# Climate-related Financial Disclosures 2023

Nationwide
Building Society

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

# Foreword

Nationwide is committed to a net-zero future. It is our aspiration to support the UK in achieving its ambition to be net-zero by 2050. This aspiration is embedded into our strategy; supported by our updated Mutual Good Commitment to *support progress towards a greener society*. Our green ambitions also demonstrate how our business aligns to, and supports, the UN Sustainable Development Goals[1].

In 2021, we became a member of the Net-Zero Banking Alliance (NZBA) and part of the Glasgow Financial Alliance for Net Zero (GFANZ), committing to playing our part in supporting the transition to a net-zero economy (to achieve an overall balance between greenhouse gas (GHG) emissions produced and taken out of the atmosphere). We recently disclosed our *Intermediate Net-Zero Ambitions 2022: Basis of Preparation*[2], including our highly challenging intermediate (by 2030) science-based targets, which aligns with our ambition to support the UK in achieving net-zero by 2050. In this disclosure, we make it clear that science-based targets are particularly challenging for residential mortgages, and that the Society will not be able to achieve these targets without broader government policy changes[3].

Nationwide is the largest building society in the world and the second largest mortgage provider in the UK. We started out in 1884, founded on the belief that everyone deserved a safe place to call home. That has not changed. We know that climate change will have a significant impact on our customers, their homes, and wider society, and so tackling climate change, and the risks associated with it, are fundamental to our mutual purpose. With around (16%[4]) of the UK's carbon emissions coming from homes, and many of the homes being built today not meeting the highest energy efficiency standards, achieving the reduction in emissions to deliver net-zero will require a significant cross-industry collaborative effort, and large-scale government action.

The information set out opposite is provided in line with the requirements of the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) on *Enhancing banks' and insurers' approaches to managing the financial risks from climate change,* to disclose the financial risks from climate change, and is aligned with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations and its objective to improve and increase the reporting of climate-related financial information.

This information details our understanding of the impact of climate change on the Society and our customers. In addition, it explains how the risks from climate change are managed and incorporated into the Society's governance model, and the metrics and targets used to monitor the risk.



[1] THE 17 GOALS | Sustainable Development (un.org)
[2] Intermediate Net-Zero Ambitions 2022 – Basis of Preparation (nationwide.co.uk)
[3] Information on the Society's scope 1, 2, and 3 emissions and our intermediate (by 2030) science-based targets (and the challenges we face in progressing towards these) can be found in the Metrics and targets section from page 28.
[4] 2021 UK Greenhouse Gas Emissions, Final Figures (publishing.service.gov.uk)

# Ambition and disclosure overview

Climate change presents a risk to Nationwide and its customers, and so managing the risk from climate change and supporting progress towards a greener society is core to us being a responsible business. We continue to focus on further embedding and improving our climate-related risk management capabilities, whilst enhancing our understanding of climate change and the impacts it has on the Society and its customers.

Environmental and climate consciousness are aligned to our mutual purpose of *Banking – but fairer, more rewarding and for the good of society*. Being a beacon for mutual good is a core part of our strategy, which is centred around our purpose. It compels us to take meaningful action by limiting the environmental impact of our business operations, helping customers to green their homes (so that they are warmer, more comfortable places to live, and more cost effective to heat in the long term), and managing better the impacts of a more unpredictable climate. In doing so, we can demonstrate our mutual difference, that extends beyond our own customer base, and positively impacts our communities and wider society too.

The table below outlines how we have aligned to the four categories of the TCFD recommendations[5] (Strategy, Governance, Risk management, and Metrics and targets) and recommended disclosures, and aligns with the Financial Conduct Authority's Listing Rules (9.8.6R(8)). Across these categories are 11 sub-category headings which we have used to present our activities for this year, along with ongoing and future activity. Page number references have been provided to indicate where additional detail can be found within this disclosure:

| | |
|---|---|
| **Strategy** – The actual and potential impacts of climate-related risks and opportunities on Nationwide, our strategy, and financial planning | 7-16 |
| **The climate-related risks and opportunities Nationwide has identified over the short, medium, and long term** | 8-13 |
| **Activity in 2022/23**<br>• Recognised a number of risks and opportunities across the short, medium and long term to support the UK's ambition to achieve net-zero by 2050, and explored these as part of our climate strategy and green finance proposition development, to progress towards a greener society.<br>• Developed and disclosed our intermediate (by 2030) science-based targets for scope 1, 2, and 3 emissions, aligned to a net-zero pathway. Our disclosure details the potential actions across the short to medium term, and the level of control and challenges faced. | |
| **Ongoing and future activity**<br>• Continue to embed climate change considerations into Nationwide's strategy and proposition development processes, including the identification of additional climate-related risks and opportunities.<br>• Develop a net-zero aligned transition plan to help track against Nationwide's net-zero ambition and intermediate (by 2030) science-based targets over the short to medium term.<br>• Continue to engage with Environmental, Social, and Governance (ESG) rating agencies to ensure Nationwide's credentials are fully understood and appropriately reflected in our ratings.<br>• Continue to invite third-party suppliers to join the EcoVadis platform and to disclose their carbon emissions and emissions reduction targets. | |
| **The impact of climate-related risks and opportunities on Nationwide's businesses, strategy, and financial planning** | 9, 10, 14-16 |
| **Activity in 2022/23**<br>• Further embedded climate change into our strategic planning and financial planning processes, including defining a framework for the inclusion of the effects of climate change in our expected credit losses.<br>• Continued to explore climate-related opportunities through 2022, launching the first phase of EPC A rated homes in our Oakfield development and completing our solar panel pilot with MakeMyHouseGreen.<br>• Continued to participate in cross-industry forums, to understand new and emerging risks and opportunities across the financial sector, including continuing to campaign for a National Retrofit Strategy to support the greening of UK homes as part of our Green Homes Action Group. | |
| **Ongoing and future activity**<br>• Continue to explore further green finance opportunities and propositions to support our customers in the greening of their homes and progress towards our intermediate (by 2030) science-based targets.<br>• Continue to convene and participate in cross-industry working groups to drive real change, including raising awareness of the challenges of greening UK homes and encouraging further government action that supports greener homes. | |

[5] Nationwide follows the TCFD's Annex: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (October 2021).

# Ambition and disclosure overview (continued)

| | |
|---|---|
| **Strategy** – The actual and potential impacts of climate-related risks and opportunities on Nationwide, our strategy, and financial planning | 7-16 |
| **The resilience of Nationwide's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario** | 15 |

**Activity in 2022/23**

- Planned enhancements to our climate change scenario analysis approach in readiness for our next scenario analysis exercise, in order to understand better the risks, and potential opportunities, of climate change. This follows our scenario analysis in 2021 which indicated that the effects of climate change posed a limited threat to our business model.
- Climate change was considered as part of this year's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

**Ongoing and future activity**

- Execute an internal scenario analysis exercise in 2023, with enhancement to previous capabilities, including the use of a dynamic balance sheet, to quantify better the financial risks arising from the physical and transitional impacts of climate change. The analysis will include assessing different climate change scenarios, including a 2°C or lower scenario.
- Implement learnings from scenario analysis to develop our approach further and build on our capabilities.

| | |
|---|---|
| **Governance** – Nationwide's governance over climate-related risks and opportunities | 17-22 |
| **The Board's oversight of climate-related risks and opportunities** | 18, 19 |

**Activity in 2022/23**

- The Board continues to have ultimate accountability for all climate-related risk matters at Nationwide.
- Directors' engagement on climate-related risk management was increased through 2022, with a particular focus on the setting of the Society's intermediate (by 2030) science-based targets.
- Directors approved the Society's intermediate (by 2030) science-based targets disclosure which included targets aiming to reduce emissions across scope 1, 2, and 3.
- Further embedded our climate risk governance model, so that it continues to support the Board's oversight of climate-related risk.

**Ongoing and future activity**

- Continue to evolve and optimise the climate risk governance model to ensure even greater focus at Board level.
- Engage the Board throughout the development of our net-zero aligned transition plan.

| | |
|---|---|
| **Management's role in assessing and managing climate-related risks and opportunities** | 20-22 |

**Activity in 2022/23**

- Ownership for responding to climate change sits with Nationwide's Director of Strategy, Performance and Sustainability, whilst Senior Managers Regime accountabilities sit with the Chief Executive Officer (CEO).
- For 2023/24, aligned our directors' long term incentive arrangement with the Society's scope 1 and scope 2 carbon emission targets, which will be captured within a wider ESG measure, with a defined weighting of 10%.
- The Executive Committee (ExCo) supported the approval of the Society's intermediate (by 2030) science-based targets.

**Ongoing and future activity**

- Assess progress against measures included in the directors' long term incentive arrangement, which is aligned to the Society's scope 1 and scope 2 carbon emission targets.
- Engage management on the development and delivery of our net-zero aligned transition plan.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

# Ambition and disclosure overview (continued)

| **Risk Management** – How Nationwide identifies, assesses, and manages climate-related risks | **23-26** |
|---|---|
| **Nationwide's processes for identifying and assessing climate-related risks** | **24, 25** |

**Activity in 2022/23**

- Assessed the impacts of climate change against Nationwide's principal risks in line with our Enterprise Risk Management Framework (ERMF) and identified potential impacts over the short, medium, and long term.
- Enhanced the Society's climate change risk standard, to improve it as a key control of climate-related risk.
- Continued to leverage physical risk assessment capabilities, through the Property Risk Hub[6], and internal capabilities continue to be enhanced to assess transition risk across the Society's residential and commercial mortgage lending portfolios.
- Updated our Housing Finance Credit Standards, which applies to our registered social landlord (RSL) borrowers, to include clear recommendations for borrowers to have an ESG strategy aligned to net-zero. Also encouraged RSL borrowers to improve the Energy Performance Certificate (EPC) composition of their portfolio.

**Ongoing and future activity**

- Consider the inclusion of transition risk factors into borrower affordability credit assessments.
- Incorporate climate factors into Nationwide's business as usual financial forecasting activity.

| **Nationwide's processes for managing climate-related risks** | **24, 25** |
|---|---|

**Activity in 2022/23**

- Enhanced our internal climate change management information (MI) dashboard, resulting in around 50 climate-related metrics from principal risk areas to support the management of climate-related risks, with key measures shared with the Board Risk Committee every six months.
- Delivered a refreshed climate-related risk implementation plan based on the Basel Committee on Banking Supervision (BCBS) recommendations.
- Submitted a report to the PRA detailing how we have embedded the requirements of SS3/19, and further evolved the embeddedness of our climate-related risk management based on feedback received from the PRA.
- Actioned feedback from the Society's participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES).

**Ongoing and future activity**

- Expand and enhance the management of non-financial climate-related risks, including within operational risk where it is considered a potential cause of operational loss events.
- Continue to review lending policy to ensure new and existing customers are not unduly exposed to physical and transition risk.

| **How Nationwide's processes for identifying, assessing, and managing climate-related risks are integrated into the Society's overall risk management** | **26** |
|---|---|

**Activity in 2022/23**

- Climate change continues to be embedded as a cause within our existing ERMF.
- Enhanced our climate change risk standard which aids the embedding, monitoring, and management of climate-related risk as a cause to the Society's most significant risks.

**Ongoing and future activity**

- Further broaden understanding of climate-related risk through continued development of Nationwide's scenario analysis approach.

[6] Nationwide's Property Risk Hub assesses all mortgage applications for several physical risks at the decision in principle stage of a mortgage application. More information on our Property Risk Hub can be found in the Strategy section on page 14.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

# Ambition and disclosure overview (continued)

| **Metrics and Targets** – The metrics and targets used to assess and manage relevant climate-related risks and opportunities | 27-43 |
|---|---|
| **The metrics used by Nationwide to assess climate-related risks and opportunities in line with our strategy and risk management process** | 40-43 |

**Activity in 2022/23**

- Continued to develop a robust set of metrics to assess climate-related risks and opportunities. These include:
  - Physical risk data, such as flood exposure of our mortgage book
  - Transition risk data, such as EPC exposure of our mortgage book
  - Waste and water usage data
  - Data that shows the take-up of our green finance propositions
- Enhanced internal climate change MI which supports better decision making by management and the Board.

**Ongoing and future activity**

- Continue to enhance our climate change metrics and data that support our climate-related risk management.
- Continue to review climate ambitions and targets, in line with future changes to strategy, propositions, scenario analysis and climate science.

| **Nationwide's scope 1, 2, and 3 greenhouse gas (GHG) emissions and targets, and the related risks** | 28-39 |
|---|---|

**Activity in 2022/23**

- Developed and disclosed the Society's intermediate (by 2030) science-based targets, for our scope 1, 2, and 3 emissions.
- Enhanced our approach to calculating scope 3 downstream emissions for mortgages, by integrating address matching processes into our mortgage EPC model.
- Enhanced our approach to calculating scope 3 downstream emissions for our RSL portfolio, by leveraging our mortgage EPC model to match EPCs better for those properties that have one, and to estimate where an EPC is not matched.

**Ongoing and future activity**

- Continue to calculate our scope 1, 2 and 3 emissions aligned to the GHG protocol and industry best practice, disclosing annually within our Climate-related Financial Disclosures, and measuring progress against our science-based targets.
- Continue to refine and enhance Nationwide's approach to calculating scope 3 emissions, reflecting improvements in data availability, coverage, and industry understanding.

| **The targets used by Nationwide to manage climate-related risks and opportunities, and performance against these targets** | 31, 33, 37, 38, 40-43 |
|---|---|

**Activity in 2022/23**

- Evolved Nationwide's internal climate change MI to track better our climate change ambitions and support management decision making.
- Calculated, and disclosed within our Climate-related Financial Disclosures, our scope 1, 2 and 3 emissions aligned to the GHG protocol and industry best-practice, and measured our progress against our science-based targets.
- Continued to track physical risk data, such as flood exposure, and transition risk data, such as EPC composition, of our mortgage book.
- Continued to track the take-up of our green finance propositions.

**Ongoing and future activity**

- Continue to enhance climate metrics and targets, in line with changes to strategy, propositions, scenario analysis and climate science.
- Enhance our climate metrics and data that support us in measuring our progress towards our climate-related Mutual Good Commitment, and our intermediate (by 2030) science-based targets, including developing supporting metrics and leading indicators for inclusion in our net-zero aligned transition plan.
- Continue to monitor performance against Nationwide's climate-related targets and ambition to support progress towards a greener society, and update our Climate-related Financial Disclosures accordingly.

# Strategy

Nationwide's approach to considering climate change, the opportunities it presents, and how the associated risks are measured and managed.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

# Strategy

**Our climate change strategy**

Our purpose-led strategy ensures we do business in a way that positively impacts our customers, employees, and communities, and seeks to reduce our impact on the environment.

As a building society, Nationwide's focus is on providing banking products and services for our customers. We only have very limited corporate lending through small, closed commercial real estate and private finance initiative portfolios, and lending to registered social landlords.

Our business model means that our strategy does not involve lending to, or investing in, the fossil fuel industry.

Nationwide aims to help build a more sustainable world by supporting the UK Government's ambition to achieve net-zero by 2050. We have updated our Mutual Good Commitments, which support the UN Sustainable Development Goals (SDGs), to ensure we remain a responsible business, focused on the needs of our customers, communities, and wider society. Our Mutual Good Commitment, *to support progress towards a greener society*, has been updated to align to our intermediate (by 2030) science-based targets.

In December 2022, Nationwide published its highly challenging intermediate (by 2030) science-based targets[7]. This disclosure covers the sectors applicable to our business model, across scopes 1, 2, and 3. Achieving our emissions and emissions intensity reduction targets will require both customer, cross-industry, and government action. Further information on how we are progressing against our targets can be found in the Metrics and targets section from page 27.

**Nationwide's climate change strategy articulates how climate change impacts our stakeholders**

We have five pillars to our climate change strategy, as set out below, which describe how we engage with stakeholders on climate change.


[7] Intermediate Net-Zero Ambitions 2022 - Basis of Preparation (nationwide.co.uk)

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

Nationwide uses the following definitions for scope 1, 2, and 3 emissions:

| Emissions | Description | Category |
|---|---|---|
| Scope 1 | Direct emissions from owned sources. This includes the emissions resulting from the use of gas in our buildings, diesel used to power our backup generators, and the fuel used by the Society's car fleet. | Energy and travel |
| Scope 2 | Indirect emissions from the generation and consumption of purchased electricity. This includes the electricity bought by the Society to power its buildings. | Renewable electricity |
| Scope 3 - Upstream - categories 1, 2, and 4 | Indirect upstream emissions that occur in our value chain from our supply chain. This includes the emissions resulting from the Society's spend across goods and services (category 1), capital goods (category 2), and upstream transportation and distribution (category 4). | Categories 1, 2 and 4 |
| Scope 3 - Downstream investments - category 15 | Indirect downstream emissions that occur in our value chain from capital investment or financing. This includes the emissions associated with the Society's mortgage, commercial real estate, and registered social landlord lending. | Mortgages, Registered social landlords and Commercial real estate |

## Supporting progress towards a greener society

### Working cross-industry to make a positive difference to climate change with a focus on greening UK homes

Nationwide's commitment to support progress towards a greener society is aligned to the UK's ambition to achieve net-zero by 2050 at the latest. We recognise the importance of taking early action to drive the transition towards a low carbon future and the impact climate change could have on our customers, their homes, and wider society. However, we know we cannot do this alone, so we will continue to collaborate cross-industry, and with government, to support the changes needed to transition the economy to net-zero and, importantly, help support the UK, and our customers, in reducing emissions from homes.

We will continue to encourage the following:

- The Future Homes Standard to be introduced by government, and adopted by the building industry, at the earliest possible opportunity. This is currently due in 2025 and will require new-build homes to be fitted with low carbon heating, and high levels of energy efficiency (expected to align to EPC A or B)
- Clarity on the future minimum EPC standards for privately rented properties in the UK, building on the requirements of the 2017 Clean Growth Strategy[8] which set a goal for privately rented and fuel poor homes to be upgraded to EPC band C or above by 2030, and an aspiration for as many homes as possible to be EPC band C by 2035.
- Long-term government-provided financial incentives for owner-occupiers to retrofit their homes, in particular supporting those on low incomes and those where the financial benefit from retrofit is small. This would help facilitate the supply of retrofit materials, the trusted workforce to fit them and the willingness of homeowners to undertake works on their property. The Government's recently published policy paper *Power Up Britain,* goes some way towards addressing this.

### Helping our customers reduce their carbon emissions through our propositions and engagement

Nationwide recognises the challenges many customers face from the current cost-of-living crisis which has been exacerbated by rising energy costs. In 2022, we invested in a range of services to help those struggling, including a free cost of living helpline and tailored support through our specialist support team, helping customers with maximising the income they may be entitled to and referrals to debt charities in situations where a customer has multiple debts across several lenders. We also offer financial health checks and provide education and support online and in branches. Through our Mutual Good Commitment, *to support progress towards a greener society,* we also hope to play a bigger role in alleviating the cost-of-living challenges.

In October 2021, we launched a solar panel pilot to a small number of customers (under 300) with our partner, MakeMyHouseGreen. The pilot aim was to simplify the journey, and support consumers in understanding their options, when buying solar panels, by providing a trusted supply chain to carry out the work. The pilot ran through to August 2022, with all installations due to be completed in the first half of 2023. It enabled us to learn about the challenges and barriers consumers faced in the retrofit journey.

The main barriers to retrofitting include:

- Financial – addressing the upfront cost of low-carbon measures and consumer payback period, as well as the lack of available government grant funding
- Informational – increasing consumer awareness of the need to act and the low-carbon solutions available
- Supply chain – addressing the shortage of skilled workers and immature heat pump supply
- Disruption – complexity of installation and changes required within the home to accommodate low-carbon solutions.

We recognise that we do not have the knowledge and expertise to solve all the challenges in the retrofitting market, and so we will focus where we can add most value, by developing finance propositions with the aim to support our customers in greening their homes.

### Developing green finance propositions

With the UK's 29 million[9] homes producing around 16%[10] of the country's emissions, ensuring people have the awareness, knowledge, confidence, and ability to make green improvements to their homes is vital to tackling climate change.

Many of the homes being built today do not meet the requirements for net-zero. Through our green finance propositions, our customers can make their homes more energy

[8] Clean Growth Strategy (publishing.service.gov.uk)
[9] UK housing: Fit for the future? - Climate Change Committee (theccc.org.uk)/
[10] 2021 UK Greenhouse Gas Emissions, Final Figures (publishing.service.gov.uk)

efficient, while also ensuring their homes are warmer, more affordable, and more comfortable to live in.

Nationwide has been providing green finance since 2020. We offer our customers, and The Mortgage Works (TMW) customers, preferential rate mortgages and additional borrowing to support green home improvements (through our Green Additional Borrowing and Green Further Advance products), as well as incentivising the purchase of more energy efficient properties (through our Green Reward mortgage which offers cashback to customers purchasing a home rated EPC A or high B).

Further information on the uptake of our green finance propositions is in the Metrics and targets section on page 42.

Nationwide continues to regularly engage with the housing associations it lends to, to understand and support them on their net-zero journey. We have developed a Sustainability Linked Loan (SLL) for registered social landlords (RSLs). The SLL aims to reward RSLs with a rate reduction if they achieve agreed sustainability criteria across their portfolio. Suitably ambitious sustainable key performance indicators (KPIs) are agreed with the RSL and, upon loan completion, performance against the KPIs is monitored on an annual basis. Once the sustainable KPIs are met, and are evidenced by the RSL, Nationwide provides an interest rate reduction on the relevant loan.

It is our hope that the SLL will encourage RSLs to gradually improve the energy efficiency of their portfolio, leading to warmer, healthier homes for tenants. By continuing to work with our RSLs to understand their needs for sustainable social housing propositions, and by conducting annual due diligence on their ESG reporting (to understand how they are performing against their own ESG targets), we can encourage energy efficiency improvements within our social housing portfolio.

As a mutual, and as a member of the Financing a Just Transition Alliance, we believe in supporting a just transition – ensuring that the most vulnerable in society are not disadvantaged, as we transition to a net-zero economy. For this reason, we do not intend to negatively select against less energy efficient mortgage properties, but we acknowledge this may impact our ability to achieve our science-based target.

**Launching our Oakfield housing development**

Nationwide's Oakfield development, which consists of 239 EPC A-rated homes, built on a brownfield site[11] in Swindon, was opened to the public in December 2022. Potential buyers are able to see first-hand the development's environmental credentials, including the fitting of air source heat pumps and solar panels.

Nationwide worked closely with the local community in the design and planning, with the development achieving accreditation by Building with Nature. Oakfield also won the Landscape Institute Building with Nature National Award 2022. The site includes a wildflower meadow, swales, and plants (as recommended by the Royal Horticultural Society) to encourage insects and birds.

We hope our approach to Oakfield will become a blueprint for other responsible organisations who wish to build housing developments, in collaboration with local communities.

Image of Nationwide's Oakfield development

## Greening our business operations and supply chain

**Targeting a reduction in our business operation carbon emissions in line with a net-zero pathway**

Nationwide is proud of the progress it has made towards reducing the emissions of its business operations since 2011. Since April 2020, we have achieved carbon neutrality[12] across our scope 1 and 2 emissions. From 2018, Nationwide has sourced 100% renewable electricity, and it is committed to continuing to do so.

As at the end of 2022, we had removed the use of gas from over 75% of our branch network and are on track to remove 100% of gas from our branches by 2030, replacing it with electrical solutions. In addition, a project is underway to optimise the size and composition of our admin sites and data centres for our future needs, given the evolving ways of working. This will run alongside a project to explore the removal of gas from our admin sites and data centres, or the move to sites that are either gas-free or which use less gas. Combined, these initiatives should enable us to make our business operations gas-free by 2030, supporting us in reducing our emissions across scope 1.

Since 2019, Nationwide no longer offers employees the option to join the company car scheme — eligible employees instead receive a company car allowance. By 2026, we will no longer be providing any fleet vehicles, and hence this will also support the reduction in scope 1 emissions across our business operations. We have also recently launched an electric vehicle (EV) salary sacrifice scheme available to all employees to encourage them to make the shift to electric vehicle ownership.

Currently, any remaining scope 1 emissions are offset through a pre-purchase agreement made up of carbon avoidance and removal projects (based outside of the UK) that prevent carbon from being released into, or remove carbon from, the atmosphere, such as community reforestation. Our offsets are validated and verified under either the Verified Carbon Standard (VCS) and the Clean Development Mechanism (CDM). Details of our scope 1 and 2 emissions are in the Metrics and targets section on page 30.

[11] Previously developed land that is not currently in use.
[12] Carbon neutral is no net release of carbon dioxide into the atmosphere, achieved by removing or eliminating emissions, or through funding equivalent carbon savings through renewable or offsetting projects.

**Supporting nature and biodiversity at our Head Office in Swindon**

Climate change can have a negative impact on nature and decrease biodiversity. Nationwide continues to work towards a more sustainable approach to managing its property estate. Our Biodiversity Steering Group meets monthly, to progress measures that support and enhance biodiversity within the grounds around our Head Office in Swindon.

In 2019, we nurtured a 'pictorial meadow' to support pollinating insects. We also built and installed nest-boxes, with the local Royal Wootton Bassett Men's Shed project, to supplement nesting sites in the growing woodland. In 2021, we conducted an ecological assessment of the grounds around our Head Office, to understand better opportunities for supporting a thriving, native ecology. Using the results, and supported by our Biodiversity Policy, Nationwide created a five-year management action plan, committing to both short and long term objectives. Our aim is to increase the population of key plants and animals around our grounds, to work towards a healthy and resilient ecosystem, and strengthen travel and foraging corridors with neighbouring grounds. We do not use insecticides around our office grounds and the use of herbicides is kept to a minimum.

The Society will undertake a series of surveys to establish its baseline levels of species, and numbers, and use the results to develop its management plans and targets. We plan to repeat our surveys on a periodic basis so we can measure our progress.

We are also encouraged by the growing interest across the industry in taking measurable actions to protect and restore nature. We will use any recommendations made by the Taskforce on Nature-related Financial Disclosures (TNFD) in the consideration of biodiversity-related risks and impacts.

**Leveraging our scale and influence to promote green practices within our supply chain**

Nationwide has taken steps to build climate change considerations into its procurement and supply chain management processes. We have enhanced the environmental requirements within our Third Party Code of Practice, including the need for all large[13] third parties to monitor and disclose their scope 1 and 2 emissions and set reduction targets. We also recommend small and medium sized enterprises set targets and disclose their emissions. As part of our supplier onboarding process, we request attestation that suppliers meet the requirements within the Third Party Code of Practice. Material[14] third parties are required to complete annual evidence-based controls testing against the code.

Nationwide has partnered with EcoVadis, a sustainability ratings provider, to collect environmental performance data from key third parties using EcoVadis's shared information platform. Since Spring 2021, Nationwide has requested over 200 suppliers join EcoVadis. Nationwide has set a minimum benchmark for suppliers and is supporting existing suppliers to achieve this.

We have introduced a 10% minimum weighting for sustainability actions as part of our supplier tendering process. This is to ensure we are evaluating suppliers based on the Society's values and in line with our Mutual Good Commitments.

## Embedding climate into our culture

**Encouraging colleagues to engage with green issues and make sustainable choices**

In 2022, Nationwide launched an all-colleague climate change e-learning module, which introduced climate change, climate-related risk, and the UK's net-zero ambition to its employees. So far, around 70% of all Nationwide employees have completed this voluntary training. An Environmental, Social, and Governance (ESG) information sheet has also been developed to support branch colleagues with their understanding of sustainability at Nationwide.

Training on how to purchase responsibly is also available on our employee learning platform and has been completed by 96% of our Procurement function. This training is designed to help colleagues understand why Nationwide must take action to manage the environmental and social impacts of our purchasing and supplier management activities. Resources have also been developed to support employees in making small, green, changes to their lifestyle through our employee Sustainability Toolkit.

In 2022, Nationwide changed the default investment option for members of Nationwide's Group Personal Pension (GPP). Nationwide's Pension Governance Committee regularly reviews the GPP default investment option and agreed to change the underlying equity funds (for scheme members more than 10 years away from their selected retirement age) to invest in companies that adhere better to ESG principles. Colleagues can opt out of the default investment option and make their own investment choices if they so wish. This investment strategy is aligned with Nationwide's climate strategy.

**Our Green Network**

The Society's employees continue to have an important role to play in tackling climate change. Nationwide's Green Network has over 4,500 members and aims to lead the Society's internal conversations on green and sustainability, and to build and maintain a 'big picture' of all the green activity connected to the Society and colleagues. Launched in 2021, Nationwide's Green Network engages colleagues through Nationwide's social media platform, Yammer, and provides information on sustainable issues through the internal SharePoint site which is accessible to all colleagues.

The Green Network supports the sharing of information on how employees can be greener at work, at home, through travel, and across their lifestyles. Since launch, the Green Network has run a Green Colleague Assembly, which encouraged colleagues to share their thoughts and opinions on a diverse range of subjects relating to green and sustainability considerations. In September 2022, the Green Network also held a Green Webcast, supported by the World Wildlife Fund, which shared tips on how to be more sustainable at work and home.

[13] Suppliers with over 250 employees.
[14] Material suppliers are subject to the Financial Conduct Authority's Senior Management Arrangements, Systems and Controls sourcebook regulation, the European Banking Authority Guidelines on outsourcing arrangements, and PRA Supervisory Statement 2/21 on Outsourcing & Third Party Risk Management. For further information please see our Third Party Code of Practice.

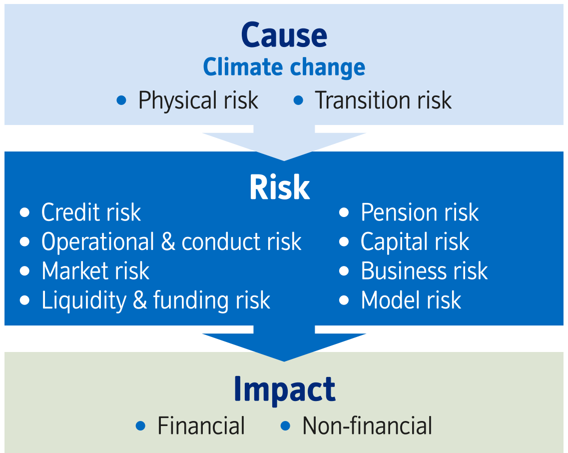
Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

## Enhancing our climate risk capabilities

**Ensuring Nationwide is managing the risks and opportunities presented by climate change**

Due to its nature, climate change has implications across the Society's entire Enterprise Risk Management Framework (ERMF). Climate change has been embedded as a cause to the Society's principal risks[15]. Consideration as a cause ensures appropriate identification, monitoring, and management across all existing risk categories, along with full traceability.

The diagram below explains how climate-related risk has been embedded within our ERMF.




Climate-related risk is considered to manifest across two main causes:

- **Physical risks** – the risks arising from the increasing severity and frequency of weather-related events such as flooding (acute), or longer-term shifts in climate (chronic)
- **Transition risks** – the risks which could result from the process of adjustment towards a lower carbon economy such as through developments in policy and regulation, emergence of disruptive technology or business models, shifting societal preferences, or evolving legal interpretations.

To form a view on materiality, and to understand the broad risk and financial impacts across different time horizons (over the short, medium, and long term) the ERMF and Nationwide's principal risks were assessed through a climate change lens.

The time horizons we have assessed our principal risks against are as follows:

| Horizon | Time frame | Definition |
|---|---|---|
| **Short term** | 0 to 5 years | Aligned to the Society's financial planning cycle. There is a risk that discreet but significant climate-related events take place during this period. |
| **Medium term** | 5 to 15 years | During the intermediate timescales, risks could manifest resulting from potential policy changes and actions needed to be taken before 2050. |
| **Long term** | 15+ years | Aligned to longer-term scenario analysis, with the risks that global climate change effects could occur within this period. |

The outcome of this assessment is included in the table on the next page. Credit risk is the most material climate-related risk due to the Society's mortgage portfolio exposures.

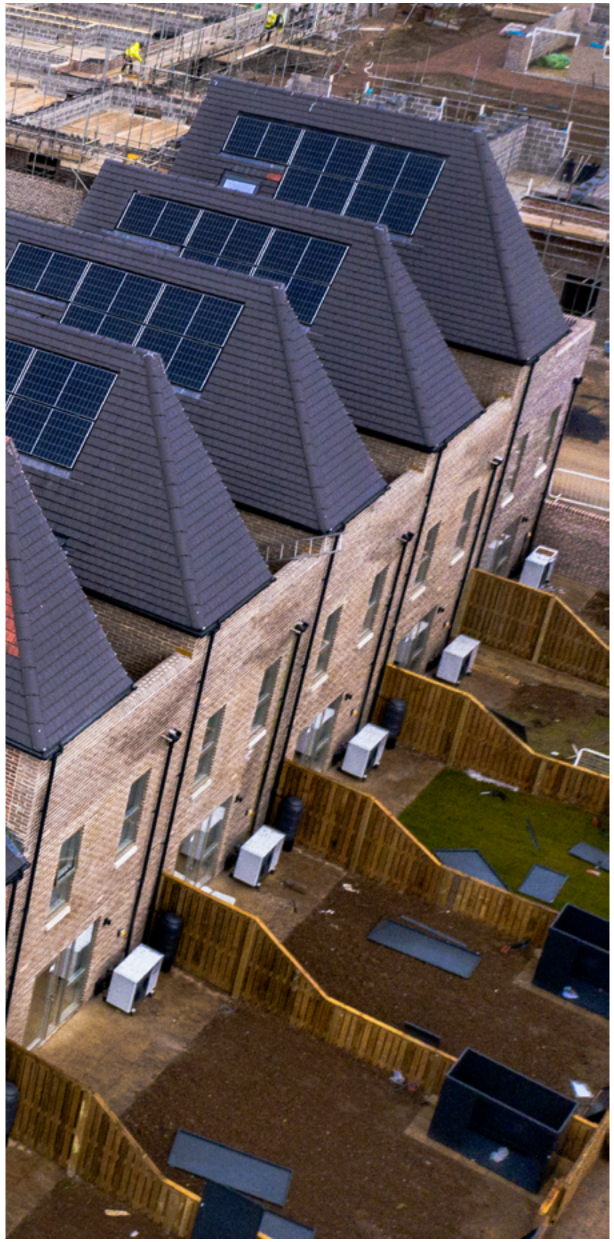


Image of Nationwide's Oakfield development

[15] Definitions and further information for each of the principal risks can be found in the Risk management section on page 26.

**Impact of climate change on Nationwide's principal risks**

| Risk category | | Risk examples | Horizon[16] | Potential risk indicator[17] |
|---|---|---|---|---|
| **Credit risk** | Transition | • Reduced customer creditworthiness due to the transition to a greener economy (for example, due to loss of jobs or increased energy costs) leading to default<br>• Declining house values due to abrupt housing policy (for example, too rapidly introducing minimum EPC ratings)<br>• Registered social landlord challenges in meeting policy requirements | **Short - Medium** | **Low** |
| | Physical | • Houses damaged by physical impacts, such as floods, causing a decline in property value<br>• Higher insurance prices leading to uninsured properties<br>• Exposure to other financial services firms who are exposed to physical climate-related risk | **Long** | **Low** |
| **Operational & conduct risk** | Transition | • Increased supply chain costs<br>• Reconsideration of third-party relationships due to their carbon footprint<br>• Reputational impact of carbon footprint of products and services leading to lower customer and employee attraction and retention<br>• Potential liability and conduct risk from green propositions and assumed advice or greenwashing | **Medium** | **Very low** |
| | Physical | • Branches or offices damaged, or loss of systems or key data due to physical impacts, such as floods, affecting key processes<br>• Increased incidence of environmental perils affecting the delivery of third-party goods and services<br>• Increased customer activity (for example, increased call volumes) resulting from physical risk impacting Nationwide's service capacity<br>• Internal capability affected by physical events preventing employees from accessing the office or working from home | **Long** | **Very low** |
| **Business risk** | Transition | • Changes in customer expectations relating to prioritisation of green strategic objectives<br>• Increased costs associated with policy change | **Short - Medium** | **Very low** |
| | Physical | • Income impacted as a result of physical impacts, such as loss of operations | **Long** | **Very low** |
| **Pension risk** | Transition & Physical | • Impact of physical or transition risk on the Nationwide Pension Fund asset valuations, leading to an increased deficit (or reduced surplus) | **Medium - Long** | **Very low** |
| **Capital risk** | Physical | • Deterioration of balance sheet assets, such as offices or branches, due to physical impacts | **Long** | **Very low** |
| **Market risk** | Transition & Physical | • Changes in customer behaviour in relation to their mortgages or deposits as a result of interest rate changes, arising from physical or transition events<br>• Macroeconomic market impacts arising from physical or transition events, impacting value (or net income from) assets and liabilities, as a result of interest rate movement | **Long** | **Very low** |
| | Transition | • Tightening of climate-related policy leading to market repricing | **Long** | **Very low** |
| | Physical | • Impact on exchange rates due to physical events, affecting currencies in which investment securities are held | **Long** | **Very low** |
| **Liquidity & funding risk** | Transition & Physical | • Falling deposit balances due to economic distress of customers<br>• Lower deposit balances due to customers' loss of confidence in Nationwide relating to negative perceptions of climate credentials<br>• Reduced access to wholesale funding as a result of lower investor appetite due to negative perception of Nationwide in relation to climate change | **Medium - Long** | **Very low** |

[16] Horizons have been updated following outcomes of Nationwide's 2021 scenario analysis.
[17] Potential risk indicator provides an indicative view on climate change impact across each risk category. Based on the outcomes of our 2021 scenario analysis, low indicates an estimated increase in expected losses of £5-50 million, and very low indicates an estimated increase in expected losses of less than £5 million.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

**Assessing physical and transition risk data in our lending decisions**

In 2016, Nationwide developed the Property Risk Hub, in conjunction with key partners such as Airbus Defence and Space, Jeremy Benn Associates Limited (JBA), and Ordnance Survey. The Property Risk Hub aims to assess whether a property is at risk of flooding, subsidence, or coastal erosion as part of the mortgage underwriting process. It enables Nationwide to assess the impacts of climate change and environmental factors that might impact a property over a typical mortgage term of 25 to 40 years.

This was also the first step in changing Nationwide's valuation methodology, moving away from a pure present-day comparable basis, to incorporate new longer-term climate change impacts. This work has helped us understand and mitigate potential physical impacts from climate-related risk, and as a result means our potential physical risk exposure from climate change is low. Physical risk data is included in the Metrics and targets section on page 40.

Property-level data is collected on every property from various specialist providers using Unique Property Reference Numbers (UPRNs) for residential mortgages to ensure consistency. Relevant data sources include:

- Energy Performance Certificate (EPC) rating
- Flood data (run-off, river and coastal)
- Coastal erosion data
- Ground stability data (subsidence, soil, sand, and silt)
- Natural ground hazards (such as mining and sink holes)
- Insurability (consideration given to the Government- and Insurer-backed Flood Re scheme, that supports the insurability of high flood risk properties).

This data is used to assess individual property-related risks when originating new residential mortgages and determine whether a property is outside of our risk appetite. If within appetite, this data is used to inform the methods of valuation (Automated Valuation Model, desktop assessment, or full physical inspection) to be mandated, to assess the value of each property and whether it is fit for mortgage purposes.

Visualisation tools can help Nationwide assess the specific risk events. Illustrative examples are contained in Images 1 and 2. Image 1 shows an example of the baseline undefended flooding risk profile for an area of the UK in 2022. Image 2 shows the undefended flooding risk profile for same area in 2090 in a high physical risk outcome scenario. It shows an increased flood risk score for some individual properties, with a change from green, to orange, denoting an elevated flood risk.

**Image 1**

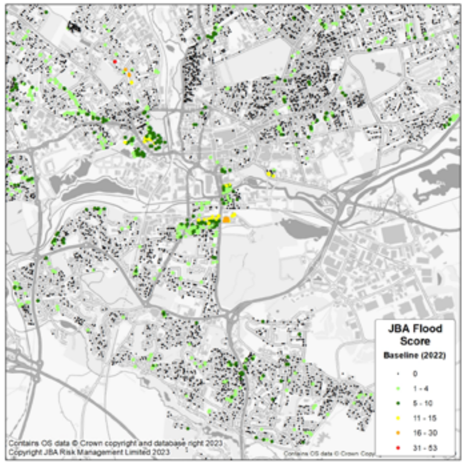
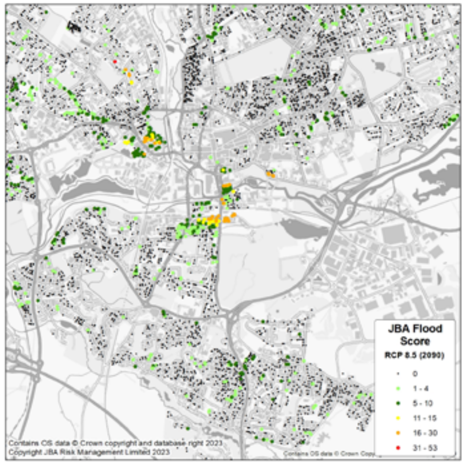



**Image 2**




Nationwide's Property Risk Hub also considers the implications of government policy in our lending decisions. Our current lending policy reflects the Domestic Minimum Energy Efficiency Standard (MEES) regulations, which require domestic privately rented properties to have an EPC rating of E or better. As a result, Nationwide no longer lends to buy to let properties with an EPC worse than E (unless the property qualifies for an exemption). This data is likely to become increasingly important in assessing transition risk as future regulation and government policy aim to decarbonise the UK housing stock.

**Enhancing our scenario analysis capability to help manage the financial risks from climate change**

Nationwide's scenario analysis activity helps us to quantify its financial exposures to climate-related risks and further build an understanding of the challenges posed to its strategy and business model, which then allows the exploration of potential actions needed to manage these risks.

We take a modular approach to modelling the impacts of climate-related risk, modelling macroeconomic, physical and transition risk components separately. The effects of each component are incorporated into the Probability of Default (PD) and/or the Loss Given Default (LGD), typically at account level, enabling the compounding of risk where appropriate to generate the total impact on credit losses for each portfolio, typically over a 30-year horizon, using five-year reporting periods to enable assessment of the relative short-term impacts, in addition to the medium and longer term time horizons. The scenarios consider several macroeconomic variables which could be influenced by climate change, for example, unemployment rates. Consumer sentiment and other impacts such as inflation and interest rates are also considered as part of our scenario expansion activities.

In 2021, Nationwide's scenario analysis showed that there is a limited threat of climate change to its current business model[18]. A key test of resilience is around expected credit losses, which we have assessed to be predominantly driven by macroeconomic factors, with lower losses resulting from direct climate change impacts (not extreme in the UK and low risk). Our low-risk, predominantly secured asset base helps mitigate the worst impacts.

Due to the limited risk that climate change currently presents to our business model, and other stress testing priorities, we have not undertaken any climate-based scenario analysis in 2022, but we are evolving and enhancing our internal capabilities ahead of running a scenario analysis exercise in 2023. The next phase of our scenario analysis will focus on our mortgages and RSL lending portfolios.

We are also considering the following enhancements:

- **Using a dynamic balance sheet** – A dynamic balance sheet will enable us to consider the evolutionary changes in our portfolio across the duration of the scenario, for example, mortgages for older, less-efficient properties maturing and potentially being replaced by newer, more energy-efficient, mortgaged homes.
- **Considering the differences in policy between owner-occupier and buy to let properties** – Current policy (MEES regulation) and potential future policy (Department for Energy Security and Net Zero[19] recommendations to transition all buy to let properties to EPC C by 2028) for buy to let properties, and the absence of policy for owner-occupiers, suggests buy to let properties could experience an earlier transition compared to owner-occupier properties.
- **Expanding our climate change scenarios** – Enhancing our model by utilising scenarios aligned to industry best-practice and climate science (across a 30-year time horizon), to consider wider climate change impacts, including, a net-zero aligned (below 2°C) scenario, and a scenario that considers more extreme climate-related risks.

**Assessing climate risk in capital allocation and financial planning**

Climate-related risk has been considered as part of the internal capital adequacy assessment process (ICAAP) since 2021. The need to hold capital for climate-related risk was assessed using the outputs from our 2021 scenario analysis activity. Based on this assessment Nationwide believes it may be prudent to hold a small amount of capital to cover potential losses that could arise from the impacts of climate change. Following the Bank of England's Climate and Capital Conference in October 2022, we continue to monitor industry and regulatory developments and revise our approach accordingly.

The impact of climate change on our liquidity requirements is also covered as part of the Internal Liquidity Adequacy Assessment Process (ILAAP). Whilst the impacts from climate change are still emerging and could be wide-ranging, from a liquidity and funding risk perspective, we consider the impacts to be no more material than those currently considered as part of our business as usual liquidity assessment. The impacts of climate change will continue to be assessed within both the ICAAP and ILAAP on an annual basis.

Nationwide also considers the impact of climate change on its financial planning processes. Upon completion of our 2021 scenario analysis, the outcomes were not deemed significant enough, at this stage, to challenge the Society's approach to its five-year financial planning processes. However, as we continue to embed climate-related risk management capabilities, including enhancing our scenario analysis approach for 2023, we will consider how climate change impacts can be further incorporated within the macroeconomic variables used within our financial planning processes.

Nationwide is also considering climate change impacts within its business as usual expected credit loss assessment processes.

**Demonstrating how we are managing climate change risk to our investors**

Investors', and both credit and ESG rating agencies', expectations of the minimum standards for ESG focused action, and disclosures, continues to increase - especially those in relation to climate change. We have seen an improvement in our ESG ratings over the past year, including:

- Following the completion our second CDP questionnaire response, our score improved to A- (in 2022), from a score of B (in 2021), which puts Nationwide in CDP's leadership band indicating that it is 'implementing current best practices' regarding climate issues
- Reducing our Morningstar Sustainalytics ESG Risk Rating to 10.2[20], which improved from 13.0 (the lower score, the better the rating)
- Receiving an upgraded MSCI rating to AAA, from A, in December 2022.

[18] Climate-related Financial Disclosures 2022 | Nationwide
[19] In February 2023, the Department for Energy Security and Net Zero; the Department for Science, Innovation and Technology; and the Department for Business and Trade replaced the Department for Business, Energy and Industrial Strategy (BEIS).
[20] Copyright © 2023 Morningstar Sustainalytics. All rights reserved. This publication contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at https://www.sustainalytics.com/legal-disclaimers.

## Advocating for a net-zero future

### Influencing green policy change

In 2021, Nationwide formed the Green Homes Action Group – a group of cross-sector leaders with a shared interest in promoting high-quality, affordable retrofit. The group is made up of 15 organisations and leaders[21] representing the housing, construction, financial services, charity, and energy sectors, and meets approximately every two months to address some of the barriers to greener homes. The group called for the Government to do more through seven policy asks to encourage a more comprehensive National Retrofit Strategy – these asks are:

1. Introduce a public information campaign that inspires
2. Make it fairly financed
3. Regulate green retrofitting
4. Create new jobs in green retrofitting
5. Make property fit for the future
6. Support green homes with green power
7. Build green homes for the future now

We also track the progress of current and announced policy as part of our climate change governance, to maintain awareness of potential and upcoming policy changes that could influence our strategy. The Society will continue to engage and influence policymakers, to encourage the development of green policies which support wider society, in making the changes needed to achieve a just transition to net-zero.

### Partnering for mutual success

By working with specialist organisations, Nationwide can increase expertise and understanding around those areas where it can make the greatest impact.

Nationwide engages with the following organisations:

- Member of the Green Finance Institute's Coalition of Energy Efficiency of Buildings (GFI CEEB) since 2019
- Part of the London School of Economics Financing a Just Transition Alliance
- Participant of UK Finance's Sustainability Committee
- Participant in the newly formed UN PRB Climate Adaptation Target Setting Working Group.

**Nationwide continues to partner, and play an active role, with the following key organisations to increase its knowledge and effect real change:**

**CDP – We are a participant in CDP's annual questionnaire**
Nationwide completed its second submission in 2022 and received a score of A- which indicates that it is 'implementing current best practices' regarding climate issues.

**Climate Financial Risk Forum (CFRF) - We are a participant in the CFRF's Working Groups**
The Forum was established in March 2019 and co-chaired by the Prudential Regulation Authority and the Financial Conduct Authority. It brings together senior representatives from across the financial sector, including banks, insurers, asset managers and asset owners. In 2022, Nationwide participated in the Disclosure, Data and Metrics, and Transition to Net-Zero Working Groups.

**Glasgow Financial Alliance for Net Zero (GFANZ) - We are a member of GFANZ**
Nationwide joined GFANZ in 2021 and is a participant in the Policy Call to Action and Implementation workstreams.

**Net-Zero Banking Alliance (NZBA) - We are a member of the NZBA**
This industry-led, UN-convened Alliance recognises the vital role of banks in supporting the global transition of the real economy to net-zero emissions. Nationwide joined the NZBA in 2021, committing to achieving net zero by 2050 at the latest and setting intermediate science-based targets for 2030 or sooner, within 18 months of sign-up. Nationwide published its intermediate (by 2030) science-based targets in 2022.

**Taskforce on Climate-related Financial Disclosures (TCFD) - We are a supporter of the TCFD**
Nationwide has been a supporter of the TCFD since 2019 and is committed to following the TCFD disclosure guidelines.

**UN Environment Programme Finance Initiative (UNEP FI) - We are a partner of the UNEP FI**
The UNEP FI is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. By partnering, Nationwide joins forces with more than 450 members, including banks, insurers, and investors, and over 100 supporting institutions.

**UN Global Compact - We are a signatory to the UN Global Compact**
As a signatory to the UN Global Compact, we have reinforced our commitment to social and environmental sustainability and our shared responsibility for a better world.

**UN Principles for Responsible Banking (UN PRB) - We are a signatory to the UN PRB**
The PRB provide the first-ever global sustainability framework for the banking industry. As a signatory, Nationwide is committed to aligning its business strategies to global goals such as the Sustainable Development Goals and the Paris Climate Agreement and completed its first self-assessment in 2022.

We have contributed to the following activities, to enhance our understanding of climate change and support others' understanding the impacts of climate change on Nationwide:

- Respondent to key strategic consultations such as the Transition Plan Taskforce's framework and guidance
- Supported the launch of UK Finance's *Net Zero Homes: Time for a Reset* report
- Engaged with parliamentarians on green homes, and the delivery of low carbon heating and insulation.

[21] Green Homes Action Group members include Nationwide Building Society, Ashden, B&Q, E.ON, the Energy Savings Trust, the Federation of Master Builders, igloo, Metropolitan Thames Valley, National Energy Foundation, Energiesprong UK, Rockwool, Shelter, Switchd, Trustmark, and University College London.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

# Governance

The roles, responsibilities, committees, and operating model through which Nationwide governs climate-related risks and makes climate-related decisions.

# Governance

**How Nationwide governs climate-related risks and opportunities**

Our climate change governance model provides clear oversight and management of climate-related issues. It also supports us with the delivery of our strategy which aims to be a beacon for mutual good. The Board has ultimate accountability for all climate change risk-related matters at Nationwide and is supported by formal governance committees and working groups.

**Our climate change governance model**


*Our climate change governance model shows the committees and groups where climate change is discussed, and the frequency of these discussions.*

Climate Change Risk Committee is a sub-committee of Responsible Business Committee, which reports into the Executive Committee (ExCo). Climate change risk-related matters are also reported to Executive Risk Committee and the Board Risk Committee every six months. Stress Testing Committee formally reports into Nationwide's Assets and Liabilities Committee, which reports into Executive Risk Committee. However, when climate-related risk items are raised at Stress Testing Committee, these will be escalated to Executive Risk Committee or Board Risk Committee as appropriate.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

### A well-established climate change governance model

The Board approves Nationwide's strategy including any climate-related components. The Board Risk Committee is regularly engaged on all matters concerning climate-related risk. All Board and Executive level committees are governed by the Society's Secretariat team who are responsible for ensuring the appropriate terms of reference and meeting cadence are in place for each committee to undertake core business decisions. Further information on Nationwide's governance can be found in the Annual Report & Accounts.

**Board Committees engaged in climate change-related matters**

**Nationwide Board**

The Board has ultimate accountability for all climate-related risk matters at Nationwide and sets strategic direction for climate change ambitions.

Throughout 2022/23 the directors engaged regularly to discuss climate-related issues and have:

- Approved the publication of Nationwide's intermediate (by 2030) science-based targets for reduction of its scope 1, 2, and 3 emissions
- Led an internal all-colleague meeting, answering questions posed by employees about Nationwide's strategy, including its approach to sustainability
- Engaged with the Strategy team throughout the development of Nationwide's intermediate (by 2030) science-based targets. Our directors provided strategic direction on the narrative and approved the Society's *Intermediate Net-Zero Ambitions 2022: Basis of Preparation* disclosure
- Discussed our recently improved ESG rating agency scores from MSCI, Morningstar Sustainalytics and CDP.

| Board Risk Committee (BRC) | Audit Committee | Remuneration Committee |
|---|---|---|
| Provides oversight and advice to the Board in relation to current and potential future risk exposures and risk strategy, including determination of risk appetite.<br>Responsible for oversight of climate-related risks. Considers climate-related risks and opportunities at least every six months.<br>This year, BRC has:<br>- Endorsed, and recommended to the Board, the publication of Nationwide's intermediate (by 2030) science-based targets disclosure<br>- Received updates on regulatory feedback against SS3/19 compliance and performance in the CBES<br>- Received updates on the progress made in maturing Nationwide's climate-related risk management capabilities, its future climate-related stress testing priorities, and the next steps required to demonstrate further embeddedness of climate-related risk management<br>- Discussed the importance of climate change to Nationwide's investors, and the notable increase in ESG focused conversations. | Provides oversight and advice to the Board in respect of financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems.<br>Considers non-financial disclosures related to the expansive ESG agenda including our intermediate (by 2030) science-based targets disclosure and approves Nationwide's Climate-related Financial Disclosures on an annual basis.<br>This year, Audit Committee has:<br>- Reviewed the narrative within Nationwide's intermediate (by 2030) science-based targets disclosure<br>- Reviewed and approved the Society's Climate-related Financial Disclosures. | Responsible for determining any risk adjustments in relation to remuneration.<br>As part of the remuneration of Nationwide's most senior leaders, an individual's contribution is considered, including their impact on climate-related activities where relevant. The ExCo's performance scorecard captures climate-related metrics, which in turn feeds into remuneration outcomes.<br>This year, Remuneration Committee has:<br>- Determined the performance scorecards for our directors' annual and long term incentive arrangements for 2023/24, and aligned the long term incentive scorecard with the Society's scope 1 and 2 carbon emission targets. This will be captured within a wider ESG measure, with a defined weighting of 10%<br>- Assessed the ExCo performance scorecard for 2022/23, inclusive of climate-related metrics, in determining individual variable pay outcomes for 2022/23. |

Day-to-day ownership for responding to climate change sits with the Director of Strategy, Performance and Sustainability who reports into the Chief Finance Officer (CFO). Senior Managers Regime (SMR) accountabilities sit with the Chief Executive Officer (CEO). To deliver on these responsibilities, several management-level committees and working groups are in place to ensure climate-related risk is managed effectively. Nationwide's Climate-related Financial Disclosures are also reviewed, alongside senior management's assessment of the Annual Report and Accounts. Further information on the division of responsibilities between the Chief Executive Officer and Executive Committee can be found in the Annual Report and Accounts.

**Management-level Committees responsible for climate change-related matters**

**Chief Executive Officer (CEO)**

Nationwide's CEO runs the business day-to-day and is accountable to the Board for the Society's financial and operational performance. The CEO provides leadership and direction to set and implement the Society's strategy, including climate change.

Throughout 2022/23 the CEO engaged in, and discussed, climate change and has:

- Reviewed and approved the *Intermediate Net-Zero Ambitions 2022: Basis of Preparation* disclosure which details our intermediate (by 2030) science-based targets for our scope 1, 2, and 3 emissions, as a member of Board, Board Risk Committee, and Executive Risk Committee
- Engaged in feedback from the PRA regarding our progress in embedding climate-related risk to meet SS3/19 requirements and the outcomes of the CBES exercise.
- Provided thought leadership on the Society's strategy, including our Mutual Good Commitment – *to support progress towards a greener society*
- Engaged in the development of Nationwide's green propositions.

| Executive Risk Committee (ERC) | Executive Committee (ExCo) | Stress Testing Committee (STC) |
|---|---|---|
| ERC has delegated authority from BRC to monitor and review the risk exposures of the Society in accordance with our ERMF, Board Risk Appetite, and Society's strategy and plan.<br>ERC discusses climate-related risk every six months.<br>This year, ERC has:<br>- Endorsed Nationwide's intermediate (by 2030) science-based targets prior to review by BRC<br>- Reviewed and challenged the Climate Change MI, presented by the Climate Change Risk Committee, every three months<br>- Discussed the Society's ongoing approach to improving scenario analysis<br>- Discussed the feedback from the PRA regarding our participation in the CBES and compliance with SS3/19<br>- Overseen the progress of the climate change risk implementation plan, including the monitoring of the climate change management information dashboard. | Reporting into the CEO, and overseen by the Board, ExCo oversees the day-to-day management of the Society.<br>ExCo meets weekly but discusses climate-related topics when required.<br>This year, ExCo has:<br>- Endorsed Nationwide's intermediate (by 2030) science-based targets<br>- Approved Nationwide's updated Mutual Good Commitments as part of the approval of the Society's plan<br>- Discussed investors' ongoing interest regarding ESG matters<br>- Discussed our recently improved ESG rating agency scores from CDP, MSCI, and Morningstar Sustainalytics<br>- Reviewed our social investment strategy and the positive impact this has had in our communities. | STC has delegated authority from ERC to manage the Society's approach to stress testing and scenario analysis.<br>STC approves our approach to climate change scenario analysis and the development of our internal scenario analysis capabilities.<br>This year, STC has:<br>- Discussed the enhancements to our climate change scenario analysis approach<br>- Approved the changes to Nationwide's climate change scenario analysis capability<br>- Noted regulatory feedback following the completion of our scenario analysis activity for CBES<br>- Noted actions following CBES feedback, to address gaps identified. |

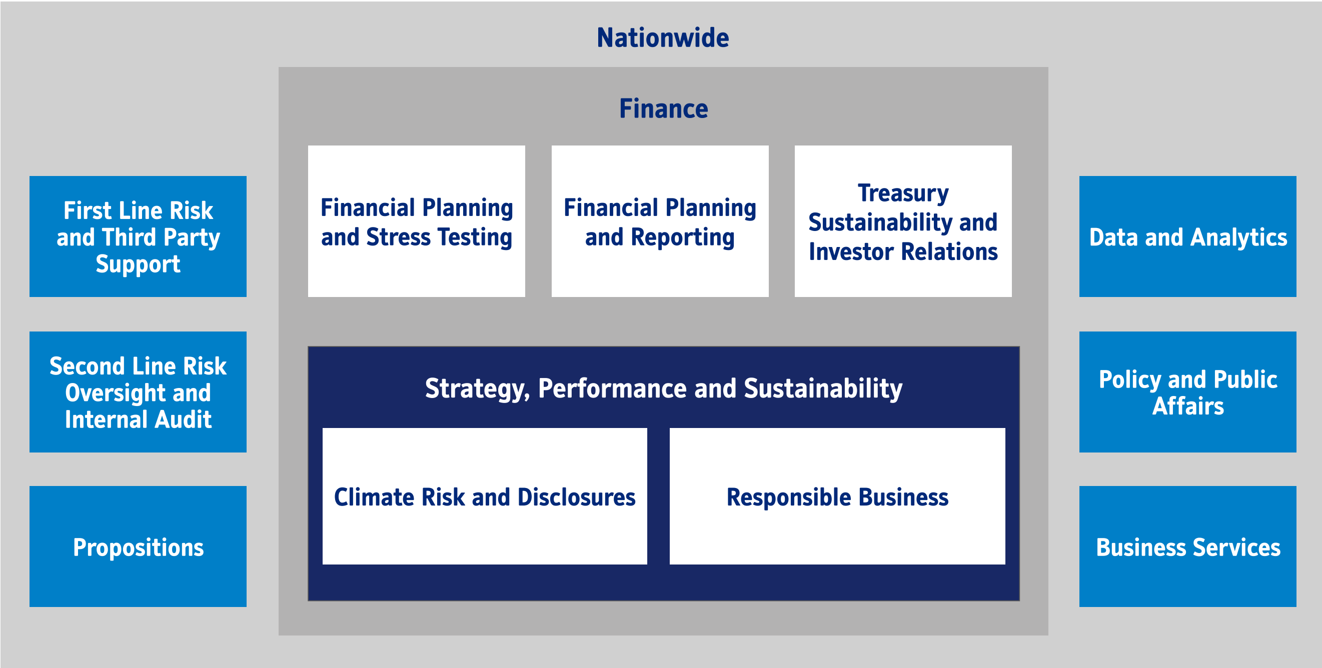
**Climate change committees and working groups below executive level**

| Responsible Business Committee (RBC) | Climate Change Risk Committee (CCRC) | Climate Change Plan Working Group and Climate Change Stress Testing Working Group |
|---|---|---|
| Accountable for managing Nationwide's responsible business agenda, including the strategic approach to addressing its climate change and environmental ambitions.<br>RBC meets every other month and escalates to the ExCo, as appropriate.<br>This year, RBC has:<br>- Discussed the progress of the climate change and responsible business strategies<br>- Overseen progress made against Nationwide's Mutual Good Commitments and discussed the evolution of their underlying targets in line with Nationwide's broader Strategy refresh<br>- Reviewed rating agency feedback on our ESG strategy and disclosures and discussed the actions to enhance these even further<br>- Discussed biodiversity and future potential actions. | Responsible for the day-to-day monitoring of climate-related risk. Reports into RBC, with indirect reporting line into ERC.<br>CCRC meets monthly and escalates any key climate-related risks and relevant climate change subject matters to ERC and BRC every six months.<br>An executive summary of any identified business implications reports to RBC every two months and the climate change MI dashboard is presented on a quarterly basis to inform wider climate related strategic discussions.<br>Periodic updates are provided to STC aligned with the milestones linked to developing and executing our scenario analysis capability.<br>This year, CCRC has:<br>- Received and discussed updates on the progress against our climate change plan<br>- Received quarterly climate MI updates<br>- Approved the enhanced climate MI which includes metrics tracking physical and transition risk at principal risk level<br>- Received regular updates on regulatory and policy developments<br>- Discussed specific deep-dives on key areas of climate-related risk exposure, including risks to our supply chain and operational resilience<br>- Reviewed the progress of setting intermediate (by 2030) science-based targets<br>- Overseen the developments to our climate scenario analysis capability enhancements<br>- Discussed updates to our climate-related financial disclosures<br>- Reviewed regulatory feedback regarding our participation in the CBES and progress to meeting SS3/19 requirements. | Climate Change Plan Working Group meets monthly and has day-to-day responsibility for implementing our climate change plan. It reports into CCRC.<br>Climate Change Stress Testing Working Group is responsible for helping support the preparations for, and execution of, a climate-related stress test by overseeing the day-to-day delivery against planned milestones. It reports into CCRC and STC as required.<br>This year, these working groups have:<br>- Overseen our performance against the climate change plan to deliver target state maturity<br>- Overseen climate change-related stress testing preparation activity including scenario and modelling capability development. |

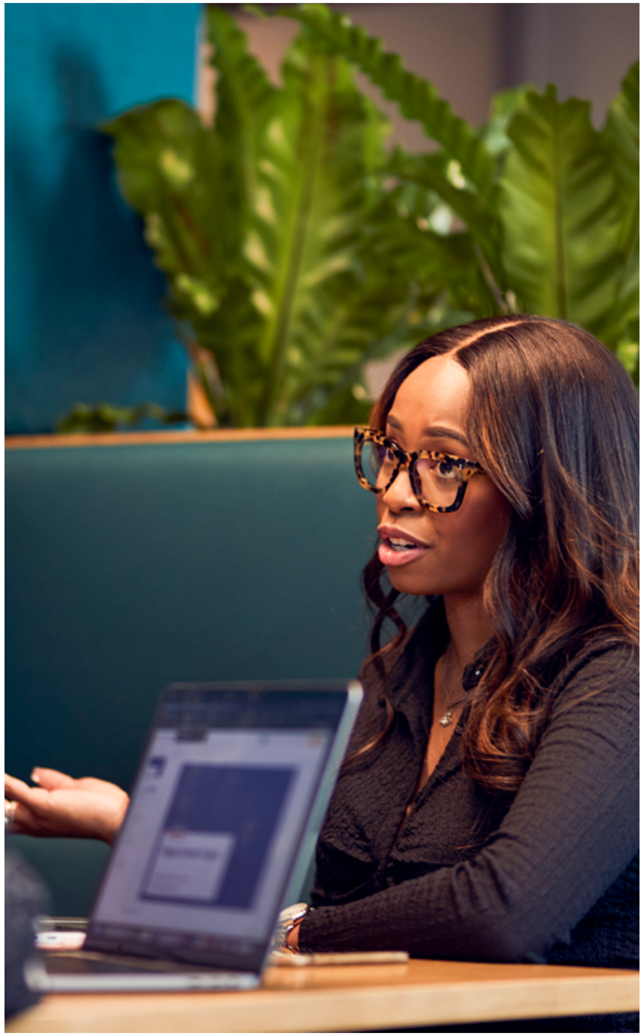
**Our climate change operating model**

Nationwide's climate change and responsible business capability is managed through the Society's centralised Strategy, Performance and Sustainability team, that sits within the Finance function, with teams within Strategy, Performance and Sustainability (Climate Risk and Disclosures and Responsible Business) supporting the climate change agenda.

An overview of our climate change operating model is shown below.




The centralised Strategy team, led by the Director of Strategy Performance and Sustainability, takes a coordinated approach, working closely with other specialist teams across the Society to deliver Nationwide's climate strategy. These specialist teams include: First Line Risk (such as the Credit and Operational and Conduct Risk teams), Financial Planning and Stress Testing, Second Line Risk Oversight, Internal Audit, Business Services, Data and Analytics, Propositions, Treasury Sustainability, Investor Relations, and Policy and Public Affairs. These teams then provide the relevant climate-related risk information to the executive-level committees and working groups.



Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

# Risk management

How Nationwide considers climate change risk, the Society's climate risk appetite, and how climate risk management is embedded within the Society.

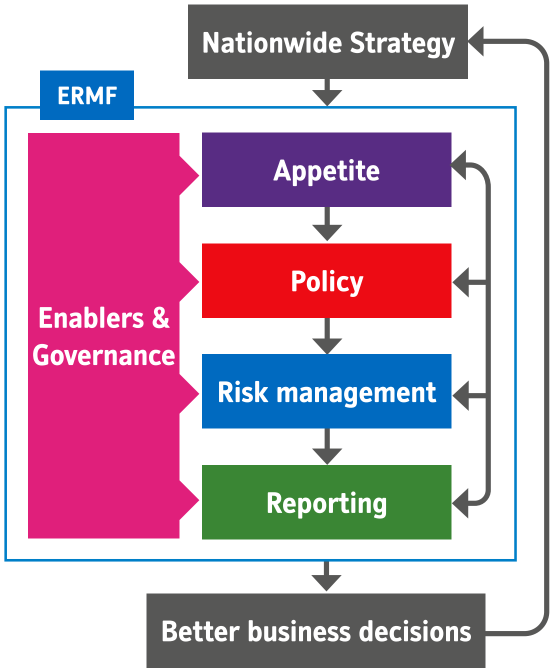
# Risk management

**Identifying, assessing, and managing climate-related risks**

Since 2019, Nationwide has been enhancing and embedding its capabilities to monitor and manage climate-related risk and meet the requirements of SS3/19. In May 2022, at the PRA's request, we submitted to the PRA our report on our compliance with SS3/19. Whilst we are progressing well to continue to meet the requirements of SS3/19, we recognise that capability and industry practice will continue to advance, and we intend to continue to build on the feedback received to enhance our understanding and capability.

Nationwide identifies, assesses, and manages climate-related risk through its established ERMF[22]. The ERMF focuses on Nationwide's principal risks and critical controls, with climate change embedded as a cause. By emphasising risks and controls at this level, our approach ensures we prioritise risk management activities appropriately to produce high-quality reporting for the Board and senior management. This enables better, and more informed, decision making for the benefit of our customers.

The ERMF applies to all colleagues, contractors, and outsourced entities, across all business lines, communities, and subsidiaries within Nationwide. There are five core components – risk appetite, policy, risk management, reporting, and enablers and governance – which align to the practices of our industry peers and connects our risk management with how we run our business. In combination, these components ensure the ERMF is appropriate and proportionate, and risk management activities (including those related to climate change) are performed consistently and reliably. The high-level structure of the ERMF is summarised in the diagram opposite.




## Our climate change risk appetite statement

Risk appetite articulates how much risk the Society is prepared to take in the pursuit of its objectives. In line with SS3/19, and to support the embedding of climate-related risk into our ERMF, Nationwide continues to adopt the following climate-related risk appetite statement:

> *"We are committed to working towards alignment to a net-zero emissions pathway to 2050. We will seek to minimise the impact of physical and transition climate risk on Nationwide and our customers."*

In support of this appetite statement, complementary quantitative risk appetite metrics are in place. These control the flow of new lending to both residential properties more susceptible to flooding and less energy efficient properties in the buy to let market. These metrics track:

1) The percentage of owner-occupier and buy to let lending in a high flood risk area
2) The percentage of buy to let new lending below EPC C

These metrics have been set as management risk appetite, with annually reviewed triggers and limits approved by the Society's Credit Committee. Our appetite metrics track data from our Property Risk Hub, which assesses a property's exposure to physical risk as part of the mortgage underwriting process, along with EPC data (which informs the transition risk of properties). Both metrics are designed to ensure that the Society continues to lend in a responsible, sustainable way and safeguards its customers by considering physical and transition risk across short, medium, and long term horizons.

[22] More information on our ERMF and climate change as one of our 'Top and Emerging Risks' can be found in our Annual Report and Accounts.

## Our climate change risk standard

Policies and standards set out the objectives to be met by relevant controls to ensure that risks are managed appropriately, in line with risk appetite. Nationwide has developed a climate change risk standard to aid the embedding, monitoring, and managing of climate-related risk as a cause to the Society's most significant (principal) risks. The standard articulates the principles and requirements that must be met to manage the risks arising from climate change, and how climate-related risk may occur across the ERMF. The standard applies to all principal risk owners as well as owners of climate-related risk governance, strategy, disclosures, and scenario analysis.

The standard links to the Society's principal risk policies. Climate-related risk has been assessed against the principal risk categories, and all risk policies reference the standard to ensure the appropriate identification, assessment, management, and monitoring of climate-related risk. This enables full traceability of the impacts of climate change.

## Climate-related risk management

Risk management defines the processes, tools and systems needed to operate risk management across the Society. As climate-related risk manifests itself within all principal risks to varying degrees, all principal risk owners are required to consider the impact of climate change when managing their risks. Where climate change is assessed as a material driver of the risk, risk owners will undertake a review of the existing control environment and enhance controls, where necessary, to appropriately manage the risk.

Nationwide takes appropriate steps to monitor climate-related risk, including (but not limited to) consideration of risk appetite, creation of key risk indicators, and (for operational and conduct risk) updating the Risk Control Self-Assessment (RCSA). Where climate change could be a cause to risk, one of the Society's risk assessment tools (for example scenario analysis) is used to understand whether climate change is currently a material driver of a principal risk.

## Reporting climate-related risks

Reporting ensures the appropriate monitoring of risk, loss event, and control information to the Board, risk committees, and management, to enable effective, risk-based, decision making to support better outcomes. Across Nationwide's principal risks, risk owners ensure the development of appropriate climate-related risk metrics. These metrics are reported quarterly, as part of Nationwide's internal climate change management information (MI), to the Climate Change Risk Committee and to the relevant principal risk committee, as appropriate. A summary of climate MI, including key risk metrics, is reported to Executive Risk Committee and Board Risk Committee every six months. Further details on our approach to reporting and governance is in the Governance section from page 17.

## Climate change enablers and governance

Enablers and governance help support the Society's risk culture. For the ERMF to work effectively and efficiently across all principal risks, a set of enablers and governance are in place, including Nationwide's three lines of defence approach to managing risk, and committee structure. This is underpinned by our values, behaviours, and ethics, which influence the decisions we make within the Society. Further information on our well-established climate change governance model, can be found in the Governance section from page 17.

Image of Nationwide's Oakfield development

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

**Overview of how climate change is assessed as a cause within our principal risks**

Climate change has been embedded into our ERMF risk management processes. Detail on how we manage climate-related risk, across each of our principal risks, is outlined below.

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

We have adapted our approach to credit risk to incorporate the potential impacts of both physical and transition climate-related risk. We have enhanced the way we assess and determine creditworthiness of a property, as well as how we manage any potential credit losses.

We have also increased our engagement with our largest RSL borrowers, and updated our Housing Finance Credit Standards, recognising that RSL borrowers should be developing an ESG strategy aligned to net-zero, as a standalone document or a statement within their Annual Report and Accounts. We also monitor RSL borrowers' progress in obtaining higher EPC standards across their portfolio, with the aim of the majority being EPC C or higher.

**Operational and conduct risk** – *The risk of Society impacts resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events.*

Climate change has the potential to cause significant disruption to our customer services, through physical damage to our branch network or administration centres, or disruption to our operational supply chain. We have enhanced our operational risk management processes to consider the physical and transition risks from climate change, including the recording and monitoring of operational and conduct loss events, updating our RCSA, and developing an operational risk scenario with climate change as a root cause.

As part of the enhancements to our climate-related risk MI, we monitor, on a quarterly basis, the physical risk exposure to our branch, admin sites, and critical third parties, informed by Representative Concentration Pathways (RCPs), developed by the Intergovernmental Panel on Climate Change (IPCC). RCPs are a recognised series of greenhouse concentration trajectories and have been used in global climate science since 2013. The RCPs we use are as follows:

- RCP 2.6 – which requires declining $CO_2$ emissions by 2020 to get to zero by 2100 and keep global temperature rises below two degrees
- RCP 4.5 – which predicts that emissions peak around 2040, then decline to half the levels of $CO_2$ by 2100, resulting in a global temperature rise between two and three degrees
- RCP 8.5 – which is seen as the worst-case climate change scenario, where emissions continue to rise throughout the 21st century.

To help understand the risks associated with climate change, including greenwashing, when designing a new product (including green propositions) or service, we factor climate change considerations into our Product and Service Approval Process alongside potential liability and conduct risks. To support our first-line risk practitioners within operational risk in their role in helping to identify, assess, monitor, and manage the risks to the Society caused by climate change, a climate change fact sheet is provided as part of their training.

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

Climate has been identified as a potential cause of Business risk and is monitored on a regular basis, using insight, risk indicators, and judgment to identify any change in the level of risk. Business risks are reported to the Executive Risk Committee at an appropriate frequency.

Since completing the 2021 scenario analysis activity, learnings have been used to update our climate change risk implementation plan, building on recommendations of the Basel Committee on Banking Supervision (BCBS) principles for the effective management and supervision of climate-related financial risks. As we continue to embed climate-related risk capabilities, we will further enhance our climate change risk implementation plan to consider how climate change impacts can be incorporated within the macroeconomic variables used within our financial planning processes.

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

As part of our climate ambition, our GPP default funds have been updated to invest in companies that adhere better to ESG principles. Nationwide's Pension Fund (NPF) is a standalone entity which produces its own Climate-related Financial Disclosures[23] aligned to the TCFD recommendations. The disclosures assess the NPF's exposure to climate-related risk.

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

Climate-related risk has been considered as part of the ICAAP. Using the outputs from our 2021 scenario analysis activity, an assessment of the physical and transition risks was undertaken. Details of the outcome of our ICAAP assessment are in the Strategy section on page 15.

**Market risk** – *The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes.*

While climate is yet to materially change the Society's Market risk profile, it is actively kept under review and will continue to be assessed in line with our climate change risk standard. This ensures that adjustments can be made to the Market risk framework as required.

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

The impact of climate change on our liquidity requirements is covered as part of the ILAAP. Details of the outcome of our ILAAP assessment is in the Strategy section on page 15.

[23] Nationwide Pension Fund

# Metrics and targets

Information on the Society's scope 1, 2, and 3 emissions and intermediate (by 2030) science-based targets, and the metrics and targets used by the Society to monitor and manage climate-related risk.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

# Metrics and targets - Scope 1, 2, and 3 emissions

**Information on the Society's scope 1, 2, and 3 emissions and intermediate (by 2030) science-based targets.**

Nationwide has the ambition to support the UK in achieving net-zero by 2050. This ambition aligns to our Mutual Good Commitment; *to support progress towards a greener society*. Our Mutual Good Commitment has been updated to reflect our intermediate (by 2030) science-based targets for our scope 1, 2, and 3 emissions, that by 2030:

- We will aim to reduce our scope 1 emissions that we control across our own business operations, in line with our 2030 scope 1 science-based target, and remain carbon neutral for these emissions.
- We will aim to continue to source 100% renewable electricity for our own operations, in line with our 2030 scope 2 science-based target.
- We will aim to reduce our scope 3 emissions for our mortgages, other secured lending activity, and our supply chain by taking steps to reduce emissions within our control and encouraging our customers, borrowers, and suppliers to do the same, in line with our 2030 scope 3 science-based targets.

The achievement of these ambitions is only partly within Nationwide's control, as explained below.

Our scope 1 and 2 science-based targets are within our control due to our ability to manage our operational energy usage, actions underway to reduce, or remove, gas usage from our buildings, and the continued procurement of renewable electricity. Our scope 3 upstream (categories 1, 2 and 4) science-based target is partially within our control. Whilst we own our procurement processes, we recognise we can only influence our suppliers and their ambitions to reduce emissions.

It is highly unlikely that we will achieve our targets for scope 3 downstream category 15 (investments), particularly for our mortgage portfolio. We have very limited control and influence over government policy, and action by wider society, including our customers, to green UK homes and social housing, which is required to see the reductions in emissions needed to align to our intermediate (by 2030) science-based targets.

Further details on how we are progressing towards our targets can be found on pages 31, 33, and 37-39.

Nationwide has calculated the reductions necessary in its scope 1, 2 and 3 emissions in order to meet 2030 intermediate science-based targets. These reductions were determined in accordance with the methodologies of the Science Based Targets initiative.

In calculating the reductions necessary to achieve the intermediate emissions reduction targets, we remain confident in achieving our scope 1 and 2 emissions targets but for scope 3 emissions, we consider it highly unlikely that, at present, these targets can be achieved particularly in light of existing Government policies and the uncertainty over any future Government's policies in connection with the UK's housing stock. We have very limited control over practical measures to reduce emissions from properties which are owned by our borrowers. The emissions associated with our residential mortgage lending currently account for the majority (more than 80%) of our total scope 3 emissions.

The UK Government has committed in law to ambitious emissions reduction targets (including to achieve net-zero by 2050 and to reduce emissions by 78% by 2035 compared with 1990 levels). The Government's commitment to the UK's climate targets and domestic law aimed at reducing emissions continues to evolve. Changes in law may fail to have the desired effect of reducing emissions from housing to a sufficient extent in line with the highly ambitious targets of the Science Based Targets initiative. The market and/or borrowers may also fail to respond sufficiently to the measures put in place, or take significant independent action. These are factors outside of Nationwide's control. Consequently, we consider, given the basis of current, including recent, government policy, it highly unlikely that our scope 3 targets can be achieved. Nevertheless, we will continue to monitor the delivery of market and policy developments on a regular basis to inform our progress towards our targets.

**Scope 1, 2 and 3 emissions assurance**

Nationwide appointed Ernst and Young LLP (EY) to provide limited independent assurance over our scope 1, 2 and 3 carbon emission disclosures for the year ended 4 April 2023. This includes scope 1 and 2 emissions for the year ended 4 April 2023 and scope 3 financed (investment and upstream) emissions for the 12-month period ended 31 December 2022. Assurance was also provided for the year ended 4 April 2022, as disclosed in our Climate-related Financial Disclosures 2022. Assured metrics and KPIs are indicated throughout. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) (UK) 3000 (July 2020), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance report was issued and is available on the Nationwide website[24]. This report includes details of the scope, respective responsibilities, work performed, limitations and conclusion.

[24] EY emissions assurance report 2023.

### Nationwide's scope 1 and 2 carbon emissions and targets

We are pleased to have remained carbon neutral for scope 1 and 2 emissions since 2020. These emissions are tracked against a set of strategic ambitions that aim to improve the Society's sustainability. We continue to disclose in line with the Government's Streamlined Energy and Carbon Reporting regulation requirements.

Our scope 1 emissions have continued to decrease in comparison to previous years. This is due to our ongoing efforts to reduce our operational emissions, such as the removal of gas from our branch network. Nationwide will continue to reduce its scope 1 emissions aligned to its science-based target ambitions.

Nationwide's scope 1 emissions originate in the UK. We offset our scope 1 emissions through verified carbon offset projects based outside of the UK, such as community reforestation, through a pre-purchase agreement. Purchasing offsets in advance enables us to continue to neutralise our operational emissions in a cost-effective way, by managing our offset spend and reducing our exposure to potential cost inflation over time. The current price Nationwide uses to offset one tonne of carbon is £21.45. Until 2030, we will continue to use offsets to neutralise any scope 1 emissions that are not yet feasible to eliminate. However, the use of offsets does not form part of our intermediate science-based target and net-zero ambition.

100% of our scope 2 energy consumption is attributed to renewable sources, through a solar power purchase agreement (PPA), which produces emissions-free energy, and use of green tariff electricity. Our scope 2 emissions are associated with purchased electricity only, as we do not purchase any steam, heat nor cooling. This market-based approach[25], coupled with purchasing carbon offsets for scope 1 emissions, ensures Nationwide remains carbon neutral for its business operations.

We also disclose our absolute (location-based[26]) scope 2 emissions which continue to reduce as we embed new hybrid ways of working. Our hybrid working means colleagues have the flexibility to choose how and where they work – be it at home, in the office, or a mixture of the two. Colleagues are encouraged to connect in person when it is valuable and meaningful to do so.


We currently exclude homeworking emissions (which would be calculated within scope 3 upstream category 7, employee commuting), due to the challenges with their calculation as described in Data dependencies and limitations on page 45.

We remain aware that the pace of emissions reduction may vary over the coming years as working behaviours adapt, but we are committed to reducing our emissions in line with net-zero. Our scope 1 and 2 emissions are detailed in the table on the next page.

A data score has been calculated for Nationwide's carbon emissions using PCAF's Global Greenhouse Gas (GHG) Accounting and Reporting Standard (which received the "Built on GHG Protocol Mark" from the GHG Protocol) to provide insight into the quality of the data. The scope 1 and 2 emissions achieve a weighted data score of 2.10, on a scale of 1 to 5, where 1 represents the highest data quality and 5 represents the lowest data quality. This is based on a weighted average of:

- Primary actual and estimated data used for the consumption of energy for our buildings and business travel, using 11 months of actual data, achieving a data score of 2, weighted at 92%
- Estimated building energy consumption data based on known entities for our buildings, using one month of estimated data, achieving a data score of 3, weighted at 8%.

[25] A market-based approach allows flexibility to utilise market-based measures such as renewable energy to achieve net-zero.
[26] A location-based approach doesn't factor in market-based measures and considers operational absolute emissions only.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

### Scope 1 and 2 carbon emissions data

| Scope 1 and 2 emissions in tonnes of carbon dioxide per year ($tCO_2e/y$) (notes i and ii) | Year to 4 April 2023* | Year to 4 April 2022 |
|---|---|---|
| Scope 1 – Energy | **2,274** | 2,920 |
| Scope 1 – Travel | **87** | 82 |
| Scope 2 – Electricity | **12,774** | 14,972 |
| **Total gross scope 1 and 2 emissions** | **15,135** | 17,974 |
| Less PPA carbon reduction for scope 2 (note iii) | **(9,303)** | (9,822) |
| Less green tariff electricity for scope 2 (note iv) | **(3,471)** | (5,150) |
| **Absolute carbon outturn** | **2,361** | 3,002 |
| **Total carbon dioxide in tonnes per full time employee (FTE)** | **0.17** | 0.19 |
| Less total carbon offsets used for scope 1 in tonnes (note v) | **(2,361)** | (3,002) |
| **Net carbon outturn** | **0** | 0 |
| **Data score (note vi)** | **2.10** | 1.20 |

| Energy usage data in megawatt hours (MWh) (note vii) | Year to 4 April 2023 | Year to 4 April 2022 |
|---|---|---|
| Electricity | **66,054** | 70,514 |
| Gas | **10,727** | 15,903 |

Notes:

i. $CO_2e/y$ is an abbreviation of 'carbon dioxide equivalent per year' and is the internationally recognised measure of greenhouse gas emissions.

ii. For energy, emissions are based on gas usage. Gas usage data is provided to Nationwide by its energy supplier. This is a combination of actual data through automated, or manual, meter readings, or estimated usage data. For March 2023 where gas usage data is not available from the energy supplier due to timing differences, data is estimated based on historical consumption over the last 12 months. Gas consumed over the year, measured in kilowatt hours (KWh), is multiplied by the latest Department for Environment, Food & Rural Affairs (DEFRA) emissions factors for UK gas to calculate the tonnes of carbon dioxide equivalent per year ($tCO_2e/y$). As we review and rationalise our physical sites, we recognise that due to estimated invoicing from energy suppliers, subsequent energy rebates may be issued to us. The impact of this on our reported emissions will be reviewed by the Society and considered on a case by case basis. For our back-up diesel generators, emissions are calculated based on the actual run-time of our generators recorded by our qualified technicians, and their estimated generator fuel usage using DEFRA emissions factors. For travel, emissions are solely based on business vehicle mileage. Mileage is calculated based on the annual fleet return submissions by Nationwide employees and is therefore dependent on manual processes and individual record-keeping, as well as reliance on our third-party to generate an up-to-date report; furthermore, DEFRA emission factors used assume that all vehicles are medium-sized passenger vehicles. For electricity, emissions are based on usage data provided by our energy supplier. This is a combination of actual data through automated, or manual, meter readings, or estimated usage data. For March 2023 where electricity usage data is not available from the energy supplier due to timing differences, data is estimated based on historical consumption over the last 12 months. Total KWh of electricity consumed over the year is multiplied by the latest DEFRA emissions factors for UK electricity to calculate $CO_2e/y$. As we review and rationalise our physical sites, we recognise that due to estimated invoicing from energy suppliers, subsequent energy rebates may be issued to us. The impact of this on our reported emissions will be reviewed by the Society and considered on a case by case basis.

iii. Purchase Power Agreement (PPA) represents the contribution of a solar power purchase agreement, producing emissions-free energy backed by renewable energy guarantee of origin (REGO) certificates. The PPA offset amount is dependent on external factors such as equipment uptime and atmospheric conditions. The PPA is supplied to Nationwide through a licenced intermediary.

iv. Nationwide's 'Green Tariff electricity' comes from 100% zero-carbon wind sources that have a REGO certificate. Nationwide pays a renewable energy premium which obligates our energy supplier to cover all remaining $tCO_2e$. Any remaining $tCO_2e$ not covered by the PPA is offset using our 'Green Tariff electricity'.

v. Nationwide uses a hybrid approach for the purchase of offsets (pre-purchasing carbon offset projects, such as community reforestation). The offsets are purchased through a number of offset projects, such as community reforestation. The projects are verified and have approval under either the Verified Carbon Standard (VCS) and the Clean Development Mechanism (CDM).

vi. Data scores are based on the quality of data inputs used to calculate carbon dioxide emissions. Data scoring aligns with PCAFs Global GHG Accounting and Reporting Standard, with 1 representing high data quality and 5 representing low data quality.

vii. Energy usage data amounts presented for the year to 4 April 2023 reflect 11 months actual and estimated data, supplied by our energy provider (giving a score of 2 weighted at 92%), and one month fully estimated data (giving a score of 3 weighted at 8%). Usage data is provided to Nationwide by its energy supplier. This is a combination of actual data through automated, or manual, meter readings, or estimated usage data. Where estimates have been used (for March 2023 only), estimated usage is based on historical consumption over the last 12 months.

*Within the scope of this year's EY assurance.

**Progress towards our scope 1 and 2 science-based targets**

Throughout 2022/23, we have been reducing the emissions of our business operations (scopes 1 and 2), over which we have full control. In 2021/22 the use of gas in our buildings accounted for approximately 97% of our scope 1 emissions. At the end of 2022, we had removed gas from over 75% of our branches, replacing it with electrical solutions, which resulted in a reduction in emissions for scope 1. We will continue to explore the removal of gas from our admin sites and data centres, explore ways of better optimising our existing admin sites, or relocating to sites that are either gas-free or which use less gas, to help us achieve our scope 1 target.

For scope 2, we are committed to continually sourcing 100% renewable electricity through to 2030. In 2022/23 approximately 73% of our energy was supplied from a 50MWh solar farm in the UK, through our PPA. On-site electricity is also supported by Solar Photovoltaic (PV) panels on the roof of our Head Office, Nationwide House, in Swindon. The remainder (approximately 27%) is sourced through a 100% green electricity tariff (wind, solar and hydro) that has a renewable energy guarantee of origin (REGO) certificate.

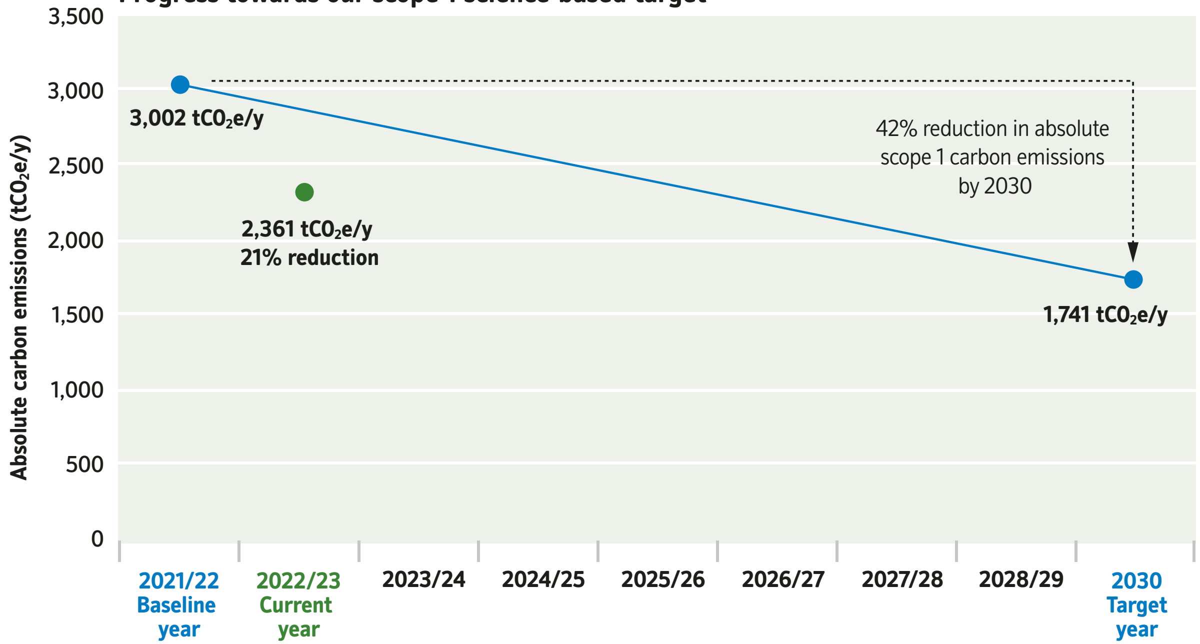
Current progress towards our scope 1 and 2 targets is as follows:

| Scope 1 target set using Absolute Contraction Approach 1.5°C scenario, to reduce absolute emissions | | | | |
|---|---|---|---|---|
| Absolute emissions at 2021 base year ($tCO_2e/y$) | Absolute emissions at 4 April 2023 current year ($tCO_2e/y$) | Percentage reduction in absolute emissions at 4 April 2023 current year (%) | Absolute emissions target at 2030 ($tCO_2e/y$) | Percentage reduction target in absolute emissions to 2030 (%) |
| 3,002 | **2,361** | **21%** | 1,741 | 42% |

| Scope 2 target using market-based approach to continually source 100% renewable electricity | | |
|---|---|---|
| Percentage renewable electricity sourced at 2021 base year (%) | Percentage renewable electricity sourced at 4 April 2023 current year (%) | Target percentage renewable electricity sourced at 2030 (%) |
| 100% | **100%** | 100% |

Nationwide's scope 1 emissions have reduced by approximately 21% in 2022/23 compared to its 2021/22 baseline. This reduction is ahead of the projected emissions reduction required in 2022/23 of approximately 5%, to align to our science-based target pathway. We also continue to source 100% renewable electricity and are on track to our scope 2 science-based target. A graph showing our progress towards our scope 1 science-based target is shown below.

**Progress towards our scope 1 science-based target**



Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

**Nationwide's scope 3 upstream (categories 1, 2 and 4) carbon emissions**

Through our partnership with Carbon Intelligence, we have calculated our scope 3 emissions for upstream activities across our supply chain. Purchased goods and services (category 1), capital goods (category 2) and upstream transportation and distribution (category 4) account for around 91% of our total emissions across categories 1-8.

Our upstream emissions have been calculated using publicly disclosed supplier emissions data (covering scopes 1-3) from CDP responses, and revenue from the most recent publicly available annual reports, where available. Data gaps were supplemented using industry average emissions contained within the GHG Protocol and Quantis's Scope 3 Evaluator tool.

Data is publicly available for suppliers that account for approximately 71% of our spend across categories 1, 2, and 4. The total scope 1-3 reported emissions (based on market-based scope 2 emissions and upstream scope 3 emissions) of each supplier are divided by the supplier's total turnover (in US dollars) to create supplier specific emissions factors (in tonnes of $CO_2$ per US dollar of revenue). Supplier specific emissions factors are calculated based on estimates from 2021 data where actual emissions are not available. These are then multiplied by the amount that we spend with each supplier, which is converted to US dollars using the year-to-date average exchange rate, to determine our financed emissions. For the remainder (around 29%), industry average emissions factors from Quantis are used and applied to Nationwide's spend.

A reduction in our spend, improvements to supplier emissions factors, and inflation adjustments made to the Quantis emissions factors, have contributed to a decrease in scope 3 upstream emissions.

A weighted data score of 2.87[27] for the upstream scope 3 portfolio emissions has also been calculated. Whilst PCAF has not defined an approach for the calculation of a data score for supply chain emissions, we have used their approach for business loans and unlisted equity as the basis for the calculation.

It is expected that data quality scores will improve over time as internal models, EPC, and other datasets, mature and become available.

**Scope 3 upstream carbon emissions data**

| Upstream scope 3 carbon dioxide emissions ($CO_2e$) in tonnes (t) per year (y) | Year to 31 Dec 2022* | Year to 31 Dec 2021 |
|---|---|---|
| Purchased goods and services | **132,000** | 169,000 |
| Capital goods | **10,000** | 43,500 |
| Upstream transportation and distribution | **14,000** | 17,500 |
| **Total upstream scope 3 carbon dioxide emissions ($tCO_2e/y$) (note i)** | **156,000** | 230,000 |
| **Data score (note ii)** | **2.87** | 2.90 |

Notes:
i. Upstream emissions have been calculated for the 12 months to 31 December 2022, using publicly disclosed supplier emissions data for around 71% of our spend, with the remainder using average emissions factors from the Quantis data source. Due to the recent rise in inflation rates, and the ongoing requirement to improve the accuracy of emissions accounting, we have applied inflation corrections to the Quantis emissions factors (which use U.S. Bureau of Economic Analysis indices) in this reporting year, to account for inflation since their development in 2015. Prior year numbers have not been adjusted using this approach.
ii. Data scores are based on the quality of data inputs used to calculate carbon dioxide emissions. Data scoring aligns with PCAFs Global GHG Accounting and Reporting Standard, with 1 representing high data quality and 5 representing low data quality.

[27] Spend data is available for all suppliers. The data score has been calculated based on emissions data available for approximately 71% of suppliers, giving a data score of 2, weighted at 71%. Estimated emissions data from Quantis has been sourced for approximately 29% of suppliers, giving a data score of 5, weighted at 29%.
* Within the scope of this year's EY assurance.

**Progress towards our scope 3 upstream (categories 1, 2 and 4) science-based target**

Due to Nationwide having partial levels of control and influence over its suppliers and their ambitions to reduce emissions, the Society believes it has a reasonable chance of achieving its upstream scope 3 target. We control our procurement processes and purchasing decisions and are keen to work with our suppliers to achieve our desired outcomes. As part of our Third Party Code of Practice, we require all large suppliers to set and disclose emissions reduction targets (for scope 1 and 2 as a minimum).

We also believe companies that are more ESG-focused will be more likely to improve their sustainability credentials, reduce their emissions and contribute to us achieving our scope 3 upstream target. As part of our EcoVadis partnership, we collect various sustainability details, including information on the carbon emissions and net-zero targets of our suppliers. Through accessing our suppliers' data on the EcoVadis platform, we are able to understand better individual suppliers' impacts on our scope 3 upstream target. We aim for our suppliers to be rated, as a minimum, 'Good' by EcoVadis. Whilst a 'Good' or above outcome does not necessitate alignment to net-zero, we expect those suppliers who score highly to have stronger ESG credentials, and hence be more focused on reducing their emissions.

So far we have invited over 200 suppliers to join EcoVadis, with around 70% joining the service. These suppliers account for around 70% of our total procurement spend. This has exceeded our target of 60% of invited suppliers to join by the end of 2022. As part of this, we requested our top 20 suppliers (who account for around 50% of spend) to sign up to the service, with 18 having completed scorecards and the two remaining currently in progress.

In addition, we are aiming to set enhanced requirements for specific supplier contracts, where suppliers would be asked to set and disclose targets aligned to net-zero no later than 2030. Factoring these considerations into the process early will ensure sustainability credentials and net-zero ambitions (and therefore the impact on our scope 3 upstream target) are front of mind when deciding on our supplier relationships.

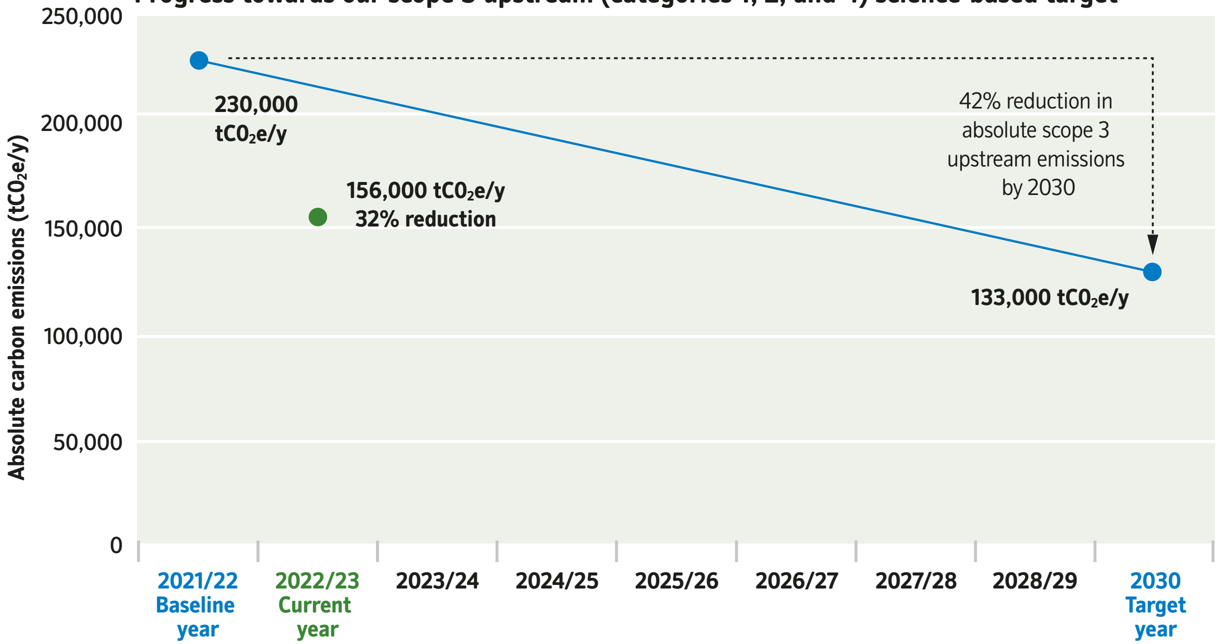
Current progress towards our scope 3 upstream (categories 1, 2 and 4) target is as follows:

**Scope 3 upstream target set using Absolute Contraction Approach 1.5°C scenario, to reduce absolute emissions**

| Absolute emissions at 2021 base year ($tCO_2e/y$) | Absolute emissions at 31 December 2022 current year ($tCO_2e/y$) | Percentage reduction in absolute emissions at 31 December 2022 current year (%) | Absolute emissions target at 2030 ($tCO_2e/y$) | Percentage reduction target in absolute emissions to 2030 (%) |
|---|---|---|---|---|
| 230,000 | **156,000** | **32%** | 133,000 | 42% |

Nationwide's scope 3 upstream emissions have reduced by approximately 32% in 2022 compared to its 2021 baseline, due to a decrease in spend, improvements to supplier emissions factors, and inflation adjustments made to the Quantis emissions factors. This reduction is ahead of the projected emissions reduction required in 2022/23 of approximately 5%, to align to our science-based target pathway. A graph showing our progress towards achieving our scope 3 upstream (categories 1, 2 and 4) target is shown below.

**Progress towards our scope 3 upstream (categories 1, 2, and 4) science-based target**



**Nationwide's scope 3 downstream category 15 (investments) carbon emissions and targets – mortgages, CRE and RSL**

Nationwide continues to disclose the emissions associated with its mortgage, CRE and RSL portfolios. In 2022/23 we used our EPC model to calculate the emissions for both our mortgage and RSL portfolios. Aligned to the PCAF standard[28], publicly available EPC data[29] is interpolated across the book to estimate carbon emissions, where valid EPC certificates are not available. In 2022/23, we enhanced our EPC model to include (previously outsourced) address matching capabilities which match our mortgage portfolio data (using an in-house address matching solution) to the EPC Open Data Communities database. This capability gives us better control of the data and enables us to assess the EPC composition of the portfolio more accurately. Currently, the EPC Open Data Communities database does not include properties in Northern Ireland and Scotland. Where we are unable to match the addresses of properties in these jurisdictions, we use our EPC model to interpolate EPCs and estimate emissions based on data from England and Wales. For the closed CRE portfolio, we continue to use EPC proxies, based on the data from the EPC Open Data Communities database, to estimate the carbon emissions of the portfolio. EPCs have known data limitations, some of which are correctable during our modelling process. More information on the data limitations of EPCs is in the Data dependencies and limitations section on page 44.

We have calculated both the absolute and LTV weighted emissions for our mortgage, CRE and RSL portfolios. The absolute emissions have been weighted by loan to value (LTV) in order to calculate the proportion of emissions financed by Nationwide. This is in line with PCAF's methodology.

Our absolute scope 3 mortgage emissions have reduced in comparison to last year, due to a reduction in the total number of properties on the book. LTV weighted emissions, and LTV weighted carbon intensity, have increased slightly compared to last year due to an increase in average loan-to-value (LTV). Our absolute and LTV weighted emissions, LTV weighted carbon intensity, and total floor area, for the RSL portfolio have reduced compared to last year. This is due to the enhancements made to our EPC model. This enables us to match our RSL properties using publicly available EPC data, where an EPC exists, and more accurately estimate emissions at property level for the remainder of the portfolio, using six-digit postcode level data. Our absolute scope 3 CRE emissions, and LTV weighted emissions, have reduced in comparison to last year, due to a decrease in overall lending.

We continue to use modelled property valuations to calculate the financed emissions of our mortgage portfolio. As per PCAF guidance, we have kept our mortgage portfolio 2020 baseline valuations (as at 31 December 2020) static, with valuations for additions to the book in 2021 kept static as at 31 December 2021. For new additions to the book in 2022, we have used valuations as at 31 December 2022. For CRE and RSL, our 2021 baseline emissions were calculated using property valuations as at 31 December 2020 and have remained static at this date. The CRE portfolio has been closed to new lending since 2016 and remains in managed run-off. For any new properties added to the RSL portfolio in 2021 and 2022, we have used the valuation at the time of origination which we will hold static going forward.

These property valuations are compared to the outstanding loan amount to calculate an attribution factor. For mortgages, the attribution factor is calculated at the individual property level, while for CRE and RSL, the attribution factor is calculated at borrower level, due to lending being provided at a facility level across multiple properties. This approach is in line with PCAF's methodology. The attribution factor is then applied to the absolute emissions in order to calculate the financed emissions attributable to Nationwide. More detail on how we calculate financed emissions can be found in Data dependencies and limitations on page 45.

Weighted data scores have been calculated for Nationwide's scope 3 emissions for mortgages, CRE and RSL. For mortgages and RSL, the data scores are calculated using publicly accessible EPC data for all properties where this is available and interpolated or proxy data to estimate a property's EPC where it is unavailable. For CRE, the data score is calculated using 100% EPC proxy data. Our data scores for mortgages, CRE and RSL are 3.46[30], 4.00[31] and 3.83[32] respectively.


[28] PCAF Global GHG Accounting and Reporting Standard
[29] Energy Performance of Buildings Data England and Wales (opendatacommunities.org)
[30] Nationwide's mortgage data score has been calculated using EPC data available for approximately 52% of owner-occupier, and 62% of buy to let properties, giving a data score of 3, weighted at 54%, and interpolated EPC data across the remainder of the portfolio, estimated using most similar property features and location specific attributes, giving a data score of 4, weighted at 46%.
[31] Nationwide's CRE data score of 4 reflects 100% use of proxy EPC data.
[32] Nationwide's RSL data score has been calculated using EPC data available for approximately 36% of the portfolio, giving a data score of 3, weighted at 36%, interpolated EPC data across 44% of the portfolio, giving a data score of 4, weighted at 44%, and the remaining 20% of the portfolio (that does not reflect an individual property's location), giving a data score of 5, weighted at 20%.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

### Scope 3 downstream category 15 (investments) carbon emissions data – mortgages

| Scope 3 emissions data – mortgages | Year to 31 Dec 2022* | Year to 31 Dec 2021 |
|---|---|---|
| Number of properties – total book | **1,567,000** | 1,578,000 |
| Number of properties – with a valid EPC | **850,000** | 873,000 |
| **Total property floor area in square metres ($m^2$) (note i)** | **145,600,000** | 146,900,000 |
| Absolute carbon emissions – carbon dioxide in tonnes per year ($tCO_2e/y$) on whole book using interpolated EPC data (note ii) | **6,111,000** | 6,187,000 |
| Absolute carbon intensity – carbon dioxide per square metre of floor area in kilograms per year ($kgCO_2e/m^2/y$) using interpolated EPC data | **41.97** | 42.12 |
| **LTV weighted carbon emissions – $tCO_2e/y$ using interpolated EPC data (note iii)** | **2,801,000** | 2,795,000 |
| **LTV weighted carbon intensity – $kgCO_2e/m^2/y$ using interpolated EPC data** | **19.24** | 19.03 |
| **Data score (note iv)** | **3.46** | 3.45 |

Notes:
i. Total property floor area for mortgages is calculated using the floor area data contained in a property's EPC, where available. For properties with an unmatched EPC, floor area is is estimated based on interpolation of housing data at six-digit postcode level.
ii. Emissions are estimated using data from the EPC Open Data Communities for residential properties where an EPC exists and can be matched at property level (for 54% of the mortgage portfolio) and estimating EPC data across the remainder of the portfolio (46%) using interpolation based on housing data. For properties in Northern Ireland and Scotland, where an address match is not possible, EPCs are interpolated based on England and Wales data. The carbon dioxide emissions account for EPC covered emissions only (space and water heating, and lighting). Indirect emissions from other energy uses by the household have been excluded such as those resulting from the use of domestic appliances. Nationwide believes this approach best aligns with those emissions associated with its lending.
iii. LTV adjustments have been applied to the total $CO_2$ emissions predicted for the book to calculate the attribution factor. The attribution factor is calculated at property level and is based on (i) outstanding amount calculated as total outstanding loan value as at 31 December 2022 and; (ii) property value using a modelled property valuation, static as at 31 December 2020 (or 31 December 2021 for new business during 2021, or 31 December 2022 for new business during the year if applicable). Nationwide believes this best reflects the emissions it finances.
iv. Nationwide's mortgage data score has been calculated using EPC data available for approximately 52% of its owner-occupier, and 62% of its buy to let properties, giving a data score of 3, weighted at 54%, and interpolated EPC data across the remainder of the portfolio, estimated using most similar property features and location specific attributes, giving a data score of 4, weighted at 46%. As such, this could indicate a level of variability in the outcome when compared to that calculated using more granular data sources.

### Scope 3 downstream category 15 (investments) carbon emissions data – RSL

| Scope 3 emissions data – registered social landlords | Year to 31 Dec 2022* | Year to 31 Dec 2021 |
|---|---|---|
| **Total property floor area in square metres ($m^2$) (note i)** | **11,091,000** | 15,490,000 |
| Absolute carbon emissions – $tCO_2e/y$ on whole book using interpolated EPC data (note ii) | **466,000** | 747,000 |
| Absolute carbon intensity – $kgCO_2e/m^2/y$ using interpolated EPC data | **42.03** | 48.24 |
| **LTV weighted carbon emissions – $tCO_2e/y$ using interpolated data (note iii)** | **222,000** | 346,000 |
| **LTV weighted carbon intensity – $kgCO_2e/m^2/y$ using interpolated data** | **20.01** | 22.36 |
| **Data score (note iv)** | **3.83** | 4.00 |

Notes:
i. Total property floor area for RSL is calculated using the floor area data contained in a property's EPC, where available. For properties with an unmatched EPC, floor area is estimated based on interpolation of housing data at six-digit postcode level.
ii. Emissions are estimated using data from the EPC Open Data Communities for residential properties where an EPC exists and can be matched at six-digit postcode level (for 36% of the RSL portfolio) and estimating EPC data across the remainder of the portfolio (64%) using interpolation based on housing data. For properties which do not have postcode level data, or are based in Northern Ireland and Scotland (where an address match is not possible), EPCs are interpolated by scaling England and Wales data. The carbon dioxide emissions account for EPC covered emissions only (space and water heating, and lighting). Indirect emissions from other energy uses by the household have been excluded such as those resulting from the use of domestic appliances. Nationwide believes this approach best aligns with those emissions associated with its lending.
iii. LTVs have been used to calculate attribution factors, which are then applied to the total $CO_2$ emissions predicted at property level. Borrower level attribution factors are calculated based on (i) total outstanding loan values as at 31 December 2022 and; (ii) total property values using a property valuation, static as at 31 December 2020 or 31 December 2021 (for new business in that year) or, for new business in 2022, the latest valuation in 2022 which will be held static going forwards. Property valuations related to syndicate loans are not fixed, due to the revolving nature of the lending. The approach to calculating attribution factor at borrower, rather than loan, level is aligned with the nature of the lending, and has been confirmed as an appropriate approach by PCAF.
iv. Nationwide's RSL data score has been calculated using EPC data available for approximately 36% of the portfolio, giving a data score of 3, weighted at 36%, interpolated EPC data across 44% of the portfolio, giving a data score of 4, weighted at 44%, and the remaining 20% of the portfolio (that does not reflect an individual property's location), giving a data score of 5, weighted at 20%. As such, this could indicate a level of variability in the outcome when compared to that calculated using more granular data sources.

* Within the scope of this year's EY assurance.

**Scope 3 downstream category 15 (investments) carbon emissions data – CRE (closed portfolio)**

| Scope 3 emissions data – commercial real estate | Year to 31 Dec 2022* | Year to 31 Dec 2021 |
|---|---|---|
| **Total property floor area in square metres ($m^2$) (note i)** | **1,441,000** | 2,062,000 |
| Absolute carbon emissions – $tCO_2e/y$ on whole book using proxy EPC data (note ii) | **138,000** | 259,000 |
| Absolute carbon intensity – $kgCO_2e/m^2/y$ using proxy EPC data | **95.75** | 125.40 |
| **LTV weighted carbon emissions – $tCO_2e/y$ using proxy EPC data (note iii)** | **45,000** | 96,000 |
| **LTV weighted carbon intensity – $kgCO_2e/m^2/y$ using proxy EPC data** | **31.28** | 46.39 |
| **Data score (note iv)** | **4.00** | 4.00 |

Notes:

i. Total property floor area for CRE is calculated using proxies based on publicly available EPC data. Data from the EPC Open Data Communities for non-domestic (England, Wales and Scotland) and residential (England and Wales) properties was averaged at postcode area level, this was then used to obtain the floor area for each property. For Scottish residential properties, data from inspected properties (from the Scottish EPC Register) on Nationwide's mortgage book was averaged at postcode area level to obtain an average floor area.

ii. Data from the EPC Open Data Communities for non-domestic properties was averaged at postcode area level to estimate the absolute $CO_2$ emissions at CRE property level. For the residential properties in the CRE portfolio, data from the EPC Open Data Communities for residential properties in England and Wales was averaged at postcode area level to estimate the absolute $CO_2$ emissions at CRE property level. For Scottish residential properties, data from inspected properties (from the Scottish EPC Register) on Nationwide's mortgage book was averaged at postcode area level to estimate the absolute $CO_2$ emissions.

iii. LTVs have been used to calculate attribution factors, which are then applied to the total $CO_2$ emissions predicted at borrower level. Borrower level attribution factors are calculated based on (i) total outstanding loan values as at 31 December 2022 and; (ii) total property values using a property valuation, static as at 31 December 2020. As there is no new business in the CRE portfolio, due to it being in closed and in run-off, valuations at 31 December 2020 are held static going forward. The approach to calculating attribution factor at borrower, rather than loan, level is aligned with the nature of the lending, and has been confirmed as an appropriate approach by PCAF.

iv. Data scores are based on the quality of data inputs used to calculate carbon dioxide emissions. Data scoring aligns with PCAF's Global GHG Accounting and Reporting Standard, with 1 representing high data quality and 5 representing low data quality. We have assessed the data score for our CRE scope 3 financed emissions as being 4. As such, this could indicate a level of variability in the outcome when compared to that calculated using more granular data sources.

* Within the scope of this year's EY assurance.

### Progress towards our mortgages science-based target

Reducing our scope 3 residential mortgage emissions intensity in line with our science-based target will be challenging as there are very limited levers within our control that we can use to drive a reduction in our mortgage emissions. Throughout 2022/23, we continued to provide green finance propositions, which are within our control, to our customers, but this action alone will have a very low impact on reducing mortgage emissions to progress towards our target. Details on the uptake of our green finance propositions is on page 42.

We also continue to monitor the EPC composition of our mortgage book, including the proportion that has an EPC of C or better, using our EPC model to interpolate EPCs across our portfolio. One of the levers that Nationwide has partial control over is the growth of new builds and the portfolio evolution of its book. We will continue to monitor our book growth, and developments to our book's EPC composition, to understand the impact of this lever over time. Details on the EPC composition of our portfolio can be found on page 41.

We recognise that we have very limited control over our ability to progress towards our scope 3 downstream category 15 (investments) mortgages target, and that it is actions outside of our control that are likely to have the biggest impact in reducing our mortgage emissions intensity by 2030. The UK Government has committed in law to ambitious emissions reduction targets (including to achieve net-zero by 2050 and to reduce emissions by 78% by 2035 compared with 1990 levels). The Government's commitment to the UK's climate targets and domestic law aimed at reducing emissions continues to evolve, with recently announced policies to install 600,000 heat pumps per year by 2028, as well as the delivery of its Great British Insulation Scheme, and a target to fully decarbonise the electricity grid by 2035. Whilst this will have some impact on emissions reduction of UK homes, delivery of these policies alone will not achieve the emissions reductions necessary to align with the highly ambitious targets of the Science Based Targets initiative. Taking into account these policy initiatives, and in light of the uncertainty over any future Government's policies and the effect of those policies, we continue to consider it highly unlikely that, at present, these targets can be achieved, unless further measures are announced and delivered by the Government or there is significant independent homeowner action.

Nationwide will continue to engage with its customers on the greening of their homes, as well as influencing for a much-needed government-led National Retrofit Strategy, through its Green Homes Action Group. We will also continue to engage with specialist organisations to share knowledge, increase our expertise and understanding of the areas where we can make the most impact, and support others' understanding of the impacts of climate change on Nationwide. We will also continue to monitor the delivery of government policies to inform our progress towards our highly challenging scope 3 mortgages target.

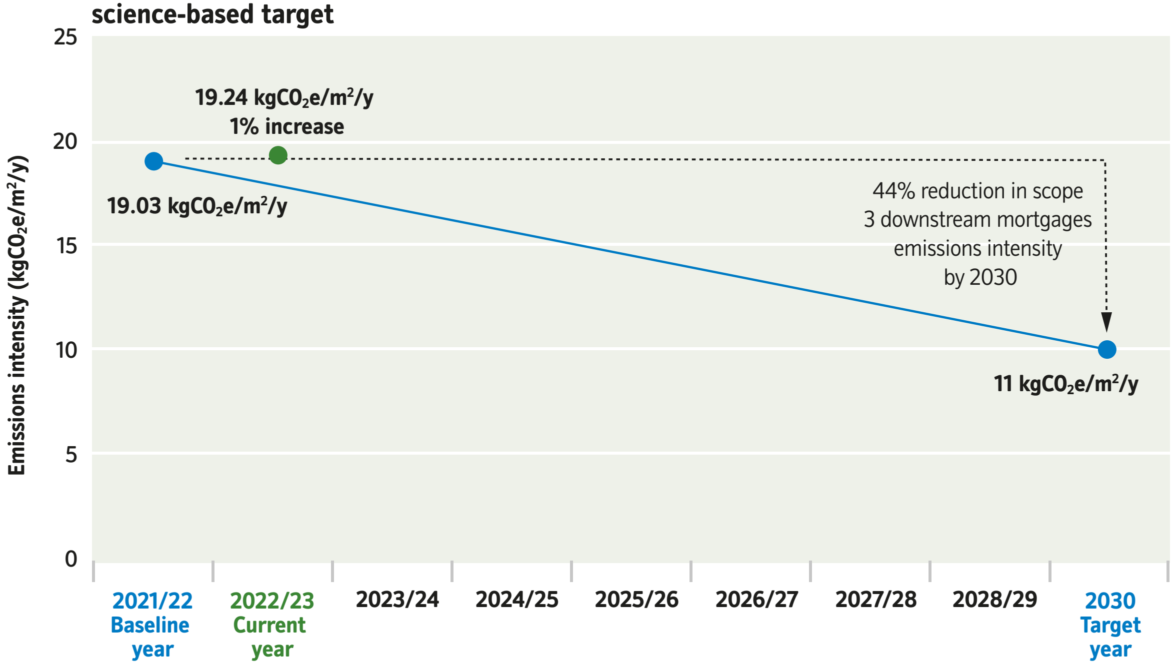
Current progress towards our scope 3 downstream category 15 (investments) mortgages target is as follows:

**Scope 3 downstream investment (category 15) mortgages target set using Sectoral Decarbonisation Approach well-below 2°C scenario: IEA ETP B2DS (world), to reduce emissions intensity**

| Financed emissions at 2021 base year ($tCO_2e/y$) | Emissions intensity at 2021 base year ($kgCO_2e/m^2/y$) | Financed emissions at 31 December 2022 current year ($tCO_2e/y$) | Emissions intensity at 31 December 2022 current year ($kgCO_2e/m^2/y$) | Percentage reduction in emissions intensity at 31 December 2022 current year (%) | Emissions intensity target at 2030 ($kgCO_2e/m^2/y$) | Percentage reduction in emissions intensity target to 2030 (%) |
|---|---|---|---|---|---|---|
| 2,795,000 | 19.03 | **2,801,000** | **19.24** | **-1%** | 11 | 44% |

Our scope 3 mortgage emissions intensity has increased by 1% in 2022, compared to our 2021 base year, due to the LTV of our new mortgage lending being higher than the LTV of our existing lending. This is behind the projected emissions reduction required in 2022 of approximately 5.5%, to align to our highly challenging science-based target pathway. A graph showing our progress towards our scope 3 downstream category 15 (investments) mortgages target is shown below.

**Progress towards our scope 3 downstream category 15 (investments) mortgages science-based target**



**Progress towards our RSL science-based target**

Achieving our science-based target for RSL is subject to similar challenges to those of our residential mortgage portfolio, whereby it is significantly reliant on enhanced government policy and regulation, and action by the social housing sector, both of which are uncertain. Our Sustainability Linked Loan (SLL) proposition is within our full control but is likely to have a low impact on reducing the emissions intensity across our RSL portfolio. Further detail on our SLL is in the Strategy section on page 10.

Regulation and policy developments have the potential to have the largest impact on improving energy efficiency of social housing. The UK Government has indicated, as part of its Heat and Buildings Strategy, that it intends to set regulatory standards for social housing. Through the Clean Growth Strategy 2017, governments in England, Scotland and Wales have set EPC targets for social housing (England aiming for EPC C by 2030, Scotland for EPC B by 2032, and Wales for EPC A by 2032). In 2022, the Government announced its Social Housing Decarbonisation Fund, where £800 million has been allocated to support the improvement of the energy performance of social housing in England. All measures are to be implemented by 30 June 2025.

Additionally, in July 2022, the Government passed the Energy Company Obligation (ECO4) energy efficiency scheme, which aims to improve the least energy efficient homes of low income and vulnerable households. There will also be an impact on our scope 3 downstream (investments) RSL target resulting from the Government's plans to decarbonise the electricity grid by 2035. Without the full realisation of all these policies, further government-led policy, and action by social landlords, it is highly unlikely that, at present, our highly challenging science-based targets can be achieved.

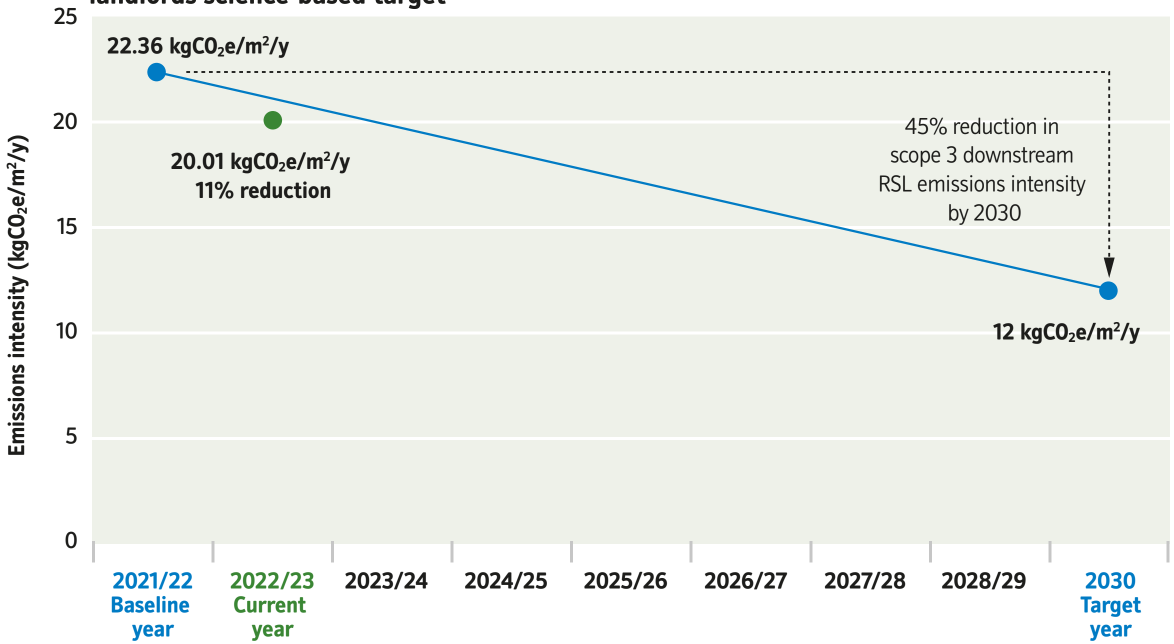
Current progress towards our scope 3 downstream category 15 (investments) RSL target is as follows:

**Scope 3 downstream investment (category 15) RSL target set using Sectoral Decarbonisation Approach well-below 2°C scenario: IEA ETP B2DS (world), to reduce emissions intensity**

| Financed emissions at 2021 base year ($tCO_2e/y$) | Emissions intensity at 2021 base year ($kgCO_2e/m^2/y$) | Financed emissions at 31 December 2022 current year ($tCO_2e/y$) | Emissions intensity at 31 December 2022 current year ($kgCO_2e/m^2/y$) | Percentage reduction in emissions intensity at 31 December 2022 current year (%) | Emissions intensity target at 2030 ($kgCO_2e/m^2/y$) | Percentage reduction in emissions intensity target to 2030 (%) |
|---|---|---|---|---|---|---|
| 346,000 | 22.36 | **222,000** | **20.01** | **11%** | 12 | 45% |

Our calculated RSL emissions intensity is lower by approximately 11% in 2022 compared to our 2021 base year, due to enhancements made to our EPC modelling approach, rather than portfolio improvements. This reduction is greater than the projected emissions reduction required in 2022 of approximately 6%, to align to our science-based target pathway. A graph showing our progress towards our scope 3 downstream category 15 (investments) RSL target is shown below.

**Progress towards our scope 3 downstream category 15 (investments) registered social landlords science-based target**



Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

**Progress towards our CRE science-based target (closed portfolio)**

Nationwide ceased lending to CRE in 2016, with completion of CRE run-off expected in 2039. Since its closure in 2016, we have reduced the portfolio size by approximately 85% (from £2.6 billion in 2016/2017 to £0.4 billion in 2022/2023). Residential property accounts for around 55% of our CRE portfolio (with the remainder comprising service buildings. It is our expectation that some of the impacts from government policy intervention, for example the decarbonisation of the electricity grid, will reduce the emissions intensity of the CRE book by 2030.

It is our expectation that progress towards our scope 3 downstream (investments) CRE target (46% reduction in emissions intensity by 2030 from a 2021 baseline) will be volatile, due to the closed nature of the book and our simplistic approach to calculating CRE portfolio emissions. It is likely our target will not be achieved until the highest emitting properties run off the book, there is further government policy action, or the run-off activity is complete (which is expected in 2039). Once run-off is concluded we will see a 100% reduction in both absolute emissions and emissions intensity of the portfolio. However, we expect around an 85% reduction in absolute emissions by 2030, in line with the expectation that the balance of our CRE portfolio will be less than £100 million, and therefore immaterial, post-2030.

In 2022, we saw a reduction in our LTV weighted emissions (by approximately 53%) and a reduction in emissions intensity (by approximately 33%) compared to our 2021 base year. This was due to a reduction in buildings from the book with higher estimated EPC emissions at postcode area level. This is ahead of the projected emissions reduction required in 2022 of approximately 6%, to align to our science-based target pathway.

# Metrics and targets – Climate-related risk metrics

**Information on the metrics and targets used by the Society to monitor and manage climate-related risk.**

### Enhancing our climate-related risk governance metrics

Our climate MI is regularly shared through our climate change governance approach, as detailed in the Governance section from page 17, to support committee responsibilities. These metrics aid the discussions and inform strategic decisions made by management and the Board.

Climate-related risk data is monitored quarterly by the Climate Change Risk Committee with physical and transition risk data reported alongside other metrics, such as:

- The number of UK extreme weather events
- The annual Climate Change Committee's assessment of the UK's progress against carbon budgets
- The frequency with which climate change is raised in investor meetings
- The number of physical risk-related incidents that have impacted on our operations
- The environmental profile of our operations (tracking waste and emissions figures).

Recognising that there is more to do to understand fully the impact of climate change on the Society, and the Society's impact on climate change, we have enhanced our internal climate-related risk MI to help track better our progress on tackling climate change and managing the associated risks, including:

- Monitoring of an enhanced suite of climate metrics to cover our lending portfolios and principal risk categories, aligned to our ERMF
- Tracking of internal climate risk appetite
- More insightful reporting of climate metrics using visualisation, to highlight risks trends and generate more effective decision making
- Production of a summarised climate dashboard presented to ERC and BRC on a six-monthly basis.

We are also working to develop further metrics to help track progress against our intermediate (by 2030) science-based targets.

### Physical risk metrics

Nationwide monitors physical risk data, supplied by JBA, through its Property Risk Hub, to track the proportion of mortgage lending more exposed to climate risk. We continue to not lend to properties at high risk of flooding to ensure that the Society continues to lend in a responsible, sustainable way that safeguards our customers.

On a combined basis, across both owner-occupier and buy to let mortgage portfolios, there has been a decrease in the number of properties in red flood risk zones compared to last year. This year, there has been a small increase in properties in amber flood risk zones in our owner-occupier mortgage portfolio. Nationwide continues to lend to properties within the amber flood risk zones, as long as these properties are insurable under normal terms.

Updates to UK Climate Projections 2018 (UKCP18) and flood defence datasets are included within model outputs. UKCP18 is Met Office data which uses climate science to provide updated climate change projections out to 2100 for the UK and globally.

We will continue to work with JBA to understand the physical risk impacts on our mortgage portfolio and how we can reflect the consideration of these risks in lending policy.

### Physical risk data

| Owner-occupier mortgages | Year to 31 Dec 22 | | | Year to 31 Dec 21 | | |
|---|---|---|---|---|---|---|
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| Properties in red flood risk zone (note i) | **295** | **0.03** | **0** | 385 | 0.04 | 0 |
| Properties in amber flood risk zone (note i) | **25,287** | **3.28** | **2** | 24,217 | 3.29 | 2 |

| Buy to let and legacy mortgages | Year to 31 Dec 22 | | | Year to 31 Dec 21 | | |
|---|---|---|---|---|---|---|
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| Properties in red flood risk zone (note i) | **150** | **0.02** | **0** | 210 | 0.02 | 0 |
| Properties in amber flood risk zone (note i) | **10,182** | **1.32** | **3** | 10,355 | 1.40 | 3 |

Notes:
i. Flood risk scores are weighted by risk level and type (such as coastal flooding) and any flood defences in place.

### Transition risk metrics

The use of EPC data continues to be critical to Nationwide's understanding of the impact of transition risk. EPC ratings of the mortgage portfolio are monitored to provide a view on the energy efficiency of the Society's housing stock. Internal modelling, to interpolate core EPC data across both the owner-occupier and buy to let mortgage portfolios, provides further understanding of the EPC composition of these portfolios. Further details are contained in the table opposite.

Approximately 38% of Nationwide's mortgage book (owner-occupier and buy to let) is currently rated EPC C or better. This is a modest improvement on last year's EPC composition where 37% was EPC C or better.

Approximately 41% of Nationwide's mortgage book that has a valid EPC (owner-occupier and buy to let) is currently rated EPC C or better. Of these, around 42% of owner-occupier properties, and around 36% of buy to let properties, are rated EPC C or better.

EPCs have known data limitations. More information on the data limitations of EPCs is in the Data dependencies and limitations section on page 44.

### Climate change complaint and loss data

In addition to the above metrics, both complaint and loss event[33] data related to climate risk are tracked. This data informs the Society's understanding of any material impacts on our operations and customers.

There was one climate-related complaint in this financial year, related to the Society's net-zero ambition (2022: 0, 2021: 0) and there were no operational and conduct risk loss events and near misses recorded with a climate change route cause (2022: 3, 2021: 5). We will continue to monitor this activity, particularly if the frequency of occurrence of more extreme weather events increases.

### Transition risk data

**Owner-occupier mortgages**

| Current EPC data (note i) | Year to 31 Dec 22 | | | Year to 31 Dec 21 | | |
|---|---|---|---|---|---|---|
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | **268,089** | **42.22** | **22** | 270,401 | 39.26 | 22 |
| EPC Rated D/E | **347,113** | **53.74** | **28** | 362,139 | 51.29 | 29 |
| EPC Rated F/G | **20,037** | **3.16** | **2** | 19,944 | 2.88 | 2 |
| No EPC / unmatched | **584,266** | **60.21** | **48** | 580,278 | 55.07 | 47 |
| **Interpolated EPC data (note ii)** | **Year to 31 Dec 22** | | | **Year to 31 Dec 21** | | |
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | **466,008** | **63.48** | **38** | 473,999 | 59.27 | 38 |
| EPC Rated D/E/F/G | **753,497** | **95.85** | **62** | 758,763 | 88.73 | 62 |

**Buy to let and legacy mortgages**

| Current EPC data | Year to 31 Dec 22 | | | Year to 31 Dec 21 | | |
|---|---|---|---|---|---|---|
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | **76,544** | **10.59** | **22** | 76,803 | 10.83 | 22 |
| EPC Rated D/E | **135,195** | **16.89** | **39** | 141,113 | 18.62 | 41 |
| EPC Rated F/G | **2,857** | **0.30** | **1** | 2,928 | 0.30 | 1 |
| No EPC / unmatched | **132,970** | **16.41** | **38** | 124,492 | 17.44 | 36 |
| **Interpolated EPC data (note ii)** | **Year to 31 Dec 22** | | | **Year to 31 Dec 21** | | |
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | **124,117** | **16.67** | **36** | 112,097 | 15.79 | 32 |
| EPC Rated D/E/F/G | **223,449** | **27.52** | **64** | 233,239 | 31.91 | 68 |

Notes:
i. EPC data used as at 30 September 2022.
ii. Interpolated EPC data calculated using machine learning techniques matching most similar properties where data gaps exist. EPC data as at 30 September 2022 and mortgage portfolio data as at 31 December 2022.

[33] An event which creates a minor or above impact to the Society arising from: inadequate or failed internal processes, conduct & compliance management, people and systems, or from external events.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

### Managing our waste and water consumption

In addition to tracking the scope 1 and 2 carbon emissions for our buildings, Nationwide measures water and waste consumption across its sites. More details can be found in the table below. Nationwide continues to divert as much waste as possible from landfill, with 96% of waste being diverted in 2022/23[34]. By working with our waste supplier we are aiming for 99% landfill diversion year on year. Nationwide has seen an increase in water consumption, and a decrease in waste generation this year in comparison to the previous year. The evolution of this trend will continue to be dependent on future working patterns and usage of our buildings.

### Nationwide's waste and water data:

| Water usage | Year to 4 April 2023 | Year to 4 April 2022 |
|---|---|---|
| Water use (cubic metres) | **215,272** | 182,162 |
| Water use (cubic metres) per FTE | **12.78** | 11.29 |

| Waste usage | Year to 31 March 2023 | Year to 4 April 2022 |
|---|---|---|
| Waste generated in tonnes (note i) | **1,233** | 1,454 |
| Percentage of waste diverted from landfill | **96%** | Not reported |

Notes:
i. Waste data is calculated by our waste provider and covers the suppliers who support our business operations. This includes waste removal, paper recycling and furniture. It does not include waste from other suppliers, such as those who provide our information technology.

### Tracking our green mortgage propositions

In 2020, Nationwide launched the Green Additional Borrowing mortgage to support customers in making energy efficient home improvements. Financing is offered at a lower interest rate in comparison to our other mortgage products with a fixed rate, for either two or five years. The number of applications and completions for the Green Additional Borrowing mortgage continues to be low.

In 2021, Nationwide launched the Green Further Advance for TMW customers. Aimed at landlords, the product aims to support those who want to increase the energy efficiency of their tenanted homes with affordable finance. Applications for the Green Further Advance mortgage have also been low.

The take-up for the Green Additional Borrowing mortgage and Green Further Advance mortgage is summarised below.

| | Green Additional Borrowing mortgage - year to 4 April 2023 | Green Additional Borrowing mortgage - year to 4 April 2022 | Green Further Advance mortgage – year to 4 April 2023 | Green Further Advance mortgage – year to 4 April 2022 |
|---|---|---|---|---|
| Number of applications | **409** | 765 | **19** | 27 |
| Number of completed applications | **391** | 665 | **11** | 15 |
| Total value of applications (£m) | **6.6** | 12.8 | **0.2** | 0.2 |
| Total value of completed applications (£m) | **6.3** | 11.1 | **0.1** | 0.1 |

In 2021, Nationwide also launched its Green Reward mortgage. Numbers for the Green Reward mortgage continue to be encouraging, with customers benefitting from up to £250 of cashback when they choose to purchase a higher energy-efficient property (high EPC B or EPC A home).

The take-up for the Green Reward mortgage is summarised below.

| Green Reward mortgage | Year to 4 April 2023 | Year to 4 April 2022 |
|---|---|---|
| Number of completed applications | **2,600** | 2,234 |
| Total value of completed applications (£m) | **629.0** | 529.9 |
| Total value of cashback released (£m) | **0.8** | 0.6 |

[34] Nationwide has, in previous years, reported 100% waste diverted from landfill. This was accurate based on the methodology and information available to us at the time. In 2022/23 we changed our main waste supplier which has allowed us to measure our waste more accurately. We have also worked closely with our supply chain to understand better how to track our waste. We remain focused on improving how we measure our waste whilst reducing the amount of waste we generate.

We remain committed to providing green finance propositions which support our customers in the greening of their homes. However, due to having very limited control over the practical measures needed to reduce emissions from UK homes (as well as limited ability to influence government policy relating to the UK housing stock, and action by wider society), we consider it highly unlikely that, at present, our highly challenging scope 3 downstream category 15 (investments) mortgages target can be achieved.

Take-up of our green mortgage propositions has been low to-date, as detailed above, and hence the impact on our target and overall emissions reduction across our residential mortgage portfolio, from our green propositions, is expected to be very low.

The pace of take-up of our green lending products, intended to support energy-efficiency improvements, illustrates that it is not the absence of affordable funding that is constraining retrofitting – other barriers exist including a lack of: awareness or knowledge of the need for, and how to go about retrofitting; economic rationale; convenience; and trusted suppliers to undertake the work.

For many, the cost of retrofitting is not sufficiently offset by the financial benefits. Whilst retrofitting can deliver other benefits, such as more comfortable living conditions, more needs to be done to enable cost-effective retrofitting. The Government's *Heat and Buildings Strategy*, and the recently published *Powering Up Britain* policy paper, goes part-way to supporting the case for low carbon heating with grant funding for heat pumps, but more needs to be done to decarbonise the UK's homes and meet net-zero targets. Nationwide will continue to work with government, policymakers and industry, to innovate its green finance propositions, to support further activity to address the industry-wide retrofitting challenges.

Image of Nationwide's Oakfield development

# Data dependencies and limitations

Nationwide recognises certain limitations in climate data affecting climate metrics and targets, and their usefulness in strategic decision making. Due to the limited availability of publicly available, accurate, climate data (especially emissions data on UK homes), Nationwide has applied a number of assumptions and judgements in order to model its carbon emissions and risk exposures. The most important are as follows:

**Energy Performance Certificate (EPC) data limitations**

An EPC is a document which sets out the energy efficiency of a property. Produced by an accredited domestic energy assessor, an EPC provides an indication of how much it will cost to heat (both water and space) and light a property. EPCs also include recommendations for energy-efficiency improvements, the cost of carrying them out, and the potential savings that each one could generate.

Energy efficiency is indicated using a traffic light system rating from A to G, based on Standard Assessment Procedure (SAP) points, with A being the most efficient.

The SAP calculates a property's expected annual energy cost and potential carbon emissions based on:

- The structure of the property
- The heating and hot water system
- The internal lighting
- Any renewable technologies used in the home.

The higher the SAP score, the lower the running cost, with a score of 100 (EPC A) representing zero energy cost.

EPCs are currently the best source of publicly available data on the energy efficiency of a property and whilst useful, they have their limitations, such as:

- **Energy price dependencies** – the current methodology is sensitive to fuel prices and so a property on a grade boundary can improve its EPC rating purely by having its assessment undertaken when energy prices are low.
- **Lack of carbon neutral incentives** – the methodology rates efficient gas boilers above carbon neutral sources like air or ground source heat pumps.
- **Incomplete data set** – an EPC is required every time a property is built, sold or rented and is valid for 10 years; therefore, only around half of Nationwide mortgage properties have a valid EPC.[35]
- **Out of date data** – changes to the energy efficiency of a property (for example, due to improved insulation) will not be captured in the EPC unless the homeowner chooses to have the property reassessed.
- **Not real-world** – the data within an EPC does not reflect the actual energy usage of a home. Emissions data is estimated and only represents emission estimates for space and water heating, and lighting. Potential energy efficiency measures are also estimated.

**The upcoming changes to the Standard Assessment Procedure (SAP) methodology**

The Government is continually updating the SAP methodology used to determine EPC ratings. In 2020, the UK Government commissioned a project to design the next version of SAP (SAP 11) taking into consideration potential enhancements to support net-zero commitments for buildings. SAP 11 will consider improving the accuracy and robustness of the process to ensure it is fit for purpose to support net-zero.

SAP 11 is due to come into force in 2025, alongside the Future Homes Standard. SAP 11 will consider improving the accuracy and robustness of the process to ensure it is fit for purpose to support net-zero. Whilst this will improve the process of EPC ratings from this point, it will take longer for the improvements to filter through to the whole EPC register. Therefore, even if the Government progress with their ambition to decarbonise the electricity grid, until the SAP methodology is fully updated to reflect progress, we are unlikely to see significant improvements in our calculated emissions, and emissions intensities, for our residential mortgages, RSL, and CRE portfolios.

**Calculating our scope 1 emissions**

We calculate our scope 1 emissions by converting Greenhouse Gases (GHG) into carbon dioxide equivalent ($CO_2e$). This includes fluorinated gases (F-gases) such as hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride ($SF_6$) and nitrogen trifluoride ($NF_3$). To calculate this, we convert our energy usage (in kilowatt hours) into $CO_2e$ using the Department for Environment, Food & Rural Affairs (DEFRA) conversion factors. Our exposure to other GHG other than carbon dioxide is low. Due to reporting challenges, the refrigerant gases which are used in, and escape from, our cooling systems are currently excluded from our baseline scope 1 emissions and targets. As our understanding of, and ability to measure, these gases improves in the future, we will consider including these emissions in our scope 1 emissions reporting to ensure transparency in our progress.

**Calculating our scope 3 downstream (investments) emissions**

Nationwide aligns emissions calculations for its scope 3 downstream (investments) emissions (mortgages, CRE and RSL) to the PCAF GHG Reporting Standard. The methodology of PCAF is seen as best practice across the industry when calculating carbon emissions.

Nationwide's lending emissions are calculated using EPC data which contains property floor space and carbon emissions per square metre. Over half of Nationwide mortgage properties have a matched and current EPC. Where a valid EPC is unavailable, a model is used to estimate the floor area and building emissions. Nationwide's EPC model continues to develop and evolve through both artificial intelligence and machine learning enhancements.

[35] For those properties where a valid EPC is unavailable, Nationwide has built a model which uses artificial intelligence and machine learning techniques to estimate the property's floor area and emissions. Through time, we expect the availability of data to improve, and our model to evolve.

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

Whilst the process for calculating emissions in line with PCAF guidance is clear, data quality issues limit the overall accuracy of the results.

PCAF's methodology for calculating financed emissions is as follows:

| **Building Emissions x Attribution Factor** |
|---|
| Where: ***Attribution Factor = Outstanding Balance / Property Value at Origination*** |
| In our methodology, we calculate Building Emissions using the following approach: ***Building Emissions = $CO_2$ Emissions per $m^2$ x Floor space ($m^2$)*** |

Nationwide's building emissions are calculated using its EPC model, and the attribution factor is calculated using the loan-to-value of the mortgaged property.

To calculate emissions for our closed CRE portfolio, data from the EPC Open Data Communities for non-domestic properties is used, at averaged at postcode area level, to estimate proxies for both floor area and $CO_2$ emissions. This data is extrapolated across the CRE book to estimate total emissions. Due to the simplistic nature of our approach, we expect both financed emissions and emissions intensity to be volatile for the CRE portfolio year on year.

PCAF has also developed a methodology for disclosing a data score alongside emissions to help indicate the quality of the data which supplies the emissions. Nationwide disclose a data score (on a scale of 1 to 5, where 1 represents the highest data quality and 5 represents the lowest data quality) for scope 1, 2, and 3 emissions aligned to PCAF's guidance, to ensure transparency of data quality. Data scores also support clear articulation of any estimations used in our emissions calculations. Further detail can be found in the Metrics and targets section on pages 29, 32 and 34. Despite their limitations, EPCs, and the data within, are useful in informing the scope 3 downstream (investments) emissions and transition risk associated with the Society's mortgaged properties.

**Calculating our scope 3 upstream emissions**

Our scope 3 upstream emissions for category 1 (purchased goods and services), category 2 (capital goods), and category 4 (upstream transportation and distribution), are calculated using publicly disclosed supplier emissions data (covering scopes 1-3) from CDP responses, and revenue from the most recent publicly available annual reports, where available. Data gaps are supplemented using industry average emissions contained within the GHG Protocol and Quantis's Scope 3 Evaluator tool.

Volatility in our scope 3 upstream emissions could result from:

- Fluctuations in supplier emissions and/or industry averages
- Fluctuations in supplier revenues, not reflected in their emissions
- Changes in the availability of supplier emissions data.

We currently exclude homeworking emissions from our scope 3 (upstream) emissions baseline and targets due to the challenges with their calculation, such as the:

- Lack of real-time home energy usage data
- Lack of clarity on appliance usage
- Potential for double-counting emissions attributable to homeworking for colleagues who are Nationwide mortgage holders.

**Science-based target scenario alignment**

We have set our intermediate (by 2030) science-based targets in accordance with the methodologies of the SBTi. The SBTi provides methodologies aligned to both 1.5°C (Absolute Contraction Approach (ACA)) and well-below 2°C (Sectoral Decarbonisation Approach (SDA)) scenarios for the setting of intermediate science-based targets. Whilst regarded as industry-standard, we recognise that developing targets using the SDA will mean that some targets (for scope 3 downstream category 15 (investments)) will not fully align to a 1.5°C net-zero pathway. However, the use of the SDA is industry-standard for the setting of targets relating to residential property and commercial real estate (our residential mortgage, RSL and CRE portfolios).

The SDA approach applies sector-specific considerations and emissions reduction factors aligned to specific asset classes in accordance with the International Energy Agency (IEA) Energy Technology Perspectives (ETP) Beyond 2°C Scenario (B2DS). The IEA ETP B2DS are global scenarios and are not UK specific.

The SBTi SDA requires the setting of baseline emissions and emissions intensity to calculate a projected target to 2030. Nationwide calculates its emissions baselines for our targets across scope 3 downstream category 15 (investments) emissions (residential mortgages, CRE and RSL) using the PCAF GHG Reporting Standard.

It is our understanding that the SBTi is developing its SDA to align to a 1.5°C scenario. As the SBTi release further tools and guidance, and as industry guidance, market practice, and regulations evolve over time, we will revise our targets as required.

As our science-based target progress reporting is, for the moment, dependent upon the above limitations, especially the lagging nature of EPCs, there is potential for progress being made which we cannot currently measure. Nationwide will continue to look for better data sources to improve its carbon reporting, including calling on government to make actual energy usage data available.

# Glossary

**Glossary & Abbreviations**

| Item | Description |
|---|---|
| Absolute Contraction Approach | SBTi's scientifically informed method for companies to set GHG reduction targets necessary to stay within a 1.5°C temperature rise above pre-industrial levels. |
| Basel Committee on Banking Supervision (BCBS) | The primary global standard setter for the prudential regulation of banks, the BCBS provides a forum for regular cooperation on banking supervisory matters. |
| CDP | CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Nationwide participates in the CDP questionnaire annually. |
| Department for Energy Security and Net Zero | In February 2023 the Department for Energy Security and Net Zero; the Department for Science, Innovation and Technology; and the Department for Business and Trade replaced the Department for Business, Energy and Industrial Strategy (BEIS). |
| Emissions Intensity | Emissions intensity is the volume of emissions per unit. In the case of mortgages, RSL, and CRE, emissions intensity is calculated as kilograms of $CO_2$ per square metre of floor area. |
| Energy Performance Certificate (EPC) | An EPC is a document which sets out the energy efficiency of a property. Produced by an accredited domestic energy assessor, an EPC provides an indication of how much it will cost to heat (both water and space) and light a property. EPCs also include recommendations for energy-efficiency improvements, the cost of carrying them out, and the potential savings that each one could generate. Energy efficiency is indicated using a traffic light system rating from A to G, based on Standard Assessment Procedure (SAP) points, with A being the most efficient. |
| Financed Emissions | GHG emissions occurred as a result of financing. Nationwide considers our financed emissions through investment and lending activities and calculates and reports on these emissions in order to estimate Nationwide's impact on the wider economy. |
| Future Homes Standard | A government-led proposal around options to increase the energy efficiency requirements for new homes in the 2020s, with the aim to be introduced by 2025. |
| Greenhouse Gases (GHG) | GHG are atmospheric gases that trap heat or longwave radiation in the atmosphere, increasing the temperature of the Earth's surface. There are seven gases considered as part of the GHG Corporate Protocol Standard: carbon dioxide ($CO_2$), methane ($CH_4$), nitrous oxide ($N_2O$), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride ($SF_6$), and nitrogen trifluoride ($NF_3$). $CO_2$ makes up the vast majority of these emissions. |
| International Energy Agency (IEA) Energy Technology Perspectives (ETP) Beyond 2°C Scenario (B2DS) | The IEA ETP's global decarbonisation pathway to limit global temperature rises to well-below 2°C above pre-industrial levels. |
| Heat and Buildings Strategy | A government-led strategy which sets out the government's plan to significantly cut carbon emissions from the UK's homes and workplaces in a simple, low-cost, and green way whilst ensuring it remains affordable and fair for households across the country. |
| Low Carbon Heating | Carbon-friendly heating solutions which offer an alternative to traditional gas boilers. Typically, air and ground source heat pumps which take in heat at a low temperature and convert it to a higher temperature that can be used to heat homes. |

Ambition and overview
Strategy
Governance
Risk management
Metrics and targets

**Glossary & Abbreviations**

| Item | Description |
|---|---|
| Net-Zero Ambition | A UK-wide ambition to achieve an overall balance between GHG emissions produced and taken out of the atmosphere, keeping global temperature increases to below 1.5°C. Nationwide signed up to net-zero in 2021, committed to playing our part in supporting the transition to a net-zero economy. |
| Partnership for Carbon Accounting Financials (PCAF) | PCAF is a global partnership of financial institutions to measure and disclose the greenhouse gas (GHG) emissions associated with loans and investments. Nationwide follows PCAF's Global Greenhouse Gas Accounting and Reporting Standard to calculate scope 3 carbon emissions. |
| Prudential Regulation Authority (PRA) | The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms in the UK. |
| PRA's Supervisory Statement 3/19 (SS3/19) | SS3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' was published in April 2019 requiring firms to embed climate change risk management capabilities into their organisations. In July 2020, the PRA sent a subsequent letter to firms' CEOs on the thematic feedback from the PRA's review of firms' SS3/19 plans, which provided clarity on their expectations for implementation by 31 December 2021. |
| Risk and Controls Self-Assessment (RCSA) | A Nationwide framework developed to help with the identification and assessment of the type and amount of risk Nationwide is exposed to and how effective it is at managing it. |
| The Standard Assessment Procedure (SAP) | The procedure used to assess compliance with Building Regulations. It is also the methodology behind Energy Performance Certificates (EPCs), the rating system used to grade the energy efficiency of all homes in the UK |
| Science-based targets | Emissions reduction targets set in line with the latest climate science. Nationwide uses the tools and methodologies of the SBTi. |
| Science-based Target Initiative (SBTi) | A partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the Worldwide Fund for Nature (WWF). The SBTi aims to drives ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets through the provision of industry standard methodologies and tools. |
| Scope 1 emissions | Scope 1 emissions are direct emissions from owned sources, such as the fuel Nationwide burns to heat our buildings. |
| Scope 2 emissions | Scope 2 emissions are indirect emissions from the generation and consumption of purchased electricity and heating. |
| Scope 3 upstream – categories 1-8 – emissions | Indirect upstream emissions that occur in an organisation's value chain. Upstream emissions (GHG Protocol categories 1-8) cover emissions which result from the organisation's supply chain. The categories are: 1. Purchased goods and services; 2. Capital goods; 3. Fuel- and energy-related activities not included in scope 1 and 2; 4. Upstream transportation and distribution; 5. Waste generated in Operations; 6. Business travel; 7. Employee commuting; 8. Upstream lease assets. |
| Scope 3 downstream – categories 9-15 – emissions | Indirect downstream emissions that occur in an organisation's value chain. Downstream (GHG Protocol categories 9-15) emissions covering emissions resulting from the good and services provided by the organisation. The categories are: 9. Downstream transportation and distribution; 10. Processing of sold products; 11. Use of sold products; 12. End-of-life treatment of sold products; 13. Downstream leased assets; 14. Franchises; 15. Investments. |
| Sectoral Decarbonisation Approach | SBTi's scientifically informed method for companies to set GHG reduction targets necessary to stay within a 2°C temperature rise above pre-industrial levels. |