Nationwide Building Society

Preliminary Results Announcement
For the year ended
4 April 2017

Building Society

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Underlying profit
Profit before tax shown on a statutory and underlying basis is set out on page 11. Statutory profit before tax of £1,054 million has been adjusted for a number of items to derive an underlying profit before tax of £1,030 million. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across years. Underlying profit is not designed to measure sustainable levels of profitability as 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.

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

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

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

NATIONWIDE BUILDING SOCIETY

RESULTS FOR THE YEAR ENDED 4 APRIL 2017

UK'S MOST TRUSTED FINANCIAL BRAND REACHES RECORD MEMBERSHIP, BECOMES UK'S TOP CHOICE FOR CURRENT ACCOUNTS, AND DELIVERS MEMBER FINANCIAL BENEFIT OF £505 MILLION

Remained no.1 for customer satisfaction amongst high street peer group[1]
15 million members an all-time membership high
Helped over 1 in 5 new buyers onto the housing ladder
18,000 all-employee engagement refreshed Society's strategy and purpose

Managing profits for members to bolster financial strength and investment, and deliver member value

- statutory profit £1,054 million (2016: £1,279 million) reflecting competition and decisions to deliver value back to members
- underlying profit £1,030 million (2016: £1,337 million)
- underlying cost income ratio 60.2% (2016: 53.9%) reflecting investment in service and growth
- delivered member financial benefit of £505 million (2016: £397 million)[2]
- improved Common Equity Tier 1 ratio to 25.4% (2016: 23.2%). UK leverage ratio of 4.4% (2016: 4.4%)

Record current account openings and switching levels

- record 795,000 current accounts opened, up 35%, representing 1 in 7 of all new accounts opened
- UK's top choice for current accounts[3], opened more accounts than any other provider (for six months ended March 2017), and nearly 1 in 5 of all switchers chose Nationwide[4]
- highest ever share of main standard and packaged current account market at 7.5% (2016: 7.1%)

Record mortgage lending, helping 1 in 5 UK first time buyers onto the housing ladder

- record gross mortgage lending, up 3% to £33.7 billion
- record gross prime lending, up 14% to £29.1 billion
- helped a record 75,000 first-time buyers, up 31%

Protected members with average deposit rates a third higher than the market average[5]

- member deposit balances grew by £5.8 billion (2016: £6.3 billion)
- provided members with £380 million (2016: £285 million) in additional deposit interest compared to market average
- maintained rates on Help to Buy ISA, Flexclusive Regular Saver and Regular Saver accounts

Most trusted financial services brand[6] and No.1 for customer satisfaction[1]

- record membership of 15 million, including record 7.8 million engaged members[7] (2016: 7.4 million engaged members)
- highest customer satisfaction amongst our high street peer group - lead of 5% over next best financial provider[1]
- most trusted brand among financial services peer group[6] and UK's most reputable financial services provider[8]
- *Which?* 'Banking Brand of the Year 2017'
- among highest employee engagement scores worldwide, supporting our service culture

'Building society, nationwide' purpose sees investment in communities and high street

- committed to investing £80 million in branches during 2017/18
- opened 'first branch back' in Glastonbury, responding to call of community
- 75% of employees involved in fundraising, volunteering or payroll giving
- £5 million channelled into community and charity support

Nationwide Chief Executive, Joe Garner, said:

"Last year we saw continued high levels of profitability and financial strength which allowed us to deliver real value, over half a billion pounds, to our members. It is the combination of that value and our service, where we are rated number one for customer satisfaction amongst our high street peer group[1], which helped Nationwide grow membership to an all-time high of 15 million. Record growth in mortgages and current accounts helped us deliver profits of over £1 billion for the third year running.

"As a member-owned organisation, we don't seek to maximise our profits but to manage them in our members' interests. We make conscious choices about how we distribute our profitability between strategic investment, capital generation and member financial benefit. Our success this year allowed us to improve our capital strength and continue to invest in growing the Society. At the same time, we were able to give back £505 million to members which included maintaining selected savings rates while passing on the base rate decrease in full to mortgage borrowers. The combination of the low interest rate environment and our decisions to protect savings rates for longer led to an exceptional year for member value.

"We can make these choices thanks to our success in attracting and retaining members. Our record year for mortgage lending included helping 75,000 first time buyers onto the housing ladder. We opened a record number of current accounts, with almost 1 in 5 of people switching choosing Nationwide[4]. And Nationwide achieved a new milestone, becoming the UK's top choice for current accounts[3]. We protected our savers with rates a third higher than the market average, leading to a growth in member deposits of £5.8 billion. We are delighted to have recently become *Which?* 'Banking Brand of the Year 2017'.

"While we saw record use of online services driven by our mobile app, we know that members value our branch network, which is why we are investing £80 million in upgrading branches this year. We have also opened a branch in Glastonbury, Somerset, which had been left without a bank, to test the viability of opening branches with community support. If successful, we may choose to open other branches where there is demand from a community.

"As a mutual, our business is underpinned by a social purpose, and we are determined to use our success to deliver long term value to members and communities. As Brexit negotiations get underway, these strong results ensure that we are well placed to support members through the uncertainty that lies ahead."

Nationwide Chief Financial Officer, Mark Rennison, said:

"Nationwide has delivered a very strong trading performance over the last year, with record levels of active members, mortgage lending and current account openings.

"We chose to protect savers from the full effects of last summer's interest rate cut, knowing that this would reduce our full year profitability in the continuing low interest rate environment, but considering this to be in our members' best interests. Nevertheless, we delivered statutory profits of £1,054 million, the third consecutive year where our profits exceeded £1 billion, together with strong growth in prime mortgage lending and in current account openings.

"In the last few years, we have funded significant business growth, including opening over two million current accounts in the past four years. This, combined with strategic investment in the Society – in new products, better service propositions, strengthened controls and an enhanced pension scheme for employees – has contributed to an increase in costs. In the coming year, we will be sharpening our focus on efficiency and expect our costs to be broadly flat in the year ahead.

"As well as protecting savers, our trading performance allowed us to further strengthen our core capital ratio to 25.4% and maintain our conservative 4.4% UK leverage ratio."

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[1] © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017 vs. 3 months ending 31 March 2016, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

[2] Further information on member financial benefit is contained in the Financial review.

[3] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency. 'Top choice' is most considered i.e. 'first choice' or 'seriously considered' current account provider amongst non-customers, based on responses from non-customers of each brand, 3 months ending March 2017. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.

[4] Source: Independent Research Agency, eBenchmarkers, CACI, BACS Payments Schemes monthly CASS switching market data and internal sources.

[5] Bank of England whole of market average interest rates on a 12-month rolling basis, adjusted to exclude Nationwide's balances.

[6] Source: Nationwide Brand and Advertising tracker - compiled by Independent Research Agency, based on responses from existing customers of each brand, 3 months ending March 2017. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds, NatWest, TSB and Santander.

[7] Defined as members who hold a mortgage or savings account (with a balance greater than £5,000) or their main current account with Nationwide.

[8] 2017 UK RepTrak® (Reputation Institute), ranked Nationwide as the 29th most reputable company in the UK.

FINANCIAL SUMMARY

	Year to 4 April 2017		Year to 4 April 2016	
Financial performance	£m		£m	
Total underlying income	3,285		3,333	
Underlying profit before tax	1,030		1,337	
Statutory profit before tax	1,054		1,279	
Mortgage lending	£bn	%	£bn	%
Group residential – gross/*gross market share*	33.7	*14.0*	32.6	*13.7*
Group residential – net/*net market share*	8.8	*25.4*	9.1	*21.4*
	%		%	
Average loan to value of new residential lending (by value)	71		69	
Deposit balances	£bn	%	£bn	%
Member deposits balance movement/*market share* (note i)	5.8	*8.2*	6.3	*8.7*
Net receipts (note ii)	0.7		5.1	
Key ratios	%		%	
Cost income ratio – underlying basis	60.2		53.9	
Cost income ratio – statutory basis	60.3		54.8	
Net interest margin	1.33		1.52	

	4 April 2017	4 April 2016
Balance sheet	£bn	£bn
Total assets	221.7	208.9
Loans and advances to customers	187.4	178.8
Member deposits (note i)	144.5	138.7
Asset quality	%	%
Residential mortgages		
Proportion of residential mortgage accounts 3 months+ in arrears	0.45	0.45
Average indexed loan to value of residential mortgage book (by value)	55	55
Total provisions as % of non-performing balances	5.3	3.2
Consumer banking		
Non-performing loans as % of total (excluding charged off balances)	4	4
Total provisions as a % of non-performing loans (including charged off balances)	86	81
Key ratios	%	%
Capital		
Common Equity Tier 1 ratio (note iii)	25.4	23.2
UK leverage ratio (note iv)	4.4	4.4
CRR leverage ratio (note iii)	4.2	4.2
Other balance sheet ratios		
Liquidity coverage ratio	124.0	142.6
Wholesale funding ratio (note v)	27.1	24.8

Notes:

i. Member deposits include current account credit balances.
ii. Net receipts include outflows of non-member deposits relating to the closure of off-shore operations in the Isle of Man and Republic of Ireland.
iii. Reported under CRD IV on an end point basis. The CRR leverage ratio is calculated using the Capital Requirements Regulation (CRR) definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure.
iv. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority and excludes eligible central bank reserves from the leverage exposure measure.
v. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations) but excludes Funding for Lending Scheme (FLS) drawings which, as asset swaps, are not included on Nationwide's balance sheet, reflecting the substance of the arrangement. Off-balance sheet FLS drawings totalled £4.8 billion (2016: £8.5 billion).

Chief Executive's review

Why being a building society matters

Our building society has an extraordinary past. Nationwide was born of a social purpose and the belief that people can achieve more together than alone. That speaks to an equally extraordinary future. We are unashamedly ambitious for a future in which we are seen to be genuinely '*building society, nationwide*'. After a year as your Chief Executive, I am more convinced than ever that Nationwide's mutual purpose remains as relevant today as it was when we were founded 130 years ago.

Nationwide's strong trading and financial performance in 2016/17 puts us in a good position. Membership is at a record high, as more people choose Nationwide for mortgages, savings and current accounts than ever before. We are proud to be, for the first time, the UK's top choice for current accounts.

Nationwide has a strong reputation for outstanding service, where we lead our high street peer group for customer satisfaction by 5%[1], delivered by loyal and committed people. As a result, membership grew to over 15 million.

Nationwide is in robust financial health, having achieved profits of over £1 billion for the third consecutive year. As a mutual, profits are not the only barometer of our success, but they are important because they allow us to maintain our financial strength, to invest with confidence, and to return value to you, our members, through pricing and service. During the year, we therefore took conscious decisions on interest rates, fees and incentives, that delivered a financial benefit of £505 million to our members, alongside the high standards of service we are known for. For more information see our Financial review.

Financially strong and sustainable

Nationwide remains safe and secure as shown by a strong capital position and balance sheet. We have improved the Society's common equity tier 1 ratio to 25.4% (2016: 23.2%), and the UK leverage ratio remains robust at 4.4%.

As anticipated, statutory profit reduced by 17.6% in the year to £1,054 million, due to a number of factors. Net interest income reduced due to the prevailing low interest rate environment, competition in the mortgage market and the conscious decisions we have taken to protect rates for savers while passing on the base rate decrease to mortgage borrowers. There has also been a growth in underlying costs, mainly reflecting ongoing expenditure on strategic investment, together with growth in business volumes. The impact of these has been partially offset by a gain of £100 million from the disposal of the Society's stake in Visa Europe during the period.

Strategic investment in the Society is greater than ever before, reflecting our commitment to investing in new products and better service propositions for members. We also continue to invest in strengthening our resilience and control environment to keep our members' money safe. As a responsible employer, we have supported our people by increasing pension contributions.

These increases to costs have led to a deterioration in our underlying cost income ratio to 60.2% (2016: 53.9%). In the coming year, we will keep our costs broadly flat by implementing efficiency initiatives, such as our 'right first time' programme to reduce errors and duplication across the business, and our plans to automate more manual processes. We will continue to invest where we believe it is in the long term interests of our members.

We have a stable and low-risk business model, which is fundamentally about looking after our members' deposits and putting them to work funding other members' mortgages. During the year, we identified several parts of the business that were not a good fit with our core purpose. We have begun to exit these responsibly. We will stop offering car insurance to new customers from June 2017 and will be writing to customers to let them know how their policy will be managed in future. We are also winding down our commercial lending business, will exit the Nationwide International deposit-taking business, and will no longer offer inheritance tax planning advice. While we recognise these customer needs, we believe it is not in the interests of our Society to provide services which are not core to our business.

Nationwide's financial strength, improved efficiency, and a tighter focus on our core business will ensure we can continue to invest in new products, good value pricing, and the service quality members value.

[1] © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).'

Chief Executive's review (continued)

Record membership as more people choose Nationwide

Nationwide's membership reached an all-time high, with over 15 million members, including a record 7.8 million engaged members who hold a core product with us.

More than 2.2 million members hold mortgages with us, representing a market share of 12.9% and, as the UK's second largest mortgage lender, we remain committed to helping people own their own home. In the year, we lent more to help people onto or up the housing ladder than ever before, with total mortgage lending of £33.7 billion, up 3%. We also helped 75,000 first-time buyers into their first home, representing 1 in 5 of all first-time buyers in the UK and a new record (2016: 57,200). In March, we launched a new Family Deposit Mortgage that allows homeowners to raise funds from their existing property to help another family member buy a home and we are already processing the first applications.

We also support the growing private rented sector through our dedicated buy to let subsidiary, The Mortgage Works (UK) plc. We have tightened our criteria on lending to make sure our borrowers can meet future repayments. This move, combined with the softening of lending which followed changes to Stamp Duty in March 2016, resulted in a planned fall in buy to let lending to £4.6 billion, a decline of 36%.

We are the UK's third largest savings provider, accounting for £1 in every £10 of savings in Britain. With interest rates still at record lows, we remain committed to encouraging the nation to keep saving. We kept average deposit interest rates over a third higher than the market average in the last year, leading to £5.8 billion growth in member balances. Following the base rate cut in the summer, we maintained rates on our Help to Buy ISA, Flexclusive Regular Saver and Regular Saver accounts. As part of our overall desire to support savers, over the last year our members benefited from £380 million in additional interest compared to the market average. 1.7 million members have signed up to SavingsWatch, our email and text alert service for rate changes and new products.

Nationwide achieved a new milestone, becoming the UK's top choice for current accounts. A combination of strong growth and good retention took our market share of main standard and packaged current accounts to 7.5% at February, up from 7.1% last year. A record 795,000 Nationwide current accounts were opened over the year, an increase of 35% over the previous year. This included 147,000 new youth accounts, a market share of 14.3% in the youth market. A further 169,000 people chose FlexPlus, our award-winning account. We strongly support financial inclusion by providing customers access to a full banking service with our FlexBasic account. We also continue to benefit from high switching rates through the Current Account Switch Service, with some 165,000 current account holders switching to Nationwide – an 18% share of the total personal switcher market. We are delighted to have recently become *Which?* 'Banking Brand of the Year 2017'.

We continued to provide a full range of personal banking services and saw steady growth in credit cards issued, personal loans and home insurance.

No 1 for service

If there is one thing that sets us apart, it is Nationwide's high standard of service. We are ranked number one for customer satisfaction amongst our high street peer group, with a lead of 5.0%[1] over the nearest competitor thanks to the culture of care I see everywhere at Nationwide. As service expectations of our members tend only to rise, we are constantly seeking ways to serve members even better.

We are working hard to provide a truly seamless service across mobile, branch and telephone channels, so that members can choose when, where and how to transact with us. It is 20 years this year since we launched our internet bank – the first in the UK – and we still combine digital convenience with a human touch. In the last year mobile log-ons grew by 73%, and we aim to double the number of members who are active via mobile channels.

At the same time, our branches remain busy: over half of all new current accounts are still opened in a branch. We still see a vital role for the branch network, despite the continued withdrawal of financial services providers from high streets over the last two decades.

We are exploring ways to ensure branches remain financially viable in a future where members may use them less. For example, we're testing using Nationwide NOW, our state of the art video technology, to connect customers to mortgage, personal banking and financial consultants in selected branches, as well as contact centres, using our branch consultants' time more efficiently. Similarly, we're piloting a new community branch in Glastonbury, which opened in April, to test the viability of combining personal service and the latest technology to serve communities left without a bank.

[1] © GfK 2017, Financial Research Survey (FRS), 3 months ending 31 March 2017, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

Chief Executive's review (continued)

Great place to work

Our employees provide the foundations on which our member service and propositions thrive, so we try very hard to make Nationwide Building Society a great place to work. Our success is reflected in our very high employee engagement score which, at 78%, is above the average score of high performing organisations worldwide. In the previous year we improved our employee pension scheme by increasing our employer contributions, helping to ensure that employees will have a living pension.

Our reputation as a good employer reflects the very special culture and ethos of Nationwide, which is encapsulated in our PRIDE values:

Putting our members and their money first
Rising to the challenge
Inspiring trust
Doing the right thing in the right way
Excelling at relationships

Leading by example and making a difference

Since our origins in the 19th century right through to the present day, our aim has been to support communities by helping people save and live in better homes. We continue to invest at least 1% of our pre-tax profits to support good causes, in line with our purpose. This funding supports both our own social investment programme and the Nationwide Foundation, the independent charity we established 20 years ago to provide decent, affordable homes for people in housing need.

Our five-year *Living on your Side* social investment programme drew to a close in April and, I am proud to report, achieved all its objectives. Over five years, we helped 958,000 people into a home of their own, enabled over one million people to start saving, and channelled more than £21 million into community and charity support.

As housing in Britain remains a challenge, we want to play our part in addressing this by targeting a range of housing issues with our new social investment programme. This will be launched in 2017 and will focus on an aspiration that everyone has a place fit to call home. It will also include a new social ambition to find local solutions to national housing issues. We will also support the growing number of people who rent by championing the rights of tenants and high standards for landlords.

A refreshed purpose and strategy

Our business model of looking after our members' deposits and using them to fund other members' mortgages, is broadly unchanged since we were founded. Our belief in the power of mutuality is a constant.

But the world around us is changing like never before, and we have a responsibility to review our Society's strategy periodically to ensure we're able to respond to these changes. Technology is profoundly reshaping customer needs, expectations and relationships. Political upheavals have shown that many people feel the system is not working for them. Economically, the continued era of low interest rates and increasing competition creates new challenges for us to respond to. By refreshing our Society's strategy, we have prepared ourselves to meet these challenges and embrace the opportunities we see ahead.

Collaboration has been a force for good throughout Nationwide's history, which is why we started our strategy refresh with a huge listening exercise, giving our people and our members the chance to contribute to our future. Almost all of our 18,000 colleagues had the chance to contribute through a five-week 'Big Conversation' last summer. We've also listened to you, our members, at Talkback events, through our 5,000-strong online Member Connect community, and through our everyday interactions across the Society.

This huge collaborative effort has led to a reinvigorated sense of Nationwide's purpose, which we describe as *building society, nationwide* – helping people improve the quality of their lives. It has also helped to shape a refreshed strategy, which will allow us to deliver value for members in an efficient and compelling way.

Chief Executive's review (continued)

To do this, we have organised our strategy around five cornerstones that define what we stand for, what we will do and how we will do it:

Built to Last – being safe, secure, sustainable and dependable
Building PRIDE – shared values, shared culture, doing the right thing
Building Legendary Service – providing service that is heartfelt, easy, lifelong and personal
Building Thriving Membership – delivering real value for our members
Building a National Treasure – leading by example and making a difference

For each cornerstone, we have developed a set of key performance indicators (KPIs). These will ensure that we remain tightly focused on our purpose and also provide you, as members, with the ability to assess the Society's performance.

Outlook

Nationwide is a domestic, consumer-facing business, which means consumer confidence matters to us. This is why, alongside our macro-economic analysis, we have asked consumers how they are feeling on an individual level.

Our research shows that confidence among consumers has held up well since last year's referendum, thanks to the strong performance of the UK economy. It also showed that consumers are alert to the economic uncertainties ahead, with the Brexit negotiations, low interest rates and inflation registering as concerns. However, households remain relatively optimistic about their own finances, and are going about their daily lives as normal.

Spending most commonly cited by consumers as possible future concerns are the food, utility and other household bills that make up a good proportion of monthly outgoings, and we anticipate that a combination of rising inflation and modest wage growth is likely to squeeze household budgets. Unsurprisingly, consumers said that if they needed to trim their spending in the future, they would cut back on leisure activities first, and see their mortgage and rent payments as most protected.

In the housing market, if the economy slows as we expect, there will be a cooling effect in the form of lower sales and house price growth – and in fact the first signs of this are already showing through in market data. However, the continued shortage of homes in the UK will support house prices, which we expect to rise by 2% in 2017, with some scope for a further softening in 2018 to 2019. In the medium-term, we expect house prices to rise broadly in line with earnings.

It's clear that consumers are alive to the economic uncertainties that lie ahead, as are we. In this environment, we believe the benefits of mutuality will become only clearer. Last year, we protected our members through enhanced pricing, putting an additional £505 million into members' pockets. We anticipate that the financial benefit will vary from year to year depending on market conditions, and expect it to reduce next year. However, Nationwide's financial strength, stable and low risk business model, and strong trading performance all mean we are well placed to continue to support the UK economy, and our members, in the uncertain times ahead. In the medium term, I believe people will always want to save for their future, manage their daily finances and have a place to call home, so the fundamentals of Nationwide's business remain as relevant as ever.

Building society, nationwide

Nationwide is your Society, and we are custodians of it. I hope this statement has given you a sense of what we achieved on your behalf last year and the strength of our Society to achieve its purpose of **building society, nationwide**.

Financial review

Overall performance

Financial performance for the year ended 4 April 2017 was in line with the expectations indicated when announcing our 2015/16 financial results. Statutory profit before tax was £1,054 million (2016: £1,279 million) and underlying profit was £1,030 million (2016: £1,337 million), reflecting our continued focus on offering value on our products and better service for our members, whilst maintaining capital strength.

An advantage of being a building society is that Nationwide can choose to forgo an element of profitability in order to deliver more value to our members, whilst ensuring we maintain financial strength and safeguard our members' money. In 2016 we introduced a financial performance framework with parameters which enable us to calibrate future performance to achieve the right balance between distributing value to members and maintaining financial strength. Despite the reduction in profitability, 2016/17 underlying profit remains comfortably within the target range set by our financial performance framework.

Our underlying cost income ratio has deteriorated to 60.2% (2016: 53.9%) primarily due to increased costs against broadly flat total underlying income. The rise in costs reflects ongoing expenditure on strategic investment to enhance propositions and service for our members, and increased staff costs, including our investment in a 'Living Pension' for our employees. We have also incurred one-off costs during the year relating to restructuring and asset write downs, reflecting the pace of change of technology and changing member needs. These one-off costs, along with other in-flight initiatives and our target to deliver £300 million of sustainable cost savings by 2022, will result in lower cost growth in future periods.

Impairment losses have increased following a review of the secured and unsecured lending portfolios to ensure that the evidence of impairment and latent risks during the low interest rate environment are adequately represented in the model assumptions, and that appropriate provisions are held for interest only loans where borrowers may be unable to repay capital balances at maturity.

Total assets have grown by £12.7 billion to £222 billion as at 4 April 2017, largely due to a £9.1 billion increase in residential mortgages. Of this, £8.0 billion relates to prime mortgages and reflects a strong trading performance aligned to our strategic objective of increasing our market share of prime mortgages. The remainder of the balance sheet growth is driven by an increase in high quality liquid assets as we replace off-balance sheet Funding for Lending Scheme (FLS) liquidity with on-balance sheet Term Funding Scheme (TFS).

Capital levels have remained strong with Common Equity Tier 1 (CET1) ratio and UK leverage ratios of 25.4% and 4.4% respectively (2016: 23.2% and 4.4% respectively). The UK leverage ratio remains unchanged as profits have broadly offset the increase in the defined benefit pension deficit and balance sheet growth driven by increases in mortgage balances.

We expect the prolonged low interest rate environment and competition in the mortgage market to continue in the period ahead. Notwithstanding this, our positive trading performance, financial strength and high quality balance sheet mean that we are well placed to deliver long term value to our members. We will also continue to focus on driving our efficiency agenda to reduce cost growth in future periods.

Financial review (continued)

Income statement

Underlying and statutory results	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Net interest income	2,960	3,086
Net other income	325	247
Total underlying income	3,285	3,333
Underlying administrative expenses	(1,979)	(1,796)
Impairment losses	(140)	(73)
Underlying provisions for liabilities and charges	(136)	(127)
Underlying profit before tax (note i)	1,030	1,337
Transformation costs (note ii)	-	(10)
Bank levy (note ii)	(42)	(41)
FSCS (note ii)	-	(46)
Gains from derivatives and hedge accounting (notes ii and iii)	66	39
Statutory profit before tax	1,054	1,279
Taxation	(297)	(294)
Profit after tax	757	985

Notes:

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

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

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

Total income and margin	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Net interest income	2,960	3,086
Other income	325	247
Total underlying income	3,285	3,333
Gains from derivatives and hedge accounting	66	39
Total statutory income	3,351	3,372
Weighted average total assets	222,901	203,623
Net interest margin (NIM) %	1.33	1.52

Net interest income has reduced by £126 million to £2,960 million (2016: £3,086 million). This reduction is primarily due to ongoing competition in the mortgage market and our continued focus on delivering long term value to our members, combined with the ongoing natural run off of our residential base and standard mortgage rate balances. The competitive rates available across the market have led to more members switching to competitively priced products (£17.0 billion of members' balances switched to lower priced Nationwide mortgages) and higher redemptions. This reduction in back book balances, together with lower margins on new business pricing, has resulted in downward pressure on our NIM. As anticipated our NIM for the year of 1.33% was lower than the previous year's NIM of 1.52%.

The longer-term impact on the UK economy of the EU referendum vote is uncertain and, with interest rates expected to continue to remain at historically low levels for a prolonged period, we expect NIM to remain broadly stable for the year ahead.

Margin pressure resulting from increased competition for new mortgage lending has led to savings rates continuing to fall across the industry. In line with our mutual principles we have chosen to forgo an element of profitability through resisting lowering savings rates where possible and offering competitive products.

Following the decision by the Bank of England to cut the bank rate to 0.25%, we committed to protecting members who save regularly, or are building a deposit to buy their own home, resulting in several products being protected from the bank rate decrease. We have also applied a 0.10% rate floor to all variable products.

Financial review (continued)

Other income has increased by 32% to £325 million (2016: £247 million) primarily due to a one-off gain of £100 million from the disposal of our investment in Visa Europe during the year. Excluding this gain, underlying other income has reduced, primarily due to a reduction of £15 million in income from credit card transactions, following the introduction of regulatory caps in December 2015, and a decrease of £7 million in other income received from mortgages. Whilst the number of active current accounts has increased, the associated net fee income is broadly flat as we continue to support the financial inclusion of customers by offering the benefits of our FlexBasic account, which has no fees for certain transactions.

Administrative expenses	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Employee costs	793	736
Other administrative expenses	790	735
Depreciation, amortisation and impairment	396	325
Total underlying administrative expenses	1,979	1,796
Bank levy	42	41
Transformation costs	-	10
Total statutory administrative expenses	2,021	1,847
	%	%
Cost income ratio – underlying basis	60.2	53.9
Cost income ratio – statutory basis	60.3	54.8

Underlying administrative expenses increased by 10% (£183 million) due to increases in employee costs and strategic investment in propositions and service for members, as well as restructuring costs to drive efficiency and the costs of servicing higher business volumes. The underlying cost income ratio has increased to 60.2% (2016: 53.9%). At a statutory level, administrative expenses increased by 9% (£174 million).

Our cost trajectory reflects significant business growth and investment over recent years. Mortgage balances have grown 18% over the last three years and we have 42% more main current accounts today than in 2014.

During 2016/17 employee costs increased by £57 million, reflecting an annual pay award averaging 2.1% and higher full year costs from enhancements made in 2015/16 to the defined contribution pension scheme in line with our commitment to provide a 'Living Pension'. Average employee numbers increased by 4% year on year to build greater capacity to meet additional business volumes, deliver our investment strategy and further strengthen control functions.

Notwithstanding the fact that cost growth in recent years is the result of conscious decisions to support the Society's strategy and the service provided to members, we recognise the need to improve efficiency, and that cost increases significantly ahead of inflation are not sustainable in the continuing low interest rate environment we face. We will continue our focus on operational efficiency, exploiting the benefits of past and ongoing investment while continuing to prioritise the needs of our members. We have launched an efficiency programme which targets £300 million of sustainable cost savings to be delivered by 2022. This includes investing £43 million in 2016/17 in improving longer term efficiency, including accelerating automation and digitised service delivery, costs associated with organisational simplification, the announced closure of our Isle of Man and Republic of Ireland operations, and our withdrawal from the commercial real estate (CRE) sector. We have allocated approximately £100 million of spend over the next three years to support the programme, and anticipate that our focus on efficiency will enable us to achieve broadly flat costs in 2017/18 and lower cost growth in future.

To support the long term interests of our members, we continue to invest in propositions, service and resilience. During the period, investment has focused on service improvements for members, both in branch and through digital channels, including updating our savings point of sale systems to allow real time online account opening, delivery of in-house credit risk assessments for prime mortgages, upgrades to our Banking App for smartphones and tablets, and the roll out of further video links in branches which allow members greater flexibility to speak face to face with advisors in another location. We have also invested in IT resilience and ensuring compliance with UK and EU regulatory requirements.

Following a review of amounts capitalised for assets in use or in the course of development, asset write downs of £31 million (2016: £2 million) were recognised in the year, along with an increased depreciation charge of £15 million due to adjustments to asset lives, reflecting the pace of change of technology and changing member needs.

Financial review (continued)

Impairment losses/(reversals)	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Residential lending	58	18
Consumer banking	78	96
Retail lending	136	114
Commercial lending	(5)	(34)
Other lending	-	1
Impairment losses/(reversals) on loans and advances	131	81
Impairment losses/(reversals) on investment securities	9	(8)
Total	140	73

Impairment losses have increased by £67 million to £140 million (2016: £73 million) driven by additional residential mortgage impairments as a result of enhancements to our credit loss provisioning methodology, combined with lower levels of net recoveries in the CRE portfolio.

Residential lending impairment charges of £58 million (2016: £18 million) include £45 million (2016: £27 million) as a result of enhancements to the provisioning methodology and assumptions to ensure provisions continue to reflect appropriately the incurred losses within each portfolio. These enhancements reflect the extended period for arrears to arise from trigger events and the risks associated with the ability of borrowers to repay capital balances at the maturity of interest only loans. Excluding these methodology changes, the underlying impairment charge of £13 million (2016: £9 million release) reflects the stabilisation of mortgage arrears at 0.45%, compared with a fall from 0.49% to 0.45% in the prior year, and a more modest benefit from house price inflation.

Consumer banking impairment charges have decreased by £18 million to £78 million (2016: £96 million). Of this charge, £7 million (2016: £29 million) represents a reassessment of impairment assumptions to reflect latent risks during the current low interest rate environment. Excluding this, the consumer banking charge has remained relatively consistent, reflecting both stable arrears performance and gross lending balances.

Commercial lending impairments relate exclusively to CRE lending, with no arrears in our registered social landlords and project finance portfolios. The net impairment reversal of £5 million (2016: £34 million) is a result of continued CRE market improvements in terms of both asset values and liquidity.

Provisions for liabilities and charges	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Underlying provisions for liabilities and charges – Customer redress	136	127
FSCS levy	-	46
Total statutory provisions for liabilities and charges	136	173

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and post sales administration, including compliance with consumer credit legislation and other regulatory requirements. The charge for the year primarily relates to customer redress provisions recognised in respect of PPI and Plevin, including the cost of administering these claims. When assessing the adequacy of our PPI provision we have considered the implications of the guidance published by the Financial Conduct Authority (FCA) in its March 2017 policy statement (PS17/03), including the expected impact of the Plevin case. More information on customer redress is included in note 16.

There is no net charge for the year in respect of the Financial Services Compensation Scheme (FSCS) (2016: £46 million charge). This reflects the substantial repayment of the loan from HM Treasury to FSCS as a result of the securitisation of Bradford & Bingley plc assets, and our £13 million share of recoveries from Icelandic banks. More information on FSCS is included in note 16.

Taxation

The tax charge for the year of £297 million (2016: £294 million) represents an effective tax rate of 28% (2016: 23%) which is higher than the statutory UK corporation tax rate of 20% (2016: 20%). The effective rate is increased due to the banking surcharge which is payable at a rate of 8% from 1 January 2016, equivalent to £62 million (2016: £22 million), and by the tax effect of disallowable bank levy and customer redress costs of £8 million and £19 million (2016: £8 million and £7 million) respectively. Further information is provided in note 9.

Financial review (continued)

Member financial benefit

As a building society, we know that our members value the highly competitive savings and mortgage products we can offer as a direct result of being a member-owned business. We measure our member financial benefit by considering our differentiated interest rate pricing, reduced fees and incentives, compared to industry benchmarks. The financial benefit measured has given our members an additional £505 million (2016: £397 million) in their pockets for the year. We have chosen to quantify our member financial benefit, as we want members to understand the financial as well as the non-financial benefits they gain from mutuality.

Member financial benefit is delivered in the form of differentiated pricing and incentives, which we quantify as:

Our interest rate differential + member reduced fees + incentives

Interest rate differential

We measure how our average interest rates compare against the market.

For our two largest member segments, **prime mortgages** and **retail deposits**, we compare the average member interest rate for these portfolios against relevant industry benchmarks. A CACI benchmark is used for prime mortgages and Bank of England benchmark for retail deposits[1], both on a 12 month rolling basis. The differentials derived in this way are then applied to member balances for mortgages and deposits.

For unsecured lending, a similar comparison is made. The differential of Nationwide's average new business lending rate against the Bank of England's average new business lending rate is applied to the total interest bearing balances of **credit cards** and **personal loans**. These are also measured on a 12 month rolling average basis.

Member reduced fees and incentives

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

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

The increase in member financial benefit compared with the prior year primarily reflects the discretionary actions we took during the year to protect savings rates in a declining interest rate environment. Prudent management of the Society requires us to manage savings flows and our cost of retail funding in the context of wider market conditions, and in particular demand for lending. Therefore the benefit we provide to members is dependent on a variety of external market and competitive factors, as well as maintaining a balance between profits we retain and member benefit we provide.

[1] Adjusted to exclude Nationwide's balances

Financial review (continued)

Balance sheet

Total assets have increased 6% year on year to reach £222 billion at 4 April 2017 (2016: £209 billion). This increase primarily reflects our focus on mortgage pricing for members and growing our market share of prime mortgages, with prime mortgage balances increasing by £8.0 billion. The remainder of the balance sheet growth relates to £1.1 billion in relation to specialist lending and a £3.4 billion increase in other financial assets.

Mortgage lending has been partially supported by strong strategic growth in retail funding flows, with member deposits growing by £5.8 billion, and our market share of UK deposits at 10.1% at 4 April 2017 (2016: 10.2%). Of the growth in member balances, £2.7 billion is attributable to current account balances as we have continued to increase our market share of main standard and packaged current accounts, to 7.5% at February 2017 from 7.1% last year. This growth in member deposits reflects our renewed focus on growing our base of engaged members, allowing us to bring the benefit of mutuality to a wider population.

Assets	4 April 2017 £m	%	4 April 2016 £m	%
Residential mortgages	171,263	*91*	162,164	*91*
Commercial lending	12,580	*7*	13,197	*7*
Consumer banking	3,949	*2*	3,869	*2*
Other lending (note i)	17	-	20	-
	187,809	*100*	179,250	*100*
Impairment provisions	(438)		(443)	
Loans and advances to customers	187,371		178,807	
Other financial assets	31,231		27,782	
Other non-financial assets	3,068		2,350	
Total assets	221,670		208,939	
Asset quality				
Residential mortgages:	%		%	
Proportion of residential mortgage accounts 3 months+ in arrears	0.45		0.45	
Average indexed loan to value of residential mortgage book (by value)	55		55	
Impairment provisions as a percentage of non-performing balances	5.3		3.2	
Consumer banking:				
Non-performing loans as percentage of total balances (excluding charged off balances) (note ii)	4		4	
Impairment provisions as a percentage of non-performing balances (including charged off balances) (note ii)	86		81	
Other key ratios				
Return on assets	0.34		0.47	
Liquidity coverage ratio	124.0		142.6	

Notes:

i. Other lending balance consists of deferred consideration relating to an investment in Visa Inc, collateral to support repurchase transactions and a residual portfolio of secured loans relating to a European commercial loan facility held by one of Nationwide's subsidiaries, Cromarty CLO Ltd.

ii. Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

Residential mortgages

Residential mortgages include prime and specialist loans, with the specialist portfolio primarily comprising buy to let (BTL) lending. Gross mortgage lending in the period increased 3% to £33.7 billion (2016: £32.6 billion), representing a market share of 14.0% (2016: 13.7%).

Mortgage balances grew by £9.1 billion (2016: £9.3 billion) of which £8.0 billion was prime lending (2016: £5.4 billion) and £1.1 billion related to specialist lending (2016: £3.9 billion).

Financial review (continued)

The average loan to value (LTV) of new lending in the period, weighted by value, increased to 71% (2016: 69%) primarily due to our strategy to increase lending to the first time buyer market as we recognise the importance of helping people take their initial steps onto the housing ladder. Modest house price growth has resulted in the average LTV of our portfolio remaining flat at 55% (2016: 55%). Residential mortgage arrears have remained flat at 0.45% (2016: 0.45%).

Non-performing balances have reduced by £485 million to £2,694 million (2016: £3,179 million), with particular improvement in those balances past due up to three months. However, the impairment provision balance has increased to £144 million (2016: £102 million). This increase in provisions reflects an update to our credit loss provisioning methodology and assumptions to ensure that provisions appropriately reflect incurred losses within the portfolio. This update included focusing on the credit risk associated with maturing interest only loans and the period for evidence of impairment losses to emerge on up to date loans. This provision increase, combined with a reduction in non-performing balances, resulted in an increase in impairment provisions as a percentage of non-performing balances to 5.3% (2016: 3.2%).

The growth of the BTL portfolio has slowed following a decision taken in May 2016 to increase the minimum interest cover ratio for new lending from 125% to 145% and reduce the maximum LTV from 80% to 75%. Despite the anticipated impact of this decision on BTL portfolio growth, these steps were taken in response to forthcoming income tax changes which will materially affect cash flow and affordability for some landlords.

Commercial lending

Total commercial lending balances are £12.6 billion (2016: £13.2 billion) and, as a result of deleveraging activity undertaken in recent years, our overall portfolio is increasingly weighted towards registered social landlords with balances of £7.5 billion (2016: £7.6 billion). This portfolio is fully performing and remains stable, reflecting its low risk nature. The Commercial portfolio also includes loans made under the Government's Private Finance Initiative (PFI) amounting to £1.1 billion (2016: £1.2 billion) and CRE loans of £2.6 billion (2016: £3.0 billion) which have reduced during the period through deleveraging and run-off. The remaining balance of £1.4 billion (2016: £1.4 billion) relates to fair value adjustments where we have hedged loans to mitigate their associated financial risks, typically interest rate risk.

Following the wider strategy review, it was concluded that the commercial lending business was no longer core to the Society's vision for the future and balances will continue to reduce through managed run-off.

Consumer banking

Consumer banking comprises personal loans of £2.0 billion (2016: £1.9 billion), credit cards of £1.7 billion (2016: £1.7 billion) and current account overdrafts of £0.2 billion (2016: £0.2 billion). During the year we have focused on enhancing our consumer banking proposition to create a more cohesive and engaging relationship with our members. The asset quality of the portfolio remains strong, benefiting from proactive risk management practices and continued low interest rates.

Other financial assets

Other financial assets total £31.2 billion (2016: £27.8 billion) and comprise liquidity and investment assets held by our Treasury function amounting to £25.4 billion (2016: £23.1 billion), derivatives with positive fair values of £5.0 billion (2016: £3.9 billion) and fair value adjustments and other assets of £0.8 billion (2016: £0.8 billion).

Derivatives largely comprise interest rate and foreign exchange derivatives, taken out to economically hedge financial risks inherent in our core lending and funding activities.

Levels of on-balance sheet liquid assets have increased due to the replacement of the off-balance sheet FLS liquidity with on-balance sheet TFS drawdowns. The increase in total liquidity is more than offset by higher liquidity requirements, resulting in our Liquidity Coverage Ratio (LCR) reducing from 142.6% as at 4 April 2016 to 124.0%. This increase in requirements reflects the inclusion of additional stressed derivative collateral outflows in the LCR calculation following the finalisation of EU rules during the year, and the impact of one-off items. On a like-for-like basis our LCR would remain broadly consistent with last year's.

Financial review (continued)

Liabilities	4 April 2017 £m	4 April 2016 £m
Member deposits	144,542	138,715
Debt securities in issue	40,339	36,085
Other financial liabilities	23,940	21,637
Other liabilities	1,716	1,572
Total liabilities	210,537	198,009
Members' interests and equity	11,133	10,930
Total members' interests, equity and liabilities	221,670	208,939
	%	%
Wholesale funding ratio (note i)	27.1	24.8

Note:

i. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations) but excludes Funding for Lending Scheme (FLS) drawings which, as an asset swap, are not included on Nationwide's balance sheet, reflecting the substance of the arrangement. Off-balance sheet FLS drawings have reduced from £8.5 billion at 4 April 2016 to £4.8 billion.

Member deposits

Member deposits have increased by £5.8 billion to £144.5 billion (2016: £138.7 billion) and our market share of all UK deposits at 4 April 2017 was 10.1% (2016: 10.2%).

Current account credit balances have increased to £17.5 billion (2016: £14.8 billion). We increased our market share of main standard and packaged accounts to 7.5% at February 2017 (2016: 7.1%).

Debt securities in issue

Debt securities in issue of £40.3 billion (2016: £36.1 billion) are used to raise funding in wholesale markets in order to finance core activities. The increase in outstanding amounts partially reflects increased issuance activity in the wholesale markets during the period to support increased liquidity. The wholesale funding ratio has increased to 27.1% (2016: 24.8%) as a result of this wholesale issuance activity, as well as the draw down of TFS which is included in other financial liabilities.

Other financial liabilities

Other financial liabilities include customer and bank deposits (including TFS drawdown) of £17.5 billion (2016: £15.9 billion), derivatives and fair value adjustments of £3.2 billion (2016: £3.5 billion), subordinated debt of £2.9 billion (2016: £1.8 billion) and permanent interest bearing shares (PIBS) of £0.3 billion (2016: £0.4 billion).

During the year a strategic decision was taken to exit the Nationwide International business. This resulted in a £3.6 billion decrease in balances, representing the majority of the deposits associated with this business. These outflows have been managed in an orderly manner with the funding being replaced by additional member deposits and the use of wholesale funding where appropriate.

Financial review (continued)

Statement of comprehensive income

	Year to 4 April 2017 £m	Year to 4 April 2016 £m
Profit after tax	757	985
Net remeasurement of pension obligations	(255)	51
Net movement in cash flow hedge reserve	(247)	301
Net movement in available for sale reserve	52	(34)
Other items	2	(4)
Total comprehensive income	309	1,299

Movements in the table above are shown net of related taxation.

The remeasurement of pension obligations of £255 million expense (2016: £51 million income) reflects £1,298 million of actuarial losses (2016: £164 million actuarial gains), partly offset by £951 million relating to positive movements in the Fund's assets greater than the discount rate (2016: £122 million return less than the discount rate).

The movement in cash flow hedge reserve of £247 million expense (2016: £301 million income) relates to a gross movement before tax of £348 million, driven by significant changes in derivative valuations caused by movements in foreign exchange rates.

Capital structure

	4 April 2017 £m	4 April 2016 £m
Capital resources (note i)		
Common Equity Tier 1 (CET1) capital	8,555	8,013
Total Tier 1 capital	9,547	9,005
Total regulatory capital	12,129	10,654
Risk weighted assets (RWAs)	33,641	34,475
UK leverage exposure	215,894	204,346
CRR leverage exposure	228,428	213,181
CRD IV capital ratios	%	%
CET1 ratio	25.4	23.2
UK leverage ratio (note ii)	4.4	4.4
CRR leverage ratio (note iii)	4.2	4.2

Notes:
i. Data in the table is reported under CRD IV on an end point basis.
ii. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure.
iii. The CRR leverage ratio is calculated using the Capital Requirements Regulation definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure and is reported on an end point basis.

CET1 capital resources have increased over the period by approximately £0.5 billion mainly due to £757 million of profit after tax for the period. Risk weighted assets (RWAs) reduced over the period by approximately £0.8 billion due to continued run-off of the commercial book and lower residential lending RWAs, as a result of house price inflation which more than offset portfolio growth.

The movements described above have resulted in an increase in the CET1 ratio to 25.4% (2016: 23.2%).

The UK leverage ratio is 4.4% at 4 April 2017 (2016: 4.4%) as profits have broadly been offset by an increase in the defined benefit pension deficit and balance sheet growth, which was driven by increases in mortgage balances. The CRR leverage ratio is 4.2% (2016: 4.2%).

We continue to monitor regulatory developments that could lead to an increased level of capital requirements. Whilst there are a number of areas where potential requirements are yet to be finalised, regulatory announcements during the financial year mean that we have a clearer understanding of the expected impact. However, we will remain engaged in the development of the regulatory approach to ensure we are prepared for any change. Whilst these amendments may result in increases to RWAs, we do not believe there will be a material increase in overall capital requirements.

Business and risk report

Contents

Introduction

Keeping members' money safe by being secure and dependable is fundamental to the way Nationwide operates. This is encapsulated within the strategic principle of being Built to Last which focuses on a prudent approach to risk management. This Business and Risk Report explains the Group's business, the risks it is exposed to and how it manages those risks.

Nationwide is organised into three business operating segments: 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 from both UK and overseas markets. 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 chart below shows Nationwide's business operating segments and how these activities are reflected in its risk measures. The regulatory risk weighted assets (RWAs) below indicate the relative risks each area carries as at 4 April 2017. Further details regarding Nationwide's RWAs and capital position are included in the Solvency risk section of this report.

	Nationwide Building Society		
Operating segment	Retail	Commercial	Head office functions
Business activities	• Prime residential lending • Specialist residential lending • Consumer banking • Savings products • Investments	• Social housing lending • Project finance lending • Commercial real estate lending	• Treasury including funding, liquidity and market risk management • Central support functions
Regulatory risk weighted assets as at 4 April 2017	**£m** Credit risk 19,504 Operational risk 4,734	**£m** Credit risk 5,636 Operational risk 100	**£m** Credit risk 3,636 Operational risk 31

Note: No amounts are shown for market risk RWAs as the Group has elected to set these to zero, as permitted by the Capital Requirements Regulation (CRR) where the exposure is below the threshold of 2% of own funds.

Principal risks

Whilst it is accepted that all business activities involve some degree of risk, Nationwide seeks to protect its members by appropriately managing the risks that arise from its activities. The principal types of risk inherent within the business, and the attitude to managing them, are set out below.

Risk category	Definition	Attitude
Lending	The risk that a borrower or counterparty fails to pay the interest or to repay the principal on a loan or other financial instrument (such as a bond) on time.	• Nationwide primarily lends on prime residential mortgages and sets prudent limits to control the exposure to other portfolios, such as buy to let and unsecured lending. • The Commercial portfolios are being actively managed to maturity, as commercial lending is now closed to new business. Risk management of these portfolios focuses on refinance, extension and concentration risks. • Treasury credit risk is accepted only to support the liquidity strategy; for derivative activities necessary to support the member proposition; and to manage legacy positions.
Financial	The risk of Nationwide having inadequate earnings, cash flow or capital to meet current or future requirements and expectations.	• Financial risks are tightly managed, whilst allowing Nationwide to meet members' needs when designing products and services. • Where residual financial risks exist, sufficient amounts of capital or liquidity are held to mitigate their impact.
Operational	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	• Nationwide operates its business to ensure a minimum level of serious disruption to members, brand and reputation, with systems and services designed to achieve defined levels of availability and performance.
Conduct and compliance	The risk that Nationwide exercises inappropriate judgement or makes errors in the execution of its business activities, leading to: • non-compliance with regulation or legislation • market integrity being undermined, or • an unfair outcome being created for customers.	• Products and services should meet customer needs and expectations and perform as represented. • Sustainable partnerships are built with members and customers by providing the right information at the right time, and value for money products and services. • Customer detriment and/or dissatisfaction is addressed in a timely and fair manner. • Nationwide safeguards personal data, does not exploit asymmetries and does not disadvantage customers or customer segments or take advantage of customer vulnerability. • Nationwide does not conduct or facilitate market abuse or financial crime and does not distort competition.
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.	• Nationwide does not overcommit by targeting too many strategic priorities at any one time, ensuring the most effective and efficient use of its resources. It is committed to a mutual business model that is focused on the provision of retail financial services, almost exclusively in the UK.

The frameworks for managing the above risks, including associated risk appetite, limits and supporting policies, are reviewed at least annually, and are subject to continuous monitoring by the relevant governance committees.

Top and emerging risks

In addition to the above principal risks that are inherent in Nationwide's business, the top and emerging risks that could affect delivery of the strategy are identified and monitored as an integral element of risk management. It is accepted that all business activities involve some degree of risk. Steps are therefore taken to protect members by ensuring that these activities are managed appropriately. Nationwide's 'built to last' strategic cornerstone focuses on being safe, secure, sustainable and dependable for members.

Top and emerging risks are identified and closely tracked throughout the governance structure. These risks are kept under close observation through risk reporting.

Following the result of the EU referendum, the impact of the UK's impending exit from the EU is one of the top risks. This is due to the widespread political and economic uncertainty it has caused, which spans all risk categories. In addition to this, risk management activity over the past year has focused on strengthening business resilience and managing the pace of change in the digital and regulatory environments. Nationwide's top and emerging risks fall within the following categories:

Macroeconomic environment

Nationwide monitors global and domestic macroeconomic factors to ensure preparedness for their potential impacts. Domestically, the effects of Brexit, the upcoming UK general election and the potential for a second Scottish referendum are focus areas. The impact of the continued low interest rate environment and the risks to the business model are closely monitored. The Board also discusses the potential risks to economic growth and stability within financial markets that would be posed by a Eurozone financial crisis, geopolitical instability or a downturn in China or emerging markets.

The result of the Brexit vote has caused political and economic uncertainty. Reassuringly, UK growth projections have recovered since their initial post-referendum fall and the UK regulators have made no immediate changes to their objectives or policies. Nevertheless, a number of key initiatives from the European Commission are in flight and it is expected that these will transpose into UK law despite a vote to leave. Nationwide is well placed to respond to and implement the requirements resulting from these initiatives, and will continue to monitor this position and any associated impacts.

Cyber security, data protection and operational resilience

With increasingly sophisticated cyber security compromises being reported within both financial and non-financial sectors, Nationwide is very alert to the risks posed by breaches of its cyber defences. Cyber security remains a high priority and Nationwide will continue to focus on improving the awareness of its customers and employees, as well as continuing to build its understanding of the developing threats, its defences and its resilience to cyber attacks.

Members' data is safeguarded by investing heavily to maintain and protect systems. To date, Nationwide has successfully defended against data breaches, and continues to ensure that developments are up to date so that members continue to receive the protection that they expect.

In an increasingly digital world, there is pressure to manage considerably larger volumes of data securely and effectively. Nationwide operates a dedicated Operational Resilience function to ensure it meets member expectations for secure, highly reliable and widely available services.

The pace of change in the digital and regulatory environments

Over recent years there has been a dramatic increase in the demand for digital products and services due to the convenience that they can bring. This has seen an influx of innovative new offerings in the market place and the number of challenger banks and Fintech disruptors has increased. Collectively the changes may pose a challenge to Nationwide's core markets and product pricing. The Board continues to monitor the possible impact on Nationwide's business model, and continues to invest heavily in its digital channels and new payment technologies.

Changes in regulation and the resulting impact on the competitive environment from, amongst other things, Open Banking and ring fencing of the major UK banks, continue to be considered by the Board. Nationwide is well placed to respond to these complex regulatory changes, and to provide a variety of products and services which are designed to meet customers' needs. The Board will continue to review Nationwide's ability to respond in an efficient and agile manner.

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 Nationwide's exposure to lending risk arising from loans and advances, together with details of the level of collateral held and impairment charges recognised during the period. It also provides information about the key risk measures for each of the loan portfolios.

Nationwide manages lending risk for each of the following portfolios:

Portfolio	Definition
Residential mortgages	Loans secured on residential property; Nationwide manages prime and specialist lending separately
Consumer banking	Unsecured lending including current account overdrafts, personal loans and credit cards
Commercial lending	Loans to registered social landlords, loans made under the Private Finance Initiative and commercial real estate lending
Treasury	Treasury liquidity, derivatives and discretionary portfolios

In addition, a small other lending portfolio is held of £17 million (2016: £20 million) which primarily includes £8 million of deferred consideration relating to an investment in Visa Inc and £5 million of collateral to support repurchase transactions. There is no significant exposure to lending risk on this portfolio.

Maximum exposure to lending risk

Lending risk largely arises from exposure to loans and advances to customers, which account for 85.9% (2016: 87.3%) of Nationwide's total lending risk exposure. Within this, exposure relates primarily to residential mortgages, which account for 91.4% (2016: 90.7%) of total loans and advances to customers and which comprise high quality assets with low occurrences of arrears and possessions. The increase in the proportion of residential mortgages is primarily driven by Nationwide's continued support for first time buyers which has contributed to the £8 billion growth in prime lending in the year.

In addition to loans and advances to customers, Nationwide 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 Nationwide would have to pay if the guarantees were to be called upon. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure is the full amount of the committed facilities.

Nationwide's maximum exposure to lending risk has risen from £220 billion to £234 billion, reflecting the growth in residential mortgage loans.

Maximum exposure to lending risk				2017		
	Gross balances £m	Less: impairment provisions £m	Carrying value £m	Commitments (note i) £m	Maximum lending risk exposure £m	% of total lending risk exposure %
Cash	13,017	-	13,017	-	13,017	6
Loans and advances to banks	2,587	-	2,587	115	2,702	1
Investment securities – AFS	9,764	-	9,764	-	9,764	4
Investment securities – HTM (note ii)	-	-	-	1,774	1,774	1
Derivative financial instruments	5,043	-	5,043	-	5,043	2
Fair value adjustment for portfolio hedged risk (note iii)	746	-	746	-	746	-
Investments in equity shares	67	-	67	-	67	-
	31,224	-	31,224	1,889	33,113	14
Loans and advances to customers:						
Residential mortgages	171,263	(144)	171,119	12,589	183,708	78
Consumer banking	3,949	(269)	3,680	26	3,706	2
Commercial lending (note iii)	12,580	(25)	12,555	851	13,406	6
Other lending (note iv)	17	-	17	75	92	-
	187,809	(438)	187,371	13,541	200,912	86
Total	219,033	(438)	218,595	15,430	234,025	100

Lending risk (continued)

Maximum exposure to lending risk	2016					
	Gross balances £m	Less: impairment provisions £m	Carrying value £m	Commitments (note i) £m	Maximum lending risk exposure £m	% of total lending risk exposure %
Cash	8,797	-	8,797	-	8,797	4
Loans and advances to banks	3,591	-	3,591	115	3,706	2
Investment securities – AFS	10,612	-	10,612	-	10,612	5
Derivative financial instruments	3,898	-	3,898	-	3,898	2
Fair value adjustment for portfolio hedged risk (note iii)	756	-	756	-	756	-
Investments in equity shares	126	-	126	-	126	-
	27,780	-	27,780	115	27,895	13
Loans and advances to customers:						
Residential mortgages	162,164	(102)	162,062	12,336	174,398	79
Consumer banking	3,869	(281)	3,588	39	3,627	2
Commercial lending (note iii)	13,197	(59)	13,138	1,065	14,203	6
Other lending (note iv)	20	(1)	19	75	94	-
	179,250	(443)	178,807	13,515	192,322	87
Total	207,030	(443)	206,587	13,630	220,217	100

Notes:

i. In addition to the amounts shown above, the Group has, as part of its retail operations, revocable commitments of £9,202 million (2016: £8,513 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by the Group, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

ii. At the balance sheet date, Nationwide had entered a commitment to subscribe to up to a maximum of £1.8 billion of residential mortgage backed securities (RMBS) under a programme to securitise Bradford & Bingley residential mortgage assets. This commitment was wholly fulfilled by Nationwide purchasing £1.2 billion RMBS following the issue on 25 April 2017. These have been classified as held to maturity (HTM) investment securities.

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

iv. The other lending portfolio includes deferred consideration relating to an investment in Visa Inc and collateral balances to support repo transactions.

Movements in 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 amount that is overdue.

Movements in impaired loan balances	Prime mortgages £m	Specialist mortgages £m	Consumer banking £m	Commercial lending £m	Other lending £m	Total £m
At 5 April 2016	366	412	260	171	5	1,214
Classified as impaired during the year	323	358	110	6	-	797
Transferred from impaired to unimpaired	(298)	(333)	(44)	(26)	(3)	(704)
Amounts written off	(14)	(37)	(92)	(105)	-	(248)
Disposals	-	-	-	-	-	-
Repayments and other movements	(5)	1	(1)	(1)	(2)	(8)
At 4 April 2017	372	401	233	45	-	1,051

Lending risk (continued)

Movements in impaired loan balances	Prime mortgages £m	Specialist mortgages £m	Consumer banking £m	Commercial lending £m	Other lending £m	Total £m
At 5 April 2015	396	499	225	608	10	1,738
Classified as impaired during the year	343	391	113	38	-	885
Transferred from impaired to unimpaired	(344)	(410)	(27)	(70)	-	(851)
Amounts written off	(23)	(66)	(41)	(283)	(5)	(418)
Disposals	-	-	-	-	-	-
Repayments and other movements	(6)	(2)	(10)	(122)	-	(140)
At 4 April 2016	366	412	260	171	5	1,214

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

Lending risk – Residential mortgages

Summary

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

Strong levels of new lending in the prime portfolio has seen the residential mortgage exposure grow from £162 billion to £171 billion over the year. In part this has been driven by continued support for first time buyers and reflects a commitment given to the UK government to make available £10 billion a year to this segment of the market subject to meeting our lending criteria. In the period Nationwide widened its support for borrowers in the later stages of life with the introduction of a Borrowing in Retirement proposition for those in receipt of a regular pension income. Operating within risk appetite these commitments reflect Nationwide's intention to stand by its members and support the UK economy.

Nationwide controls its lending risk through the application of credit criteria designed to restrict the maximum loan size at higher loan to value (LTV), robust affordability calculations and a credit scoring framework that regulates higher LTV exposures. Portfolio performance is closely measured and monitored against approved risk appetite limits.

Over the period the geographical distribution across the UK has remained stable and the average LTV, weighted by value, has remained at 55%. Support for first time buyers has seen the proportion of new lending made to this segment increase to 36% (2016: 28%). This has contributed to a rise in the average LTV of new lending to 71% (2016: 69%) and growth in the proportion of the portfolio with an LTV above 80%, rising to 9.6% (2016: 8.5%). It is also one of the factors that led to an increase in the proportion of new lending being written at income multiples of 4.5 or greater which during the year has risen to 10.6% (2016: 7.0%).

In contrast the proportion of lending made to the buy to let segment has reduced this year to 14% (2016: 22%) following a decision taken in May 2016 to increase the minimum interest cover ratio (ICR) requirement from 125% to 145% and reduce the maximum LTV from 80% to 75%. These steps were taken in response to forthcoming changes to the income tax relief available for buy to let borrowers which will materially affect the cash flow and affordability for some landlords. The lending policy changes are designed to ensure buy to let borrowing remains sustainable and affordable for our borrowers. In May 2017 we reintroduced 125% ICR lending for basic rate taxpayers to recognise the lower impact of the forthcoming tax changes on these borrowers.

Arrears levels remain low across prime and specialist lending, reflecting the favourable economic conditions and low interest rate environment and supported by robust credit assessment and affordability controls at the point of lending. The proportion of loans more than three months in arrears remained at 0.45% and significantly below the Council of Mortgage Lenders (CML) average of 0.91%. With the immediate outlook for the UK less certain and the buy to let market facing increased costs and potentially less investor demand, the expectation is for a very gradual rise in arrears from these low levels.

The proportion of non-performing loans reduced to 1.6% (2016: 2.0%) while provisions for impairment increased as a result of enhancements to the provision methodology and assumptions to ensure they continue to reflect appropriately the incurred losses within each portfolio. These enhancements, which resulted in an additional £45 million of impairment charge, reflect the extended period for arrears to arise from a loss event and the risks associated with the ability of borrowers to repay capital balances at the maturity of interest only loans.

Lending risk – Residential mortgages (continued)

Lending and new business

The table below summarises the residential mortgages portfolios:

Residential mortgage lending	2017 £m	%	2016 £m	%
Prime	138,004	81	129,973	80
Specialist:				
Buy to let	30,087	18	28,646	18
Self-certified	2,071	1	2,338	1
Near prime	784	-	859	1
Sub prime	317	-	348	-
	33,259	19	32,191	20
Total residential mortgages	171,263	100	162,164	100

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

Distribution of new business by borrower type (by value)	2017 %	2016 %
Prime:		
Home movers	30	31
First time buyers	36	28
Remortgagers	19	18
Other	1	1
Total prime	86	78
Specialist:		
Buy to let new purchases	3	8
Buy to let remortgagers	11	14
Total specialist	14	22
Total new business	100	100

Note: All new business measures exclude existing customers who are only switching products and/or taking further advances.

In October 2014, the Financial Policy Committee (FPC) introduced a 15% limit on 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 proportion of new lending at income multiples of 4.5 or higher has averaged 10.6% (2016: 7.0%). The increase partly reflects the higher proportion of lending to first time buyers as Nationwide continues to support this segment of the market. The proportion of new lending at income multiples of 4.5 or higher is closely monitored and controlled to remain within risk appetite.

The proportion of lending to buy to let investors reduced during the year as a consequence of Nationwide taking a lead in the market and increasing the minimum interest cover ratio requirement in anticipation of the effect forthcoming tax rises will have on affordability for some property investors.

Lending risk – Residential mortgages (continued)

Lending risk

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

LTV and lending risk concentration

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

Average LTV of loan stock	2017 %	2016 %
Prime	54	54
Specialist	59	61
Group	55	55

Average LTV of new business	2017 %	2016 %
Prime	72	71
Specialist (buy to let)	62	65
Group	71	69

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

The average LTV of buy to let new lending reduced by 3 percentage points. This is due in part to the introduction of a reduced maximum LTV of 75% in May 2016 (previously 80%).

LTV distribution of new business	2017 %	2016 %
0% to 60%	26	26
60% to 75%	31	40
75% to 80%	9	9
80% to 85%	14	12
85% to 90%	17	11
90% to 95%	3	2
Over 95%	-	-
Total	100	100

The maximum LTV for new prime residential customers is 95%. The proportion of new lending greater than 80% LTV has increased to 34% (2016: 25%) in part as a result of the strategy to support the first time buyer market.

Lending risk – Residential mortgages (continued)

Geographical concentration

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

Lending risk – Residential mortgages (continued)

Residential mortgage balances by LTV and region 2016	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	%
Performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	26,991	8,795	5,866	7,855	5,051	2,711	1,178	785	59,232	
50% to 60%	12,350	4,971	3,402	4,262	2,733	1,547	637	346	30,248	
60% to 70%	8,465	6,636	5,052	4,363	3,460	2,095	903	390	31,364	
70% to 80%	4,062	5,454	6,282	2,211	2,359	2,776	1,273	371	24,788	
80% to 90%	1,559	2,210	3,135	894	918	1,380	657	271	11,024	
90% to 100%	85	177	901	66	60	232	212	151	1,884	
	53,512	28,243	24,638	19,651	14,581	10,741	4,860	2,314	158,540	97.7
Not fully collateralised										
Over 100% LTV (A)	7	8	80	1	4	31	13	301	445	0.3
Collateral value on A	*6*	*7*	*73*	*1*	*3*	*29*	*13*	*248*	*380*	
Negative equity on A	*1*	*1*	*7*	*-*	*1*	*2*	*-*	*53*	*65*	
Total performing loans	53,519	28,251	24,718	19,652	14,585	10,772	4,873	2,615	158,985	98.0
Non-performing loans										
Fully collateralised										
LTV ratio:										
Up to 50%	522	161	107	127	73	43	27	26	1,086	
50% to 60%	245	100	68	74	52	28	13	12	592	
60% to 70%	110	131	108	76	60	42	20	12	559	
70% to 80%	29	114	139	42	48	46	24	12	454	
80% to 90%	7	74	98	7	17	28	19	12	262	
90% to 100%	1	14	73	1	2	13	16	7	127	
	914	594	593	327	252	200	119	81	3,080	1.9
Not fully collateralised										
Over 100% LTV (B)	-	3	25	2	1	3	5	60	99	0.1
Collateral value on B	*-*	*3*	*22*	*1*	*1*	*3*	*5*	*46*	*81*	
Negative equity on B	*-*	*-*	*3*	*1*	*-*	*-*	*-*	*14*	*18*	
Total non-performing loans	914	597	618	329	253	203	124	141	3,179	2.0
Total residential mortgages	54,433	28,848	25,336	19,981	14,838	10,975	4,997	2,756	162,164	100.0
Geographical concentrations	33%	18%	16%	12%	9%	7%	3%	2%	100%	

The value of partially collateralised non-performing loans has reduced to £66 million (2016: £99 million), primarily reflecting the growth in house prices.

During the period the proportion of loan balances with an LTV greater than 80% has increased to 9.6% (2016: 8.5%) reflecting the new lending and support for first time buyers. In comparison, the proportion of lending greater than 80% LTV in Greater London was 5.8% (2016: 3.0%).

Lending risk – Residential mortgages (continued)

Arrears

Number of cases more than 3 months in arrears as % of total book	2017 %	2016 %
Prime	0.36	0.35
Specialist	0.89	0.90
Group	0.45	0.45
CML industry average	0.91	1.04

Favourable economic conditions and a continued low interest environment have resulted in the arrears performance of both the prime and specialist mortgage portfolios reaching a level where any future changes are more likely to be gradual upward movements rather than further falls. The combined arrears rate of 0.45% was approximately half of the Council of Mortgage Lenders' (CML) industry average rate of 0.91%.

Impaired loans

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

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

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

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.

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

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

Lending risk – Residential mortgages (continued)

Residential mortgages by payment status		2016		
	Prime £m	Specialist £m	Total £m	%
Performing:				
Neither past due nor impaired	127,986	30,999	158,985	98.0
Non-performing:				
Past due up to 3 months	1,621	780	2,401	1.5
Impaired:				
Past due 3 to 6 months	170	188	358	0.2
Past due 6 to 12 months	115	115	230	0.2
Past due over 12 months	75	91	166	0.1
Litigations (past term interest only)	-	-	-	-
Possessions	6	18	24	-
Total non-performing loans	1,987	1,192	3,179	2.0
Total residential mortgages	129,973	32,191	162,164	100.0
Non-performing loans as a % of total residential mortgages	1.5%	3.7%	2.0%	
Impairment provisions (£m)	25	77	102	
Impairment provisions as a % of non-performing balances	1.3%	6.5%	3.2%	
Impairment provisions as a % of total residential mortgages	0.02%	0.24%	0.06%	

The proportion of non-performing loans has reduced to 1.6% (2016: 2.0%) as a consequence of the portfolio growth and continued low levels of early arrears.

The provision balance has increased to £144 million (2016: £102 million). The provisioning methodology and assumptions have been reviewed and updated to ensure they appropriately reflect incurred losses within the portfolio, resulting in a £45 million increase in provisions. Specific areas of focus included maturing interest only loans and the period for losses to emerge on up to date loans.

Impairment losses for the year	**2017 £m**	2016 £m
Prime	11	8
Specialist	47	10
Total	**58**	18

Possessions

Number of properties in possession as % of total book	**2017 Number of properties**	**2017 %**	2016 Number of properties	2016 %
Prime	89	0.01	57	0.01
Specialist	136	0.05	117	0.04
Group	225	0.01	174	0.01
CML industry average		0.03		0.03

Repossession numbers have increased in the year following revisions to the repossession process.

Lending risk – Residential mortgages (continued)

Interest only mortgages

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

The majority of the specialist portfolio comprises buy to let loans, of which approximately 85% are advanced on an interest only basis.

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

Interest only mortgages 2016	Term expired (still open) £m	Due within one year £m	Due after one year and before two years £m	Due after two years and before five years £m	Due after more than five years £m	Total £m	% of total book %
Prime	58	396	475	1,731	16,178	18,838	14.5
Specialist	98	174	254	1,002	27,084	28,612	88.9
Total	156	570	729	2,733	43,262	47,450	29.3

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

Lending risk – Consumer banking

Summary

The consumer banking portfolio comprises balances on unsecured retail banking products, specifically overdrawn current accounts, personal loans and credit cards. Despite continued intense competition, total balances across these portfolios have grown by 2% to £3,949 million during the period (2016: £3,869 million), with an increasing proportion of products held by existing Nationwide members. This has been achieved by maintaining focus on meeting more member needs, with the successful launch of a student account and continued enhancement of digital services.

Asset quality on the unsecured portfolios has remained strong, benefiting from proactive risk management practices and continued low interest rates. Non-performing balances (excluding charged off accounts) have remained stable, whilst charged off balances have reduced by 12% to £174 million (2016: £197 million).

Impairment provisions are held against both performing and non-performing segments of the consumer banking portfolio. The provision methodology has been updated, and provisions increased to recognise the impact of prolonged low interest rates and the favourable economic environment potentially dampening the emergence of arrears. Across the consumer banking portfolios this has increased provision coverage on impaired balances by 5%.

Consumer banking balances	2017 £m	%	2016 £m	%
Overdrawn current accounts	261	7	247	6
Personal loans	1,957	49	1,901	49
Credit cards	1,731	44	1,721	45
Total consumer banking	3,949	100	3,869	100

Lending risk – Consumer banking (continued)

Lending risk

Impaired loans

Lending risk on the consumer banking portfolios is primarily monitored and reported based on delinquency status, since no security is held against the loans. Impaired accounts are defined as those greater than three months in arrears. Non-performing accounts include all impaired loans and loans which are past due but not impaired, including any loan where a payment due is received late or missed. The non-performing loan amount represents the entire loan rather than just the payment overdue.

The performance of the portfolios is closely monitored, with corrective action taken when appropriate to ensure adherence with risk appetite.

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

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

Lending risk – Consumer banking (continued)

Consumer banking by payment due status	2016				
	Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	£m	£m	£m	%
Performing:					
Neither past due nor impaired	206	1,742	1,576	3,524	91
Non-performing:					
Past due up to 3 months	16	42	27	85	
Impaired:					
Past due 3 to 6 months	4	11	11	26	
Past due 6 to 12 months	3	11	3	17	
Past due over 12 months	4	16	-	20	
	27	80	41	148	4
Charged off (note i)	14	79	104	197	5
Total non-performing	41	159	145	345	
Total consumer banking lending	247	1,901	1,721	3,869	100
Non-performing loans as % of total (excluding charged off balances)	11%	4%	2%	4%	
Impairment provisions excluding charged off balances	13	46	38	97	
Impairment provisions on charged off balances	12	75	97	184	
Total impairment provisions	25	121	135	281	
Impairment provisions as a % of non-performing loans (including charged off balances)	61%	76%	93%	81%	
Impairment provisions as % of total balances	10%	6%	8%	7%	

Note:
i. Charged off balances relate to accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months, depending on the product) whilst recovery procedures take place.

Strong asset quality in the unsecured portfolio has been maintained, with total non-performing balances (excluding charged off accounts) reducing by 7% to £137 million (2016: £148 million).

Impairment losses for the year	Overdrawn current accounts	Personal loans	Credit cards	Total
	£m	£m	£m	£m
Year to 4 April 2017	**12**	**28**	**38**	**78**
Year to 4 April 2016	14	38	44	96

Impairment losses have reduced by £18 million. The charge for the year includes £7 million (2016: £29 million) in relation to assumption updates made to ensure that the provisions in the up to date book remain appropriate in the prolonged low interest rate environment.

Lending risk – Commercial lending

Summary

The commercial loan portfolio comprises the following:

Commercial lending balances	2017 £m	%	2016 £m	%
Commercial real estate (CRE)	2,568	23	3,009	25
Registered social landlords (note i)	7,546	67	7,625	65
Project finance (note ii)	1,096	10	1,197	10
Total commercial lending	11,210	100	11,831	100
Fair value adjustment for micro hedged risk (note iii)	1,370		1,366	
Total	12,580		13,197	

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

Following a strategic review of the commercial lending business, it was concluded that it is no longer a good fit with the core purpose of Nationwide. The strategy for the commercial lending portfolio is to hold and actively manage to maturity in line with contractual terms.

The registered social landlord and project finance portfolios now amount to 77% (2016: 75%) of the commercial lending portfolio, reflecting the managed exit of CRE, together with scheduled repayments and redemptions.

Notwithstanding the reduction in CRE lending, the exposure remains well spread across sectors and geographic regions.

The registered social landlord and project finance assets are fully performing and remain stable, reflecting their long term, lower risk nature.

Lending risk

Lending risk in the commercial loan portfolio is linked to delinquency and the availability of collateral to cover any loan balances. Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising, or likely to arise, from the portfolio.

The lending risk in the CRE portfolio continues to reduce as the portfolio of loans contracts, the volume of non-performing loans reduces and real estate market conditions continue to be favourable.

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

The project finance portfolio is secured against contractual cash flows from projects procured under the Private Finance Initiative rather than physical assets. The majority of loans are secured on projects which are now operational and benefiting from secure long term cash flows, with only one case, with a balance of £24 million, remaining in the construction phase.

Lending risk – Commercial lending (continued)

Loan to value

The following tables show the CRE portfolio by LTV and region:

CRE lending balances by LTV and region 2017	London £m	South East £m	Rest of UK (note i) £m	Total £m	%
Performing loans					
Fully collateralised					
LTV ratio (note ii):					
Less than 25%	217	19	38	274	
25% to 50%	702	178	359	1,239	
51% to 75%	466	66	361	893	
76% to 90%	8	4	59	71	
91% to 100%	1	8	1	10	
	1,394	275	818	2,487	97
Not fully collateralised:					
Over 100% LTV (A)	2	-	5	7	-
Collateral value on A	*-*	*-*	*4*	*4*	
Negative equity on A	*2*	*-*	*1*	*3*	
Total performing loans	1,396	275	823	2,494	97
Non-performing loans (note iii)					
Fully collateralised					
LTV ratio:					
Less than 25%	1	-	-	1	
25% to 50%	9	3	2	14	
51% to 75%	8	1	4	13	
76% to 90%	-	-	3	3	
91% to 100%	3	4	3	10	
	21	8	12	41	2
Not fully collateralised					
Over 100% LTV (B)	1	3	29	33	1
Collateral value on B	*-*	*-*	*20*	*20*	
Negative equity on B (note iv)	*1*	*3*	*9*	*13*	
Total non-performing loans	22	11	41	74	3
Total CRE loans	1,418	286	864	2,568	100
Geographical concentration	55%	11%	34%	100%	

Lending risk – Commercial lending (continued)

CRE lending balances by LTV and region	London	South East	Rest of UK (note i)	Total	
2016	£m	£m	£m	£m	%
Performing loans					
Fully collateralised					
LTV ratio (note ii)					
Less than 25%	136	24	60	220	
25% to 50%	1,021	219	419	1,659	
51% to 75%	329	111	390	830	
76% to 90%	3	13	46	62	
91% to 100%	1	-	5	6	
	1,490	367	920	2,777	92
Not fully collateralised					
Over 100% LTV (A)	-	3	3	6	-
Collateral value on A	*-*	*2*	*2*	*4*	
Negative equity on A	*-*	*1*	*1*	*2*	
Total performing loans	1,490	370	923	2,783	92
Non-performing loans (note iii)					
Fully collateralised					
LTV ratio:					
Less than 25%	17	-	2	19	
25% to 50%	10	9	5	24	
51% to 75%	8	5	17	30	
76% to 90%	3	-	18	21	
91% to 100%	-	-	6	6	
	38	14	48	100	4
Not fully collateralised					
Over 100% LTV (B)	7	52	67	126	4
Collateral value on B	*5*	*36*	*47*	*88*	
Negative equity on B (note iv)	*2*	*16*	*20*	*38*	
Total non-performing loans	45	66	115	226	8
Total CRE loans	1,535	436	1,038	3,009	100
Geographical concentration	51%	14%	35%	100%	

Notes:

i. Includes lending to borrowers based in the Channel Islands.

ii. The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value of the most recent independent external collateral valuation. The Investment Property Databank (IPD) monthly index is used.

iii. Non-performing loans include impaired loans and loans with arrears of less than three months which are not impaired.

iv. All non-performing loans with negative equity are impaired.

Non-performing loans have reduced and now represent 3% of CRE balances (2016: 8%). Both the proportion of partially collateralised non-performing loans and the shortfall on collateral for non-performing loans have also reduced. These changes reflect improving book performance and managed exit activity to reduce exposure to assets outside of risk appetite or which do not align to lending strategy.

Lending risk – Commercial lending (continued)

Credit risk concentrations

The CRE exposure remains well spread across sectors, and geographic regions as shown below:

CRE lending balances and impairment provisions by type and region 2017	**London £m**	**South East £m**	**Rest of UK (note i) £m**	**Total £m**
Retail	**433**	**170**	**209**	**812**
Office	**222**	**28**	**222**	**472**
Residential	**686**	**37**	**263**	**986**
Industrial and warehouse	**29**	**29**	**99**	**157**
Leisure and hotel	**48**	**22**	**57**	**127**
Other	**-**	**-**	**14**	**14**
Total CRE lending	**1,418**	**286**	**864**	**2,568**
Impairment provision:				
Retail	**1**	**4**	**2**	**7**
Office	**1**	**-**	**2**	**3**
Residential	**1**	**-**	**5**	**6**
Industrial and warehouse	**-**	**-**	**1**	**1**
Leisure and hotel	**-**	**-**	**6**	**6**
Other	**-**	**-**	**2**	**2**
Total impairment provisions	**3**	**4**	**18**	**25**

CRE lending balances and impairment provisions by type and region 2016	London £m	South East £m	Rest of UK (note i) £m	Total £m
Retail	459	235	317	1,011
Office	201	69	208	478
Residential	666	71	256	993
Industrial and warehouse	29	36	158	223
Leisure and hotel	88	25	87	200
Other	92	-	12	104
Total CRE lending	1,535	436	1,038	3,009
Impairment provision:				
Retail	2	12	8	22
Office	4	1	3	8
Residential	1	-	5	6
Industrial and warehouse	-	-	12	12
Leisure and hotel	1	-	7	8
Other	-	-	3	3
Total impairment provisions	8	13	38	59

Note:
i. Includes lending to borrowers based in the Channel Islands.

Arrears and impairment

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

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

Lending risk – Commercial lending (continued)

The table below sets out the payment due status and impairment provisions for the CRE portfolio:

CRE lending balances by payment due status	2017 £m	%	2016 £m	%
Performing:				
Neither past due nor impaired	2,494	97	2,783	92
Non-performing:				
Past due up to 3 months but not impaired (note i)	29	1	55	2
Impaired (note ii):				
Past due up to 3 months	24	1	115	4
Past due 3 to 6 months	1	-	21	1
Past due 6 to 12 months	3	-	4	-
Past due over 12 months	17	1	28	1
Possessions (note iii)	-	-	3	-
Total non-performing balances	74	3	226	8
Total	2,568	100	3,009	100
Impairment provisions				
Individual	20	80	54	92
Collective	5	20	5	8
Total impairment provisions	25	100	59	100
Provision coverage ratios				
Individual provisions as % of impaired balances		44		32
Total provisions as % of non-performing balances		34		26
Total provisions as % of total balances		1		2
Estimated collateral:				
Against loans past due but not impaired	29	100	55	100
Against impaired loans	32	71	133	78
Total collateral against non-performing balances	61	82	188	83

Notes:
i. The status 'past due up to 3 months but not impaired' includes any asset where a payment due under strict contractual terms is received late or missed. The amount included is the entire financial asset rather than just the payment overdue.
ii. Impaired loans include those balances which are more than three months in arrears, or against which an individual provision is held.
iii. Possession balances represent loans for which Nationwide has taken ownership of security pending sale. Assets in possession are realised to derive the maximum benefit for all interested parties. Nationwide does not occupy or otherwise use for any purposes the repossessed assets.

Total non-performing loans, before provisions, have reduced by £152 million to £74 million, and there has been a reduction of £34 million in total impairment provisions, reflecting the managed exit activity, improving book performance and an improvement in market conditions.

Impairment loss/(reversal) for the year	2017 £m	2016 £m
Total	(5)	(34)

The improved CRE market conditions, including increased liquidity and capital values, have resulted in a net impairment reversal of £5 million. The higher reversal in the previous year reflects higher levels of total impaired balances impacted by improving market conditions, and increased levels of recoveries.

Lending risk – Treasury assets

Summary

The Treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 4 April 2017 treasury assets represent 13.7% (2016: 12.9%) of total assets.

The net increase in the portfolio compared to the previous year is predominantly due to an increase in cash balances. This follows the replacement during the year of the Bank of England's Funding for Lending Scheme (FLS), under which Nationwide received treasury bills that were held off-balance sheet, with the Term Funding Scheme (TFS), under which cash is received.

Treasury asset balances	2017 £m	2016 £m
Cash	13,017	8,797
Loans and advances to banks	2,587	3,591
Investment securities	9,831	10,738
Treasury liquidity and investment portfolio	25,435	23,126
Derivative assets	5,043	3,898
Total treasury portfolio	30,478	27,024

Note: Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. At 4 April 2017, derivative liabilities were £3,182 million (2016: £3,463 million).

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

The total balance of out of policy legacy assets (investment securities acquired prior to the financial crisis and no longer within approved risk appetite) has reduced from £423 million to £172 million during the year, primarily through ongoing sales. A £9 million impairment charge (2016: £8 million reversal) was recognised during the year. Opportunities to exit positions continue to be assessed against prevailing market conditions and financial implications.

Derivatives are used to reduce exposure to market risks but are not used for trading or speculative purposes. There are no exposures to emerging markets, hedge funds or credit default swaps.

Lending risk – Treasury assets (continued)

Liquidity and investment portfolios

The liquidity and investment portfolio of £25,435 million (2016: £23,126 million) comprises liquid assets and other securities. The size of the portfolio reflects fluctuations in market prices, Nationwide's operational and strategic liquidity requirements and legacy asset disposals. An analysis of the on-balance sheet portfolios by asset class, credit rating and geographical location of the issuers is set out below.

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

Liquidity and investment portfolio by credit rating (note i)		AAA	AA	A	Other	UK	US	Europe	Other
2016	£m	%	%	%	%	%	%	%	%
Liquid assets:									
Cash and reserves at central banks	8,797	99	-	1	-	90	-	10	-
Government bonds	6,321	82	18	-	-	75	14	11	-
Supranational bonds	522	90	10	-	-	-	-	-	100
Covered bonds	980	100	-	-	-	52	-	36	12
Residential mortgage backed securities (RMBS)	1,068	100	-	-	-	65	-	35	-
Asset-backed securities (other)	318	100	-	-	-	62	-	38	-
Liquid assets total	18,006	92	7	1	-	78	5	13	4
Other securities:									
RMBS (note iii)	563	20	15	54	11	72	-	25	3
Commercial mortgage backed securities (CMBS)	40	-	16	67	17	16	84	-	-
Collateralised loan obligations	528	84	13	3	-	78	22	-	-
Covered bonds	31	-	-	100	-	-	-	100	-
Student loans (note iii)	145	22	50	26	2	6	94	-	-
Other investments	222	-	28	50	22	28	50	22	-
Other securities total	1,529	39	19	34	8	58	26	15	1
Loans and advances to banks (note iv)	3,591	25	19	31	25	68	9	11	12
Total	23,126	79	10	7	4	75	7	13	5

Notes:
i. Ratings used are obtained from Standard & Poor's (S&P), and from Moody's if no S&P rating is available. Internal ratings are used if neither is available.
ii. The UK's credit rating was downgraded from AAA to AA by S&P in June 2016, impacting the ratings for cash and government bonds.
iii. Comparatives have been restated for the reclassification of certain amounts based on underlying assets.
iv. Loans and advances to banks includes derivative collateral and reverse repo balances.

The above analysis does not include off-balance sheet funding, including £4.8 billion (2016: £8.5 billion) of primary liquidity representing short dated UK Treasury bills held as a result of FLS. These are included in the analysis of funding in the 'Liquidity and funding risk' section of this report.

Lending risk – Treasury assets (continued)

Country exposures

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

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

Country exposures 2016	Cash £m	Government bonds £m	Mortgage backed securities £m	Covered bonds £m	Supra-national bonds £m	Loans to banks £m	Other corporate (note i) £m	Other assets £m	Total £m
Finland	-	242	-	23	-	-	-	-	265
France	-	-	-	52	-	60	4	66	182
Germany	-	365	-	-	-	107	3	102	577
Ireland	871	-	-	-	-	18	-	-	889
Italy	-	-	21	-	-	-	3	-	24
Netherlands	-	82	385	-	-	-	-	-	467
Portugal	-	-	22	-	-	-	-	-	22
Spain	-	-	85	31	-	-	-	-	116
Total Eurozone	871	689	513	106	-	185	10	168	2,542
USA	8	902	35	-	-	350	-	365	1,660
Rest of world (note ii)	-	-	17	383	522	627	-	-	1,549
Total	879	1,591	565	489	522	1,162	10	533	5,751

Notes:
i. Other corporate exposures are held via a European commercial loan facility reported as part of loans and advances to customers.
ii. Rest of world exposure is to Australia, Canada, Denmark, Norway, Sweden and Switzerland.

Exposure to Eurozone countries continues to be actively managed. During the year, Nationwide disposed of its Portuguese and Spanish mortgage backed assets. Cash held in the Republic of Ireland is with the Central Bank of Ireland.

None of the exposures detailed in the table above were in default at 4 April 2017 (2016: £3 million), and no impairment was incurred on these assets in the period (2016: £nil).

Derivative financial instruments

Derivatives are used to reduce exposure to market risks, although the application of accounting rules can create volatility in the income statement in a financial year. The fair value of derivative assets at 4 April 2017 was £5.0 billion (2016: £3.9 billion) and the fair value of derivative liabilities was £3.2 billion (2016: £3.5 billion).

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

Lending risk – Treasury assets (continued)

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

Under the terms of CSA netting arrangements, outstanding transactions with the same counterparty can be offset and settled net following a default, or another predetermined event. Under CSA arrangements, netting benefits of £2.2 billion (2016: £2.0 billion) were available and £2.8 billion of collateral (2016: £1.8 billion) was held. Only cash is held as collateral.

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

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

Derivative credit exposure	2017				2016			
Counterparty credit quality	AA	A	BBB	Total	AA	A	BBB	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Gross positive fair value of contracts	2,077	2,576	390	5,043	1,128	2,770	-	3,898
Netting benefits	(797)	(1,030)	(389)	(2,216)	(532)	(1,488)	-	(2,020)
Net current credit exposure	1,280	1,546	1	2,827	596	1,282	-	1,878
Collateral	(1,261)	(1,537)	(1)	(2,799)	(580)	(1,224)	-	(1,804)
Net derivative credit exposure	19	9	-	28	16	58	-	74

Financial risk

Nationwide is exposed to financial risks as follows:

Risk category	Definition
Liquidity and funding	Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.
Solvency	The risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators.
Market	The risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of market price 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 Nationwide'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, 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.

Financial risk – Liquidity and funding risk

Summary

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

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

Liquidity and funding levels continued to be within Board risk appetite and regulatory requirements at all times during the year.

Nationwide monitors its position relative to internal risk appetite and the regulatory short term liquidity stress metric, the Liquidity Coverage Ratio (LCR), which ensures that sufficient high quality liquid assets are held to survive a short term severe but plausible liquidity stress.

The Group's LCR at 4 April 2017 was 124.0% (2016: 142.6%), which reflects its strategy of maintaining a LCR above 100%. The decrease in the LCR reflects the inclusion of additional outflows in the LCR following the finalisation of new Pillar 1 requirements and the impact of a one-off item in respect of Nationwide's commitment to acquire financial assets. On a like-for-like basis, the LCR remains broadly consistent with last year's.

Nationwide also monitors its position against the future longer-term regulatory funding metric, the Net Stable Funding Ratio (NSFR). Based on current interpretations of regulatory requirements and guidance, the NSFR at 4 April 2017 was 132.6% (2016: 127.9%) which exceeds the expected 100% minimum future requirement.

Funding risk

Funding strategy

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

Funding profile

Assets	2017 £bn	2016 £bn	Liabilities	2017 £bn	2016 £bn
Retail mortgages	171.1	162.1	Retail funding	146.9	144.9
Treasury assets (including liquidity portfolio)	25.4	23.1	Wholesale funding	55.5	45.8
Other retail lending	3.7	3.6	Capital and reserves	14.3	13.2
Commercial/Other lending	12.6	13.1	Other liabilities	5.0	5.0
Other assets	8.9	7.0			
	221.7	208.9		221.7	208.9

Nationwide's loan to deposit ratio[1] at 4 April 2017 was 122.6% (2016: 117.2%).

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

Financial risk – Liquidity and funding risk (continued)

Wholesale funding

The wholesale funding portfolio is made up of a range of secured and unsecured instruments to ensure Nationwide has a diversified funding base across a range of instruments, currencies, maturities and investor types. Nationwide's wholesale funding strategy is to remain active in core markets and currencies.

On-balance sheet wholesale funding has increased by £9.7 billion to £55.5 billion. This is due to increased collateral inflows following the depreciation of sterling against other major currencies and replacement of Funding for Lending Scheme (FLS) maturities with on-balance sheet funding, including £6 billion of drawings from the Bank of England's Term Funding Scheme (TFS). This is reflected in Nationwide's wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) which was 27.1% at 4 April 2017 (2016: 24.8%).

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

Wholesale funding currency	2017						2016					
	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total
Deposits (note i)	7.7	1.4	0.1	-	9.2	16	9.0	0.5	0.2	-	9.7	21
Certificates of deposit	5.3	-	-	-	5.3	10	4.7	-	0.4	-	5.1	11
Commercial paper	-	-	1.8	-	1.8	3	0.2	-	1.1	-	1.3	3
Covered bonds	3.3	11.4	-	0.2	14.9	27	2.5	11.1	-	0.2	13.8	30
Medium term notes	3.1	6.2	3.6	0.8	13.7	25	2.3	4.8	2.2	0.6	9.9	22
Securitisations	0.9	1.2	1.4	-	3.5	6	1.9	1.2	1.6	-	4.7	10
TFS	6.0	-	-	-	6.0	11	-	-	-	-	-	-
Other	0.3	0.8	-	-	1.1	2	0.2	1.0	0.1	-	1.3	3
Total	26.6	21.0	6.9	1.0	55.5	100	20.8	18.6	5.6	0.8	45.8	100

Note:
i. Includes protected equity bond (PEB) balances of £0.8 billion (2016: £1.9 billion).

To mitigate cross-currency refinancing risk, Nationwide ensures it holds liquidity in each currency to cover at least the next ten business days of wholesale funding maturities.

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

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

Financial risk – Liquidity and funding risk (continued)

Wholesale funding – residual maturity 2016	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than one year £bn	Subtotal less than one year £bn	Over one year but not more than two years £bn	Over two years £bn	Total £bn
Deposits (note i)	4.1	1.2	1.6	1.9	8.8	0.9	-	9.7
Certificates of deposit	1.3	1.6	1.7	0.5	5.1	-	-	5.1
Commercial paper	0.3	0.9	0.1	-	1.3	-	-	1.3
Covered bonds	0.1	-	-	1.2	1.3	0.8	11.7	13.8
Medium term notes	-	-	-	0.9	0.9	0.6	8.4	9.9
Securitisations	-	-	-	1.4	1.4	0.7	2.6	4.7
Other	-	-	-	-	-	-	1.3	1.3
Total	5.8	3.7	3.4	5.9	18.8	3.0	24.0	45.8
Of which secured	0.1	-	-	2.6	2.7	1.5	15.3	19.5
Of which unsecured	5.7	3.7	3.4	3.3	16.1	1.5	8.7	26.3
% of total	12.6	8.1	7.4	12.9	41.0	6.6	52.4	100.0

Note:
i. Includes protected equity bond (PEB) balances of £0.8 billion (2016: £1.9 billion).

At 4 April 2017, cash, government bonds and supranational bonds included in the liquid asset buffer, including FLS treasury bills, represented 129% (2016: 128%) of wholesale funding maturing in less than one year, assuming no rollovers.

Liquidity risk

Total liquidity

Nationwide ensures it has sufficient liquid assets, in terms of both amount and quality, to meet daily cash flow needs as well as stressed requirements driven by internal and regulatory liquidity assessments. The composition of the liquid asset buffer is subject to limits, set by the Board and Assets and Liabilities Committee (ALCO), in relation to issuer, currency and asset type.

The table below sets out the sterling equivalent fair value of the liquidity portfolio, categorised by issuing currency. It includes off-balance sheet liquidity (FLS treasury bills) and excludes encumbered assets.

Liquid assets	**2017**				2016			
	GBP £bn	**EUR £bn**	**USD £bn**	**Total £bn**	GBP £bn	EUR £bn	USD £bn	Total £bn
Cash and reserves at central banks	**11.8**	**1.2**	**-**	**13.0**	7.9	0.9	-	8.8
Government bonds	**10.0**	**0.5**	**0.7**	**11.2**	13.4	0.5	0.9	14.8
Supranational bonds	**0.2**	**-**	**0.3**	**0.5**	0.4	-	0.1	0.5
Covered bonds	**0.4**	**0.5**	**-**	**0.9**	0.5	0.6	-	1.1
RMBS	**0.5**	**0.4**	**-**	**0.9**	0.7	0.3	0.1	1.1
Asset-backed securities	**0.3**	**-**	**-**	**0.3**	0.2	0.1	-	0.3
Other securities	**0.3**	**0.2**	**0.2**	**0.7**	0.4	0.6	0.3	1.3
Total	**23.5**	**2.8**	**1.2**	**27.5**	23.5	3.0	1.4	27.9

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

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

Government bonds in the table above include £4.8 billion of off-balance sheet FLS treasury bills. The average combined month end balance of cash and reserves at central banks, government and supranational bonds during the year was £29.5 billion (2016: £22.8 billion). This increase is largely due to the replacement during the year of FLS, under which Nationwide received off-balance sheet treasury bills, with TFS, under which cash is received.

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

Financial risk – Liquidity and funding risk (continued)

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

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

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

Residual maturity of financial assets and liabilities

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

Residual maturity (note i) 2017	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	13,017	-	-	-	-	-	-	-	13,017
Loans and advances to banks	2,226	-	-	-	-	-	-	361	2,587
Available for sale investment securities	40	13	116	66	57	216	2,002	7,254	9,764
Loans and advances to customers	2,890	1,309	1,937	1,877	1,910	7,259	22,057	148,132	187,371
Derivative financial instruments	11	94	130	30	121	324	2,317	2,016	5,043
Other financial assets (note iii)	36	22	15	28	10	60	265	384	820
Total financial assets	18,220	1,438	2,198	2,001	2,098	7,859	26,641	158,147	218,602
Financial liabilities									
Shares	112,403	1,666	6,169	4,905	4,513	9,842	3,870	1,174	144,542
Deposits from banks	2,499	123	20	48	16	28	6,000	-	8,734
Of which repo	-	-	-	-	-	-	-	-	-
Of which TFS	-	-	-	-	-	-	*6,000*	-	*6,000*
Other deposits	2,882	1,075	1,885	336	255	15	11	-	6,459
Due to customers	1,818	130	305	45	67	11	-	-	2,376
Secured funding – ABS and covered bonds	341	20	1,086	128	90	1,394	10,137	6,280	19,476
Senior unsecured funding	894	2,339	3,126	657	1,431	1,765	5,022	5,629	20,863
Derivative financial instruments	37	11	35	41	57	135	505	2,361	3,182
Other financial liabilities (note iii)	-	-	(2)	-	1	8	1	-	8
Subordinated liabilities	-	-	-	-	103	-	700	2,102	2,905
Subscribed capital (note iv)	-	-	-	-	-	-	-	276	276
Total financial liabilities	120,874	5,364	12,624	6,160	6,533	13,198	26,246	17,822	208,821
Off-balance sheet commitments (note v)	15,784	-	-	-	-	-	-	-	15,784
Net liquidity difference	(118,438)	(3,926)	(10,426)	(4,159)	(4,435)	(5,339)	395	140,325	(6,003)
Cumulative liquidity difference	(118,438)	(122,364)	(132,790)	(136,949)	(141,384)	(146,723)	(146,328)	(6,003)	-

Financial risk – Liquidity and funding risk (continued)

Residual maturity (note i) 2016	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	8,797	-	-	-	-	-	-	-	8,797
Loans and advances to banks	3,179	87	-	-	-	-	-	325	3,591
Available for sale investment securities	6	15	14	1	178	352	3,680	6,366	10,612
Loans and advances to customers	2,825	1,256	1,929	1,810	1,823	7,124	20,237	141,803	178,807
Derivative financial instruments	25	151	128	102	30	227	994	2,241	3,898
Other financial assets (note iii)	5	15	107	17	65	142	234	299	884
Total financial assets	14,837	1,524	2,178	1,930	2,096	7,845	25,145	151,034	206,589
Financial liabilities									
Shares	103,296	1,632	5,875	4,608	5,122	10,731	6,251	1,200	138,715
Deposits from banks	1,658	184	168	41	19	-	25	-	2,095
Of which repo	*122*	-	*5*	-	-	-	-	-	*127*
Other deposits	2,549	1,392	1,843	716	391	737	7	-	7,635
Due to customers	3,563	543	1,347	345	215	126	62	-	6,201
Secured funding – ABS and covered bonds	65	19	43	2,238	323	1,524	7,002	8,263	19,477
Senior unsecured funding	1,637	2,478	1,810	315	1,040	632	3,878	4,818	16,608
Derivative financial instruments	31	9	23	33	84	338	647	2,298	3,463
Other financial liabilities (note iii)	2	2	1	1	(1)	-	8	-	13
Subordinated liabilities	-	-	-	-	-	114	669	1,034	1,817
Subscribed capital (note iv)	-	-	-	-	-	-	-	413	413
Total financial liabilities	112,801	6,259	11,110	8,297	7,193	14,202	18,549	18,026	196,437
Off-balance sheet commitments (note v)	13,630	-	-	-	-	-	-	-	13,630
Net liquidity difference	(111,594)	(4,735)	(8,932)	(6,367)	(5,097)	(6,357)	6,596	133,008	(3,478)
Cumulative liquidity difference	(111,594)	(116,329)	(125,261)	(131,628)	(136,725)	(143,082)	(136,486)	(3,478)	-

Notes:

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

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

iii. Other financial assets and liabilities include the fair value adjustments for portfolio hedged risk and investments in equity shares.

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

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

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

Financial risk – Liquidity and funding risk (continued)

Asset encumbrance

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

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

An analysis of Nationwide's encumbered and unencumbered on-balance sheet assets is set out below. The table excludes off-balance sheet assets, such as FLS treasury bills which Nationwide is permitted to re-use. This disclosure is not intended to identify assets that would be available in the event of a resolution or bankruptcy.

Asset encumbrance	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					Total
						Assets not positioned at the central bank				
	As a result of covered bonds	As a result of securitisations	Other	Total	Assets positioned at the central bank (i.e. prepositioned plus encumbered)	Readily available for encumbrance	Other assets that are capable of being encumbered	Cannot be encumbered	Total	
2017	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash	1,538	567	-	2,105	-	10,697	-	215	10,912	13,017
Loans and advances to banks	-	-	1,393	1,393	927	-	-	267	1,194	2,587
Available for sale investment securities	-	-	-	-	32	9,732	-	-	9,764	9,764
Loans and advances to customers	19,322	10,412	-	29,734	33,376	75,032	49,229	-	157,637	187,371
Derivative financial instruments	-	-	-	-	-	-	-	5,043	5,043	5,043
Other financial assets	-	-	-	-	-	-	-	820	820	820
Non-financial assets	-	-	-	-	-	-	-	3,068	3,068	3,068
Total	**20,860**	**10,979**	**1,393**	**33,232**	**34,335**	**95,461**	**49,229**	**9,413**	**188,438**	**221,670**

Asset encumbrance	Assets encumbered as a result of transactions with counterparties other than central banks				Other assets (comprising assets encumbered at the central bank and unencumbered assets)					Total
						Assets not positioned at the central bank				
	As a result of covered bonds	As a result of securitisations	Other	Total	Assets positioned at the central bank (i.e. prepositioned plus encumbered)	Readily available for encumbrance	Other assets that are capable of being encumbered	Cannot be encumbered	Total	
2016	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash	1,328	397	-	1,725	-	6,851	-	221	7,072	8,797
Loans and advances to banks	-	-	1,511	1,511	765	-	-	1,315	2,080	3,591
Available for sale investment securities	-	-	128	128	42	10,442	-	-	10,484	10,612
Loans and advances to customers	18,996	12,368	-	31,364	28,387	70,312	48,744	-	147,443	178,807
Derivative financial instruments		-	-	-	-	-	-	3,898	3,898	3,898
Other financial assets	-	-	-	-	-	-	-	884	884	884
Non-financial assets	-	-	-	-	-	-	-	2,350	2,350	2,350
Total	20,324	12,765	1,639	34,728	29,194	87,605	48,744	8,668	174,211	208,939

Financial risk – Liquidity and funding risk (continued)

External credit ratings

During the year all of the major rating agencies reviewed the Society's credit ratings. The Society's short and long term credit ratings at 22 May 2017 are as follows:

Credit ratings	Long term	Short term	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	A	A-1	BBB	January 2017	Negative
Moody's	Aa3	P-1	Baa1	January 2017	Negative
Fitch	A+	F1	A-	February 2017	Stable

In January 2017, both Standard & Poor's and Moody's affirmed their long term and short term ratings and left their negative outlook on Nationwide's long term rating unchanged. This negative outlook is part of a sector-wide action involving all UK banks and building societies.

In February 2017, Fitch upgraded Nationwide's long term deposits and senior unsecured debt to A+ from A. The one notch upgrade was made to reflect Fitch's view that Nationwide's qualifying junior debt buffer is now sufficiently large to provide protection for senior unsecured creditors in case of the Society's failure.

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

	Cumulative adjustment for a one notch downgrade £bn	Cumulative adjustment for a two notch downgrade £bn
2017	3.3	3.7
2016	4.1	4.5

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.

Financial risk – Solvency risk

Summary

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

Capital position

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

Key capital ratios	2017	2016
Solvency (note i)	%	%
Common Equity Tier 1 (CET1) ratio	25.4	23.2
Total Tier 1 ratio	28.4	26.1
Total regulatory capital ratio	36.1	30.9
Leverage	£m	£m
UK leverage exposure (note ii)	215,894	204,346
CRR leverage exposure (note iii)	228,428	213,181
Tier 1 capital	9,547	9,005
UK leverage ratio	4.4%	4.4%
CRR leverage ratio	4.2%	4.2%

Notes:
i. The solvency ratios have been calculated under CRD IV on an end point basis.
ii. The UK leverage ratio is shown on the basis of measurement announced by the Prudential Regulation Authority (PRA) and excludes eligible central bank reserves from the leverage exposure measure.
iii. The CRR leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure and is reported on an end point basis.

Capital and leverage ratios have remained well in excess of regulatory requirements with a Common Equity Tier 1 (CET1) ratio of 25.4% (2016: 23.2%) and a UK leverage ratio of 4.4% (2016: 4.4%).

The CET1 ratio has increased, reflecting profit after tax for the period of £757 million, offset by an increase in the defined benefit pension deficit which reduced the general reserve by £255 million. The total capital ratio increased to 36.1% (2016: 30.9%) due to the increase in profits and the issuance of $1.25 billion of qualifying Tier 2 subordinated debt.

The CET1 ratio on an Individual (solo) consolidated basis at 4 April 2017 was 25.6% (2016: 23.3%), marginally greater than the Group's CET1 ratio due to higher general reserves as a result of cash flow hedge accounting.

CRD IV requires firms to calculate a non-risk-based leverage ratio, to supplement risk-based capital requirements. The current regulatory threshold is set at 3%. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

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

The UK leverage ratio is 4.4% at 4 April 2017 (2016: 4.4%). The ratio has remained stable as profits have broadly offset increases in both the defined benefit pension deficit and the increase in UK leverage exposure, which was mainly driven by higher mortgage balances.

The CRR leverage ratio is calculated using the same definition of Tier 1 for the capital amount and the Delegated Act definition of the exposure measure. The CRR leverage ratio remained at 4.2% (2016: 4.2%) as profits have broadly offset the increase in the pension deficit and the higher CRR leverage exposure, which was driven by increased mortgage balances and liquid assets (further details on liquid assets are contained in the Liquidity and funding risk section of this report).

Financial risk – Solvency risk (continued)

Nationwide's latest Pillar 2A Individual Capital Guidance (ICG) was received in August 2016 following an ICAAP. It equates to circa £2.2 billion, of which at least circa £1.2 billion must be met by CET1 capital, and was broadly unchanged from the previous ICG. This amount is equivalent to 6.6% of RWAs as at 4 April 2017 (2016: 6.4%), reflecting the low average risk weight, given that approximately 75% (2016: 76%) of total assets are in the form of secured residential mortgages, of which 81% (2016: 80%) are prime.

The table below reconciles the general reserves to total regulatory capital. Both 2017 and 2016 have been presented on an end point basis and so do not include non-qualifying instruments.

Total regulatory capital	**2017 £m**	2016 £m
General reserve	9,316	8,921
Core capital deferred shares (CCDS)	531	531
Revaluation reserve	67	64
Available for sale reserve	44	(8)
Regulatory adjustments and deductions:		
Foreseeable distributions (note i)	(43)	(42)
Prudent valuation adjustment (note ii)	(23)	(55)
Own credit and debit valuation adjustments (note iii)	-	(2)
Intangible assets (note iv)	(1,174)	(1,120)
Goodwill (note iv)	(12)	(12)
Excess of regulatory expected losses over impairment provisions (note v)	(151)	(264)
Total regulatory adjustments and deductions	(1,403)	(1,495)
Common Equity Tier 1 capital	8,555	8,013
Additional Tier 1 capital securities (AT1)	992	992
Total Tier 1 capital	9,547	9,005
Dated subordinated debt (note vi)	2,555	1,628
Collectively assessed impairment allowances	27	21
Tier 2 capital	2,582	1,649
Total regulatory capital	12,129	10,654

Notes:
i. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under CRD IV.
ii. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
iii. Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in Nationwide's own credit standing and risk, in accordance with CRD IV rules.
iv. Intangible assets and goodwill do not qualify as capital for regulatory purposes.
v. The net regulatory capital expected loss in excess of accounting impairment provisions is deducted from CET1 capital, gross of tax.
vi. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

CET1 capital resources have increased by £542 million. This is primarily the result of profit for the year, partly offset by a reduction in reserves due to an increase in the defined benefit pension deficit. The excess of expected losses over provisions is also lower due to reduced regulatory expected losses, mainly a result of the continued run-off of the commercial book.

Tier 2 capital has increased, in line with plans to meet pending Minimum Requirement for Own Funds and Eligible Liabilities (MREL) requirements, following the issuance of $1.25 billion of qualifying Tier 2 subordinated debt.

Financial risk – Solvency risk (continued)

Risk weighted assets

The table below shows the breakdown of risk weighted assets (RWAs) by risk type:

Risk weighted assets	2017 £m	2016 £m
Credit risk:		
Retail mortgages	13,863	14,086
Retail unsecured lending	5,641	5,621
Commercial loans	5,636	6,194
Treasury	849	1,039
Counterparty credit risk (note i)	1,221	1,296
Other (note ii)	1,566	1,635
Total credit risk	28,776	29,871
Operational risk	4,865	4,604
Market risk (note iii)	-	-
Total risk weighted assets	33,641	34,475

Notes:
i. Relates to derivative financial instruments and repurchase agreements.
ii. Relates to fixed and other assets, including investments in equity shares.
iii. Nationwide has elected to set this to zero, as permitted by the CRR, as exposure is below the threshold of 2% of own funds.

RWAs have reduced by £834 million since 4 April 2016, to £33,641 million. Commercial RWAs have continued to decrease, driven by continued run-off of the commercial book and improvements in the credit quality of the remaining exposures. Residential mortgage RWAs are lower as the impact of rising house prices has outweighed the increasing mortgage balances. Treasury RWAs have decreased due to a reduction in exposures to banks. Operational risk RWAs, calculated on the Standardised approach, have increased due to higher income.

Regulatory developments

Whilst there are a number of areas where potential requirements are yet to be finalised, regulatory announcements during the financial year mean that there is better visibility of the expected impact. However, Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any change.

Nationwide is currently required to maintain a minimum leverage ratio of 3%, with a supplementary leverage ratio buffer of 0.35% to be implemented in 2019. The Financial Policy Committee has the ability to set a countercyclical leverage buffer; this is currently 0%, but could be set up to a maximum of 0.9%. The PRA has introduced a modification to the UK leverage ratio framework, with the introduction of a UK leverage ratio measure which excludes qualifying central bank reserves from the leverage exposure measure. This follows recommendations made by the Financial Policy Committee in 2016. The Financial Policy Committee is due to undertake a review of the UK leverage ratio framework during 2017.

The Basel Committee continues to reaffirm its commitment to finalising reforms to the Basel III framework, including the risk weighted assets framework, the leverage ratio framework and the introduction of an output floor (which will prevent IRB risk weights falling below a certain level). It is not clear at this stage when these will be finalised and are likely to become effective. The PRA has also consulted on revised expectations for IRB models for residential mortgages, which are likely to be effective in 2019. Whilst these amendments are expected to result in an increase in RWAs and therefore a reduction in the CET1 ratio, they are not expected to result in a material increase in Nationwide's overall capital requirements.

As part of the BRRD, the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the MREL and provided firms with indicative MREL. It is anticipated that Nationwide will be subject to a requirement to hold twice the minimum capital requirements (i.e. 6% of UK leverage exposure), plus the applicable buffers, from January 2020. Current total MREL resources are equal to circa 5.9% of UK leverage ratio exposure. While this results in a small shortfall to be met over the period to January 2020, Nationwide has a strong foundation from which to meet MREL requirements through issuance of Tier 2 capital, or, if it becomes available through legislative changes, a senior non-preferred debt instrument.

Consolidated financial statements

Contents

Consolidated income statement
For the year ended 4 April 2017

	Notes	2017 £m	2016 £m
Interest receivable and similar income	3	5,050	5,294
Interest expense and similar charges	4	(2,090)	(2,208)
Net interest income		2,960	3,086
Fee and commission income		446	428
Fee and commission expense		(221)	(192)
Income from investments		-	3
Other operating income	5	100	8
Gains from derivatives and hedge accounting	6	66	39
Total income		3,351	3,372
Administrative expenses	7	(2,021)	(1,847)
Impairment losses on loans and advances to customers	8	(131)	(81)
Impairment (losses)/recoveries on investment securities		(9)	8
Provisions for liabilities and charges	16	(136)	(173)
Profit before tax		1,054	1,279
Taxation	9	(297)	(294)
Profit after tax		757	985

Consolidated statement of comprehensive income
For the year ended 4 April 2017

	2017 £m	2016 £m
Profit after tax	757	985
Other comprehensive (expense)/income:		
Items that will not be reclassified to the income statement		
Remeasurements of retirement benefit obligations:		
Retirement benefit remeasurements before tax	(347)	42
Taxation	92	9
	(255)	51
Revaluation of property:		
Revaluation before tax	1	4
Taxation	2	(7)
	3	(3)
Other items recognised through the general reserve, including effect of corporation tax rate change	(1)	(1)
	(253)	47
Items that may subsequently be reclassified to the income statement		
Cash flow hedge reserve:		
Fair value movements taken to members' interests and equity	1,671	2,099
Amount transferred to income statement	(2,019)	(1,666)
Taxation	101	(132)
	(247)	301
Available for sale reserve:		
Fair value movements taken to members' interests and equity	176	(60)
Amount transferred to income statement	(106)	19
Taxation	(18)	7
	52	(34)
Other comprehensive (expense)/income	(448)	314
Total comprehensive income	309	1,299

Consolidated balance sheet
At 4 April 2017

	Notes	2017 £m	2016 £m
Assets			
Cash		13,017	8,797
Loans and advances to banks		2,587	3,591
Available for sale investment securities		9,764	10,612
Derivative financial instruments		5,043	3,898
Fair value adjustment for portfolio hedged risk		746	756
Loans and advances to customers	10	187,371	178,807
Investments in equity shares		67	126
Intangible assets		1,230	1,191
Property, plant and equipment		851	823
Investment properties		8	8
Accrued income and expenses prepaid		191	166
Deferred tax		103	35
Other assets		692	129
Total assets		221,670	208,939
Liabilities			
Shares		144,542	138,715
Deposits from banks		8,734	2,095
Other deposits		6,459	7,635
Due to customers		2,376	6,201
Fair value adjustment for portfolio hedged risk		8	13
Debt securities in issue		40,339	36,085
Derivative financial instruments		3,182	3,463
Other liabilities		391	414
Provisions for liabilities and charges	16	387	343
Accruals and deferred income		333	288
Subordinated liabilities	11	2,905	1,817
Subscribed capital	11	276	413
Deferred tax		100	186
Current tax liabilities		82	128
Retirement benefit obligations	18	423	213
Total liabilities		210,537	198,009
Members' interests and equity			
Core capital deferred shares	19	531	531
Other equity instruments	20	992	992
General reserve		9,316	8,921
Revaluation reserve		67	64
Cash flow hedge reserve		183	430
Available for sale reserve		44	(8)
Total members' interests and equity		11,133	10,930
Total members' interests, equity and liabilities		221,670	208,939

Consolidated statement of movements in members' interests and equity
For the year ended 4 April 2017

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

For the year ended 4 April 2016

	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Available for sale reserve £m	Total £m
At 5 April 2015	531	992	7,995	68	129	26	9,741
Profit for the year	-	-	985	-	-	-	985
Net remeasurements of retirement benefit obligations	-	-	51	-	-	-	51
Net revaluation of property	-	-	-	(3)	-	-	(3)
Reserve transfer	-	-	1	(1)	-	-	-
Effect of tax rate change on other items through the general reserve	-	-	(1)	-	-	-	(1)
Net movement in cash flow hedge reserve	-	-	-	-	301	-	301
Net movement in available for sale reserve	-	-	-	-	-	(34)	(34)
Total comprehensive income	-	-	1,036	(4)	301	(34)	1,299
Distribution to the holders of core capital deferred shares	-	-	(56)	-	-	-	(56)
Distribution to the holders of Additional Tier 1 capital*	-	-	(54)	-	-	-	(54)
At 4 April 2016	531	992	8,921	64	430	(8)	10,930

*The distribution to the holders of Additional Tier 1 capital is shown net of an associated tax credit of £18 million (2016: £14 million).

Consolidated cash flow statement
For the year ended 4 April 2017

	Notes	2017 £m	2016 £m
Cash flows generated from/(used in) operating activities			
Profit before tax		1,054	1,279
Adjustments for:			
Non-cash items included in profit before tax	22	537	240
Changes in operating assets and liabilities	22	(1,327)	(2,413)
Interest paid on subordinated liabilities		(117)	(102)
Interest paid on subscribed capital		(22)	(26)
Taxation		(297)	(254)
Net cash flows used in operating activities		(172)	(1,276)
Cash flows (used in)/generated from investing activities			
Purchase of investment securities		(5,282)	(4,202)
Sale and maturity of investment securities		6,668	4,905
Purchase of property, plant and equipment		(198)	(134)
Sale of property, plant and equipment		10	14
Purchase of intangible assets		(276)	(334)
Dividends received		-	3
Net cash flows generated from investing activities		922	252
Cash flows (used in)/generated from financing activities			
Distributions paid to the holders of core capital deferred shares		(56)	(56)
Distributions paid to the holders of Additional Tier 1 capital		(68)	(68)
Issue of debt securities		28,437	35,350
Redemption of debt securities in issue		(26,692)	(28,983)
Issue of subordinated liabilities		949	-
Redemption of subordinated liabilities		-	(406)
Redemption of subscribed capital		(140)	-
Net cash flows generated from financing activities		2,430	5,837
Net increase in cash and cash equivalents		3,180	4,813
Cash and cash equivalents at start of year		12,063	7,250
Cash and cash equivalents at end of year	22	15,243	12,063

Notes to the consolidated financial statements

1 Reporting period

These results have been prepared as at 4 April 2017 and show the financial performance for the year from, and including, 5 April 2016 to this date.

2 Basis of preparation

The 2017 preliminary results have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations (IFRICs) issued by the Interpretations Committee, as published by the International Accounting Standards Board (IASB), and 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 accounting policies adopted for use in the preparation of this Preliminary Results Announcement and which will be used in preparing the Annual Report and Accounts for the year ended 4 April 2017 were included in the 'Annual Report and Accounts 2016' document except as detailed below. Copies of this document are available at
nationwide.co.uk/about_nationwide/results_and_accounts

The derivatives and hedge accounting policy has been updated to clarify the presentation of amounts where collateral is received from, or given to, counterparties other than banks.

Adoption of new and revised IFRSs

Minor amendments to IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets and IAS 1 Presentation of Financial Statements were adopted with effect from 5 April 2016, together with the annual improvements to the IFRSs 2012-2014 cycle. The adoption of these amendments and improvements had no significant impact for the Group.

Judgements in applying accounting policies and critical accounting estimates

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

Going concern

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

Notes to the consolidated financial statements

3 Interest receivable and similar income

	2017 £m	2016 £m
On residential mortgages	4,843	5,009
On other loans	774	835
On investment securities	372	403
On other liquid assets	59	33
Net expense on financial instruments hedging assets	(998)	(986)
Total	5,050	5,294

Included within interest receivable and similar income is interest income on impaired financial assets of £33 million (2016: £41 million).

4 Interest expense and similar charges

	2017 £m	2016 £m
On shares held by individuals	1,390	1,577
On subscribed capital	34	26
On deposits and other borrowings:		
Subordinated liabilities	128	99
Other	450	577
On debt securities in issue	767	690
Net income on financial instruments hedging liabilities	(684)	(768)
Interest on net defined benefit pension liability	5	7
Total	2,090	2,208

Interest on deposits and other borrowings includes an expense of £327 million (2016: £439 million) in relation to the redemption and maturity of Protected Equity Bond (PEB) deposits which have returns linked to the performance of specified stock market indices. The PEBs are economically hedged using equity-linked derivatives. Net income on financial instruments hedging liabilities includes income of £308 million (2016: £398 million) in relation to the associated derivatives. Further details are included in note 13.

5 Other operating income

	2017 £m	2016 £m
Gain on disposal of investment in Visa Europe Limited	100	-
Other income	-	8
Total	100	8

On 21 June 2016, the Group disposed of its share in Visa Europe Limited, resulting in a gain on disposal of £100 million.

Other income includes the net amount of rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialised buildings which are not recognised in other comprehensive income.

Notes to the consolidated financial statements

6 Gains from derivatives and hedge accounting

	2017 £m	2016 £m
Gains from fair value hedge accounting (note i)	61	85
Ineffectiveness from cash flow hedge accounting (note ii)	(4)	1
Net gain/(loss) from mortgage pipeline (note iii)	8	(46)
Fair value losses from other derivatives (note iv)	(19)	(37)
Foreign exchange differences	20	36
Total	66	39

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

iii. The Group elects to fair value certain mortgage commitments in order to reduce the accounting mismatch caused when derivatives are used to hedge these 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 in place.

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 either not currently applied or is not currently achievable. This volatility does not reflect the economic reality of the Group's hedging strategy.

Included within the gain of £66 million (2016: £39 million) was the impact of the following:

- Gains of £61 million (2016: £85 million) from fair value hedge accounting. This includes gains of £47 million (2016: £66 million) from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts. In addition, further gains of £14 million relate to micro hedges (2016: £19 million) due to a combination of hedge ineffectiveness, maturities and disposals.
- Gains of £8 million (2016: losses of £46 million) relating to the mortgage pipeline. The income statement includes the full fair value movement of forward starting interest rate swaps economically hedging the pipeline; however the Group only elects to fair value certain underlying mortgage business within the pipeline.
- Losses of £19 million (2016: £37 million) from valuation adjustments and volatility on other derivatives which are not currently in an IAS 39 hedge accounting relationship.
- Gains of £20 million (2016: £36 million) from the retranslation of foreign currency monetary items not subject to effective hedge accounting, against a backdrop of significant sterling depreciation.

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 consolidated financial statements

7 Administrative expenses

	2017 £m	2016 £m
Employee costs:		
Wages and salaries	517	486
Bonuses	75	76
Social security costs	64	55
Pension costs	137	119
	793	736
Other administrative expenses	790	745
Bank levy (note 16)	42	41
	1,625	1,522
Depreciation, amortisation and impairment	396	325
Total	2,021	1,847

8 Impairment provisions on loans and advances to customers

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

	2017 £m	2016 £m
Impairment charge for the year		
Prime residential	11	8
Specialist residential	47	10
Consumer banking	78	96
Commercial lending	(5)	(34)
Other lending	-	1
Total	131	81
Impairment provision at the end of the year		
Prime residential	34	25
Specialist residential	110	77
Consumer banking	269	281
Commercial lending	25	59
Other lending	-	1
At 4 April 2017	438	443

The Group impairment provision of £438 million at 4 April 2017 (2016: £443 million) comprises individual provisions of £45 million (2016: £75 million) and collective provisions of £393 million (2016: £368 million).

The impairment provision charges for prime and specialist residential loans include £45 million (2016: £27 million) in relation to enhancements to provisioning methodology and assumptions to ensure that provisions continue to reflect appropriately the incurred losses within the portfolio.

Consumer banking provision assumptions in relation to up to date accounts have also been reviewed and updated, resulting in additional provisions of £7 million (2016: £29 million).

The decrease in impairment provisions held against commercial lending is primarily driven by the continued reduction of the commercial real estate portfolio.

Notes to the consolidated financial statements

9 Taxation

Tax charge in the income statement	2017 £m	2016 £m
Current tax:		
UK corporation tax	300	330
Corporation tax – adjustment in respect of prior years	(3)	(8)
Total current tax	297	322
Deferred tax:		
Current year credit	(1)	(35)
Adjustment in respect of prior years	3	5
Effect of corporation tax rate change	(2)	-
Effect of banking surcharge on deferred tax balances	-	2
Total deferred taxation	-	(28)
Tax charge	**297**	**294**

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

Reconciliation of tax charge	2017 £m	2016 £m
Profit before tax	1,054	1,279
Tax calculated at a tax rate of 20%	211	256
Adjustments in respect of prior years	-	(3)
Banking surcharge	62	22
Expenses not deductible for tax purposes/(income not taxable):		
Depreciation on non-qualifying assets	-	1
Bank levy	8	8
Customer redress	19	7
Other	(1)	1
Effect of corporation tax rate change	(2)	-
Effect of banking surcharge on deferred tax balances	-	2
Tax charge	**297**	**294**

10 Loans and advances to customers

	2017 £m	2016 £m
Prime residential mortgages	137,970	129,948
Specialist residential mortgages	33,149	32,114
Consumer banking	3,680	3,588
Commercial lending	11,185	11,772
Other lending	17	19
	186,001	177,441
Fair value adjustment for micro hedged risk	1,370	1,366
Total	**187,371**	**178,807**

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.

Notes to the consolidated financial statements

10 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) and Term Funding Scheme (TFS). The programmes have enabled the Group to obtain secured funding or to create additional collateral which could be used to source additional funding.

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

Group Mortgages pledged to asset backed funding programmes	Mortgages pledged	2017 Notes in issue			
		Held by third parties	Held by the Group		Total notes in issue
			Drawn	Undrawn	
	£m	£m	£m	£m	£m
Covered bond programme	19,322	14,927	-	-	14,927
Securitisation programme	10,412	3,622	-	448	4,070
Whole mortgage loan pools	16,136	-	13,505	2,631	16,136
Total	45,870	18,549	13,505	3,079	35,133

Group Mortgages pledged to asset backed funding programmes	Mortgages pledged	2016 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	18,996	13,709	-	-	13,709
Securitisation programme	12,368	4,705	-	1,635	6,340
Whole mortgage loan pools	12,344	-	10,749	1,595	12,344
Total	43,708	18,414	10,749	3,230	32,393

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

The whole mortgage loan pools are pledged at the BoE under the FLS and TFS. Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. Therefore, values shown under notes in issue are the whole mortgage loan pool notional balances.

Mortgages pledged include £9.1 billion (2016: £7.4 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.

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

Notes in issue which are held by third parties are included within debt securities in issue.

Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn under the FLS and TFS. At 4 April 2017 the Group had outstanding FLS drawings of £4.8 billion (2016: £8.5 billion) and TFS drawings of £6.0 billion (2016: £nil).

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

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

Notes to the consolidated financial statements

10 Loans and advances to customers (continued)

The Group established the Nationwide Covered Bond programme in November 2005. Mortgages pledged provide security for issues of covered bonds made by the Group. During the year ended 4 April 2017, £0.8 billion and €1.1 billion (£1.7 billion sterling equivalent) of notes were issued, and €1.5 billion (£1.4 billion sterling equivalent) of notes matured.

The Group established the Silverstone Master Trust securitisation programme in July 2008. Notes are issued under the programme and the issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Group. The remaining beneficial interest in the pledged mortgages of £7.0 billion (2016: £6.3 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2017 £2.5 billion and $0.5 billion (total £2.9 billion sterling equivalent) of notes matured. During the year ended 4 April 2017 no notes were issued.

11 Subordinated liabilities and subscribed capital

	2017 £m	2016 £m
Subordinated liabilities		
Subordinated notes	2,871	1,750
Fair value hedge accounting adjustments	45	77
Unamortised premiums and issue costs	(11)	(10)
Total	2,905	1,817
Subscribed capital		
Permanent interest bearing shares	222	362
Fair value hedge accounting adjustments	57	68
Unamortised premiums and issue costs	(3)	(17)
Total	276	413

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

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

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

12 Fair value hierarchy of financial assets and liabilities held at fair value

IFRS 13 requires an entity to classify assets and liabilities 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

Assets and liabilities 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

Assets and liabilities 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 observable. They also include investment securities valued using consensus pricing or other observable market prices.

Notes to the consolidated financial statements

12 Fair value hierarchy of financial assets and liabilities held at fair value (continued)

Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities 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.

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:

	Fair values based on			
2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Government and supranational investments	6,897	-	-	6,897
Other debt investment securities	931	1,936	-	2,867
Available for sale investment securities	7,828	1,936	-	9,764
Investments in equity shares (note i)	-	-	66	66
Interest rate swaps	-	1,859	-	1,859
Cross currency interest rate swaps	-	2,915	-	2,915
Forward foreign exchange	-	16	-	16
Equity index swaps	-	-	233	233
Index linked swaps	-	20	-	20
Total derivative financial instruments	-	4,810	233	5,043
Other financial assets (note ii)	-	7	-	7
Total financial assets	7,828	6,753	299	14,880
Financial liabilities				
Interest rate swaps	-	(3,096)	(5)	(3,101)
Cross currency interest rate swaps	-	(71)	-	(71)
Forward foreign exchange	-	(4)	-	(4)
Forward rate agreements	-	(1)	-	(1)
Swaptions	-	(5)	-	(5)
Total derivative financial instruments	-	(3,177)	(5)	(3,182)
Other deposits - PEBs (note iii)	-	-	(810)	(810)
Total financial liabilities	-	(3,177)	(815)	(3,992)

Notes to the consolidated financial statements

12 Fair value hierarchy of financial assets and liabilities held at fair value (continued)

2016	Fair values based on Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Government and supranational investments	6,843	-	-	6,843
Other debt investment securities	1,011	2,758	-	3,769
Available for sale investment securities	7,854	2,758	-	10,612
Investments in equity shares (note i)	-	-	125	125
Interest rate swaps	-	2,180	-	2,180
Cross currency interest rate swaps	-	1,238	-	1,238
Forward foreign exchange	-	44	-	44
Equity index swaps	-	-	436	436
Total derivative financial instruments	-	3,462	436	3,898
Other financial assets (note ii)	-	2	-	2
Total financial assets	7,854	6,222	561	14,637
Financial liabilities				
Interest rate swaps	-	(3,103)	(4)	(3,107)
Cross currency interest rate swaps	-	(338)	-	(338)
Forward foreign exchange	-	(4)	-	(4)
Swaptions	-	(8)	-	(8)
Equity index swaps	-	-	(1)	(1)
Index linked swaps	-	(5)	-	(5)
Total derivative financial instruments	-	(3,458)	(5)	(3,463)
Other deposits - PEBs (note iii)	-	-	(1,885)	(1,885)
Total financial liabilities	-	(3,458)	(1,890)	(5,348)

Notes:
i. Investments in equity shares exclude £1 million of investments in equity shares which are held at cost.
ii. Other financial assets represent the fair value of certain mortgage commitments included within other assets in the balance sheet.
iii. Other deposits comprise PEBs which are held at fair value through the income statement. The remaining other deposits are held at amortised cost and are included in note 14.

The Group's Level 1 portfolio comprises liquid securities for which traded prices are readily available.

Asset valuations for Level 2 available for sale investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 available for sale 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.

More detail on the Level 3 portfolio is provided in note 13.

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 the Level 1 and Level 2 portfolios during the year.

Notes to the consolidated financial statements

13 Fair value hierarchy of financial assets and liabilities held at fair value – Level 3 portfolio

The main constituents of the Level 3 portfolio are as follows:

Investments in equity shares

The Level 3 investments in equity shares include investments of £66 million (2016: £125 million) in industry wide banking and credit card service operations.

Derivative financial instruments

Level 3 assets and liabilities in this category are primarily equity linked derivatives with external counterparties which economically match the investment return payable by the Group to investors in Protected Equity Bonds (PEBs). The derivatives are linked to the performance of specified stock market indices and have been valued by an external third party. Fair value changes are recognised within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

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 of £810 million (2016: £1,885 million) 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 derivatives as valued by an external third party. Fair value changes are recognised within gains/losses from derivatives and hedge accounting. Upon maturity the gain/loss is transferred to interest expense and similar charges.

The minimum amount on an undiscounted basis that the Group and Society are contractually required to pay at maturity for the PEBs is £621 million (2016: £1,551 million). The maximum additional amount which would also be payable at maturity in respect of additional investment returns is £250 million (2016: £636 million). The payment of additional investment returns is dependent upon performance of certain specified stock indices during the period of the PEBs. As noted above, the Group has entered into equity linked derivatives with external counterparties which economically match the investment returns on the PEBs.

The tables below set out movements in the Level 3 portfolio, including transfers in and out of Level 3.

Movements in Level 3 portfolio	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits - PEBs £m
At 5 April 2016	125	431	(1,885)
Gains/(losses) recognised in the income statement:			
Net interest income/(expense)	-	308	(327)
(Losses)/gains from derivatives and hedge accounting	-	(205)	201
Other operating income	100	-	-
Losses recognised in other comprehensive income:			
Fair value movement taken to members' interests and equity	(66)	-	-
Settlements	-	(306)	1,201
Acquisitions	25	-	-
Disposals	(118)	-	-
At 4 April 2017	**66**	**228**	**(810)**

Notes to the consolidated financial statements

13 Fair value hierarchy of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

Movements in Level 3 portfolio	Available for sale investment securities £m	Investments in equity shares £m	Net derivative financial instruments £m	Other deposits - PEBs £m
At 5 April 2015	12	25	910	(3,332)
Gains/(losses) recognised in the income statement:				
Net interest income/(expense)	-	-	398	(439)
(Losses)/gains from derivatives and hedge accounting	-	-	(476)	465
Gains recognised in other comprehensive income:				
Fair value movement taken to members' interests and equity	-	100	-	-
Settlements	-	-	(401)	1,421
Transfers out of Level 3 portfolio	(12)	-	-	-
At 4 April 2016	-	125	431	(1,885)

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 the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or members' interests and equity:

2017		**Members' interests and equity**	
	Fair value	**Favourable changes**	**Unfavourable changes**
Sensitivity of Level 3 fair values	**£m**	**£m**	**£m**
Investments in equity shares	**66**	12	(24)
Net derivative financial instruments (note i)	**228**	-	-
Other deposits – PEBs (note i)	**(810)**	-	-
Total	**(516)**	12	(24)

2016		Members' interests and equity	
	Fair value	Favourable changes	Unfavourable changes
Sensitivity of Level 3 fair values	£m	£m	£m
Investments in equity shares	125	41	(32)
Net derivative financial instruments (note i)	431	-	-
Other deposits – PEBs (note i)	(1,885)	-	-
Total	(1,329)	41	(32)

Note:
i. 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; therefore these sensitivities have been excluded from the table above.

Notes to the consolidated financial statements

13 Fair value hierarchy of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

The Level 3 portfolio at 4 April 2017 did not include any impaired assets (2016: £nil). The sensitivity analysis on fair values in the tables above therefore does not impact on the income statement.

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market.

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.

2017 Significant unobservable inputs	Total assets £m	Total liabilities £m	Valuation technique	Significant unobservable inputs	Range (note ii)		Weighted average (note iii)	Units
Investments in equity shares	66	-	Discounted cash flows	Discount rate	6.41	7.75	7.08	%
				Share conversion	-	100	77.76	%
Net derivative financial instruments (note i)	228	-						
Other deposits – PEBs (note i)	-	(810)						

2016 Significant unobservable inputs	Total assets £m	Total liabilities £m	Valuation technique	Significant unobservable inputs	Range (note ii)		Weighted average (note iii)	Units (note iv)
Investments in equity shares	18	-	Mark to market	Price	93.30	107.00	98.00	Points
	107	-	Discounted cash flows	Discount rate	10.00	12.00	11.00	%
				Share conversion	-	100.00	77.30	%
				Execution risk	-	30.00	12.41	%
	125	-						
Net derivative financial instruments (note i)	431	-						
Other deposits – PEBs (note i)	-	(1,885)						

Notes:
i. 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; therefore these sensitivities have been excluded from the table above.
ii. The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the previous table.
iii. Weighted average represents the input values used in calculating the fair values for the above financial instruments.
iv. 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%.

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.

Discount rate

The discount rate is used to determine the present value of future cash flows. The level of the discount rate takes into account the time value of money, but also the risk or uncertainty of future cash flows. Typically, the greater the uncertainty, the higher the discount rate. A higher discount rate leads to a lower valuation and vice versa.

Share conversion

Where the conversion of a security into an underlying instrument is subject to underlying security market pricing and contingent litigation risk, share conversion is factored into the fair value. The higher the share conversion, the higher the valuation and vice versa.

Notes to the consolidated financial statements

13 Fair value hierarchy of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

Execution risk

Where a security's value is dependent on a future transaction taking place, and the occurrence of this is not certain, execution risk is factored into the security's valuation. The greater the execution risk, the lower the valuation and vice versa.

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.

14 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:

		Fair values based on			
2017	Carrying value £m	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets					
Loans and advances to banks	2,587	-	2,587	-	2,587
Loans and advances to customers:					
Residential mortgages	171,119	-	-	170,542	170,542
Consumer banking	3,680	-	-	3,546	3,546
Commercial lending	12,555	-	-	11,284	11,284
Other lending	17	-	5	12	17
Total	189,958	-	2,592	185,384	187,976
Financial liabilities					
Shares	144,542	-	144,664	-	144,664
Deposits from banks	8,734	-	8,736	-	8,736
Other deposits (note i)	5,649	-	5,651	-	5,651
Due to customers	2,376	-	2,377	-	2,377
Debt securities in issue	40,339	15,399	25,837	-	41,236
Subordinated liabilities	2,905	-	3,053	-	3,053
Subscribed capital	276	-	244	-	244
Total	204,821	15,399	190,562	-	205,961

Notes to the consolidated financial statements

14 Fair value of financial assets and liabilities measured at amortised cost (continued)

2016	Carrying value £m	Fair values based on Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Financial assets					
Loans and advances to banks (note ii)	3,591	-	3,591	-	3,591
Loans and advances to customers:					
Residential mortgages	162,062	-	-	161,766	161,766
Consumer banking	3,588	-	-	3,458	3,458
Commercial lending	13,138	-	-	13,077	13,077
Other lending (note ii)	19	-	5	14	19
Total	182,398	-	3,596	178,315	181,911
Financial liabilities					
Shares	138,715	-	138,896	-	138,896
Deposits from banks	2,095	-	2,096	-	2,096
Other deposits (note i)	5,750	-	5,752	-	5,752
Due to customers (note ii)	6,201	-	6,204	-	6,204
Debt securities in issue	36,085	13,582	23,195	-	36,777
Subordinated liabilities	1,817	-	1,949	-	1,949
Subscribed capital	413	-	381	-	381
Total	191,076	13,582	178,473	-	192,055

Notes:
i. Other deposits exclude PEBs which are held at fair value through the income statement and which are included in note 12.
ii. The comparative fair values for loans and advances to banks, amounts due to customers and element of other lending relating to the fair value of cash collateral posted with non-bank counterparties have been moved to Level 2. This better reflects the valuation approach, consistent with the current year presentation.

Loans and advances to banks

The fair value of loans and advances to banks is estimated by discounting expected cashflows at a market discount rate. The carrying amount is considered a reasonable approximation of fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated by discounting expected cash flows to reflect current rates for similar lending.

Consistent modelling techniques are used 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 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 amounts due to customers

The estimated fair value of shares, deposits and amounts due to customers with no stated maturity, including non-interest bearing deposits, is the amount repayable on demand. For items without quoted market prices the estimated fair value 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 items, estimated future cash flows are discounted using current market interest rates for new debt with similar remaining maturity. For fixed rate items, the estimated future cash flows are discounted based on market offer rates currently available for equivalent deposits.

Notes to the consolidated financial statements

14 Fair value of financial assets and liabilities measured at amortised cost (continued)

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.

Subordinated liabilities and subscribed capital

The fair value of subordinated liabilities and subscribed capital is determined by reference to quoted market prices of similar instruments.

15 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 there is an intention to settle on a net basis, or realise the asset and liability simultaneously. In accordance with IAS 32 'Financial Instruments: Presentation,' where the right to set off is not unconditional in all circumstances this does not result in an offset of balance sheet assets and liabilities.

In accordance with IFRS 7 'Financial Instruments: Disclosures', the following table shows the impact on derivative financial instruments relating to transactions where:

- there is an enforceable master netting arrangement or similar agreement in place and an unconditional right to offset is in place,
- 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, either unconditionally or following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash 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.

2017	Gross amounts recognised	Amounts offset (note i)	Net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	£m	£m	£m	£m	£m
Financial assets						
Derivative financial instruments	5,067	(24)	5,043	(2,216)	(2,799)	28
Total financial assets	5,067	(24)	5,043	(2,216)	(2,799)	28
Financial liabilities						
Derivative financial liabilities	3,210	(28)	3,182	(2,216)	(921)	45
Total financial liabilities	3,210	(28)	3,182	(2,216)	(921)	45

Notes to the consolidated financial statements

15 Offsetting financial assets and financial liabilities (continued)

2016	Gross amounts recognised	Amounts offset (note i)	Net amounts reported on the balance sheet	Master netting arrangements	Financial collateral	Net amounts after offsetting under IFRS 7
	£m	£m	£m	£m	£m	£m
Financial assets						
Derivative financial instruments	3,898	-	3,898	(2,020)	(1,804)	74
Total return swaps	87	-	87	-	(87)	-
Reverse repurchase agreements	450	-	450	-	(450)	-
Total financial assets	4,435	-	4,435	(2,020)	(2,341)	74
Financial liabilities						
Derivative financial liabilities	3,463	-	3,463	(2,020)	(1,391)	52
Repurchase agreements	127	-	127	-	(127)	-
Total financial liabilities	3,590	-	3,590	(2,020)	(1,518)	52

Note:

i. Amounts offset for derivative financial assets of £24 million include cash collateral netted of £3 million (2016: £nil). Amounts offset for derivative financial liabilities of £28 million include cash collateral netted of £7 million (2016: £nil). Excluding the cash collateral netted, the remaining amounts represent £21 million of derivative financial assets and derivative financial liabilities which are offset. At 4 April 2016, whilst there were netting arrangements in place, the offset criteria were otherwise not satisfied and therefore no amounts were offset.

The financial collateral in the table above is presented at fair value, except for the total return swaps collateral at 4 April 2016 which had a fair value of £127 million and the repurchase agreements collateral at 4 April 2016 which had a fair value of £128 million.

16 Provisions for liabilities and charges

	Bank levy £m	FSCS £m	Customer redress £m	Other provisions £m	Total £m
At 5 April 2016	22	84	227	10	343
Provisions utilised	(48)	(42)	(58)	(5)	(153)
Charge for the year	42	15	152	21	230
Release for the year	-	(15)	(16)	(2)	(33)
Net income statement charge	42	-	136	19	197
At 4 April 2017	**16**	**42**	**305**	**24**	**387**
At 5 April 2015	13	126	140	16	295
Provisions utilised	(32)	(88)	(40)	(5)	(165)
Charge for the year	41	46	138	3	228
Release for the year	-	-	(11)	(4)	(15)
Net income statement charge	41	46	127	(1)	213
At 4 April 2016	22	84	227	10	343

The income statement charge for provisions for liabilities and charges of £136 million (2016: £173 million) includes the customer redress net income statement charge of £136 million (2016: £127 million), and the FSCS charge of £nil (2016: £46 million).

The income statement charge for bank levy of £42 million (2016: £41 million) and other provisions charge of £19 million (2016: credit of £1 million) are included within administrative expenses in the income statement.

The Group provisions for liabilities and charges include £1 million (2016: £3 million) of customer redress held by subsidiary company The Mortgage Works (UK) plc; all other amounts are held by the Society.

Notes to the consolidated financial statements

16 Provisions for liabilities and charges (continued)

Financial Services Compensation Scheme (FSCS)

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

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

UK Asset Resolution Limited (UKAR) oversees the management of the closed books of Bradford & Bingley plc. On 31 March 2017 UKAR confirmed that it had agreed to sell two separate asset portfolios of Bradford & Bingley plc in order to repay the £16 billion loan outstanding to HM Treasury. The first asset portfolio sale transaction was completed on 25 April 2017, reducing the loan outstanding to HM Treasury to approximately £5 billion. As a result, the annual FSCS charge in relation to interest costs and management expenses has reduced significantly to £15 million (2016: £46 million) for the 2017/18 scheme year. The second sales transaction is anticipated to be completed by March 2018.

The FSCS income statement charge of £nil for the year ended 4 April 2017 comprises the £15 million FSCS 2017/18 scheme year charge (2016: £46 million), offset by £13 million (2016: £nil) of recoveries in relation to previous Icelandic banking failures and a £2 million release relating to lower than anticipated interest costs for the 2016/17 scheme year.

The balance sheet amount provided by the Group of £42 million (2016: £84 million) comprises £27 million of levies relating to the 2016/17 FSCS scheme year and £15 million relating to the 2017/18 scheme year.

Customer redress

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

The Group holds provisions of £305 million (2016: £227 million) in respect of the potential costs of remediation and redress in relation to historic sales of financial products and post sales administration. This includes amounts for past sales of PPI, non-compliance with consumer credit legislation and other regulatory matters.

The income statement charge for the year mainly reflects updated assumptions for provisions previously recognised. This includes a £128 million charge in relation to PPI, largely in response to the announcements made by the Financial Conduct Authority (FCA) during the year and specifically the policy statement PS17/03 issued in March 2017. In this policy statement the FCA confirmed an industry-funded communications campaign, combined with a deadline for any further complaints. It also proposed new rules and guidance in light of the Supreme Court's decision in the case of Plevin v Paragon Personal Finance Limited ('Plevin'), part of which was a requirement to proactively mail previously refuted mis-sale complainants who will now be eligible to claim under Plevin.

In light of these latest developments, it is considered appropriate for the Group to provide for the estimated total amount required to deal with all ongoing and future PPI complaints. The amount provided at 4 April 2017 therefore reflects the compensation and administrative costs associated with cases that the Group expects to uphold and the cost of processing invalid claims which the Group expects to receive. This estimate will be re-assessed on an ongoing basis in the light of actual claims levels observed.

Other provisions

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

Notes to the consolidated financial statements

17 Contingent liabilities

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

18 Retirement benefit obligations

Retirement benefit obligations on the balance sheet	2017 £m	2016 £m
Present value of funded obligations	6,039	4,645
Present value of unfunded obligations	12	12
	6,051	4,657
Fair value of fund assets	(5,628)	(4,444)
Deficit at 4 April	423	213

Defined contribution pension schemes

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

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

Defined benefit pension schemes

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

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

Eligible employees in the Fund are entitled to annual pensions after normal retirement at age 65 of one sixtieth of career average revalued 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 leaving employment. No other post-retirement benefits are provided to these employees.

Approximately 31% of the defined benefit obligations are attributable to current employees, 37% to former employees and 32% to current pensioners and dependants. The average duration of the obligation is approximately 22 years reflecting the split of the obligation between current employees (27 years), deferred members (25 years) and current pensioners (15 years).

The Group's retirement benefit obligations include £4 million (2016: £2 million) recognised in a subsidiary company, Nationwide (Isle of Man) Limited. This obligation relates to a defined benefit arrangement providing benefits based on both final salary and CARE which was closed to new entrants in 2009.

The Group's retirement benefit obligations also include £12 million (2016: £12 million) in respect of unfunded legacy defined benefit arrangements.

Notes to the consolidated financial statements

18 Retirement benefit obligations (continued)

The principal actuarial assumptions used are as follows:

Principal actuarial assumptions	2017 %	2016 %
Discount rate	2.40	3.45
Future salary increases	3.20	2.90
Future pension increases (maximum 5%)	2.95	2.75
Retail price index (RPI) inflation	3.20	2.90
Consumer price index (CPI) inflation	2.20	1.90

The assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancies. The assumptions made are illustrated by the following years of life expectancy at age 60:

Life expectancy assumptions	2017 years	2016 years
Age 60 at 4 April 2017		
Males	27.4	28.3
Females	28.6	30.0
Age 60 at 4 April 2037:		
Males	28.3	29.7
Females	29.9	31.5

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

Movements in the net defined benefit liability	2017 £m	2016 £m
Deficit at 5 April	213	286
Current service cost	60	64
Past service cost	4	3
Curtailment gains	(4)	(2)
Interest on net defined benefit liability	5	7
Return on assets (greater)/less than discount rate	(951)	122
Contributions by employer	(206)	(107)
Administrative expenses	4	4
Actuarial losses/(gains) on defined benefit obligations	1,298	(164)
Deficit at 4 April	423	213

Current service cost represents the increase in liabilities resulting from employee service over the period. Past service cost represents the increase in liabilities of the Fund arising from members of the Fund electing to pay additional contributions to receive additional benefits.

Curtailment gains represent a reduction in the defined benefit liabilities arising from future pensions increasing in line with the Consumer Price Index (CPI), instead of estimated salary increases (for final salary benefits) or the Retail Price Index (for CARE benefits), in respect of members made redundant during the year.

The interest on net defined benefit liability includes the interest expense on the retirement obligation, representing the annual interest accruing on the liabilities over the period. This is partially offset by the interest income on plan assets.

The £951 million relating to the return on assets being greater than the discount rate (2016: £122 million return less than the discount rate) is driven by positive returns from listed equities, partially offset by a reduction in bonds yields over the year. As a result, the value of plan assets increased compared to the prior year, where there was a small increase in bond yields and a small increase in the value of plan assets.

The £206 million of employer contributions includes deficit contributions of £149 million (2016: £49 million), with the remainder relating to employer contributions in respect of future benefit accrual. The Group estimates that its contributions to the defined benefit pension schemes (including deficit contributions under the current deficit recovery plan) during the year ending 4 April 2018 will be £101 million.

Notes to the consolidated financial statements

18 Retirement benefit obligations (continued)

The £1,298 million actuarial loss on the liabilities shown above is driven by:

- a £1,441 million loss (2016: £86 million gain) from changes in financial assumptions, including a 1.05% decrease in the discount rate and a 0.30% increase in assumed Retail Prices Index inflation, both of which increase the value of the liabilities.
- a £144 million gain (2016: £29 million) due to updating the mortality base tables and updating to the latest industry standard model for projecting future longevity improvements.
- an experience loss on the assumptions of £1 million (2016: £49 million gain) reflecting the differential between the long term assumptions and the actual observed pension increases and deferred revaluations during the year ended 4 April 2017.

19 Core capital deferred shares (CCDS)

	Number of shares	CCDS	Share premium	Total
		£m	£m	£m
At 4 April 2017	5,500,000	6	525	531
At 4 April 2016	5,500,000	6	525	531

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

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

In the event of a winding up or dissolution of the Society and if there 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 £15.67 per share and is adjusted annually in line with CPI.

A final distribution of £28 million (£5.125 per share) for the financial year ended 4 April 2016 was paid on 20 June 2016 and an interim distribution of £28 million (£5.125 per share) in respect of the period to 30 September 2016 was paid on 20 December 2016. These distributions have been recognised in the statement of movements in members' interests and equity.

The directors have declared an unconditional final distribution of £5.125 per share in respect of the financial year ended 4 April 2017, 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 ending 4 April 2018.

Notes to the consolidated financial statements

20 Other equity instruments

	Total £m
At 4 April 2017	**992**
At 4 April 2016	992

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

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

A coupon of £34 million, covering the period to 19 June 2016, was paid on 20 June 2016 and a coupon of £34 million, covering the period to 19 December 2016, was paid on 20 December 2016. 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 2017, is expected to be paid on 20 June 2017 and will be recognised in the statement of movements in members' interests and equity in the financial year ending 4 April 2018.

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

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

If the 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.

21 Related party transactions

Related party transactions in the year ended 4 April 2017 are similar in nature to those included in the Annual Report and Accounts 2016. Loans to key management personnel, undertaken on normal commercial terms, were £1.1 million (4 April 2016: £1.4 million).

Notes to the consolidated financial statements

22 Notes to the cash flow statement

Non-cash items included in profit before tax	2017 £m	2016 £m
Net decrease in impairment provisions	(5)	(209)
Net increase in provisions for liabilities and charges	44	48
Impairment losses/(recoveries) on investment securities	9	(8)
Depreciation, amortisation and impairment	396	325
Profit on sale of property, plant and equipment	(4)	(5)
Loss on the revaluation of land and buildings	1	3
Interest on subordinated liabilities	128	99
Interest on subscribed capital	34	26
Gains from derivatives and hedge accounting	(66)	(39)
Total	537	240

Changes in operating assets and liabilities	2017 £m	2016 £m
Loans and advances to banks	(36)	142
Net derivative financial instruments and fair value adjustment for portfolio hedged risk	(1,602)	(971)
Loans and advances to customers	(8,559)	(7,951)
Other operating assets	(1,023)	(420)
Shares	5,827	6,342
Deposits from banks, customers and others	1,638	(1,238)
Debt securities in issue	2,509	1,613
Deferred taxation	(154)	136
Retirement benefit obligations	210	(73)
Other operating liabilities	(137)	7
Total	(1,327)	(2,413)

Cash and cash equivalents	2017 £m	2016 £m
Cash	13,017	8,797
Loans and advances to banks repayable in 3 months or less (note i)	2,226	3,266
Total	15,243	12,063

Note:
i. Cash equivalents include £1,959 million (2016: £2,620 million) of cash collateral posted with bank counterparties.

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 4 April 2017, amounted to £361 million (2016: £325 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.

Notes to the consolidated financial statements

RESPONSIBILITY STATEMENT

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

A full list of the board of directors will be disclosed in the Annual Report and Accounts 2017.

Signed on behalf of the Board by

Mark Rennison
Chief Financial Officer

22 May 2017

OTHER INFORMATION

The financial information set out in this announcement which was approved by the Board on 22 May 2017 does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The Annual Report and Accounts 2016 have been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Independent Auditors' Report on the Annual Report and Accounts 2016 was unqualified. The Annual Report and Accounts 2017 will be lodged with the Financial Conduct Authority and the Prudential Regulation Authority following publication.

A copy of this Preliminary report is placed on the website of Nationwide Building Society, nationwide.co.uk, from 23 May 2017. The Directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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