016.

Based on current interpretations of regulatory requirements and guidance, as at 4 April 2015, the Group had a LCR of 119.3% (2014: 90.7%) and a NSFR of 121.9% (2014: 112.4%). The LCR represents a surplus to both European and anticipated UK regulatory minimum requirements of 60% and 80% respectively and reflects the Group's strategy of maintaining a LCR of at least 100%. The NSFR exceeds the 100% ratio requirement due for implementation in 2018.

Environment and outlook

A more accommodating stance from the Bank of England, contained within the Sterling Monetary Framework, suggests that the funding environment for solvent UK banks and building societies is likely to remain positive with increased availability and flexibility of liquidity provided to solvent financial institutions.

The Group continues to monitor emerging European and UK regulatory resolution tools which aim to avoid bail-outs by introducing a requirement for banks and building societies to hold a minimum level of liabilities which can be 'bailed in' to recapitalise the bank or building society in the event of failure. This may have an impact on the cost of term unsecured wholesale funding.

Ongoing political tensions and persistent weak economic growth from the Eurozone may affect the UK's financial stability, particularly if accompanied by a loss of confidence, potentially leading to an increase in funding costs.

Solvency risk

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

Capital strategy

The Group manages its capital structure to ensure it continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, the Group targets a strong Common Equity Tier 1 (CET1) ratio relative to both regulatory requirements and major banking peers. Planned changes to the balance sheet, potential regulatory developments and other factors (such as movements in the Available for sale reserve and pension deficit) are all considered. The Group continues to expect its CET1 and leverage ratios to be in excess of 16% and 4% respectively and to be well positioned to absorb future regulatory change.

The capital strategy is to manage these ratios through retained earnings, supplemented by external capital where appropriate. In recent years, the Group has demonstrated its ability to supplement retained earnings through the issuance of CET1, Additional Tier 1 and Tier 2 capital instruments and has delivered significant deleveraging of its non-core commercial real estate portfolio and out of policy treasury assets.

Capital position

The capital disclosures included in this report are reported on a CRD IV end point basis unless otherwise stated. This assumes that all CRD IV requirements were in force during the period, with no transitional provisions permitted. The current transitional provisions allow PIBS and certain subordinated debt instruments to be eligible as capital under grandfathering provisions. In addition, the disclosures are on a Group (consolidated) basis, including all subsidiary entities, unless otherwise stated.

The Group's capital and leverage ratios have increased since 4 April 2014 as a result of a strong trading performance and the deleveraging of the non-core commercial real estate portfolio and out of policy treasury assets. In addition, increasing house prices have resulted in lower risk weighted assets attributable to retail mortgages, despite growth in the mortgage book. The Group's key capital measures at 4 April 2015 are summarised in the table below:

Key capital ratios	2015	2014
	%	%
Common Equity Tier 1 (CET1) ratio (end point)	19.8	14.5
Leverage ratio*	4.1	3.4

*The leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure. The comparative has been restated to align to the revised definition (previously reported as 3.3% under the Basel III definition of the exposure measure).

On a transitional basis the CET1 ratio is also 19.8% (2014: 14.5%). The CET1 ratio on an Individual (solo) consolidated basis at 4 April 2015 is 19.6% (2014: 14.4%). More detail on the Group's capital position measured on an Individual consolidated basis can be found in the Group's 2015 Pillar 3 disclosures at **nationwide.co.uk**

The Group previously disclosed PRA adjusted ratios, which applied across the industry following the PRA's capital shortfall exercise in June 2013. In June 2014 the PRA announced that the adjustments would no longer apply from 1 July 2014.

Nationwide's Pillar 2A Individual Capital Guidance (ICG) equates to £1.9 billion, of which at least £1.1 billion must be met by CET1 capital. This amount is equivalent to 5.2% of RWAs as at 4 April 2015, reflecting the Group's low average risk weight given that approximately 76% of the Group's exposure is in the form of secured residential mortgages, of which 81% are prime. The ICG is a point in time estimate by the PRA, which may change over time, of the amount of capital required to be held to meet risks not covered by Pillar 1 such as credit concentration and operational risk, and those risks not covered by Pillar 1 such as pensions and interest rate risk. A PRA consultation setting out proposed changes to the Pillar 2A framework was published in January 2015, so it is expected that the approach to setting Pillar 2A capital requirements will change from January 2016.

Business and Risk Report continued

Solvency risk continued

CET1 capital has increased from £5,849 million to £7,279 million over the period primarily due to a strong trading performance for the year, as well as a reduction in the excess of expected losses over impairment provisions, particularly as a result of continued deleveraging of the non-core commercial real estate portfolio. The increases in Total Tier 1 capital and Total regulatory capital, include the increase in CET1 resources, partly offset at a Total regulatory capital level by a reduction in Tier 2 capital. This is due to fair value and amortisation movements in dated subordinated debt and the change in approach for the calculation of excess expected loss.

The table below reconciles the general reserves to total regulatory capital. Both 2014 and 2015 have been presented on an end point basis and do not include grandfathered tier one PIBS and subordinated debt.

Total regulatory capital	2015	2014
	£m	£m
General reserve (note i)	7,995	7,363
Core capital deferred shares (CCDS)	531	531
Revaluation reserve	68	71
Available for sale reserve	26	(51)
Regulatory adjustments and deductions:		
Foreseeable distributions (note ii)	(44)	(45)
Prudent valuation adjustment (note iii)	(1)	(5)
Own credit and debit valuation adjustments (note iv)	(11)	(17)
Intangible assets (note v)	(982)	(890)
Goodwill (note v)	(12)	(12)
Excess of regulatory expected losses over impairment provisions (note vi)	(291)	(1,096)
Total regulatory adjustments and deductions	(1,341)	(2,065)
Common Equity Tier 1 capital	7,279	5,849
Additional Tier 1 capital securities (AT1)	992	992
Total Tier 1 capital	8,271	6,841
Dated subordinated debt (note vii)	1,653	1,886
Excess of impairment provisions over regulatory expected loss (note vi)	-	171
Collectively assessed impairment allowances	26	27
Tier 2 capital	1,679	2,084
Total regulatory capital	9,950	8,925

Notes:

i. The general reserve includes independently verified profits for the year to 4 April 2015.

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

iii. A prudent valuation adjustment is applied in respect of fair valued instruments as required under regulatory capital rules.

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

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

vi. Under CRD IV the net regulatory capital expected loss in excess of accounting impairment provisions is deducted from CET1 capital, gross of tax. In 2014, the expected loss net of provisions calculation was on an individual granular basis with the excess of provisions per borrower being included in Tier 2 capital. In 2015, following clarification in an EBA consultation paper, this calculation is on an aggregate basis. This has resulted in excess default provisions per borrower being utilised against aggregated defaulted expected loss in CET1.

vii. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with less than five years to maturity. It does not include instruments that are subject to CRD IV grandfathering provisions, as this table is presented on an end point basis.

Solvency risk continued

Risk weighted assets

The table below shows the breakdown of the Group's risk weighted assets (RWAs):

Risk weighted assets	2015	2014
	£m	£m
Credit risk:		
Retail mortgages	14,372	15,105
Retail unsecured lending	7,023	6,899
Commercial loans	7,646	9,061
Treasury	1,375	3,290
Counterparty credit risk (note i)	826	1,014
Other (note ii)	1,334	1,295
Total credit risk	32,576	36,664
Operational risk	4,228	3,762
Market risk (note iii)	-	29
Total risk weighted assets	36,804	40,455

Notes:
i. Counterparty credit risk relates to derivative financial instruments.
ii. Other relates to fixed and other assets held on the balance sheet.
iii. The Group elected to set this to zero in 2015, as permitted by the CRR, as exposure was below the threshold of 2% of own funds.

RWAs have decreased by £3,651 million since 4 April 2014, to £36,804 million. This has been driven by continued deleveraging of the non-core commercial real estate portfolio and out of policy treasury assets. The Group's retail mortgage RWAs are lower as a result of the impact of an increase in the house price index (HPI), which more than offsets portfolio growth. Operational risk RWAs have increased driven by growing income streams, as the Group is on a standardised approach for operational risk.

The reduction in counterparty credit risk RWAs has arisen due to collateral being received on previously uncollateralised exposures following counterparty credit rating downgrades.

Details on how RWAs are calculated can be found in the Group's 2015 Pillar 3 disclosures at **nationwide.co.uk**

Business and Risk Report continued

Solvency risk continued

Key ratios

The table below sets out the key capital ratios:

	2015	2014
	%	%
Solvency ratios (note i)		
Common Equity Tier 1 (CET1)	19.8	14.5
Total Tier 1	22.5	16.9
Total regulatory capital	27.0	22.1
Leverage (note ii)	£m	£m
Exposure	200,665	199,188
Total Tier 1 capital	8,271	6,841
Leverage ratio	4.1%	3.4%

Notes:

i. The solvency ratios are on an end point basis. Transitional ratios can be found in the Group's 2015 Pillar 3 disclosures at **nationwide.co.uk**

ii. The Group's leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure and reported on an end point basis. The comparative has been restated to align to the revised definition (previously reported as 3.3% under the Basel III definition of exposure measure).

Total exposure used to calculate the leverage ratio has increased by £1,477 million to £200,665 million, as lower off balance sheet exposures partly offset balance sheet growth. Balance sheet assets have grown by £5,687 million to £195,580 million since 4 April 2014 mainly due to increases in residential mortgage lending exceeding deleveraging of the commercial real estate portfolio and out of policy treasury assets. The leverage ratio has increased to 4.1% (2014: 3.4%) driven by the increase in CET1 capital resources described above, which outweighs the increase in leverage exposure driven by asset growth. Further details can be found in the Group's 2015 Pillar 3 disclosures at **nationwide.co.uk**

Managing solvency risk

The Group employs a number of tools to support the management of solvency risks. The Board is responsible for setting risk appetite with respect to solvency risk, which is articulated through its risk appetite statements, and it defines minimum levels of capital, including leverage, that it is willing to operate with. These are translated into specific risk metrics, which are monitored by the Board Risk Committee, Asset and Liability Committee (ALCO) and other internal management committees.

With general reserves forming the majority of the Group's capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which monitors targets for individual product segments.

The Group also undertakes a regular Internal Capital Adequacy Assessment Process (ICAAP), which considers the minimum amount of capital to be held in order to cover credit risks, operational risks, interest rate risks in the banking book and pension risks, and also considers an additional buffer to ensure that the impact of a severe but plausible stress can be absorbed. As a result of this internal assessment, the PRA sets the Group's Pillar 2 capital requirements.

Stress testing

Regular Group-wide stress tests are undertaken to enhance the understanding of potential vulnerabilities and how management actions might be deployed in the event of stressed conditions developing. These stress tests project capital resources and requirements over a five-year period, during severe but plausible scenarios.

The Group aims to be in a position where it would maintain strong capital and leverage ratios in the event of a severe but plausible economic or idiosyncratic stress. Embedded in the risk appetite framework is an expectation to maintain the Common Equity Tier 1 (CET1) ratio in excess of 7% throughout a severe but plausible stress test, and to maintain the leverage ratio in excess of 3%.

Solvency risk continued

A set of management actions is maintained, that would be available in the event of a breach of one or more of the risk metrics, to support the capital position. In a more severe stress, the Group would expect to invoke its Recovery Plan, maintained under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD), which documents a broader range of management actions.

During the summer of 2014, the major UK banks and building societies, including Nationwide, took part in the first of the PRA's annual concurrent stress tests, which assessed firms' resilience to a severe economic downturn. The stress scenario set for this exercise was focused on the UK housing market, which was particularly relevant for Nationwide as a major mortgage lender. The results of this stress test, published by the PRA in December 2014, showed that Nationwide remained above the PRA's minimum CET1 ratio hurdle rate throughout the period with a low point CET1 ratio of 6.1% (prior to application of management actions). Since the 2014 stress test, Nationwide has further strengthened the balance sheet through deleveraging of the non-core commercial real estate portfolio and out of policy treasury assets.

Nationwide, along with other major UK banks and building societies, is currently taking part in the second PRA annual concurrent stress test. The scenario (published in March 2015) describes a global downturn, with a less severe impact on the UK housing market than the 2014 concurrent stress scenario.

Regulatory developments

Under the FPC's proposed leverage ratio framework, announced in October 2014, leverage ratio requirements from 2019 could be up to 4.95%. This is formed of a minimum requirement of 3%, in addition to a supplementary leverage ratio buffer and countercyclical leverage ratio buffer. The supplementary leverage ratio buffer is expected to be subject to an FPC consultation later in 2015, in order to determine the size of this buffer that is to be applied to each individual institution, with the expectation that the buffer will be no higher than 1.05%. The countercyclical leverage ratio buffer will likely be based upon the risk-based countercyclical buffer, which is currently set at 0% for UK exposures. The Group's strategic target of 5% reflects its desire to maintain strong levels of capital relative to regulatory expectations.

The Group considers that the proposals announced by the FPC form the basis of a sensible regulatory approach to leverage. The final calibration of the supplementary requirement represents an opportunity to ensure that the overall leverage requirement is both proportionate and sensitive to firms with low risk business models, such as building societies which provide diversity within the UK financial system and strong support for the housing market. The Group is confident that it will comfortably meet the requirements as they are introduced.

As part of the European BRRD, the Bank of England, in its capacity as the UK resolution authority, will be required to set a Minimum Requirement for Eligible Liabilities (MREL) for each firm including Nationwide. A UK consultation on the calibration of MREL is expected during the second half of 2015, ahead of it becoming a requirement for UK firms from January 2016. The Group is confident it has a strong foundation from which to meet anticipated future MREL requirements.

The Group continues to monitor regulatory developments that could lead to an increased level of capital requirements. This includes a PRA review of procyclicality in risk-weights used to calculate capital requirements. Furthermore the Basel Committee on Banking Supervision recently consulted on revisions to the standardised approach for calculating credit risk capital requirements, and on a replacement for the Basel I floor. The Group has responded to these consultations and will remain engaged in the development of the regulatory approach to ensure it is prepared for any change in regulatory requirements.

Business and Risk Report continued

Market risk

Overview

Market risk is the risk that the net value of, or net income arising from, the Group's assets and liabilities is impacted as a result of market price or rate changes, specifically interest rates, exchange rates or equity prices. The Board risk appetite is not to take any market risk unless they are essential to supporting core business activities. In consequence, the Group does not maintain a trading book and it uses risk management strategies designed to provide stability of earnings.

The Group's principal market risks, linked to balance sheet assets and liabilities, are listed in the table below on a complete basis, irrespective of materiality.

Market risk linkage to the balance sheet		Market risk				
	2015	Interest rate risk	Basis risk	Swap spread risk	FX risk	Product option risk
	£bn					
Assets						
Cash	4.3	✓				
Loans and advances to banks	3.4	✓	✓		✓	
Investment securities – available for sale	11.0	✓	✓		✓	
Derivative financial instruments	3.3	✓	✓	✓	✓	
Loans and advances to customers	170.6	✓	✓		✓	✓
Other assets	3.0	✓	✓		✓	
Total assets	195.6					
Liabilities						
Shares (customer deposits)	132.4	✓	✓			✓
Deposits from banks	2.0	✓	✓		✓	
Other deposits (including PEB deposits)	9.1	✓	✓		✓	✓
Due to customers (including offshore deposits)	6.1	✓	✓		✓	✓
Debt securities in issue	28.1	✓	✓		✓	
Derivative financial instruments	4.0	✓	✓	✓	✓	
Subordinated liabilities	2.1	✓	✓		✓	
Other liabilities*	2.0	✓	✓		✓	
Total liabilities	185.8					

* Other liabilities includes the Group's pension liability which is exposed to equity risk (the risk to the Group of movements in share prices). This pension risk is managed separately to the Group's core business operations. For further details see the 'Pension risk' section.

✓ Represents assets or liabilities exposed to market risk, irrespective of materiality.

Market risk continued

Significant events/environment

Market conditions continue to be characterised by low interest rates with an uncertain economic environment leading to volatility in these rates. In previous years, we have seen a significant amount of Central Bank intervention in order to stimulate economic activity through programmes such as the Funding for Lending Scheme (FLS) in which Nationwide has been a participant. This continues to be a significant contributor to the Group's liquidity position, reducing our requirement to hold sovereign bonds for liquidity purposes and consequently reducing swap spread risk. The spread between swap rates and gilt yields has remained relatively stable during the year.

There have been no material changes to our policies and practices for the management of market risk. The Market Risk Policy is embedded in the Group's Financial Risk Framework. Market risk measures are reported to the Balance Sheet Risk Committee (BSRC) and highlighted to the Assets and Liabilities Committee (ALCO) where appropriate.

Market risk management

Market risk only arises in the banking book as the Group does not have a trading book. Most of the Group's exposure to market risk arises from fixed rate mortgages or savings, or foreign exchange risk on non-sterling financial assets and liabilities held.

The principal market risks that affect the Group are listed below together with the types of risk reporting measures used:

Market risk exposure	Reporting measure
Interest rate risk	Sensitivity/value at risk
Basis risk	Annual earnings at risk
Swap spread risk	Sensitivity/value at risk
Foreign exchange risk	Value at risk
Product option risk	Sensitivity

In addition stress analysis is used to evaluate the impact of more extreme, but plausible events. These techniques are described below with a review of the exposures during the year.

Sensitivity analysis (PV01 sensitivity)

Sensitivity analysis is used to assess the change in value of, for example, the Group's net interest exposure against a one basis point (0.01%) parallel shift in interest rates (PV01). 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. Sensitivity analysis is also used for swap spread risk and product option risks.

Annual earnings at risk and net interest income (NII) measurement

Annual earnings at risk is used to measure basis risk exposures and net interest income metrics are used to monitor exposure to interest rate risks. Both measures apply rate shocks to the rates paid on liabilities and to the rates earned on assets and the impact on interest earnings is calculated. Both risks are described below in more detail.

Business and Risk Report continued

Market risk continued

Value at Risk (VaR)

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. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This takes into account inter-relationships between different markets and rates, including interest rates and foreign exchange rates.

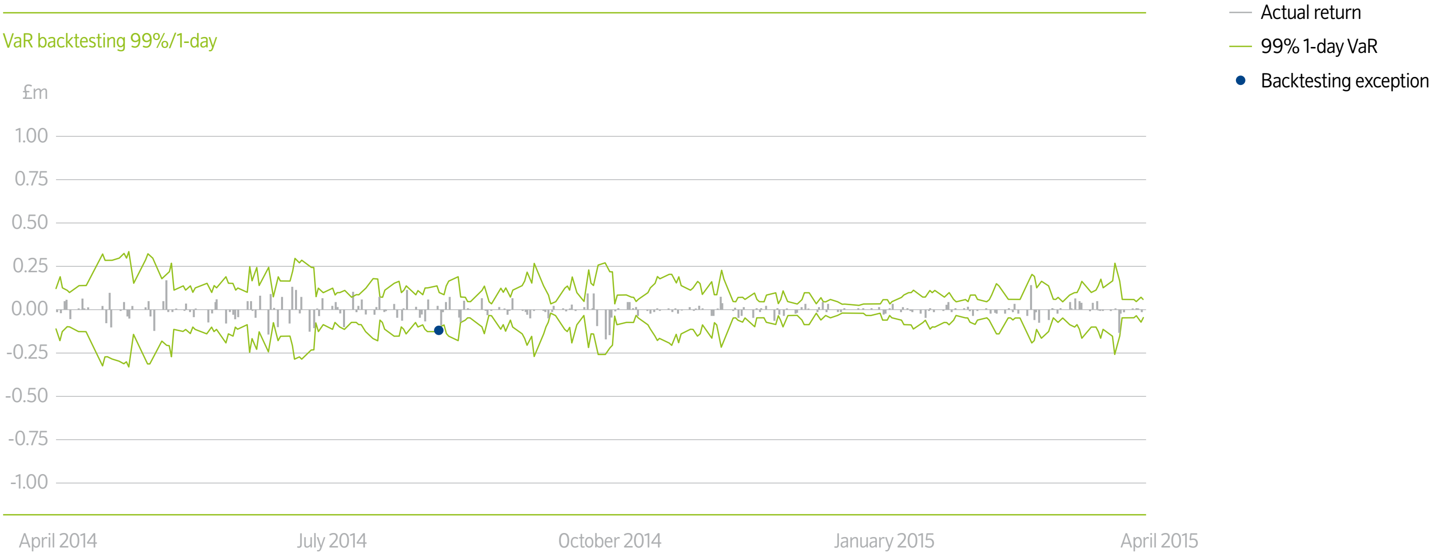
The VaR model used by the Group incorporates risk factors based on interest rate and foreign exchange volatilities and correlations. Potential movements in market prices are calculated by reference to daily market data from the last two years, equally weighted. The Group uses a 10-day horizon and a 99% confidence level in its day to day VaR monitoring. VaR is used to monitor interest rate, swap spread and currency risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by BSRC to test the validity of the assumptions and factors used in the VaR calculation. To be consistent with the management view values reported below are on the same basis as those used internally.

Although it is a valuable guide to risk, VaR needs to be viewed in the context of the following limitations which may mean that exposure could be higher than modelled:

- 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. Exceptional market moves outside of the confidence level at which the model operates will deliver exceptions. For example, 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.
- Historical data may not adequately allow prediction of circumstances arising due to Government interventions and stimulus packages, which increases the difficulty of evaluating risks.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

To seek to mitigate these limitations, the Group undertakes backtesting of the VaR model on a regular basis to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss is greater than the daily VaR on any given day. In 2014/15, the backtesting did not highlight any model deficiencies. The chart below shows the results of this backtesting. The one loss exception, due to a significant movement in market rates on a day in August, compares to an expectation of 2.5 exceptions at the 99% confidence level.

VaR backtesting 99%/1-day



Market risk continued

The model is subject to an annual review process to ensure it continues to be appropriate for risk reporting. Risks not captured in VaR (RNIV) are risks that cannot be captured by a VaR model as movements are outside of the historic range. These include:

- product option risk against which the Group holds Pillar 2 capital
- market liquidity risk; this has a limited impact because whilst the Group requires an appropriate level of market liquidity to manage market risk it does not have a high ongoing dependency on it given that the Group does not operate a trading book
- fair value Level 3 asset management; the Group only holds a very small portfolio of these assets and whilst historic data is not a reliable predictor of the future the impact is limited
- interest rate movements that can impact credit/debit valuation adjustments (CVA/DVA). These are not captured in the VaR or sensitivity analysis but are monitored.

Stress analysis

To evaluate the potential impact of more extreme, though plausible, events or movements in a set of financial variables the standard VaR metric is augmented with sensitivity or stress analysis.

For example, for interest rate risk exposures standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A 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.

In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two year period and on a 99% 10-day basis but uses volatilities and correlations from a period of significant financial stress. During the last year stressed VaR on interest rates was, on average, 7.7 times the standard VaR. The Group reviews stressed VaR on the GBP portfolio only.

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 market scenarios. The results of these situations are presented to the BSRC to provide insight into scenarios in which the Group may make losses on the residual interest rate and foreign currency positions.

A range of metrics are also regularly produced focusing on the crystallisation of product option risks under stressed events.

Business and Risk Report continued

Market risk continued

Interest rate risk

The main market risk faced by the Group is interest rate risk which primarily arises from the retail and commercial assets and liabilities, reserves, liquidity holdings, and wholesale funding activities. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities.

To reduce the impact of such movements hedging activities are undertaken by Treasury. For example, interest rate risks generated by lending to and receiving deposits from members are offset against each other internally. The remaining net exposure is managed using derivatives on a continuous basis, within parameters set by ALCO.

The income contribution from the reserves and non-interest bearing current accounts are subject to the volatility of short-term interest rate movements. They are hedged to reduce the impact on earnings by converting short-term interest margin volatility into a more stable medium-term rate.

The table below highlights the limited amount to which the Group is exposed to interest rate risk:

Interest rate risk	2015			2014		
	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m
VaR (99%/10-day) *(audited)*	0.4	1.0	0.1	0.6	2.2	0.1
Sensitivity analysis (PV01) *(audited)*	-	0.1	(0.1)	-	0.1	(0.1)
Stress testing (PV200: all currencies)	4.9	20.9	(10.8)	(0.2)	22.9	(20.4)

Basis risk

Basis risk arises where assets and liabilities re-price with reference to differing short term interest rate benchmarks. The primary interest rates that the Group is exposed to are the Bank of England base rate and three month Libor. If the difference between base rate and three month Libor changes over time the Group may be subject to changes in its margins.

At a Group level, assets and liabilities are offset by reference rate, or 'basis' type. Exposure to the net mismatch is mitigated, where necessary, by transacting basis swaps to ensure the Group remains within an agreed risk appetite. Basis risk is managed using a holistic approach incorporating a projection of balance sheet exposures in response to changes in basis, net of derivatives.

Sensitivity of net interest income

Sensitivity of net interest income (NII) is the risk that the Group's income is adversely affected by a change in the level of interest rates. The sensitivity of Group NII to changes in interest rates is measured on a monthly basis using a forecasting model and potential interest rate scenarios. This is calculated for a forward period of one year. Within that forecast, all assets and liabilities maturing within the year are assumed to reinvest in like for like products, which ensures that the balance sheet remains static. The model does not take any corporate strategies or management actions into account.

Market risk continued

The table below sets out the sensitivity of future NII to rises and falls in interest rates over a one year period:

Potential favourable/(adverse) impact on NII	2015
(Audited)	£m
+200 basis points shift	193
+100 basis points shift	88
-25 basis points shift	(24)
-50 basis points shift, floored at 1 basis point	(74)

The following should be noted in relation to the above:

- the interest rate sensitivities set out above are illustrative only and are based on a static balance sheet
- the negative shift scenarios are floored at one basis point to prevent rates from turning negative
- the reported sensitivities will vary over time due to a number of factors, such as the timing of maturing assets and liabilities, market conditions, customer behaviour and strategic changes to the balance sheet mix and should not therefore be considered predictive of future performance
- the sensitivity analysis includes all financial assets and liabilities held by the Group.

The absolute levels of interest rates can influence the Group's flexibility to manage NII. In the current low interest rate environment liability margins are constrained by a natural floor, at 0%, for banking and savings products.

Swap spread risk

The Group holds a liquidity portfolio in order to manage liquidity risk. These assets are predominantly fixed rate government securities and the Group uses interest rate swaps to hedge against 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 the fact that the market value of the swapped primary liquidity portfolio can move up and down based on changes in sovereign spreads. In economic terms this risk is only realised if a bond and swap are sold ahead of maturity.

These market value movements are monitored and the risk is controlled via internal limits linked to capital requirements. Exposures are monitored daily and are reported on a monthly basis to ALCO.

Foreign exchange risk

As a UK based business the Group has low levels of foreign exchange risk. Foreign currency exposure is managed through natural offset on the balance sheet or by the use of derivatives to reduce currency exposures to acceptable levels. ALCO sets and monitors limits on the net currency exposure. The table below sets out the limited extent of the residual exposure to foreign exchange risk:

Foreign exchange risk	2015			2014		
(Audited)	Average	High	Low	Average	High	Low
	£m	£m	£m	£m	£m	£m
VaR (99%/10-day)	0.1	0.3	-	0.2	0.7	-

Business and Risk Report continued

Market risk continued

Product option risk

Potential losses from market risks also arise as a result of customers exercising options embedded in fixed rate products which can result 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 take-up risk (higher or lower take-up of fixed rate mortgages). These risk exposures are quantified and assessed using a set of bespoke models that predict customer behaviour in response to changes in interest rates. The resulting potential costs are then closely monitored. These stressed risk measures are subject to a set of triggers and are reported to the BSRC and ALCO, along with a set of proposed management actions where necessary to bring the exposures within appetite. Stresses are also used to calculate potential losses to drive internal capital requirements for product option related risks.

Model risk

Managing market risk effectively is highly dependent on effective models which are mathematical representations of business systems designed to help describe, predict and optimise decisions and scenarios which are used throughout the Group's business.

The risk associated with market risk models is controlled and managed through the Model Validation Policy which requires that all new models are validated by an independent oversight team prior to use. 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. In addition the business performs backtesting and sensitivity analysis on models with a set of performance metrics assessed monthly for each model in terms of accuracy and its associated impact on results. All models are also subject to a more thorough periodic review, at least annually, to ensure they remain fit for purpose.

Calculations to determine the capital requirements for interest rate risk are made using the same models as those used for monitoring day-to-day interest rate risk to ensure consistency with the management view.

Outlook

Interest rates are expected to remain depressed but with an increased level of volatility due to market uncertainty around the timing of rate increases. This could increase the likelihood of results outside of those predicted by the VaR model. NII is also subject to fluctuations due to volatility in swap rates. The prospect of higher interest rates is likely to be positive for NII.

Market risk could increase due to wider global financial developments, including a deterioration of financial instability within the Eurozone. The impact of lower commodity prices on UK inflation may also contribute to uncertainties around the path of interest rates. Further information on the top risks affecting the Group is included in the 'Top and emerging risks' section of this report.

In June 2013 the European Banking Authority issued a consultation paper on guidelines for managing Interest Rate Risk in the Banking Book (IRRBB). Subsequent to this, the Basel Committee has established a task force to update regulation and principles for managing IRRBB. The task force is currently in the process of assessing options for a capital charge for IRRBB, which will then be presented to the Basel Committee. The Group has been participating in the industry debate on these issues and this will continue in 2015/16.

Pension risk

Overview

The Group has funding obligations to a number of defined benefit pension schemes, the most significant being the Nationwide Pension Fund (the Fund). Pension risk is defined as the risk that the value of the Fund's assets will be insufficient to meet the estimated liabilities of the Fund. Pension risk can adversely impact the Group's capital position and/or result in increased cash funding obligations to the Fund.

The Fund is closed to new employees, although some employees are still accruing benefits. In accordance with UK legislation, the assets of the Fund are held in a legally separate trust from the Group's assets and are administered by a board of trustees (the Trustee) who have fiduciary responsibilities to the beneficiaries of the Fund.

Risk factors

Volatility in investment returns from the assets and the value of the liabilities cause volatility in the Fund's deficit. The key risk factors impacting the deficit are set out below. These factors can have a positive or negative impact on the deficit.

- **Long-term interest rates and credit spreads**
  Decreases in long-term interest rates and/or credit spreads will increase the value placed on the Fund's liabilities. The increase in liabilities will be partially offset by an increase in the value of the Fund's holdings in bonds.
- **Inflation**
  The majority of the pension benefits are linked to inflation and higher inflation will lead to higher liabilities (although, for most benefits, caps on the level of inflationary increases protect the Fund against extreme inflation). Where asset values are correlated with inflation (for example, index-linked gilts and inflation swaps), the increase in the liabilities will be partially offset by asset increases.
- **Asset performance**
  The liabilities are calculated using a discount rate set with reference to bond yields. If the assets underperform the bond yields, this will cause the net position of the Fund to deteriorate.

  The Fund also holds a significant proportion of return-seeking assets such as equities. Whilst return-seeking assets are expected to outperform the liabilities in the long term, they create risk and volatility in the short to medium term. The investment in return-seeking assets, such as equities, is monitored by both the Trustee and the Group to ensure it remains appropriate given the Fund's long-term objectives.
- **Longevity (life expectancy)**
  The majority of the pension benefits received by members of the Fund are paid for life. Therefore, the Group is exposed to the risk of Fund members living longer than expected and therefore pension benefits being paid for longer.
- **Regulation**
  The Group is exposed to potential changes in the regulatory environment and pension legislation, which could increase the pension liabilities and/or impact the Group's capital position.

In addition, a change in the methodology used to derive key actuarial assumptions (for example, the discount rate or longevity assumption) can result in a step change in the assessment of the liabilities and therefore the deficit. However, the ultimate cost of providing benefits will depend on actual future events, rather than assumptions made.

Business and Risk Report continued

Pension risk continued

Significant events

During the year, the 2013 triennial funding valuation was finalised and revealed an increase in the Trustee's funding deficit, predominantly driven by a fall in long-term gilt yields between 2010 and 2013.

As a result, the Group has agreed a deficit recovery plan with the Trustee of the Fund, consisting of a £91 million employer contribution which was paid in the year (2014: £60 million). Further annual recovery plan contributions of £49 million are payable for the next six years, although in certain circumstances the first two annual instalments of £49 million may not be payable.

The effective date of the next triennial funding valuation is 31 March 2016, following which a new deficit recovery plan will be agreed with the Trustee.

The retirement benefit obligation that appears within the liabilities on the Group's balance sheet has increased from £235 million to £286 million, as set out below:

Changes in the present value of net defined benefit liability	2015	2014
	£m	£m
At 5 April	(235)	(354)
Pension charge	(57)	(60)
Net interest cost	(6)	(15)
Actuarial remeasurement	(136)	82
Employer contributions (including deficit contributions)	148	112
At 4 April	**(286)**	(235)

The continuation of low long-term interest rates and credit spreads has resulted in low discount rates being applied in the valuation of pension liabilities. Whilst this has been partially offset by lower inflation and strong asset performance, the net impact is an increase in the Fund's deficit.

Outlook

During the year the analysis, insight and monitoring of pension risk was significantly enhanced by the Group, to support risk management and anticipate any management actions required. These enhancements include risk appetite articulation, as well as an agreed suite of risk and capital metrics reported on a monthly basis to internal committees. In addition, the Group reviewed the Fund's investment strategy during the year, focusing on the inherent market risks (for example equity risk and interest rate risk), the Fund's long-term investment objectives, and risk appetite.

Over the long term, the Trustee intends to significantly reduce the Fund's investment strategy risk, and the Group actively engages with the Trustee to ensure broad alignment on investment objectives and implementation. This is supported by permanent representation by the Group at the Trustee's investment sub-committee and the sharing of management information between the Group and the Trustee.

Potential initiatives to reduce pension risk include, but are not limited to, adjusting the asset allocation (for example reducing the allocation to equities and increasing the allocation to bonds), increasing interest rate and inflation hedging, and adjusting contribution levels.

Earnings risk

Overview

The Group ensures that it can generate sustainable profit through focus on recurrent sources of income commensurate with the risks taken. Earnings risk is defined as the risk that the Group's sources of income are unable to continue to add the expected value, due to changes in market, regulatory or other environmental factors. The Group manages this risk to ensure that it maintains sufficient earnings to withstand non-trading shocks and deliver retained member value.

The Group mitigates and manages its earnings risk through the following measures:

- **Corporate planning and financial forecasts**
  The Group's planning process forecasts earnings over a five-year period. Income forecasts are reviewed and updated monthly through a detailed 'opportunities and risks' assessment, reported to the Weekly Trading Committee. In addition, the Executive Committee and the Board are provided with a current year earnings and capital forecast.
- **Monitoring of financial performance**
  Earnings risk is monitored against internal forecasts, limits and triggers set by the Board's earnings risk strategy. This process involves reviewing product pricing scenarios and their impact on net interest margin, provisioning and costs. Investment spend is analysed and approved under a cost benefit methodology by the Strategic Investment Board.
- **Stress testing and sensitivity analysis**
  The Group's earnings are regularly stress tested as part of both internal management reporting and externally, under the PRA's scenario-based testing. Sensitivity analysis of expected recurrent net interest income and net interest margin is conducted against a range of possible macroeconomic scenarios.
- **Reporting governance**
  The Board reviews recurrent earnings in the Business Performance Pack, which is updated each month for the latest financial forecasts and assumptions on the Group's underlying performance.

Business and Risk Report continued

Operational risk

Operational risk profile

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group manages operational risk across eight sub-categories as set out below:

Risk category	Definition
Financial reporting and tax	The risk of material error in external financial reports, non-compliance with tax laws or codes, or failure to maintain the integrity of the general ledger.
Fraud	The risk of loss or failure caused by an act of dishonesty, false representation, the failure to disclose information, or by abuse of position.
Information and physical security	The risk of loss of data or damage to assets, including physical and cyber-based attacks, and unauthorised disclosure of information.
Information and financial management	The risk of loss or failure arising from inaccurate, unavailable, incomplete or undefined data; errors in regulatory and/or internal and external critical reporting; ungoverned assumptions and errors in financial planning and/or financial information provided to support material decision making.
Infrastructure and resilience	The risk of failure to provide a robust technological and/or physical infrastructure to support operational activities and the achievement of business objectives.
People	The risk of loss or failure due to the inability to recruit, develop, reward and retain the required people resources.
Sourcing and contracting	The risk of loss or damage to the Group arising from the selection, contracting, poor contractual performance and/or failure to achieve associated benefits, from the use of third parties.
Transformation	The risk of loss or failure arising from formally managed project activities that seek to deliver change in the Group's capabilities.

The Group's operational risk oversight function monitors and reports on the operational risk events that have occurred, by number and by value, in order to better understand those exposures that require management attention. For the purposes of reporting, the Group defines an operational risk event as an "event which has a financial loss, costs or gain arising from an operational risk incident". The Group reports operational risk events using the above eight risk categories, as well as by Basel defined categories. This latter approach allows the Group to compare operational risk experience with its peer group and is a regulatory requirement.

Operational risk continued

Operational risk exposure

The analysis below presents the Group's operational risk events by Basel regulatory event category. In line with trends across the industry, a significant majority of the Group's operational risk events have been recorded against two of the Basel categories: 'External Fraud' and 'Clients, Products & Business Practices'. In the year, these two categories account for 95% by value, and 97% by number, of the Group's operational risk events (2014: 97% by value and 97% by number).

Operational risk events by Basel risk category % of total events by value	2015 %	2014 %
Clients, products and business practices	71.0	67.2
External fraud	24.4	30.0
Internal fraud	1.3	0.7
Business disruption and system failure	0.9	1.0
Damage to physical assets	0.9	0.7
Execution, delivery and process management	0.8	0.4
Employment practices and workplace safety	0.7	0.0
Total	100.0	100.0

Operational risk events by Basel risk category % of total events by number	2015 %	2014 %
Clients, products and business practices	19.1	22.8
External fraud	78.0	73.9
Internal fraud	0.6	0.6
Business disruption and system failure	0.6	0.4
Damage to physical assets	1.3	1.3
Execution, delivery and process management	0.2	0.2
Employment practices and workplace safety	0.2	0.8
Total	100.0	100.0

Business and Risk Report continued

Operational risk continued

Current environment

The Group continues to strengthen its systems and controls to ensure a minimum level of service disruption to its customers and impact on brand and reputation. This year, the Group has taken steps to embed the Operational Risk Framework including the upgrading of its Risk and Control Self-Assessment, scenario analysis and the roll-out of a new enterprise-wide operational risk management system. The alignment of each of these components within the framework will further support risk-based decision making across the business.

The Group continues to develop new products and services to meet evolving customer expectations. These changes coupled with the regulatory landscape and environmental issues mean that the main drivers of operational risk across the Group include the following:

- **Pace of change in a digital environment**
  The Group has invested significantly in digital channels, including updates to mobile and internet banking and new payment technology. Branch experience has also evolved with the introduction of digital technology such as 'Nationwide Now' (Nationwide Now allows the Group to provide its members with the opportunity to meet with a consultant via a high definition video link in a branch), whilst still offering more traditional products and services that are important to many of the Group's members. Whilst the member-focused nature of the Group's business model puts it in a good position to respond to the varied and evolving needs of members, the scale and pace of change create delivery challenges and may lead to disruption of the Group's operating environment with impacts on service experience by members. Furthermore, the pace of transformation could require end-to-end process enhancements on existing 'legacy' systems that may result in a complex system architecture. These operational risks are managed through a strong focus on transformation governance and programme management disciplines.

- **IT resilience**
  The Group's implementation of new systems, alongside the maintenance of legacy systems, introduces a level of operational complexity. In an increasingly digital world, customer expectations for service availability are rising with a significantly lower tolerance of service disruption. Ensuring a highly reliable and widely available service requires resilient IT infrastructure and systems. Meanwhile, the exponential rise in data used in digital services increases the complexity and cost of managing data securely and effectively. In response to this rising risk across the industry, the Group has established a dedicated Operational Resilience Function to ensure the Group meets member expectations.

- **Cyber security**
  The rise in the threat of organised cyber crime and increase in sophistication of cyber attacks means that security controls need to keep pace to prevent, detect and respond to any threats or attacks. In recognition of the cyber risk facing both the Group and the financial sector in general, the Group continues to focus its efforts on discharging its cyber risk management responsibilities effectively, investing in appropriate technology and processes. This ensures the Group continues to safeguard its operations and, more importantly, its members.

- **Third parties**
  In line with the industry, where the Group employs third parties to provide services, it is exposed to a risk that those third parties do not comply with the Group's standards, values and ethics when dealing with the Group's members. The operational risks to the Group are being addressed through the establishment of a Third Party Risk Management Framework that includes policies and controls to ensure the Group manages third party risk effectively.

Operational risk continued

Tax

Tax strategy

The Group manages its tax obligations to ensure full compliance with all statutory requirements. The Group does not structure transactions to give a result which is contrary to the intentions of Parliament and tax planning is undertaken where it supports genuine commercial activity in order to maximise member value. The Society maintains a branch presence in the Isle of Man and Republic of Ireland as part of normal business operations. The Group maintains an open and transparent relationship with HMRC and has been granted a low risk status.

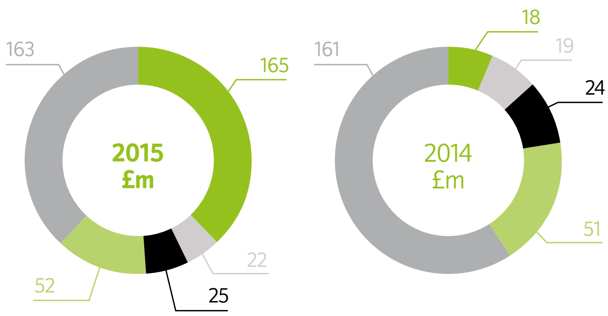
The Group has adopted the Code of Practice on Taxation for Banks and has established appropriate processes and oversight to ensure it meets its obligations under the Code. This includes working with HMRC in real-time to agree the tax treatment of transactions where the law is uncertain.

An in-house team of tax specialists is responsible for managing the Group's tax affairs in accordance with an Audit Committee-endorsed tax policy. This provides a framework for the operation, planning and oversight of tax and tax risk to ensure the Group complies with all relevant tax legislation and minimises reputational risk. Regular updates are provided to the Audit Committee on tax matters.

Total tax contribution

A measure of the contribution the Group makes to society is through the amount of taxes it pays on its activities. During the year ended 4 April 2015 the Group paid £427 million (2014: £273 million) in taxes. This includes irrecoverable VAT, bank levy, employment and property taxes in addition to corporation tax. A further £358 million (2014: £394 million) was collected and remitted on behalf of customers and employees.
An analysis of the taxes paid and collected by the Group is detailed below:

Taxes paid in the year

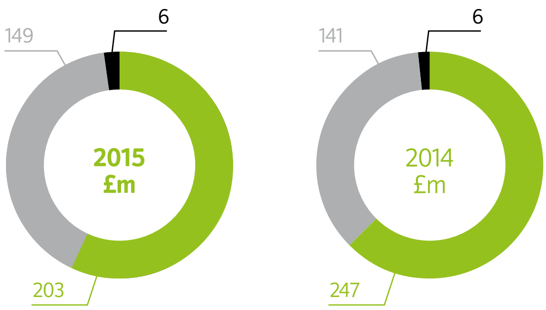


Total £427 million **Total £273 million**

- Corporate income taxes
- Bank levy*
- Taxes on property
- Employment taxes
- Irrecoverable VAT

*Includes £2 million paid in Ireland for the Irish bank levy.

Additional taxes collected and remitted



Total £358 million **Total £394 million**

- Taxes witheld at source (on savings accounts)
- Payroll tax
- Net VAT

Corporate income taxes paid in 2014 were lower than those paid in 2015 because of the utilisation in 2014 of tax losses brought forward from earlier years.

Business and Risk Report continued

Operational risk continued

Tax transparency

For information, a reconciliation is included below of the corporation tax charge in the income statement to the taxation paid in the consolidated cash flow statement:

Reconciliation of tax charge in income statement to tax paid per cash flow	2015 £m	2014 £m
Income statement tax charge	205	128
Deferred tax and prior year adjustments	10	(41)
Current tax liability	**215**	**87**
Prior year payments/(refunds)	58	(9)
Current year tax payments due after the end of the year	(108)	(60)
Tax paid per consolidated cash flow statement	**165**	**18**

Outlook

Nationwide's operational risk profile is informed by risk assessments from across the business and by review and challenge by both the Operational Risk Committee and Group Operational Risk Oversight.

The operational risk outlook focuses on the environment in which the Group operates and on its strategy. The Group expects that the drivers of operational risk will remain broadly stable, focusing on the scale and pace of change in a digital environment, IT resilience and effective management of increasingly sophisticated cyber security threats.

Compliance, conduct and customer experience risk

Overview

Being a mutual allows the Society to be different: it is owned by and run for the benefit of its members; it focuses on supporting its members, generating optimal levels of profit to maintain its strong balance sheet and invest in the future development of the business. The Group's core business is providing retail personal financial services and it is responding to customers' demands to access products and services at a time of their choosing through the development of digital options.

The Group acts in the interests of consumers, having the range, size, scale, distribution capability and brand to compete with banks, together with a reputation for leading customer service.

The Group will continue to deliver and develop systems and controls that protect its members, with carefully designed products delivered by a sales force that is well-trained and monitored, using channels that meet the customers' demands for flexibility of access.

Compliance, conduct and customer experience risk is defined as the risk that the Group exercises inappropriate judgement or makes errors in the execution of its business activities, leading to non-compliance with regulation or legislation, market integrity being undermined, an unfair outcome being created for customers, or customers having a less than positive experience.

Compliance, conduct and customer experience risk is further refined into eight sub-categories, namely:

Risk category	**Definition**
Firm and culture	The risk that the Group's management of risks and incidents is compromised by governance weakness.
Product and service design and review	The risk that the Group designs or manages products or services which result in unfair outcomes for customers and/or undermine market integrity (including supporting promotions and communications).
Sales	The risk that the Group distributes/delivers products or services (or executes transactions for wholesale and treasury products) which result in unfair outcomes for customers and/or undermine market integrity including the design of distribution processes and transactions.
After sales	The risk that the Group delivers services, communicates with customers or manages customer relationships which result in unfair outcomes for customers and/or undermine market integrity (including the management of complaints/redress).
Regulatory risk	The risk that the Group fails to comply with applicable laws, regulations or codes, misinterprets regulations, or where changes occur, they are not identified.
Financial crime	The risk that the Group (including its employees, vendors or counterparties) facilitates or is perceived to facilitate financial crime.
Customer experience	The risk that customer service interactions with the Group fail to match customers' expectations of the experience.
Legal risk	The risk that the Group manages its legal obligations (to its members, customers, investors, regulators and other key stakeholders) inappropriately or inadequately.

Business and Risk Report continued

Compliance, conduct and customer experience risk continued

Environment

In recent years, issues associated with poor customer conduct, unfair customer outcomes and market integrity have proven to be a significant source of cost for the industry. The industry will continue to evolve as it responds to the volume and scale of regulation it will experience in the coming years, including the increasing influence of regulation coming from the European Union. The ongoing focus on conduct and customer outcomes in this environment will remain a key area of risk for the industry. In addition, the increasing level of customer interactions through digital channels fundamentally changes the nature of these interactions and challenges the industry to ensure that it continues to deliver fair customer outcomes as these interactions evolve.

The Society has not been subject to the same level of regulatory censure as its main competitors, reflecting its commitment to delivering good conduct and fair customer outcomes. This is borne out by the Society having far fewer complaints to the Financial Ombudsman Service upheld when compared to the industry as a whole (9% for Nationwide against 52% for the industry as a whole).

Given the regulator's high degree of scrutiny of the treatment of customers, it is possible that some parts of the Group's business may be considered as not having been conducted fully in accordance with law and regulation or may not, in the regulator's opinion, be regarded as fair or reasonable treatment of customers, for example through products, sale processes or services failing to meet customer expectations. The Group is reviewing its compliance with various regulatory matters, including consumer credit legislation, and during the period has recognised a net provision charge of £59 million in respect of potential customer redress to reflect its latest estimate of potential exposure.

The total provision held at 4 April 2015 of £140 million continues to include amounts for the mis-selling of payment protection insurance (PPI). The Group assesses, on an ongoing basis, the level of complaints expected against those levels actually received in order to estimate the remaining amount required for redress and associated administration that will be payable in relation to claims it expects to uphold. Costs in relation to invalid claims are recognised in administrative expenses as incurred.

The Financial Conduct Authority (FCA) is continuing to develop the regulatory regime around the concept of culture and conduct risk with the aim of securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers, each of which will contribute to the improved trust and confidence in the UK financial services market. The Parliamentary Commission on Banking Standards has proposed reform to improve professional standards and culture across the industry and has been fully supported by the Group.

Significant events

The introduction of the Mortgage Market Review in April 2014 led to a period of adjustment for the industry as a whole and further work will be required to meet the Mortgage Credit Directive which is due to come into effect by March 2016.

The transfer of consumer credit regulation from the Office of Fair Trading to the FCA in April 2014 brings a different regulatory focus and has brought significantly more businesses within the scope of the FCA.

The Group is currently engaged in meeting the requirements of the Prudential Regulation Authority's (PRA) and FCA's new senior managers' regime, *Strengthening Individual Accountability*, which will increase personal accountability across the industry. The Group's simple business model and its focus on its members mean that it is well placed to address these challenges.

The Group is developing its policy and practical approach to the support of customers in vulnerable circumstances and is working with a leading charity to pilot additional support for such customers. The lessons learned from the pilot will inform the Group's wider approach to vulnerable customers.

Outlook

The digitisation of the Group's proposition provides further challenges where legislation and processes are carried forward into the digital age. Increasing standards for conduct could restrict the Group's channels, services or proposition.
The Group will design and implement appropriate controls and processes in order to continue to provide the services that its members value against the evolving regulatory backdrop.

Strategic risk

Strategic risk is split into the following sub-categories:

Risk category	Definition
Business model	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.
Strategic initiatives	The risk that the Group 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 issue 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 risk categories on a Group-wide 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.

In addition, a risk to reputation 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 particular regulatory change, new business models operated by new market entrants or the Competition and Markets Authority review could significantly change the UK banking landscape or introduce significant capital or liquidity requirements which could, in extreme circumstances, threaten the viability of the Group's business model.

As the scale and pace of digital change intensifies there is a risk that financial services providers who do not keep pace will be left with unattractive customer propositions with resulting damage to reputation and underlying viability. The pace of change may also result in investments in technology becoming outdated before the end of their expected lives. The cost of keeping pace with change must be carefully monitored, particularly in the face of the intense competition seen across the retail banking market which could compress margins, to ensure that the business model remains financially balanced.

To manage strategic risk, the Group carefully considers strategic investments in the light of its focus on serving both current and future members while maximising member benefit. The Group operates as a single business unit, with organisational and legal structures aligned to this. 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.

Business and Risk Report continued

Managing risk

Effective risk management is at the heart of the business, supporting the delivery of the Group strategy by ensuring the business continues to be safe and sustainable. The Group addresses its principal risks by:

- operating a single integrated business model underpinned by strong governance
- adopting an enterprise-wide risk management framework that covers all our risks and is underpinned by the three lines of defence model
- managing risks within risk appetite as set by the Board and supported by more granular appetite for risk categories
- operating a business model where capital, provisions and liquidity reserves are able to survive severe but plausible market and economic stresses.

Enterprise Risk Management Framework

A single overarching framework sets out the high level policy, standards and requirements for the management of all risks across the Group. The Enterprise Risk Management Framework (ERMF) is based on five core elements:

Core element	Description
Risk culture	Sets out the values and behaviours that shape risk decisions across the Group, from 'tone at the top' through to performance management.
Risk governance	Sets out the risk categories, how the three lines of defence model operates, the risk committee structure, and sets standards for documentation and policy.
Risk strategy and control	Sets out the Board's risk appetite, overall strategy, and key controls for risk management. Connects the Board's Corporate Plan and risk appetite with practical and detailed strategies, controls and limits to ensure that risk appetite is not compromised.
Risk measurement	Sets out the standards across the Group, encompassing risk data and systems, the use of models, and reporting mechanisms.
Stress testing and planning	Sets out the approach to Group-wide stress testing, scenario analysis, contingency planning, and the interactions with other corporate processes.

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

Risk culture

Risk culture describes the norms, attitudes and behaviours related to risk awareness, risk taking and risk management. This includes a series of expected behaviours required of all of the Group's directors, management and staff, requiring them to be risk aware and work together effectively to manage risk. The risk culture statements complement the corporate PRIDE values and support the Group's member centric objectives, reinforcing the Group's 'On your side' proposition to customers.

Risk governance

Risk categorisation

The risk categorisation model for the Group is a foundation of ERMF. It:

- provides the structure against which risk matters are reported to the Group's senior management, the Board Risk Committee and the Board
- provides a common language by which the business can communicate on risk matters
- better enables individuals to understand their risk roles and responsibilities
- is the grouping against which risk data is gathered, enabling analysis of multiple data types within a risk category
- provides the structure for policies, committee and organisational structures.

Managing risk continued

The principal risk categories are:

- Lending risk
- Financial risk
- Operational risk
- Compliance, conduct and customer experience risk
- Strategic risk

Each principal risk has its own framework within ERMF that sets out risk appetite, supporting policies, and standards and is reviewed on an annual basis or more frequently as appropriate.

Three lines of defence

The Group operates a three lines of defence model ensuring clear independence of responsibilities for risk control, oversight and governance as summarised below:

First line of defence	Second line of defence	Third line of defence
Control	**Independent oversight**	**Audit**
Every Group 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 the Group Risk and Compliance divisions are responsible for providing independent oversight and challenge of activities conducted in the first line.	Group Internal Audit provides independent assurance over both the first and second lines of defence.

Risk committee structure

The Board Risk Committee and Audit Committee continue to provide oversight and advice to the Board. The Executive Risk Committee ensures a co-ordinated management approach across all risks categories. The risk committee structure is set out in the following diagram.

Business and Risk Report continued

Managing risk continued

Board

Chair: Geoffrey Howe – Chairman

- Ensure maintenance of sound system of internal control and risk management
- Review the effectiveness of the Group's risk and control processes to support its strategy and objectives
- Approve the Group's risk appetite, risk management framework and key regulatory documents (such as Internal Capital Adequacy Assessment Process and Individual Liquidity Adequacy Assessment)

Board committee: IT Strategy and Resilience Committee*

Chair: Mitchel Lenson – Non Executive Director

- Oversight of the IT strategy, architecture, delivery roadmap and architectural governance controls
- Oversight of IT resilience strategy and framework of IT systems and controls
- Oversight of the strategic investments portfolio and material transformation programmes

*Formerly Business and IT Strategy and Transformation Committee

Board committee: Board Risk Committee

Chair: David Roberts – Non Executive Director

- Provide oversight and advice to the Board on current and emerging risk exposures of the Group
- Review the Group's risk appetite and supporting metrics
- Review the effectiveness of the Group's ERMF to manage and mitigate risk

Board committee: Audit Committee

Chair: Roger Perkin – Non Executive Director

- Monitor the integrity of the financial statements of the Group
- Review the adequacy and effectiveness of internal controls and risk management systems
- Monitor the effectiveness of the Compliance Oversight function
- Review the adequacy of whistleblowing, fraud and bribery prevention procedures
- Monitor the effectiveness of the internal audit function
- Monitor the effectiveness and independence of the external auditors

Executive committee: Executive Risk Committee

Chair: Graham Beale – Chief Executive

- Determine the Group's attitude to risk
- Exercise responsibility for controlling risk across the Group
- Monitor and review the risk exposures of the Group

- - - - - - - - - Information flow

Specialist risk sub-committees and forums provide specialist advice

First line – risk control

Customer Committee

Chair: Graeme Hughes – Group Director, Distribution

- Determine the Group's attitude to customer risk
- Primary responsibility for controlling customer risk across the Group
- Monitor and review the customer risk profile of the Group

Divisional risk and control meetings

Chair: Executive/Group Director of respective division

- Review first line operational, compliance, conduct and customer experience risks and control reporting

Operational Risk Committee

Chair: Tony Prestedge – Chief Operating Officer

- Determine the Group's attitude to operational risk
- Primary responsibility for controlling operational risk across the Group
- Monitor and review the operational risk exposures of the Group

Assets and Liabilities Committee

Chair: Mark Rennison – Group Finance Director

- Determine the Group's attitude to financial risk
- Manage the financial risk profile of the Group

Lending Committee

Chair: Chris Rhodes – Executive Director, Group Retail

- Determine the Group's attitude to lending risk
- Manage the lending risk profile of the Group

Compliance Committee

Chair: Julia Dunn – Chief Compliance Officer

- Co-ordinate adherence to legislation and regulation
- Determine the Group's attitude to firm and culture risk, regulatory risk, legal risk and financial crime risk
- Manage the legal and compliance risk profile of the Group

Second line – risk oversight

Group Oversight Committee

Chair: Iain Laing – Chief Risk Officer

- Oversight of the design, implementation, embedding and effective operation of the ERMF
- Monitor performance across all primary risk categories
- Review and prioritise risk and compliance oversight activity
- Review control gaps and the adequacy of management response
- Oversight of the management of compliance with all applicable legal and regulatory requirements
- Holistic oversight of risk and compliance across the Group

Third line – assurance

Group Internal Audit

Group Internal Audit

Group Internal Audit provides independent, objective assurance regarding the adequacy and effectiveness of systems of risk management and internal controls across the business in order to mitigate key business risks.

Business and Risk Report continued

Managing risk continued

The annual ERMF governance review considers the composition and responsibilities of the risk committees. Two changes to the risk committee structure were agreed and implemented during the financial year:

- creation of a first line Compliance Committee chaired by the Chief Compliance Officer
- the Group Risk and Compliance Committee has been renamed the Group Oversight Committee.

The Chief Risk Officer chairs the Group 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. The Chief Compliance Officer is Deputy Chair of the Group Oversight Committee and has the same direct access to the Chair of the Board Risk Committee as the Chief Risk Officer.

Beneath the first line committees there are specialist sub-committees, 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 and control

Board risk appetite

The Board sets high-level risk appetite to enable the Group to:

- identify and define the types and levels of risks it is willing to accept both qualitatively and quantitatively in pursuit of strategic goals
- establish a framework for business decision making.

The board risk appetite statements 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 incorporated into and informs relevant Group processes such as the corporate planning process.

Reporting, limits and controls are 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.

Internal control

Continuously improving the internal control environment is central to the delivery of the Group's strategic objectives. The Group operates mechanisms to:

- identify risks against both the Corporate Plan and divisional objectives
- assess risk exposure by impact and likelihood
- respond to risks by evaluating their position against risk appetite and formulating associated management responses to bring risks within appetite
- monitor the agreed management action plans and updates.

Risk strategies set out which risks are within appetite and which should be reduced or eliminated. In the course of risk assessment, controls may be challenged or strengthened in order to bring risks within appetite. This approach allows the Group to manage its risk profile in the context of corporate objectives.

Further to this, the Group ensures that the operating effectiveness of the control environment is maintained and that controls are well designed and effective.

Managing risk continued

Risk measurement

Robust and comprehensive risk data, modelling and reporting is essential to understand the Group's risks and how they are changing to allow the Group to assess risk on a forward-looking, quantified and aggregated basis.

Risk data

Risk data includes any qualitative or quantitative information which is, or could be, used in the identification, assessment, or management of a risk. This includes data used to evaluate the impact or likelihood of a risk, changes to a risk, or the effect of controls on a risk.

The effective management of risk data is recognised as being of critical importance to the Group's risk strategy and as such appropriate controls and processes are operated to ensure risk data is accurate, robust and comprehensive.

Risk models

Models are used to quantify exposures in many of the Group's principal risks. A separate framework sets out the policy and standards for model use across the Group, including model development, approval, validation, implementation, ongoing management and reporting.

Risk reporting

The objective of risk reporting within the Group is to escalate relevant risk information that enables the Board, risk committees, and management, to monitor and manage the Group's risk exposures in line with risk appetite. Risk reporting to senior risk committees is centred on two types of reporting:

- performance against board risk appetite, and risk strategy metrics
- reporting of significant current risks and issues.

Risk reporting includes an escalation process for risks and incidents on a timely basis through the committee structure so that appropriate consideration is given.

Stress testing and planning

The Group engages in thorough stress testing, scenario analysis and contingency planning, allowing it to understand the impact of remote but potentially severe risks to ensure that it remains resilient to them. This includes a range of Group-wide, multi-risk category 'corporate' stress tests, reverse stress tests and operational risk scenario analyses. 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.

Outputs from stress testing activity are used to inform capital and liquidity planning, articulate potential management actions within contingency plans, and further improve the management of the Group's risk profile. For more information on stress testing see the 'Liquidity and funding risk' and 'Solvency risk' sections of this report.

Business and Risk Report continued

Enhanced Disclosure Task Force (EDTF) recommendations

Disclosures in this report arising from EDTF recommendations

To provide help for members, investors and other stakeholders in understanding the Group's approach to risk reporting, additional disclosures are made. These disclosures are provided with regard to the recommendations included in the report 'Enhancing the Risk Disclosures of Banks' issued by the EDTF of the Financial Stability Board in October 2012. In particular, the disclosures seek to:

- Provide the user with insight into the level of risk across the Group's business and portfolios, the material risks and uncertainties that the Group faces and the key areas of management focus
- Present the Group's Business and Risk Report to allow the user to understand the Group's business model and performance and to find out more about the major risk policies which underlie its risk exposures.

The table below sets out each of the EDTF recommendations, the locations of these within the Annual Report and the Group's Pillar 3 Disclosures 2015 (available at **nationwide.co.uk**).

Type of risk	Recommendation	Disclosure	Annual Report	Other
General	1	Present all related risk information together or provide an index or aid to navigation	Page 94	
	2	Define the Group's risk terminology, risk measures and key parameter values used	Pages 97, 142, 170, 175, 177, 178 and 183	
	3	Top and emerging risks and the changes during the reporting period	Pages 98 to 99	
	4	Outline the Group's plans to meet new key regulatory ratios	Pages 154 and 158 to 159	
Risk governance, risk management and business model	5	Summarise the Group's risk management processes and key functions	Pages 179 to 182	
	6	Risk culture, governance and ownership	Pages 178 to 182	
	7	Describe the key risks that arise from the Group's business model, management of those risks and the Group's risk appetite	Pages 96 to 97 and 178 to 183	
	8	Describe the use of stress testing and related governance	Pages 152, 158 to 159 and 183	
Capital adequacy and RWAs	9	Pillar 1 capital requirements		See the Group's Pillar 3 Disclosures 2015
	10	Summarise the main components of capital and provide a reconciliation of the accounting to regulatory balance sheet	Page 156	
	11	Present a flow statement of the movement in regulatory capital since the previous reporting period		
	12	Discuss the targetted level of capital, and plan on how to achieve this	Pages 155 and 158	
	13	Explain how risk weighted assets (RWAs) relate to business activities and related risks	Page 157	
	14	Present the capital requirements for each Basel asset class		

Enhanced Disclosure Task Force (EDTF) recommendations continued

Type of risk	Recommendation	Disclosure	Annual Report	Other
	15	Provide an analysis of credit risk for each Basel asset class		See the Group's Pillar 3 Disclosures 2015
	16	Present flow statements reconciling the movements in RWAs for each risk weighted asset type		
	17	Provide a discussion of Basel credit risk model performance		
Liquidity	18	Describe how the bank manages its potential liquidity needs	Pages 151 to 154	
Funding	19	Summarise encumbered and unencumbered assets analysed by balance sheet category	Page 150	
	20	Tabulate consolidated total assets, liabilities and off-balance sheet commitments analysed by contractual maturity at the balance sheet date	Pages 147 to 149	
	21	Provide analysis of the Group's sources of funding and a description of its funding strategy	Pages 143 to 144	
Market risk	22	Relationship between market risk measures for non-trading portfolios and the balance sheet, by business segment	Page 160	
	23	Discussion of significant non-trading market risk factors	Pages 161 and 164 to 166	
	24	Describe market risk measurement model, limitations, assumptions and validation	Page 166	
	25	Discussion of stress tests, reverse stress tests and stressed VaR	Pages 162 to 163	
Credit risk	26	Credit risk profile, concentrations and exposures which are segmented by relevant portfolios	Pages 106 to 107 and 124 to 125	
	27	Describe our policies for identifying impaired or non-performing loans, including definitions used and forbearance policies	Pages 108, 111 to 116, 120 to 122, 127 to 131, 133 and 137 to 138	
	28	Reconciliation of the opening and closing balances of non-performing and impaired loans and impairment allowances during the period	Pages 108 to 109, 118 to 120, 127, 132 and 134	
	29	Analysis of counterparty credit risk arising from derivative transactions	Page 141	
	30	Discussion of credit risk mitigation, including collateral held for all sources of credit risk	Pages 111, 128 to 129, 136 to 137 and 140 to 141	
Other risks	31	Management and measurement of other risks	Pages 167 to 177	
	32	Discussion of publicly known risk events	Pages 98 to 99 and 172	

Financial Statements

People need homes

One of our citizenship goals is to help 750,000 people into a home of their own by 2017 and we are now nearly three quarters of the way there. Clearly, the help we provide first time buyers is a big part of that. But we also partner with Shelter in the work they do to support and advise vulnerable families who are at risk of losing their homes.

During 2014/15 we helped Shelter prevent 7,200 families from becoming homeless, while at Christmas our employees and members raised £49,500 for the charity. They also wrapped and filled 1,563 shoeboxes full of children's presents for the charity to distribute to disadvantaged families.

Independent auditors' report

to the members of Nationwide Building Society

Report on the Financial Statements

Our opinion

In our opinion Nationwide Building Society's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 4 April 2015 and of the Group and the Society's profits and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Nationwide Building Society's financial statements comprise:

- the Group and Society balance sheets as at 4 April 2015;
- the Group and Society income statements and the statements of comprehensive income for the year then ended;
- the Group and Society cash flow statements for the year then ended;
- the Group and Society statements of movements in members' interests and equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain disclosures have been presented elsewhere in the Annual Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

Set out below is an overview of our audit approach, highlighting key aspects including materiality level, scope and areas of focus. These are described in further detail later in the audit report.

Materiality	We have determined materiality to be £40 million which represents 0.75% of interest receivable and similar income. This is also approximately 3.8% of the Group's profit before tax.
Scope	We conducted a full scope audit across individually financially significant reporting units. The Group comprises the Society and a number of subsidiaries and consolidated entities, which are structured within three business groupings being Retail, Commercial and Head Office Functions (including Treasury operations). The financial statements are a consolidation of these entities. Out of scope reporting units are subject to our audit work on entity level controls and analytical review procedures over their financial information.
Areas of focus	• Provisions for customer redress. • Impairment of commercial and retail secured loans and advances to customers. • Appropriate application of hedge accounting. • Capitalisation of IT expenditure.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors or management that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 74.

Area of focus	How our audit addressed the area of focus
Provisions for customer redress We focused on this area because of the inherent uncertainty and difficulty that the Directors faced in assessing and measuring the potential obligations resulting from ongoing regulatory matters and past sales practices, including compliance with consumer credit regulations, and then determining the resulting provision that needed to be recognised in the balance sheet. Although the Directors have experience of calculating provisions in respect of regulatory matters that have been ongoing for some time, there is a risk in respect of the emerging conduct risk areas that the lack of historic claims and settlement data will make the task of making the necessary judgements more difficult and more prone to error. See note 26 to the financial statements on pages 243 to 244.	For each regulatory matter identified by management, we considered whether the Group had an obligation at the year end and whether any provision recognised was calculated in accordance with IFRSs and properly disclosed based upon the facts available. To assess recognition, measurement and disclosure, we also: • Made inquiries of the Group's internal legal advisors and read reports issued by the Group's external legal advisors. • Read the Group's correspondence with the Financial Conduct Authority and Prudential Regulation Authority and discussed the output of any meetings held. • Used our industry experience and knowledge of the Group to determine whether the Directors' judgements were consistent with industry norms and the historic trends of customer complaints received. • Tested a sample of customer complaints by reading related correspondence with the customer to understand whether there were indicators of systemic issues being present for which provisions or disclosures may need to be made in the financial statements. This testing did not identify any factors that the Directors had not considered in determining the amount of the provision and the disclosures in the financial statements. For significant provisions made, we understood and challenged the provisioning methodology and assessed the assumptions made and key judgements applied by the Directors. We also considered the impact on the financial statements of possible alternative outcomes by performing sensitivity analysis. Given the inherent uncertainty in calculation of conduct provisions and their judgemental nature, we considered whether the disclosures of the application of judgement in estimating the provisions adequately reflected the uncertainties associated with customer redress and found that it did. No additional material conduct issues that would require either provision or disclosure in the financial statements were identified as a result of the audit work performed.

Independent auditor's report continued

Area of focus	How the scope of our audit addressed the area of focus
Impairment of commercial and retail secured loans and advances to customers Impairment of commercial and retail secured loans and advances to customers is a highly subjective area due to the level of judgement applied in determining the necessity for and, then estimating the size of any impairment. In the Retail secured business impairment is calculated on a modelled basis across the portfolio of loans. In particular, we focus on the principal assumptions underlying the calculation of impairment and the operation of the models to make those calculations. In the current year, management have made refinements to the retail secured models to reflect updated segmental analysis of losses across the book, whilst also taking into account the impact of the prolonged low interest rate environment. We therefore focused our work on these updated assumptions. In the Commercial business impairment is primarily calculated on an individual basis, although, where loans have similar characteristics, impairment is considered on a portfolio basis. We focused on the identification of impairment triggers and the principal assumptions underlying the calculation of individually calculated impairment for loans and advances including the interest rates used in the discounted cash flow analysis and valuation of the underlying collateral. See note 10 to the financial statements on pages 220 to 222.	We tested the design and operating effectiveness of controls for identifying loan loss impairment, including governance processes operated by management, which regularly reassess that impairment assumptions are still appropriate for the impairment risks in the Group's loan portfolios. We determined that we could place reliance on these controls for the purpose of our audit. **Retail Secured** We understood management's basis for determining whether a loan is impaired and assessed the reasonableness of that basis, using our understanding of the Group's lending portfolios and our broader industry knowledge. We tested the accuracy of extraction of historic data from the underlying systems to be input into the impairment models and that access to the underlying systems and data were appropriately restricted to protect the integrity of the data within them. We used our industry knowledge and expertise to assess the models used. Where changes had been made in model parameters and assumptions, we understood the reasons why changes had taken place and used our industry knowledge and experience to evaluate the appropriateness of such changes. We tested the operation of models used to calculate the impairment including rebuilding those models, using management's assumptions, and comparing the results. We found no material differences in these tests. Modelling assumptions and parameters, such as the probability of default, are based on historic data. We challenged whether the secured models required further calibration and if historic experience was representative of current circumstances, including improving economic conditions, and of the losses incurred in the portfolios. We considered the potential for impairment to be affected by events that were not captured by management's models and evaluated how management had responded to these by making further adjustments where appropriate. Based on the evidence we obtained, we determined that the impairment model assumptions, data used within the models and model refinements were reasonable. **Commercial** We understood and tested the processes for identifying impairment events within the commercial loan portfolios. We considered the criteria used by management for determining whether an impairment event had occurred and, then, whether this had resulted in a loss being incurred. We tested a sample of loans to challenge whether impairment events had occurred but not been properly identified. We did not identify further impairment events. For loans where impairment is individually calculated, we assessed the supporting evidence and considered the implications of external information to understand the latest developments at the borrower and the basis of measuring the impairment provisions held. We assessed the expected future cash flows and the valuation of collateral held, and considered whether independent valuations of the collateral obtained by management were up to date and consistent with the strategy being followed. From the testing performed we determined that the specific impairment provision made in respect of incurred losses in the Commercial portfolios was reasonable. Where impairment was calculated collectively, we understood and tested the provisioning models and underlying assumptions used. As modelling assumptions such as loss experience are based on historic data, we assessed whether historic experience was reflective of the losses incurred in the portfolios based upon the economic environment and the circumstances of the borrowers at the balance sheet date. Based on the evidence obtained we found that the impairment model assumptions and data used within the models were reasonable.

Area of focus	How the scope of our audit addressed the area of focus
Appropriate application of hedge accounting The Group enters into derivatives for risk management purposes. This can lead to income statement volatility due to an accounting mismatch between the derivative and the underlying item. Management manage this volatility through the application of hedge accounting; for certain financial instruments the Group and the Society apply fair value hedge accounting. In the current year, the Group has entered into cash flow hedges for the first time to provide a further mechanism for reducing volatility on a wider range of hedged items. Accounting for hedges is complex and involves manual calculations. Hence, the Group is exposed to a risk of error. Furthermore, IFRSs require the regular calculation of the effectiveness of each hedging relationship, which is also complex but is performed using models. The results of this calculation determine whether or not hedge accounting is permitted in the financial statements. In addition, there was a heightened risk with the first time implementation of cash flow hedging. See note 7 to the financial statements on page 217.	The Group uses a number of complex models to calculate hedge accounting adjustments. We tested the design and operating effectiveness of controls over these models including automated and manual controls over the inputs, hedge designations and de-designations, effectiveness testing and the generation of hedge documentation and amortisation schedules. We determined that we could rely on these controls for the purposes of our audit. For cash flow hedging, we also tested management's assertion that the predicted future cash flows being hedged were highly probable by agreeing a sample of contractual cash flows to underlying loan agreements. We tested the inputs into the hedge accounting models by agreeing historical data to the underlying systems and agreeing external inputs including foreign currency indices and interest rates to independent third party data. We confirmed that access to such models and systems was restricted to protect the integrity of the data within them by testing a sample of access rights. Using our own valuation expertise, we independently revalued a sample of the financial instruments and compared these values to those reflected in the financial statements and found these valuations to be within a reasonable range of possible valuations. We recalculated a sample of the automated calculations used to generate the hedge accounting entries in both the cash flow and fair value models and found that these entries were materially accurate. Our testing confirmed that fair value and cash flow hedging adjustments were accounted for in accordance with IFRSs.
Capitalisation of IT expenditure Expenditure incurred on Information Technology projects was considered to be an area of focus due to the magnitude of expenditure incurred and judgement applied in identifying and measuring costs that are eligible for capitalisation, particularly payroll costs that are capitalised using a modelled basis. Where capitalisation of costs is determined to be appropriate, judgement is applied in determining whether a separately identifiable asset has been created, the viability of each individual project and the period over which it will result in increased benefit to the Group. See note 19 to the financial statements on pages 236 to 237.	We understood and tested the design and operating effectiveness of controls over management's procurement and payments processes. These included testing controls over three-way matching between purchase orders, sales invoices and goods received notes. We determined that we were able to place reliance on these controls for the purposes of our audit. We also tested the appropriate approval of expenditure. We read the minutes of key governance meetings, including those of the Executive Committee and the Transformation Committee to understand key decisions made and the nature of status of projects. We understood and tested the access to and calculations used in the model. We discussed projects with management and considered whether the costs capitalised met the appropriate recognition criteria. We tested a sample of capitalised costs to validate that the recognition criteria had been met. We understood management's process for assessing useful lives of IT assets developed and the period of recoverability. Using our industry knowledge and expertise, we assessed the useful life for a sample of assets and determined the useful lives to be appropriate. Based on the evidence obtained we found the capitalisation of IT costs and assessment of useful life of IT assets in the financial statements to be reasonable.

Independent auditor's report continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises the Society and a number of subsidiaries and consolidated entities, which are structured within three business groupings being Retail, Commercial and Head Office Functions (including Treasury operations). The financial statements are a consolidation of these entities.

In establishing the overall approach to the audit, we considered the significance of each of these entities to the financial statements. We also separately considered our assessment of risk within each entity, the overall coverage of our procedures across the Group and Society, as well as the risk associated with less significant entities not brought into the normal scope of our audit.

For the Group and Society's individually financially significant entities a full scope audit was performed over their complete financial information. Other entities were selected so that we obtained appropriate coverage across all account balances and performed audit work to cover the areas of focus we identified, and which are set out above. This, together with additional procedures performed at the Head Office level, gave us the evidence we needed for our opinion on the Group and Society financial statements as a whole.

Entities that are out of scope are still subject to our audit work on entity level controls and analytical review procedures over their financial information. Our audit covered 78% of total Group interest receivable and similar income; 81% of total profits and losses that make up Group profit before tax; and 96% of total Group assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, and consistent with last year, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£40 million (2014: £40 million).
How we determined it	0.75% of interest receivable and similar income.
Rationale for benchmark applied	We believe interest receivable and similar income to be one of the principal considerations when assessing the Group's financial performance, and in recent years, this has provided a more consistent indicator of performance than other benchmarks that we considered.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2 million (2014: £2 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 64, required for companies with a premium listing on the London Stock Exchange.

The Directors have requested that we review the statement on going concern as if the Society were a premium listed company. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Society have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Society's ability to continue as a going concern.

Other required reporting

Opinions on other matters prescribed by Building Societies Act 1986

In our opinion:

- the Strategic review 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 financial statements are prepared is consistent with the accounting records and the financial statements; 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.

Accounting records and information and explanations received

Under the Building Societies Act 1986 we are to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the Society financial statements 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.

We have no exceptions to report arising from this responsibility.

ISAs (UK & Ireland) reporting

The directors have chosen to voluntarily comply with the UK Corporate Governance Code ("the Code") as if the Society were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• Information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Society acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 64, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Society acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 74 to 77, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Independent auditor's report continued

Other voluntary reporting

Directors' remuneration report

The Society voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The Directors have requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate Governance Statement

The Society prepares a Corporate Governance Statement in accordance with the Disclosure Rules and Transparency Rules of the Financial Conduct Authority and has chosen voluntarily to comply with the Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating to the Society's compliance with the ten provisions of the Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the Society were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 63, the directors are responsible for the preparation of the Group and Society's financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the Group and Society's financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements 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 the 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 financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Hemione Hudson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 May 2015

Income statements

For the year ended 4 April 2015

		Group		Society	
		2015	2014	2015	2014
	Notes	£m	£m	£m	£m
Interest receivable and similar income	3	5,347	5,295	5,207	5,274
Interest expense and similar charges	4	(2,486)	(2,892)	(2,696)	(3,151)
Net interest income		2,861	2,403	2,511	2,123
Fee and commission income	5	447	489	442	479
Fee and commission expense	5	(169)	(135)	(168)	(133)
Income from investments		4	4	2	210
Other operating income	6	9	134	7	120
Losses from derivatives and hedge accounting	7	(9)	(51)	(58)	(38)
Total income		3,143	2,844	2,736	2,761
Administrative expenses	8	(1,706)	(1,611)	(1,680)	(1,579)
Impairment losses on loans and advances to customers	10	(233)	(380)	(159)	(371)
Impairment losses on investment securities	13	(18)	(3)	(18)	(3)
Provisions for liabilities and charges	26	(142)	(173)	(139)	(173)
Profit before tax		1,044	677	740	635
Taxation	11	(205)	(128)	(154)	(73)
Profit after tax		839	549	586	562

The notes on pages 201 to 269 form part of these Accounts.

Statements of comprehensive income

For the year ended 4 April 2015

		Group		Society	
		2015	2014	**2015**	2014
	Notes	**£m**	£m	**£m**	£m
Profit after tax		**839**	549	**586**	562
Other comprehensive income/(expense):					
Items that will not be reclassified to the income statement					
Remeasurements of retirement benefit obligations:					
Retirement benefit remeasurements before tax	30	**(136)**	82	**(135)**	82
Taxation	11	**21**	(33)	**21**	(33)
		(115)	49	**(114)**	49
Revaluation of property:					
Revaluation before tax	20	**5**	4	**5**	4
Taxation	11	**1**	1	**1**	1
		6	5	**6**	5
Other items through the general reserve, including effect of corporation tax rate change	11	**(1)**	(1)	**(1)**	(1)
		(110)	53	**(109)**	53
Items that may subsequently be reclassified to the income statement					
Cash flow hedge reserve:					
Fair value movements taken to members' interests and equity		**(503)**	-	**(5)**	-
Amount transferred to income statement		**664**	-	**(3)**	-
Taxation	11	**(32)**	-	**2**	-
		129	-	**(6)**	-
Available for sale reserve:					
Fair value movements taken to members' interests and equity		**(79)**	185	**(79)**	187
Amount transferred to income statement		**183**	80	**182**	82
Taxation	11	**(27)**	(64)	**(25)**	(62)
		77	201	**78**	207
Other comprehensive income/(expense)		**96**	254	**(37)**	260
Total comprehensive income		**935**	803	**549**	822

The notes on pages 201 to 269 form part of these Accounts.

Balance sheets

At 4 April 2015

		Group		Society	
		2015	2014*	2015	2014*
	Notes	£m	£m	£m	£m
Assets					
Cash		4,325	5,342	4,325	5,342
Loans and advances to banks		3,392	2,110	3,357	2,064
Investment securities – available for sale	13	11,037	10,563	11,037	10,563
Derivative financial instruments	14	3,337	3,020	3,664	2,422
Fair value adjustment for portfolio hedged risk		592	221	592	221
Loans and advances to customers	15	170,647	166,541	141,894	139,350
Investments in equity shares	16	26	29	26	29
Investments in Group undertakings	17	-	-	27,732	26,372
Intangible assets	19	1,040	956	1,028	944
Property, plant and equipment	20	856	852	854	850
Investment properties		8	9	8	9
Accrued income and expenses prepaid		192	185	188	638
Deferred tax	21	38	33	26	21
Other assets		90	32	90	31
Total assets		195,580	189,893	194,821	188,856
Liabilities					
Shares		132,373	130,468	132,373	130,468
Deposits from banks	22	1,974	1,984	1,167	1,002
Other deposits	23	9,076	7,135	10,023	10,470
Due to customers	24	6,119	6,208	6,119	6,208
Fair value adjustment for portfolio hedged risk		14	33	14	33
Debt securities in issue	25	28,105	28,557	22,143	20,690
Derivative financial instruments	14	4,048	2,391	5,037	2,913
Other liabilities		475	269	5,828	5,094
Provisions for liabilities and charges	26	295	310	292	310
Accruals and deferred income	27	369	428	369	426
Subordinated liabilities	28	2,121	2,269	2,124	2,269
Subscribed capital	29	415	601	415	601
Deferred tax	21	53	25	11	13
Current tax liabilities		116	74	90	40
Retirement benefit obligations	30	286	235	283	235
Total liabilities		185,839	180,987	186,288	180,772
Members' interests and equity					
Core capital deferred shares	31	531	531	531	531
Other equity instruments	32	992	992	992	992
General reserve		7,995	7,363	6,921	6,541
Revaluation reserve		68	71	68	71
Cash flow hedge reserve		129	-	(6)	-
Available for sale reserve		26	(51)	27	(51)
Total members' interests and equity		9,741	8,906	8,533	8,084
Total members' interests, equity and liabilities		195,580	189,893	194,821	188,856

*Comparatives have been restated as detailed in note 1.

The notes on pages 201 to 269 form part of these Accounts.

Approved by the board of directors on 21 May 2015.
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 and equity

For the year ended 4 April 2015

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m	£m
At 5 April 2014	531	992	7,363	71	(51)	-	8,906
Profit for the year	-	-	839	-	-	-	839
Net movement in available for sale reserve	-	-	-	-	77	-	77
Net movement in cash flow hedge reserve	-	-	-	-	-	129	129
Net revaluation of property	-	-	-	6	-	-	6
Reserve transfer	-	-	9	(9)	-	-	-
Effect of tax rate change on other items through the general reserve	-	-	(1)	-	-	-	(1)
Net remeasurements of retirement benefit obligations	-	-	(115)	-	-	-	(115)
Total comprehensive income	-	-	732	(3)	77	129	935
Distribution to the holders of core capital deferred shares	-	-	(58)	-	-	-	(58)
Distribution to the holders of Additional Tier 1 capital*	-	-	(42)	-	-	-	(42)
At 4 April 2015	531	992	7,995	68	26	129	9,741

*The distribution to holders of Additional Tier 1 capital is shown net of an associated tax credit of £11 million.

For the year ended 4 April 2014

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Available for sale reserve	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2013	-	-	6,765	67	(252)	6,580
Profit for the year	-	-	549	-	-	549
Net movement in available for sale reserve	-	-	-	-	201	201
Net revaluation of property	-	-	-	5	-	5
Reserve transfer	-	-	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	-	-	(1)	-	-	(1)
Net remeasurements of retirement benefit obligations	-	-	49	-	-	49
Total comprehensive income	-	-	598	4	201	803
Issue of core capital deferred shares	531	-	-	-	-	531
Issue of Additional Tier 1 capital	-	992	-	-	-	992
At 4 April 2014	531	992	7,363	71	(51)	8,906

The notes on pages 201 to 269 form part of these Accounts.

Society statement of movements in members' interests and equity

For the year ended 4 April 2015

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Available for sale reserve	Cash flow hedge reserve	Total
	£m	£m	£m	£m	£m	£m	£m
At 5 April 2014	531	992	6,541	71	(51)	-	8,084
Profit for the year	-	-	586	-	-	-	586
Net movement in available for sale reserve	-	-	-	-	78	-	78
Net movement in cash flow hedge reserve	-	-	-	-	-	(6)	(6)
Net revaluation of property	-	-	-	6	-	-	6
Reserve transfer	-	-	9	(9)	-	-	-
Effect of tax rate change on other items through the general reserve	-	-	(1)	-	-	-	(1)
Net remeasurements of retirement benefit obligations	-	-	(114)	-	-	-	(114)
Total comprehensive income	-	-	480	(3)	78	(6)	549
Distribution to the holders of core capital deferred shares	-	-	(58)	-	-	-	(58)
Distribution to the holders of Additional Tier 1 capital*	-	-	(42)	-	-	-	(42)
At 4 April 2015	531	992	6,921	68	27	(6)	8,533

*The distribution to holders of Additional Tier 1 capital is shown net of an associated tax credit of £11 million.

For the year ended 4 April 2014

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Available for sale reserve	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2013	-	-	5,930	67	(258)	5,739
Profit for the year	-	-	562	-	-	562
Net movement in available for sale reserve	-	-	-	-	207	207
Net revaluation of property	-	-	-	5	-	5
Reserve transfer	-	-	1	(1)	-	-
Effect of tax rate change on other items through the general reserve	-	-	(1)	-	-	(1)
Net remeasurements of retirement benefit obligations	-	-	49	-	-	49
Total comprehensive income	-	-	611	4	207	822
Issue of core capital deferred shares	531	-	-	-	-	531
Issue of Additional Tier 1 capital	-	992	-	-	-	992
At 4 April 2014	531	992	6,541	71	(51)	8,084

The notes on pages 201 to 269 form part of these Accounts.

Cash flow statements

For the year ended 4 April 2015

		Group		Society	
		2015	2014*	2015	2014*
	Notes	£m	£m	£m	£m
Cash flows generated from/(used in) operating activities					
Profit before tax		1,044	677	740	635
Adjustments for:					
Non-cash items included in profit before tax	41	(175)	451	(126)	555
Changes in operating assets	41	(4,374)	(4,672)	(4,753)	(5,042)
Changes in operating liabilities	41	4,812	2,167	3,218	982
Interest paid on subordinated liabilities		(117)	(129)	(117)	(129)
Interest paid on subscribed capital		(38)	(60)	(38)	(60)
Taxation		(165)	(18)	(103)	(2)
Net cash flows generated from/(used in) operating activities		987	(1,584)	(1,179)	(3,061)
Cash flows (used in)/generated from investing activities					
Purchase of investment securities		(4,385)	(2,300)	(4,385)	(2,300)
Sale and maturity of investment securities		4,204	4,634	4,204	4,603
Purchase of property, plant and equipment		(142)	(128)	(142)	(128)
Sale of property, plant and equipment		20	20	20	20
Purchase of intangible assets		(246)	(208)	(246)	(208)
Dividends received from non-Group entities		4	4	2	4
Net cash flows (used in)/generated from investing activities		(545)	2,022	(547)	1,991
Cash flows (used in)/generated from financing activities					
Distributions paid to the holders of core capital deferred shares		(58)	-	(58)	-
Distributions paid to the holders of Additional Tier 1 capital		(53)	-	(53)	-
Issue of core capital deferred shares		-	531	-	531
Issue of Additional Tier 1 capital		-	992	-	992
Issue of debt securities		32,465	21,013	30,935	21,013
Redemption of debt securities in issue		(32,335)	(25,401)	(28,626)	(23,811)
Maturity of subordinated liabilities		-	(153)	-	(153)
Redemption of subscribed capital		(200)	(506)	(200)	(506)
Net cash flows (used in)/generated from financing activities		(181)	(3,524)	1,998	(1,934)
Net increase/(decrease) in cash		261	(3,086)	272	(3,004)
Cash and cash equivalents at start of year		6,989	10,075	6,943	9,947
Cash and cash equivalents at end of year	41	7,250	6,989	7,215	6,943

*Comparatives have been restated as detailed in note 1.

The notes on pages 201 to 269 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 (IFRSs) 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 (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, branches and non-specialised buildings, available for sale assets, derivatives, certain investments in equity shares and certain other deposits. 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 accounting policies have been consistently applied.

The preparation of financial statements in conformity with IFRS 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 2014:

- IFRS 10 Consolidated Financial Statements: This standard adopts a single definition of control and replaces IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Under IFRS 10, the Group is deemed to control an entity and is required to consolidate it in the Group's financial statements when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power. IFRS 10 requires retrospective application; applying the requirements has no impact for the Group.
- IFRS 11 Joint Arrangements: This standard replaces IAS 31 Joint Ventures and distinguishes between joint operations and joint ventures. A joint arrangement is an arrangement where joint control is present. Parties to a joint operation recognise rights and obligations arising from an arrangement as assets and liabilities. Parties to a joint venture apply equity accounting. The Group does not have any joint arrangements and adopting this standard has no impact for the Group. IFRS 11 requires retrospective application.
- IFRS 12 Disclosure of Interests in Other Entities: This standard requires disclosures relating to interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a standard relating only to disclosures, it has no impact on the Group's accounting treatment. New disclosures are provided in notes 17 and 18 to the accounts.
- IAS 32 Amendments to Offsetting Financial Assets and Financial Liabilities: This clarifies and addresses inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. Applying the requirements of IAS 32 has no impact for the Group.
- IFRIC 21 Levies: This interpretation provides guidance on accounting for the liability to pay a government imposed levy. IFRIC 21 affects the timing of recognition of these levies throughout the financial year. The costs of the UK bank levy and FSCS levy are now recognised when they become legally enforceable. This has no impact for the full year results.

Notes to the accounts continued

1 Statement of accounting policies continued

Adjustments to comparative information

Comparative balances in relation to elements of overdrawn current accounts have been reclassified to provide a more meaningful presentation on a basis that is consistent with the current year. The reclassification, which has no impact on the Group's or Society's net assets or profit before tax, is detailed below.

Balance sheet extract at 4 April 2014	Notes	Previously published £m	Adjustment £m	Restated £m
Group				
Loans and advances to customers	15	166,574	(33)	166,541
Accruals and deferred income		461	(33)	428
Society				
Loans and advances to customers	15	139,383	(33)	139,350
Accruals and deferred income		459	(33)	426

Cash flow statement extract at 4 April 2014	Notes	Previously published £m	Adjustment £m	Restated £m
Group				
Changes in operating assets	41	4,705	(33)	4,672
Changes in operating liabilities	41	2,200	(33)	2,167
Society				
Changes in operating assets	41	5,075	(33)	5,042
Changes in operating liabilities	41	1,015	(33)	982

This reclassification within the cash flow statement has no impact on net cash used in operating activities or cash and cash equivalents for the Group and Society.

Future accounting developments

The following pronouncements, relevant to the Group, have been adopted by the EU but are not effective at 4 April 2015 and have therefore not been applied in preparing these financial statements:

Pronouncement	Nature of change	Effective date
Defined benefit plans: Employee contributions (Amendments to IAS 19)	The amendment clarifies the requirements for attributing employee/third party contributions that are linked to service to the relevant accounting period. The amendment is not expected to have an impact for the Group.	Accounting periods (AP) beginning on or after 1 July 2014
Annual improvements to IFRSs 2010 – 2012 cycle	Several small amendments with no significant impact for the Group.	AP beginning on or after 1 July 2014
Annual improvements to IFRSs 2011 – 2013 cycle	Several small amendments with no significant impact for the Group.	AP beginning on or after 1 July 2014
Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	The amendment clarifies that the use of revenue based methods to calculate depreciation and amortisation are not appropriate. The amendment is not expected to have a significant impact for the Group.	AP beginning on or after 1 January 2016

1 Statement of accounting policies continued

The following pronouncements, relevant to the Group, are neither adopted by the EU nor effective at 4 April 2015 and have therefore not been applied in preparing these financial statements:

Pronouncement	Nature of change	Effective date
IFRS 15 Revenue from Contracts with Customers	IFRS 15 was issued in May 2014. The new standard provides a principles based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard requires retrospective application, with certain practical expedients available. The Group is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements. The standard was to be effective for annual periods beginning on or after 1 January 2017, with early application permitted. However, the International Accounting Standards Board (IASB) voted on 28 April 2015 to publish an Exposure Draft proposing a one year deferral of the effective date of the revenue standard to 1 January 2018.	AP beginning on or after 1 January 2017 or 1 January 2018 (to be confirmed by the IASB).
IFRS 9 Financial Instruments	A final version of the new standard, which will replace IAS 39 Financial Instruments: Recognition and Measurement, was issued in July 2014. The standard includes changes for classification and measurement of the Group's financial assets and liabilities, the recognition of impairment, and hedge accounting. **Classification and measurement** The revised classification and measurement approach will lead to the Group's financial assets being reclassified as either amortised cost, fair value through other comprehensive income (FVOCI), or fair value through the income statement. Classification will be based on an analysis of the objectives of the Group's business model, and the contractual cash flow characteristics of its financial assets. Financial liabilities will in most cases be accounted for as at present. One exception is that where the Group opts to fair value a financial liability, movement in fair value due to own credit risk would be directly recognised in other comprehensive income. **Recognition of impairment** The impairment of financial assets measured at amortised cost and FVOCI under IFRS 9 will be based on expected credit losses (ECL) rather than incurred credit losses as at present. At initial recognition, an ECL provision is required for possible default events within the next 12 months. Following a significant increase in credit risk, a lifetime ECL is required. The review of credit risk and the calculation of ECL are required to be unbiased and probability weighted, and should include all available relevant information, with assessments of current conditions and forecasts of future economic conditions as well as past events. As a result, the recognition and measurement of impairment is more forward looking than is the case under IAS 39. Consequently, it is likely to lead to an increase in the total level of provision.	AP beginning on or after 1 January 2018

Notes to the accounts continued

1 Statement of accounting policies continued

Pronouncement	Nature of change	Effective date
IFRS 9 Financial Instruments (continued)	**Hedge accounting** The revised hedge accounting requirements are designed to create a stronger link with financial risk management. Accounting for dynamic risk management (macro hedge accounting) has been decoupled from IFRS 9 and is now subject to a separate IASB project. IFRS 9 allows for the option to continue to apply the existing hedge accounting requirements of IAS 39 until this separate project is completed. **Transition** The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The hedge accounting requirements would be generally applied prospectively from the date of application. The Group is currently assessing the impact of IFRS 9. Due to the complexity of the new requirements, it is not possible at this stage to quantify the potential effects of implementation, although it is expected to have a significant impact for the Group, in line with the wider industry.	
Annual improvements to IFRSs 2012 – 2014 cycle	Amendments to four standards: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations; IFRS 7 Financial Instruments: Disclosures; IAS 19 Employee Benefits; and IAS 34 Interim Financial Reporting. The amendments are not expected to have a significant impact for the Group.	AP beginning on or after 1 January 2016
Accounting for leases	The IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The Group will consider the financial impacts of this new standard as it is finalised.	The standard is yet to be issued by the IASB

Basis of consolidation

The assets, liabilities and results of the Society and its undertakings, which include subsidiaries and structured entities, are included in the financial statements on the basis of accounts made up to the reporting date.

The Group consolidates another entity from the date on which the Group: (i) has power over the entity; (ii) is exposed to, or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through the exercise of its power. The assessment of control is based on all facts and circumstances. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Group de-consolidates subsidiaries from the date that control ceases.

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control. The Group considers factors such as the purpose and design of the entity, size and exposure to variability of returns and nature of the relationship.

Upon consolidation, intra-Group transactions, balances and unrealised gains are eliminated.

1 Statement of accounting policies continued

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 structured 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 structured entities (SEs) controlled by the Group. The securitisation enables a subsequent issuance of debt, either by the Society or the SEs, to investors who gain the security of the underlying assets as collateral. Those SEs are fully consolidated into the Group's accounts.

The transfers of the mortgage loans to the SEs 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 SEs. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the SEs.

As explained in note 15, 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 or Group'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 SEs, 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) and anticipated customer behaviour 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. Further information is included in note 12.

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.

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 reflect management's view of future performance.

Notes to the accounts continued

1 Statement of accounting policies continued

(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 and are carried at cost less accumulated amortisation. 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 (3 to 10 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 intangible assets

Other intangible assets, which largely represent core deposit intangibles acquired by the Group, are carried at cost less accumulated amortisation and impairment and are amortised using the straight line method over their estimated useful lives of between 5 and 10 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, 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 remeasurement 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 loss or gain.

Tax related to movements in the fair value of derivatives that are subject to cash flow hedge accounting, which are charged or credited to other comprehensive income and accumulated in the cash flow hedge reserve, is also credited or charged to other comprehensive income and is subsequently reclassified from other comprehensive income to the income statement together with the associated deferred loss or gain from cash flow hedge accounting.

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 remeasurements of 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 same taxable entity or different taxable entities where there is an intention to settle on a net basis.

1 Statement of accounting policies continued

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. 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.

Land is not depreciated. The depreciation of 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 and residual values 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, determined by market based evidence at the date of the valuation. Valuations are completed annually, as at 4 April, by independent surveyors. 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 remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions. Actuarial remeasurements 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 additional 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.

(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 remeasurement 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.

Notes to the accounts continued

1 Statement of accounting policies continued

(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.

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. This includes management's best estimate of amounts payable for customer redress.

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 that it can be reliably estimated, when Nationwide has an obligation in accordance with IAS 37 and the levy is legally enforceable in line with IFRIC 21. The amount provided is based on information received from the FSCS, forecast future interest rates and the Group's historic share of industry protected deposits.

Financial assets

The Group classifies its financial assets at inception into the following three categories:

(a) Financial assets at fair value through the income statement
This category consists of derivative financial assets used for risk management purposes. The Group does not hold any other 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 recognises the fair value of 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 within gains and losses 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.

(c) Available for sale (AFS)
AFS assets are non-derivative financial assets that are not classified into either of the two categories above. The majority of 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 notes 36 and 37. Investments in equities that do not have a quoted market price in an active market and whose value cannot be reliably measured are recognised at cost.

Interest on AFS 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.

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.

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

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. For loans in a hedge relationship, the effective interest rate used for discounting is calculated using the carrying value of the loan including the hedge adjustment. 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.

Loans remain on the balance sheet net of associated provisions until they are deemed no longer recoverable. 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 the Group's 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 Group's 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 of collateral

iv) the likely dividend available on liquidation or bankruptcy

v) the extent of other creditors' claims ranking ahead of the Group's, and the likelihood of other creditors continuing to support the borrower

Notes to the accounts continued

1 Statement of accounting policies continued

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 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.

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) the 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.

Derivative financial liabilities are classified as fair value through the income statement. The Group does not hold any other 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.

Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify financial instruments held at fair value and those not measured at fair value but for which the fair value is disclosed according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

Level 1 – Valuation using quoted market prices

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forwards which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are

1 Statement of accounting policies continued

observable. They also include investment securities valued using consensus pricing or other observable market prices.

Level 3 – Valuation technique using significant unobservable inputs
Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data ('unobservable inputs'). A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument. Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

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/losses 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 type, in accordance with hedging strategy. 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 can apply two types of hedge accounting: either hedges of the changes in fair value of the financial asset or liability, or hedges of the variability in cash flows of the financial asset or liability:

Fair value hedge accounting
In a micro hedge relationship, the carrying value of the underlying asset or liability ('the hedged item') is adjusted for the hedged risk to offset the fair value

Notes to the accounts continued

1 Statement of accounting policies continued

movement of the related derivative ('the hedging instrument'). 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 hedging instrument.

Cash flow hedge accounting
In a cash flow hedge accounting relationship, the portion of the derivative's fair value movement that is deemed to be an effective hedge is deferred to the cash flow hedge reserve, instead of being immediately recognised in the income statement. The ineffective portion of the derivative fair value movement is recognised immediately in the income statement. Amounts deferred to the cash flow hedge reserve are subsequently recycled to the income statement. This recycling occurs when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised.

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. Prospective and retrospective 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

iii) the underlying item matures or is sold or repaid

iv) The forecast transactions are no longer deemed to be highly probable.

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.

Fair value hedge accounting
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.

Cash flow hedge accounting
If the derivative no longer meets the criteria for hedge accounting, the cumulative gain or loss from the effective portion of the movement in the fair value of the derivative remains in other comprehensive income until the cash flows from the underlying hedged item are 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 pre-determined 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.

Equity instruments

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments. Where the Group does have a present obligation, the instrument is classified as a financial liability.

The proceeds of the issuance of equity instruments are included in equity. Costs incurred that are incremental and directly attributable to the issuance are deducted from the proceeds (net of applicable tax).

Distributions to holders of equity instruments are recognised when they become irrevocable and are deducted, net of tax where applicable, from the general reserve.

During the prior year the Group issued two types of new equity instrument, core capital deferred shares (CCDS) and Additional Tier 1 (AT1) capital. Further details of the instruments are included in notes 31 and 32.

1 Statement of accounting policies continued

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.

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.

The Group implemented cash flow hedge accounting in December 2014. This has been applied to a portfolio of derivatives which are economically hedging foreign currency items. For derivatives included in effective cash flow hedges, the change in fair value caused by foreign exchange movements is deferred to the cash flow hedge reserve instead of being immediately reported in the income statement. If cash flow hedges are ineffective, the ineffective portion of the change in fair value is recognised within the income statement.

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 and loans and advances to banks.

Contingent liabilities

Contingent liabilities are possible obligations whose existence is dependent on the outcome of uncertain future events, or those where the outflow of resources are uncertain or cannot be measured reliably.

During the ordinary course of business the Group 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 Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote or where such disclosure could be seriously prejudicial to the conduct of the claims.

IFRS disclosures

For ease of reference, certain audited IFRS disclosures are included within the Business and Risk Report as follows:

- Lending risk
- Financial risk

These disclosures (where marked as 'audited') are covered by the Independent Auditors' Report for this Annual Report and Accounts.

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 rate (EIR)	3
Impairment provisions on loans and advances	10
Provisions for customer redress	26
Retirement benefit obligations (pensions)	30

Notes to the accounts continued

3 Interest receivable and similar income

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
On residential mortgages	4,981	4,825	3,830	3,700
On other loans:				
Connected undertakings	-	-	1,024	1,140
Other	953	1,039	935	1,008
On investment securities	412	396	417	393
On other liquid assets	28	38	28	37
Net expense on financial instruments hedging assets	(1,027)	(1,003)	(1,027)	(1,004)
	5,347	5,295	5,207	5,274

Included within interest receivable and similar income is interest accrued on loans three or more months in arrears: Group £34 million, Society £15 million (2014: Group £44 million, Society £19 million) and the unwind of the discount on impairment provisions: Group £48 million, Society £47 million (2014: Group £66 million, Society £64 million). Further detail is included in note 10.

Interest receivable on residential mortgages includes adjustments to reflect the changes in the Group's effective interest rate assumptions, including a charge of £2 million (2014: £20 million) in respect of an update of early redemption charges and a credit of £13 million (2014: £12 million) which resulted from an update to the effective interest rate assumptions applicable to the recognition of mortgage fee income.

Critical accounting estimates and judgements

Mortgage EIR

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.

A one year decrease in the expected lives assumption would decrease the value of the loans and interest receivable by £12 million. A 10% reduction in the anticipated level of future early redemption charges would decrease the value of the loans and interest receivable by £7 million.

4 Interest expense and similar charges

		Group		Society	
		2015	2014	**2015**	2014
	Notes	**£m**	£m	**£m**	£m
On shares held by individuals		**1,897**	2,250	**1,896**	2,250
On subscribed capital		**42**	59	**42**	59
On deposits and other borrowings:					
Subordinated liabilities		**115**	129	**115**	129
Connected undertakings		**-**	-	**142**	268
Other		**171**	167	**166**	96
On debt securities in issue		**725**	814	**587**	636
Foreign exchange differences		**11**	28	**16**	3
Net income on financial instruments hedging liabilities		**(481)**	(570)	**(274)**	(305)
Interest on net defined benefit pension liability	30	**6**	15	**6**	15
		2,486	2,892	**2,696**	3,151

Interest expense includes a charge of £34 million (2014: £38 million credit) in relation to updates to effective interest rate (EIR) balances for savings accounts which offer an initial bonus. This includes a £15 million credit (2014: £68 million) which resulted from an update of EIR assumptions to reflect latest balance profiles. The remaining £49 million charge (2014: £30 million) relates to a re-price of savings products to market interest rates, at which point EIR amounts held on the balance sheet for these products are removed and charged to the income statement.

Notes to the accounts continued

5 Fee and commission income and expense

Group	2015			2014		
	Income	Expense	Net	Income	Expense	Net
	£m	£m	£m	£m	£m	£m
Current account and savings	191	(108)	83	196	(85)	111
General insurance	88	-	88	101	-	101
Protection and investments	75	-	75	82	-	82
Mortgage	21	(1)	20	32	(2)	30
Credit card	67	(41)	26	70	(41)	29
Other fees and commissions	5	(19)	(14)	8	(7)	1
Fee and commission	447	(169)	278	489	(135)	354

Society	2015			2014		
	Income	Expense	Net	Income	Expense	Net
	£m	£m	£m	£m	£m	£m
Current account and savings	191	(108)	83	196	(85)	111
General insurance	88	-	88	101	-	101
Protection and investments	75	-	75	82	-	82
Mortgage	16	-	16	24	-	24
Credit card	67	(41)	26	70	(41)	29
Other fees and commissions	5	(19)	(14)	6	(7)	(1)
Fee and commission	442	(168)	274	479	(133)	346

Note: Certain presentational changes have been made to align the above table to management's view of the Group's operations. Total fee and commission income and fee and commission expense remain as previously stated.

6 Other operating income

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Net gain on redemption of subscribed capital	-	125	-	125
Rental income	5	5	5	5
Profit from sale of property, plant and equipment	2	4	2	4
Other income/(expense)	2	-	-	(14)
	9	134	7	120

The £14 million other expense in the Society for the year ended 4 April 2014 related to the acquisition of a portfolio of commercial loans with a fair value of £178 million from its subsidiary company, Derbyshire Home Loans Limited. The loans were acquired at their carrying value of £192 million. The transfer had no impact on the Group's profit or reserves.

7 Losses from derivatives and hedge accounting

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Derivatives designated as fair value hedges	(726)	913	(1,038)	1,248
Fair value movement attributable to hedged risk	680	(979)	1,005	(1,298)
Losses from fair value hedge accounting (note i)	(46)	(66)	(33)	(50)
Derivatives designated as cash flow hedges	157	-	(8)	-
Deferral to cash flow hedge reserve	(160)	-	8	-
Ineffectiveness from cash flow hedge accounting (note ii)	(3)	-	-	-
Derivatives economically hedging mortgage commitments	(135)	33	(135)	33
Fair value movement attributable to mortgage commitments (note iii)	82	(32)	82	(32)
Net (loss)/gain from mortgage pipeline (note iii)	(53)	1	(53)	1
Fair value gains from other derivatives (note iv)	93	14	28	11
	(9)	(51)	(58)	(38)

Notes:

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

(ii) The Group commenced cash flow hedge accounting in the year ended 4 April 2015, deferring the effective portion of the fair value movement of designated derivatives to the cash flow hedge reserve. The fair value movement is subsequently recycled to the income statement when the underlying hedged asset or liability is recognised in the income statement.

(iii) The Group elects to fair value a portion of its mortgage commitments in order to reduce the accounting mismatch caused when derivatives are used to hedge mortgage commitments.

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

Although the Group only uses derivatives for the hedging of risks, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is not achievable. This volatility is therefore largely attributable to accounting rules which do not fully reflect the economic reality of the Group's hedging strategy. The volatility will continue period on period, but on a cumulative basis, will broadly trend back to zero over time.

A loss of £9 million (2014: £51 million) has been recognised in the year for derivatives and hedge accounting. Included within this result was the impact of the following:

- Losses of £46 million (2014: £66 million) on fair value hedge relationships. The 2015 charge includes losses of £30 million (2014: £1 million) on macro hedges and £16 million (2014: £65 million) on micro hedges, resulting from increased sterling interest rate movements throughout the year, bond maturities and disposals.
- Losses of £3 million (2014: £nil) on cash flow hedge relationships of cross currency swaps and index linked swaps.
- Losses of £53 million (2014: £1 million gain) relating to mortgage pipeline transactions. The income statement includes the full fair value movement of interest rate swaps economically hedging the pipeline; however the Group only elects to fair value a portion of the underlying mortgage business within the pipeline.
- Other derivatives gains of £93 million (2014: £14 million). This includes a £58 million gain (2014: £5 million) on cross currency swaps prior to the introduction of cash flow hedge accounting.

The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other market risks are continually managed.

Notes to the accounts continued

8 Administrative expenses

		Group		Society	
		2015	2014	**2015**	2014
	Notes	**£m**	£m	**£m**	£m
Employee costs:					
Wages and salaries		**456**	439	**448**	430
Bonuses		**74**	63	**74**	63
Social security costs		**54**	48	**54**	47
Pension costs	30	**87**	86	**87**	84
		671	636	**663**	624
Other administrative expenses		**713**	676	**696**	657
Bank levy	26	**28**	17	**28**	17
		1,412	1,329	**1,387**	1,298
Depreciation, amortisation and impairment		**294**	282	**293**	281
		1,706	1,611	**1,680**	1,579
Other administrative expenses include:					
Property operating lease rental		**34**	32	**35**	32
Other property costs		**76**	76	**76**	75
Postage and communications		**68**	67	**68**	66
Computer costs		**153**	121	**153**	121
Marketing and advertising		**30**	22	**30**	22
Money transmission and other bank costs		**43**	45	**43**	44
Legal, professional and consultancy		**60**	65	**58**	64
Training, education and other staff related costs		**125**	127	**122**	124
Other		**124**	121	**111**	109
		713	676	**696**	657

Administrative expenses include £52 million (2014: £75 million) of transformation costs, including a charge of £1 million relating to severance provisions (2014: £18 million) and a charge of £3 million (2014: £9 million) relating to onerous lease and other property related provisions. Transformation costs are driven primarily by ongoing integration of the activities of the Derbyshire, Cheshire and Dunfermline brands, as well as strategic changes to the Group's IT service delivery model.

The bonus charges within the employee costs in the above table include elements of long term bonuses which will be paid more than one year from the balance sheet date of £5 million (2014: £3 million).

In accordance with accounting standards, some elements of deferred bonuses will be recognised in future periods.

Under the Medium Term Performance Pay Plan (MTPPP), bonuses are paid to directors and certain senior executives based on results over the preceding three year performance cycle. In accordance with Prudential Regulation Authority (PRA) requirements, one third of the MTPPP bonus award is subject to deferral for a period of more than 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. The MTPPP bonus is recognised in the income statement in the final year of the three year performance cycle.

Up until the year ended 4 April 2014, Group directors received the MTPPP in addition to the Annual Performance Pay Plan (APPP), which rewarded performance against current year financial targets. Similarly, certain senior executives were entitled to MTPPP payments in addition to an annual performance payment amount. These schemes have now been discontinued, though historic MTPPP awards under the 2012-15 and 2013-16 award cycles remain due for payment.

8 Administrative expenses continued

The previous annual and long term bonus schemes have been replaced in the year ended 4 April 2015 by new bonus schemes for directors and certain senior executives, which combine the annual and long term elements under a single scheme. Under these new schemes, awards are based on current year results but are paid over a period of up to five years, with part of the awards linked to the value of Nationwide core capital deferred shares (CCDS). The payment of deferred elements remains subject to further discretion by the Remuneration Committee. These bonuses are recognised in the income statement over the period from the start of the performance year until all relevant criteria have been met.

The table below shows actual and expected charges to the income statement in respect of all MTPPP bonuses for all remaining scheme cycles, and all new long term bonuses in respect of the 2014/15 financial year:

	Group and Society					
	Actual	**Actual**	Expected	Expected	Expected	Expected
	2013/14	**2014/15**	2015/16	2016/17	2017/18	2018/19
	£m	**£m**	£m	£m	£m	£m
Medium Term Performance Pay Plan:						
2011-2014	7.5	**-**	-	-	-	-
2012-2015	-	**9.8**	-	-	-	-
2013-2016*	-	**-**	6.9	-	-	-
2014/15 long term bonus scheme*	-	**7.2**	3.8	1.9	1.5	0.3
Income statement charge for long term bonuses	7.5	**17.0**	10.7	1.9	1.5	0.3

*The amount expected is an estimate based on current expectations of future performance.

Details of the long term bonus scheme for executive directors are included in the Report of the directors on remuneration.

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	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Audit fees for the Group and Society statutory audit	**1.9**	1.8	**1.9**	1.8
Fees payable for other services:				
Audit of Group subsidiaries	**0.3**	0.3	**-**	-
Audit-related assurance services	**0.8**	0.5	**0.8**	0.5
Total audit and audit-related assurance services	**3.0**	2.6	**2.7**	2.3
Other assurance services	**-**	1.0	**-**	1.0
All other services	**2.4**	1.0	**2.4**	1.0
	5.4	4.6	**5.1**	4.3

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 capital and funding issuance programmes and regulatory projects.

Notes to the accounts continued

9 Employees

	Group		Society	
	2015	2014	**2015**	2014
The average number of persons employed during the year was:				
Full time	**13,667**	13,172	**13,602**	13,111
Part time	**3,955**	4,118	**3,946**	4,110
	17,622	17,290	**17,548**	17,221
Society:				
Central administration	**9,544**	8,896	**9,544**	8,896
Branches	**8,004**	8,325	**8,004**	8,325
Subsidiaries	**74**	69	**-**	-
	17,622	17,290	**17,548**	17,221

Central administration employee numbers include employees engaged in direct customer facing operations in administrative centres.

10 Impairment provisions on loans and advances to customers

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

2015 Group	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2014	18	84	173	1,001	12	1,288
Charge for the year	13	45	89	52	34	233
Amounts written off during the year	(10)	(41)	(56)	(276)	(6)	(389)
Amounts recovered during the year	1	1	15	15	-	32
Disposals	-	-	-	(428)	(36)	(464)
Unwind of discount	-	(1)	(5)	(42)	-	(48)
At 4 April 2015	**22**	**88**	**216**	**322**	**4**	**652**

10 Impairment provisions on loans and advances to customers continued

2014 Group	Prime residential	Specialist residential	Consumer banking	Commercial lending	Other lending	Total
	£m	£m	£m	£m	£m	£m
At 5 April 2013	32	133	87	958	14	1,224
Charge for the year	-	-	60	309	11	380
Amounts written off during the year	(15)	(52)	(3)	(215)	(9)	(294)
Amounts recovered during the year	1	4	33	10	-	48
Disposals	-	-	-	-	(4)	(4)
Unwind of discount	-	(1)	(4)	(61)	-	(66)
At 4 April 2014	18	84	173	1,001	12	1,288

The Group impairment provision of £652 million at 4 April 2015 (2014: £1,288 million) comprises individual provisions of £341 million (2014: £959 million) and collective provisions of £311 million (2014: £329 million).

The charge for the year for prime and specialist residential loans primarily results from refinements to credit risk provision assumptions, which reflect a segmental review of actual loss experience and take account of the impacts of the prolonged low interest rate environment.

The increase in impairment provisions on consumer banking is driven by a change in the accounting treatment for charged off accounts in 2014. Previously these accounts had been written off in full with subsequent recoveries taken to profit when received. Balances on charged off accounts are now held on the balance sheet, together with relevant provisions, where at least partial recovery is still expected.

The £464 million for disposals relates to divestment activity undertaken during the year in relation to non-core commercial real estate lending and out of policy treasury assets.

2015 Society	**Prime residential**	**Consumer banking**	**Commercial lending**	**Other lending**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 5 April 2014	18	173	1,001	3	1,195
Charge for the year	**13**	**89**	**52**	**36**	**190**
Amounts written off during the year	**(10)**	**(56)**	**(276)**	**-**	**(342)**
Amounts recovered during the year	**1**	**15**	**15**	**-**	**31**
Disposals	**-**	**-**	**(428)**	**(36)**	**(464)**
Unwind of discount	**-**	**(5)**	**(42)**	**-**	**(47)**
At 4 April 2015	**22**	**216**	**322**	**3**	**563**

2014 Society	Prime residential	Consumer banking	Commercial lending	Other lending	Total
	£m	£m	£m	£m	£m
At 5 April 2013	32	87	894	-	1,013
Charge for the year	-	60	300	3	363
Amounts written off during the year	(15)	(3)	(200)	-	(218)
Amounts recovered during the year	1	33	9	-	43
Transfer	-	-	58	-	58
Unwind of discount	-	(4)	(60)	-	(64)
At 4 April 2014	18	173	1,001	3	1,195

Notes to the accounts continued

10 Impairment provisions on loans and advances to customers continued

The Society impairment provision of £563 million at 4 April 2015 (2014: £1,195 million) comprises individual provisions of £320 million (2014: £924 million) and collective provisions of £243 million (2014: £271 million).

The Society's impairment loss on loans and advances to customers in the income statement of £159 million (2014: £371 million) includes a £31 million release of a provision (2014: £8 million provision charge) relating to the Society's loan to a subsidiary undertaking.

The provision release reflects the subsidiary's repayment of intra-Group loan amounts as a result of disposals and redemptions of amounts outstanding on corporate loans held within the subsidiary. The Group figures above include the impairment of the underlying corporate loans within other lending.

The £58 million transfer shown within the Society's commercial lending in 2014 related to a portfolio of commercial loans which were acquired by the Society from its subsidiary company, Derbyshire Home Loans Limited.

Critical accounting estimates and judgements

Impairment provisions on loans and advances

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 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 £25 million.

For residential mortgages the estimate of future house price index (HPI) movements is also a key assumption in estimating the eventual loss. The Group does not take account of projected future HPI increases in establishing provisions. If future HPI increases do materialise then this will reduce the amount of actual loss incurred. If provisions were based on an assumption that future HPI would decrease by 10%, the provision at the balance sheet date would increase by an estimated £20 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 £34 million.

11 Taxation

A current year tax charge of £228 million (2014: £161 million) has been offset by adjustments in relation to prior periods of £16 million (2014: £18 million) and the impact of the change in the corporation tax rate on deferred tax of £7 million (2014: £15 million) to result in the tax charge of £205 million (2014: £128 million) as shown below:

		Group		Society	
		2015	2014	2015	2014
	Notes	£m	£m	£m	£m
Current tax:					
UK corporation tax		215	87	158	31
Corporation tax – adjustment in respect of prior years		(22)	(3)	(21)	-
Total current tax		193	84	137	31
Deferred tax:	21				
Current year		13	74	17	69
Adjustment in respect of prior years		6	(15)	6	(14)
Effect of corporation tax rate change		(7)	(15)	(6)	(13)
Total deferred taxation		12	44	17	42
Tax charge		205	128	154	73

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	
	2015	2014	2015	2014
	£m	£m	£m	£m
Profit before tax	1,044	677	740	635
Tax calculated at a tax rate of 21% (2014: 23%)	219	156	155	146
Adjustments in respect of prior years	(16)	(18)	(15)	(14)
Effect of different tax rates in other countries	-	(3)	-	-
Expenses not deductible for tax purposes/(income not taxable):				
Building depreciation	2	2	2	2
Non-taxable dividends received	-	-	(2)	(47)
Bank levy	6	4	6	4
Other	1	2	14	(5)
Effect of corporation tax rate change	(7)	(15)	(6)	(13)
	205	128	154	73

Notes to the accounts continued

11 Taxation continued

The tax on items through other comprehensive income is as follows:

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Available for sale investments	**27**	64	**25**	62
Cash flow hedges	**32**	-	**(2)**	-
Revaluation of property	**(1)**	(1)	**(1)**	(1)
(Loss)/gain on retirement benefit obligations	**(21)**	33	**(21)**	33
Other items through the general reserve, including effect of corporation tax rate change	**1**	1	**1**	1
	38	97	**2**	95

The Group tax charge through the available for sale reserve of £27 million (2014: £64 million) is made up of a charge of £27 million (2014: £2 million) through current tax, a charge of £nil (2014: £61 million) through deferred tax, and a reclassification to the general reserve of £nil (2014: £1 million).

12 Operating segments

For management reporting purposes, the Group is organised into the following business streams:

- Retail
- Commercial
- Head office functions

These business streams 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, including commercial real estate lending, lending to housing associations and Project Finance lending.

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, compliance, 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.

12 Operating segments continued

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 these loans were 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.

Segmental results are as follows:

2015	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net income/(expense) from external customers	3,324	555	(1,018)	2,861
(Charge)/revenue from other segments	(341)	(443)	784	-
Net interest income	2,983	112	(234)	2,861
Other income (note i)	293	15	(17)	291
Total revenue	3,276	127	(251)	3,152
Administrative expenses (note ii)	(1,534)	(52)	(40)	(1,626)
Impairment and other provisions (note iii)	(205)	(54)	(51)	(310)
Underlying profit/(loss) before tax	1,537	21	(342)	1,216
FSCS levies	(83)	-	-	(83)
Transformation costs	(32)	-	(20)	(52)
Bank levy	-	-	(28)	(28)
Losses from derivatives and hedge accounting	-	-	(9)	(9)
Profit/(loss) before tax	1,422	21	(399)	1,044
Taxation				(205)
Profit after tax				839
Total assets (note iv)	156,362	14,272	24,946	195,580
Total liabilities	147,739	1,801	36,299	185,839

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Notes to the accounts continued

12 Operating segments continued

2014	Retail	Commercial	Head office functions	Total
	£m	£m	£m	£m
Net income/(expense) from external customers	2,853	683	(1,133)	2,403
(Charge)/revenue from other segments	(216)	(564)	780	-
Net interest income	2,637	119	(353)	2,403
Other income (note i)	353	17	122	492
Total revenue	2,990	136	(231)	2,895
Administrative expenses (note ii)	(1,417)	(59)	(43)	(1,519)
Impairment and other provisions (note iii)	(129)	(309)	(14)	(452)
Underlying profit/(loss) before tax	1,444	(232)	(288)	924
FSCS levies	(104)	-	-	(104)
Transformation costs	(40)	-	(35)	(75)
Bank levy	-	-	(17)	(17)
Losses from derivatives and hedge accounting	-	-	(51)	(51)
Profit/(loss) before tax	1,300	(232)	(391)	677
Taxation				(128)
Profit after tax				549
Total assets (notes iv & v)	149,226	17,163	23,504	189,893
Total liabilities (notes v)	135,892	1,039	44,056	180,987

Notes:
(i) Other income excludes losses from derivatives and hedge accounting which are shown separately.
(ii) Administrative expenses exclude transformation 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 acquisition of The Mortgage Works (UK) plc.
(v) Comparatives have been restated as detailed in note 1.

13 Investment securities – available for sale

	Group and Society	
	2015	2014
	£m	£m
Government and supranational investment securities	**6,726**	6,994
Other debt investment securities	**4,311**	3,569
	11,037	10,563

The growth in investment securities – available for sale is driven by a £502 million increase in gilts, a £476 million increase in covered bonds and a £441 million increase in asset backed securities. This is offset by reductions of £599 million in non-domestic government bonds and a £171 million in supranational bonds.

Investment securities include items with a carrying value of £267 million (2014: £231 million) which have been pledged as collateral under UK payment schemes.

At 4 April 2015 the Group holds collateral under reverse total return swaps with a fair value of £211 million (2014: £175 million). In line with accounting standards, the collateral is not recognised in the accounts and therefore is not reflected in the table above. The Group is permitted to sell or re-pledge the collateral in the absence of default by the owner. No amounts have been sold or re-pledged at 4 April 2015 (2014: £nil). The related proceeds of £149 million (2014: £149 million) are included in loans and advances to banks.

Impairment losses on investment securities of £18 million were recognised in the year ended 4 April 2015 (2014: £3 million). Further information on treasury credit risk is included in the Business and Risk Report.

Notes to the accounts continued

14 Derivative financial instruments

All of the Group's derivative financial instruments are held for risk mitigation purposes, although not all of these derivatives are designated as hedging instruments as defined by IAS 39. Interest rate swaps are used in hedge accounting relationships to remove the interest rate risk on fixed rate assets and liabilities. The table below provides an analysis of the notional amount and fair value of derivatives by instrument type:

	2015			2014		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Society:						
Interest rate swaps	117,933	1,567	3,939	94,223	1,233	2,511
Cross currency interest rate swaps	21,812	1,110	1,004	16,376	506	347
Caps, collars and floors	213	-	-	264	-	-
Forward foreign exchange	5,819	76	76	7,413	13	42
Forward rate agreements	1,644	-	-	2,731	-	-
Swaptions	267	-	8	329	-	12
Interest rate futures	4,175	-	-	2,150	-	-
Equity index swaps	2,442	911	1	2,577	670	1
Index linked swaps	280	-	9	-	-	-
	154,585	3,664	5,037	126,063	2,422	2,913
Subsidiaries:						
Interest rate swaps	11,292	1,358	8	9,401	1,011	-
Cross currency interest rate swaps	13,426	351	1,040	11,946	591	479
	24,718	1,709	1,048	21,347	1,602	479
Intra Group derivative elimination	(38,133)	(2,036)	(2,037)	(30,656)	(1,004)	(1,001)
Group	141,170	3,337	4,048	116,754	3,020	2,391

Contract/notional amount indicates the amount on which payment flows are derived at the balance sheet date and does not represent amounts at risk.

The table below provides an analysis of the fair value of derivatives, split between those designated in effective hedging relationships at the balance sheet date and those which, whilst being economic hedges, are not subject to hedge accounting at the balance sheet date:

Group	2015		2014	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Designated as fair value hedges at the balance sheet date	424	2,941	917	1,360
Designated as cash flow hedges at the balance sheet date	1,358	899	-	-
Not subject to hedge accounting at the balance sheet date	1,555	208	2,103	1,031
	3,337	4,048	3,020	2,391

14 Derivative financial instruments continued

Society	2015		2014	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Designated as fair value hedges at the balance sheet date	582	2,941	432	1,360
Designated as cash flow hedges at the balance sheet date	-	9	-	-
Not subject to hedge accounting at the balance sheet date	3,082	2,087	1,990	1,553
	3,664	5,037	2,422	2,913

Derivative assets and liabilities have remaining contractual maturities as follows:

Group	2015			2014		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Derivatives have remaining maturities as follows:						
In not more than one year	54,402	742	160	40,790	167	199
In more than one year	86,768	2,595	3,888	75,964	2,853	2,192
	141,170	3,337	4,048	116,754	3,020	2,391

Society	2015			2014		
	Contract/ notional amount	Fair value		Contract/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	£m	£m	£m	£m	£m	£m
Derivatives have remaining maturities as follows:						
In not more than one year	54,903	887	200	42,664	276	195
In more than one year	99,682	2,777	4,837	83,399	2,146	2,718
	154,585	3,664	5,037	126,063	2,422	2,913

Cash flow hedge accounting was implemented in December 2014, primarily for derivatives which economically hedge foreign currency debt issuance. The following table shows the maturity profile of the cash flows designated as hedged items.

These cash flows will impact the income statement in the same period in which they are expected to occur and will be offset by cash flows arising from derivative positions.

Group	2015				
	0-5 years	5-10 years	10-20 years	Over 20 years	Total
	£m	£m	£m	£m	£m
Hedged forecast cash flows expected to occur:					
Forecast receivable cash flows	535	346	148	10	1,039
Forecast payable cash flows	(5,648)	(4,821)	(1,954)	(125)	(12,548)

Notes to the accounts continued

15 Loans and advances to customers

	Group		Society	
	2015	2014*	**2015**	2014*
	£m	£m	**£m**	£m
Prime residential mortgages	**124,527**	119,301	**123,681**	118,130
Specialist residential mortgages	**28,248**	26,257	**884**	954
Consumer banking	**3,575**	3,656	**3,575**	3,656
Commercial lending	**12,890**	16,283	**12,365**	15,632
Other lending	**25**	164	**7**	98
	169,265	165,661	**140,512**	138,470
Fair value adjustment for micro hedged risk	**1,382**	880	**1,382**	880
	170,647	166,541	**141,894**	139,350

*Comparatives have been restated as detailed in note 1.

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

Maturity analysis

Loans and advances to customers have remaining contractual maturities as follows:

	Group		Society	
	2015	2014*	**2015**	2014*
	£m	£m	**£m**	£m
Repayable on demand	**2,064**	2,110	**2,018**	2,056
Other loans and advances by residual maturity repayable:				
In not more than three months	**2,236**	3,458	**2,107**	3,363
In more than three months but not more than one year	**5,341**	5,702	**5,233**	5,621
In more than one year but not more than five years	**26,560**	26,767	**25,293**	25,495
In more than five years	**133,716**	128,912	**106,424**	103,130
	169,917	166,949	**141,075**	139,665
Impairment provision on loans and advances (note 10)	**(652)**	(1,288)	**(563)**	(1,195)
Fair value adjustment for micro hedged risk	**1,382**	880	**1,382**	880
	170,647	166,541	**141,894**	139,350

*Comparatives have been restated as detailed in note 1.

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, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

15 Loans and advances to customers continued

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.

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

Group and Society	2015				
	Mortgages pledged	Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
	£m	£m	£m	£m	£m
Covered bond programme	17,161	11,305	-	-	11,305
Securitisation programme	14,902	4,839	-	1,839	6,678
Whole mortgage loan pools	13,455	-	12,080	1,375	13,455
	45,518	16,144	12,080	3,214	31,438

Group and Society	2014				
	Mortgages pledged	Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
	£m	£m	£m	£m	£m
Covered bond programme	20,211	9,457	-	4,500	13,957
Securitisation programme	24,303	6,906	-	12,291	19,197
Whole mortgage loan pools	13,762	-	11,681	2,081	13,762
	58,276	16,363	11,681	18,872	46,916

The securitisation programme notes are issued by Silverstone Master Issuer plc and are not included in the accounts of the Society. Silverstone Master Issuer plc is fully consolidated into the accounts of the Group.

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 loan 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 £9.5 billion (2014: £2.9 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 25).

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
- whole mortgage loan pools securing amounts drawn under the FLS. At 4 April 2015 the Group had outstanding FLS drawings of £8.5 billion (2014: £8.5 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.

Notes to the accounts continued

15 Loans and advances to customers continued

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.

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 2015 £5.15 billion, SEK 0.45 billion and €0.08 billion (total £5.26 billion sterling equivalent) of notes were redeemed early or matured. During the year ended 4 April 2015 £0.75 billion and €3.71 billion (total £3.65 billion sterling equivalent) of notes were issued.

The Society established the Silverstone Master Trust securitisation programme in July 2008. Notes are issued under the programme and the issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Society. The remaining beneficial interest in the pledged mortgages of £8.15 billion (2014: £6.4 billion) stays with the Society and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2015 £6.85 billion and $2.75 billion (total £8.61 billion sterling equivalent) of notes were redeemed early or matured. During the year ended 4 April 2015 £0.65 billion, €0.75 billion and $0.50 billion (total £1.53 billion sterling equivalent) of notes were issued.

The following table sets out the carrying value and fair value of the transferred assets and liabilities for the Silverstone Master Trust:

	Carrying value			Fair value		
	Transferred assets	Associated liabilities	Total	Transferred assets	Associated liabilities	Total
	£m	£m	£m	£m	£m	£m
At 4 April 2015	**14,902**	**(6,678)**	**8,224**	**13,153**	**(6,793)**	**6,360**
At 4 April 2014	24,303	(19,197)	5,106	24,188	(19,368)	4,820

The Society holds cash deposited by the covered bond programme of £1.8 billion (2014: £1.8 billion) and by the Silverstone programme of £0.4 billion (2014: £3.3 billion).

16 Investments in equity shares

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
At 5 April	29	28	29	28
(Decrease)/increase in fair value	(3)	1	(3)	1
At 4 April	**26**	29	**26**	29

Investments in equity shares include investments of £25 million (2014: £28 million) carried at fair value. £7 million (2014: £7 million) of the Group's investments in equity shares relate to participation in industry wide banking and credit card service operations.

17 Investments in subsidiary undertakings

Investments in Group undertakings

The Society's investments in Group undertakings are as follows:

	Shares	Loans	Total
	£m	£m	£m
At 5 April 2014	324	26,048	26,372
Additions	-	4,988	4,988
Release of impairment	-	31	31
Disposals, redemptions and repayments	(11)	(3,648)	(3,659)
At 4 April 2015	**313**	**27,419**	**27,732**

	Shares	Loans	Total
	£m	£m	£m
At 5 April 2013	361	25,557	25,918
Additions	-	3,580	3,580
Impairment	-	(8)	(8)
Disposals, redemptions and repayments	(37)	(3,081)	(3,118)
At 4 April 2014	324	26,048	26,372

During the year ended 4 April 2015 the Society received no dividend payments (2014: £206 million). £11 million was received in the year ended 4 April 2015 (2014: £37 million) relating to capital reductions from subsidiary undertakings.

The impairment release of £31 million (2014: £8 million charge) relates to a subsidiary that holds a corporate loan portfolio.

List of significant subsidiaries

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 2015, are set out below:

Subsidiary name	Place of incorporation	Ownership interest	
		2015	2014
Derbyshire Home Loans Limited*	UK	100%	100%
E-MEX Home Funding Limited*	UK	100%	100%
Nationwide Syndications Limited	UK	100%	100%
The Mortgage Works (UK) plc*	UK	100%	100%
UCB Home Loans Corporation Limited*	UK	100%	100%

*Regulated entities which are subject to regulations which require them to maintain capital at agreed levels and therefore govern the availability of funds for distribution as dividends.

The principal place of business is also the country of registration or incorporation for each of the above companies.

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 2015.

Notes to the accounts continued

17 Investments in subsidiary undertakings continued

The Group has adopted the audit exemption for the following subsidiary undertakings for the year ended 4 April 2015:

Unaudited subsidiary name	Place of incorporation	Ownership interest	
		2015	2014
Confederation Mortgage Services Limited	UK	100%	100%
Dunfermline BS Nominees Limited	UK	100%	100%
First Nationwide	UK	100%	100%
Jubilee Mortgages Limited	UK	100%	100%
Monument (Sutton) Limited	UK	100%	100%
Nationwide Anglia Property Services Limited	UK	100%	100%
Nationwide Investments (No 1) Limited	UK	100%	100%
Nationwide Trust Limited	UK	100%	100%
NBS Fleet Services Limited	UK	100%	100%
Staffordshire Leasing Limited	UK	100%	100%
The Derbyshire (Premises) Limited	UK	100%	100%

All of the above unaudited subsidiary undertakings are limited liability companies, with the exception of First Nationwide which is an unlimited company.

The Group does not have any material non-controlling interests in respect of its subsidiaries. The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from regulatory frameworks within which the subsidiaries operate. These regulatory frameworks require subsidiaries to keep certain levels of regulatory capital and liquid assets.

The Group has no material shares in associates. See note 16 for further details regarding the Group's interests in equity shares.

18 Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

Consolidated structured entities

Structured entities are assessed for consolidation in accordance with the accounting policy set out in note 1. The following structured entities are consolidated during the year:

Structured entity name	Nature of business	Principal place of business and incorporation
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	UK
Silverstone Master Issuer plc	Funding vehicle	UK
Silverstone Funding No.1 Limited	Funding vehicle	UK
Cromarty CLO Limited	Investment in a portfolio of European loans	Republic of Ireland

Further details on the activities of Nationwide Covered Bonds LLP, Silverstone Master Issuer plc and Silverstone Funding No.1 Limited are given in note 15. As at 4 April 2015 the total assets of Cromarty CLO Limited were £19 million (2014: £76 million). The Group has no contractual arrangements that would require it to provide financial or other support to Cromarty CLO Limited, nor does the Group have current intentions to provide such support to the entity.

Unconsolidated structured entities

The Group has interests in structured entities which it does not sponsor or control. These largely consist of holdings of mortgage backed securities, covered bonds and CLOs issued by entities that are sponsored by other unrelated financial institutions. The entities are financed primarily by investments from investors.

Group's direct interests in unconsolidated structured entities comprise primarily of investments in asset-backed securities which are reported within investment securities – available for sale on the balance sheet. The total carrying value of these interests at 4 April 2015 is £4,353 million (2014: £3,566 million). Further details on the lending risk that the Group is exposed to in respect of these asset-backed securities can be found in the Counterparty credit quality disclosure in the 'Treasury assets' section of the Business and Risk Report.

Management has concluded that the Group has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss. During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any such support. There were no transfers to or from these unconsolidated structured entities during the year.

Notes to the accounts continued

19 Intangible assets

2015 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 2014	471	786	1,257	42	12	1,311
Additions	20	236	256	-	-	256
Disposals	(43)	(26)	(69)	(2)	-	(71)
At 4 April 2015	**448**	**996**	**1,444**	**40**	**12**	**1,496**
Accumulated amortisation and impairment						
At 5 April 2014	125	198	323	32	-	355
Amortisation charge	46	122	168	4	-	172
Disposals	(43)	(26)	(69)	(2)	-	(71)
At 4 April 2015	**128**	**294**	**422**	**34**	**-**	**456**
Net book value						
At 4 April 2015	**320**	**702**	**1,022**	**6**	**12**	**1,040**

19 Intangible assets continued

2014 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 2013	424	663	1,087	42	16	1,145
Additions	78	135	213	-	-	213
Disposals	(31)	(12)	(43)	-	(4)	(47)
At 4 April 2014	471	786	1,257	42	12	1,311
Accumulated amortisation and impairment						
At 5 April 2013	121	102	223	28	-	251
Amortisation charge	35	101	136	4	4	144
Impairment in the year	-	7	7	-	-	7
Disposals	(31)	(12)	(43)	-	(4)	(47)
At 4 April 2014	125	198	323	32	-	355
Net book value						
At 4 April 2014	346	588	934	10	12	956

Intangible assets at 4 April 2015 include £153 million (2014: £138 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 2015 relate mainly to new systems platforms and are being amortised over estimated useful lives predominantly of either 5 years or, for some systems platforms, 10 years.

In the year ended 4 April 2015, £2 million (2014: £4 million) of borrowing costs have been capitalised using a capitalisation rate of 1.33% (2014: 1.92%).

An impairment loss of £7 million was recognised in the year to 4 April 2014 in respect of development work on internal systems which have now been superseded.

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

20 Property, plant and equipment

2015 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 2014	223	186	38	447	141	895	1,483
Additions	8	-	-	8	16	115	139
Revaluation	5	-	-	5	-	-	5
Disposals	(12)	(3)	(4)	(19)	-	(191)	(210)
At 4 April 2015	**224**	**183**	**34**	**441**	**157**	**819**	**1,417**
Accumulated depreciation and impairment							
At 5 April 2014	-	80	25	105	76	450	631
Depreciation charge	-	3	1	4	17	101	122
Disposals	-	(1)	(4)	(5)	-	(187)	(192)
At 4 April 2015	**-**	**82**	**22**	**104**	**93**	**364**	**561**
Net book value							
At 4 April 2015	**224**	**101**	**12**	**337**	**64**	**455**	**856**

2014 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 2013	231	186	48	465	131	878	1,474
Additions	1	-	-	1	22	86	109
Revaluation	4	-	-	4	-	-	4
Disposals	(13)	-	(10)	(23)	(12)	(69)	(104)
At 4 April 2014	223	186	38	447	141	895	1,483
Accumulated depreciation and impairment							
At 5 April 2013	-	76	34	110	72	406	588
Depreciation charge	-	4	1	5	16	110	131
Disposals	-	-	(10)	(10)	(12)	(66)	(88)
At 4 April 2014	-	80	25	105	76	450	631
Net book value							
At 4 April 2014	223	106	13	342	65	445	852

Group property, plant and equipment at 4 April 2015 includes £2 million (2014: £2 million) of land and buildings held by subsidiary undertakings.

Property, plant and equipment includes £59 million (2014: £76 million) of assets in the course of construction.

21 Deferred tax

Deferred tax is provided in full on temporary differences under the liability method at the standard UK corporation tax rate at the balance sheet date.

The Finance Act 2013 introduced legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014 and from 21% to 20% from 1 April 2015.

The movements on the deferred tax account are as follows:

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
At 5 April	8	124	8	122
Income statement charge	(19)	(59)	(23)	(55)
Income statement effect of corporation tax rate change	7	15	6	13
Reclassification to current tax	-	21	-	21
Available for sale investments	-	2	-	-
Cash flow hedges	(34)	-	2	-
Property revaluation	1	(1)	1	(1)
Retirement benefit obligations	28	(19)	28	(19)
Tax losses utilised	-	(62)	-	(62)
Effect of corporation tax rate change in other comprehensive income	(6)	(15)	(7)	(13)
Taxation on items through other comprehensive income	(11)	(95)	24	(95)
Taxation on items taken directly to members' interests and equity	-	2	-	2
At 4 April	(15)	8	15	8

Deferred tax assets and liabilities are attributable to the following items:

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Deferred tax assets				
Accelerated depreciation	(45)	(55)	(45)	(55)
Property revaluation	1	1	-	-
Cash flow hedges	2	-	2	-
Retirement benefit obligations	56	49	56	49
Provisions for loan impairment	5	8	2	4
Other provisions	19	30	11	23
	38	33	26	21
Deferred tax liabilities				
Property revaluation	(10)	(12)	(10)	(12)
Cash flow hedges	(34)	-	-	-
Other provisions	(9)	(13)	(1)	(1)
	(53)	(25)	(11)	(13)
Net deferred tax (liability)/asset	(15)	8	15	8

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.

Notes to the accounts continued

21 Deferred tax continued

The deferred tax charge in the income statement (see note 11) comprises the following temporary differences:

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Accelerated tax depreciation	**(8)**	(4)	**(7)**	(3)
Retirement benefit obligations	**19**	8	**19**	8
Provisions for loan impairment	**(2)**	2	**(2)**	2
Tax losses carried forward	**-**	48	**-**	48
Effect of corporation tax rate change	**(7)**	(15)	**(6)**	(13)
Other	**10**	5	**13**	-
	12	44	**17**	42

22 Deposits from banks

	Group		Society	
	2015	2014	**2015**	2014
	£m	£m	**£m**	£m
Deposits from banks are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**1**	1	**1**	1
Repayable on demand	**1,401**	1,468	**594**	486
Other amounts owed to banks with residual maturity repayable:				
In not more than three months	**468**	421	**468**	421
In more than three months but not more than one year	**80**	73	**80**	73
In more than one year but not more than five years	**24**	21	**24**	21
	1,974	1,984	**1,167**	1,002

23 Other deposits

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Other deposits are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	10	4	10	4
Repayable on demand	1,086	481	2,023	3,807
Other deposits with residual maturity repayable:				
In not more than three months	2,947	2,358	2,957	2,367
In more than three months but not more than one year	3,070	1,197	3,070	1,197
In more than one year but not more than five years	1,963	3,095	1,963	3,095
	9,076	7,135	10,023	10,470

The Society's other deposits for the year ended 4 April 2015 include £947 million (2014: £3,335 million) of deposits from subsidiary undertakings.

Other deposits comprise wholesale deposits placed with the Treasury Division, commercial deposits which are managed by the retail business 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 £3,332 million (2014: £3,222 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 £245 million (2014: £305 million) was recognised by the Group and Society during the year ended 4 April 2015. This impact is largely 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 £2,585 million (2014: £2,732 million). The maximum additional amount which would also be payable at maturity in respect of additional investment returns is £1,080 million (2014: £1,115 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.

Notes to the accounts continued

24 Due to customers

	Group and Society	
	2015	2014
	£m	£m
Amounts due to customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	20	27
Repayable on demand	3,510	3,586
Other amounts due to customers with residual maturity repayable:		
In not more than three months	637	756
In more than three months but not more than one year	1,797	1,803
In more than one year but not more than five years	155	36
	6,119	6,208

Amounts classified as due to customers do not confer membership rights.

25 Debt securities in issue

	Group		Society	
	2015	2014	2015	2014
	£m	£m	£m	£m
Certificates of deposit and commercial paper	5,449	6,123	5,449	6,123
Fixed and floating rate notes	16,205	14,121	16,205	14,121
Other debt securities	5,145	7,213	283	276
	26,799	27,457	21,937	20,520
Fair value adjustment for micro hedged risk	1,306	1,100	206	170
	28,105	28,557	22,143	20,690
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	186	94	159	122
Residual maturity repayable:				
In not more than one year	9,248	11,775	8,015	8,454
In more than one year	17,365	15,588	13,763	11,944
	26,799	27,457	21,937	20,520
Fair value adjustment for micro hedged risk	1,306	1,100	206	170
	28,105	28,557	22,143	20,690

Debt securities in issue in the Group and Society include £16,144 million (2014: £16,363 million) secured on certain loans and advances to customers. Further information is given in note 15.

26 Provisions for liabilities and charges

Group	Bank levy	FSCS	Customer redress	Other provisions	Total
	£m	£m	£m	£m	£m
At 5 April 2014	6	142	124	38	310
Provisions utilised	(21)	(99)	(43)	(24)	(187)
Charge for the year	28	83	72	3	186
Release for the year	-	-	(13)	(1)	(14)
Net income statement charge	28	83	59	2	172
At 4 April 2015	**13**	**126**	**140**	**16**	**295**
At 5 April 2013	8	133	142	35	318
Provisions utilised	(19)	(95)	(87)	(13)	(214)
Charge for the year	17	104	72	27	220
Release for the year	-	-	(3)	(11)	(14)
Net income statement charge	17	104	69	16	206
At 4 April 2014	6	142	124	38	310

The income statement charge for provisions for liabilities and charges of £142 million (2014: £173 million) includes the FSCS charge of £83 million (2014: £104 million) and the customer redress net income statement charge of £59 million (2014: £69 million).

The net income statement charge for bank levy of £28 million (2014: £17 million) and other provisions of £2 million (2014: £16 million) are included within administrative expenses in the income statement.

The Group provisions for liabilities and charges includes £3 million (2014: £nil) of customer redress held by subsidiary company The Mortgage Works (UK) plc; all other amounts are held by the Society.

Financial Services Compensation Scheme (FSCS)

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

Following the default of a number of deposit takers, the FSCS borrowed funds from HM Treasury, which currently total approximately £16 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. Whilst it is anticipated that the majority of the borrowings will be repaid wholly from recoveries of the institutions concerned, the FSCS has advised of expected shortfalls which will also be funded by member firms.

The £83 million (2014: £104 million) charge for the year comprises £42 million (2014: £57 million) in relation to interest cost and management expenses and £41 million (2014: £47 million) for expected shortfalls in recoveries from the failed institutions. A further shortfall of £30 million is expected to be levied in the next financial year.

The balance sheet amount provided by the Group of £126 million (2014: £142 million) comprises £81 million of levies relating to the 2015/16 scheme year and £45 million relating to the 2014/15 scheme year.

Customer redress

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

At 4 April 2015, the Group has provisions of £140 million (2014: £124 million) in respect of potential customer redress. This includes amounts for past sales of PPI.

Notes to the accounts continued

26 Provisions for liabilities and charges continued

Other provisions

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

All components of the net charge for other provisions in the years ended 4 April 2014 and 4 April 2015 are included within administrative expenses.

Critical accounting estimates and judgements

Customer redress provisions

The amount of the provision related to past sales of 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, average redress payments and complaint handling costs.

Other amounts that are provided as an estimate of the potential costs of remediation are subject to ongoing review of various matters, including consumer credit regulations.

For these matters, the ultimate amount of redress that will be payable will depend upon a number of internal and external factors. These include the conclusion of legal interpretations and actions to be taken, the time periods to which any redress should apply, the level of complaints that the Group expects to receive from customers and the estimate of amounts of redress and associated costs that will be payable.

27 Accruals and deferred income

Accruals and deferred income for the Group and Society include £33 million (2014: £37 million) of interest accrued on subordinated liabilities, £5 million (2014: £7 million) of interest accrued on subscribed capital and £23 million (2014: £42 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	
	2015	2014
	£m	£m
At 5 April	42	64
Releases	**(19)**	(22)
At 4 April	**23**	42

28 Subordinated liabilities

	Group	
	2015	2014
	£m	£m
5% subordinated notes due 2015 ($400m)	**270**	241
8.625% subordinated notes due 2018 (£)	**125**	125
6.75% subordinated notes due 2020 (€750m)	**550**	620
5.25% subordinated notes due 2020 (£)	**150**	150
6.5% callable reset subordinated notes 2022 (£)	**30**	30
4.125% subordinated notes due 2023 (€1,250m)	**918**	1,032
	2,043	2,198
Fair value adjustment for micro hedged risk	**89**	85
Unamortised premiums and issue costs	**(11)**	(14)
	2,121	2,269

The Society's subordinated liabilities are as shown above for the Group, except that they exclude £3 million (2014: £nil) of fair value adjustments relating to cash flow hedge accounting.

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 at par (100%), unless stated, as follows:

- All or some of the 8.625% notes due in 2018 at any time at the higher of par (100%) or a price equating to a yield equal to the 8.75% 2017 benchmark gilt on a semi-annual basis, by giving not less than 30 days' and not more than 60 days' notice.
- All of the 5.25% subordinated notes due 2020 on 23 November 2015 by giving not less than 15 days' or more than 30 days' notice. If the notes are not called the rate reverts to 3 month Libor + 1.54%.
- All or some of the 6.5% notes due 2022 on 1 September 2017 by giving not less than 30 days' or more than 60 days' notice. If the notes are not called the rate reverts to the 5 year gilt + 3%.
- All or some of the 4.125% notes due 2023 on 20 March 2018 by giving not less than 30 days' or more than 60 days' notice. If the notes are not called the rate reverts to the 5 year swap rate + 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, Additional Tier 1 (AT1) capital and core capital deferred shares (CCDS)) 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.

Notes to the accounts continued

29 Subscribed capital

	Group and Society	
	2015	2014
	£m	£m
7.971% permanent interest bearing shares	-	200
7.25% permanent interest bearing shares	33	33
6.25% permanent interest bearing shares	44	44
5.769% permanent interest bearing shares	84	84
7.859% permanent interest bearing shares	38	38
6.875% permanent interest bearing shares	10	10
6% permanent interest bearing shares	140	140
Floating rate (6 month Libor + 2.4%) permanent interest bearing shares	10	10
Floating rate (3 month Libor + 0.5%) permanent interest bearing shares	3	3
	362	562
Fair value adjustment for micro hedged risk	74	64
Unamortised premiums and issue costs	(21)	(25)
	415	601

All permanent interest bearing shares (PIBS) are unsecured and denominated in sterling. The PIBS are only repayable with the prior consent of the PRA as follows:

- The 7.25% PIBS are repayable, at the option of the Society, in whole on 5 December 2021 or every fifth successive 5 December thereafter.
- The 6.25% PIBS are repayable, at the option of the Society, in whole on 22 October 2024 or every fifth successive 22 October thereafter.
- The 5.769% PIBS are repayable, at the option of the Society, in whole on 6 February 2026 or every fifth anniversary thereafter.
- The 7.859% PIBS are repayable, at the option of the Society, in whole on 13 March 2030 or every fifth anniversary thereafter.

If the above four tranches of PIBS are not repaid on a call date then the interest rate is reset at a margin to the yield on the then prevailing five year benchmark gilt rate.

- The 6.875% PIBS are repayable at the option of the Society, in whole on 10 January 2019, or any fifth anniversary thereafter. If the PIBS are not repaid on a call date, then the interest rate is reset at a margin of 300 basis points over the yield on the prevailing five year gilt benchmark.
- The 6% PIBS are repayable at the option of the Society, in whole on 15 December 2016, or any interest coupon date thereafter. If the PIBS are not repaid on their first call date then the interest rate is reset at a margin of 249 basis points over 3 month Libor.
- The floating rate PIBS are only repayable in the event of winding up the Society. Interest is payable on the PIBS at 2.4% above 6 month Libor.
- The floating rate PIBS payable at 0.5% above 3 month Libor are repayable at the option of the Society, at every interest payment date, and if the PIBS are not repaid on 6 February 2018 then the interest resets to 1.5% above 3 month Libor.

On 13 March 2015, the Group redeemed the £200 million 7.971% PIBS at par.

PIBS rank pari passu with each other and the Group's AT1 instruments. They are deferred shares of the Society and rank behind the claims against the Society of all subordinated noteholders, depositors, creditors and investing members (other than the holders of CCDS) of the Society.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

30 Retirement benefit obligations

	Group 2015 £m	Group 2014 £m
Present value of funded obligations	4,686	3,843
Present value of unfunded obligations	12	12
	4,698	3,855
Fair value of fund assets	(4,412)	(3,620)
	286	235

The Group operates both defined benefit and defined contribution pension arrangements. The principal defined benefit pension arrangement is the Nationwide Pension Fund (the '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 employees have been able to join a defined contribution arrangement, the Nationwide Group Personal Pension Plan.

Employees are entitled to annual pensions on retirement at age 65 of one sixtieth of career average earnings (revalued to retirement) for each year of service after 1 April 2011. Benefits accrued prior to 1 April 2011 varied with the majority being one fifty fourth of final salary for each year of service. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

The Fund is administered by a board of trustees (the 'Trustee') which is legally separate from the Group. The Trustee is composed of representatives of both the employer and employees, and independent trustees. The Trustee is required by law to act in the interest of all relevant beneficiaries and is responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

Approximately 33% of the defined benefit obligations are attributable to current employees, 34% to former employees and 33% to current pensioners and dependants. The average duration of the obligation is approximately 21 years reflecting the split of the obligation between current employees (25 years), deferred members (23 years) and current pensioners (14 years).

The amounts recognised in the income statements are as follows:

	Group 2015 £m	Group 2014 £m
Defined benefit current service cost	55	56
Defined contribution cost	30	26
Past service cost	5	4
Curtailment gains	(7)	(4)
Administrative expenses	4	4
Included in employee costs (note 8)	87	86
Interest on net defined benefit liability (note 4)	6	15
	93	101

Notes to the accounts continued

30 Retirement benefit obligations continued

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

	Group	
	2015	2014
	£m	£m
At 5 April	235	354
Current service cost	**55**	56
Past service cost	**5**	4
Curtailment gains	**(7)**	(4)
Interest on net defined benefit liability	**6**	15
Return on assets (greater)/less than discount rate	**(572)**	43
Contributions by employer	**(148)**	(112)
Administrative expenses	**4**	4
Actuarial losses/(gains) on defined benefit obligations	**708**	(125)
At 4 April	**286**	235

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

	Group	
	2015	2014
	£m	£m
At 5 April	3,855	3,825
Current service cost	**55**	56
Past service cost	**5**	4
Curtailment gains	**(7)**	(4)
Interest expense on obligation	**171**	181
Experience gains on plan assumptions	**(20)**	(63)
Changes in demographic assumptions	**(8)**	(171)
Changes in financial assumptions	**736**	109
Benefits paid	**(89)**	(82)
At 4 April	**4,698**	3,855

The £572 million return on assets has been driven by strong returns from equities and bonds. This has, however, been more than offset by a £708 million actuarial loss on the liabilities, due primarily to a significant fall in the discount rate assumption. The £148 million of employer contributions includes a deficit contribution of £91 million (2014: £60 million), with the remainder relating to ongoing contributions for future benefit accrual.

The experience gains on plan assumptions of £20 million (2014: £63 million) reflects the differential between the plan assumptions and the actual pension increases and deferred revaluations during the year ended 4 April 2015.

The impact of changes in demographic assumptions of £8 million gain (2014: £171 million) arose from using an updated industry standard model relating to post retirement mortality.

The £736 million loss (2014: £109 million) from changes in financial assumptions arose primarily due to a decrease in the discount rate, which increased the value of the obligation. This was partly offset by decreases in assumptions for future salary increases, which reduced the measurement of the defined benefit obligation.

30 Retirement benefit obligations continued

The curtailment gains represent a reduction in the defined benefit obligation arising from pensions increasing in line with the Consumer Price Index (CPI), instead of salary increases (for final salary benefits) or the Retail Prices Index (for CARE benefits), in respect of members made redundant during the year.

No employee contributions are recorded as the Group operates a salary sacrifice arrangement. Under this arrangement employees' salaries are reduced by an amount equivalent to their pension contributions and their contributions are then reflected in the employer contributions.

Changes in the fair value of plan assets for the pension funds are as follows:

	Group	
	2015	2014
	£m	£m
At 5 April	3,620	3,471
Interest income on assets	**165**	166
Return on assets greater/(less) than discount rate	**572**	(43)
Administrative expenses	**(4)**	(4)
Contributions by employer	**148**	112
Benefits paid	**(89)**	(82)
At 4 April	**4,412**	3,620

Contributions paid by the Group in the year included additional deficit contributions of £91 million (2014: £60 million). The Group estimates that its contributions to the defined benefit pension funds (including deficit contributions) during the year ended 4 April 2016 will be £105 million.

The major categories of plan assets for the pension funds, stated at fair value, are as follows:

	Group	
	2015	2014
	£m	£m
Listed equities (quoted)	**1,722**	1,375
Government bonds (quoted)	**1,815**	1,305
Corporate bonds (quoted)	**411**	404
Infrastructure (unquoted)	**268**	227
Property (quoted)	**-**	67
Property (unquoted)	**186**	105
Private equity investments (unquoted)	**243**	192
Cash	**37**	229
Liability relating to repurchase agreement	**(287)**	(300)
Other assets and liabilities	**17**	16
	4,412	3,620

None of the funds' assets are invested in the Group's own financial instruments or property (2014: £nil).

Assets described as quoted are based on unadjusted prices quoted in an active market and represent Level 1 assets as defined by IFRS 13. £697 million (2014: £524 million) of plan assets have been valued using inputs which are not based on observable market data and represent Level 3 assets as defined by IFRS 13. Level 3 assets include private equity investments, infrastructure and certain property investments.

The Fund's liabilities are partly hedged by matching assets, primarily index linked government bonds and fixed rate government and corporate bonds.

The proceeds of sale and repurchase agreements are included in the table above as a liability of £287 million (2014: £300 million). The securities, which have been sold under these sale and repurchase agreements, are included in government bonds, as the Fund has retained substantially all the risks and rewards of ownership of the securities.

Notes to the accounts continued

30 Retirement benefit obligations continued

The principal actuarial assumptions used were as follows:

	Group	
	2015	2014
	%	%
Discount rate	3.40	4.50
Future salary increases	2.95	3.30
Future pension increases (maximum 5%)	2.80	3.05
Retail price index (RPI) inflation	2.95	3.30
Consumer price index (CPI) inflation	1.95	2.30

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:

	2015	2014
	years	years
Retire at 4 April 2015		
Males	28.5	28.4
Females	30.2	30.1
Retire at 4 April 2035		
Males	29.9	30.0
Females	31.7	31.7

Critical accounting estimates and judgements

Retirement benefit obligations

The key assumptions used to calculate the pension obligation are the discount rate, and future salary increases and pension increases, driven by inflation and mortality.

If different assumptions were used, this could have a material effect on the reported obligation. The sensitivity of the results to these assumptions are as follows:

Change in key assumptions at 4 April 2015	(Decrease)/increase in deficit from assumption change
	£m
0.1% increase in discount rate	(93)
0.1% increase in inflation assumption	82
One year increase in life expectancy at age 60	121

The above sensitivities apply to changing individual assumptions in isolation; in practice relationships are likely to be related, especially between the discount rate and inflation. Furthermore, a change in market yields could impact asset values (in particular bonds) in the opposite direction to the obligations. The sensitivity to the inflation assumption change includes a corresponding 0.1% increase in future salary increases and pension increases assumptions.

31 Core capital deferred shares (CCDS)

Group and Society	Number of shares	CCDS	Share premium	Total
		£m	£m	£m
At 4 April 2015	**5,500,000**	**6**	**525**	**531**
At 5 April 2014	5,500,000	6	525	531

In December 2013, the Society issued 5,500,000 of £1 core capital deferred shares (CCDS) at £100 per share. The gross proceeds of the issuance were £550 million (£531 million net of issuance costs).

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

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

In the event of a winding up or dissolution of the Society and if there was surplus available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £100 per share.

There is a cap placed on the amount of distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £15.24 per share and is adjusted annually in line with CPI.

A final distribution of £30 million for the financial year ended 4 April 2014 was paid on 20 June 2014 and an interim distribution of £28 million in respect of the period to 30 September 2014 was paid on 22 December 2014. These distributions have been recognised in the statement of movements in members' interest and equity.

The directors have declared an unconditional final distribution of £5.125 per share in respect of the financial year ended 4 April 2015, amounting in aggregate to £28 million. The distribution will be recognised in the statement of movements in members' interests and equity in the financial year ended 4 April 2016.

Notes to the accounts continued

32 Other equity instruments

Group and Society	Total
	£m
At 4 April 2015	**992**
At 5 April 2014	992

In March 2014, the Society issued £1,000 million (£992 million net of issuance costs) of Additional Tier 1 (AT1) capital.

AT1 instruments rank pari passu to each other and to PIBS. They are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS.

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

A coupon of £19 million, covering the period to 19 June 2014, was paid on 20 June 2014 and a coupon of £34 million, covering the period to 19 December 2014, was paid on 22 December 2014. These payments have been recognised in the statement of movements in members' interests and equity.

A coupon payment of £34 million, covering the period to 19 June 2015, is expected to be paid on 22 June 2015 and will be recognised in the statement of movements in members' interests and equity in the financial year ended 4 April 2016.

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

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

33 Capital and leasing commitments

Capital commitments	Group and Society	
	2015	2014
	£m	£m
Capital expenditure contracted for but not provided for in the Accounts:		
Intangibles	**55**	41
Property, plant and equipment	**22**	30
	77	71

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.

33 Capital and leasing commitments continued

Future minimum payments under operating leases relating to land and buildings were as follows:

Leasing commitments at 4 April	Group	
	2015	2014
	£m	£m
Amounts falling due:		
Within one year	**31**	31
Between one and five years	**99**	102
After five years	**198**	208
	328	341

£2 million of the leasing commitments arise in a subsidiary of the Group (2014: £2 million).

At the balance sheet date, future minimum lease payments receivable under non-cancellable operating leases were as follows:

Leasing payments receivable as lessor at 4 April	Group and Society	
	2015	2014
	£m	£m
Amounts falling due:		
Within one year	**5**	5
Between one and five years	**13**	14
After five years	**32**	34
	50	53
At the balance sheet date, future minimum sublease payments receivable under non-cancellable subleases	**14**	17

34 Contingent liabilities

During the ordinary course of business the Group is subject to complaints and threatened or actual legal proceedings, as well as regulatory reviews, challenges and investigations. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability. Where it is concluded that it is probable that a payment will be made, a provision is recognised based on management's best estimate of the amount that will be payable. For other matters no provision is recognised but disclosure is made of items which are potentially material, either individually or in aggregate, except in cases where the likelihood of a liability crystallising is considered to be remote. Currently the Group does not expect the ultimate resolution of any such matters to have a material adverse impact on its financial position.

Notes to the accounts continued

35 Classification and measurement

Given the dominant position of the Society within the Group structure, the disclosures in notes 35 to 39 are on a consolidated basis covering the activities of both the Group and the Society. The following tables summarise the classification of carrying amounts of the Group's financial assets and liabilities:

2015 Group	Available for sale	Loans and receivables	Fair value through income statement	Liabilities at amortised cost	Total
	£m	£m	£m	£m	£m
Financial assets					
Cash	-	4,325	-	-	4,325
Loans and advances to banks	-	3,392	-	-	3,392
Investment securities	11,037	-	-	-	11,037
Derivative financial instruments	-	-	3,337	-	3,337
Fair value adjustment for portfolio hedged risk	-	592	-	-	592
Loans and advances to customers	-	170,647	-	-	170,647
Investments in equity shares	26	-	-	-	26
Other financial assets	-	-	12	-	12
Total financial assets	11,063	178,956	3,349	-	193,368
Other non-financial assets					2,212
Total assets					195,580
Financial liabilities					
Shares	-	-	-	132,373	132,373
Deposits from banks	-	-	-	1,974	1,974
Other deposits	-	-	3,332	5,744	9,076
Due to customers	-	-	-	6,119	6,119
Fair value adjustment for portfolio hedged risk	-	-	-	14	14
Debt securities in issue	-	-	-	28,105	28,105
Derivative financial instruments	-	-	4,048	-	4,048
Subordinated liabilities	-	-	-	2,121	2,121
Subscribed capital	-	-	-	415	415
Total financial liabilities	-	-	7,380	176,865	184,245
Other non-financial liabilities					1,594
Total liabilities					185,839

35 Classification and measurement continued

2014 Group*	Available for sale	Loans and receivables	Fair value through income statement	Liabilities at amortised cost	Total
	£m	£m	£m	£m	£m
Financial assets					
Cash	-	5,342	-	-	5,342
Loans and advances to banks	-	2,110	-	-	2,110
Investment securities	10,563	-	-	-	10,563
Derivative financial instruments	-	-	3,020	-	3,020
Fair value adjustment for portfolio hedged risk	-	221	-	-	221
Loans and advances to customers	-	166,541	-	-	166,541
Investments in equity shares	29	-	-	-	29
Total financial assets	10,592	174,214	3,020	-	187,826
Other non-financial assets					2,067
Total assets					189,893
Financial liabilities					
Shares	-	-	-	130,468	130,468
Deposits from banks	-	-	-	1,984	1,984
Other deposits	-	-	3,222	3,913	7,135
Due to customers	-	-	-	6,208	6,208
Fair value adjustment for portfolio hedged risk	-	-	-	33	33
Debt securities in issue	-	-	-	28,557	28,557
Derivative financial instruments	-	-	2,391	-	2,391
Subordinated liabilities	-	-	-	2,269	2,269
Subscribed capital	-	-	-	601	601
Total financial liabilities	-	-	5,613	174,033	179,646
Other non-financial liabilities					1,341
Total liabilities					180,987

*Comparatives have been restated as detailed in note 1.

Further information on the fair value of financial assets and liabilities is included in notes 36 to 38.

Notes to the accounts continued

36 Fair value hierarchy of financial assets and liabilities held at fair value

The following tables show the Group's financial assets and liabilities that are held at fair value by fair value hierarchy, balance sheet classification and product type:

4 April 2015	Fair values based on			Total
	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
Financial assets				
Government and supranational investments	6,726	-	-	6,726
Other debt investment securities	-	4,299	12	4,311
Total investment securities – AFS	6,726	4,299	12	11,037
Investments in equity shares – AFS	-	-	25	25
Interest rate swaps	-	2,022	-	2,022
Cross currency interest rate swaps	-	328	-	328
Forward foreign exchange	-	76	-	76
Equity index swaps	-	-	911	911
Total derivative financial instruments	-	2,426	911	3,337
Other financial assets	-	12	-	12
Total financial assets	6,726	6,737	948	14,411
Financial liabilities				
Interest rate swaps	-	(3,044)	-	(3,044)
Cross currency interest rate swaps	-	(910)	-	(910)
Forward foreign exchange	-	(76)	-	(76)
Swaptions	-	(8)	-	(8)
Index linked swaps	-	(9)	-	(9)
Equity index swaps	-	-	(1)	(1)
Total derivative financial instruments	-	(4,047)	(1)	(4,048)
Other deposits – PEBs	-	-	(3,332)	(3,332)
Total financial liabilities	-	(4,047)	(3,333)	(7,380)

36 Fair value hierarchy of financial assets and liabilities held at fair value continued

4 April 2014	Fair values based on			Total
	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
Financial assets				
Government and supranational investments	6,994	-	-	6,994
Other debt investment securities	-	3,498	71	3,569
Total investment securities – AFS	6,994	3,498	71	10,563
Investments in equity shares – AFS	-	-	28	28
Interest rate swaps	-	1,718	-	1,718
Cross currency interest rate swaps	-	619	-	619
Forward foreign exchange	-	13	-	13
Equity index swaps	-	-	670	670
Total derivative financial instruments	-	2,350	670	3,020
Total financial assets	6,994	5,848	769	13,611
Financial liabilities				
Interest rate swaps	-	(1,985)	-	(1,985)
Cross currency interest rate swaps	-	(351)	-	(351)
Forward foreign exchange	-	(42)	-	(42)
Swaptions	-	(12)	-	(12)
Equity index swaps	-	-	(1)	(1)
Total derivative financial instruments	-	(2,390)	(1)	(2,391)
Other deposits – PEBs	-	-	(3,222)	(3,222)
Total financial liabilities	-	(2,390)	(3,223)	(5,613)

The Group's Level 1 portfolio comprises highly rated government securities for which traded prices are readily available.

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. Other financial assets represent fair value movements in mortgage commitments entered into where a loan has not yet been made.

More detail on the Level 3 portfolio is provided in note 37.

Transfers between fair value hierarchies

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation. There were no significant transfers between Level 1 and Level 2 portfolios during the year.

Notes to the accounts continued

37 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio

The main constituents of the Level 3 portfolio are as follows:

Investment securities – AFS

The Group's £12 million Level 3 AFS investment securities at 4 April 2015 comprised mainly collateralised debt obligations (CDOs). During the year an impaired position with a fair value of £9 million was disposed of, together with an unimpaired position of £46 million.

Investments in equity shares

The Level 3 investments in equity shares of £25 million at 4 April 2015 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.

The tables below set out movements in the Level 3 portfolio, including transfers in and out of Level 3.

There were no transfers in or out of Level 3 during the year ended 4 April 2015.

Movements in Level 3 portfolio	**Investment securities – AFS**	**Investments in equity shares**	**Net derivative financial instruments**	**Other deposits – PEBs**
	£m	**£m**	**£m**	**£m**
At 5 April 2014	71	28	669	(3,222)
Gains/(losses) recognised in the income statement:				
Net interest income/(expense)	**-**	**-**	**1**	**(50)**
Gains/(losses) from derivatives and hedge accounting	**-**	**-**	**241**	**(245)**
Net impairment losses on investment securities	**(5)**	**-**	**-**	**-**
Gains/(losses) recognised in other comprehensive income				
– fair value movement taken to members' interests and equity	**1**	**(3)**	**-**	**-**
Settlements	**(55)**	**-**	**(1)**	**185**
At 4 April 2015	**12**	**25**	**910**	**(3,332)**

Movements in Level 3 portfolio	Investment securities – AFS	Investments in equity shares	Net derivative financial instruments	Other deposits – PEBs
	£m	£m	£m	£m
At 5 April 2013	60	28	374	(2,985)
Gains/(losses) recognised in the income statement:				
Net interest expense	-	-	(39)	-
Gains/(losses) from derivatives and hedge accounting	-	-	295	(305)
Net impairment losses on investment securities	2	-	-	-
Gain recognised in other comprehensive income				
– fair value movement taken to members' interests and equity	5	-	-	-
Settlements	(6)	-	39	68
Transfers into Level 3 portfolio	11	-	-	-
Transfers out of Level 3 portfolio	(1)	-	-	-
At 4 April 2014	71	28	669	(3,222)

37 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio continued

Level 3 portfolio sensitivity analysis of valuations using unobservable inputs

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or significant unobservable market inputs.

Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of these fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs on the following page) and the resultant impact of such changes in fair value on the income statement or members' interests and equity:

At 4 April 2015	Fair value	Favourable changes		Unfavourable changes	
		Income statement	Members' interests and equity	Income statement	Members' interests and equity
	£m	£m	£m	£m	£m
Investment securities – AFS:					
Collateralised debt obligations	12	-	1	-	(1)
Investments in equity shares	25	-	2	-	(1)
Net derivative financial instruments*	910	-	-	-	-
Other deposits – PEBs*	(3,332)	-	-	-	-
Total	(2,385)	-	3	-	(2)

At 4 April 2014	Fair value	Favourable changes		Unfavourable changes	
		Income statement	Members' interests and equity	Income statement	Members' interests and equity
	£m	£m	£m	£m	£m
Investment securities – AFS:					
Collateralised debt obligations	71	4	7	(5)	(9)
Investments in equity shares	28	-	1	-	(2)
Net derivative financial instruments*	669	-	-	-	-
Other deposits – PEBs*	(3,222)	-	-	-	-
Total	(2,454)	4	8	(5)	(11)

*Changes in fair values of the equity index swaps included in net derivative financial instruments will be largely offset by the change in fair value of the PEBs deposits. Any resultant impact is deemed by the Group to be insignificant so these sensitivities have therefore been excluded from the table above.

The Level 3 portfolio at 4 April 2014 included impaired AFS investment securities for which sensitivities impacted the income statement as shown in the table above. These impaired assets were disposed of during the year and therefore no equivalent income statement impact is shown at 4 April 2015.

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market. For investment securities – AFS, 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. Scenarios for investments in equity shares reflect prices seen in these holdings in the preceding 12 months.

Notes to the accounts continued

37 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio continued

The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3 along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply.

At 4 April 2015	Total assets	Total liabilities	Valuation technique	Significant unobservable inputs	Range Min	Range Max	Weighted average (note i)	Units (note ii)
	£m	£m						
Investments securities – AFS: Collateralised debt obligations	12		Mark to market	Price	66.00	75.00	69.00	Points
Investments in equity shares	25		Mark to market	Price	99.00	114.00	104.00	Points
Net derivative financial instruments (note iii)	910							
Other deposits – PEBs (note iii)		(3,332)						

At 4 April 2014	Total assets	Total liabilities	Valuation technique	Significant unobservable inputs	Range Min	Range Max	Weighted average (note i)	Units (note ii)
	£m	£m						
Investments securities – AFS: Collateralised debt obligations	59		Discounted cash flows	Conditional prepayment rate	13.11	21.45	16.94	%
				Loss given default	48.10	56.58	51.98	%
				Probability of default	12.07	20.00	14.81	%
				Credit spread	125	375	250	Bps
	12		Mark to market	Price	65.00	80.00	75.00	Points
	71							
Investments in equity shares	28		Mark to market	Price	97.00	110.50	106.00	Points
Net derivative financial instruments (note iii)	669							
Other deposits – PEBs (note iii)		(3,222)						

Notes:
(i) Weighted average represents the input values used in calculating the fair values for the above financial instruments.
(ii) The units used to disclose ranges for significant unobservable inputs are percentages, points and basis points (bps). Points are a percentage of par; for example 100 points equals 100% of par. One basis point (bps) equals 0.01% for example, 125 basis points (bps) equals 1.25%.
(iii) Changes in fair values of the equity index swaps included in net derivative financial instruments will be largely offset by the change in fair value of the PEBs deposits. Any resultant impact is deemed by the Group to be insignificant so these sensitivities have therefore been excluded from the table above.

37 Fair value of financial assets and liabilities held at fair value – Level 3 portfolio continued

Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

Conditional prepayment rate

For asset backed securities where the borrower is able to prepay all or part of a loan before the contractual repayment date, the conditional prepayment rate will affect the fair value by altering the timing of future projected cash flows. The effect of a significant increase in conditional prepayment rate on fair value could be favourable or unfavourable, depending on the specific terms of the instrument. Conditional prepayment rates are typically inversely correlated to credit spread. For example, securities with high borrower credit spread typically experience lower prepayment rates, and also tend to experience higher default rates.

Loss given default

Loss given default represents the expected loss upon liquidation of the collateral as a percentage of the balance outstanding. In general, lower recovery and lower projected cash flows will translate to a significant increase in the loss given default, resulting in a reduction in fair value that is unfavourable for the holder of the securitised product.

Probability of default

The probability of default represents an annualised rate of default of the loan principal by the borrower. A significant increase in a probability of default in isolation will typically result in a movement in fair value that is unfavourable.

Probability of default and conditional prepayment rates are typically inversely correlated; lower defaults on loans typically will mean higher credit quality and therefore more prepayments.

Credit spread

The more perceived credit risk there is, the higher the yield that will be demanded for the instrument. This is reflected in the credit spread which typically represents the difference in yield between an instrument and a benchmark security or reference rate. The credit spread for an instrument forms part of the yield used in a discounted cash flow calculation. In general a significant increase in credit spread in isolation will result in a movement in fair value that is unfavourable for the holder of a cash instrument. For a derivative instrument, a significant increase in credit spread in isolation can result in a movement in fair value that is favourable or unfavourable depending on the specific terms of the instrument.

Price

Prices for securities that are marked to market where the market is illiquid and supporting price information is scarce are typically subject to significant uncertainty. An increase in the price will directly cause an increase in fair value and vice versa.

Notes to the accounts continued

38 Fair value of financial assets and liabilities measured at amortised cost

The following table summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet:

4 April 2015	Carrying value	Fair values based on			Total fair value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
Financial assets					
Loans and advances to banks	3,392	3,392	-	-	3,392
Loans and advances to customers:					
Residential mortgages	152,775	-	-	149,778	149,778
Consumer banking	3,575	-	-	3,456	3,456
Commercial lending	14,272	-	-	13,145	13,145
Other lending	25	-	-	25	25
Investments in equity shares	1	-	-	1	1
	174,040	3,392	-	166,405	169,797
Financial liabilities					
Shares	132,373	-	132,505	-	132,505
Deposits from banks	1,974	-	1,976	-	1,976
Other deposits	5,744	-	5,745	-	5,745
Due to customers	6,119	-	-	6,122	6,122
Debt securities in issue	28,105	-	28,733	-	28,733
Subordinated liabilities	2,121	-	2,295	-	2,295
Subscribed capital	415	-	387	-	387
	176,851	-	171,641	6,122	177,763

38 Fair value of financial assets and liabilities measured at amortised cost continued

4 April 2014*	Carrying value	Fair values based on			Total fair value
		Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m
Financial assets					
Loans and advances to banks	2,110	2,110	-	-	2,110
Loans and advances to customers:					
Residential mortgages	145,558	-	-	141,660	141,660
Consumer banking	3,656	-	-	3,518	3,518
Commercial lending	17,163	-	-	15,675	15,675
Other lending	164	-	-	164	164
Investments in equity shares	1	-	-	1	1
	168,652	2,110	-	161,018	163,128
Financial liabilities					
Shares	130,468	-	130,491	-	130,491
Deposits from banks	1,984	-	1,985	-	1,985
Other deposits	3,913	-	3,915	-	3,915
Due to customers	6,208	-	-	6,210	6,210
Debt securities in issue	28,557	-	29,168	-	29,168
Subordinated liabilities	2,269	-	2,434	-	2,434
Subscribed capital	601	-	583	-	583
	174,000	-	168,576	6,210	174,786

*Comparatives have been restated as detailed in note 1.

The fair values of loans and advances to customers may be further analysed, between those impaired and those not impaired, as follows:

At 4 April 2015	**Impaired**		**Not impaired**		**Total**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Residential mortgages	**820**	**812**	**151,955**	**148,966**	**152,775**	**149,778**
Commercial lending	**286**	**152**	**13,986**	**12,993**	**14,272**	**13,145**
Consumer banking	**34**	**34**	**3,541**	**3,422**	**3,575**	**3,456**
Total	**1,140**	**998**	**169,482**	**165,381**	**170,622**	**166,379**

At 4 April 2014	Impaired		Not impaired		Total	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m	£m	£m
Residential mortgages	1,120	1,084	144,438	140,576	145,558	141,660
Commercial lending	2,064	1,822	15,099	13,854	17,163	15,675
Consumer banking	88	88	3,568	3,430	3,656	3,518
Total	3,272	2,994	163,105	157,860	166,377	160,853

Notes to the accounts continued

38 Fair value of financial assets and liabilities measured at amortised cost continued

Loans and advances to customers

The Group estimates the fair value of loans and advances to customers using consistent modelling techniques across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR) which, for example, in the case of the Group's residential base mortgage rate (BMR) mortgage book generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR. For variable rate commercial loans, separate market interest rates are utilised to discount the Group's commercial real estate, registered social landlord and Project Finance lending portfolios.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

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 prices 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 for which 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.

39 Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and which may be settled net. However, the netting arrangements do not result in an offset of balance sheet assets and liabilities for accounting purposes as the right to set off is not unconditional in all circumstances. Therefore, in accordance with IAS 32 Financial Instruments: Presentation, there are no financial assets or liabilities which are offset with the net amount presented on the balance sheet. All financial assets and liabilities are presented on a gross basis.

In accordance with IFRS 7 Financial Instruments: Disclosures, the following table shows the impact on derivative financial instruments and total return swaps relating to transactions where:

- there is an enforceable master netting arrangement or similar agreement in place but the offset criteria are otherwise not satisfied, and
- financial collateral is paid and received.

Master netting arrangements consist of agreements such as an ISDA Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash and securities settled, typically daily or weekly, to mitigate the mark to market exposures. Financial collateral on total return swaps typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The net amounts after offsetting under IFRS 7 presented below show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements.

39 Offsetting financial assets and financial liabilities continued

2015	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	3,337	(1,900)	(1,386)	51
Total return swaps	149	-	(149)	-
Total financial assets	3,486	(1,900)	(1,535)	51
Financial liabilities				
Derivative financial liabilities	4,048	(1,900)	(2,129)	19
Total financial liabilities	4,048	(1,900)	(2,129)	19

2014	Gross and net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	£m	£m	£m
Financial assets				
Derivative financial instruments	3,020	(1,440)	(1,356)	224
Total return swaps	149	-	(149)	-
Total financial assets	3,169	(1,440)	(1,505)	224
Financial liabilities				
Derivative financial liabilities	2,391	(1,440)	(873)	78
Total financial liabilities	2,391	(1,440)	(873)	78

The fair value of the financial collateral is the same as the values shown in the table above, except for the total return swaps collateral which has a fair value of £210 million (2014: £175 million).

Notes to the accounts continued

40 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 17.

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:

	2015 £'000	2014 £'000
Short term employee benefits	**4,698**	5,708
Other long term benefits	**4,513**	1,736
Contractual/other settlements	**94**	407
Total key management personnel compensation for year	**9,305**	7,851

Other long term benefits for the year ended 4 April 2015 include amounts from current and legacy long term bonus schemes, some of which will be paid in future periods. Further information on directors' bonus schemes is included in the Report of the directors on remuneration.

40 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 outstanding balances for related party transactions at the year end, and the associated income and expenses for the year are as follows:

	Society subsidiaries		Key management personnel	
	2015	2014	2015	2014
	£m	£m	£m	£m
Loans payable to the Society				
Loans outstanding at 5 April	26,048	25,557	0.8	0.8
Loans issued during the year	4,988	3,580	0.6	0.3
Loan impairment release/(charge)	31	(8)	-	-
Loan repayments during the year	(3,648)	(3,081)	(0.5)	(0.3)
Loans outstanding at 4 April	27,419	26,048	0.9	0.8
Deposits payable by the Society				
Deposits outstanding at 5 April	3,335	8,089	6.1	4.4
Deposits issued during the year	235	1,199	7.4	9.8
Deposit repayments during the year	(2,622)	(5,953)	(7.6)	(8.1)
Deposits outstanding at 4 April	948	3,335	5.9	6.1
Net interest income				
Interest receivable	1,024	1,140	-	-
Interest expense	142	268	0.1	0.1
Other income and expenses				
Dividends payable to the Society	-	206	-	-
Fees and expenses paid to the Society	13	12	-	-
Other balance sheet items				
Accrued income and expenses prepaid due to the Society	582	458	-	-
Other liabilities payable by the Society	5,371	4,849	-	-

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group.

In addition to the loans and deposits disclosed in the above table, one non executive director holds core capital deferred shares. At 4 April 2015 the value of this holding was £106,255 (2014: £103,467).

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 23 July 2015 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

41 Notes to the cash flow statements

	Group		Society	
	2015	2014*	**2015**	2014*
	£m	£m	**£m**	£m
Non-cash items included in profit before tax				
Net (decrease)/increase in impairment provisions	**(636)**	64	**(632)**	182
Net decrease in provisions for liabilities and charges	**(15)**	(8)	**(18)**	(8)
Impairment losses on investment securities	**18**	3	**18**	3
Depreciation, amortisation and impairment	**294**	282	**293**	281
Profit on sale of property, plant and equipment	**(2)**	(4)	**(2)**	(4)
Interest on subordinated liabilities	**115**	129	**115**	129
Interest on subscribed capital	**42**	59	**42**	59
Losses from derivatives and hedge accounting	**9**	51	**58**	38
Gain on the redemption of subscribed capital	**-**	(125)	**-**	(125)
	(175)	451	**(126)**	555
Changes in operating assets				
Loans and advances to banks	**(4)**	(130)	**(4)**	(130)
Investment securities	**(293)**	524	**(293)**	537
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**(697)**	1,792	**(1,671)**	854
Deferred tax assets	**(5)**	121	**(5)**	114
Loans and advances to customers	**(3,470)**	(7,018)	**(1,912)**	(6,610)
Other operating assets	**95**	39	**(868)**	193
	(4,374)	(4,672)	**(4,753)**	(5,042)
Changes in operating liabilities				
Shares	**1,905**	4,894	**1,905**	4,894
Deposits from banks, customers and others	**1,842**	(610)	**(371)**	169
Derivative financial instruments and fair value adjustment for portfolio hedged risk	**1,638**	(1,611)	**2,105**	(1,968)
Debt securities in issue	**(582)**	(484)	**(856)**	(852)
Deferred tax liabilities	**28**	(5)	**(2)**	-
Retirement benefit obligations	**51**	(119)	**48**	(118)
Other operating liabilities	**(70)**	102	**389**	(1,143)
	4,812	2,167	**3,218**	982
Cash and cash equivalents				
Cash	**4,325**	5,342	**4,325**	5,342
Loans and advances to banks repayable in 3 months or less	**2,925**	1,647	**2,890**	1,601
	7,250	6,989	**7,215**	6,943

*Comparatives have been restated as detailed in note 1.

The Group is required to maintain balances with the Bank of England which, at 4 April 2015, amounted to £319 million (2014: £315 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.

42 Capital management

The Group is subject to the capital requirements imposed by its regulator the Prudential Regulation Authority (PRA). Regulatory capital comprises the Group's general reserve, revaluation reserve, core capital deferred shares, other equity instruments, 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 'Solvency risk' section of the Business and Risk Report.

43 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 1SN

Other Information

Helping our customers do more on the move

'I must admit I love being able to access my account balances on my phone,' says Lauren Spencer. 'It means I always know where I am with my money. And I don't even have to log in. I can get those balances just by opening the app and tapping Quick Balance. Sounds simple and it is.'

Lauren is far from alone in liking our Mobile Banking app. In 2014/15 we made it an even handier and more convenient way to manage your money with a range of new features such as Quick Balance and Impulse Saver.

Incredibly, month after month our customers now do as many transactions on our Mobile Banking app which we launched in 2012, as they do on our Internet Bank which has been around since 1997.

Annual business statement

For the year ended 4 April 2015

1 Statutory percentages

	2015	Statutory limit
	%	%
Lending limit	7.93	25.00
Funding limit	21.11	50.00

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

	2015	2014
	%	%
As a percentage of shares and borrowings:		
• Gross capital	**6.9**	6.8
• Free capital	**6.0**	5.9
• Liquid assets	**10.6**	10.3
Profit for the financial year as a percentage of mean total assets	**0.44**	0.29
Management expenses as a percentage of mean total assets	**0.89**	0.85

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, cash flow hedge reserve, CCDS, Additional Tier 1 capital, 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 administrative expenses including depreciation, amortisation and impairment of property, plant and equipment and intangible fixed assets.

Annual business statement continued

3 Information relating to directors

At 4 April 2015

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, FCA 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 NBS Fleet Services Limited Staffordshire Leasing Limited Arkose Funding 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 (Trustee) Visa Europe Limited Visa Europe Services Inc.
D Roberts BSc (Hons), MBA, CFifs 12 September 1962	Non Executive Director	1 September 2014	Campion Willcocks Limited Dr Challoner's Grammar School (Governor) NHS England (NHS National Commissioning Board)
M K Jary MA (Oxon), MBA, FRAS 15 June 1963	Management Consultant	1 January 2009	Duchy Originals Limited (Chairman) OC&C Peleus Advisors LLP (Designated Member) OC&C Strategy Consultants LLP (Designated Member) OC&C Strategy Consultants International (Netherlands) (Partner) PCF Social Enterprises Limited (Chairman) The Michael Jary Charitable Trust (Chairman) The Fairtrade Foundation (Chairman)

3 Information relating to directors continued

At 4 April 2015

Name and date of birth	Occupation	Date of appointment	Other directorships
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 Sova Friends Life Group Limited Friends Life Holdings plc
Ms R Clifton CBE MA (Cantab), FRSA 30 January 1958	Non Executive Director	1 July 2012	Populus Limited WWF – UK (Fellow) Henley Festival Limited The British United Provident Association Limited The Conservation Volunteers TCV Trading 1 Limited TCV Trading 2 Limited BrandCap Limited Rita Clifton Limited ASOS plc
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.39 LLP (Designated Member) The Invicta Film Partnership No.37 LLP (Designated Member) Elysian Fuels 1 LLP (Designated Member) Elysian Fuels 2 LLP (Designated Member) MVA Consultant Services Limited Currency Cloud

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

Executive directors' terms and conditions of employment are detailed in their individual contracts which include a notice period of 12 months from the Society to the individual and a notice period of six months from the individual to the Society. The notice period offered to any new recruit would be in line with this approach.

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.

50% of awards to directors from the 2014/15 Directors' Performance Pay Plan and the legacy 2012-15 Medium Term Performance Pay Plan will be linked to the value of the Society's core capital deferred shares, details of which have been provided in the Report of the directors on remuneration.

Glossary

Additional Tier 1 (AT1) capital	Capital that meets certain criteria set out in Capital Requirements Directive IV (CRD IV). In particular, the criteria require that upon the occurrence of a trigger event, the AT1 capital instrument converts to Common Equity Tier 1 capital or the principal is written down on a permanent or temporary basis.
Additional Tier 1 (AT1) securities	Securities that pay a fixed annual coupon at the discretion of the Society. In the event of insolvency, AT1 securities rank the same as permanent interest bearing shares (PIBS) but behind the claims of all subordinated debt holders, creditors and investing members of the Society, but ahead of core capital deferred shares (CCDS) investors. These securities are eligible as Tier 1 capital.
Arrears	Amounts that are unpaid at their contractual date. A customer is in arrears when they are behind in fulfilling their obligations such that an outstanding loan payment is 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.
Available for sale (AFS)	Financial assets that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through the income statement.
Bank levy	A levy that applies 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.
Base mortgage rate (BMR)	The Society's standard variable rate, which is guaranteed to be no more than 2% above the Bank of England base rate. This is the revert rate for existing customers at the end of a deal reserved on or before 29 April 2009, at which point the Standard Mortgage Rate (SMR) was introduced.
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 is comprised of three pillars.
Basel III	The Basel Committee rules text, issued in December 2010, which presents the details of strengthened global regulatory standards on bank capital adequacy and liquidity. This has been implemented via the Capital Requirements Directive IV (CRD IV) legislation.
Basel III leverage ratio exposure	The denominator used in the Basel III leverage ratio. Exposure is measured as the sum of on-balance sheet exposures, adjusted for derivative and securities financing transaction exposures, and off-balance sheet items.
Basis point (bp)	One hundredth of a percent (0.01 percent). 100 basis points is one percent. Used, for example, in quoting movements in interest rates.
BIPRU	The prudential sourcebook for banks, building societies and investment firms.
Buy to let mortgages	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 Common Equity Tier 1 ratio, Tier 1 ratio, total capital ratio and leverage ratio.
Capital requirements	The amount of capital that the Group is required to hold based upon the risks to which the business is exposed.
Capital Requirements Directive (CRD)	The supervisory framework in the European Commission which reflects the Basel II and Basel III rules on capital measurement and capital standards.
Capital Requirements Directive IV (CRD IV)	European legislation to implement Basel III, which includes the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD).

Capital Requirements Regulation (CRR)	European regulation that is directly applicable to European Union member states, defining prudential requirements for capital, liquidity and credit risk for credit institutions and investment firms.
Capital resources	Capital held, allowable under regulatory rules, less certain regulatory adjustments and deductions that are required to be made.
Career average revalued earnings (CARE)	A defined benefit pension arrangement where the pension accrued is based on pensionable pay across an employee's career. The pension earned each year is based on pensionable pay in that year and is increased by a set revaluation rate, linked to inflation, for each year up 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.
Charge off	The point at which the customer relationship for non-active accounts is transferred to being one of recovery only, due to significant levels of arrears or through placement with a debt collection agency or litigation.
Collateral	Security pledged for repayment of a loan.
Collateralised debt obligations (CDO)	Securities issued by a third party which reference ABS and/or certain other related assets purchased by the issuer. The Group has not established any programmes creating CDOs but has invested in instruments issued by other banking groups.
Collateralised loan obligations (CLO)	Securities backed by the repayments from a pool of commercial loans. The payments may be made to different classes of owners (in tranches).
Collectively assessed impairments	Where a portfolio comprises assets with similar characteristics, collective impairment assessment takes place using appropriate statistical techniques. The collective assessment takes account of losses that will have taken place but are not yet identified.
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 (CRE)	Includes office buildings, industrial property, medical centres, hotels, retail stores, shopping centres, multifamily housing buildings, warehouses, garages and industrial properties.
Common Equity Tier 1 capital	The highest quality form of capital as defined in Capital Requirements Directive IV (CRD IV), comprising accumulated reserves and qualifying instruments after regulatory deductions.
Common Equity Tier 1 (CET1) ratio	Common Equity Tier 1 capital expressed as a percentage of risk weighted assets.
Consumer banking	Comprises credit card, unsecured personal lending and the Group's FlexAccount (current account) products.
Consumer Credit Act (CCA)	The legislation on how firms should market and manage credit for the protection of consumers.
Contingency funding plan (CFP)	A document recording the Group's plan in a range of liquidity and economic factor scenarios, which could have an impact on the Group over multiple time horizons.
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 capital deferred shares (CCDS)	A form of Common Equity Tier 1 (CET1) capital which has been developed to enable the Society to raise capital from the capital markets. Holders of CCDS receive periodic distributions from the Society. Distributions are discretionary and capped in any financial year. In the event of insolvency, CCDS holders rank behind the claims of all other depositors, creditors and investing members of the Society.

Glossary continued

Core liquidity ratio	The proportion of shares and borrowings, including offshore deposits, that are readily convertible. Readily convertible assets comprise either cash or highly rated debt securities issued by governments or multi-lateral development banks.
Cost income ratio (CIR)	A ratio that represents the proportion of administrative expenses to total income.
Covered bonds	Debt securities backed by a portfolio of mortgages that are segregated from the issuer's other assets to be solely for the benefit of the holders of the covered bonds. The Group issues covered bonds as part of its funding activities.
Credit risk	The risk that a borrower or counterparty fails to pay interest or to repay principal on a loan or other financial instrument (such as a bond) on time.
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 inherent credit risk.
Cross currency interest rate swap	An arrangement in which two parties exchange specific principal amounts of different currencies at inception and subsequent 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 personal account holders. Such funds are recorded as liabilities in the balance sheet within shares or amounts due to customers.
Customer redress	Compensation for loss as a result of past sales or other consequence (including technical breaches) of financial products.
Debit valuation adjustment (DVA)	The difference between the risk-free value of a portfolio of trades and the market value which takes into account the Group's risk of default. The DVA therefore represents an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk of the Group.
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 the Capital Requirements Directive IV (CRD IV) legislation. 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 bases of an asset or liability that will result in tax deductible amounts in future periods) and the carry forward of 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 bases of an asset or liability that will result in taxable amounts in future periods).
Defined benefit obligation	The present value of expected future benefit payments resulting from past service of employees in the defined benefit pension plan.
Defined benefit pension 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 Group bears the risk that its obligation may increase or that the value of the assets in the pension 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 liability. EIR allocates associated income or expense to produce a level yield, either to maturity or to the next re-pricing to a market rate.
Effective tax rate	The tax charge in the income statement as a percentage of profit before tax.
Encumbered assets	Assets on the balance sheet which are pledged in order to secure, collateralise or credit-enhance a financial transaction from which they cannot be freely withdrawn.
End point	Full implementation of Capital Requirements Directive IV (CRD IV) with no transitional provisions.
Enterprise Risk Management Framework (ERMF)	A framework that seeks to provide the context and guidance for cohesive risk management activity across the Group.
European Banking Authority (EBA)	The independent EU authority which works to ensure effective and consistent prudential regulation and supervision across the European banking sector.
Expected loss (EL)	A calculation to estimate the potential losses on current exposures due to potential defaults. It is the product of probability of default (PD), loss given default (LGD) and exposure at default (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)	An estimation of the amount of exposure that will be outstanding at the time of default.
Final salary pension arrangements	A defined benefit pension arrangement where the pension payable is based on the employee's final pensionable salary.
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 Prudential Regulation Authority's (PRA's) scope.
Financial Ombudsman Service (FOS)	An independent service in the UK for settling disputes between businesses providing financial services and their customers.
Financial Policy Committee (FPC)	A committee based at the Bank of England, charged with identifying, monitoring and taking action to reduce or remove systemic risks with a view to protect and enhance the resilience of the UK financial system. It is also responsible for supporting the economic policy of the UK Government.
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.
Fitch	Rating agency, Fitch Ratings Limited.
Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan to a customer as a result of financial difficulties.
Foreign exchange risk	The risk that the value of, or net income arising from, the Group's foreign currency assets and liabilities changes as a result of changes in the market level of exchange rates.
Foundation internal ratings based (IRB) approach	A method of calculating credit risk capital requirements using internal probability of default (PD) models but with regulators' supervisory estimates of loss given default (LGD) and conversion factors for the calculation of exposure at default (EAD).

Glossary continued

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)	A 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.
Gross capital	The aggregate of general reserve, revaluation reserve, available for sale reserve, core capital deferred shares (CCDS), Additional Tier 1 (AT1) capital, subscribed capital and subordinated liabilities.
Gross mortgage lending	New lending advanced to customers during the period.
House price index (HPI)	An index monitoring changes in house prices both monthly and annually, providing a comprehensive view of the property market.
Help to Buy shared equity scheme	A Government scheme which helps house purchasers obtain a mortgage with a 5% deposit. The property is part financed (up to 20% and a minimum of 10%) by an equity loan from the Homes and Communities Agency.
Impaired loans	Loans which are more than three months in arrears, or which have individual provisions raised against them.
Impairment provisions	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	When an impairment review determines that the amount expected to be recovered is less than the current carrying value, an impairment loss is recognised to reduce the asset's value to its recoverable amount.
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 Prudential Regulation Authority (PRA) on a firm's required quantity of liquidity resources and funding profile.
Individually assessed impairments	Residential loans are assessed individually for impairment when they are in possession. Commercial loans are assessed individually for impairment when there is objective evidence that an impairment loss has occurred.
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 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)	An 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 Prudential Regulation Authority (PRA) permission.
International Accounting Standards Board (IASB)	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 (IFRIC).
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	A measurement of 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.
Lending risk	The risk that a borrower or counterparty fails to pay interest or to repay principal on a loan or other financial instrument (such as a bond) on time. Lending risk also encompasses extension risk and concentration risk.
Level 1 fair values	Fair values derived from unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, such as for high quality government securities.
Level 2 fair values	Fair values derived from models whose inputs are observable in an active market, such as for most investment grade and liquid bonds, asset backed securities, certain collateralised debt obligations (CDOs), collateralised loan obligations (CLOs) and over the counter (OTC) derivatives.
Level 3 fair values	Fair values derived from inputs that are not based on observable market data (unobservable inputs), such as for private equity investments, derivatives including an equity element, deposits including an equity element, some collateralised debt obligations (CDOs) and certain asset backed securities and bonds.
Leverage ratio	A ratio defined by regulators which measures Tier 1 capital as a proportion of 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.
Liquid asset buffer (LAB)	A surplus level of adequate, high quality, unencumbered assets that must be held in order to meet the BIPRU requirements for liquidity resources.
Liquidity and funding risk	Liquidity risk is the risk that the Group is unable to raise cash to settle its financial obligations as they fall due and maintain public and stakeholder confidence. Funding risk is the risk that the Group is unable to realise assets or otherwise raise funds on reasonable terms and/or within reasonable timescales.
Liquidity coverage ratio (LCR)	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 exposure as a percentage of the value of the property on which it is secured. The Group calculates LTV on an indexed basis such that the value of the property is updated on a regular basis to reflect changes in the market using either the house price or commercial real estate indices.
Loss given default (LGD)	An estimate of the difference between exposure at default (EAD) and the net amount of the expected recovery expressed as a percentage of EAD.
Loyalty Saver	A distinctive set of savings products which pay enhanced rates as membership length increases.
Main current account	The primary or sole current account used by the customer.
Market risk	The risk that the value of, or net income arising from, the Group's assets and liabilities is impacted as a result of market prices or rate changes.
Medium term notes	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.
Moody's	Rating agency, Moody's Investors Service Limited.
Mortgage backed securities	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).

Glossary continued

Mortgage market review (MMR)	A report published by the Financial Conduct Authority (FCA), requiring all mortgage lenders to enhance responsible lending controls for mortgages by 26 April 2014, to ensure that all mortgages are affordable, and to minimise the risk of detrimental outcomes for customers.
Near prime	Loans to borrowers with marginally weakened credit histories such as a County Court Judgement (CCJ) or default of 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 mortgage lending	The net amount of new lending advanced to customers during the period offset by customer balances settled during the period.
Net stable funding ratio (NSFR)	A funding metric, 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).
Non-performing loans	Loans which are in arrears, including impaired loans with individually assessed impairments.
Operational risk	The risk of loss resulting 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.
Past due loans	Loans where a counterparty has failed to make a payment when contractually due.
Pension risk	The risk that the value of the Fund's assets will be insufficient to meet the estimated liabilities of the Fund. Pension risk can adversely impact the Group's capital position and/or result in increased cash funding obligations to the Fund.
Performing loans	Loans which are neither past due nor impaired.
Permanent interest bearing shares (PIBS)	Unsecured, deferred shares of the Society that, in the event of insolvency, rank equally with the claims of Additional Tier 1 (AT1) securities, behind the claims of all subordinated debt holders, depositors, creditors and investing members of the Group, and ahead of the claims of core capital deferred shares (CCDS) investors. PIBS are also known as subscribed capital.
Pillar 1/2/2A/3	Components of the Basel capital framework. Pillar 1 covers the minimum requirements, Pillar 2 covers supervisory review and Pillar 3 covers disclosures.
Prime residential mortgages	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	Equity investments in operating companies that are not quoted on a public exchange.
Probability of default (PD)	An estimate of 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 provisions to the corresponding portfolio of loans and advances to which they relate.
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.
Regulatory capital	Capital allowable under regulatory rules, less certain required regulatory adjustments and deductions.
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 present value of future cash 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 on a given date. For the party selling the security (and agreeing to repurchase it in the future) it is a repurchase agreement or 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).
Residual maturity	The remaining period to the contractual maturity date of a financial asset or financial liability.
Retail funding	Funding obtained from individuals rather than institutions.
Retail internal ratings based (IRB) approach	An approach for measuring exposure to retail credit risks. The method of calculating credit risk capital requirements uses internal probability of default (PD), loss given default (LGD) and exposure at default (EAD) models. Internal ratings based (IRB) approaches may only be used with Prudential Regulation Authority (PRA) permission.
Retail loans	Loans to individuals rather than institutions, including residential mortgage lending and consumer banking.
Risk appetite	The level and type of risk that the Group is willing to assume in pursuit of its strategic goals.
Risk weighted assets (RWA)	The value of assets, after adjustment under the 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.
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.
Solo surplus	Total capital on an individual consolidated basis less capital requirements. Individual consolidation is a consolidation basis for regulatory purposes which only includes those subsidiaries meeting particular criteria contained within Capital Requirements Directive IV (CRD IV).
Solvency risk	The risk that the Group fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators.

Glossary continued

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. 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.
Standard & Poor's (S&P)	Rating agency, Standard & Poor's Credit Market Services Europe Limited.
Standard mortgage rate (SMR)	The revert rate for existing mortgage customers at the end of a deal reserved on or after 30 April 2009.
Standardised approach	The basic method used to calculate credit risk capital requirements. In this approach the risk weights used in the capital calculation are determined by regulators' supervisory parameters. The Standardised approach is less risk-sensitive than the internal ratings based (IRB) approach.
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 entity (SE)	An entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.
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 Additional Tier 1 (AT1) securities, permanent interest bearing shares (PIBS) and core capital deferred shares (CCDS).
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)'.
Swap rate	The fixed interest rate in a fixed to floating interest rate swap.
Tier 1 capital	A measure of the Group's financial strength prior to the introduction of the Capital Requirements Directive IV (CRD IV) legislation. The Group's general reserves, core capital deferred shares (CCDS) and Additional Tier 1 (AT1) qualify as Tier 1 capital.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	A further measure of the Group's financial capital that meets the Tier 2 requirements set out in the Capital Requirements Regulation (CRR), comprising qualifying subordinated debt and other securities and eligible impairment allowances after 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 to transform the way activities are performed.
Unaudited	Financial information that has not been subjected to the audit procedures undertaken by the Group's external auditor.
Underlying profit	A measure which aims to present 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.

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, the Group uses a 10 day horizon and a 99% confidence level.
Wholesale funding	Funding received from larger businesses, financial institutions and sovereign entities.
Wholesale funding ratio	Wholesale funding as a percentage of total funding.
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 and any related impairment balance are removed from the balance sheet.

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Nationwide Building Society.
Head Office: Nationwide House, Pipers Way, Swindon, Wiltshire SN38 1NW

nationwide.co.uk

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