# A year of mutual support

Annual Report & Accounts 2021

Nationwide Building Society

**Harry**, supporting members since 2017

# Welcome

## to our Annual Report and Accounts 2021

As a building society, we are a mutual organisation. We're owned by and run for our members and we are founded on the belief that we can achieve more by acting together than we can alone. Together, we are building a stronger, kinder society for the mutual good of all.

During last year, a year like no other, our mutual values and purpose proved more relevant than ever.

All through the pandemic, we did our best to keep each other safe and support one another. We continued to help each other save and buy homes. And we gave back to our communities.

### Strategic report

An overview of how we've done this year, our strategy and how we measure our performance



### Governance

How we are governed, what items are discussed in our Board and Committee meetings and how we pay our directors



### Risk report

Key risks that could affect our business performance and what we do to manage them



### Financial statements

Our audited financial statements, related notes and independent auditor's report



### Other information

Including our annual business statement

# Strategic report



The Strategic report has been approved by the Board of directors and signed on its behalf by:

**Joe Garner**
20 May 2021

## Our culture and values

Our culture reflects our shared set of values, beliefs and behaviours which are centred around the acronym PRIDE and consider our members at the heart of our decision making. See page 25 for further information.

pride

**Business model** page 4
Describes our mutual difference, and how we create value over the longer term.

**Financial review** page 60
Includes information on financial performance and the main trends and factors which have impacted our financial results.

**Risk overview** page 56
Includes our approach to managing risks, our assessment of our top and emerging risks and our viability disclosures.

**Key performance indicators** page 10
Used to assess progress against our strategy and more generally our performance.

**Strategy** page 18
Shares our progress against our 5 strategic cornerstones.

**Stakeholders** page 12
Our social purpose ensures we are able to deliver value for all our stakeholders.

### Committed to doing the right thing

As a building society, owned by our members, our ambition is to run a responsible business for mutual good. That's for our employees, our members, the wider society and our environment.

Our climate change disclosures are on pages 36 to 55

Our Mutual Good Commitments and Environmental, Social and Governance (ESG) disclosures are on pages 33 to 35

Our non-financial information statement is on page 35

For more information on our social purpose and our ESG commitments and disclosures, see our ESG hub on **nationwide.co.uk/about/responsible-business**

# How have we helped to build society, nationwide?

**No. 1 for customer satisfaction**
among our peer group[1]

**One of the UK's most trusted financial brands**[2]

Awards 2020 Which? Banking Brand of the Year

**Banking Brand of the Year 2020**
for the fourth year

**16.3 million members**
2020: 16.3 million

**Helped 1 in 7 first time buyers**
into a home of their own
2020: 1 in 6

**Start to Save** account helped **130,000** people with little or no savings with us to save more than £100 with us for the first time

**£790 million**
underlying profit
2020: £469 million

**£823 million**
statutory profit
2020: £466 million

**£265 million** member financial benefit, from better incentives and pricing than the market average
2020: £735 million[3]

**5.4% UK leverage ratio**
demonstrates our financial strength
2020: 4.7%

**Extended our Branch Promise**
to keep a branch in every town or city we are in today until at least 2023

**For those impacted by the pandemic**
**256,000** mortgage payment holidays and **105,000** payment breaks or interest-free periods on loans, credit cards and overdrafts

**Carbon neutral**
for all energy use and emissions for our internal operations and our fleet vehicles

[1] Lead at March 2021: 1.6%pts, March 2020: 5.4%pts. © Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2021 and 12 months ending 31 March 2020. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 54,000 adults (aged 16+) a year in total across Great Britain. Interviews were face to face, over the phone and online, taking into account (and weighted to) the overall profile of the adult population. The results reflect the percentage of extremely satisfied and very satisfied customers minus the percentage of customers who were extremely or very or fairly dissatisfied across those customers with a main current account, mortgage or savings. Those in our peer group are providers with more than 3.5% of the main current account market as of April 2020 - Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB.
[2] Nationwide Brand Guidance Study compiled by Kantar, based on customer and non-customer responses for the 12 months ending March 2021. Financial brands included Nationwide, Barclays, Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, TSB and Santander, with Nationwide first for trust amongst non-customers and joint first with First Direct for trust amongst customers.
[3] The comparative for member financial benefit has been restated. More information on member financial benefit can be found on page 61.

# Our mutual difference is our business model

**Our building society was founded to help people save and buy homes of their own.**

We continue to be driven by this same social purpose – building society, nationwide.

Our mutual difference is what defines us, our values and how we do business. We are here to support our members – people who have their mortgages, savings or current accounts with us – with their financial ambitions, wherever they are in life, whether that is:

- owning a home – this year, we helped one in seven first time buyers into a home;
- saving for the future – we look after almost £1 in every £10 saved in the UK;
- helping members with their day-to-day finances – one in ten of the UK's current accounts are with us[1]; or
- helping our members live better in retirement – we were the first high street provider to offer a comprehensive range of Later Life mortgages.

We also support those who rely on the private rental sector for their long-term housing needs and continue to take positive action to improve this sector (see page 19). Our buy to let business diversifies our income, and helps us give value back to our members, whether through better savings rates or service.

Being owned by and run for our members, we can make decisions differently from our competitors, and we consider our members in every decision we make:

- we don't have to pursue profits to pay shareholders dividends. Instead, we balance our need to retain sufficient profit to remain a safe and secure home for our members' money with:
  - giving better value and service to our members; and
  - investing so that our service and product propositions continue to meet the needs and expectations of our existing and future members;
- we measure our success on things that matter to our members (see page 10);
- we have a low-risk approach to lending, that supports our financial strength; and
- we give at least 1% of each year's pre-tax profits to charitable activities.

Our members are our primary stakeholders, but we also have a number of other important stakeholders who we consider in our decision making. More information can be found on page 12.

**We're different. And we do business differently.**


[1] CACI's Current account and savings database (February 2021).

# A letter from David Roberts

Your Society's Chair

*Dear fellow member,*

During the nearly 40 years I have spent working in financial services, I cannot recall a year of greater uncertainty or change.

The pandemic has been a crisis first for people, and second for the economy. While the huge success of the UK's vaccination programme gives grounds for optimism, significant uncertainty and personal hardships remain.

Against this backdrop, I'd like to explain how we as a Board approached this crisis and the actions we took in the interests of our Society and you, our members.

## Maintaining our financial strength to support members into the future

Nationwide is a member-owned mutual. We have always succeeded by bringing people together and putting our members first – delivering high quality products, excellent service and value to our members. Today, 16.3 million members trust us with their finances. As I have explained in previous letters, our success allows us to make choices. In recent years, for example, we have chosen to invest in improving our service, upgrading our technology and in giving more value to members. When times are tough, however, we must focus first on the fundamentals. The pandemic is one of those times. When the pandemic hit in the last quarter of our 2019/20 financial year, it was imperative that we took swift decisions to protect our financial strength so that we could support people who needed us most.

The Society's primary responsibility has always been to keep our members' money safe. We do this by making sure we are financially strong and operationally resilient. We have been profitable for over a century. That meant that we came into the pandemic in a strong financial position. However, in light of the largest fall in GDP on record, we strengthened our capital ratios further as a protection against uncertain economic times ahead. Our Common Equity Tier 1 ratio and our UK leverage ratio, key measures of our financial strength, both improved.

We also took some tough decisions. When the Bank of England cut bank base rate to a historic 300-year low, it was inevitable that we would have to reduce our savings rates. We were very conscious of the impact on our savings members, so this was not a decision we took lightly. However, facing into a very uncertain future, it was the right thing to do, and in the interests of our members as a whole. Since December, we have once again been increasing value to members through propositions including our Start to Save account and our Triple Access Online accounts.

Having ensured we were strong financially to help our members through the pandemic, our second big decision was to renew and strengthen our commitment to support members, colleagues and communities through thick and thin. I am grateful for how we have pulled together over the last year, in the face of physical, mental and financial challenges. We have protected and supported our members and our colleagues. I am also Vice Chair of NHS England, and I have been both humbled and inspired to see the efforts of people in both the public and private sectors to support each other.

You can learn more about the Society's response on page 18. However, on behalf of the Board, I would like to thank our employees for their hard work, adaptability and deep ethic of care, and our members for their support, understanding and patience during this challenging period. I would also like to thank the senior leadership who have done such a tremendous job of guiding the Society through such difficult circumstances.

## A letter from your Society's Chair (continued)

### Refocusing our strategy to meet the challenges of a post-Covid world

Crises are often a catalyst for change and this one is no exception. We are optimistic that the vaccination programme should allow us to return to a more normal life in future. However, the rapid changes we have seen in how we live, shop, work and bank are here to stay.

We must adapt to this new world, and this is why the Board approved a refreshed strategy in October. This builds on the success of our previous strategy, which helped us grow our membership significantly.

As a mutual, a thriving membership is what makes us strong. Our updated strategy, *re-building society, nationwide*, will show our mutual difference through delivering better value and service to members, and contributing positively to our communities. We will focus on establishing meaningful, lifelong relationships that deliver real value to our members, with products and services more attuned to where they are in life. We hope that approach will encourage members to choose us for more of their financial needs.

We will also need to adapt to both the challenges and the opportunities ushered in by the pandemic. We have long believed that the service we provide as a mutual, driven by our members' needs and wishes, is a differentiator. More members than ever have embraced digital services and we are investing in our digital tools and capabilities. At the same time, we are protecting the branch services members value by extending our Branch Promise, to keep a branch in every town or city we are in today until at least 2023. This decision will support people and communities during the difficult period ahead, and reflects our wish to help rebuild lives and communities as we emerge from the pandemic.

As always, our strategy will be underpinned by a determination to be a safe and secure home for our members' money. We will maintain our strong financial position and continue to manage our finances prudently. By doing so, we are confident we can meet the challenges ahead, support our members and emerge strong and competitive. You can read more about our strategic priorities throughout our cornerstones on page 18.

### Strong governance and oversight

The Board plays a key role in providing strong governance and oversight of the Society. Our goal is not only to fulfil our statutory obligations but also to ensure the Society is managed in line with our mutual values.

Among our values is a commitment to being an inclusive organisation, which reflects the diversity of the wider communities we serve. This is important both in the boardroom and throughout our Society. We meet the Hampton-Alexander and Parker review recommended targets for boardroom diversity. The Board is also actively monitoring progress on improving diversity across the Society towards our 2028 measures.

We are also committed to being a responsible organisation – and always have been. From our founding days, we have sought to be a force for good in society. This has always been a huge part of who we are, but this year we have included more information in our Strategic report on how we do business and how we engage with all our stakeholders – from members to employees, from suppliers to communities. We are also reporting, in more detail than ever, the climate risks we face and the steps we are taking to reduce our impact on the world around us. During the year we were carbon neutral for all energy use and emissions for our internal operations and our fleet vehicles and our carbon emissions have reduced by 90% since 2010.

Each year we review the effectiveness of the Board and Board committees. Every three years, we commission an independent assessment. An independent review is being carried out in 2021, and we will report on the findings in next year's Annual Report.

The Board is most effective when it brings together people with a breadth of views, experiences and backgrounds who can challenge the Society to grow and improve. We have welcomed two new directors in the last year, Tamara Rajah, CEO of digital company Live Better With, and Debbie Klein, Group Chief Marketing, Corporate Affairs and People Officer at Sky. Together, they will strengthen our knowledge of digital transformation, disruptive technologies, and sustainability. Rita Clifton will retire at this year's AGM, after 9 years of outstanding service to the Society. I would like to thank her for her wise counsel and unwavering support for members.

The Board is also responsible for setting the pay for our most senior executives. We must pay fairly those who run our Society today, and be able to attract and retain the talented people needed to run a financial business as large as ours in the future. We are also conscious that our mutuality requires us to demonstrate pay restraint. We know the pandemic has put the finances of many of our members and fellow citizens under pressure. Reflecting that, our CEO was one of the first in the UK to take a voluntary reduction in his pay, of 20% of salary and pension contributions for 2020/21, whilst the non-executive directors committed to donate 20% of their net fees from June to December 2020 to Shelter. We did not award any performance pay to our leadership team in 2019/20 and their performance pay potential this year, in line with that for all employees, was limited to one third of normal times. We believe that it was right to take these actions. However, it is also important that we appropriately reward our senior leaders for the extraordinary effort that they put into running our Society – particularly through such a challenging time. Looking ahead, we would be failing in our duty to members if we were unable to attract or retain the right executive team, so we expect remuneration for executive directors to return to previous levels over the next year – with performance pay subject, of course, to outcomes.

As a member-owned Society, it is very important to directors that we hear the views of our members first hand. During the pandemic, we have had to move more of our engagement events online. On the plus side, virtual events are more accessible to more members – so please do take advantage and come and talk to us. Around 1,400 members have joined online TalkBacks, attended by our directors. We held our 2020 AGM online, and we will make sure members can go online to watch and ask questions at our 2021 AGM too. Please do take the time to vote and to join us virtually on the day to hear about how our Society has navigated the past extraordinary year.

We continued to expand our Member Connect community. This is an online forum where members can share their views with us on a whole range of issues, including the products and services we offer. The community is now over 7,000 strong.

### A year of mutual support

We end the year in a good place: financially strong, operationally resilient and committed to supporting our members to save, own their own homes and achieve financial security.

Looking ahead, we are optimistic that the UK is on a path back to normality. However, we remain acutely conscious of the economic uncertainties that lie ahead as support schemes are wound down and the economy gets back on its feet. We are ready and able both to support our members, colleagues and communities through challenging times ahead and to help our communities build back better after the pandemic.

It only remains for me to say a heartfelt thank you to our members and my colleagues for your mutual support for each other and the Society over the last year.

**David Roberts**
Chair

Strategic report
Governance
Risk report
Financial statements
Other information

# A letter from Joe Garner

Your Society's Chief Executive

*Dear fellow member,*

The last year has been dominated by the pandemic which continues to be – first and foremost – a human crisis. The pandemic has tested the resilience of people, communities and organisations and has shown once again how important it is that we work together. Nationwide is a mutual organisation, founded on the belief that we can achieve more by acting together. Everyone has dug deep to help us keep members and colleagues safe, to keep our services running smoothly, and to safeguard our financial strength. By working together, we have come through this year financially strong, which means we have been able to support our members and communities through uncertain times: this is the essence of what it means to be a mutual. I would like to thank you, our members, and my colleagues, for your support for our Society during the last year.

During the pandemic we have been focused on the following key priorities which are aligned to our purpose and the cornerstones of our strategy:

### Keeping members and colleagues safe and supporting their health and wellbeing

From the start of the first lockdown, protecting the health and safety of colleagues and members was our top priority, while maintaining essential services.

We rapidly put in place measures to protect members and colleagues which meant more than 90% of branches remained open through the first lockdown and 98% in the latest lockdown. We introduced social distancing in our branches and offered members video appointments in their homes.

We supported vulnerable members with, for example, cash deliveries and specialist telephone helplines. We moved many services online at speed, such as only taking 12 days to introduce online valuations. We also extended 'tea & tech' sessions to de-mystify our digital services for members who had not used them before and to help them understand how best to protect themselves against fraud.

Meanwhile, the vast majority of our office-based colleagues moved to home working almost overnight, as did some 1,000 branch roles. Colleagues supported one another by working flexibly. For example, branch staff took member calls to relieve pressure on call centres and have answered over 1.5 million calls in this way to date.

We put in place a range of wellbeing initiatives to support our employees, and used our real-time colleague sentiment tracker to understand how our people were feeling. This helped us shape our response so we supported people in the ways they needed most. Personally, I'm really proud of the resilience shown by our colleagues in challenging circumstances, and how everyone rose to the challenge of finding ways to support our members and keep our essential services running.

### Supporting members and communities

Supporting members through financial hardship has been another priority this year. We put in place a comprehensive home support package to enable people to stay in their homes. As well as payment holidays, this included an industry-leading 'no repossessions' pledge until May 2021.

## A letter from your Society's Chief Executive (continued)

Communities also faced extraordinary pressures. We extended our Branch Promise to support people and communities for those times when our members need to see us face to face. We gave charities flexibility to use our funding to help those most in need. We also continued with our long-term programmes to support community housing needs and to promote respect and inclusion between diverse groups of people.

We remained focused on helping members achieve their dreams of home ownership, despite a difficult year in the housing market. After months of almost complete closure, the market bounced back thanks to pent-up demand, the stamp duty holiday and because the pandemic prompted people to re-evaluate their homes and where they wanted to live. The partial market closure reduced our overall lending compared to last year, but our market share was broadly the same.

We continued to support first time buyers onto the housing ladder. We lent responsibly, and, by tightening our lending criteria, were one of the first few lenders to be able to offer 90% loan to value mortgages again.

Since the year end, the launch of our Helping Hand mortgage saw us become the first major lender to offer first time buyers the ability to borrow 5.5 times salary, on 5 or 10 year fixed rate mortgages with a loan to value of up to 90%, enabling home ownership for many who have been frozen out. In May 2021 we became the largest mortgage provider to reintroduce 95% loan to value lending without government support, offering market-leading mortgages to first time buyers and home movers.

Our buy to let business, The Mortgage Works, has had one of its strongest ever years for gross lending. As the rental sector has grown, supporting good landlords is an increasingly important part of how we fulfil our role as a building society, helping people into good quality homes. This business diversifies our income and supports our profitability, which in turn helps us reward members with value and service.

This was a tough year for savers when the bank base rate was cut to an all-time low. It was frustrating for us too since our aim is to pay the best possible rates to our savers. Nationwide has a proven record of paying higher deposit rates than the market average; in the last five years, we have paid over £2 billion in extra interest to depositors. However, we reduced our savings rates in light of the reduction in bank base rates and this resulted in member financial benefit falling below our target of £400 million, having significantly exceeded it in recent years. In the medium term we expect member financial benefit to exceed our target again. Despite this, total deposit balances increased by around £11 billion, although our overall share of deposits fell.

We want to continue to encourage a savings culture, despite the low-rate environment, as it is an important part of financial wellbeing and resilience. That means finding new ways to reward savers, which we have done through our Start to Save account, a Mutual Reward Bond, and Triple Access Online accounts; we continue to stand by our principle of paying savers the best rates we can sustainably afford. I am pleased to report a recovery in our savings volumes towards the end of the year as a result of this activity.

Last year we reached a 10% market share of all current accounts[1]. This year, we withdrew switching incentives so that we could focus on supporting our existing members during this very uncertain period. We maintained our share[1], and continued to attract new current account members through the Current Account Switching Service, reflecting our continued appeal to existing and new members[2].

We are delighted that in 2020 we were named *Which?* Banking Brand of the Year for the fourth year running, and our customer satisfaction remained strong. We were no. 1 for customer satisfaction among our peer group for the ninth year running[3], although our lead narrowed and fell below our target. Our own member experience survey highlighted that this was because lower savings rates and the disruption to branch services, both caused by the pandemic, reduced satisfaction among savers and branch users, although this recovered towards the year end as things began to normalise[4].

### Safeguarding our financial strength

We have always taken a prudent approach to managing our finances, as we believe this is what our members expect of us, and it also means we can take a long-term view of decisions. That proved its worth in this crisis year, when we have remained strong and secure despite a very volatile environment.

Our capital ratios remain high. Our UK leverage ratio is above our target. On the income side, our net interest income and margin improved. We also reduced our costs. Arrears remain low today but, unsurprisingly, in light of the uncertain economic times ahead, the impairment charge for loans that might not be repaid remained elevated.

Overall, these factors combined to increase our profitability levels significantly. This enhances our financial strength at a time of uncertainty, allowing us to support our members, colleagues and communities, including extending our Branch Promise and launching our Member Prize Draw.

[1] CACI's Current account and savings database (February 2021 and February 2020).
[2] Pay.UK quarterly CASS data, 9 months to December 2020.
[3] © Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2021. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 54,000 adults (aged 16+) a year in total across Great Britain. Interviews were face to face, over the phone and online, taking into account (and weighted to) the overall profile of the adult population. The results reflect the percentage of extremely satisfied and very satisfied customers minus the percentage of customers who were extremely or very or fairly dissatisfied across those customers with a main current account, mortgage or savings. Those in our peer group are providers with more than 3.5% of the main current account market as of April 2020 - Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB. Prior to April 2017, those in our peer group were providers with more than 6% of the main current account market – Barclays, Halifax, HSBC, Lloyds Bank (Lloyds TSB prior to April 2015), NatWest and Santander.
[4] Member experience tracker survey asks members to rate their satisfaction and provide feedback, following a specific interaction across channels and products. Survey results for the 3 months ending 31 March 2020 to the 3 months ending 31 March 2021.

## A letter from your Society's Chief Executive (continued)

### Re-building society, nationwide

Looking ahead, we face a radically different business and economic outlook compared with 18 months ago. Despite the undoubted success of the vaccination programme, the shape and speed of the economic recovery is unclear. On top of that, the pandemic has accelerated existing trends in digital adoption and working practices – breaking through historical barriers. Major issues for our communities, including climate change and the inequalities and injustices exposed by the Black Lives Matter movement, demand fundamental change.

As you would expect, we are constantly adapting our strategy to meet these challenges. We will, of course, continue to enhance our resilience, invest in security and become more efficient.

After a period of very strong growth, over the next few years we will focus on delivering the value of mutuality to our members. We will prioritise building lifelong relationships with our members, helping them make the most of their money at every stage of their lives – from opening a first current account, to starting to save, to buying a home, to living well in retirement. In addition, we set out our ambitions for supporting our members and communities in our Mutual Good Commitments, which you can read about on page 35.

We intend to continue to deliver the outstanding service our members deserve and want. With members adopting digital technology at an even faster rate this last year, we are investing in our digital capabilities to complement our branch service. We are also making more of our branch network and the experience of our branch colleagues, by moving to a model where branches are serving customers over the phone as well as in person. This means we can build on the experience and capability of our branch-based colleagues and spread this excellent service across all our channels.

With 13,000 colleagues working from home during the pandemic, we have had a unique opportunity to review our working practices. Our decisions have been shaped by the views of our people, who enjoyed the flexibility of remote working and felt more productive. We have also experienced better flexibility from home working which has enabled us to serve our members better.

We are therefore moving away permanently from fixed location working to a flexible model. We do still see an important role for offices, both for collaborative work, and for those who cannot or do not want to work from home. This is better for our members, our employees and the Society overall.

We will also use our voice where it matters to help solve some of the challenges and injustices in our society today – from climate change, to housing, to diversity. For example, the greening of UK homes is a priority if the UK is to meet its carbon net zero emissions target. On top of the £1 billion loan fund we have created, to encourage people to green their homes, we have launched a house purchase cashback offer. We are also extending green options to landlords through The Mortgage Works. You can read more about these matters on page 39. We also want to contribute to tackling climate change by reducing our direct impact. We have maintained our Carbon Trust Triple Standard accreditation and our internal operations were carbon neutral in the year.

So, to summarise, over the last year, we have demonstrated the Society's resilience – financially, operationally and culturally. While the outlook is undoubtedly challenging, the strength of our values, our social purpose and our finances mean we can continue to work for the mutual good of our members, colleagues and communities, as we *re-build society, nationwide*.

Joe Garner

**Joe Garner**
Chief Executive

# A year of mutual support

**Nationwide is not like its banking competitors – our mutual difference means we measure our performance on the things that matter most to our members: great service, long-term value and financial strength.**

We seek to strike the right balance between retaining sufficient profit to maintain our financial strength, delivering value to our members now, and investing so that we can continue to meet the needs and expectations of our members in the future.

In this exceptional year, dominated by the Covid-19 pandemic, we focused on keeping our Society, our members and our colleagues safe, and protecting our financial strength so we were able to serve and support our members, and remain secure for the future.

Our targets were set in expectation of a normal year. As a result of the pandemic, and the decisions we made, we have not achieved some of our targets this year. We also expect some of these impacts to continue into the next year, and so have revised some of our near term targets as indicated opposite.

We remain committed to giving at least 1% of pre-tax profits to charitable activities, as voted for by our members in 2007, helping to make a positive difference in the communities we serve. In 2020/21, this amounted to £7.4 million (2019/20: £9.5 million)[1]. In the financial year we paid £6.6 million (2019/20: £8.0 million) to charities.

## Service

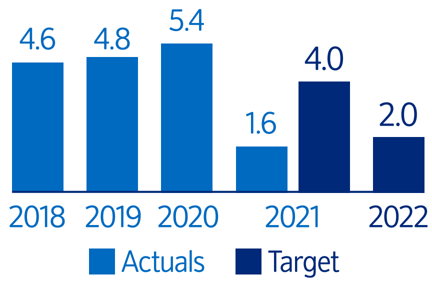
Giving our members great service

We aim to be the best for customer satisfaction in our peer group. We remained no. 1 for customer satisfaction among our peer group, but did not achieve our 4%pts target lead[2].

One of our key differentiators for satisfaction is our ethic of care, and the service our members experience in our branches. A decline in satisfaction reflects fewer members visiting our branches in the pandemic, the effect of changes made to our branch service to maintain social distancing, and the impact of lower savings rates in response to a record low bank base rate.

In 2022, we will target a lead of at least 2%pts, instead of 4%pts, with an ambition to regain a 4%pts lead by 2023.

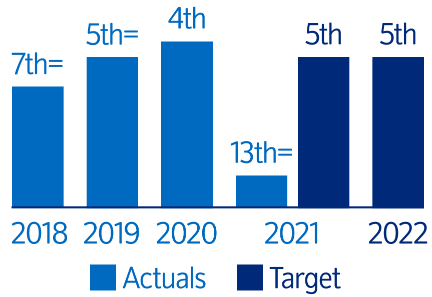
**Core products satisfaction**[2]
lead, %pts




We want to be among the top five organisations across all sectors for customer satisfaction.

We were joint 13th in January 2021[3], below our target, though we remain the highest ranked high street financial services provider.

**UK CSI**[3]
rank




[1] The 1% is calculated based on average pre-tax profits over the previous three years. This covers donations to the Nationwide Foundation, social investment activities, including multiple programmes, such as grants to local housing projects and the internal costs of managing this investment. For more information on these activities, see page 29.
[2] © Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2018 to the 12 months ending 31 March 2021. For more information, see footnote 3 on page 8.
[3] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January in each year.

# A year of mutual support (continued)

## Value

**Helping more members achieve their financial ambitions and providing better value to our members**

We have 3.6 million committed members[4]. Growth was impacted by pandemic-related lockdowns, which reduced overall member spending activity and led to fewer products being opened in branches.

In this new environment, we no longer expect to grow our committed membership to 4 million by 2022, but will aim to do so by 2026. We will aim to maintain 3.6 million committed members in 2022.

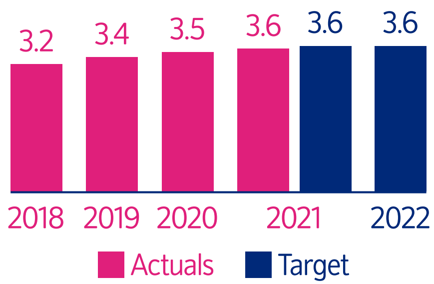
Committed membership is more aligned to our strategy to build deeper relationships with our members than engaged membership, and so going forward we will only report on committed membership. We have 9.5 million engaged members[4] and, similarly, would not have expected to achieve our 10 million target by 2022.

We aim to provide at least £400 million of member financial benefit each year, through better incentives and pricing than the market average[5], but during exceptional times we may not always be able to deliver this.

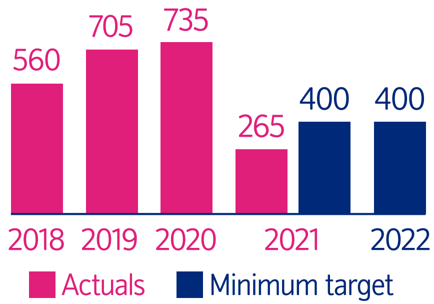
In 2021, we provided £265 million of member financial benefit, reflecting the historically low interest rate environment and our decision to reduce savings rates and protect our financial strength during a period of significant uncertainty.

Over the medium term, we expect member financial benefit to return to in excess of £400 million.

### Committed members[4]
million




### Member financial benefit[5]
£ million



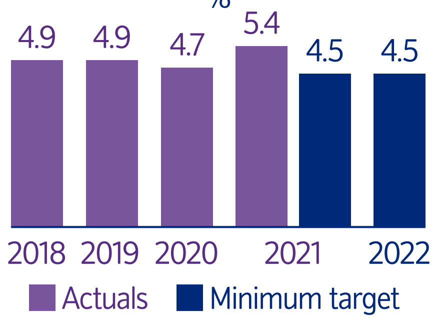

## Strength

**Keeping our members' money safe and secure**

We aim to have a UK leverage ratio (a measure of our financial strength) of at least 4.5%.

Our UK leverage ratio of 5.4% exceeded our 2021 target.

### UK Leverage ratio
%




[4] Engaged members have their main personal current account with us, a mortgage of at least £5,000, or a savings account of at least £1,000. Committed members have an engaged membership product plus at least one other product. Prior to 2018/19, the savings threshold was £5,000; prior year comparatives have been restated using the £1,000 threshold. The comparative for 2019/20 committed membership has been restated to reflect improved data quality since originally reported.

[5] The 2020 comparative for member financial benefit has been restated. For more information on member financial benefit see page 61.

# Our stakeholder engagement

*Listening and engaging regularly with our stakeholders is fundamental to the way we do business and ensures we operate in a balanced and responsible way, both in the short and longer-term.*

## Our approach to stakeholder engagement

The way in which we engaged with stakeholders was significantly impacted by the Covid-19 pandemic; however, we remain committed to maintaining good communications and building positive relationships with all our stakeholders. The table below summarises, for each of our key stakeholders, who they are and why they are important to us, how we engaged with them during the year, the topics raised and our response.

## Section 172(1) statement

This section describes how the directors considered matters set out in section 172(1) of the Companies Act 2006 (the 'Act'). This also forms the directors' statement required under section 414CZA of the Act. Although Nationwide, as a building society, is not required to follow the Act, we seek to apply its requirements where appropriate.

Key decisions taken by the Board in the year and the consideration of relevant stakeholders is included on pages 15 to 17. Further details on how the Board has engaged directly with our key stakeholders is included on pages 87 to 88 of the Governance report.

| Who are our stakeholders and why are they important to us? | How have we engaged with them? | What were the key topics raised? | Our response and further information |
|---|---|---|---|
| **Members**<br>As a mutual organisation, we are owned by our members and we place great importance on being there when they need us.<br><br>We encourage our members to share their views and we recognise that in order to achieve long-term success, it is critical to understand their needs, now and in the future. | We engaged with our members in person, through our branches, online and via other channels.<br><br>Our AGM is the key event at which members can have their say and vote on important issues. In 2020 our AGM was held online due to the pandemic. We also held a number of digital member TalkBack events during the year, giving access to board directors and senior management. In addition, we have continued to expand our Member Connect Community, an online forum where members can share their views with us on a range of issues.<br><br>We also engaged with members on other activities, for example our Community Boards programme and through customer surveys. | • How members have been impacted by Covid-19 and the support needed (including mortgage payment holidays and payment breaks on loans, credit cards and overdrafts)<br>• Interest rates for savers<br>• Security and fraud prevention<br>• Maintaining access to branches<br>• Accessible and digital banking<br>• Environmental matters | • We went beyond regulatory guidance, offering support to members facing financial hardship as a result of Covid-19, including a no repossessions pledge until May 2021<br>• In a low bank base rate environment, we launched propositions at competitive rates with some offering a chance to participate in prize draws<br>• Extended our promise to keep a branch in every town or city we are in today until at least 2023<br>• Adapted our branches to make them Covid-19 safe<br>• Invested in the security and resilience of our systems<br>• Encouraged digital interactions<br>• Held fraud education TalkBacks<br>• Extended our green propositions, including a new cashback offer for those purchasing a property with a high-energy efficiency rating<br><br>**Further information -** Building Thriving Membership cornerstone, on pages 19 to 20, Building Legendary Service cornerstone, on pages 23 to 24 and Climate-related financial disclosures – our carbon journey, on page 38 and supporting our members, on page 40. |

## Our stakeholder engagement (continued)

| Who are our stakeholders and why are they important to us? | How have we engaged with them? | What were the key topics raised? | Our response and further information |
|---|---|---|---|
| **Our buy to let customers, other landlords and renters**<br>We support landlords and those who rely on the private rental sector for their long-term housing needs and continue to take positive action to improve this sector. | We originate buy to let mortgages via intermediaries, and a growing direct channel.<br><br>We provided information and educational material to landlords and renters through our Landlord Lifeguard website. We also actively monitored changes in the buy to let sector through research organisations. | • How landlords and tenants have been impacted by Covid-19<br>• Improving the quality of rental properties<br>• Improving the private rental sector through information, support and educational materials | • Offered payment holidays and encouraged landlords to pass on this benefit to support tenants<br>• Introduced further advance products, offering a discounted rate on borrowing for green improvements<br>• Digital educational resources continue to help landlords understand their responsibilities and provide better homes for renters and better understand renter needs<br><br>**Further information -** Building Thriving Membership cornerstone, on pages 19 to 20 and Building a National Treasure cornerstone on pages 29 to 31. |
| **Colleagues**<br>The dedication, passion and values of our organisation are key reasons for our success. Consistent with our mutual principles, we believe in creating an inclusive culture where all our colleagues can be themselves and thrive, where they believe in what they do, feel supported and valued, and are able to develop and grow their careers. | Our colleague sentiment tracker and future of work surveys provided colleagues with the opportunity to have their say on how it feels to work at Nationwide and what they really value.<br><br>In addition, we used a variety of ways to gather their insights and feedback on their experiences, including our Employee Network Groups, engagement with Nationwide Group Staff Union (NGSU) and external surveys such as the Banking Standards Board survey and the MIND Wellbeing Index. | • How Nationwide could support colleagues through the Covid-19 pandemic<br>• Health and wellbeing<br>• Unacceptable behaviour faced by member-facing colleagues<br>• Inclusion and diversity<br>• Opportunities for personal and career development<br>• Progress against our strategic objectives | • Homeworking made available to around 13,000 colleagues, whilst making branches and offices Covid-19 safe<br>• Supported health and wellbeing; we gave our colleagues access to the Unmind wellbeing app<br>• Mutual respect campaign to support member-facing colleagues<br>• Worked with our Employee Network Groups to redesign many of our employee policies and our approach to employee wellbeing<br>• Updated our cultural values to make our commitment to inclusion and diversity more explicit<br>• Committed to giving our colleagues greater flexibility in their working arrangements permanently<br><br>**Further information -** Building PRIDE cornerstone, on pages 25 to 28. |
| **Community**<br>As a building society, we believe that whether you own your home or rent it, everyone deserves a place fit to call home. This forms the core, not just of our business activities, but of our broader contribution to society.<br><br>We also work with community partners and charities to support our local communities. | We support charities through committing at least 1% of our pre-tax profits each year to good causes, focused on housing, including the Nationwide Foundation. We are in contact with our communities through our Community Grants programme and our Community Boards. Other examples of how we support our communities and charities include our employee volunteering programme, our partnerships with Shelter and St Mungo's. We have worked closely with the local community in the design and planning of the Oakfield development, in Swindon. | • Raising awareness of housing issues and need<br>• Understanding the funding issues charities have faced during the pandemic<br>• Reducing carbon emissions and commitments to tackling climate change | • Social investment programmes, including our Community Grants programme, and support for Shelter and St Mungo's<br>• Carbon neutral for all energy use and emissions for internal operations and fleet vehicles<br>• Committed to building a more mutually respectful and inclusive society, partnering with The Diana Award and the Football Association's Respect programme<br>• Our Mutual Good Commitments are focused on building a better society<br><br>**Further information -** Building a National Treasure strategic cornerstone on pages 29 to 31, Climate-related financial disclosures on pages 36 to 55 and Our Mutual Good Commitments on page 35. |

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## Our stakeholder engagement (continued)

| Who are our stakeholders and why are they important to us? | How have we engaged with them? | What were the key topics raised? | Our response and further information |
|---|---|---|---|
| **Suppliers**<br>We work with over 1,100 suppliers who provide a range of goods and services, helping us run and improve our business and deliver quality service for our members. Our suppliers have played a critical role in ensuring continuity of service during the pandemic. | We organised a virtual annual partner conference, where leaders from our key suppliers heard from our leadership team about the opportunities and challenges we face together. In addition, we conducted supplier monitoring activity, focusing on resilience and changes across our supply chain risk profile. We also met with suppliers regularly to have two-way conversations on key topics such as operational performance, contract management, risk and sustainability. | • Engagement and support during the Covid-19 pandemic<br>• Environmental matters and climate change<br>• Ethics, living wages and modern slavery<br>• Inclusion, diversity and social enterprise<br>• Prompt payment of invoices | • Our Procurement for Mutual Good programme, supporting a greener, more diverse and more ethical supply chain<br>• Our target for our supply chain to be carbon neutral by 2030<br>• Code of Practice that we ask suppliers to commit to<br>• Introduced quicker payments to our micro, small and medium size enterprise third party suppliers to support their cash flow during the Covid-19 pandemic<br><br>**Further information -** Building a National Treasure strategic cornerstone on pages 29 to 31. |
| **Regulators**<br>Regulators oversee our activities and undertake consultations and policy reform. We seek to maintain the highest possible standards of regulatory compliance, to protect and enhance the integrity of the UK financial system and ensure fair outcomes for our members. | We actively monitor changes in the regulatory landscape, and have engaged with regulatory consultations and provided regular and ad-hoc reporting as required<br><br>In addition, regular and ad-hoc regulatory meetings were attended by our Board, NLT members and subject matter experts. | • Board and senior management accountability<br>• Resolvability Assessment Framework<br>• Financial Crime and Anti-Money Laundering regulations<br>• Covid-19 support measures<br>• Brexit<br>• Operational resilience<br>• Risk and controls framework<br>• Management of conduct remediation<br>• Outsourcing contracts<br>• Access to cash<br>• Fraud scams<br>• Readiness for negative interest rates | • Responded to information requests to help inform regulator policy and decision-making<br>• Responded to various consultations and other requests for comment and input<br>• Directors and Senior Management had regular engagement with regulators to discuss key priorities including regular industry conversations such as meeting stress tests, adequacy of provisions and transition from Libor to alternative risk-free rates<br>• Played a full part in working with regulators and across the sector to support the response to Covid-19 |
| **Investors**<br>Nationwide is active in wholesale funding markets, engaging in the issuance of a range of financial instruments. Wholesale investors support the Society in meeting its funding and capital requirements. | We engaged with our wholesale investors through a regular and active dialogue. Also, twice a year, Board members engage with our largest investors, providing an update aligned with the most recent published financial results. In addition, to support the analysis of investors and their understanding of the Society's performance and risk management, we regularly engage with Credit and ESG rating agency providers to ensure the Society is rated appropriately. | • Progress against our strategic objectives<br>• Impacts from Covid-19 and Brexit<br>• Competition within UK financial services<br>• Sustainability, in particular the Society's approach to climate change<br>• Strength of our regulatory capital and liquidity<br>• Asset quality | • Investors received strategic and financial updates<br>• Feedback was used to develop our Annual Report and Accounts disclosures to ensure investor information needs are met<br><br>**Further information -** Our Investor Relations website, **nationwide.co.uk/about/investor-relations/introduction** |

## Key decisions taken by the Board

At the heart of our mutual purpose is the need to engage, consult and act in the needs of our members, employees and other stakeholders.

The Board is responsible for setting a clear strategy and direction, ensuring the long-term success and sustainability of the Society. When making decisions, the Board considers the outcome for all relevant stakeholders, as well as the need to maintain a reputation for high standards of business conduct, the need to act fairly and the long-term consequences of its decisions.

The following case studies provide some examples of key decisions taken by the Board, and how stakeholder interests have been taken into account.

| | |
|---|---|
| **Board decision** | **Future of Legendary Service strategy**<br>Providing truly legendary service has been at the heart of Nationwide's culture for decades. We strive to ensure that our frontline colleagues display an ethic of care that has become a defining part of the Society's culture and values and a powerful differentiator in the market. Members recognise and value the service they receive across all of our service distribution channels (branch, telephony and digital). As we adapt to the impacts of the global Covid-19 pandemic and adjust to advancing trends in technology, our task is to ensure that we protect, adjust and adapt this commitment to legendary service for what the future holds.<br><br>During the year, the Board approved the establishment of a future service operating model which will match member demand across all of our channels. One of the key reasons for the change was recognition of the need to meet increasing service expectations on the part of members by delivering against higher digital service benchmarks in a way unique to Nationwide while seeking to make best use of spare capacity within our branch network to serve more members in more ways. The Future of Legendary Service strategy will build a more flexible, adaptable organisation through a new unified operating model which will, for example, see branch colleagues taking phone calls and responding to digital servicing queries. The Board reviewed this change as fundamental and foundational to Nationwide, as the changes will enable future strategic optionality and ensure that the Society is well placed to adapt in an increasingly complex market, technology and societal backdrop. |
| **Stakeholders** | The implications for key stakeholders of this future servicing model were considered. The Board had input into the mechanisms put in place for the ongoing monitoring of all stakeholder interests throughout the implementation of the strategy.<br><br>**Members**<br>Nationwide continues to be committed to meeting members needs throughout their lives and the Future of Legendary Service strategy will see the Society invest in a multi-year digital servicing enhancement strategy and move our branch network to more flexible opening hours, allowing our branch-based colleagues to serve members over the phone and through digital channels. In reviewing this plan, the Board took into account the short-and long-term interests of members, ensuring that the new service strategy offers flexible ways of servicing members, and recognising that the shift to increased digital adoption by members needs to be supported by an enhanced digital servicing offering. In making the decision the Board:<br>• reviewed internal and external market research related to service during the Covid-19 pandemic, which was sourced through direct member and non-member feedback and provided insight and challenge. This showed that during the pandemic a large proportion of members moved to digital services, creating a new consumer appetite for self-servicing offerings;<br>• considered the cohort of members that currently continue to rely on branches to service their accounts and gave particular focus to vulnerable members. The Board highlighted the significance of executing the strategy iteratively, to enable us to listen to and react to member feedback on changes, and ensure exceptions, risk mitigations and controls are designed and executed robustly;<br>• recognised the distinct role that the Society could play in supporting members in the further adoption of digital banking services. Over the course of the strategy, members will be engaged and communicated with at a local level; and<br>• acknowledged the potential impact on members of more variable branch opening hours and noted the plans to engage with members and stakeholders at the local level well in advance of any changes. |

## Key decisions taken by the Board (continued)

| | |
|---|---|
| | **Colleagues**<br>As a result of the enhanced digital proposition and members shifting their behaviour to digital servicing, the number of member-facing colleagues in branches and call centres will ultimately need to reduce and those colleagues that remain will be required to become multi-skilled. In considering colleagues, the Board:<br>• reviewed plans for a significant multi-skilling learning pathway, to ensure colleagues are able to move from serving members in branches to being able to service telephone calls and digital servicing queries; and<br>• endorsed a programme of activity of extensive colleague engagement which included high-quality training, career planning, transparent communications and union engagement. Colleagues impacted by the reduction of roles have been given the ability to re-train for other roles within the Society.<br><br>**Community**<br>The Board considered the interests of local communities and:<br>• recognised that changes to branch opening hours and a branch closure programme could impact specific communities, especially those not well-served by other financial services institutions; and<br>• a series of engagement activities with local communities was undertaken and the proposal to the Board highlighted that the role of branches could evolve in local communities. In approving the final proposition, the Board agreed that it should be designed to ensure that the Society could remain on local high streets longer, whilst also meeting the increasing shift to digital servicing.<br><br>**Regulators**<br>The Board discussed the views of regulators, and in making the decision:<br>• analysed the main considerations from a regulatory perspective, including receiving assurance from management that members would be supported through the changes;<br>• recognised that the strategy would increase the regulatory scrutiny for our frontline and digital operations;<br>• recognised that the Society also faces a risk if it does not seek to transform its service model in this way, reflecting on the need to evolve the business model in response to changes in member demand; and<br>• balanced stakeholder interests over the long term, noting that the strategy would maintain and extend the Society's comparative advantage in service to support the Society's risk and cost strategies in the post pandemic environment. |

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## Key decisions taken by the Board (continued)

| | |
|---|---|
| **Board decision** | **Re-imagining the future of work**<br>During the past year, around 13,000 (90%) of Nationwide's office-based colleagues have been working from home, as a result of the Government guidelines for Covid-19. Over this time the actions taken, and the support offered to colleagues, has meant that colleague commitment to Nationwide has increased, resulting in better, more agile decision making. This has been made possible through improved technology.<br><br>The Board took learnings from the pandemic and recognised the opportunity to radically change the future of the workplace for Nationwide and, as a result, supported management in the announcement made in March 2021 of its commitment to re-shape the future of working at Nationwide and to allow colleagues greater freedom to choose where they work, depending on the work they do each day. |
| **Stakeholders** | **Colleagues**<br>During the year, as colleagues across the Society adapted to working from home, the Board received monthly reports which included the insights from colleague surveys, sentiment trackers and leadership interviews. The Board monitored colleague sentiment through these internal mechanisms and contributed to external research conducted on the topic, as well as drawing on their experiences elsewhere within the industry. This was augmented by giving colleagues direct opportunities to attend Board meetings to give feedback and report on their sentiment and wellbeing directly.<br><br>The Board considered colleague interests and preferences as a whole, taking into account the varied roles across the Society, along with the benefits of human interaction and impacts on mental wellbeing. Therefore, whilst noting that a large proportion of colleagues would prefer to work from home full-time, it was agreed that workspaces needed to remain for colleagues who preferred to work from office locations, or for those who preferred a mix of home and office-based work. In response to colleague feedback, office spaces are being redesigned to be purposed for collaborative working and flexible workspace.<br><br>**Suppliers**<br>The Board highlighted the significance of communicating the changes to suppliers, recognising the key role our suppliers play in helping us run our business. The impact on suppliers was low overall; however, an outcome of fewer people requiring office space for work is that the Board has approved the permanent closure of three office buildings and a small number of colleagues and third-party suppliers have been impacted by the decision.<br><br>**Members**<br>The Board considered the member impact of this decision. The Board concluded that the closure of the three administration buildings located in Swindon was in the interest of members due to the sustainable cost savings that would be achieved by closure of the buildings.<br><br>Additionally, research from colleague engagement activities highlighted several indirect positive member benefits, with evidence showing that remote working had improved productivity and outcomes suggested that colleagues were able to make better decisions when working from home as they gave greater consideration to the human impact of their decisions.<br><br>**Community**<br>In making the decision to change the future of work, the Board delegated operational matters to the leadership team, who took forward engagement activities with the local media, the local council and locally elected Members of Parliament prior to the public announcement that our estate of administrative buildings in Swindon would be reduced. Where possible, early engagement took place and feedback was monitored by the leadership team. |

# How we're building society, nationwide

As a mutual, owned by our members and formed with a strong underlying social purpose which we express as *building society, nationwide,* our ambitions are to provide better value and service for our members, and to contribute to wider society too. These ambitions are underpinned by our five strategic cornerstones, that describe what we do and how we do it.

In October, our Board approved a refreshed strategy, which builds on the successes of, and evolves, our previous strategy in the context of the considerably different external backdrop brought about by the pandemic. Our cornerstones remain as relevant today as they did when we first launched them in 2016, but our strategic priorities under each cornerstone have been refreshed as we embed new positive ways of working developed through the pandemic, and look forward to the opportunities we have to deliver more for our members, colleagues and communities.

We are reorganising ourselves to focus on delivering even better outcomes for our members today and into the future. We have structured this around what we call our Member Missions, which ensure that we put our members at the heart of everything we do, while focusing on our controls and the efficiency of our processes.

## Our three Member Missions

### Homes and dreams

Supporting our members in buying their own homes, improving their financial resilience and wellbeing, and helping them to invest in their futures.

### Hassle-free money

Making it easier to become a member and simpler to get things done, while supporting members to feel confident and in control of their money.

### Moments that matter

Improving the experience our members receive in the moments when they may need some extra support, such as managing their finances during life transitions, or helping them transact safely without fear of fraud.


## Our five strategic cornerstones

**Building thriving membership**
Growing and serving our membership page 19

**Built to last**
Managing the Society for the long term page 21

**Building legendary service**
Doing our very best to serve our members page 23

**Building PRIDE**
Creating a healthy culture for our people page 25

**Building a national treasure**
Contributing to our wider community page 29

# Building thriving membership

## Growing and serving our membership

**16.3 million members**
2020: 16.3 million

**Helped 1 in 7 first time buyers**
into a home of their own
2020: 1 in 6

**Start to Save**
account helped **130,000** people with little or no savings to save more than £100 with us for the first time

Provided **256,000** mortgage payment holidays and granted **105,000** payment breaks or interest-free periods on loans, credit cards and overdrafts

**1 in 10** of the UK's current accounts are with us
2020: 1 in 10[1]

We are here to support our members in becoming financially secure through saving, buying a home and managing their money. We support 16.3 million members (2020: 16.3 million) and have a committed membership – those who have two or more products with us - of 3.6 million (2020: 3.5 million[2]).

**Helping more members to have a place fit to call home remains core to our purpose**

We were founded to help our members into homes of their own. Through the pandemic we have remained committed to the mortgage market, being there for our members when they have needed us. Additionally, in recognition of the growing private rental sector, we seek to support good landlords and the provision of quality rental accommodation for those who cannot yet afford to buy.

Over the past year, we have provided 256,000 mortgage payment holidays and granted 105,000 payment breaks or interest-free periods on loans, credit cards and overdrafts. We also went beyond regulatory guidance and industry peers, by pledging that, until the end of May 2021, no mortgage member would lose their home as a result of Covid-19 if they worked with us to get their finances back on track. For those who continue to be impacted financially, our specialist support service is able to offer a wide range of options tailored to members' individual circumstances.

We have also been there for our members who were able to buy or move home. We continued to lend carefully and at competitive rates. Coming out of the first lockdown, we were one of the few lenders to offer higher loan to value mortgages for first time buyers, while strengthening our lending rules to manage the risk for borrowers and the Society. This year, we supported one in seven of all first time buyers into a home of their own (2020: one in six). Since the year end, the launch of our Helping Hand mortgage saw us become the first major lender to offer first time buyers the ability to borrow up to 5.5 times their salary on 5 or 10 year fixed rate mortgages, with a loan to value of up to 90%, helping more people to realise their dream of home ownership. In May 2021 we became the largest mortgage provider to reintroduce 95% loan to value lending without government support, offering new market-leading mortgages to first time buyers and home movers.

We broadly maintained our share of total gross mortgage lending, at 11.1% (2020: 11.4%), as gross lending remained robust at £29.6 billion (2020: £30.9 billion). Lower than normal demand during the periods of lockdown was offset by a time of greater demand as members re-evaluated their housing needs as a result of Covid-19. Demand was further stimulated by the Government's stamp duty holiday. Our net lending reduced to £1.9 billion (2020: £2.8 billion).

With many of our members in rented accommodation, we have encouraged our landlord borrowers to pass on payment breaks to their tenants where needed. Our digital educational resource, Landlord Lifeguard[3], seeks to help landlords understand their responsibilities and provide better homes for renters.

Today, we face a growing environmental crisis. With housing accounting for around 15% of the UK's total carbon emissions[4], we believe we have an important part to play in tackling climate change. Creating greener, more sustainable homes is therefore important to us. We continue to offer preferential rates on our green additional borrowing products, with the support of our £1 billion green fund. Take-up has so far been slow, highlighting the challenges in improving the energy efficiency of homes. In April 2021, we expanded our green product range to encourage and reward members who purchase greener homes, and

[1] CACI's Current account and savings database (February 2021 and February 2020).
[2] The comparative for committed members has been restated to reflect improved data quality since originally reported.
[3] landlordlifeguard.co.uk
[4] Office for National Statistics, February 2020.

# Building thriving membership (continued)

incentivise landlords to improve the energy efficiency of their rental properties. More information on what else we are doing to support greener homes can be found on pages 36 to 55.

### Encouraging good savings habits

We continued to offer interest rates on deposits that, on average over the year, were above the market average[5]. Our decision to reduce savings rates in response to the fall in bank base rate to record low levels was taken to protect our financial strength as we faced into a period of significant economic uncertainty. As the situation stabilised, we have started to return value back to members through our propositions, including our leading Mutual Reward Bond, Start to Save account, and Best Buy pricing on our Triple Access Online account.

Despite several months of strong competition from government-backed savings provider National Savings & Investments (NS&I), we gained an extra £10.6 billion in member deposits over the year (2020: £5.7 billion). This reflected growth in current account balances, in part from the reduced opportunity to spend through lockdown periods and, in the second half of the year, from growth in savings balances driven by our new propositions, and from balances regained after NS&I lowered its savings rates. However, our market share of deposit balances of 9.4% was lower (2020: 9.9%), as market growth was particularly strong in current account balances where our competitors have a higher share.

Having a savings safety net when faced with financial hardship has proved to be especially important through the pandemic, and we remain committed to encouraging good savings habits and finding new ways to reward savers in the current low rate environment. Through the year, we launched a range of new propositions at competitive rates, with some offering a chance to win more through prize draws. For example, our popular Start to Save account has helped 130,000 people with little or no savings with us to save more than £100 with us for the first time, while our Mutual Reward Bond has rewarded our existing members with our best fixed rate and entry to a prize draw – of the 85,000 members who opened one, 336 members won £10,000. We will be sharing the mutual benefit even further from September, with our new Member Prize Draw. Every month, for twelve months, all eligible members will automatically be entered into the draw to win a share of the £1 million monthly prize fund[6].

### Helping our members to manage their everyday finances

Last year we reached a 10% market share of all current accounts[7]. This year, although we withdrew switching incentives to new members, our market share remained stable at 10%[7], and we continued to be a net gainer from the Current Account Switching Service, demonstrating the satisfaction of our existing members and our continued appeal to new joiners[8].

### Impact of Brexit on our members

The transition period agreed between the UK and the European Union (EU) ended on 31 December 2020. Unfortunately, this meant that we were no longer able to service the current accounts, savings and credit cards of our members resident in the Netherlands and Italy. For those affected, we provided dedicated support through the closure process. For existing members resident in other EU jurisdictions, we were able to continue to provide the majority of their existing products and services.

### Our strategic priorities going forward

We are committed to supporting our members in saving, buying a home and managing their money. Our focus remains on building lifelong relationships with our members, and creating greater long-term value for them. We want to help them make the most of their money at every stage of life – from renting and saving for a deposit, to buying their first home, to helping them use the value in their homes to live better in retirement. To support this ambition, we will continue to centre our propositions around home and family. Alongside this, we aim to lead the greening of UK homes, for example by providing incentives for those looking to make green changes.

We also recognise the importance of ‘rainy day’ savings and will continue to encourage a regular savings culture and look for more opportunities to reward savers beyond rate, as we have done with our prize draws.

[5] Due to data being unavailable, the market average does not include deposits with National Savings & Investments (NS&I).
[6] England, Scotland, Wales only. Age 18+. Automatic entry with a mortgage, personal savings or current account. Must be eligible on last working day of month preceding a draw. Winners drawn 2nd Tuesday of each month September 2021 to August 2022. Prizes for each draw: 1 x £100k, 2 x £25k, 5 x £10k and 8,000 x £100. One entry per eligible member, per monthly draw. Rules and opt out at nationwide.co.uk.
[7] CACI's Current account and savings database (February 2021 and February 2020).
[8] Pay.UK quarterly CASS data, 9 months to December 2020.

# Built to last

## Managing the Society for the long term

**5.4% UK leverage ratio**
2020: 4.7 %

**36.4% Common Equity Tier 1 ratio**
2020: 31.9%

**£790 million**
underlying profit
2020: £469 million

**£823 million**
statutory profit
2020: £466 million

**£265 million**
member financial benefit, from better incentives and pricing than the market average
2020: £735 million[9]

This year we have focused on keeping our Society, our members and our colleagues safe through the pandemic and ensuring we remain financially strong and built to last. This has enabled us to serve and support our members through the challenges of the pandemic. Our financial strength also stands us in good stead as we look to continue to support our members through the uncertain times ahead, consistent with our mutual heritage.

### Financially strong

We aim to achieve the right balance between making sufficient profit to maintain our financial strength, giving long-term value to members, and investing in our business so that we can continue to meet our members' needs and expectations both now and into the future.

In a period of heightened economic uncertainty, we have continued to take a prudent approach to managing our low risk business to protect our financial strength. As a result, we have remained financially strong and resilient, which is reflected in our capital position. Our UK leverage ratio, which is one of the measures of our ability to withstand economic shocks, such as the Covid-19 pandemic, increased to 5.4% (2020: 4.7%). This is above both regulatory requirements and our own internal minimum target of 4.5%. Our Common Equity Tier 1 ratio improved to 36.4% (2020: 31.9%). Both include the benefit of a recent regulatory change to the treatment of intangible assets. More information can be found on page 60.

We aim to provide at least £400 million of financial benefit to our members each year, but during exceptional times we may not always be able to deliver this. After bank base rate fell to a record low of 0.1%, we reluctantly took the decision to reduce interest rates across our savings range, as paying significantly higher rates would not be financially sustainable in the long term. This had an impact on member financial benefit, which was lower at £265 million and below our annual target of £400 million (2020: £735 million[9]). Over the medium term, we expect to return to delivering annual member financial benefit in excess of £400 million.

Our underlying profit of £790 million (2020: £469 million) has contributed to our robust capital position. This enables us to maintain the level of support we want to give our members in such challenging and uncertain times.

Total underlying income increased to £3,285 million (2020: £3,046 million), as mortgage income increased due to the macroeconomic uncertainty which resulted in stronger new business margins across the market. Income was further supported by our reduction in savings rates following the fall in bank base rate. At the same time, we reduced our costs by £94 million to £2,218 million (2020: £2,312 million), as we continued to work to become more efficient in serving members. More information can be found on page 60.

We have put substantial support in place for members in financial difficulty. This, together with the impact of our prudent underwriting and wider government support schemes, has meant the number of our members falling into arrears remains low. This may change when support schemes are withdrawn, which is why we have set aside £190 million (2020: £209 million) in the year for loans that may not be repaid in full.

### Resilient and secure

We remain committed to our digital transformation, investing to deliver the services and platforms that our members will want and need in the future. Through our refreshed strategy, we have rephased and reprioritised our investment spend over a longer period and with a focus on delivering in a more efficient way, in areas that provide most value to our members and the Society.

[9] The comparative for member financial benefit has been restated. More information on member financial benefit can be found on page 61.

# Built to last (continued)

This year, we continued to simplify our technology, strengthen our operational resilience, build greater capacity in our payments platform and enhance our cloud-based capability. This will enable us to support higher membership and transaction volumes and create an improved member experience, while protecting our members' money and personal information. We also continue to invest in the resilience and strength of our control processes. In the year, we began an improvement programme for our processes and controls, targeted at our more complex processes.

Simultaneously, we are preparing ourselves and our systems for negative bank base rate, should it ever arise.

**Our strategic priorities going forward**

We will protect our financial strength and resilience, so we can continue to support our members, colleagues and communities, and invest for their benefit.

We have made good progress in becoming more efficient through modern ways of working and delivering change, and will continue to enhance our efficiency by prioritising investment. This will ensure we are able to withstand future challenges and are sustainably profitable and resilient for the long term.

**Outlook**

The outlook for the UK economy remains highly uncertain; much will depend on how the pandemic evolves, as well as on the policy measures to combat it and the resulting impact on wider society. In the near term, continued policy support and good progress on the rollout of the Covid-19 vaccination programme provide cause for optimism that the economy will recover strongly in the second half of the year. However, we recognise that the economy faces many difficult adjustments in the years ahead, in the wake of the pandemic and Brexit. In addition, it is unclear how behavioural shifts ushered in by the pandemic will impact our markets.

While there are many uncertainties ahead, we face into them from a position of considerable strength – and are ready to stand by our members, as we always have done.

# Building legendary service

## Doing our very best to serve our members

### *Which?* Banking Brand of the Year 2020

for the fourth year running

### No. 1 for customer satisfaction

among our peer group[10]

### Active mobile users grew by 13% to 3.7 million members,

representing over half of all active current account members

### Extended our Branch Promise

to keep a branch in every town or city we are in today until at least 2023

As a mutual, owned by and run for our members, we focus on our members' needs and wishes, setting our service apart from our competitors, and helping us to build a stronger, thriving membership.

We place great importance on being there when our members need us. In a year of significant uncertainty and, for many, unsettlement, being able to talk to us has been really important for our members. We have therefore focused on ensuring the consistency and availability of our services and operations through the pandemic, while responding flexibly to government-imposed restrictions and changes in member behaviour. We are proud to have been awarded *Which?* Banking Brand of the Year 2020, for the fourth year running, with special mention made of our flexibility during lockdown.

In normal times, it is our people, and the face-to-face service our members experience when they visit our branches, that help set us apart from our competitors. However, during the pandemic we had to prioritise the safety of both members and colleagues, so we needed to ask our members to limit their visits to branches where possible. Over the year, member satisfaction has been impacted, reflecting fewer branch visits, adaptations we have had to make to our branch service to adhere to government guidelines on social distancing, and the impact of our decision to reduce savings rates in response to record low interest rates.

We are pleased to have remained no. 1 for customer satisfaction among our peer group for the ninth year[10], although we were below our target lead of 4%pts. We were joint 13th in the all-sector UK Customer Satisfaction Index[11], where we remain the highest ranked high street financial services provider, but this was below our target of being in the top 5.

**Adapting our services to support our members through the pandemic**

Through the pandemic, we have worked hard to find the best ways to support our members in a safe way, and to maintain the level of service our members deserve and expect. We kept 90% of our branches open through the first lockdown and in the latest lockdown, 98% of our branches stayed open[12]. We created more space in 440 branches to serve more members safely, whilst adhering to strict social distancing requirements, and provided our branch colleagues with digital tools to reduce instances of queuing and improve member experience.

We were also more creative in how we used our branches, quickly transforming the role of our branch colleagues to support other member service channels that were experiencing greater member demand. Our branch colleagues have now answered over 1.5 million member calls and supported around 350,000 digital interactions with members. Meanwhile, many of our other member-facing colleagues, such as our contact centre colleagues, were enabled to work remotely.

Where government guidelines meant we were no longer able to hold face-to-face meetings with our members, we introduced video appointments. These were well received by members, with feedback acknowledging the advantages of reduced travel, time saved and ease of service.

We remain acutely aware of the challenges faced by our more vulnerable, typically branch-reliant, members through the pandemic. We have worked hard to protect them with safe access to their cash, initially through extended branch opening, but also with cash deliveries to their homes where needed, and

[10] © Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2021. For more information, see footnote 3 on page 8.

[11] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2021.

[12] Average calculated between 6 January to 12 April 2021, consistent with the high street reopening.

# Building legendary service (continued)

with a dedicated phoneline. We also offered digital support – including demonstrations and fraud and scam education.

### Delivering digital solutions

Over the year, we have seen a rise in the number of members interacting digitally with us, in part spurred on by the restrictions of the pandemic. Members who actively used our mobile app grew by 13% to 3.7 million (2020: 3.3 million), representing over half of all active current account members. The number of members interacting with us through digital channels such as browser based messaging, Webchat and Apple Business Chat grew by 29% to 2.9 million (2020: 2.3 million), and 76% of all product sales were made through digital channels (2020: 62%).

We started some time ago to reshape our Society for an increasingly digital world and our investment in building capacity and the resilience of our systems has put us in good stead for handling growing digital transaction volumes. This year, however, the lockdown periods impacted members' day-to-day routines and spending patterns, and so overall payment volumes remained broadly stable at 2.6 billion (2020: 2.6 billion), although the number of members shopping online increased significantly.

With more of our members needing, or choosing, to interact with us digitally, we launched a number of new digital solutions and enhancements over the year. Within seven working days of mortgage payment holidays being introduced, we had automated our online application process, making it quicker and easier for our members to apply. For our mortgage members wanting to buy or move home, we enabled house price valuations to be undertaken remotely, and our new online decision in principle application process provides members with a mortgage decision in only fifteen minutes. Meanwhile, new members opening a savings or current account can now do so faster, with selfie identification and e-signatures. We also launched an online Covid-19 support hub on our website, showing our members the different ways that we can support them all in one place.

We are continually enhancing our Banking App to meet even more of our members' needs. This year we added the ability to view pending transactions and cancel direct debits, and additional measures to further protect our members from falling victim to scams, such as advanced fraud warnings, confirmation of payee checks and app-based two-step authentication on online shopping transactions.

### Fraud prevention

We continue to invest in the security and resilience of our systems to protect against fraud and scams. Last year, our fraud defence systems and specialist fraud team together helped prevent £113 million of attempted fraud on card and online transactions (2020: £97 million). In addition, our branch colleagues protected our members from at least £5.5 million of attempted scams (2020: £4.8 million).

One of the best solutions for protecting our members from fraud and scams is education. Last year, we applied real-time additional fraud warnings and checks as members made payments, and provided advice on fraud and scams on our website, in Member Talkbacks and, more broadly, through national media. We work closely with the financial services industry to share information on emerging issues and insights, as we collectively look for ways to combat fraud at an industry level.

### Our strategic priorities going forward

Supporting our members through the uncertainty and potential financial challenges caused by Covid-19 has been and will remain a priority for us. We are pleased to see our satisfaction ratings in our own member experience survey already strongly recovering, as lockdowns ease and we continue to be there for our members when they need us[13].

As we emerge from the pandemic, we will adapt to, and enable, members' changing behaviours towards digital channels. At the same time, we will protect the easy, seamless access to our people that we know our members so greatly value. In doing so, we remain committed to being thoughtful, caring and here to help, at home and on the high street.

We will continue to invest in our digital capabilities and evolve the role of our branches, progressing our vision of a more united, flexible and multi-skilled member-facing workforce. We will support our members wherever they are - whether in branch, on the telephone or across digital channels - and in whatever they need, demonstrating our mutual difference with member needs at the centre.

By transforming the roles our branches play in serving our members, we are pleased to have extended our Branch Promise, to remain in every town or city we are in today until at least 2023. At a time when many of our competitors are announcing widescale branch closure programmes, we are demonstrating our commitment to the high street and our communities, and our desire to be a force for good in society.

[13] Member experience tracker survey asks members to rate their satisfaction and provide feedback, following a specific interaction across channels and products. Survey results for the 3 months ending 31 March 2020 to the 3 months ending 31 March 2021.

# Building PRIDE

## Creating a healthy culture for our people

**Highest proportion of employees** across all major peers surveyed who were proud of the way we supported our members through the pandemic[14]

**Top quartile** score for shared purpose, respect, reliability and resilience[15]

**Committed** to giving our colleagues greater flexibility in their working arrangements now and into the future, so they can be at their best to serve our members and the Society

**Bupa Health and Wellbeing Award Responsible Business Champion 2020**[16], for embedding health and wellbeing into our culture

**Protected the jobs** of all our employees until the end of December 2020

The dedication, passion and values of our people are the key reasons for our success. Consistent with our mutual principles, we believe in creating an inclusive culture where all our colleagues can be themselves and thrive, where they believe in what they do, feel supported and valued, and are able to develop and grow their careers. Our culture reflects our shared set of values, beliefs and behaviours which are centred around the acronym PRIDE, and put our members at the heart of our decision making.

This year, we have updated the 'E' in PRIDE from 'Excelling at relationships' to 'Empowering each other', as we seek to further embed inclusion, diversity and wellbeing in everything we do.

**P**utting our members and their money first
**R**ising to the challenge
**I**nspiring trust
**D**oing the right thing in the right way
**E**mpowering each other

pride

We are tremendously proud of, and grateful to, our colleagues for how they have risen to the challenges of the pandemic. Our people have done the best that they can for our members, kept our essential services going, and supported each other through unprecedented times, often while facing their own personal challenges brought about by the pandemic. The wellbeing and safety of our colleagues has remained at the centre of our response to the pandemic.

We are pleased that, in the Banking Standards Board's 2020 Employee Survey, Nationwide had the highest proportion of employees of all systemically important institutions surveyed, who were proud of the way we supported our members during the pandemic[14]. We also moved into the top quartile for 'shared purpose', where we are already placed for three other characteristics (respect, reliability and resilience)[15].

We continue to progress our broader inclusion and diversity strategy, but recognise we still have more to do. Further information can be found on the next page.

**Supporting our colleagues' wellbeing**

We have worked hard to support and protect our colleagues' health and wellbeing through the Covid-19 pandemic. Around 13,000 (90%) of our office-based colleagues now work from home, supported by a 'click and collect' service for essential office equipment and access to an ergonomist for advice on home working setup, to help protect their future health. Where homeworking was not feasible, including for colleagues struggling with prolonged homeworking, we made office space available but implemented stringent measures such as split-shift working, social distancing and regular deep cleaning to ensure our workplaces are Covid-safe.

We continue to support our colleagues in looking after their social, mental, physical and financial wellbeing, launching a number of initiatives, including a dedicated wellbeing site, virtual wellbeing sessions and access to the Unmind wellbeing app, which has been downloaded by 40% of colleagues. We have made a number of supportive people policy changes to increase flexibility and reduce potential stress for our colleagues. These include extending paid emergency dependants and carers' leave, promoting flexible working for

[14] Banking Standards Board's 2020 Employee Survey. Major peers surveyed comprise the following systemically important institutions: HSBC, Lloyds Banking Group, Morgan Stanley International, NatWest and Santander UK.

[15] Banking Standards Board's 2020 Employee Survey.

# Building PRIDE (continued)

those juggling homeschooling and offering paid leave for colleagues who were shielding and unable to work from home.

Through the pandemic, we made it our priority to listen to how our colleagues were feeling. Our colleague sentiment tracker, an employee listening survey, helped us to better understand in a timely way how our colleagues felt, and how we could best support them. In response to feedback, we encouraged meeting-free times during the working day for colleagues to focus on their own wellbeing. We also provided help with finding 'buddies' so our colleagues could build social connections outside of their working relationships, and have trained a support network of around 200 Healthy Mind Champions across the Society to offer 'in the moment' support and guidance to colleagues struggling with their mental health or wellbeing. We are pleased that our actions were recognised by Business in the Community (BITC), as a BUPA Health and Wellbeing Award Responsible Business Champion 2020[16], for embedding health and wellbeing into our culture.

With so many colleagues now homeworking, and able to sample what working more flexibly might look like, we engaged our people in shaping our plans for how we will work in the future. Around 8,500 colleagues took part in our survey, with over half saying they would like to work at home full time and more than a third preferring a blend of home and office-based work. We are therefore moving away permanently from fixed location working and towards greater flexibility, putting our colleagues in control of where they work. In doing so, we believe our colleagues can be at their best to serve our members and the Society. As a result, we are closing three of our smaller Swindon-based offices, with 3,000 colleagues located there either moving to our Swindon head office, working from home, or a blend of both. Office workspace will still play an important role, with an increased focus on collaboration.

We committed to protecting the jobs of all our employees until the end of December 2020, providing reassurance at a particularly worrying time. Like most organisations though, we have had to review our internal team structures to ensure we are fit for the future. Through the year we reduced our reliance on contractors and temporary staff, and a restructuring of job roles led to a reduction in the number of permanent employees, primarily in the first three months of 2021. For all affected permanent employees, we offered personalised support aimed at helping them to find a new role, for example with workshops on using LinkedIn, CV writing and with retirement planning where relevant. We continue to manage change with care and sensitivity, in line with our values.

### Developing our talent for the future

We continue to invest in our people and their careers. We have now held leadership pathway career conversations with over 150 of our leaders. As a result, 40 senior colleagues have taken broader and more stretching roles and, over the last 12 months, around 70% of all new executive appointments have been internally hired.

We continue to invest in our new talent for the future, through our Emerging Talent programme. Last year, we recruited 64 participants, made up of graduates and internal colleagues, 11 industrial placement students and 18 apprentices.

Through our Technology Talent programme, we recruited around 450 new technology specialists over the year as planned, while also re-skilling our colleagues to grow our digital capability and expertise internally. This has enabled us to reduce the number of contractors we use, further improving our efficiency. Our new dynamic workspace in London will evolve as a collaboration hub, particularly for our technology specialists.

Through the pandemic, we also multi-skilled some of our colleagues so they could support business areas that were experiencing higher member demand, as we create a more flexible workforce.

### Reward and recognition

Fair pay and reward remain an important part of our ethos. Our Sharing in Success reward scheme recognises every colleague's contribution based on the Society's overall performance, which reflects our success in achieving the things that are most important to our members. Further information can be found in the Report of the directors on remuneration.

As outlined in the 2020 Annual Report and Accounts, on 31 March 2021 our defined benefit pension scheme (for colleagues who joined Nationwide before June 2007) closed to future accrual. Around 4,500 colleagues who were affected by the change were provided with a range of support channels in the months before the scheme closure, from September 2019 to 31 March 2021. Scheme members will retain their accumulated benefits and will build up future benefits in our defined contribution pension scheme, which offers employer contributions of up to 16% based on a colleague contribution of 7% of salary.

### Inclusion and diversity

Inclusion is at the heart of our mutual purpose and, as our members' needs change, we are committed to building an inclusive society that leaves no-one behind. Internally, our aim is to build a culture where everyone can be themselves and thrive, and for our Society to reflect the diversity of the wider communities we serve. This ambition forms one of our Mutual Good Commitments, as presented on page 35. Our philosophy is inclusion first – we want our people to feel valued for who they are and be empowered to thrive, bringing out the best in

[16] Awarded by Business in the Community (BITC).

# Building PRIDE (continued)

themselves and in others. This provides a strong driving force for our inclusion and diversity strategy, which the Board and our leadership team are committed to progressing, with a focus on long-term, sustainable change.

We are introducing inclusion measures to assess our progress and complement our existing diversity measures, which we aspire to meet by 2028 or sooner. These will be tracked and reported to our leadership team and the Board.

We have taken positive steps this year to progress our inclusion and diversity strategy and our measures, but recognise we have more to do. The Board has committed to focus on further embedding inclusion and diversity in our culture and ways of working.

Our Strategic Inclusion and Diversity Action Group, led by our Chief Operating Officer, brings together senior leaders to support the embedding of inclusion and diversity across our Society, including in our people processes, such as recruitment, talent leadership and reward. We continue to tackle imbalances in our workforce, particularly at more senior levels, by using data and insight to take targeted action. Around 100 colleagues are participating in our sponsorship programme, that supports the development and career progression of under-represented groups and includes development events, external coaching and masterclass participation. Our latest leadership conversations have focused on progressing around 25 ethnically diverse colleagues into broader and more stretching roles.

Externally, the Black Lives Matter movement shone a spotlight on the inequalities that still exist within wider society today. Mutual respect is a core value for us and, last year, we took a bolder anti-racism stance internally, as racism, hatred and division have no place in our Society. We did this through communication, education, and conversations throughout the year. Our leadership team now each have a reciprocal mentoring relationship with a colleague from an ethnically diverse background, to enable the sharing of experiences, encourage dialogue and provide development support, and our CEO, Joe Garner, has formed his own ethnically diverse colleague mentoring panel that has now met five times over the year.

| | | Our current diversity[1] | Diversity measures to meet by 2028 |
|---|---|---|---|
| Gender[2] | Senior Managers[6] | 37.3% (31) | |
| | Leadership population[7] | 34.5% (363) | 50% |
| | All employees | 61.2% (11,098) | |
| Ethnicity[3] | Senior Managers | 2.4% | |
| | Leadership population | 6.5% | 12% |
| | All employees | 11.8% | 15% |
| Disability[4] | Leadership population | 2.1% | 8% |
| | All employees | 2.9% | 12% |
| Sexual Orientation[5] | Leadership population | 1.7% | 4% |
| | All employees | 3.4% | 4% |

[1] All data as at 4 April 2021, and based upon headcount not FTE (full-time equivalent value) of employees directly employed by Nationwide Building Society.
[2] Gender – The figures reflect female representation in each of the populations.
[3] Ethnicity – Figures reflecting Black, Asian, mixed and other. Excluded from the % are white majority and minority.
[4] Disability – Figures reflecting those identifying as disabled.
[5] Sexual Orientation – Figures reflecting those identifying as bi-sexual, gay man, gay woman, lesbian and other.
[6] Senior Managers – Figures reflecting the Companies Act definition of an employee who has responsibility for planning, directing or controlling the activities of an entity or a strategically important part of it, which includes our executive population comprising the Nationwide Leadership Team (NLT) and their direct reports.
[7] Leadership population – A targeted and broader leadership population used in leadership planning and reporting comprising around 1,000 of our leaders.

# Building PRIDE (continued)

Our eight colleague-led networks continue to play a valuable part in bringing our colleagues' voices to the fore to aid decision making, and cover gender, ethnicity, sexual orientation, disability, faith and belief, working carers, working families and veterans and reservists. Our employee network for ethnicity re-branded and re-launched as the Race Together Network in 2020 – they support network members and colleagues to champion diversity at a societal level and accelerate systemic change to make Nationwide a fairer and inclusive place for all, regardless of race or ethnicity.

The networks also help us to develop initiatives. Last year this included a volunteering service for colleagues to support other colleagues isolating as a result of the pandemic, by delivering shopping, medical supplies or office equipment; supportive people policy changes; and a number of celebratory and educational events to build awareness and understanding across the Society. This included our celebration of Black History Month, with over 30 events and 5,000 colleagues involved, LGBTQ+ History Month, International Day of People with Disabilities, and International Women's Day.

The increased flexibility in working patterns brought in through the pandemic has naturally supported more inclusive ways of working, enabling us to expand our recruitment pool to access more diverse talent. We partnered with Lorien as our new recruitment delivery provider and we are seeing positive progress in hiring candidates from ethnically diverse backgrounds, particularly into technical roles. We also offer a wide and flexible approach to personal working arrangements - a total of 24% of our workforce have opted for part-time hours to suit their personal circumstances.

Over and above our focus on building an inclusive culture internally, we are working on tackling intolerance in wider society too. More information can be found on page 30.

We promote openness, honesty and transparency, and encourage our colleagues to speak up whenever they witness or experience behaviour or actions that do not match our values. We encourage our colleagues to raise any concerns through their management, but for those who wish to remain anonymous, or prefer not to raise the matter with their manager, we have a confidential whistleblowing process. More information can be found on page 82. We also recognise the importance of colleague representation and actively encourage our colleagues to become members of the Nationwide Group Staff Union (NGSU).

### Gender and ethnicity pay gap

Our 2020 mean gender pay gap was 28.3%, broadly the same as in previous years (2019: 28.2%). We voluntarily published our mean ethnicity pay gap, which has improved slightly to 16.2% (2019: 16.9%). In addition, we published a breakdown by different ethnicity groups as part of our commitment to be transparent and focus on ethnic diversity.

In both cases, the gap reflects that we have a higher proportion of women and ethnically diverse employees in lower paid roles than we do in senior roles. As outlined above, we are working hard to address these imbalances. Our CEO, Joe Garner, has joined a number of business leaders in calling on government to introduce mandatory ethnicity pay gap reporting.

Gender and ethnicity pay is not the same as equal pay and our regular audits show that our pay policies operate fairly.

### Our strategic priorities going forward

We will continue to embed the positive new ways of working that we have learned and adapted to in response to the pandemic. This includes evolving the role of our branches so our member-facing colleagues can provide our leading service to support our members, wherever they may be, and for other colleagues, providing greater flexibility in working location. In combination, we will evolve our workspaces based on what we need for the future.

By enabling colleagues to work more flexibly and in a way that works for them and our business, we believe we will be able to access more diverse talent pools and drive more inclusive ways of working.

We will also focus on further enabling a more empowered and agile workforce – by developing our leaders and high potential talent, and growing skills and capabilities across the business. As we do this, colleague inclusion and wellbeing will remain at the heart of everything we do. In doing these things, we will reinforce our distinctive colleague and leadership proposition.

# Building a national treasure
## Contributing to our wider community

**We commit at least 1%** of our pre-tax profits to good causes – in 2020/21 this amounted to £7.4 million
2019/20: £9.5 million[17]

**Celebrating 20 years** of our partnership with **Shelter**, a charity focused on tackling homelessness

**Carbon neutral** for all energy use and emissions for our internal operations and our fleet vehicles

**Partnered with The Diana Award** – funding 10,000 anti-bullying ambassadors across 660 UK primary schools over three years

**Made 5 Mutual Good Commitments**, focused on building a better society

**Mutuality means achieving more together than we can alone**

As a mutual organisation, owned by our members and formed with a strong underlying social purpose, our focus is not just on providing better value and service for our members, but on being better for society too. Mutual benefit with mutual support for the mutual good of all.

**Our mutual aim: everyone deserves a place fit to call home**

The building society movement began to enable people to own a decent home of their own for the first time. This aim, to ensure everyone has a place fit to call home, remains at the core, not just of our business activities, but of our broader contribution to society.

Our social investment programme is aligned with our founding purpose. As voted for by our members in 2007, we commit at least 1% of our pre-tax profits each year to good causes, focused on housing. This money is split between our own social investment programme, including funding our long-term partnership with Shelter, our donations to the Nationwide Foundation and the internal costs of managing social investment activities. In 2020/21, this amounted to £7.4 million (2019/20: £9.5 million)[17]. In the financial year we paid £6.6 million to charities (2019/20: £8.0 million).

Within our own social investment programme we provide grants to local housing projects. These are distributed through our Community Boards under the direction of member and colleague volunteers. Last year, we awarded £4.0 million to support 99 charitable housing projects (2020: £5.5 million). Since the Community Boards were founded three years ago, we have awarded a total of £13.7 million across 350 projects.

[17] The 1% is calculated based on average pre-tax profits over the previous three years.

The Nationwide Foundation is an independent charity that we set up and fund. It aims to increase the availability of decent, affordable homes for people in housing need. Each year, at least a quarter of our donations are awarded to the Nationwide Foundation. More information on the Nationwide Foundation can be found on page 32.

This year, we will celebrate 20 years of our partnership with Shelter, a charity whose focus is on helping those in housing need. Over the year we have donated TV advertising space that directly helped Shelter raise £175,000, and funded six more advisers for its helplines and three community engagement workers to provide housing advice in local communities. Our Chairman and non-executive directors also committed to donate 20% of their net fees, earned from June to December 2020, to Shelter. Our funding towards Shelter's helpline has helped the charity to answer almost 15,500 calls from those in housing need over the year.

In addition, we have our colleague volunteering programme. Given the pressures of the pandemic, we increased the number of volunteering days each colleague could take from two to five days for those helping assist in the pandemic. We also actively encouraged our colleagues to sign up as stewards in the Covid-19 NHS vaccination rollout. However, inevitably, colleague volunteering was impacted by pandemic-related restrictions. Despite this, our colleagues volunteered 14,500 hours and, with help from our members, raised over £730,000 for local charities (2020: 58,000 hours and £1.6 million raised). More than £235,000 was also donated to local charities through member and colleague events, and grants awarded to colleagues' charities of choice through our Colleague Grant scheme.

We use our expertise in housing to campaign for positive changes in housing policy. Last year we joined others in successfully campaigning to make it unlawful for blanket bans

# Building a national treasure (continued)

to be applied on renting properties to those receiving benefits. We have also been working closely with industry bodies to seek government funding to remove dangerous cladding and on changing the mortgage valuation process for these properties to ensure that members do not unwittingly buy a flat that is dangerous or is liable to large expenses in the future.

**Our mutual environment: Nationwide's direct environmental impact**

We recognise that we are facing a critical moment for climate change and continue to work towards a low carbon future. Our business model means that our strategy does not involve lending to or investing in businesses which have a negative impact on society and the environment, such as those in the fossil fuels industry. We have enhanced our climate disclosures on pages 36 to 55 in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), to demonstrate how we are embedding climate change considerations within our business and to highlight the potential financial impacts for the Society of climate change.

We are committed to reducing our own carbon emissions and have led the way with some of our operational targets and initiatives. More information on our achievements can be found on page 38.

We are also increasingly engaging with our colleagues on actions they can take to reduce carbon emissions in their own working and personal lives. Our Green Champion colleagues across the Society help to run initiatives that educate and inspire greener lifestyles.

Environmental considerations have been a key focus for the defined contribution Nationwide Group Personal Pension plan (GPP). This year, we are signing up to the Make My Money Matter pledge, committing us to include environmental and climate change considerations in our management of the GPP, to generate sustainable long-term returns for our colleagues.

It is also important to us that our 1,100 suppliers reflect our values. Our Procurement for Mutual Good programme, launched last year, goes further to support a greener, more diverse and more ethical supply chain. We have set a target for our supply chain to be carbon neutral by 2030 and are working closely with our suppliers to achieve this. This includes modelling our procured emissions and working to reduce them. This year, we will begin to use supplier sustainability ratings provider, EcoVadis, to help us screen and monitor our suppliers across environment, labour and human rights, ethics and sustainable procurement activities. We are pleased to have been Highly Commended by the Chartered Institute for Procurement and Supply, for our Procurement for Mutual Good programme in their 2020 annual Excellence Awards.

**Our mutual home: greening the nation's housing**

With housing accounting for around 15% of the UK's total carbon emissions[18], we recognise that one of the biggest impacts we can have as a Society is reducing the impact on the environment of the homes in our mortgage portfolio.

The concept of creating a more sustainable, greener home is also becoming increasingly important to our members and we have an important role to play in supporting them with this. As well as offering a green product range, we support greener homes in a number of other ways too. Further information can be found on pages 19 and 36.

We are funding a not-for-profit housing development, Oakfield, in Swindon, which aims to build 239 homes to high environmental standards, with an EPC A rating. Having worked closely with the local community in the design and planning of the homes, build is now underway and we hope the Oakfield development will be a blueprint for others to develop sustainable homes, with the support of local communities. To further support communities local to the site, last year we launched the Oakfield Community Response Fund, awarding £88,000 in grants to 21 charities, clubs and community groups in Swindon that were impacted by the pandemic.

**Our mutual society: built on mutual respect and inclusion**

The pandemic has been universal in its reach, but far from equal in its impact, exacerbating existing divisions and inequalities in society, and having a disproportionate effect on those who are most vulnerable.

Unfortunately, we have also witnessed an increase in unacceptable behaviour towards our own colleagues, in branches and on the phone. Our Together Against Hate campaign has focused on protecting frontline workers across all industries from unacceptable behaviour and has been well received. We continue to work with government to strengthen protection measures for our frontline colleagues.

We are committed to building a more mutually respectful and inclusive society, principles which have always been at the heart of our mutual values. To support our ambition, we have partnered with The Diana Award, funding 10,000 anti-bullying ambassadors across 660 UK primary schools over three years. In addition, we have partnered with the Football Association's Respect programme, where we aim to engage with 1 million parents, coaches and young players across 100,000 local football teams on the importance of mutual respect.

**Supporting our members in their financial wellbeing**

We want to help our members to become financially stable and secure, and our member-facing colleagues receive training to

[18] Office for National Statistics, February 2020.

# Building a national treasure (continued)

help them identify members who might need additional support as a result of vulnerability.

We have a number of relationships in place with third parties that help us to support our members who are facing financial hardship. For example, since 2013 we have worked with IncomeMax to help members find ways to increase income, reduce bills and access grants and benefits. To date, this has helped our members to access over £1.25 million of extra income. And, since 2015, our specialist support service, in partnership with Macmillan Cancer Support, has supported members with managing their finances through challenging times.

We have continued to build on our Open Banking for Good programme. Working with charities, government and other organisations, we identify challenges faced by those who are financially vulnerable and, collaborating with FinTech start-ups, find solutions through Open Banking. Since its launch in 2019, the programme has delivered initiatives to help people understand their income and expenditure, smooth irregular incomes, and manage their money and debt. This year, we partnered with Fair By Design to support business start-ups in building initiatives that improve financial wellbeing.

Our CEO, Joe Garner, continues to co-chair the joint government, business and civil society Inclusive Economy Partnership's Financial Capability and Inclusion group, that seeks to provide the financially vulnerable with access to affordable credit and improve financial wellbeing. This year, we led the development of a voluntary code of best practice in the recovery of debt, which we hope will encourage better and more consistent practices across industry sectors.

### Our strategic priorities going forward

As we consider the future landscape and how society will emerge from the pandemic, we believe we have an opportunity to support the UK in its recovery and future. We recognise that we can achieve more together than we can alone. Working with Ipsos MORI, we have assembled a panel of 30 like-minded organisations together to share insight and create solutions to systemic issues caused as a result of the pandemic, driving positive, meaningful change in society for the mutual benefit of all. We are focusing our efforts around the future of work, home, financial wellbeing and community.

### Our Mutual Good Commitments

Our mutual difference has never been more relevant and our Mutual Good Commitments mean we can report progress and hold ourselves to account on our initiatives. Demonstrating how we are building society, nationwide, they are centred around:

1. Helping to achieve safe and secure homes for all
2. Leading the greening of UK homes
3. Supporting our members' financial wellbeing
4. Championing thriving communities
5. Internally reflecting the diversity of our society

Further information on our Mutual Good Commitments, including the associated targets, can be found on page 35.

# The Nationwide Foundation

**The Nationwide Foundation is an independent charity set up by the Society in 1997. Each year, we pay at least 0.25% of Nationwide's pre-tax profits to the Nationwide Foundation[1] – £2.2 million in 2020/21 – as part of the 1% of pre-tax profits we give to good causes. The Nationwide Foundation's vision is for everyone in the UK to have access to a decent home that they can afford. Since 2016 it has supported three programmes to help make this happen.**

## 1 Nurturing ideas to change the housing system – supporting new and emerging solutions to help create truly affordable and decent homes

During 2020/21, the Nationwide Foundation sought to ensure planning reforms will help deliver decent affordable homes, as well as building consensus for quality standards so that healthy homes are available to everyone.

## 2 Backing community-led housing – helping local people take control of their housing

Community-led housing puts power back into the hands of communities, so they can create homes in the places people need them, at prices they can genuinely afford. The Nationwide Foundation's support has strengthened the sector, helping it flourish and become sustainable.

## 3 Transforming the private rented sector – making sure private tenants have secure, affordable and decent homes

Renters should have access to homes that are safe, affordable and that are available to them for as long as they want or need them. The Nationwide Foundation has been backing the case for better protection for renters, especially in light of the additional pressures brought about by Covid-19.

### The Nationwide Foundation's response to Covid-19

In response to the Covid-19 pandemic, the Nationwide Foundation reassured all grant-holders that their funding was secure and could be used flexibly to provide support where it was most needed. It also provided additional funding where necessary and offered wellbeing support to grant-holders' staff.

The Nationwide Foundation is a registered charity (no. 1065552). @NationwideFdtn www.nationwidefoundation.org.uk


[1] The 0.25% is calculated based on average pre-tax profits over the previous three years.

# Committed to doing the right thing

**Statement from Joe Garner, Chief Executive**

*Nationwide Building Society was founded on a social purpose, 'building society, nationwide', and we are still guided by that purpose today. As a building society owned by our members, it is imperative we are striving to do the right thing in a responsible way, whether for our colleagues, members, wider society, or the environment.*

*In 2019, we declared our commitment to the UN Global Compact and I am pleased to confirm we are reaffirming our support of the Ten Principles of the United Nations Global Compact which are categorised into the areas of Human Rights, Labour, Environment and Anti-Corruption.*

Joe Garner

## UN Global Compact: Communication on Progress

We set out below how we continue to integrate the Global Compact and its principles into our business strategy, culture and daily operations. Additional information is included on the pages referenced below, and also on https://www.nationwide.co.uk/about/responsible-business/overview, where noted by the icon.

**Human Rights:** doing the right thing for our members and the way we do business

| | |
|---|---|
| Mutual Good Commitments | Page 35 |
| Financial inclusion | Page 30 |
| Modern slavery and human trafficking | |
| PRIDE | Page 25 |
| Reward | Page 26 |
| Empowerment | |
| Community | Page 29 |

**Anti-corruption:** doing the right thing to prevent crime

| | |
|---|---|
| Protecting members from crime | |
| Fraud and scams | Page 24 |

**Labour (our employees):** doing the right thing for our employees

| | |
|---|---|
| Mutual Good Commitments | Page 35 |
| Our colleagues | Page 25 |
| PRIDE | Page 25 |
| Inclusion and diversity | Page 26 |
| Wellbeing | Page 25 |

**Environment:** doing the right thing for the environment and its impact on our members

| | |
|---|---|
| Mutual Good Commitments | Page 35 |
| Climate-related financial disclosures | Page 36 |
| Green homes | Page 30 |
| Our operations | |

## UN Sustainable Development Goals

As signatories of the UN Principles for Responsible Banking we are committed to strategic alignment with the 2015 Paris Agreement and to the UN Sustainable Development Goals (SDGs) – our strong purpose directly supports these goals. We focus on those that are most closely aligned to our mutual purpose of building society, nationwide, as listed below.

### SDG 1 – No poverty

We take positive action against homelessness, to enhance financial inclusion and support and protect our members' money

### SDG 10 – Reduced inequalities

We are working to reduce economic inequality and seek to ensure everyone has access to good and secure housing, finances and work opportunities

### SDG 11 – Sustainable cities and communities

In addition to our not-for-profit Oakfield housing development in Swindon, we have extended our Branch Promise, to remain in every town or city we are in today until at least 2023

### SDG 12 – Responsible consumption and production

We maintain the Carbon Trust Triple Standard, send no waste to landfill, recycle our office equipment and source food locally

### SDG 13 – Climate action

Internally, our energy use and business miles from our own fleet are carbon neutral (scope 1 and 2), and our green propositions will help members to reduce the carbon footprint of their homes

# Our Mutual Good Commitments

### Enabling our members to achieve more together than they can alone, for the mutual good of society

Our mutual difference and ethic of care has never been more relevant and we are committed to progressing bold initiatives that support our ambition to *re-build society, nationwide*, represented by five Mutual Good Commitments that are closely aligned with our strategy.

| Our Mutual Good Commitments | Help to achieve safe and secure homes for all | Lead the greening of UK homes | Support our members' financial wellbeing | Champion thriving communities | Reflect the diversity of our society |
|---|---|---|---|---|---|
| Our targets | By 2025 we will:<br>• Help 250,000 members to buy their first home<br>• Help 25,000 members use the money built up in their home to live a better retirement<br>• Equip 50,000 landlords with tools to improve tenants' lives | By 2030:<br>• At least 50% of homes in our mortgage book will be rated EPC C or above<br>• Our business operations, suppliers and commuting will be carbon neutral | By 2025 we will:<br>• Support 200,000 financially squeezed and struggling members to become regular savers | • Every town and city which has a branch today will still have one until at least 2023<br>• We will commit at least 1% of our pre-tax profits to charitable activities every year | By 2028:<br>• Our people at every level will reflect the society that we represent |
| UN Sustainable Development Goals | SDG 1 – No poverty<br>SDG 10 – Reduced inequalities | SDG 11 – Sustainable cities and communities<br>SDG 12 – Responsible consumption and production<br>SDG 13 – Climate action | SDG 1 – No poverty<br>SDG 10 – Reduced inequalities | SDG 11 – Sustainable cities and communities | SDG 10 – Reduced inequalities |

We launched our Mutual Good Commitments in November 2020 and will start to report our progress against our targets at least annually.

### Non-financial information statement

This non-financial information statement provides an overview of topics and related reporting references as required by Sections 414CA and 414CB of the Companies Act 2006. Non-financial and Environmental, Social and Governance (ESG) information is integrated across the Strategic report and other publications, and we have used cross referencing to avoid duplication.

| Reporting Requirement | Section | Page |
|---|---|---|
| **Our business model** | Our mutual difference is our business model<br>How we're building society, nationwide | 4<br>18 |
| **Our KPIs** | A year of mutual support | 10 |
| **Our stakeholders** | Our stakeholder engagement | 12 |
| **Social matters** | Committed to doing the right thing | 33 |
| **Our key risks and their management** | Risk overview<br>Managing risk | 56<br>56 |
| **Our employees**<br>**Environmental matters**<br>**Human rights**<br>**Financial crime and anti-corruption** | References are set out on page 33 | |

Strategic report
Governance
Risk report
Financial statements
Other information

# Climate-related financial disclosures

Climate change presents a risk to the Society and its members. Since 2019, Nationwide has been enhancing and embedding its capabilities to monitor and manage climate risk and meet the requirements of the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) – Enhancing banks' and insurers' approaches to managing the financial risks from climate change.

Nationwide has also been a supporter of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) since 2019 and its objective to improve and increase the reporting of climate-related financial information. The information set out opposite is provided in line with the requirements of SS3/19 to disclose the financial risks from climate change, and is aligned with the TCFD's recommendations.

This information details our understanding of the impact of climate change on the Society and its members. 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.

# Climate-related disclosures overview

**Nationwide's climate change ambitions are clear...**

To lead the greening of UK homes, where at least **50% of homes** in our mortgage portfolio will be **EPC C or better by 2030**

Our **business operations, suppliers** and **commuting** will be **carbon neutral by 2030**

We are working towards alignment to a **net zero emissions pathway by 2050**

| | Achievements | Current focus | Future activity |
|---|---|---|---|
| **Strategy** | • Climate change considerations embedded in strategic planning and green proposition development, making use of the £1 billion funding available to lend on products which incentivise greener homes<br>• Developed and tested our approach to climate change scenario analysis to quantify physical and transition risk<br>• Formed cross-industry partnerships to drive real change<br>• Announced climate-related pledges including our Mutual Good Commitments, which include the ambition to lead the greening of UK homes | • Further enhancing scenario analysis capability and preparation for the Climate Biennial Exploratory Scenario (CBES) in June 2021<br>• Using transition and physical risk outputs to better manage the potential financial implications and develop supporting propositions | • Use outputs from scenario analysis to influence strategic decisions<br>• Further enhance understanding of the impacts of transition risk, and fold these into strategic considerations<br>• Continue to identify climate change risk and opportunities |
| **Governance** | • Chief Strategy and Sustainability Officer assumed Society-wide accountability to ensure embedding of climate change risk<br>• Climate change risk governance established and matured, with senior management and Board level engagement<br>• Education sessions on climate change held with the Board | • Further embedding and evolving the climate change governance at Board and management level<br>• Engagement with the Board on strategy and proposition development, risk management and disclosures | • More frequent and detailed discussion on climate change, and the risks and opportunities it presents, at committees and with the Board<br>• Climate change will be a key consideration in this year's Board strategy conference |
| **Risk management** | • Climate change embedded as a cause in the existing Enterprise Risk Management Framework<br>• The most material climate change risks identified and understood<br>• Climate change risk standard created and embedded which describes how climate risk is managed and monitored | • Updating the Risk Control Self-Assessment process to include, where appropriate, any changes in risk profile due to climate change | • Broaden understanding of transition risk through scenario analysis, for both non-financial and financial risks |
| **Metrics and targets** | • Scope 1 and 2 carbon emissions reduced by 90% since financial year 2010/11, achieving carbon neutrality in April 2020<br>• Physical and transition risk metrics produced to quantify impact<br>• Scope 3 carbon emissions for the mortgage book calculated in alignment with the Partnership for Carbon Accounting Financials (PCAF) methodology | • Creating new internal modelling capabilities to produce metrics that will measure the financial risks from climate change for both physical and transition risk in readiness for the CBES, whilst supporting the development of climate strategy | • Enhance climate change metrics, ambitions and targets, in line with changes to strategy, propositions and the outcomes of scenario analysis<br>• Explore setting science-based targets to help track our progress towards net zero emissions by 2050 |

## Using our collective voice, Nationwide is campaigning for...

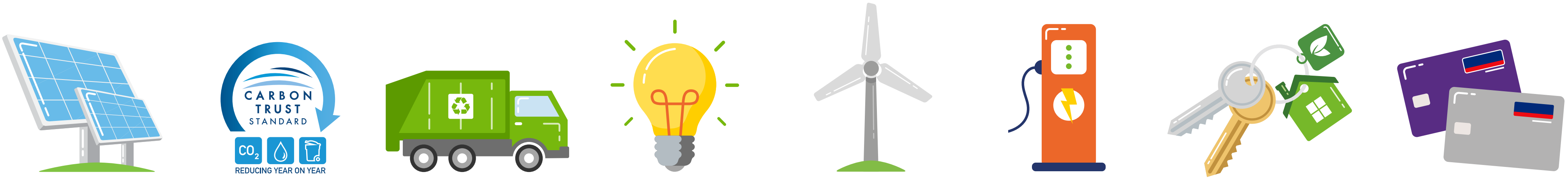
A clear roadmap for net zero, for residential property, by 2050 with affordability at its heart. This will enable government, members, and the building supply chain to have a clear understanding of how homes of every tenure, and households at different income levels, can achieve net zero

Long-term sustainable incentives to support homeowners in reducing their carbon emissions and to encourage the development of new green supply chains

The Government to ensure all new homes are built to high energy efficiency standards so these properties do not need to be retrofitted at a later stage

Climate-related financial disclosures (continued)

# Our carbon journey




## 2012

- Solar panels installed on our head office building in Swindon

## 2014

- Achieved Carbon Trust Triple Standard for water, waste and energy, which recognises organisations that follow best practice in measuring, managing and reducing their environmental impact

## 2015

- Started carbon offsetting
- Zero waste to landfill, with all non-recyclable waste converted to energy
- Old IT equipment recycled or donated to charity
- Set 2020 carbon, water and waste reduction targets

## 2016

- Signed a long-term solar farm Power Purchase Agreement for over 50% of our electricity use
- Formed the Property Risk Hub in partnership with Airbus and JBA, providing a better understanding of the environmental credentials of the properties on which we lend

## 2018

- Signed up to green wind and hydro energy, meaning 100% of our electricity comes from renewable sources
- Car-share scheme introduced for colleagues' commute to work
- Renewal of Carbon Trust accreditation and awarded an additional Carbon Trust standard for Supply Chain

## 2019

- More than 30 electric car charging points installed and electric vehicles available on colleague car scheme
- 90% of food produce sourced within a 50 mile radius
- Food waste from admin sites converted to biogas and cooking oil returned to supplier to be used as fuel for their vans
- Joined the UN Global Compact
- Became an official supporter of TCFD

## 2020

- 100% carbon neutral from April 2020 for all energy use and emissions for internal operations and Nationwide fleet vehicles by offsetting residual carbon
- 90% carbon reduction since 2010
- Joined the Partnership for Carbon Accounting Financials UK (PCAF UK)
- Launched the Green Additional Borrowing Mortgage
- Introduced our mutual good target; at least 50% of our mortgage portfolio to have an EPC of C or better by 2030

## 2021+

- Signed up to the United Nations Principles for Responsible Banking
- Launched the Green Reward Mortgage
- Launched the Green Further Advance Mortgage for The Mortgage Works customers
- Mailed 70,000 buy to let mortgage customers with no EPC to tell them about the support available to improve the energy efficiency of their properties
- Launched the first phase of Environment, Social and Governance (ESG) content onto the website
- Developing plans to eliminate our use of single use plastic by 2025, starting with debit and credit cards to be made from recycled plastic in 2021
- Participating in the Carbon Disclosure Project
- Participating in the Bank of England's Climate Biennial Exploratory Scenario

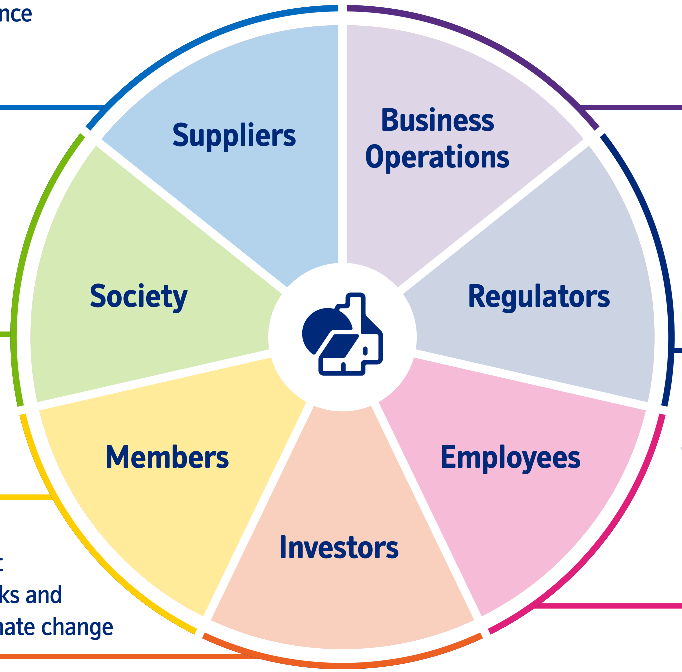
# Strategy

## Supporting the transition to a net zero economy

The Society's purpose of building society, nationwide, aligns with the need to transition to a net zero economy – to achieve an overall balance between greenhouse gas emissions produced and taken out of the atmosphere. Nationwide aims to build a greener society and as a building society, we exist to meet the needs of our members. Nationwide does not have any exposure to corporate lending (except small, closed commercial real estate and private finance initiative portfolios, and lending to registered social landlords (RSL)). This business model means that our strategy does not involve lending to or investing in businesses which have a negative impact on society and the environment, such as those in the fossil fuels industry.

We realise the impact climate change could have on our members, their homes and wider society, and understand how crucial it is to act now. To help us better address the impact, we have embedded climate change considerations into our strategic planning and execution. We recognise the importance of climate change to our members and stakeholders and are actively addressing the risks and exploring the opportunities with them in mind.

### Nationwide's position on climate change is reflected in everything it does




## Supporting society

In 2020, Nationwide launched its Mutual Good Commitments, which included the ambition to lead the greening of UK homes. To support this, the Society has the ambition that at least 50% of its mortgage portfolio will have an Energy Performance Certificate (EPC) rating of C or above by 2030.

It is recognised that EPCs are not perfect, but they currently represent the best source of publicly available data on the energy efficiency of properties. Nationwide will continue to assess and use the best data possible, aligning with industry best practice, whilst recognising that this may change as new data sources become available and understanding increases.

The Society also recognises that it alone cannot improve the energy efficiency of UK homes, which is why Nationwide is working with government and industry to make the greening of UK homes a reality. In order to facilitate the transition, Nationwide will seek to work with the Government to encourage the following:

- Future Homes Standard to be introduced 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
- Full implementation of the Clean Growth Strategy, including the Department for Business, Energy and Industrial Strategy (BEIS) recommendation to upgrade all buy to let properties in England and Wales to EPC C or above by 2028 (all new tenancies from 1 April 2025, all existing tenancies by 1 April 2028), subject to a retrofit cost cap of £10,000 (currently this requirement is due to be implemented by 2030 and the retrofit cost cap is £3,500). BEIS estimates that on average, landlords will spend £4,700 per property to reach EPC C, and that a majority (approximately 70%) of properties would be improved to EPC C within the £10,000 cap[1]
- Long-term government financial incentives for owner-occupiers to retrofit, in particular supporting those on low incomes and those where the financial payback from retrofit is minimal. This would help facilitate the trusted supply of retrofit materials, the workforce to fit them and the willingness of homeowners to undertake works on their property.

[1] The Department for Business, Energy and Industrial Strategy's consultation on Improving the Energy Performance of Privately Rented Homes in England and Wales September 2020.

Nationwide will also increase awareness of potential improvements to the energy efficiency of a property through engagement with our members, the promotion of retrofit lending products, and the development of innovative propositions.

Based on the above, different scenarios have been considered for increasing the proportion of the Society's mortgage properties rated EPC C or better, from around 36% today to 50% by 2030. Whilst stretching, the Society believes its Mutual Good Commitment is achievable with continued government support and if key stakeholders work together. Most of the improvement to 2030 is expected to be driven by changes in the energy efficiency of buy to let properties and through the Society's share of lending to new builds (typically EPC rated B or above).

Nationwide will publish an update on progress towards its Mutual Good Commitment at least annually.

## Partnering for mutual success

Collective effort is needed to achieve net zero. Nationwide has therefore partnered with the following key organisations to increase its knowledge and effect real change:

- Member of the Green Finance Institute's Coalition of Energy Efficiency of Buildings (GFI CEEB) since 2019
- Committed to the UN Global Compact (UNGC) since 2019
- Founding partner of the Partnership for Carbon Accounting Financials UK (PCAF UK) since 2020
- Joined the UK Green Building Council (UKGBC) in 2021
- Joined the UN Principles of Responsible Banking (UN PRB) in 2021
- Part of the London School of Economics Financing a Just Transition Alliance
- Member of the Imperial College Business School Centre for Climate Finance and Investment
- Active participant of UK Finance's Sustainability Committee
- Part of the Prudential Regulation Authority's (PRA's) and Financial Conduct Authority's (FCA's) Climate Financial Risk Forum (CFRF) scenario analysis and retail banking working groups
- Contributor to key discussions on the greening of UK homes through engagement with the Government's Environmental Audit Committee
- Respondent to strategic BEIS consultations on how to improve the energy efficiency of the UK's homes through lenders and for those privately rented.

## Supporting our members

UK homes and the energy they consume account for 15% of the UK's carbon emissions[2] and many of the homes being built today are still not energy efficient enough to meet the requirements for a net zero economy. Nationwide continues to develop new and innovative propositions to help combat climate change. In the past year, the Society has:

- Launched a Green Additional Borrowing mortgage product to our members to help make energy efficient home improvements
- Partnered with Switchd to offer our members and colleagues a free six-month trial of their auto-energy tariff switching service, which includes green options
- Contacted approximately 70,000 The Mortgage Works (TMW) customers (around 33% of our buy to let book) who do not appear to have a valid EPC, with the aim to remind them of regulation and educating them about energy efficiency, referencing key government tools and guides
- Launched a green web page for TMW customers
- Pledged to eliminate single-use plastics by 2025, and roll out debit and credit cards made from recycled plastic in 2021
- Progressed its Oakfield development consisting of 239 EPC A rated homes built to high environmental standards, which is hoped will provide a blueprint for future sustainable homes
- Launched the Green Reward Mortgage product to our members, offering cashback for properties with an EPC of A or B
- Launched the Green Further Advance Mortgage to TMW customers to help make energy efficient home improvements.

Nationwide will continue to explore further climate change-related propositions over the coming year whilst monitoring our exposure to potential liability and conduct risk.

## Helping our people to go green

The Society's employees have an important role to play in tackling climate change. Over the past year the employee engagement on green initiatives has increased. Examples include the provision of hints and tips on how employees can reduce their carbon footprint and the sharing of propositional successes, as well as utilising the Society's Green Champions network. Nationwide is also developing an internal green engagement strategy which describes what we want our employees to 'think, feel and do' in relation to climate change.

## Greening our business operations

Nationwide is proud of its climate-related operational targets and initiatives, and its repeated Carbon Trust Triple Standard accreditation for its management of water use, waste and energy consumption. Nationwide continues to send zero waste to landfill.

Since 2018, 100% of the Society's electricity has been supplied from renewable sources, and since April 2020 Nationwide has been carbon neutral (no net release of carbon dioxide into the atmosphere) for its internal operations. This includes energy use and business miles from its own vehicles, with remaining emissions offset through verified carbon offsetting projects that actively remove carbon from the atmosphere.

This year, the Society's focus has been on building a clearer picture of the emissions produced by its employees, suppliers, and products. Definitions of scope 1, 2 and 3 emissions are as follows:

| Scope 1 | Scope 2 | Scope 3 |
|---|---|---|
| Direct emissions from owned sources such as emissions from the Society's car fleet | Indirect emissions from the generation and consumption of purchased electricity and heating such as the electricity bought by the Society to power its branches | All other indirect emissions that occur in our value chain such as emissions from the Society's mortgage properties |

Detailed scope 1 and 2 emission metrics, including comparable year on year performance, can be found in the 'Metrics and targets' section on page 50.

[2] Office for National Statistics – February 2020.

## Sourcing services responsibly

Nationwide has partnered with sustainability consultancy, Carbon Intelligence, to refresh its estimate of the upstream scope 3 emissions – those that result from its supply chain. Previous estimations indicated that the largest component of these emissions was due to purchased goods and services. With this is mind, the Society took further steps to build climate change considerations into its procurement and supply chain management processes. Different methods were explored to collect environmental performance data from Nationwide's third parties, and key third parties were engaged to share learnings through supplier decarbonisation discussions.

We continue to explore ways to understand and record the carbon emissions that Nationwide is responsible for through its supply chain, and aims to be carbon neutral for purchased goods and services by 2030. In 2021 environmental performance data will be collected from key third parties using shared information from EcoVadis, a universal sustainability ratings provider.

Nationwide has also enhanced the environmental requirements within its Third Party Code of Practice, including the need for all third parties to monitor and disclose their scope 1 and 2 emissions and set reduction targets.

## Our external stakeholders

Investor, rating agency and regulator expectations of the minimum standards for Environment, Social and Governance (ESG) disclosures continue to increase. As a result, there has been a material increase in the breadth and depth of ESG-related disclosures in recent years.

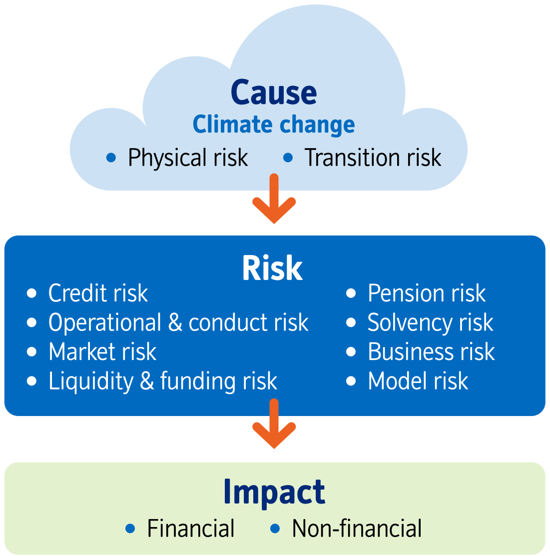
The ESG content on our website is being improved to make it easier for stakeholders to find what they are looking for. This includes information on all key themes and topics of interest to investors and ESG rating agencies. The first phase of these improvements went live in early 2021, with further enhancements due throughout 2021.

Nationwide also offers investors focused discussions with internal subject matter experts on how climate change risk and ESG issues are managed more broadly. Nationwide has held a number of cross-industry roundtables on the greening of UK homes.

## Embedding climate change risk

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 most significant risks. Consideration as a cause ensures appropriate identification, monitoring and management across all existing risk categories, along with full traceability.

The following diagram explains how climate change risk has been embedded within our ERMF:




Climate change risk is considered to manifest across two main causes, physical and transition risk:

- **Physical risk** – the risks arising from the increasing severity and frequency of climate and weather-related events such as flooding
- **Transition risk** – 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 financial impacts across different time horizons, the ERMF was assessed through a climate change lens. More detail is provided in the Risk management section on page 47.

This exercise identified Nationwide's top three climate change risks as:

- Credit
- Operational and conduct
- Liquidity and funding.

Credit risk is the most material climate change risk due to the Society's mortgage portfolio exposures.

Climate change risk has been considered as part of the internal capital adequacy assessment process (ICAAP). This assessed the need to hold capital for climate-related risk over a 12-month period. Based on our current assessment the capital requirement for physical risk is immaterial. Further work is needed to establish any capital requirement for transition risk. Climate change risk is also covered as part of the internal liquidity adequacy assessment process (ILAAP). The impacts of climate change will continue to be assessed within both the ICAAP and ILAAP on an annual basis.

## Assessing climate risk in lending decisions

Nationwide's approach to lending incorporates various environmental risk considerations. When evaluating new residential mortgage applications, climate-related risks, including flooding and subsidence, along with energy performance, are used to inform the potential impact on future property values. Further detail can be found in the 'Risk management' section on page 47.

## Energy Performance Certificates (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.

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 current EPC
- Out of date data – changes to the energy efficiency of a property (for example, due to improved insulation) will not be captured unless the homeowner chooses to have the property reassessed.

## EPC modelling

Nationwide uses EPC data to inform its transition risk assessment and scope 3 emissions. Using artificial intelligence and machine learning algorithms, the characteristics of a property that does not have an EPC are used to estimate its EPC rating and other factors. The characteristics used include details of the home, owners, surrounding area and surrounding properties.

Despite the inherent limitations of EPCs, the modelling informs the calculation of the EPC composition of the Society's mortgaged properties. The model outputs are also used to assess transition risk through the implied cost of retrofitting and the energy consumption for lighting, and heating the home, and water. This work has informed our Mutual Good Commitment (to ensure 50% of our portfolio is rated EPC C or better by 2030) and supported the PCAF-aligned disclosure of the Society's scope 3 mortgage portfolio emissions, as set out in the 'Metrics and targets' section on page 50.

## Testing the approach to EPC modelling and outcomes

The modelling approach was tested on Welsh properties to check the outputs and to prove the modelling achieved a statistically robust result. Due to a lack of available data, properties in Scotland and Northern Ireland were matched to the mathematically 'most similar' property in the rest of the UK – this process was repeated for multiple randomised simulations.

## Nationwide's approach to scenario analysis

To ensure strategic decisions are informed by an understanding of the opportunities and risks from climate change, different climate scenarios were modelled.

This capability was proven as part of an internal stress test undertaken in 2020, which focused on:

- Prime and buy to let mortgage properties
- Lending to registered social landlords (RSL).

The physical risk impacts on the Society's own properties, and those that Nationwide lends against, were assessed. The approach involved:

- Assessing river and coastal flooding, and surface water, using data supplied by Jeremy Benn Associates Risk Management Limited (JBA) via flood risk matrices. JBA projected changes in precipitation, temperature and sea level obtained from the Met Office's UK Climate Projections (UKCP18) and information on existing flood protection
- Reducing property values based on flood severity and likelihood, informed by analysis of the impact of previous flooding on property prices. No price reductions were applied where the incremental flood depth was negligible.

The assessment of transition risk used the EPC modelling detailed above, together with:

- Assumptions regarding the implementation of government policy, such as, the Future Homes Standard and the Clean Growth Strategy. These informed expected future minimum EPC requirements for new homes and the timing of retrofitting activity on both prime and buy to let properties
- Forecast energy prices and carbon taxation inputs from the Network for Greening the Financial System (NGFS).

Nationwide has developed further its capabilities ahead of the PRA's Climate Biennial Exploratory Scenario (CBES) in June 2021.

## Testing climate scenarios

The upcoming CBES is focused on stress testing the financial impact of climate change on firms across three scenarios, namely Early policy action, Late policy action and No additional policy action.

Transition risk was assessed for the Early policy action and Late policy action scenarios, noting that transition risk will not occur in a No additional policy action scenario.

Details of the three scenarios tested are opposite:

| Early policy action | Late policy action | No additional policy action |
|---|---|---|
| Transition risk (medium) | Transition risk (high) | No transition risk |
| Policy is brought in early to address the risk of climate change, and Paris Agreement targets are met, limiting the temperature increase to 2 degrees. There are transitional risks as policy shifts, but no macroeconomic shock. | Policy changes are delayed to 2030. As a result, these later shifts are sizable and the sharp repricing of assets results in a macroeconomic shock occurring towards the end of the scenario. The Paris Agreement is met, limiting the temperature increase to 2 degrees. | No policy changes are implemented. There are no transitional risks; however all the physical risks associated with climate change arise. The Paris Agreement is not met and temperatures increase by 2 to 3 degrees. |

## Strategy (continued)

To develop our understanding of physical risk, we have used different climate scenarios based on 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 include:

- 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 6.0 – which predicts that emissions peak around 2080, then decline
- RCP 8.5 – which is seen as the worst-case climate change scenario, where emissions continue to rise throughout the 21st century.

### Scenario analysis outcomes

The outcomes of the climate change scenario analysis are provided separately for physical and transition risk given the different methodologies used. Further detail on both physical and transition risk metrics can be found in the 'Metrics and targets' section on page 50.

### Physical risk outcomes

Our scenario analysis results suggest physical risks arising from climate change should have a low[3] impact on our mortgage portfolio over the next 30 years.

For the past five years, flood risk has been considered as part of our mortgage underwriting process. Decisions over this period not to lend against high flood risk properties have lowered the risk. In addition, the low loan to value (LTV) profile of those properties more at risk has led to a reduction in physical risk exposure.

The flood risk data from JBA was converted into property value reductions informed by the frequency and severity of flooding.

These reductions were input into existing models to increase the losses given default and expected credit losses (ECLs) in order to quantify the impact on impairments at five year intervals over a 30-year period.

The impact on ECLs across the 30-year analysis period was low, due to the low level of affected properties. Only approximately 95,000 of properties securing prime and buy to let mortgages, out of a total portfolio of approximately 1.5 million, experienced non-negligible flooding. Of these, approximately 1,800 incurred the most severe valuation reductions, due to the frequency of flooding. This combined with the low LTVs resulted in the low impact on impairments.

The sensitivity of the ECLs to different inputs was analysed:

- The property value reductions of flood risk properties were increased. For those properties deemed uninsurable (due to frequency of flooding), the already high value reductions were doubled, and for other properties the value reductions were increased by a multiple of 10 – the impact remained low
- The impact across different RCPs over the 30-year period (to 2050) was assessed to understand how the ECLs might vary with each climate scenario. The results indicated that losses remain low for all RCPs.

The physical risk associated with the Society's RSL lending was also assessed. Around 87% of approximately 180,000 RSL properties were matched to the data provided by JBA, with the incremental impact of river, coastal and surface flooding assessed to 2050.

The impact of the flooding on cashflows was evaluated at counterparty level where more than 5% of the borrower's properties showed an increase in flood severity. This equated to approximately 1,000 properties across 22 borrowers. When properties with a negligible flood depth were removed, the number of properties requiring analysis fell to approximately 600. The impact on borrower cashflows was deemed to be low.

### Transition risk outcomes

Using the estimated EPC composition of the entire mortgage portfolio, transition risks for both the Early and Late policy action scenarios were assessed. These assessments were made using known, and potential future, government policy and included assumptions on:

- Improved new build standards on housing stock
- Increased energy costs
- The cost of retrofit.

For retrofitting costs, data was taken or inferred from underlying EPCs, and for Early policy action a degree of government subsidy was assumed.

### Energy costs

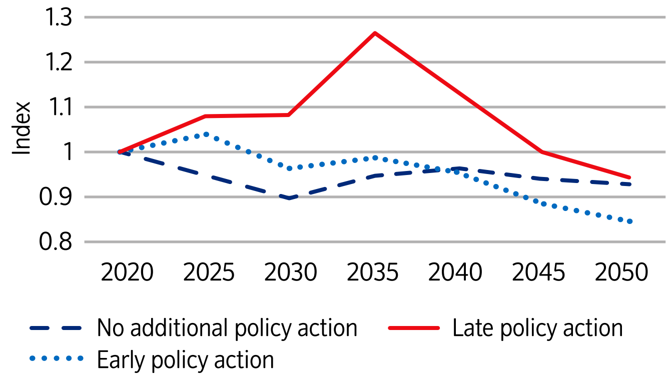
To assess transition risk, energy usage from EPCs was combined with electrical goods energy usage data from the Energy Savings Trust and combined with forecast energy prices (electricity, oil and natural gas prices) from the NGFS for the EU region.

The impact of carbon taxation was also included, with carbon price used as a proxy for the net impact of government direct and indirect taxation. Again, NGFS data for the EU region provided forecast carbon pricing for the period 2020 to 2050.

This data enabled the quantification of potential future energy bills for homes (excluding inflation) in the Early and Late policy action scenarios for the period 2020 to 2050.

An example of how electricity prices may change over the next 30 years in each scenario is shown in the following graph (note i).

**Forecast Electricity Price**




Note:
i. The data is taken from the NGFS REMIND-MAgPIE 1.7-3.0 model outputs for the EU region.

[3] Low indicated an estimated increase in ECLs of less than £5 million.

### Cost of retrofitting

Estimated retrofitting costs were calculated based on the average retrofitting plan as detailed in a property's EPC to raise the rating of the property to its maximum achievable EPC rating. Regardless of scenario, around 99%[4] of Nationwide's prime and buy to let properties may require some form of retrofitting.

Nationwide's assessment assumed all homes were brought up to their maximum achievable EPC rating, to estimate the potential magnitude of retrofitting costs, assuming alignment with net zero. It is recognised that some homes simply will not be able to reach the required standard and for many the cost of retrofitting does not make financial sense.

### Early policy action transition risk outcomes

In the Early policy action scenario energy costs increased for all properties over the 30-year period, with the most efficient homes still seeing around a 50% increase. EPC E properties, rather than F and G, were most affected. This was because EPC F and G properties rely disproportionately on electricity for heating, which was forecast to decrease in cost in absolute terms and relative to gas and other carbon fuels, over the period.

Due to Early policy action, retrofitting costs were assumed to be subsidised by two-thirds, aligned to the Government's recently closed Green Homes Grant scheme. Costs therefore remained lower across all property types, compared with the Late policy action scenario. EPC G rated homes had the highest retrofitting costs.

In an Early policy action scenario, it was assumed the efficiency of Nationwide's mortgage portfolio housing stock improved. This was through a combination of higher new build standards (for example, homes built to the more efficient Future Homes Standard from 2025) and early (assumed) subsidised retrofitting activity.

For the purposes of this initial analysis, all properties of a similar EPC were assumed to undertake retrofitting at the same point in time. For example, all buy to let EPC G-D properties became EPC C by 2025, all prime EPC G–D properties became EPC C in 2030, and all homes reached their maximum potential efficiency in 2045.

From a starting position where approximately 70% of the Society's mortgage book was rated EPC D or below in 2020, it transitioned to only 2% forecast to be rated D or below by 2050. In this scenario, energy efficiency improvements meant that Nationwide met its Mutual Good Commitment by 2030 – at least 50% of the mortgage portfolio will be EPC C or better.

The analysis showed that the majority of EPC A rated homes still use natural gas as a fuel source rather than relying on air or ground source heat pumps for heating. This indicates the need for retrofitting in the future if net zero emissions are to be achieved.

### Late policy action transition risk outcomes

In a Late policy action scenario energy costs (including carbon pricing) escalated rapidly from 2030, with some normalisation of electricity prices from 2035. For similar reasons to the Early policy action analysis, EPC E rated homes had the greatest increase. In monetary terms, it was estimated that, for EPC G rated homes, annual fuel and climate tax charges increased by up to four times the current cost by 2050.

In this scenario, retrofitting costs were more substantial, reflecting the assumption that costs were borne in full by the owner due to an absence of subsidies.

It was assumed that the UK housing stock increased gradually over the duration of the scenario. These homes were initially built to current standards and only became more efficient later in the scenario.

Retrofitting activity was also later, as was the implementation of the Future Homes Standard (assumed from 2030), and so was implemented over a condensed period. Again, all properties of a similar EPC were assumed to undertake retrofitting at the same point in time. All buy to let EPC G-D properties became EPC C by 2035 and all prime EPC G–D properties became EPC C in 2040. All homes reached their maximum potential efficiency in 2045.

In the Late policy action scenario, Nationwide failed to meet its Mutual Good Commitment with an estimated 39% of properties rated C or better by 2030.

### Incorporating climate change scenario impacts into our strategy

The Board has reviewed the outcomes and learnings from the climate change scenario analysis. As a result, the Board is supportive of using the outcomes as the basis for building the further capability for the CBES and future stress testing. Planned enhancements to the transition risk assessment include building energy cost considerations and retrofitting costs into ECL assessments.

Learnings from transition risk will be used to inform lending policy and proposition development as Nationwide seeks to help members balance the need to transition to net zero with the costs of doing so.

Equally, the Society will adapt its strategy to respond to external developments, particularly those in governmental policy and their adoption. We recognise the potential implications of a Late policy action scenario on our ability to reach our EPC Mutual Good Commitment by 2030 and will work with government and industry to address this.

[4] Based on less than 1% of properties with an EPC of A or B and an electric fuel source.

# Governance

## A well-established climate change governance model

The Board has ultimate accountability for all climate change risk related matters. The Board Risk Committee and Executive Risk Committee are responsible for oversight of climate-related risks. Climate change risk is discussed at the Executive Risk Committee quarterly, and the Board Risk Committee every six months.

The Executive Risk Committee is chaired by the Chief Risk Officer (CRO), with membership formed from the leadership team. The Executive Risk Committee has delegated authority from the Board Risk Committee to monitor and review the risk exposures of the Society in accordance with the ERMF, Board risk appetite, and the Society's strategy and Plan.

This year, the Board Risk Committee has:

- Reviewed the requirements of the upcoming CBES and the scenarios that will be tested
- Reviewed the scenario analysis work and the capabilities tested across physical and transition risk
- Discussed key outputs from scenario analysis and understood the actions needed for CBES readiness
- Approved the approach to disclosures and the TCFD requirements
- Received updates on the progress made in maturing climate change risk management capabilities and management information
- Considered analysis of the impact of climate change on the mortgage portfolios in light of the winter storms and loss event data
- Discussed the importance of climate change to Nationwide's investors, and the noticeable increase in ESG-focused conversations.

This year, the Executive Risk Committee has:

- Discussed the progress of the climate change risk management plan, including the monitoring of the climate change management information dashboard
- Discussed the CBES requirements in detail
- Approved the approach to scenario analysis, testing both physical and transition risk capabilities
- Built awareness of key partnerships and collaborations to progress climate change thinking
- Discussed the outputs of the scenario analysis stress test and approved the actions needed in readiness for the CBES.

To support the maturing of the Society's approach to climate change risk management and oversee progress against the plan to meet the requirements of SS3/19, and other regulatory requirements, a Climate Change Risk Committee has been established.

Chaired by the Chief Strategy and Sustainability Officer (CSSO), and meeting monthly, the Climate Change Risk Committee comprises members from the Society's Risk, Financial planning and stress testing, Operational shared services, Strategy and Treasury teams. This broad membership ensures appropriate consideration, monitoring and management of climate-related risks by senior management.

The Climate Change Risk Committee is also responsible for overseeing the Climate Change Risk Working Group which has the day-to-day responsibility for implementing the plan for embedding climate change risk in line with SS3/19.

The Climate Change Risk Committee provides input to the Responsible Business Committee which meets every other month and is chaired by the CSSO. This Committee is charged with establishing Nationwide's responsible business agenda, including the strategic approach to address climate change and environmental ambitions.

This year, the Responsible Business Committee has:

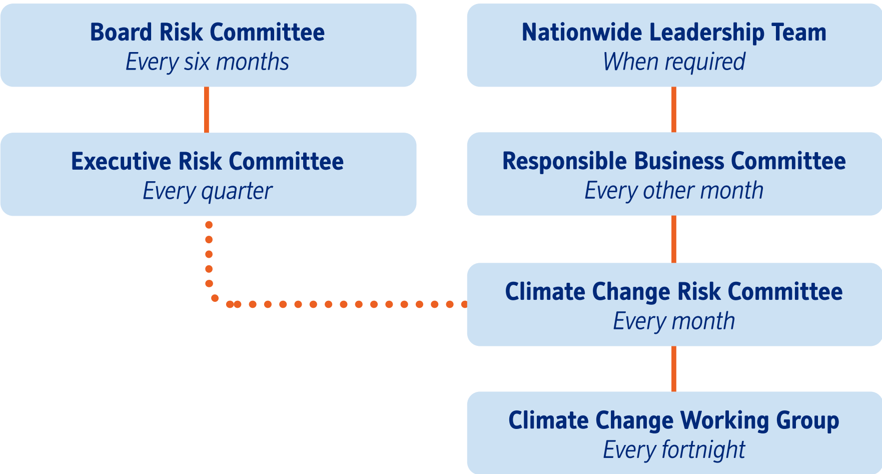
- Discussed the progress of the climate change and responsible business strategy
- Engaged in the development of green propositions, including a detailed execution roadmap
- Discussed the broader ESG implications, including inclusion and diversity, modern slavery and social investment, as well as climate change risk and updates on the scenario analysis approach
- Helped define Nationwide's Mutual Good Commitments
- Built awareness of the work being undertaken to understand Nationwide's supply chain emissions as well as ongoing oversight of the Society's own operational emissions.

This year, the Climate Change Risk Committee has:

- Provided oversight of delivery against the plan
- Continued to monitor the climate change risk management information
- Engaged in the scenario analysis activity, approving the approach, and reviewing the results
- Approved Nationwide's partnership with PCAF UK
- Reviewed the gap analysis of progress against the requirements of the SS3/19 and associated Dear CEO letter, the PRA's Discussion Paper on the CBES, and disclosures against TCFD requirements.

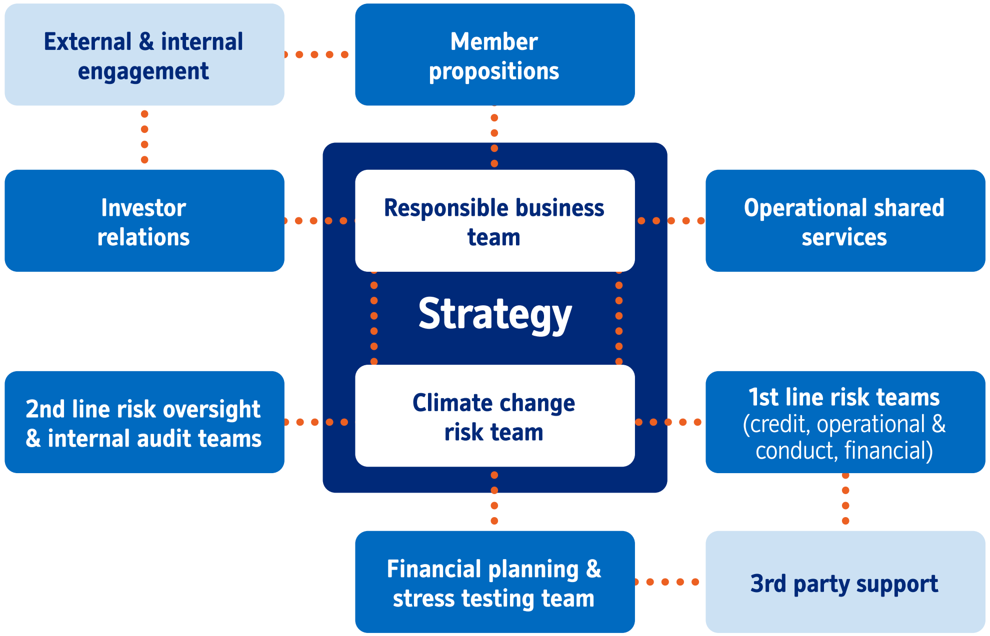
Governance (continued)

## Our climate change governance model




*Our climate change governance model shows the committees and groups where climate change is discussed and the frequency of climate change risk on their respective agendas.*

## Our climate change operating model




## A strategically led approach

Ownership for responding to climate change sits within the Strategy team, led by the CSSO, whilst Senior Managers Regime (SMR) accountabilities sit with the Chief Executive Officer (CEO).

A climate change risk team owns and drives forward the plan for embedding climate change risk across the Society. This plan was shared with the PRA in October 2019 and will enable us to meet the requirements of SS3/19.

A strategically led climate change risk team enables consistent focus on climate change across the Society, co-ordinating other specialist teams across the Risk, Financial planning and stress testing, Operational shared services and Treasury functions. Nationwide's climate change operating model is shown opposite.

## Additional Board engagement on climate change risk

This year the Board attended two bespoke climate change training sessions. These sessions covered:

- The implications, risks and opportunities to financial services of climate change and the transition to a net zero economy
- Nationwide's ambition and activities to become the leading voice in championing sustainable, energy efficient housing in the UK
- A deep dive into climate change risk and the changing expectations of Nationwide's investors and regulators, and the role of the Board.

## Climate-related remuneration and our Board's credentials

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 Board has focused on increasing its understanding of climate change. Further information on the Board's credentials is provided in the biographies on page 71.

# Risk management

## How climate change risk is embedded at Nationwide

Nationwide has developed a climate change risk standard to aid the embedding, management and monitoring of climate change risk as a cause to the Society's most significant risks. This standard articulates how climate change risk may occur across the ERMF and links to the Society's principal risk policies.

## Risk roles and responsibilities

The climate change risk standard articulates clear roles and responsibilities for managing and monitoring climate change risk across the Society, with a summary provided below:

## Our climate change risk appetite statement

In line with SS3/19 and to support the embedding of climate change risk we have developed a climate change risk appetite statement:

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

In support of this appetite, complementary quantitative risk appetite metrics are being developed which will be included in future disclosures.

| Team | Roles and responsibilities |
|---|---|
| **Climate change risk** | • Coordinating progress against the SS3/19 plan<br>• Coordinating climate change scenario analysis<br>• Ownership of the climate change risk standard<br>• Ownership of the centralised climate change risk governance and reporting<br>• Ownership of climate change financial disclosures |
| **First line risk, such as Credit risk** | • The identification, assessment, management, and monitoring of climate change risks across all impacted risk categories<br>• Reporting of climate change risk against existing risk management information and enhancing decision-making to embed climate change<br>• Developing and enhancing climate change scenario analysis capabilities |
| **Financial planning & stress testing** | • Helping to shape the climate change risk stress testing scenarios<br>• Creation and reporting of scenario metrics |
| **Second line Risk oversight** | • Providing ongoing oversight, with advisory input and challenge, to ensure Nationwide meets external and internal climate change risk management requirements |
| **Internal audit** | • Providing independent assurance on activity to embed climate change risk management |
| **Third parties** | • Scenario expansion support for scenario analysis<br>• Quantitative modelling for physical risk peril data<br>• Support to understand qualitative assumptions |

## How the risks are managed

The ERMF was assessed through a climate change lens to identify how climate change could manifest in each of Nationwide's principal risks. Processes are in place to manage the top three risks impacted by climate change, and to help track against the Society's risk appetite statement:

- **Credit risk** – An assessment of physical risk is undertaken at the point of a secured lending decision. We do not lend where the risk could render a property uninsurable. Restrictions are in place on lending to buy to let properties rated below EPC E. These criteria will be further enhanced through the outcomes of the scenario analysis and calculation of expected credit losses
- **Operational and conduct risk** – Climate change is included as part of existing Risk Control Self-Assessment processes and within the initiative development framework. All loss events are recorded in Nationwide's operational risk system, enabling the identification of climate-related risk events. In addition, potential liability and conduct risks are considered through the development of green propositions
- **Liquidity and funding risk** – The potential impacts of climate change risk are assessed as part of the ILAAP.

## Internal assurance

Nationwide's Internal audit team provides focused independent assurance on the approach taken to managing and embedding climate change risk. The most recent audit focused on the Society's progress in embedding the requirements of SS3/19 by the end of 2021. The team concluded that the current approach, including actions already identified for enhancing scenario analysis, will ensure that Nationwide embeds climate change risk management by the end of 2021.

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

TOP 3 RISK CATEGORIES BY IMPACT OF CLIMATE CHANGE RISK

| Risk category | | Climate change impact examples | Horizon (note i) | Potential risk indicator (note ii) |
|---|---|---|---|---|
| **Credit** | Transition | • Reduced member 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 aggressive housing policy (for example, introducing minimum EPC ratings)<br>• Registered social landlord challenges in meeting policy requirements | Medium | High |
| | 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 risk | Long | Medium |
| **Operational & conduct** | 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 member and employee attraction and retention<br>• Potential liability and conduct risk from green propositions and assumed advice | Medium | Medium |
| | 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 member 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 | Medium – Long | Medium |
| **Liquidity & funding** | Transition & physical | • Falling deposit balances due to economic distress of members<br>• Lower deposit balances due to members' loss of confidence in Nationwide relating to negative perceptions of climate credentials<br>• Reduced wholesale funding access following lower investor appetite due to negative perception of Nationwide in relation to climate change | Medium – Long | Medium |
| **Business** | Transition | • Changes in member expectations relating to prioritisation of green strategic objectives<br>• Increased costs associated with policy changes | Medium | Medium |
| | Physical | • Income impacted as a result of physical impacts, such as loss of operations | Medium – Long | Medium |
| **Pension** | Transition & physical | • Impact of physical or transition risk on pension asset valuations leading to increased deficit or reduced surplus | Medium – Long | Medium |
| **Solvency** | Physical | • Deterioration of balance sheet assets, such as offices or branches, due to physical impacts | Medium – Long | Medium |
| **Market** | Transition & physical | • Changes in member 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 movements | Long | Medium |
| | Transition | • Tightening of climate related policy leading to market repricing | Long | Medium |
| | Physical | • Impact on exchange rates due to physical events, affecting currencies in which investment securities are held | Long | Medium |

Notes:
i. Horizons: Short 0-1 year, Medium 1-5 years, Long 5-40 years.
ii. Potential risk indicator provides an indicative view on climate change impact across each risk category, with high being a large-scale impact.

Strategic report
Governance
Risk report
Financial statements
Other information

## Risk management (continued)

### Advancing the use of property risk data

In 2013, we identified a gap in how and when data is collected on a mortgaged property, which impacted the ability to assess certain risks. This often meant that consideration of environmental risks to the property was limited, and only took place after the mortgage offer had been issued through the conveyancing process.

Recognising the need to change, we developed the Property Risk Hub, in conjunction with key partners such as Airbus Defence and Space, JBA and Ordnance Survey. The Property Risk Hub collects data to support future decision making and manage climate risk. This capability went live in 2016. It enables us to decide better what constitutes suitable security for mortgage lending and how changing climate and environmental factors might impact this over a typical mortgage term of 25 to 40 years. This was also the first step in a fundamental change to valuation methodology, moving away from a pure present-day comparable basis, to incorporate new longer-term environmental data sources and models of climate change impacts.

Property-level data is collected on every property from various specialist providers using a Unique Property Reference Number (UPRN) to ensure consistency. Relevant data collected includes:

- 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).

Using this data, property-related risks are assessed when originating new residential mortgages. This allows different methods of valuation (Automated Valuation Model, desktop, full physical) to be mandated, and informs the current valuation of each property.

Visualisation tools can be used to help understand and assess specific risk events. Illustrative examples are contained in Images 1 and 2. Image 1 shows an example of the baseline undefended river flood map for an area of the UK. Displayed are flood extents, with colour grading indicating depths, for a 200-year river flood event. Image 2 shows an example of the modelled percentage change in undefended river flood depths under the RCP 4.5 climate scenario and time horizon 2036 to 2040.

**Image 1:**

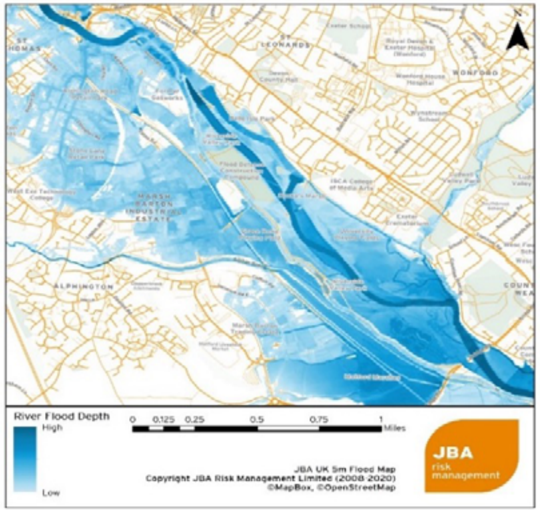
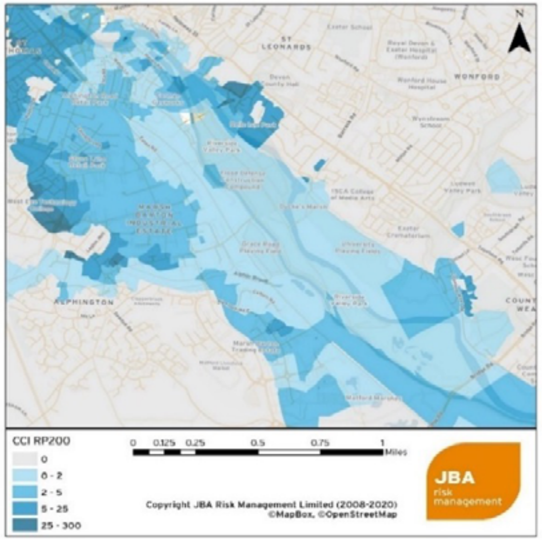



**Image 2:**




Data like this helps to assess the current flood risk of properties used as security for lending as well as being used in scenario analysis modelling.

Over the last year this wealth of data has been used to model the financial impact of physical risk on the whole mortgage portfolio posed by these long-term climate scenarios. A greater awareness of the potential impacts in different scenarios enables a better understanding of the risks that may occur over the lifetime of the mortgage. This allows us to make more informed lending decisions in the best interests of its members.

### Using EPC ratings to inform lending decisions

EPC ratings currently inform buy to let lending decisions, with lending only granted against properties that have a rating of E or better. 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.

### Monitoring the risk

Using a combination of visualisation and modelling capabilities, scenario analysis and stress testing, and an analysis of EPC ratings, we can track the exposure of its mortgage portfolios to flood risk and energy efficiency. Details of the metrics tracked can be found in the 'Metrics and targets' section on page 50.

Climate-related financial disclosures (continued)

# Metrics and targets

Nationwide's climate change metrics are anchored to its ambition to lead the greening of UK homes and its Mutual Good Commitments, that by 2030:

- At least 50% of homes in our mortgage portfolio (prime and buy to let) will be rated EPC C or better
- Our business operations, suppliers and commuting will be carbon neutral.

The achievement of these ambitions is partly dependent on government policy. Progress will be supported by the enhanced suite of metrics developed to monitor and manage the impacts of climate change. These metrics aid discussions and inform strategic decisions made by management and the Board. The metrics are shared in various committees, through the climate change governance model, to support committee responsibilities.

Recognising that there is more to do to fully understand the impact of climate change across our business, we are working on developing further metrics as our and the industry's understanding continues to mature.

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

We are pleased to have remained carbon neutral for scope 1 and 2 emissions throughout the year. These emissions are tracked against a set of strategic ambitions that aim to improve the Society's sustainability. This year the focus has been on enhancing disclosures by providing more detail on scope 1 and 2 operational emissions aligned to the Government's streamlined energy and carbon reporting requirements.

Nationwide has seen a further reduction in scope 1 and 2 emissions this year as detailed in the scope 1, 2 and 3 carbon emissions data table opposite. With the unprecedented impact of Covid-19 causing a shift in ways of working, the majority of the Society's employees (around 13,000) now work from home. This has caused a reduction in energy consumption across Nationwide's buildings and through reduced travel, resulting in lower carbon emissions. We have not included the emissions as a result of employees working from their homes – these would be captured as scope 3. We are aware that emissions may not stay at this level as further changes in work patterns take place in the coming year.

### Scope 1, 2 and 3 carbon emissions data

| Scope 1 and 2 emissions: | Year to 4 April 2021 | Year to 4 April 2020 | Year to 4 April 2019 | Baseline year to 4 April 2011 |
|---|---|---|---|---|
| **Carbon dioxide ($CO_2e/y$) in tonnes (notes i and ii)** | | | | |
| **Scope 1 emissions** | | | | |
| Energy | **3,411** | 3,966 | 3,721 | 4,890 |
| Travel | **63** | 823 | 2,190 | 2,448 |
| **Scope 2 emissions** | | | | |
| Electricity | **18,069** | 20,907 | 23,446 | 50,802 |
| **Total scope 1 and 2 emissions (note iii)** | **21,543** | 25,696 | 29,357 | 58,140 |
| PPA carbon reduction for scope 2 (note iv) | **(11,227)** | (21,367) | (22,187) | |
| Green tariff electricity for scope 2 (note v) | **(6,842)** | | | |
| **Absolute carbon outturn** | **3,474** | 4,837 | 7,170 | 58,140 |
| Total carbon offsets used for scope 1 in tonnes (note vi) | **(3,474)** | | | |
| **Net carbon outturn** | **0** | | | |
| Total scope 1 and 2 emissions per full time employee (FTE) | **0.21** | 0.30 | 0.39 | 3.46 |
| **Data score (note vii)** | **1.50** | | | |

| Scope 3 mortgage emissions: | As at 31 Dec 2020 |
|---|---|
| **Number of properties (prime and buy to let and legacy) in millions** | |
| Total book | **1.59** |
| With a valid EPC | **0.85** |
| Total property floor area in million metres square (note viii) | **150.94** |
| **Absolute scope 3 carbon dioxide emissions ($CO_2e$) in million tonnes (Mt) per year (y) for mortgages** | |
| On properties with a valid EPC (note ix) | **3.32** |
| On whole book using interpolated EPC data (note x) | **6.25** |
| Absolute carbon dioxide emissions in kilograms per square metre of floor area per year ($kgCO_2e/m^2/y$) using interpolated EPC data | **41.40** |
| **LTV weighted scope 3 carbon dioxide emissions ($CO_2e$) in million tonnes (Mt) per year (y) for mortgages** | |
| On whole book using interpolated LTV weighted data (note xi) | **2.75** |
| LTV weighted carbon dioxide emissions in kilograms per square metre of floor area per year ($kgCO_2e/m^2/y$) using interpolated data | **18.20** |
| **Data score (note vii)** | **3.47** |

i. $CO_2e/y$ is an abbreviation of 'carbon dioxide equivalent per year' and is the internationally recognised measure of greenhouse gas emissions.
ii. When calculating its carbon emissions, Nationwide has used the DEFRA 2020 conversion factors. (Notes continue overleaf).

## Metrics and targets (continued)

Notes (continued):

iii. Scope 1 covers direct combustion of fuels and company-owned vehicles and scope 2 covers emissions from electricity. Amounts presented for the year to 4 April 2021 reflect latest estimates as at March 2021.

iv. Purchase Power Agreement (PPA) represents the contribution of a solar power purchase agreement, producing emissions-free energy backed by renewable obligations certificates.

v. Nationwide's 'Green Tariff electricity' comes from 100% zero carbon wind sources that have a renewable energy guarantee of origin (REGO), with assurance for this product provided by Deloitte in accordance with ISAE 3000. Green Tariff data has been added into the calculation for this year – for previous years this data was unavailable.

vi. The purchased offsets are generated by Community Reforestation (carbon sequestration). The project is verified and has approval under both the Verified Carbon Standard (VCS) and the Climate, Community and Biodiversity Standard (CCB). This is the first year Nationwide has purchased offsets to cover its residual emissions.

vii. 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.

viii. Total property floor area is calculated using machine learning techniques based on around 400 property features.

ix. Calculations are based on number of mortgage properties (prime and buy to let) with a valid EPC. This equates to approximately 50% of the mortgage portfolio.

x. Calculations are based on estimating EPC data across the whole mortgage portfolio (prime and buy to let) using interpolation based on housing 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.

xi. LTV adjustments have been applied to the total $CO_2$ emissions predicted for the whole mortgage book, using the outstanding balance and modelled property valuation, as at 31 December 2020. Nationwide believes this best reflects the emissions it finances.

A data score has been calculated for Nationwide's carbon emissions in the financial year using PCAFs 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 1.50, 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 data used for the consumption of energy and water, and waste for our buildings, to the end of December 2020, achieving a data score of 1, weighted at 75%
- Estimated building energy consumption data based on known entities for our buildings, from the end of December 2020 until the end of March 2021, achieving a data score of 3, weighted at 25%.

### Nationwide's scope 3 carbon emissions

Aligned to the PCAF standard, we have developed an approach for estimating the scope 3 carbon emissions from our mortgage book. The approach leverages the EPC model built for assessing transition risk to estimate the carbon emissions. This model has been through a high level internal oversight process and will go through further assurance prior to the CBES. More details can be found in the scope 1, 2 and 3 carbon emissions data table above.

The scope 3 emissions have been weighted by the loan to value (LTV) on the mortgage, in line with PCAF methodology, in order to calculate the proportion of emissions financed by Nationwide. Modelled property valuations as at 31 December 2020 have been used. We believe this provides the most appropriate valuation data. The use of original valuation was considered but deemed inappropriate. This was particularly true where additional borrowing had taken place since the original valuation, as this could result in calculated LTVs, and hence emissions, in excess of 100%.

A weighted data score of 3.47 has been calculated for the scope 3 emissions. This is based on:

- Using emissions data in publicly accessible EPCs available for approximately 51% of Nationwide's prime, and 62% of Nationwide's buy to let mortgage properties, giving a data score of 3, weighted at 53%
- 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 47%.

It is expected that data quality scores will improve overtime as internal models and EPC datasets mature.

Nationwide's carbon emissions disclosures will be developed further over the coming year. Work is underway to assess the Society's balance sheet for additional scope 3 exposures.

Whilst Nationwide has not yet set science-based targets for scope 1, 2 and 3 emissions, there are plans to explore this to enable the Society to track its progress towards a carbon emissions target aligned to net zero.

## Metrics and targets (continued)

### Physical risk metrics

Nationwide no longer lends on properties at high risk of flooding (in red flood risk zones), but updates to UKCP18 and flood defence datasets are included within model outputs. The increase in the number of properties in red flood risk zones from last financial year can be attributed to a shift in climate forecasting data.

The 30-year scenario analysis of prime and buy to let mortgages, and lending to registered social landlords, showed a low financial impact of physical risk. Further details are provided in the table below.

Nationwide's low future exposure to climate change is due to the low current exposure to flood risk red and amber zones. Over the course of the next year, through work as part of the CBES, and working closely with flood risk partners JBA, the Society's physical risk modelling approach will evolve further.

### Physical risk data

| Prime mortgages | As at 31 Dec 20 | | | As at 31 Dec 19 | | |
|---|---|---|---|---|---|---|
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| Properties in red flood risk zone (note i) | 457 | 0.05 | 0 | 433 | 0.05 | 0 |
| Properties in amber flood risk zone (note i) | 27,610 | 3.36 | 2 | 25,991 | 3.22 | 2 |
| **Buy to let and legacy mortgages** | **As at 31 Dec 20** | | | **As at 31 Dec 19** | | |
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| Properties in red flood risk zone (note i) | 203 | 0.02 | 0 | 204 | 0.02 | 0 |
| Properties in amber flood risk zone (note i) | 9,160 | 1.08 | 3 | 8,506 | 0.98 | 3 |
| **RCP 4.5 30-year scenario – prime and buy to let and legacy (Dec 20)** | | | | | | |
| Total number of properties affected by incremental future flooding (to the nearest thousand) | | | | | | 95,000 |
| Total number of properties deemed uninsurable (to the nearest hundred) / (percentage of book) (note ii) | | | | | | 1,800 / (0.10%) |
| Overall financial impact | | | | | | Low[5] |
| **RCP 4.5 30-year scenario – registered social landlords (Dec 20)** | | | | | | |
| Total number of RSL properties (to the nearest thousand) | | | | | | 180,000 |
| Percentage matched to JBA data | | | | | | 87% |
| Total number of matched properties affected by future flooding (to the nearest hundred) | | | | | | 600 |
| Overall financial impact | | | | | | Low[5] |

Notes:
i. Flood risk scores are weighted by risk level and type (such as coastal flooding) and any flood defences in place.
ii. Uninsurable properties are incremental to those properties already in a red flood risk zone.

[5] Low indicated an estimated increase in ECLs of less than £5 million.

## Transition risk metrics

The use of EPC data has been 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. This, coupled with internal modelling to interpolate core EPC data across both the prime and buy to let mortgage portfolios, produces the management information used to track progress against the EPC Mutual Good Commitment. Further details are contained in the table below.

Actual EPC data is compared with interpolated model data to aid the understanding of differences in the EPC composition across the mortgage book. The most common EPC rating in Nationwide's mortgage book is D, in line with UK average[6], with approximately 36% of the book (total for prime and buy to let) currently rated EPC C or better on an interpolated basis.

## Using physical and transition risk metrics in our governance

Climate change risk data is monitored quarterly by the Climate Change Risk Committee. Physical and transition risk data is reported alongside other metrics and data 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 our operations
- The green profile of our operations (tracking waste and emissions figures).

## Nationwide's transition risk data

**Prime mortgages**

| Current EPC data (note i) | As at 31 Dec 20 | | | As at 31 Dec 19 | | |
|---|---|---|---|---|---|---|
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | 255,752 | 37.79 | 20 | Not reported | | |
| EPC Rated D/E | 363,774 | 52.10 | 29 | 371,766 | 51.93 | 33 |
| EPC Rated F/G | 20,581 | 3.06 | 2 | 23,163 | 3.34 | 2 |
| No EPC / unmatched | 619,048 | 57.18 | 49 | Not reported | | |

| Interpolated EPC data (note ii) | As at 31 Dec 20 | | |
|---|---|---|---|
| | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | 465,915 | 59.27 | 37 |
| EPC Rated D/E/F/G | 793,240 | 90.86 | 63 |

**Buy to let and legacy mortgages**

| Current EPC data | As at 31 Dec 20 | | | As at 31 Dec 19 | | |
|---|---|---|---|---|---|---|
| | Number | Exposure £bn | % of Book | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | 67,599 | 9.04 | 20 | Not reported | | |
| EPC Rated D/E | 134,055 | 16.11 | 41 | 113,583 | 13.30 | 46[7] |
| EPC Rated F/G | 4,032 | 0.40 | 1 | 5,705 | 0.58[7] | 2 |
| No EPC / unmatched | 124,106 | 20.46 | 38 | Not reported | | |

| Interpolated EPC data (note ii) | As at 31 Dec 20 | | |
|---|---|---|---|
| | Number | Exposure £bn | % of Book |
| EPC Rated A/B/C | 106,910 | 16.43 | 32 |
| EPC Rated D/E/F/G | 222,882 | 29.58 | 68 |

Notes:
i. EPC data used as at 30 September 2020.
ii. Interpolated EPC data calculated using machine learning techniques matching most similar properties where data gaps exist. EPC data as at 30 September 2020 and mortgage portfolio data as at 31 December 2020.

[6] Ministry of Housing, Communities and Local Government EPC Database, to June 2020.
[7] Comparative amounts have been restated.

## Climate change complaint and loss data

In addition to the above metrics, both complaint and loss event[8] data related to climate risk are tracked. This data informs the Society's understanding of any material impacts on its operations and members. Whilst the numbers are minimal, we will continue to monitor this activity, particularly given the more regular extreme weather events that have happened in recent years.

| Climate-related complaints (note i) | Year to 4 April 2021 | Year to 4 April 2020 |
|---|---|---|
| Number of complaints (note ii) | 0 | 1 |

Notes:
i. Complaints based on verbatim search of climate-related words.
ii. Rationale of complaint to 4 April 2020 – branch inaccessible due to flooding.

| Climate-related loss events (note i) | Year to 4 April 2021 | Year to 4 April 2020 |
|---|---|---|
| Number of loss events (note ii) | 5 | 8 |

Notes:
i. Based on operational and conduct risk loss events and near misses recorded with a climate change route cause.
ii. Rationale: Most events were found to be flood related or due to more recent major storms.

## Managing our waste and water consumption

In addition to tracking the scope 1 and 2 carbon emissions for buildings, water and waste consumption are measured across Nationwide's sites. More details can be found in the table opposite. Nationwide continues to divert 100% of its waste from landfill. Nationwide has seen a larger reduction in waste and water consumption this year in comparison to previous years, which can be attributed to the increase in home working due to Covid-19. The evolution of this trend will be dependant on future working patterns.

| Waste and water usage | Year to 4 April 2021 | Year to 4 April 2020 | Year to 4 April 2019 | Baseline year to 4 April 2011 |
|---|---|---|---|---|
| Water use (cubic metres) | **170,606** | 199,547 | 195,854 | 259,718 |
| Water use (cubic metres) per FTE | **10.13** | 10.79 | 10.56 | 15.44 |
| Percentage of water consumption reduction / target | **15% / 2%** | | | |
| Waste generated (tonnes) | **1,501** | 2,468 | 2,581 | 4,554 |
| Waste reduction (tonnes) / target | **967 / 25** | | | |
| Percentage of waste recycled / target | **62% / 60%** | 58% | 63% | 43% |

## Tracking our green propositions

In 2020, Nationwide launched its Green Additional Borrowing Mortgage with the support of its £1 billion green fund. Initially launched with a fixed rate of between 1.00 and 2.55% dependent on LTV, the mortgage rate was lowered to a fixed rate of 0.75%, for either two or five years. The take-up for the Green Additional Borrowing mortgage is summarised below.

| Green Additional Borrowing Mortgage | Year to 4 April 2021 |
|---|---|
| Number of applications | 419 |
| Number of completed applications | 345 |
| Total value of applications (£m) | 6.6 |
| Total value of completed applications (£m) | 5.3 |

The number of applications and completions for the Green Additional Borrowing mortgage have been low. This illustrates that it is not the absence of affordable funding that is constraining retrofitting – other barriers exist including a lack of: economic rationale, ability to borrow, convenience, trusted suppliers to undertake the work, and awareness or knowledge of the need for, and how to go about retrofitting.

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 Green Homes Grant was a positive step in this direction but has recently been withdrawn. We will continue to work with government, policy makers and industry, to innovate its propositions, to support further activity to address the industry-wide retrofitting challenges.

Nationwide's partnership with Switchd has seen a number of sign-ups to the service since the staff pilot was launched in January 2020 (followed by a member launch in July 2020), with a significant proportion of them opting to switch to green energy providers, resulting in a carbon emissions saving. A summary of sign-ups is opposite.

| Switchd | As at 4 April 2021 |
|---|---|
| Total member and colleague sign ups to Switchd | 2,967 |
| Percentage of Switchd sign ups that have chosen to switch to green tariffs only | 13.6% |
| Total percentage of Switchd sign ups actually switched to green tariffs | 63.0% |
| Carbon saving to date (tonnes) | 1,229 |
| Estimated carbon saving annually (tonnes) (note i) | 3,411 |

Note:
i. Based on projected carbon saved annually through the Switchd service.

We will continue to monitor the progress of existing and new green propositions over the next year.

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

# Future developments in climate risk

The environment will undoubtedly remain the dominant discourse of this century. Governments and businesses across the globe must do all they can to reduce waste, pollution and use of natural resources, restore biodiversity and ecosystems, and return the planet to, at least, net zero carbon.

As one of the UK's largest mortgage providers, Nationwide has a role to play in supporting society's transition to a net zero economy, with a particular focus on the home. Through the Mutual Good Commitment to lead the greening of UK homes, and the embedding of SS3/19, Nationwide is ensuring that climate change discussions are intrinsic to how its business operates. Responsible business is the way we conduct ourselves – it aligns strongly with the Society's purpose and climate change is an important part of this.

### Going beyond the requirements of SS3/19

Nationwide's climate change risk focus continues to be on embedding the requirements of SS3/19 and tracking progress against the climate change plan. We have also developed the capabilities needed for the upcoming CBES. However, the Society's goals extend beyond this, and Nationwide will continue to mature its understanding of, and capabilities for managing, climate change in years to come.

Furthermore, the lessons learned from the climate change scenario analysis, and CBES itself, will shape the Society's approach to ongoing climate change stress testing. Energy prices impacting affordability, and government policy and outstanding retrofitting requirements affecting property values, could all lead to potential credit losses. We are considering how to integrate transition risk implications into our credit risk modelling to understand the impact on future impairments.

Further improvements to the Society's transition risk modelling are underway to incorporate other considerations such as operational, member, and employee impacts.

Enhancements to the Society's climate change risk management approach will enable it to further enrich its metrics and targets. Driven by the Society's risk appetite statement, complementary risk appetite metrics will be developed.

### Evolving our climate change governance approach and learnings

Since its formation, the Society's governance approach has become well-established, but we recognise that there is more it can and should do to further enhance its effectiveness. Over the coming year we will:

- Further embed climate change into the governance model, which will continue to evolve, informed by the outcomes of committee annual effectiveness reviews
- Encourage broader climate change conversations and enhance understanding – using learnings from partnerships and engagements across the industry
- Track progress of our ambitions and outline future plans for further metric development.

### Staying close to climate change developments

Through engagement with existing partners, and links into industry bodies leading the way on climate change, Nationwide will continue to develop its knowledge of climate change and the impact on the Society and its members.

We will continue to remain close to government policy consultations and participate in engagements relating to climate change and those that impact on the home. We will continue to campaign for:

- New build homes to be built to high energy efficiency standards to avoid the need for future retrofit
- Long-term government financial incentives for owner-occupiers to retrofit, in particular supporting those on low-incomes and those where the financial payback from retrofit is minimal
- A trusted supply chain of retrofit materials, along with the appropriately skilled workforce to fit them
- Behavioural changes to help our members and wider society reduce their carbon emissions.

# Risk overview

Nationwide adopts a prudent approach to risk management, keeping our members' money safe and secure by ensuring that the risks we take in support of our strategy are controlled through a robust risk appetite framework. To ensure these risks are managed consistently and rigorously, we operate an Enterprise Risk Management Framework, which sets out the minimum standards and processes for risk management, translating the Society's overall strategy and the Board's risk appetite into the localised risk management activities and controls which protect our members and their money on a day to day basis. Further detail on this framework is included on page 142 of the Risk report.

**Our approach to managing risks:**

We operate a relatively simple business model and operate in lower risk segments of the market to serve our members' interests and keep them and their money safe and secure. This means our earnings volatility is low and that we ensure our capital ratios remain above regulatory requirements through the economic cycle. We accept that lower volatility can mean lower returns and we manage the Society within these constraints. To do this we:

- take credit risk, focusing on UK residential mortgage lending, which is supported by our strong solvency position;
- manage solvency risk to support current business activity, planned growth and innovation, whilst remaining resilient to significant stresses. We aim to generate enough profit to be self-sufficient through the economic cycle and maintain capital above regulatory minima in a downturn;
- take opportunities to generate returns from our liquidity and market risk exposures where appropriate, but without compromising the management of those risks;
- minimise the impact of operational risks on our customers; this includes identifying, managing and prioritising actions to improve our operational risk, control, and resilience position to keep member services secure and available, whilst optimising the cost of control; and
- ensure our management of conduct risk helps develop propositions which meet customer needs, balancing risk and reward for both our members and the Society, and we aim to provide services which result in fair outcomes for our members.

Principal risk types have been defined to ensure the Society understands and manages its risks in a comprehensive and consistent way. Further information on the Society's attitude across these principal risk types can be found on page 145 of the Risk report.

**Developing our risk management**

Over the year we have continued to review the risk management and control environment, developing a programme of activity to streamline the approach to control ownership, including management accountability for key controls and declarations of control effectiveness across the first and second lines of defence to deliver more consistent outcomes.

## Top and emerging risks

Top and emerging risks are those with potential to have a significant impact on Nationwide's financial results and delivery of its strategic objectives. Nationwide's strategic responses to its top and emerging risks are described below, together with developments in specific external and internal risks. More information on our response to these risks across our principal risk types is provided in the Risk report.

**Covid-19 Pandemic**

The effects of the Covid-19 pandemic have been far reaching with widespread restrictions placed on individuals and businesses, triggering a downturn in the UK economy. Nationwide invoked the highest level of incident management response to the pandemic and has taken unprecedented action to balance three key objectives: maintaining the safety of our members and colleagues; supporting our members with their individual needs; and ensuring the Society remains stable and secure. The unique challenges posed by the pandemic are reflected in a heightened risk profile both externally, driven by the macro-economic environment and the changing needs of our members, and internally as we seek to ensure our processes and systems remain robust whilst minimising risks to our colleagues and members.

## Risk overview (continued)

**Top and emerging risks**

| External Risks | Trend |
|---|---|
| ***Geopolitical and macroeconomic environment*** – As a UK-focused building society, Nationwide's performance is naturally aligned to the UK's economic conditions, in particular household income and the corresponding impact on the housing market. Despite significant government intervention, economic conditions remain uncertain, having been severely impacted by a combination of the Covid-19 pandemic and the UK's exit from the European Union. The Society maintains strong capital and liquidity levels and regularly undertakes robust internal and regulatory stress tests to ensure these are sufficient under a range of severe scenarios, including the potential introduction of negative bank base rates. | → |
| ***Competitive environment*** – The operating environment remains highly competitive, with shifting customer behaviours, regulatory changes and continued innovation in the financial services sector leading to heightened competition in our core markets, as well as new entrants competing primarily via digital channels. | → |
| ***Regulatory change*** – The Society is responding to a high volume of complex regulatory changes and engages with regulators to implement any relevant regulatory developments promptly and appropriately. | → |
| ***Climate change*** – We continue to respond to the threat posed to our members and the Society's business activities by climate change. This includes both the physical risks to housing stock and property, and the transitional risks as the UK transitions towards zero net emissions. More information can be found on page 36. | ↗ |
| ***Financial crime / cyber security*** – We continuously monitor the external landscape to identify potential cyber or fraud threats whilst operating and maturing our key financial crime and cyber controls to protect our members and services as financial crime levels rise in the industry. | → |
| ***Libor transition*** – Preparations for the phasing out of Libor by the end of 2021 are ongoing. This will impact a range of Libor-linked assets, liabilities and derivatives and work continues to manage the impact on the Society and our customers, including working with regulators and industry bodies. | → |

| Internal Risks | Trend |
|---|---|
| ***Resilience*** – Maintaining resilient systems, infrastructure and processes remains critical as Covid-19 restrictions influence member needs in accessing our products and services, and how they interact with us. We continue to strengthen our control environment whilst proactively monitoring the resilience of our services to reduce disruption to our customers. | → |
| ***People risk*** – Throughout the pandemic, ensuring the safety and wellbeing of our colleagues has been of paramount importance. We have implemented measures to ensure colleagues remain safe and supported, including transitioning our workplace to comply with government Covid-19 guidance, enabling colleagues to work from home through technology, allowing flexibility and additional paid leave where necessary to look after children/dependants, and have introduced initiatives to support the physical and mental wellbeing of all our colleagues. Our decision to allow remote working permanently will benefit our colleagues, but we recognise the need to focus on maintaining controls. | ↗ |
| ***Third parties*** – We rely on a network of suppliers to support the provision of member-facing services. Throughout the pandemic, we have continued to work closely with our key suppliers to identify and mitigate any risks which could impact our services. We continue to develop capability to ensure consistent and robust management of third party risks. | → |
| ***Data*** – As increasing volumes of customer data are utilised to improve customer experience and deliver intuitive digital services, the safeguarding of customer data is becoming increasingly critical. We are committed to protecting member and employee data and continue to invest in data architecture and technology to manage and protect personal data more effectively in an evolving digital environment. | → |
| ***Model risk*** – Model risk is heightened under Covid-19 as unprecedented government support and industry measures break traditional economic and credit relationships. To manage the increased model risk the understanding of model limitations has been revisited, model monitoring has been enhanced, and, where appropriate, adjustments to model outputs are made. | ↗ |

**Key** (change in level of risk to Nationwide in year)
↗ Increased level of risk → Stable level of risk ↘ Decreased level of risk

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# Viability statement

The directors have an obligation to confirm that they believe that both the Society and the Group will be able to continue in operation, and to meet their liabilities as they fall due. This viability statement considers the Group's current financial and strategic position and the potential impact of its principal risks, to explain the directors' assessment of the Group's prospects over an appropriate period.

**Assessment of viability**

In making their assessment, the directors have considered the Group's top and emerging risks, and the stress testing activity which has been carried out to assess the potential impact of these risks. When reviewed alongside the Group's strategic plan, and the strength of the Group's current financial position, the directors conclude that the Group remains viable over a three-year period.

The directors consider a period of three years to be appropriate. Whilst there is always going to be difficulty in predicting the future path of the UK or the wider global economy with any degree of precision, it strikes the right balance between assessing likely outcomes with the current information we have, whilst accepting a degree of uncertainty. Notwithstanding this, information contained within the outer years of our financial forecasts supports the assessment of the directors that the Group expects to remain viable in the longer term. A three-year period is within the timeframe of the Group's profitability projections and stress tests.

**Consideration of key risks**

The directors have considered the impact on Nationwide's risk profile of the prevailing macroeconomic environment, the changing needs of our members and our work to ensure our processes and systems remain robust. Throughout the year, the Board has considered the principal risks which are most relevant to Nationwide's strategy, which include:

- Covid-19 pandemic – Over the past year, the pandemic created significant uncertainty, given the unprecedented and rapidly evolving nature of the situation. By invoking the highest level of incident management response to the pandemic, the directors have balanced three key objectives: maintaining a safe environment for our members and colleagues; supporting our members with their individual needs; and ensuring the Society remains stable and secure.
- Geopolitical and macroeconomic environment – As a UK-focused business, the Group's performance is naturally aligned to the UK's economic conditions. Despite significant government intervention, the economic outlook remains uncertain, having been severely impacted by the Covid-19 pandemic and the UK's exit from the European Union. Whilst there remains uncertainty regarding the future profile of interest rates, with the potential for a negative bank base rate, the Society maintains strong capital and liquidity levels and regularly undertakes robust internal and regulatory stress tests to ensure these are sufficient under a range of severe scenarios.
- Competitive environment and consumer behaviours – The level of competition remains a key consideration. This could be driven by shifting customer behaviours, regulatory changes and continued innovation in the financial services sector, and new participants using price and service advantage to challenge our market share aspirations and profitability.
- Financial crime and cyber security – The directors continuously monitor the external landscape to identify potential cyber or fraud threats whilst operating and maturing our key financial crime and cyber controls to protect our members and services, and to meet our regulatory obligations.
- Operational resilience – Maintaining resilient systems, infrastructure and processes remains critical as Covid-19 restrictions and changing consumer behaviours influence member needs in accessing our products and services and how they interact with us. We continue to monitor and strengthen our controls environment whilst pro-actively monitoring the resilience of our services to reduce disruption to our members.

More information on the response to these risks is shown on pages 56 to 57 and 145.

## Viability statement (continued)

**Planning and stress testing activity during 2020/21**

During 2020/21, the Group has developed financial forecasts and a range of plausible stressed economic scenarios, which reflects the impact of our top and emerging risks, which are most material to our financial strength. The scenarios considered include:

- A central ‘U-shaped’ economic scenario, where the economy gradually recovers during 2021. This scenario has been subject to revision during the year to reflect developments in the pandemic and changes to government measures designed to limit the negative impact on the UK economy.
- A ‘downside’ economic scenario which considers the implications of a further economic downturn, either linked to the pandemic and/or a disorderly reversion to new trading arrangements with the EU.
- A ‘severe downside’ economic scenario which considers an even more severe downturn linked to the pandemic and/or a more disorderly adjustment to new global trading arrangements with the EU.
- The Bank of England’s 2021 Solvency Stress Test (SST), which considers a severe path for the current macroeconomic outlook, reflecting a similar peak to trough in HPI compared to the stressed scenarios described above, but with a stronger and more accelerated economic recovery.
- Our 2020 reverse stress test (RST) scenario, which explored our ability to meet our strategic purpose and support the needs of our members in the context of an extended central ‘U-Shaped’ economic scenario, where we experience intense levels of competition and changes in consumer behaviour.
- Our 2020 Internal Capital Adequacy Assessment process (ICAAP).

A selection of these scenarios has been used for expected credit loss modelling during 2020/21, and further detail can be found in note 10 to the financial statements.

**Key planning and stress testing considerations specific to the Covid-19 pandemic**

When undertaking planning and forecasting activity during the past 12 months, we have included an assessment of the following key Covid-19 pandemic considerations:

- The impact of lockdown restrictions, social distancing policies and consumer spending on GDP.
- The impact on HPI of government support measures specific to the housing sector, such as the stamp duty tax holiday, mortgage payment deferral schemes and the subsequent impact on our core lending markets, including behavioural shifts in housing demand.
- The impact of government measures designed to support the labour market and limit the rate of unemployment, such as the Job Retention Scheme and loan schemes for businesses.
- The impact of government support measures specific to the financial services sector, such as the Term Funding Scheme with additional incentives for SMEs (TFSME) and the subsequent impact on our core retail and wholesale funding markets.
- The long-term impact of a sustained low interest rate environment, and consideration of negative interest rates, on our mutual business model.

**Conclusion on viability**

In addition to the Group’s current financial strength, demonstrated through our strong capital ratios (CET1 ratio of 36.4% and UK leverage ratio of 5.4% at 4 April 2021) and liquidity position (LCR of 165% at 4 April 2021), the directors have assessed the impact of the scenarios described above on the Group’s key financial metrics over the three-year assessment period.

In our central ‘U-shaped’ economic scenario, key financial performance metrics are projected to remain comfortably above Board Risk Appetite and regulatory buffers. In addition, our recent external and internal stress testing activity demonstrates how the Group can withstand severe economic and competitive stresses, including those linked to the Covid-19 pandemic.

The directors have a reasonable expectation that the Society and Group will be able to continue its operations, and to meet its liabilities as they fall due, over the three-year assessment period.

# Financial review

## In summary

Throughout the financial year, we have faced an uncertain and unprecedented period. The global pandemic led to the reduction of bank base rate to a historic low and created significant macroeconomic disruption and uncertainty.

We have therefore focused on preserving our strong capital position and continuing to support our members through these challenging times. As a result, underlying profit for the year has improved to £790 million (2020: £469 million) and statutory profit increased to £823 million (2020: £466 million), reflecting strong income and a reduction in administrative expenses.

Total income increased by £239 million, as our net interest margin (NIM) increased to 1.21% (2020: 1.13%). Mortgage income increased as the macroeconomic uncertainty resulted in stronger new business margins across the market.

The reduction in our savings rates, in response to the cut in bank base rate to 0.1%, reduced member financial benefit to £265 million (2020: £735 million[1]). Over the medium term we expect member financial benefit to return to above our £400 million target.

Our continued focus on our cost base has led to administrative expenses reducing by £94 million to £2,218 million (2020: £2,312 million). Reductions from reprioritisation of investment spend over the medium term, and lower business as usual run costs, have been partly offset by restructuring costs as we took action to reduce our future cost base.

The total credit impairment charge remains elevated compared to pre-pandemic levels at £190 million (2020: £209 million). The forward-looking scenarios that we have used to determine the charge encompass a range of outcomes that could arise as a result of the pandemic. However, arrears rates on lending portfolios have remained low, in part due to the impact of government support schemes on our borrowers' finances and the use of payment deferrals.

We have continued to support our 16.3 million members through these challenging times, providing 256,000 mortgage payment holidays and granting 105,000 payment breaks or interest free periods on loans, credit cards and overdrafts.

We have remained open for business, with total residential mortgage lending of £29.6 billion (2020: £30.9 billion). Our market share of mortgage balances was 12.5% (2020: 12.9%).

We saw significant net deposit growth of £10.6 billion (2020: £5.7 billion) due to strong current account inflows as consumer spending was subdued. Our market share of all deposit balances reduced to 9.4% (4 April 2020: 9.9%), reflecting our lower proportion of current account balances, and therefore lower inflows, relative to the market.

In this exceptional year, we have demonstrated the Society's financial resilience by improving our balance sheet strength. Our CET1 and UK leverage ratios improved to 36.4% and 5.4% (4 April 2020: 31.9% and 4.7%) respectively, although this includes a regulatory change in the treatment of intangible assets which the PRA is proposing to reverse. Our Liquidity Coverage Ratio (LCR) was 165% (4 April 2020: 163%).

By preserving our capital strength, we can face the future with confidence, as we continue to support members through a highly uncertain period.


*"We have focused on preserving our strong capital position and continuing to support our members."*

Underlying profit:
**£790m**
(2020: £469m)

Statutory profit:
**£823m**
(2020: £466m)

UK leverage ratio:
**5.4%**
(2020: 4.7%)

[1] The comparative for member financial benefit has been restated. More information on member financial benefit can be found on page 61.

# Income statement

**Underlying and statutory results**

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Net interest income | 3,146 | 2,810 |
| Net other income | 139 | 236 |
| **Total underlying income** | 3,285 | 3,046 |
| Administrative expenses | (2,218) | (2,312) |
| Impairment losses | (190) | (209) |
| Provisions for liabilities and charges | (87) | (56) |
| **Underlying profit before tax** | 790 | 469 |
| Financial Services Compensation Scheme (FSCS) (note i) | (1) | 4 |
| Gains/(losses) from derivatives and hedge accounting (notes i, ii) | 34 | (7) |
| **Statutory profit before tax** | 823 | 466 |
| Taxation | (205) | (101) |
| **Profit after tax** | 618 | 365 |

Net Interest Margin:
1.21%
(2020: 1.13%)

Underlying Cost Income Ratio:
67.5%
(2020: 75.9%, note iii)

Statutory Cost Income Ratio:
66.8%
(2020: 76.1%, note iii)

Return on Assets
0.24%
(2020: 0.15%)

Notes:

i. Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:
- FSCS costs and refunds arising from institutional failures, which are included within provisions for liabilities and charges.
- Gains or losses from derivatives and hedge accounting, which are presented separately within total income.

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

iii. The underlying cost income ratio represents management's view of underlying performance. Gains or losses from derivatives and hedge accounting are excluded from the statutory cost income ratio to arrive at the underlying cost income ratio.

### Total income and net interest margin

Total income has increased by £239 million to £3,285 million (2020: £3,046 million), with a £336 million increase in net interest income. The macroeconomic outlook has been particularly uncertain during the year, with impairment losses across the past two years being higher than pre-pandemic levels. In response to the increased credit risk, mortgage margins have increased across the market. This has generated higher net interest income in the year, which provides some protection against the elevated risk of further impairment losses.

The increase in net interest income was further supported by our reduction in savings interest rates, following the fall in bank base rate to 0.1% and in recognition of the highly uncertain future. Net interest margin (NIM) has increased to 1.21% (2020: 1.13%).

Net other income has reduced by £97 million to £139 million (2020: £236 million) reflecting our decision to buy back covered bond funding which will support income in future years, realising a loss of £35 million. In addition, the prior year included material one-off gains relating to contingent consideration recognised on previous investment disposals.

### Member financial benefit

As a building society, we seek to maintain our financial strength whilst providing value to our members through pricing, propositions and service. Through our member financial benefit, we measure the additional financial value for members from the highly competitive mortgage, savings and banking products that we offer compared to the market. Member financial benefit is calculated by comparing, in aggregate, Nationwide's average interest rates and incentives across mortgages, savings, current accounts, personal loans and credit cards to the market, predominantly using market data provided by the Bank of England and CACI, alongside internal calculations. The value for individual members will depend on their circumstances and product choices.

During the first half of the year we made a change to our methodology for calculating member financial benefit, where instead of using market non-mortgage household lending data from the Bank of England to derive interest rate comparators for personal loans, we are now using data from CACI. This more specifically covers personal loans and provides a good level of coverage of our peer lending group, making it a more appropriate comparator. The impact of this change is to increase member financial benefit for 2019/20 by £20 million.

We quantify member financial benefit as:

Our interest rate differential + incentives and lower fees

*Interest rate differential*

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

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

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

*Member incentives and fees*

Our member financial benefit measure also includes amounts in relation to incentives and fees that Nationwide offers to members. The calculation includes annual amounts for the following:

- Mortgages: the differential on incentives for members compared to the market
- 'Recommend a friend': the amount paid to existing members, when they recommend a new current account member to the Society, although we removed this incentive during 2020/21
- FlexPlus account: this current account is considered market leading against major banking competitors, with a high level of benefits for a relatively smaller fee. The difference between the monthly account fee of £13 and the market average of £17 is included in the member financial benefit measure.

For the year ended 4 April 2021, this measure shows we have provided our members with a financial benefit of £265 million (2020: £735 million). This is below our target of £400 million, reflecting the low interest rate environment and the importance of preserving our strong capital position during a period of significant macroeconomic uncertainty. Over the medium term, we expect this to return to in excess of £400 million.

In calculating member financial benefit using available market or industry level data, no adjustment is made to take account of factors such as customer mix, risk appetite and product strategy, due to limitations in the availability of data and to avoid bias from segments in which Nationwide may be under or over-represented. Furthermore, due to data non-availability, deposits with National Savings & Investments are not included in the market benchmark for deposits. We will continue to review our methodology to ensure it remains relevant given changing market conditions, as well as to ensure it captures all the key elements of the financial benefits we provide to our members, where data is available.

**Administrative expenses**

Administrative expenses reduced by £94 million to £2,218 million (2020: £2,312 million). The reduction is attributable to lower costs relating to strategic investment spend of £160 million and a £22 million reduction in business as usual costs. These are in part offset by an increase in restructuring costs of £72 million for severance and property closures, following actions taken to reduce our future cost base and our decision to enable our colleagues to work from home where they choose to do so. The prior year also included a non-recurrent item associated with the development and subsequent cessation of Nationwide for Business of £88 million, and the £104 million benefit from closure of the defined benefit pension scheme to future accrual.

**Impairment losses/(reversals) on loans and advances to customers**

| **Impairment losses/(reversals) (note i)** | **2021** | 2020 |
|---|---|---|
| | **£m** | £m |
| Residential lending | **71** | 53 |
| Consumer banking | **125** | 159 |
| **Retail lending** | **196** | 212 |
| Commercial | **(6)** | (3) |
| **Impairment losses on loans and advances** | **190** | 209 |

Note:
i. Impairment losses/(reversals) represent the net amount charged/(credited) through the income statement, rather than amounts written off during the period.

Impairment losses have decreased year on year to £190 million (2020: £209 million) but remain elevated due to the continued uncertainty over the economic impacts of the pandemic. The underlying arrears performance of our portfolios has remained broadly stable, with the impacts of Covid-19 on borrowers offset by government support schemes and the use of payment deferrals. During the year additional payment deferrals have been granted and, whilst the majority have now expired, the outlook for borrowers remains uncertain.

More information on the key judgements, including the forward-looking economic information used in our impairment calculations, is included in note 10 to the financial statements.

**Provisions for liabilities and charges**

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and ongoing administration, including non-compliance with consumer credit legislation and other regulatory requirements. The customer redress charge has increased to £87 million (2020: £56 million charge) primarily as a result of a £42 million charge relating to historical quality control procedures and a £36 million charge in relation to past administration of customer accounts. The remainder of the charge relates to remediation costs for other redress issues, including the processing of remaining PPI complaints. More information is included in note 27 of the financial statements.

**Taxation**

The tax charge for the year of £205 million (2020: £101 million) represents an effective tax rate of 24.9% (2020: 21.7%) which is higher than the statutory UK corporation tax rate of 19% (2020: 19%). The effective tax rate is higher due to the 8% banking surcharge of £38 million (2020: £24 million), the tax effect of disallowable bank levy and customer redress costs of £5 million and £8 million (2020: £11 million and £4 million) respectively and unrecognised deferred tax assets of £10 million (2020: £nil) primarily in respect of expected future capital losses on revalued properties. This is partially offset by the tax credit on the distribution to the holders of Additional Tier 1 capital instruments of £12 million (2020: £9 million) and the tax impact of deferred tax provided at different rates of £5 million (2020: £17 million). Further information is provided in note 11 to the financial statements.

## Balance sheet

Total assets have increased by 3% to reach £254.9 billion at 4 April 2021 (2020: £248.0 billion). Growth is predominantly due to higher holdings of cash and liquid assets driven largely by an increase in member deposits.

Member deposit balance growth has been strong, with balances increasing by £10.6 billion to £170.3 billion (2020: £159.7 billion) as a reduction in consumer spending during the national and regional lockdowns has led to an increase in current account credit balances.

## Financial review (continued)

**Assets**

| | **2021** | | 2020 | |
|---|---|---|---|---|
| | **£m** | **%** | £m | % |
| Cash | **16,693** | | 13,748 | |
| Residential mortgages (note i) | **191,023** | **95** | 188,839 | 94 |
| Commercial | **6,972** | **3** | 7,931 | 4 |
| Consumer banking | **4,404** | **2** | 4,994 | 2 |
| | **202,399** | ***100*** | 201,764 | *100* |
| Impairment provisions | **(852)** | | (786) | |
| Loans and advances to customers | **201,547** | | 200,978 | |
| Other financial assets | **33,888** | | 30,185 | |
| Other non-financial assets | **2,786** | | 3,130 | |
| **Total assets** | **254,914** | | 248,041 | |

| **Asset quality** | **%** | | % | |
|---|---|---|---|---|
| Residential mortgages (note i): | | | | |
| Proportion of residential mortgage accounts more than 3 months in arrears | **0.43** | | 0.41 | |
| Average indexed loan to value (by value) | **56** | | 58 | |
| | | | | |
| Consumer banking: | | | | |
| Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances) | **1.33** | | 1.22 | |

Note*:*
i. Residential mortgages include prime, buy to let and legacy lending.

Liquidity Coverage Ratio at 4 April 2021:
165%
(2020: 163%)

### Cash

Cash comprises liquidity held by our Treasury function amounting to £16.7 billion (2020: £13.7 billion). The £2.9 billion increase in cash is driven by inflows of member deposits during the year, reflecting the accumulation of funds during the national and regional lockdowns, coupled with increased repurchase agreement balances as we managed the assets within our liquidity portfolio. This was in part offset by a reduction in wholesale funding and an increase in the size of the liquid asset portfolio.

The average Liquidity Coverage Ratio over the 12 months ending 4 April 2021 increased to 159% (2020: 152%). We continue to manage liquidity against our internal risk appetite which is more prudent than regulatory requirements. Further details are included in the Liquidity and funding risk section of the Risk report.

### Residential mortgages

Total gross mortgage lending in the year was £29.6 billion (2020: £30.9 billion) as significantly lower new lending during the first national lockdown was later offset by stronger demand, in part due to the temporary changes to stamp duty. Our market share of gross lending was 11.1% (2020: 11.4%). Total mortgage net lending in the year was £1.9 billion (2020: £2.8 billion) which includes buy to let mortgage net lending of £3.6 billion (2020: £3.3 billion).

Total mortgage balances grew to £191.0 billion (2020: £188.8 billion). Strong buy to let mortgage lending resulted in our buy to let and legacy mortgage balances growing to £41.2 billion (2020: £37.7 billion). Prime mortgage balances declined to £149.8 billion (2020: £151.1 billion) as we tightened our lending criteria.

Financial review (continued)

Arrears increased slightly during the year but remain low, with cases more than three months in arrears at 0.43% of the total portfolio (2020: 0.41%). Arrears have been suppressed by payment deferrals and other government support measures, and in view of UK economic conditions, an increase in arrears from current levels is expected over the medium term. Impairment provision balances have increased to £317 million (2020: £252 million) due to the deterioration in the economic outlook reflected in the economic scenarios used to model expected credit losses. We have granted 256,000 payment deferrals in the year to support members impacted by the pandemic.

**Commercial lending**

During the year, commercial lending balances have decreased to £7.0 billion (2020: £7.9 billion). Continuing the deleveraging activity in previous financial years, the overall portfolio is increasingly weighted towards public sector lending. This includes registered social landlords with balances of £4.8 billion (2020: £5.4 billion), and project finance with balances of £0.7 billion (2020: £0.7 billion). With a smaller book, and fewer active borrowers requiring further lending, our commercial real estate balances decreased during the year to £0.8 billion (2020: £1.0 billion).

Impairment provision balances have decreased to £33 million (4 April 2020: £40 million) due to improvements to a small number of individually assessed exposures.

**Consumer banking**

Consumer banking balances have decreased to £4.4 billion (2020: £5.0 billion). Consumer banking comprises personal loans of £2.8 billion (2020: £3.0 billion), credit cards of £1.4 billion (2020: £1.7 billion) and overdrawn current account balances of £0.2 billion (2020: £0.3 billion). The pandemic has resulted in balances declining as the market demand for consumer credit has decreased.

Impairment provision balances have increased to £502 million (4 April 2020: £494 million) primarily due to the deterioration in economic outlook, reflected in the economic scenarios used to model expected credit losses, with underlying performance remaining broadly stable. To support members impacted by the pandemic, we have granted 105,000 payment deferrals and interest holidays in the year.

**Other financial assets**

Other financial assets total £33.9 billion (2020: £30.2 billion) and comprise investment assets held by our Treasury function amounting to £29.1 billion (2020: £23.6 billion), derivatives with positive fair values of £3.8 billion (2020: £4.8 billion) and fair value adjustments and other assets of £1.0 billion (2020: £1.8 billion). The £3.7 billion increase is driven primarily by an increase in liquid asset holdings. Derivatives largely comprise interest rate and foreign exchange contracts which economically hedge financial risks inherent in core lending and funding activities.

**Members' interests, equity and liabilities**

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Member deposits | **170,313** | 159,691 |
| Debt securities in issue | **27,923** | 35,963 |
| Other financial liabilities | **41,009** | 37,817 |
| Other liabilities | **1,556** | 1,608 |
| **Total liabilities** | **240,801** | 235,079 |
| Members' interests and equity | **14,113** | 12,962 |
| **Total members' interests, equity and liabilities** | **254,914** | 248,041 |

Wholesale funding ratio:
26.7%
(2020: 28.5%)

**Member deposits**

Member deposit balance growth of £10.6 billion (2020: £5.7 billion) to £170.3 billion (2020: £159.7 billion) represents growth in current account credit balances and retail savings balances of £8.0 billion and £2.6 billion respectively. Increased current account credit balances were driven by 'forced' saving during the national and regional lockdowns as consumer spending remained subdued. There were savings outflows in H1 2020/21 following the decision to reduce interest rates across our savings range, as a result of the bank base rate reductions in March 2020. However, these were more than offset by savings inflows in the second half of the year reflecting the launch of more competitive propositions including our leading Mutual Reward Bond, Start to Save account and our Triple Access Online account, in addition to NS&I's decision to reduce rates in November. There was a more significant overall increase in deposit balances across the UK as our competitors hold a greater proportion of current account balances which experienced strong growth during periods of lockdown. This has led to a reduction in our deposit stock market share to 9.4% (2020: 9.9%). Our market share of all current accounts remains stable at 10.2% (2020: 10.0%)[1].

**Debt securities in issue and other financial liabilities**

Debt securities in issue primarily comprise wholesale funding but exclude subordinated debt, which is included within other financial liabilities. Balances have decreased to £27.9 billion (2020: £36.0 billion) largely due to a change in funding mix as member deposit balances have grown significantly. Other financial liabilities have increased to £41.0 billion (2020: £37.8 billion) principally due to an increase in repurchase agreement balances as we managed the composition of the liquidity portfolio. Nationwide's wholesale funding ratio has also decreased to 26.7% (2020: 28.5%) reflecting the change in funding mix; this ratio remains well below the statutory maximum of 50%. Further details are included in the Liquidity and funding risk section of the Risk report.

**Members' interests and equity**

Members' interests and equity have increased to £14.1 billion (2020: £13.0 billion) largely as a result of the issuance of £750 million of Additional Tier 1 capital in June 2020 and retained profits.

## Statement of comprehensive income

| **Statement of comprehensive income** (note i) | | |
|---|---|---|
| | **2021** | 2020 |
| | **£m** | £m |
| Profit after tax | **618** | 365 |
| Net remeasurement of pension obligations | **(72)** | 119 |
| Net movement in cash flow hedge reserve | **(111)** | (14) |
| Net movement in other hedging reserve | **(4)** | (42) |
| Net movement in fair value through other comprehensive income reserve | **131** | (67) |
| Net movement in revaluation reserve | **2** | (11) |
| **Total comprehensive income** | **564** | 350 |

Notes:
i. Movements are shown net of related taxation.

Gross movements are set out in the financial statements on page 242. Further information on movements in the pension obligation is included in note 30 to the financial statements.

[1] CACI's Current account and savings database (February 2021 and February 2020)

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## Capital structure

Our capital position remains strong, with both the Common Equity Tier 1 (CET1) ratio and UK leverage ratio comfortably above regulatory capital requirements of 12.7% and 3.6% respectively. The CET1 ratio increased to 36.4% (2020: 31.9%) and the UK leverage ratio increased to 5.4% (2020: 4.7%). The capital disclosures included in this report are in line with Capital Requirements Directive IV (CRD IV) and on an end point basis with IFRS 9 transitional arrangements applied.

| Capital structure | 2021 £m | 2020 £m |
|---|---|---|
| **Capital resources** | | |
| Common Equity Tier 1 (CET1) capital | **12,007** | 10,665 |
| Total Tier 1 capital | **13,343** | 11,258 |
| Total regulatory capital | **16,176** | 14,578 |
| | | |
| **Capital requirements** | | |
| Risk weighted assets (RWAs) | **32,970** | 33,399 |
| UK leverage exposure | **248,402** | 240,707 |
| CRR leverage exposure | **265,079** | 254,388 |
| | | |
| **CRD IV capital ratios** | **%** | % |
| CET1 ratio | **36.4** | 31.9 |
| UK leverage ratio | **5.4** | 4.7 |
| CRR leverage ratio | **5.0** | 4.4 |

The CET1 ratio increased to 36.4% (2020: 31.9%) as a result of an increase in CET1 capital of £1.3 billion and a reduction in RWAs of £0.4 billion. The CET1 capital increase was driven by £0.6 billion profit after tax and a £0.1 billion increase in IFRS 9 transitional capital relief. In addition, £0.6 billion of software intangible assets are no longer deducted from capital[2]. The reduction in RWAs was driven by unsecured loan RWAs linked to decreasing total loan balances and reduced probability of default (PD). In addition, modifications were made to risk weights for small and medium-sized enterprises (SMEs) and infrastructure loans in line with EU Regulation 2020/873, culminating in a reduction of commercial loan RWAs.

On 23 December 2020, EU Regulation 2020/2176 came into force, providing an amendment to the deduction of intangible assets from CET1 resources. The PRA confirmed as part of CP5/21 ‘Implementation of Basel standards’ their intention to modify the applicable regulation and reverse this change by 1 January 2022. If the revised rules had not been applied, Nationwide’s CET1 ratio and UK leverage ratio at 4 April 2021 would have been 35.4% and 5.2% respectively[2].

Whilst the future economic impact of Covid-19 continues to be unclear, it may lead to some RWA inflation and therefore a lower CET1 ratio in the medium term. Once the extended government support schemes announced in November 2020 end, we will better understand how individual members have been affected and the subsequent impact on risk-based ratios. However, the current capital position and the published stress testing results show that we are well capitalised and positioned to meet such periods of financial stress.

The UK leverage ratio increased to 5.4% (2020: 4.7%), with Tier 1 capital increasing by £2.1 billion as a result of the CET1 capital movements referenced above and the issuance of £0.7 billion of AT1 capital instruments in June 2020. Partially offsetting the impact of this, there was an increase in UK leverage exposure of £7.7 billion, primarily as a result of net retail lending and treasury investments in the period.

The CRR leverage ratio increased by 0.6%, closing at 5.0% (2020: 4.4%). The difference between the Capital Requirements Regulation (CRR) leverage ratio and the UK leverage ratio is driven by the exclusion of qualifying central bank claims from the UK leverage exposure measure as required by the PRA Rulebook.

[2] Further details of the capital position, regulatory changes and developments are included in the Solvency risk section of the Risk report.

# Governance

**Structure of the Governance section**
The Governance section has been organised to follow the structure of the 2018 UK Corporate Governance Code (the 'Code') and illustrates how we have applied the Code principles and complied with its provisions.


# Report of the directors on Corporate Governance

For the year ended 4 April 2021

*Dear fellow member,*

*I am pleased to present the Corporate Governance report for the financial year ended 4 April 2021.*

Nationwide is owned by its members and is therefore driven by a mutual purpose to take decisions in the interest of the membership. This starts with good governance to ensure we continue to make decisions that support the Society's resilience and future prospects as well as delivering value for our members.

The Society's Board of directors is responsible for its governance and setting a clear strategy and direction. The Board is committed to maintaining the highest standards in the way Nationwide is directed, governed and managed and we have adopted the UK Corporate Governance Code (the Code) which sets the governance standards for public listed companies. Whilst we aim to comply with the Code's ethos and principles, we do so in line with the Building Societies Association guidance on the Code to ensure alignment with good practice and our mutual status. Further information on our governance structure and how we have applied the provisions of the Code can be found on pages 79 to 80.

This financial year has continued to provide constant challenge as the Society and its members have navigated through the challenges of the pandemic and the UK exit from the European Union. Throughout this, the Board has adapted successfully to holding virtual Board and Board committee meetings since March 2020. The Board has been engaged appropriately and informed of the associated risks and the Society's response to the pandemic, with a focus on maintaining the Society's financial strength, operational resilience, effective cost management, the ongoing wellbeing of our colleagues and support for members and other stakeholders.

## Our members

Members continue to be at the heart of what we do at Nationwide. At the 2020 AGM we were unable to invite members to attend due to the national restrictions on public gatherings. We encouraged our members to vote online, submit questions in advance and watch the event via livestream on the day of the meeting. Both Joe Garner and I made short films to respond to submitted questions and allow members to be engaged as much as possible in challenging circumstances. Sadly, we will not be able to welcome our members back in person to our 2021 AGM, as we have decided, in April, that in order to keep our members and colleagues safe we will hold our AGM with just the minimum number of colleague members present in person. The Board continues to encourage all members to engage before the AGM and to watch the event which will be live streamed online on the day of the meeting. We hope to welcome members again in person in future years.

As a member-owned Society, we will only be successful if we listen to and meet the needs of our members. We have adapted our regular Member TalkBack sessions so that the Board can continue to connect directly with the Society's members despite the inability to hold physical meetings. Members were instead invited to online sessions, which were held at different times of the day to enable us to reach even more of our members during the pandemic. More information on these sessions and how to take part is on our website, **nationwide.co.uk**

In the last year, members have taken part in discussions and surveys to share their views through our Member Connect community. Their views have helped to shape new products and have included suggestions for improvements. More information on these initiatives can be found on our website.

## Our people and culture

To support our mutual principles and to ensure members get the best possible service and outcomes from us, the Board is committed to the development of a workplace strategy for our colleagues to thrive and succeed. Throughout the year, the Board has been closely engaged with management on its proposals for reimagining the future of work, and endorsed the commitments announced in March 2021 to be more flexible in how and where our colleagues work.

For a better understanding of the views of our people, Mai Fyfield, our designated director responsible for ensuring the voice of our employees is heard in the Boardroom, has met with colleagues throughout the year and shared the feedback with the Board. Further information on Mai's engagement activities can be found on pages 87 to 88.

In addition, the Board has received presentations from chosen representatives and employee networks sponsors on championing working families, disability, gender and ethnicity.

The Board receives regular updates on a suite of colleague listening mechanisms and during the year received monthly updates on colleague sentiment. These updates include insights from a Culture Mosaic, which brings together all data-points, allowing the Board to assess progress in developing our culture in line with our PRIDE values. The continuous listening tools give colleagues the opportunity to provide feedback about their working experience, the Society's leadership, service to members and strategy. The results tell us that we retain a strong culture and committed colleagues. Due to the unprecedented impact of the pandemic on colleagues' daily lives, extended families, mental health and wellbeing, the Board receives regular updates from management on how colleagues are feeling and the challenges that are being faced.

The annual Banking Standards Board[1] survey is a valuable source in understanding how Nationwide's culture has evolved over time, allowing the Board to compare Nationwide's culture with that of other UK financial services providers. The results of the 2021 survey were shared with the Board and showed that Nationwide promotes high standards of behaviour and saw a positive response to questions concerning the management of the Covid-19 pandemic.

Our care for members and each other is strong, and as a Board we are committed to ensuring that our policies and practices are aligned with the values of the Society. Nationwide promotes openness, honesty and transparency and recognises the importance of colleagues being able to raise concerns in confidence and without fear of reprisal. The Board continues to oversee the integrity, independence, operation and effectiveness of Nationwide's policies and procedures on whistleblowing.

## Leadership

The Board is responsible for setting the medium and long-term vision for the Society, being a guardian for its culture and values, overseeing performance and the Society's attitude to risk, and supporting and challenging management. As Chair, it is my responsibility to lead the Board and promote its effectiveness within a strong and sound governance framework. Each year, a formal evaluation of the effectiveness of the Board and its committees is conducted and this is facilitated by an independent third party every three years. In 2021, the effectiveness review is being conducted independently, and we will report on the findings in next year's Annual Report. The progress made on actions taken in response to the findings of the 2020 review is detailed on page 95.

It is important that the Board has the right blend of experience, skills and diversity required to continue to provide the appropriate level of oversight and challenge for the business. The Board's composition, balance, skills and experience are reviewed regularly to ensure that the Board continues to discharge its responsibilities effectively.

After nine years of service as a non-executive director, Rita Clifton will retire from the Board at our AGM in July 2021. I would like to take this opportunity to thank Rita on behalf of the Board and Nationwide for her contribution and wish her well in her future portfolio.

We were pleased to announce the appointments of Tamara Rajah and Debbie Klein to the Board as non-executive directors in September 2020 and March 2021 respectively.

Tamara is the founder and CEO of Live Better With, with an in depth knowledge of digital transformation and disruptive technologies which will be key skills to support the onward strategy and challenges for the Society. Tamara is a member of the Board IT and Resilience and Board Risk Committees.

Debbie has extensive experience in commercial brand and marketing roles and is currently Group Chief Marketing, Corporate Affairs and People Officer at Sky. Her understanding and experience of people leadership, large scale adoption of data and analytics in driving consumer and organisational value, brand strategy, sustainability and corporate social responsibility will prove invaluable to the Board.

## Inclusion and diversity

The Board benefits from the diversity of views, backgrounds and experience of its directors and remains committed to increasing its diversity. It is this which creates better governance and improves our ability to challenge and support the Society.

The composition of the Board continues to meet or exceed all of the benchmarks set for listed companies with regard to gender and ethnic diversity. The Society publishes both an ethnicity pay gap report and a gender pay gap report each year, and has set itself a clear pathway to achieve a more inclusive and diverse Society, which better reflects the communities it serves. More information on our inclusion and diversity strategy and measures across the Society can be found on pages 26 to 28.

**David Roberts**
Society Chair

[1]This is an annual survey undertaken by the Banking Standards Board covering 29 firms, including 6 systemically important institutions in the UK (of which Nationwide is one) plus a range of other mid-sized and small banks and building societies. 2,081 of the Society's colleagues participated in the last assessment.

# Board of directors

*Meet your Board of directors who were in office at 4 April 2021, including Tamara Rajah and Debbie Klein, who are seeking election as non-executive directors.*

## David Roberts CBE – Non-executive director and Chair elect from 1 September 2014. Chair since 24 July 2015 (independent upon appointment as Chair)

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### Skills and experience

David combines a distinctive blend of leadership experience across major listed corporations, the mutual movement, and public service, including 35 years in financial services. He is a passionate champion of Nationwide's social purpose and of the Society's commitment to help improve the financial lives of its members. David also strongly believes in the economic value of commerce and the importance of rebuilding trust in big business. David has many years of experience at Board and Executive level; his previous positions include Group Deputy Chair of Lloyds Banking Group plc, Executive Director at Barclays Bank plc and Chair / CEO of Bawag PSK AG. He is also a former non-executive director at BAA plc and Absa Group SA.

### Current external positions

- Vice Chair, NHS England
- Chair, Beazley plc
- Chair, Beazley Furlonge Limited
- Non-executive director, Campion Wilcocks Limited
- Advisor Board member, The Mentoring Foundation Advisory Council
- Member, Strategy Board, Henley Business School, University of Reading

## Joe Garner – Chief Executive Officer since 5 April 2016

### Skills and experience

Joe has spent his working life in consumer-focused businesses, starting his career with consumer product companies Procter & Gamble and Dixons Carphone. He later took on leadership roles, first as Head of HSBC's UK retail and commercial businesses and then as CEO at Openreach. Joe was also previously a non-executive director of the Financial Ombudsman Service. Throughout his career, Joe has championed the interests of colleagues and customers, believing that looking after both is not only the right thing to do, but the key to commercial success. Since joining Nationwide, Joe's mission has been to inspire colleagues to remain true to the Society's social purpose, using the power of the collective to improve people's lives. Joe is passionate about Nationwide's core purpose of 'building society, nationwide'.

### Current external positions

- Director, UK Finance
- Member, Financial Conduct Authority Practitioner Panel
- Patron, British Triathlon
- Member, Economic Crime Strategy Board
- Co-chair, Inclusive Economy Partnership Financial Capability and Inclusion Steering Committee

**Key:** a Audit Committee it Board IT and Resilience Committee ng Nomination and Governance Committee r Remuneration Committee ri Board Risk Committee Indicates Chair of a Committee

# Board of directors (continued)

## Rita Clifton CBE – Non-executive director since 1 July 2012 (independent)

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### Skills and experience

As a former CEO and Chair of brand consultancy Interbrand, Rita is an acclaimed brand expert. This, and her background in consumer insight, helps ensure that member interests are central to Board business. She was Vice Chair and Strategy Director at Saatchi & Saatchi and Chair of BrandCap Group Limited. Rita has helped a wide range of iconic British organisations understand how to use research, marketing strategy and communications to build sustainable brand value. She has held previous positions as a non-executive director for ASOS plc, Dixons Retail plc, Populus Limited and Bupa. She is a committed advocate for environmental and sustainability issues and was a member of the UK Government's Sustainable Development Commission and a former Trustee of the Worldwide Fund for Nature.

### Current external positions

- Director, Leaderbrand Limited
- Non-executive director, Ascential plc
- Member, Assurance and Advisory Panel, BP's carbon off-setting programme 'Target Neutral'
- Trustee, Green Alliance
- Chair, Forum for the Future
- Fellow, Oxford University
- Deputy Chair, John Lewis Partnership

## Mai Fyfield – Non-executive director since 2 June 2015 (independent)

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### Skills and experience

Mai combines her experience as an economist and strategist with considerable commercial experience to guide the Board's strategic thinking and assessment of new opportunities and initiatives. She was Chief Strategy and Commercial Officer at Sky until October 2018, where she led strategy and commercial partnerships across the Sky Group plc. During her nearly 20 years at Sky she was a key player in the growth and diversification of the business.

Mai is a champion of diversity and helping women succeed in senior management and Board positions.

### Current external positions

- Non-executive director, Roku Inc
- Non-executive director, BBC Commercial Holdings Limited
- Non-executive director, ASOS plc

Key: a Audit Committee it Board IT and Resilience Committee ng Nomination and Governance Committee r Remuneration Committee ri Board Risk Committee Indicates Chair of a Committee

# Board of directors (continued)

## Albert Hitchcock – Non-executive director since 2 December 2018 (independent)

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### Skills and experience

Albert is a leader in information technology with over 30 years in the technology industry. His experience is of huge value to the Society as we continue our ambitious transformation programme to meet the expectations of our members today and in the future.

Albert was previously a Technology Advisor to the Board of the Royal Bank of Scotland plc and has held executive positions as a Group Chief Information Officer at Vodafone plc and Nortel Networks.

### Current external positions

- Chief Technology and Operations Officer, Pearson plc

## Debbie Klein – Non-executive director since 1 March 2021 (independent)

### Skills and experience

Debbie has extensive experience in commercial brand and marketing roles. She is currently Group Chief Marketing, Corporate Affairs and People Officer at Sky, where her remit includes responsibility for overall brand and marketing development, as well as leading corporate communications, public affairs, internal communications, and human resources. She is also responsible for Sky's corporate social responsibility (CSR) programme ('Bigger Picture'). Her expertise in sustainability and CSR matters will assist with building Nationwide's future Environmental, Social and Corporate Governance (ESG) agenda.

Debbie was previously Chief Executive Europe and Asia Pacific at The Engine Group, an integrated marketing services business where she worked closely with Sky for 12 years. She held various leadership roles in her 20 years at the firm, including Head of Strategy. Earlier in her career she worked in Strategy and Insight at Saatchi & Saatchi and Nielsen.

### Current external positions

- Group Chief Marketing, Corporate Affairs and People Officer, Sky

Key: a Audit Committee | it Board IT and Resilience Committee | ng Nomination and Governance Committee | r Remuneration Committee | ri Board Risk Committee | Indicates Chair of a Committee

# Board of directors (continued)

## Kevin Parry OBE – Non-executive director since 23 May 2016 and Senior Independent Director since 17 January 2020

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### Skills and experience

Kevin is a chartered accountant with a distinguished career in financial services and professional practice, bringing to the Board expertise in audit, regulation, risk management, and finance. As a former Chair of the Homes and Communities Agency, his perspective on housing is a valuable asset to the Society. Kevin has a wealth of experience across a broad range of organisations; he was formerly Chair of Intermediate Capital Group plc and Senior Independent Director of Standard Life Aberdeen plc, as well as holding previous executive positions with Schroders plc and Management Consulting Group plc. In addition, he is a former trustee and Chair of the Royal National Children's Springboard Foundation, a charity providing life transforming opportunities through education to disadvantaged children.

### Current external positions

- Chair, Royal London Mutual Insurance Society Limited
- Non-executive director and Chair of the Audit and Risk Committee, Daily Mail and General Trust plc

## Tamara Rajah MBE – Non-executive director since 1 September 2020 (independent)

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### Skills and experience

Tamara has extensive experience in entrepreneurial ventures and technology and is founder and CEO of an award-winning, venture capital backed global consumer healthcare platform. She has published widely on high growth entrepreneurship and was formerly a non-executive director of the ScaleUp Institute Limited and Entrepreneur First Operations Limited. Prior to launching her own company Tamara was one of the youngest partners at strategy firm McKinsey where she spent a decade in the healthcare practice and led McKinsey's knowledge and client work on entrepreneurship and technology clusters in life sciences, digital and technology. She brings to the Board vast experience of digital transformation, entrepreneurship and innovation.

### Current external positions

- Non-executive director, Holland & Barrett Limited
- CEO, Live Better With Limited
- Non-executive director, London & Partners Ventures Limited

**Key:** a Audit Committee it Board IT and Resilience Committee ng Nomination and Governance Committee r Remuneration Committee ri Board Risk Committee Indicates Chair of a Committee

# Board of directors (continued)

## Chris Rhodes – Executive director since 20 April 2009

### Skills and experience

Chris was appointed Chief Financial Officer in October 2019; he is a chartered accountant with over 30 years' experience in retail and commercial banking, holding senior leadership roles across finance, treasury, operations, retail distribution and risk management. His previous positions include Group Finance Director for Alliance and Leicester Group, Board Director at Visa Europe and Deputy Managing Director for GiroBank.

Chris was a Director of the Lending Standards Board Limited and a Trustee of National Numeracy. His broad background means he has a deep understanding of the Society and the mutual business model and he is ideally placed to oversee the long-term financial stability of the Society, ensuring the Society continues to invest for the future on behalf of its members.

## Phil Rivett – Non-executive director since 1 September 2019 (independent)

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### Skills and experience

Phil is a chartered accountant with over forty years' experience of professional accountancy and audit with a focus on banks and insurance companies. Phil has a wealth of experience advising major financial services providers in the UK and on a global basis; he has held various senior positions at PricewaterhouseCoopers LLP and was Chair of its Global Financial Services Group prior to retiring from the firm.

Phil has an exceptional leadership track record advocating a collaborative and inclusive approach.

### Current external positions

- Non-executive director and Audit Committee Chair, Standard Chartered Plc

**Key:** a Audit Committee it Board IT and Resilience Committee ng Nomination and Governance Committee r Remuneration Committee ri Board Risk Committee Indicates Chair of a Committee

# Board of directors (continued)

## Tim Tookey – Non-executive director since 2 June 2015 (independent)

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### Skills and experience

Tim is a chartered accountant with over 30 years' experience in finance, across retail and commercial banking, life assurance and pensions, and insurance. As a former Chief Financial Officer, Tim has the background and expertise to analyse and test the Society's financial and risk strategies.

Tim's previous appointments include Chief Financial Officer at Quilter plc where he led the IPO from Old Mutual Wealth Management Limited, Chair at Alliance Trust Savings Limited, Chief Financial Officer at Friends Life Group Limited and Group Finance Director of Lloyds Banking Group plc.

### Current external positions

- Non-executive director, Royal London Mutual Insurance Society Limited
- Director, Westmoreland Court Management (Beckenham) Limited

## Gunn Waersted – Non-executive director since 1 June 2017 (independent)

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### Skills and experience

Gunn has a distinguished international career, including senior leadership positions in financial services, telecommunications and petrochemicals. Gunn previously served as Group Vice President at Nordea Bank Group and was CEO of Nordea Bank Norway. In addition she has been CEO at SpareBank Group and Vital Forsikring. Gunn was a non-executive director of Statkraft, Statoil. She brings to the Board vast experience of driving large-scale operational change, cultural change and digital transformation programmes to improve customer experience.

She is a strong advocate of the need for strong people cultures and creating genuinely diverse organisations.

### Current external positions

- Chair, Telenor ASA
- Chair, Petoro AS
- Member, Fidelity International
- Non-executive director, Saferoad Holding ASA

Key: a Audit Committee it Board IT and Resilience Committee ng Nomination and Governance Committee r Remuneration Committee ri Board Risk Committee Indicates Chair of a Committee

# Nationwide Leadership Team

*The Nationwide Leadership Team derives its authority from the Chief Executive Officer and is responsible for directing and coordinating the executive management of the Society within the strategy, risk appetite, operational plans, policies, objectives, frameworks, budget and authority approved by the Board.*

The Nationwide Leadership Team acts as a forum to assist the Chief Executive Officer with his responsibilities. Members of the Nationwide Leadership Team lead either functional communities, or one of our Member Missions, which have responsibility for bringing together activities across our communities to serve our members.

As well as sitting on the Board of Directors, the following individuals are also part of the Nationwide Leadership Team:

Joe Garner

Chris Rhodes

## Mandy Beech – Member Experience Director, Retail Distribution & Servicing

Mandy joined Nationwide in 2010 and has a deep understanding of retail financial services and a wealth of experience in leading operational teams. She currently leads the Branch, Contact Centre and Digital Servicing teams as well as representing our member-facing teams across the Society. Mandy is passionate about the critical role these teams play in bringing our brand to life and the service they provide to our members. Prior to joining Nationwide Mandy led large retail teams within Royal Bank of Scotland.

## Sara Bennison – Chief Product and Marketing Officer

Sara started her career in advertising, working for major brands in the UK and Asia. She joined Nationwide in March 2016 having spent the previous decade at BT and then Barclays. She is responsible for leading the Propositions and Engagement Community which involves understanding what members want, developing propositions which answer member needs, and managing all the products we offer and the way in which we communicate, as well as our social investment programme.

## Janet Chapman – Mission Leader – Moments that Matter

Janet joined Nationwide in January 2017 as Chief Internal Auditor. She currently leads the Moments that Matter Member Mission which focuses on building and delivering unique services and experiences to support members at times when they need it. Prior to joining Nationwide, Janet was Chief Auditor for institutional businesses at Citigroup. Before that, she was Chief Auditor for the Americas at The Bank of Tokyo Mitsubishi. Her early career was spent with Accenture as an IT consultant.

## Mark Chapman – Chief Legal Officer

Mark joined Nationwide in March 2018 as Leader of Legal and Secretariat, delivering expert advice and guidance on legal and regulatory issues, as well as a comprehensive secretariat service. Mark was Society Secretary until March 2021. Before joining Nationwide, Mark spent a year volunteering as a teacher in South Africa. He previously served as General Counsel of Barclays UK and General Counsel at Nomura International, having started his career as a litigator at Freshfields in both London and New York.

# Nationwide Leadership Team (continued)

## Patrick Eltridge – Chief Operating Officer

Patrick joined Nationwide as Chief Operating Officer (COO) in February 2019. He was previously Group Information Officer at Royal Bank of Scotland, where he was responsible for the successful delivery of IT and operational resilience improvement programmes. Patrick has vast experience in financial services, telecommunications and technology start-ups. As COO, Patrick's focus is on the realisation of the Society's technology strategy to deliver value and service for members, while keeping them safe and secure.

## Jane Hanson – Chief People Officer

Jane joined Nationwide in January 2018 and in September 2019 was appointed as Chief People Officer, leading the Society's people, culture and inclusion experience. Previously, Jane was Chief People Officer for Yorkshire Building Society, with responsibility for people experience along with communications. Jane spent 13 years at HSBC, where she was HR Director for First Direct and also held business leadership roles such as Customer Experience and Branch Network leadership. Jane is a member of the Banking Standards Board.

## Paul Riseborough – Mission Leader – Hassle Free Money

Paul joined Nationwide in July 2020. He is responsible for leading the Hassle Free Money Member Mission, which involves developing a simple, connected and secure banking proposition for members. Prior to Nationwide, he spent 8 years at Metro Bank, where he was Chief Commercial Officer running the product, digital, communications, data and marketing teams. He is a Finance Fellow at the Aspen Institute in the US, which focuses on improving the relationship between finance and society to create a more sustainable future.

## Rachael Sinclair – Mission Leader – Homes and Dreams

Rachael joined Nationwide in June 2008 and has carried out multiple roles across the Society, including Head of Operational Strategy, Director of Channel Strategy and Operations, and Director of Strategic Planning. She is currently responsible for leading the Homes and Dreams Member Mission, which involves bringing together the end to end running of the Society's mortgage, investment and protection businesses. Prior to joining Nationwide, Rachael spent the previous decade working in various roles across Europe, Africa and Asia with Barclaycard.

## Gavin Smyth – Chief Risk Officer

Gavin joined the Nationwide Risk Leadership team in September 2017. He was appointed Chief Risk Officer in March 2021, having held the position on an interim basis since November 2020, helping to keep the Society, and its members, safe and secure. Prior to joining Nationwide, Gavin held senior roles at Tandem Bank, PricewaterhouseCoopers and Royal Bank of Scotland.

## Claire Tracey – Chief Strategy and Sustainability Officer

Claire joined Nationwide in September 2019 and is responsible for Nationwide's Strategy Community including strategy development, delivery, innovation, venturing and disruptive business growth. She also leads the Society's response to climate change. Claire chairs the Society's Responsible Business Committee and the Strategic Investment Committee. She was previously a partner and managing director at Boston Consulting Group.

# Governance at Nationwide

The Board has established a set of internal standards and principles by which Nationwide is governed to ensure sound and prudent control of the Society, and to keep members' money and interests safe. Everyone in Nationwide has a role to play in governance.

**The Board**
Sets the strategy and tone and promotes ethical leadership, leads on culture, embodies the Society's values, encourages good governance, monitors controls and manages risk.

**Chief Executive Officer**
Derives authority from the Board and cascades standards and principles agreed by the Board to the business.

**Nationwide's people**
Everyone at Nationwide is responsible for good governance and adhering to the standards and tone set by the Board.

## UK Corporate Governance Code – statement of compliance

Nationwide is committed to high standards of corporate governance and has continued to adopt the relevant parts of the UK Corporate Governance Code 2018, which is available at **www.frc.org.uk** (the Code). The Board believes that throughout the year ended 4 April 2021 Nationwide has complied with the principles of the Code in line with the Building Societies Association guidance of July 2018. Details of the principles, including where you can read more about how Nationwide complied with them, are set out below:

| Section | Code principles[2] | Where to read more on how Nationwide Building Society has complied | Page |
|---|---|---|---|
| **Board leadership and company purpose** | A. Entrepreneurial board with the role to promote the long-term sustainable success of the Society and generate value for members | Strategic report | 2 to 67 |
| | | Role of the Board | 81 |
| | B. Purpose, values and culture | Strategic report | 2 to 67 |
| | | Role of the Board | 81 |
| | C. Performance measures, risks and controls framework | Strategic report – KPIs | 10 to 11 |
| | | Board Risk Committee report | 104 to 106 |
| | | Risk report - Principal risks | 145 |
| | D. Stakeholder engagement | Engagement with stakeholders | 87 to 88 |
| | E. Workforce policies and practices | Building Pride | 25 to 28 |
| | | Culture, whistleblowing | 81 to 82 |
| | | Role of the Board | 81 |

[2]The UK Corporate Governance Code uses the terminologies of 'company' and 'shareholder' but for the purpose of Nationwide and this Corporate Governance report, these terms should be read as 'Society' and 'members' respectively.

## UK Corporate Governance Code – statement of compliance (continued)

| Section | Code principles[2] | Where to read more on how Nationwide Building Society has complied | Page |
|---|---|---|---|
| **Division of responsibilities** | F. Leadership of Board and Board operations | Role of the Chair / Chair's letter | 5 and 89 |
| | | How the Board operates | 86 |
| | | Nomination and Governance Committee report | 110 to 114 |
| | | Information and advice | 93 |
| | G. Board composition, Board roles and independence | Board composition | 94 |
| | | Tenure and independence | 93 to 94 |
| | | Roles on the Board | 89 to 90 |
| | H. Directors' responsibilities and time commitment | Attendance chart – How the Board operates | 86 |
| | | Time commitment | 92 |
| | I. Board support, information and advice | Information and advice | 93 |
| | | Induction, training and development | 93 |
| **Composition, succession and evaluation** | J. Board appointments and succession plans for Board and senior management | Nomination and Governance Committee report | 110 to 114 |
| | K. Board skills, experience and knowledge | Board composition | 94 |
| | | Board of directors | 71 to 76 |
| | L. Annual Board evaluation | Board effectiveness review | 95 to 96 |
| **Audit, Risk and Internal control** | M. Effectiveness of external auditor and internal audit | Audit Committee report | 97 to 103 |
| | N. Fair, balanced and understandable assessment of the Society's position and prospects | Audit Committee report | 97 to 103 |
| | | Directors' report | 138 to 140 |
| | O. Risk Management and Internal Control Framework | Audit Committee report | 97 to 103 |
| | | Board Risk Committee report | 104 to 106 |
| **Remuneration** | P. Remuneration and Society purpose, strategy and values | Remuneration report | 115 to 137 |
| | Q. Executive and senior management remuneration | Remuneration report | 115 to 137 |
| | R. Authorisation of remuneration outcomes | Remuneration report | 115 to 137 |

[2]The UK Corporate Governance Code uses the terminologies of 'company' and 'shareholder' but for the purpose of Nationwide and this Corporate Governance report, these terms should be read as 'Society' and 'members' respectively.

# Board leadership and Society purpose

## The role of the Board

The Nationwide Board ensures that the Society's long-term strategy is implemented within a good quality governance framework to enable it to continue to deliver the benefits of mutuality to its members. More information on the Society's purpose, the business model and how the Society generates and preserves value over the long-term can be found on page 18.

The Board is responsible for ensuring that the Society delivers long-term value for its members and is built to last. It determines the Society's strategic objectives within a framework of risk appetite and controls. The Board monitors the Society's overall financial performance and ensures effective governance, controls and risk management.

When setting the Society's strategy, the Board considers the impact that its decisions might have on various stakeholders such as members, colleagues, suppliers and the community. It is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge and experience to perform its role effectively. The Board is also responsible for providing leadership to the Society on culture, values and ethics. The powers of the Board are set out in the Society's Memorandum and Rules which are available on the Society's website **nationwide.co.uk**

The Board operates under formal terms of reference which include a schedule of matters reserved to the Board for decision, with the day to day running of the business delegated to the Chief Executive Officer. The Chief Executive Officer derives his authority from the Board and cascades the agreed standards to the business. The Board's Terms of Reference and Matters Reserved can be found on the Society's website **nationwide.co.uk**

### Culture

The Society's culture remains a key focus of the Board to support the organisation's purpose, and the delivery of its strategic ambitions. To ensure the Board has a strong understanding of the Society's current culture, target state and progress made, the Board receives updates from management. The Society's cultural assessment tool, the Culture Mosaic, which is reviewed by the Board twice a year, provides a holistic view of the Society's cultural evolution which in turn helps inform and shape activity to manage, drive and accelerate the pace of culture change. The Culture Mosaic uses qualitative and quantitative information from a range of sources (including employee engagement surveys and the Banking Standards Board report for example) to track progress against five key cultural shifts, which align to each of Nationwide's PRIDE values. More information on the Society's PRIDE values can be found on pages 25 to 28.

The most recent Culture Mosaic review concluded that progress has been made against all five desired cultural shifts. In particular, there has been continued progress in 'Putting members and their money first'. The behaviours that underpin this value and desired shift have been consistently experienced and are embedded in the culture, particularly in front-line colleagues and the care demonstrated for members during the pandemic, with branch satisfaction increasing to 87%. Additionally, a positive shift has been seen in 'Inspiring Trust' where autonomy and trust has improved, with remote working and support for home-schooling widely appreciated by colleagues.

Alongside the progress we have made, we have also identified themes for continued focus and activity, including:

- Continuing to create an inclusive culture where everyone can thrive, building on the momentum and energy seen over the last year, and working to ensure that our actions flow through into tangible outcomes that help us achieve our objectives and support colleague experience of inclusion at Nationwide.
- The need to continue to ensure our internal processes and practices truly empower colleagues to deliver the best outcomes for our members.

The Board will continue to sponsor and monitor progress in all areas of our culture in the coming year.

# Board leadership and Society purpose (continued)

## Whistleblowing

Nationwide has arrangements in place for employees, contractors and temporary workers to raise concerns about possible misconduct, wrongdoing and behaviour towards others by its employees and third parties, including those related to non-financial matters. Concerns can be raised confidentially or anonymously (if preferred) via various channels, including an online portal and a mobile telephone app, hosted by an independent third party. These reporting channels were introduced to make anonymous reporting easier and to provide employees with an additional degree of surety around raising concerns.

All Nationwide's employees, contractors and temporary workers receive annual training on the Society's whistleblowing policies and procedures, which includes how to raise concerns both internally and by reporting directly to the Financial Conduct Authority or the Prudential Regulation Authority without first reporting the matter internally.

In January 2021, the role of Whistleblower's Champion passed from Nationwide's Chair, David Roberts, to Kevin Parry, Senior Independent Director and Chair of the Audit Committee. He has assumed the responsibility for ensuring and overseeing the integrity, independence and effectiveness of Nationwide's policies and procedures relating to whistleblowing, including those intended to protect whistleblowers from being victimised because they have disclosed reportable concerns.

The Board recognises that having effective and trusted confidential whistleblowing arrangements is key in supporting the Society's open and honest culture. The Board receives an Annual Whistleblowing Report and has reviewed the adequacy and effectiveness of the arrangements in place for the proportionate and independent investigation of concerns raised, including any required follow-up action taken. From January to December 2020, a total of 206 concerns were raised of which 99 were formally investigated as whistleblowing. The remainder were investigated utilising other investigatory resources. (2019: 212 concerns raised and 106 investigated as whistleblowing).

## Conflicts of interest

Directors have a legal duty to avoid conflicts of interest. Prior to appointment (and on an ongoing basis), potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent that person from taking on the appointment.

If any potential conflict arises, the Society's Directors' Conflicts of Interest Policy permits the Board to authorise a conflict, subject to such conditions or limitations as the Board may determine appropriate. The Board has considered the current external appointments of all directors which may give rise to a situational conflict and has authorised any potential conflicts where appropriate. Directors are required to notify the Board of any change in circumstances relating to an existing authorisation and to review and confirm their external interests twice a year.

In addition, at the start of every Board or Board committee meeting the Chair asks whether there are any conflicts (in addition to those already recorded) to be declared. In a situation where a potential conflict arises, the director will recuse themselves from any meeting or discussion, and all material in relation to that matter will be restricted.

Details of other directorships held by the Board can be found in the Annual Business Statement on pages 328 to 329.

An all-encompassing Conflicts of Interest Policy is also applicable to all other employees which covers the need to appropriately identify and robustly manage all organisational and personal conflicts of interest.

## How the Board spent its time in the year

Strategic report
Governance
Risk report
Financial statements
Other information

## Board leadership and Society purpose (continued)

Throughout the year, the Board focused its activity on supporting management in the delivery of the Society's strategic aims, reviewing and approving the Society's strategy and financial plans, and considering governance and regulatory matters.

The Board regularly received updates on business progress and the issues and challenges faced by management. Board activities were regularly structured to support and review the Society's strategy, focusing on the strategic cornerstones as outlined on pages 18 to 31, and an in-depth review of the Society's strategy was considered by the Board at its annual strategy day in October 2020.

The Society continues to develop and invest in new products and services which are assessed to be within the Board's risk appetite and continues to ensure its existing products and services are robust.

In addition to the main items for consideration, the Board received updates at each meeting on the work of its principal committees to keep abreast of significant issues.

The following pages set out a non-exhaustive list of the matters that the Board has considered during the year.

During the year, the Board focused on a number of specific areas in line with the Society's cornerstones, stakeholder considerations and principal risks.

| Board activity – Strategic development and performance | Strategic cornerstone | Stakeholder | Principal risk |
|---|---|---|---|
| Discussed regular updates from the CEO on progress against the Society's purpose to build society nationwide, including provision of external insights on key factors affecting the business. As part of this, the Board reviewed key performance metrics to assess progress made in the implementation of the Society's strategy. | Building a National Treasure, Building Thriving Membership, Building Legendary Service, Built to Last, Building Pride | Members<br>Colleagues<br>Suppliers<br>Communities<br>Investors | P O E |
| Debated and considered the opportunities and challenges facing Nationwide due to the changing macroenvironment heightened by the Covid-19 pandemic and Brexit. This included agreeing the propositional, financial and strategic response. | Building a National Treasure, Building Thriving Membership, Building Legendary Service, Built to Last | Members<br>Suppliers<br>Communities<br>Regulators | P E |
| Discussed and approved recommendations regarding the future strategic growth of Nationwide. This included strategic discussions centred on organisational vision, proposition, brand, responsible business, sustainability, technology and data transformation, digital and front-line servicing. | Building a National Treasure, Building Thriving Membership, Building Legendary Service, Built to Last, Building Pride | Members<br>Colleagues<br>Suppliers<br>Communities | P O E |
| Received an update on the progress made on the Society's social investment strategy and Community Board activities. Received updates on Nationwide's key charitable partnerships, which focused on Nationwide's social investment response to the Covid-19 pandemic, recognising that the charity sector could be detrimentally impacted by the pandemic. | Building a National Treasure, Building Pride | Communities<br>Members<br>Colleagues | E |
| Reviewed the impact of the Society's brand in relation to market conditions and its competitors. | Building a National Treasure, Building Thriving Membership | Members<br>Investors<br>Colleagues | E |
| Approved changes to our strategy for technology and other strategic investment, which created options for the future direction of Nationwide with demonstrable member benefit. | Built to Last | Members<br>Suppliers | P E |

Key: Building a National Treasure · Building Thriving Membership · Building Legendary Service · Built to Last · Building Pride

P Prudential risks (including credit, model, liquidity and funding, market, solvency and pension risks) · O Operational and conduct risks · E Enterprise risk (including business risk)

Strategic report
Governance
Risk report
Financial statements
Other information

Report of the directors on corporate governance (continued)

## Board leadership and Society purpose (continued)

| Board activity - Finance | Strategic cornerstone | Stakeholder | Principal risk |
|---|---|---|---|
| Due to the volatility and changes in economic assumptions generated by Covid-19, the Board continued to review and revise the Society's five-year Plan for 2020-25 and the revised economic and market assumptions throughout the first half of the financial year. As part of the process, the Board provided input, guidance and advice to the senior management team. The same steps were undertaken to finalise and approve the Society's five-year plan for 2021-26. | Building a National Treasure, Built to Last | Members<br>Colleagues<br>Regulators<br>Investors<br>Communities | P O E |
| Regularly assessed financial performance and the capital and liquidity position of the Society via business performance reports from the Chief Financial Officer. | Built to Last | Member<br>Regulators | P E |
| Reviewed and approved the Society's interim and full year financial results prior to publication. Approved the Society's Annual Report and Accounts prior to publication with consideration given to business viability and the preparation of the accounts on a going concern basis. | Built to Last | Members<br>Regulators<br>Investors | P E |
| Reviewed the Society's strategic cost and efficiency programme and discussed the cost opportunities over the five-year plan. | Built to Last | Members<br>Colleagues | P O E |

| Board activity - Governance | Strategic cornerstone | Stakeholder | Principal risk |
|---|---|---|---|
| The Board has overseen the Society's response to the Covid-19 pandemic. It received regular reports from management, including operational contingency planning updates, as the Society adapted to meet government requirements. These reports and updates covered matters such as the impact on members, colleagues, suppliers and other stakeholders. | Building a National Treasure, Building Thriving Membership, Building Legendary Service, Built to Last, Building Pride | Members<br>Colleagues<br>Regulators<br>Investors<br>Communities | P O E |
| Received and considered regular reports from the General Counsel and Society Secretary on emerging changes to legislation and regulation impacting the Society's business. | Built to Last | Regulators<br>Investors<br>Suppliers | O E |
| Reviewed and approved the revised plans for the 2020 AGM in light of the changes required due to the Covid-19 pandemic, including the recommendation for a change to the Society's Memorandum and Rules. Approved the Notice of the 2021 AGM and associated documentation. | Building a National Treasure | Members<br>Regulators<br>Investors | O E |
| Carried out and received the report of a review into the effectiveness of the Board and its committees, including developing an action plan designed to remedy areas needing improvement. | Built to Last | Regulators<br>Investors<br>Members | O |
| Reviewed progress towards resolvability as required under the Bank of England Resolvability Assessment Framework to ensure that capabilities are being developed to protect the Society's business and its members. | Building a National Treasure, Built to Last | Regulators<br>Members | P O E |
| Approved the Society's Modern Slavery Statement for 2020. | Building a National Treasure, Built to Last, Building Pride | Regulators<br>Investors<br>Members<br>Suppliers | P O E |
| Reviewed and received updates on Environmental, Social and Governance (ESG) matters, including continued engagement on progress made on these matters. | Building a National Treasure, Built to Last | Investors<br>Members<br>Communities | P O E |

Key: Building a National Treasure; Building Thriving Membership; Building Legendary Service; Built to Last; Building Pride

P Prudential risks (including credit, model, liquidity and funding, market, solvency and pension risks); O Operational and conduct risks; E Enterprise risk (including business risk)

## Board leadership and Society purpose (continued)

| Board activity - People, culture and remuneration | Strategic cornerstone | Stakeholder | Principal risk |
|---|---|---|---|
| Reviewed and discussed the people strategy, including the Society's remuneration strategy and how this is aligned with achieving the Society's overall strategic aims. | Building Legendary Service, Built to Last, Building Pride | Colleagues<br>Members | O E |
| Engaged with the wider workforce via the designated non-executive director for Employee Voice, and colleagues attended Board meetings to provide the Board with direct insight on key topics impacting colleagues and members. | Building a National Treasure, Building Legendary Service, Built to Last, Building Pride | Colleagues<br>Members | O |
| Considered the Society's Gender and Ethnicity Pay Gap reporting for 2020, including Nationwide's approach to closing the gap. | Building Pride | Colleagues<br>Regulators<br>Investors<br>Communities | O |
| Reviewed the progress made on the development of Nationwide's culture, including discussing the revised Culture Mosaic, the Banking Standards Board results on the Society's culture and monitoring colleague sentiment through various internal engagement surveys and sentiment trackers. | Building Pride | Colleagues | O E |
| Reviewed the Annual Whistleblowing Report and the Society's whistleblowing arrangements. | Building Pride | Colleagues,<br>Regulators | O E |

| Board activity - Risk and regulatory matters, including external outlook | Strategic cornerstone | Stakeholder | Principal risk |
|---|---|---|---|
| Assessed the Society's overall risk profile and emerging risk themes, including receiving direct reports from the Chief Risk Officer and Chair of the Board Risk Committee. The Board also approved revisions to the Board Risk Appetite. | Built to Last | Members<br>Regulators | P O E |
| Reviewed Nationwide's Brexit preparations. | Built to Last | Members<br>Regulators | P O E |
| Assessed the economic and market conditions affecting the Society's business and, as part of this, reviewed in detail and approved the Society's financial planning and stress testing activity for 2021. | Built to Last | Members<br>Regulators | P O E |

Key: Building a National Treasure Building Thriving Membership Building Legendary Service Built to Last Building Pride
P Prudential risks (including credit, model, liquidity and funding, market, solvency and pension risks) O Operational and conduct risks E Enterprise risk (including business risk)

# Board leadership and Society purpose (continued)

## How the Board operates

The Board meets regularly and holds a strategy meeting annually to review strategic options open to the Society in the context of the economic, regulatory and competitive environment. The Board also meets when necessary to discuss important emerging issues that require consideration between scheduled Board meetings. There were ten scheduled Board meetings, including a two-day Strategy Conference. The Board meetings are structured to ensure that the Board covers a range of items (as detailed on pages 83 to 85) relating to the Society's business, strategy, culture and performance through open debate.

Members of the Nationwide Leadership Team and other senior executives are invited to attend meetings as required to present and discuss matters relating to their business and subject matter areas. The Chair meets with the non-executive directors, without executive directors present, during each Board cycle.

Where directors are unable to attend meetings, they are encouraged to give the Chair their views in advance on the matters to be discussed. The attendance record for Board members during the period is set out below. The table shows the actual number of meetings attended, with the number of meetings for which directors were eligible to attend shown separately.

In addition to scheduled meetings, Board members were given the opportunity to join two informal conference calls, in the months where no meetings were formally scheduled. These calls were led by the executive directors and focused on monthly operational and financial performance. During the first quarter of the year, the non-executive directors also participated in a series of discussions focused on preparing Nationwide for the challenges and opportunities which have emerged from the pandemic. Regardless of whether Board members could attend these sessions, all documents were circulated to all Board members.

| Board attendance | Scheduled meetings attended/ eligible to attend |
|---|---|
| Rita Clifton | 10/10 |
| Mai Fyfield | 10/10 |
| Joe Garner | 10/10 |
| Albert Hitchcock | 10/10 |
| Debbie Klein (note i) | 1/1 |
| Kevin Parry | 10/10 |
| Phil Rivett | 10/10 |
| Tamara Rajah (note ii) | 6/6 |
| Chris Rhodes | 10/10 |
| David Roberts | 10/10 |
| Tim Tookey (note iii) | 9/10 |
| Gunn Waersted | 10/10 |

Notes:
i. Joined the Board on 1 March 2021.
ii. Joined the Board on 1 September 2020.
iii. Unable to attend the meeting in January 2021 due to illness.

| Board and Committee meetings during the year | Apr 2020 | May 2020 | Jun 2020 | Jul 2020 | Aug 2020 | Sep 2020 | Oct 2020 | Nov 2020 | Dec 2020 | Jan 2021 | Feb 2021 | Mar 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Board | 🟢 | 🔵 | 🔵 | 🔵 | | 🔵 | 🔵 | 🔵 | | 🔵 | 🟢 | 🔵 |
| Audit Committee | 🟢 | 🔵🟢 | 🔵 | 🔵 | | | 🔵 | 🔵 | | 🔵 | | 🔵 |
| Board Risk Committee | | | 🔵🟢 | 🔵 | | 🔵 | | 🔵 | 🟢 | 🔵 | | 🔵 |
| Board IT and Resilience Committee | | 🔵 | | | | 🔵 | | 🔵 | | 🔵 | | 🔵 |
| Nomination and Governance Committee | | | 🔵 | | | 🔵 | | 🔵 | | 🔵 | | 🔵🟢 |
| Remuneration Committee | 🔵 | 🔵🟢🟢 | | 🟢🟢 | | 🔵 | | 🔵🔵 | | 🔵 | 🔵 | 🔵🟢 |

Key: 🔵 Scheduled meeting 🟢 Additional meeting

# Board leadership and Society purpose (continued)

## Engaging with stakeholders

The Board recognises the impact the business has on its diverse range of stakeholders and therefore understands the importance of engaging with them at all levels. The Board takes into consideration the interests of these stakeholders as part of its discussion and decision-making processes. The detail below provides an insight into the Board's engagement with its principal stakeholders.

### Members

**We listen to our members**
As a mutual organisation, members are also the owners of Nationwide, and we want our members to be able to share their views on the overall direction of the business, so that we can continue to meet their needs now and in the future. To help them do this, we aim to hold a number of virtual and physical events, giving members the opportunity to meet Board directors and senior management.

**Our AGM**
The AGM is the event at which members can vote on important issues and provides them with the opportunity to meet the Board. As a result of the ongoing Covid-19 pandemic, member attendance was not possible at the 2020 AGM. We nevertheless encouraged members to participate by voting online or by post, by streaming the event online and by submitting questions for a specific Member TalkBack session the day following the AGM. The live stream of the 2020 AGM was viewed by 498 people.

The 2021 AGM will be live streamed on the day of the meeting. We will also be hosting an online Member TalkBack the week before the AGM where members will be able to ask questions to Board directors.

**Member Talkback**
Our Member TalkBack programme gives members the opportunity to ask questions directly of the Society's Board and senior management. Members are encouraged to share their views on the Society and its performance.

The Member TalkBack sessions are supported by senior leaders from across the organisation and over 50% of those held during the year had a non-executive director on the panel.

During the year we held nine digital Member TalkBack events, giving the opportunity to hear from and ask questions to Board directors and senior management. 1,401 members participated in these events and we look forward to supplementing our digital programme with a face-to-face Member TalkBack programme as soon as we can do so, allowing us to meet even more members.

More information on how the Society engages with its members can be found in the Strategic report on page 12.

### Colleagues

**We value our colleagues**
At Nationwide, we value our people, their commitment to the Society and their contribution to fulfilling our purpose of building society, nationwide. To ensure Nationwide is a great place to work, the Board engages with colleagues throughout the year to understand what they really value.

Colleagues are critical to the services provided by the Society and employee engagement is regularly discussed including the results of employee engagement surveys, and the findings from the Banking Standards Board survey.

The CEO and Chair engage directly with colleagues, such as through branch visits and via the Society's intranet to receive feedback and views directly from the workforce. The CEO writes a monthly blog, which enables a two-way engagement with colleagues on key topical issues, such as the impacts of the pandemic, future ways of working, climate change, and inclusion and diversity.

During the year, the General Secretary of the Nationwide Group Staff Union (NGSU) attended a Board meeting and a Remuneration Committee meeting to discuss the relationship of the NGSU with Nationwide and the alignment of interests between the NGSU and the Society.

To further promote engagement between the Board and the wider workforce, Mai Fyfield, the designated non-executive director with specific responsibilities for the Employee Voice in the boardroom, completed a programme of engagement activity over the past year. Although the inability to meet colleagues face to face since mid-March 2020 has made colleague engagement more challenging, Ms Fyfield has maintained a broad schedule of virtual meetings. During the year, she has met with colleagues from across the different business areas in the Society and at different levels of seniority. This has included meeting colleagues based in Bournemouth and Northampton, meeting the NGSU General Secretary, attending an NGSU National Executive Meeting, and meeting with the Society's Employee Network Groups.

The meetings provided qualitative insights to inform conversations and decisions made by the Board. During these meetings a number of themes emerged, including the Society's response to Covid-19 where colleagues felt very supported and appreciated the level of communication with management, feeling that the Society was doing everything it could to keep them safe. Colleagues responded positively to the flat pay increase in 2020 and also valued the leadership position taken by Nationwide in respect of executive pay. Colleagues highlighted the importance of having tools to be able to recognise and reward high performers. In addition, performance management and line management in general were key areas of discussion where the need for greater consistency and better support and training for line managers was an emerging theme.

# Board leadership and Society purpose (continued)

Over the next year, engagement will continue with the NGSU and with colleagues from across the Society.

Work will continue to build a better awareness and visibility of the Employee Voice programme across the Society. Management will also be engaged to ensure insights are shared and that conversations with colleagues remain a focus.

During the year the Board has welcomed several colleagues from across the Society to Board meetings, allowing the opportunity for these colleagues to share their insight on a range of topics. Colleagues provided their observations, experiences and reflections on the Society's efforts through the Covid-19 pandemic, and in turn allowed the Board and management to consider the implementation of actions to be taken in the best interests of colleagues. Additionally, representatives from several of the Society's Employee Networks (Race Together, Enable (disability network), Working Families and Gender Equality) were invited to attend a Board meeting during the year to provide insight for Board members. The representatives shared their experiences and views of the Society and offered suggestions on how the Board could assist with advancing the objectives of each Network.

More information on the Society's employee engagement can be found in the Strategic report on page 13.

## Communities

**We support our local communities**
The Board received updates on the Society's social investment strategy and on Community Board activities. During the year, this included reviewing Nationwide's social investment response to the Covid-19 pandemic, the progress of grants funded through the Community Grant programme, and progress updates on Nationwide's partnerships with charities such as Shelter and St Mungo's. The Board also received updates on the Oakfield housing development.

More information on the Society's engagement with community activities can be found in the Strategic report on page 13.

## Investors

**We engage actively with our investors**
Nationwide is active in wholesale funding markets through the issuance of instruments. Wholesale investors support the Society in meeting its funding and capital requirements, helping to ensure that Nationwide is built to last. The Society maintains an active dialogue with the investors in its instruments and our investor relations programme provides current and potential investors with the opportunity to meet senior managers and executive directors of the Society. At least twice a year, Board members engage with our largest investors, providing an update on the Society's most recent financial performance.

More information on the Society's investor engagement can be found in the Strategic report on page 14.

## Suppliers

**We work closely with our suppliers**
During the year, Nationwide worked with over 1,100 third party suppliers who provide a range of goods and services to the Society, helping us run and improve our business and deliver quality service for our members. Our suppliers are an extension of our business; they help us operate safely and securely, they help us learn and improve, and importantly they help each other where it matters too.

During the year, on delegation from the Board, the Board Risk Committee received updates on the resilience of key supply chains. These updates highlighted the monitoring, engagement, risk mitigation and reporting activities conducted by Nationwide across its supply chain, and particularly focused on any changes to the supply chain risk profile in light of the macroeconomic environment being impacted by the ongoing Covid-19 pandemic and Brexit. Additionally, the Audit Committee received updates on broker mortgage fraud risk.

More information on the Society's engagement with its suppliers can be found in the Strategic report on page 13.

## Regulators

**We seek an open relationship with regulators**
Nationwide is committed to complying with all legislation and regulatory rules applicable to its business. The Society is supportive of the objectives of the Prudential Regulation Authority, the Financial Conduct Authority and other applicable regulatory bodies. Consequently, Nationwide seeks to maintain the highest possible regulatory standards, to protect and enhance the integrity of the UK financial system and ensure fair outcomes for our members.

The Board receives regular reports detailing Nationwide's regulatory interaction, the changing regulatory environment and how this impacts Nationwide. Additionally, Board members attend regular one-to-one meetings with representatives from its regulatory bodies and regulators are invited to attend Board meetings to present key reports, such as the presentation of the findings of the PRA Periodic Summary Meeting.

More information on the Society's engagement with regulators can be found in the Strategic report on page 14.

## Buy to let customers and renters

**We support our buy to let customers and renters**
During the year, Nationwide worked with its buy to let lending business, The Mortgage Works plc (TMW), to support those who rely on the private rental sector for their long-term housing needs.

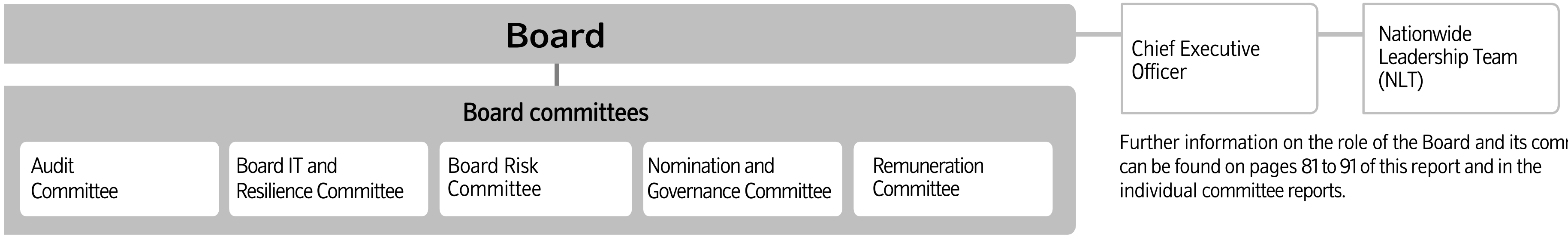
The Board receives regular reports and updates detailing the operations of TMW. During the year, the Board reviewed a detailed update on the implementation of TMW's strategy.

More information on the Society's engagement with its buy to let customers can be found in the Strategic report on page 13.

# Division of responsibilities

## Leadership structure

An overview of the Board structure and its committees as at 4 April 2021 is set out below.




Further information on the role of the Board and its committees can be found on pages 81 to 91 of this report and in the individual committee reports.

### The Board

The Board governs and makes decisions as a collective body. Each role on the Board has specific responsibilities. A summary of the responsibilities of each role can be found below.

| Role | Responsibilities |
|---|---|
| Chair<br>**David Roberts** | • Leads the Board, ensuring it operates effectively in setting the strategic direction of the Society, including shaping the culture in the Boardroom;<br>• Sets the tone from the top and epitomises the Society's culture by fostering open and honest debates in the Boardroom;<br>• Fosters a culture of open dialogue and mutual respect between executive and non-executive directors, both in and outside of the Boardroom, including ensuring that each non-executive director provides valuable contributions;<br>• Together with the other members of the Board, promotes the long-term success of the Society and ensures the accountability to its members; and<br>• Provides support and advice to the Chief Executive Officer while respecting executive responsibility. |
| Senior Independent Director<br>**Kevin Parry** | • Provides a sounding board for the Society Chair, providing him with support in the delivery of his objectives;<br>• Is available to directors if they have concerns when contact through the usual channels (Chair, Chief Executive Officer or other executive directors) has failed to resolve, and acts as a trusted intermediary for members when necessary; and<br>• Leads the annual review of the Chair's performance by the Board and is responsible, in conjunction with the Nomination and Governance Committee, for the succession process for the Society Chair. |

## Division of responsibilities (continued)

| Role | Responsibilities |
|---|---|
| Non-executive directors<br>**Rita Clifton**<br>**Mai Fyfield**<br>**Albert Hitchcock**<br>**Debbie Klein**<br>**Tamara Rajah**<br>**Phil Rivett**<br>**Tim Tookey**<br>**Gunn Waersted** | • Collectively set the tone from the top, in relation to culture and governance – holding management to account for embedding and maintaining the Society's culture and values;<br>• Contribute to the development of the strategy and risk appetite, exercising effective oversight over risk management and controls;<br>• Monitor performance and constructively challenge as appropriate using their skills and expertise to engage in honest debate; and<br>• Promote the long-term success of the Society for the benefit of members and ensure that the Society meets its obligations as a regulated firm. |
| Chief Executive Officer<br>**Joe Garner** | • Responsible for the day to day running of the business and accountable to the Board for the Society's financial and operational performance;<br>• Responsible for providing leadership and direction to set and implement the Society's strategy having regard to the duty to promote the success of the Society in the interests of members, colleagues and Nationwide's public and social responsibilities within the wider community;<br>• Embodies the Society's culture and values and develops policies for the Society's people that drive the right behaviour; and<br>• Implements and monitors systems for the apportionment and oversight of responsibilities, controls and best practices within the Society, which maintain its operational efficiency and high standards of business conduct. |
| Executive director<br>**Chris Rhodes** | • As a member of the Board, collectively with the non-executive directors, sets the strategy, risk appetite and culture and values;<br>• Ensures that the Board is kept informed of all significant matters, escalating issues on a timely basis;<br>• Is accountable to the Board for the execution of the strategy and the performance of the business; and<br>• Holds specific management responsibilities in the day to day running of the business. |
| Society Secretary<br>Jason Wright | • Advises the Board through the Chair on all governance-related matters;<br>• Provides support to the Board in managing good information flows between the Board and the rest of the Society to ensure that high quality and timely information is provided to the Board;<br>• Assists the Chair in ensuring that adequate resources are allocated to developing the directors' knowledge and capabilities in order to enhance Board and Committee effectiveness; and<br>• Assists the Chair in establishing the policies and processes required to enable the Board to function effectively. |

# Division of responsibilities (continued)

## Board Committees

To assist the Board in carrying out its functions and to ensure that there is independent oversight of internal control and risk management, certain governance responsibilities have been delegated by the Board to its committees. These board committees comprise independent non-executive directors and, in some cases, the Board Chair. The terms of reference of the Board and its committees can be found on the Society's website: **nationwide.co.uk**

| Role | Responsibilities |
|---|---|
| **Audit Committee** | The Audit Committee 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. |
| **Board IT and Resilience Committee** | The Board IT and Resilience Committee provides oversight and advice to the Board in respect of IT strategy, IT investment, IT architecture, IT operating model effectiveness, delivery performance and resilience controls, including cyber risk, as well as overseeing the Society's data management strategy. |
| **Board Risk Committee** | The Board Risk 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. Additionally, the Committee is responsible for monitoring compliance oversight, the effectiveness of the Enterprise Risk Management Framework (ERMF) and advising the Remuneration Committee on any risk adjustments to be made to remuneration. |
| **Nomination and Governance Committee** | The Nomination and Governance Committee assists the Chair in keeping the composition of the Board under review, leading the appointments process for nominations to the Board and making recommendations to the Board on succession planning and executive level appointments. The Committee reviews the Board's governance arrangements and makes recommendations to the Board to ensure that the arrangements remain consistent with best practice. The Committee oversees the implementation of the Society's inclusion and diversity strategy and objectives. |
| **Remuneration Committee** | The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration strategy and the broad policy for remuneration of directors, senior management and any other individual employees deemed appropriate by the Committee, including those identified as material risk takers for the purposes of the PRA and FCA Remuneration Codes. It determines, within the terms of the agreed policy, the specific remuneration packages for these roles. The Committee also reviews the ongoing appropriateness and relevance of the remuneration policy and pay practices for the workforce across the Society. |

# Division of responsibilities (continued)

## Nationwide Leadership Team

There is a clear division of responsibilities between the Chair, as leader of the Board, and the Chief Executive Officer who is responsible for the day to day running of the business. To the extent that matters are not reserved to the Board, responsibility is delegated to the Chief Executive Officer, who is assisted by the Nationwide Leadership Team.

| Role | Responsibilities |
|---|---|
| Nationwide Leadership Team | The purpose of the Nationwide Leadership Team is to direct and coordinate the executive management of the Society within the strategy, risk appetite, operational plans, policies, objectives, frameworks, budget and authority approved by the Board, and to act as a forum to assist the Chief Executive Officer (CEO) with his responsibilities. The Committee considers all matters of strategic importance to the Society, guided by its purpose and the Society's strategic cornerstones. More information on the Nationwide Leadership Team can be found on pages 77 to 78. |

## Time commitment

To discharge their responsibilities effectively, non-executive directors must commit sufficient time to their role. The time the Society's non-executive directors are expected to commit to their role at Nationwide is agreed individually, as part of the appointment process, and depends upon their responsibilities. For example, additional time commitment will often be required of the Senior Independent Director and Chairs of the board committees in order to fulfil their extra responsibilities. The Chair and non-executive directors are expected to allocate sufficient time to understanding the business, through meetings with management and undergoing training to ensure ongoing development. The Chair and non-executive directors are also expected to attend meetings with the Society's regulators to foster and maintain an open and transparent working relationship. This time is in addition to that spent preparing for, and attending, Board and board committee meetings. Time commitments are reviewed annually, or more regularly if needed, as Nationwide recognises the need to take account of changes in best practice – for example any revisions to the Code recommending different or expanded roles of board committees. Non-executive directors are expected to commit a minimum of 30 days per year for core activities and membership of Board committees. The Senior Independent Director and Committee Chairs are expected to commit a minimum of 50-60 days per year. The Chair will spend a minimum of an average of 2 days per week on Nationwide business. For this year, the Chair has individually confirmed with each non-executive director that they have been able to allocate sufficient time to fulfilling their duties. Externally, there has been no increase in the other significant commitments of the Chair during the year which would impact the time he has to fulfil the role.

During the year and on the recommendation of the Nomination and Governance Committee, the Board gave approval to the following significant additional external appointments taken by non-executive directors of the Society:

- The Board, on the recommendation of the Nomination and Governance Committee, approved the appointment of Tamara Rajah as a non-executive director of Holland and Barrett. The additional appointment was not considered to impair her ability to serve as a director of Nationwide in view of the time commitment.

- The Board, on the recommendation of the Nomination and Governance Committee, also approved the appointment of Rita Clifton as Deputy Chair of John Lewis Partnership. It was considered that this appointment would not impair Ms Clifton's ability to perform her role as a non-executive director of Nationwide.

# Division of responsibilities (continued)

## Director independence

The Nomination and Governance Committee considers the independence of each non-executive director on an annual basis. In reaching its determination of independence, the Committee considers factors such as length of tenure and relationships or circumstances which are likely to affect or appear to affect the director's judgement. On the recommendation of the Committee, all non-executive directors have been assessed by the Board to be independent as to character and judgement and to be free of relationships and other circumstances which could materially affect the exercise of their judgement. In reviewing the independence of each non-executive director, the Committee examined the cross directorships of Kevin Parry and Tim Tookey who both sit on the Board of The Royal London Mutual Insurance Society (Royal London). The Committee was satisfied that the cross directorships did not impact their independence or their ability to carry out their role as directors of the Society.

The Committee also considered Phil Rivett's independence and was satisfied that he is independent notwithstanding his past relationship with PricewaterhouseCoopers LLP (PwC), the Society's former auditor. PwC ceased to be the Society's auditor in July 2019 following a competitive tender for external audit in accordance with auditor rotation requirement. Phil Rivett retired as a partner of PwC in 2018. He had no personal engagement with any business of the Society prior to his appointment to the Board of the Society in September 2019.

The Code requires the Chair to be independent on appointment. Thereafter, the test of independence no longer applies to this role. David Roberts, Chair of the Society, was deemed to be independent upon his appointment to the role of non-executive director and Chair Elect in 2014. Following the assessment, all directors eligible for re-election (save for Rita Clifton who will be retiring from the Board) will be recommended to members for re-election at the AGM in July 2021.

## Information and advice

The Board has full and timely access to all relevant information to enable it to perform its duties effectively. The Society Secretary ensures appropriate and timely information flows between the Board, its Committees and senior management, enabling the Board to exercise its judgement and make fully informed decisions when discharging its duties. The Society Secretary supports the Chair in setting the Board agenda. Board papers are distributed to all directors in advance of Board meetings via a secure electronic system allowing directors to access information in a timely manner. Regular management updates are sent to directors to keep them informed of events between formal board meetings and to ensure that they are advised of the latest issues affecting the Society. All directors have access to the advice and services of the Society Secretary, who is responsible for advising the Board through the Chair on all governance matters and for ensuring that Board procedures are followed and compliance with applicable rules and regulations is observed. The directors may, if required, take independent professional advice at the Society's expense.

## Induction, training and development

Following appointment, each new director receives a full and formal bespoke induction to familiarise them with their duties and the Society's business operations, and risk and governance arrangements. Inductions are tailored to each director's individual experience, background and areas of focus and are set alongside their broader individual development plan. The induction programme includes meetings with members of the Nationwide Leadership Team and other senior managers in key areas of the business. Typical areas covered include an overview of the Society's business strategy and model, the Society's brand, products and markets, capital management and financial controls, and risk and governance responsibilities, as well as information on the Society's people and culture. These meetings are supplemented by induction materials such as recent Board papers and minutes, industry and regulatory reports and relevant policies.

The Chair, with support from the Society Secretary, has overall responsibility for ensuring that the directors receive suitable training to enable them carry out their duties. The directors are regularly provided with the opportunity for ongoing training and professional development to ensure they have the necessary knowledge and understanding of the Society's business. Training opportunities are provided through internal meetings, presentations and briefings by internal as well as external advisers. During the year, the directors attended internal training sessions on subjects including climate change, the post Covid-19 consumer, resolution, hedge accounting and derivatives and the risk and controls of Cloud infrastructure.

They are encouraged to continually update their professional skills and knowledge of the business and to identify any additional training requirements that would assist them in carrying out their role. Where individual directors have requested, individual training sessions have been held with subject matter experts, to assist with continuous professional development. The Chair has conversations with each non-executive director on a regular basis during the year and at the end of the year to review performance and development needs. The Senior Independent Director is responsible for the evaluation of performance and development needs for the Chair. Executive board directors continue to undertake performance and development review and planning activity as part of the annual performance management cycle.

Report of the directors on corporate governance (continued)

# Composition, succession and evaluation

## Board composition

The Nomination and Governance Committee is responsible for reviewing Board composition, considering succession plans for both the Board and senior executives, selecting and appointing new directors and considering the results of the Board effectiveness review. More information on the work of this Committee during the year can be found on pages 110 to 114.

In order to maintain a balanced Board, the skills and experience of individual Board members are regularly reviewed. Ensuring the right mix of director competencies is vital for constructive discussion and, ultimately, effective Board decisions. The individual biographies of the directors, which include their relevant skills and experience, can be found on pages 71 to 76.

All directors are subject to conduct rules laid down by regulators and must satisfy requirements relating to their fitness and propriety. In addition, the Chair, the Senior Independent Director and Chairs of the key board committees are subject to all aspects of the Senior Managers Regime.

Executive directors' service contracts and the letters of appointment for the Chair and non-executive directors are available for inspection at the Society's principal office, subject to Covid-19 restrictions, and will be available at the AGM.

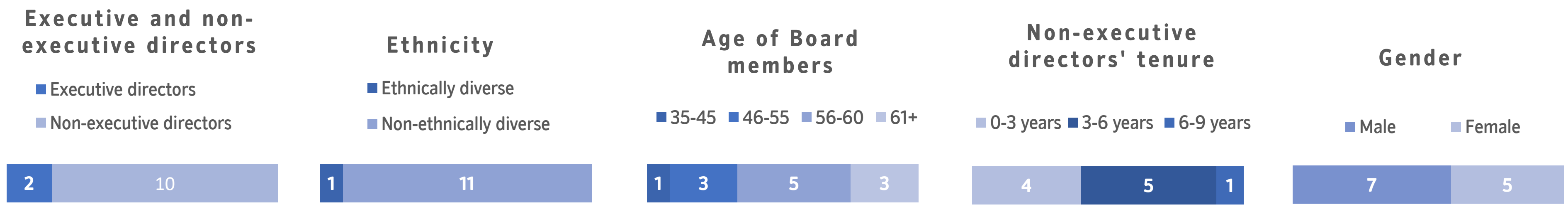
## Board tenure

The Society's Memorandum and Rules require that Board directors must be re-elected by the Society's membership every three years. However, in compliance with the UK Corporate Governance Code (the Code), all directors of Nationwide are subject to election or re-election by the members annually. Before re-election, a non-executive director will be subject to a review of that director's continued effectiveness and independence as described above.

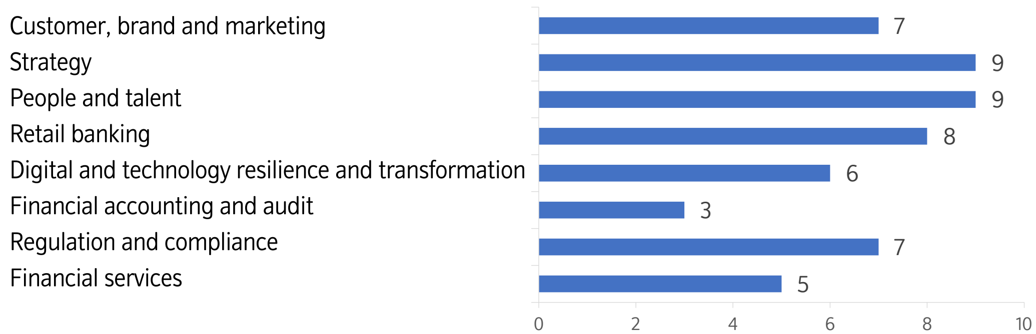
## Member nominations

Members of Nationwide have the right to nominate candidates for election to the Board, subject to the Society's Memorandum and Rules and compliance with PRA and FCA requirements. No such nominations had been received by 4 April 2021, this being the deadline for election to the Board at the 2021 AGM.

## Board composition




### Non-executive directors skills and experience




Notes:
- Individual directors may fall into one or more categories.
- The number of directors indicate directors with considerable experience and knowledge in each area. Other directors may have some relevant experience and knowledge in these areas. These have not been included in the numbers.

# Composition, succession and evaluation (continued)

## Board performance

On an annual basis, the Board conducts a review of its performance. The annual performance review is a key mechanism by which the Board ensures that it continues to operate effectively and to set objectives and development areas for the forthcoming year. In 2020, the Board performance review was carried out internally and was facilitated by the Society Secretary. It provided the Board with the opportunity to assess the effectiveness of each Board committee, and to receive input from the Nationwide Leadership Team, to highlight further areas of focus and development, as well as identifying the strengths that could continue to be optimised.

A review of the performance and contribution of each director was conducted by the Society Chair to ensure that all directors, contributed effectively to the good governance of Nationwide. This is one of the factors considered when deciding whether individual directors will offer themselves for election or re-election at the Society's AGM. The reviews concluded that each director continues to perform effectively and demonstrates commitment to the role.

The review of the Chair's performance and ongoing fitness and propriety was led by Kevin Parry, the Senior Independent Director, on behalf of the Board. As part of the process, feedback on the Chair's performance was obtained from all the directors. The results were collated and were discussed at a meeting without the Chair present. The review concluded that the Chair continues to perform effectively, remains fit and proper to perform the role and uphold his regulatory responsibilities, and demonstrates commitment to his role.

## 2020 Board performance review

**Stage 1. Agreement of form and scope of the Board evaluation**

The 2020 Board evaluation was conducted internally. The Society Secretary met with the Chair to agree the purpose, scope and practicalities of the evaluation. The scope of the evaluation covered general areas of effectiveness including Board composition and succession planning, Board dynamics and operations, strategic oversight, risk and crisis management. A proposal outlining the arrangements for the review was considered and approved by the Nomination and Governance Committee in March 2020.

**Stage 2. Information gathering**

The performance review was conducted by a self-assessment questionnaire completed by all Board directors and members of the Nationwide Leadership Team who are regular attendees at Board and Board committee meetings. The questionnaire covered general areas of effectiveness, as well as focusing on how the Board set itself up for future success in an evolving macroeconomic landscape. Individual committee questionnaires were also completed by the relevant committee members where appropriate.

**Stage 3. Feedback and report findings**

The Chair discussed responses with individual directors. A report of the findings and feedback from the review of the Board was presented and discussed at the Board meeting in June 2020. Feedback regarding the effectiveness of each Board committee was discussed at each relevant committee meeting following the June 2020 Board meeting programme.

**Stage 4. Findings and action plan**

Overall, the findings endorsed the belief that the Board and its committees are performing and operating effectively, with directors satisfied with the performance and effectiveness of the Board and its committees. Board members display the values, behaviours, skills, and experiences expected by members to allow them to discharge their duties effectively. It was observed, however, that the Board needed to ensure its was devoting significant time and attention to the future strategy and business model for Nationwide in a post Covid-19 world, and to board composition and succession planning.

**The Board adopted the recommendations from the findings and developed a plan to implement the actions with oversight by the Nomination and Governance Committee. The progress made on the key recommendations from the 2020 performance review process is described below.**

| Area of focus and key recommendations | Action taken |
|---|---|
| **Continue to review, and as appropriate, amend the balance between the time devoted to operational and strategic discussions.** | Board discussions have targeted strategic matters, but the Covid-19 pandemic has brought operational matters to the fore as the Board assists with leading the business through the Covid-19 pandemic, response to the economic downturn and financial and technical resilience of the Society. Given the output of the 2020 Board Strategy Conference, there will be significant focus on strategy execution and transformation, and the Board will focus on ensuring prioritisation of members' current and emerging needs as they change during and post the pandemic. |
| **Continued focus on succession planning by implementing a structured process to review succession options for the Nationwide Leadership Team including giving directors greater exposure to key talent.** | The Nomination and Governance Committee has regular executive succession updates at scheduled meetings and key talent is invited to present to the Board and Board Committees where possible. |

## Composition, succession and evaluation (continued)

### 2021 Board performance review

The UK Corporate Governance Code and the Financial Reporting Council's guidance on Board Effectiveness recommend that the annual performance review of the Board should be externally facilitated every three years. To this end, the Board engaged Lintstock Limited, which has no other connection with the Society, to assist with the 2021 evaluation of its own performance and that of its committees, the Chair and individual directors. The results of the review were presented to the Board for discussion at its May 2021 meeting and will form the basis of an action plan for completion during 2021. A similar process was followed for Board committees.

Further information on the evaluation process, outcomes and actions identified will be presented in the Annual Report and Accounts 2022.

# Audit, risk and internal control

The Board is responsible for determining the nature and extent of the risks the Society is willing to take in order to achieve its long-term strategic objectives. This is detailed in the Board's risk appetite statement. The Board is also responsible for ensuring that management maintains an effective system of risk management and internal control and for assessing its effectiveness.

There are risk management and internal control systems and processes in place for identifying, evaluating and managing the principal risks and the emerging risks facing the Society in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the Financial Reporting Council (FRC).

The framework under which risk is managed in the business is supported by a system of internal controls designed to embed the management of risk throughout the Society. The risk management and internal controls systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. On the basis of this year's review, the Board is satisfied that the Society has an adequate risk framework and internal controls in place, the design of which has been and will continue to be improved to ensure it remains fit for purpose and reflects changes to the Society's internal and external risk profiles.

### Internal control over financial reporting

The Society's financial reporting process has been designed to provide assurance regarding the reliability of financial reporting and preparation of financial statements, as well as consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS).

The Annual Report and Accounts is scrutinised throughout the financial reporting process by relevant senior stakeholders before being submitted to the Audit Committee, who provide challenge, before recommending to the Board for approval.

The Audit Committee also discusses with the external auditor control conclusions and recommendations arising from the audit.
Internal and risk management systems are in place to provide assurance over the preparation of the financial statements. These include independent testing of the critical financial reporting processes and controls, from data origination to reporting, to an agreed level aligned to Board risk appetite. The result of this assurance work is reported to control owners and the Chief Financial Officer with a summary report presented to the Audit Committee. Financial information submitted for inclusion in the financial statements is attested by individuals with appropriate knowledge and experience.

Internal control over financial reporting has been reviewed by management, as well as internal and external audit. Based on this review, it was concluded that the controls over financial reporting are effective.

More information on the Society's risk management and internal control systems can be found on page 56, pages 97 to 103, pages 104 to 106, pages 107 to 109, and pages 142 to 144.

# Remuneration

The Board is responsible for determining the Society's remuneration policies and practices, including executive and senior management remuneration. Information on the work of the Board's Remuneration Committee and the Report of the directors on remuneration can be found on pages 115 to 137.

# Audit Committee report

### *Dear fellow member,*

As Chair of the Audit Committee, I am pleased to present its report for the year. We have overseen and challenged the integrity of the financial reports and robustness of the financial internal controls in a year overshadowed by the Covid-19 pandemic.

Keeping members' money safe and secure has always been Nationwide's priority. The Committee has maintained its focus on the maintenance of a robust control framework within the Society and, with the onset of the pandemic, widened its remit to conduct a series of deep dives into the strength of internal and external fraud procedures in an environment of increased risk of fraud exposure. As Nationwide has worked tirelessly to play its part in the support of its members throughout the pandemic, the Committee has ensured close oversight of financial reporting judgements, in particular relating to credit impairment provisions.

Further details of the judgements that the Audit Committee debated are set out in this report and cross referenced to the extensive disclosures elsewhere in the Annual Report and Accounts. The Audit Committee has worked diligently with management to ensure that reporting is appropriately prudent and balanced, at a time when uncertainty as to the forward view of economic conditions remains high.

The Committee has reviewed the Society's financial reporting, ensuring that the financial statements published by the Society are fairly presented and are prepared using appropriate judgements. The Committee has also monitored and reviewed internal and external audit arrangements and the effectiveness of the Society's internal controls and reviewed the Society's procedures relating to fraud and financial crime. Additionally, the Committee has monitored the external environment to ensure that reporting and controls respond to developments and external risks.

We continue to prioritise monitoring the development of the control environment, including increasing the maturity of control ownership across the Society, and controls over important business activities such as cyber security, physical security and digital services.

We are evaluating and will contribute to the Department for Business, Energy and Industry Strategy (BEIS) consultation on restoring trust in audit and corporate governance. In the next 12 months, we will also continue to develop our approach to and disclosure of climate change risks.

If members have feedback on this report, I should be pleased to receive their comments.

**Kevin Parry** Chair – Audit Committee


*"The Audit Committee has overseen and challenged the integrity of the financial reports and the robustness of the financial internal controls in a year overshadowed by the Covid-19 pandemic".*

**How the Committee spent its time in the year**


- Financial reporting
- Internal controls and risk management (including internal audit)
- External audit
- Financial crime
- Statutory and governance duties
- Other (including meeting administration)

## Who sits on the Committee

| Committee members | Meetings attended/eligible to attend |
|---|---|
| Kevin Parry (Chair) | 8/8 |
| Rita Clifton | 8/8 |
| Phil Rivett | 8/8 |
| Tim Tookey (note i) | 7/8 |

Note:
i. Unable to attend the meeting in January 2021 due to illness.

## How the Committee works

The membership of the Committee comprises independent non-executive directors who bring a diverse range of experience in business, finance, auditing, risk and controls, with particular depth of experience in the financial services sector. The qualifications and experience of each member of the Committee are included in their biographies on pages 71 to 76.

In addition to the members, regular attendees of the Committee include the Chair of the Board, Chief Executive Officer, Chief Internal Auditor, Chief Financial Officer, Chief Risk Officer, Director of Financial Reporting and representatives of the external audit firm.

The Board is satisfied that the Committee possesses recent and relevant financial experience and accounting competence and that the Committee as a whole is appropriately competent in the sector in which the Society operates. The Committee also draws on the expertise of key advisers and control functions, including the internal and external auditors.
The Committee provides oversight and advice to the Board on the matters listed in its terms of reference (available at **nationwide.co.uk**) and reports to the Board on those matters after each meeting. The Committee is authorised by the Board to obtain any information it needs from any director or employee of the Society, and to seek, at the expense of the Society, appropriate professional advice as needed. The Committee did not need to take any independent advice during the year.

In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

The Committee held eight scheduled meetings during the year, and additionally held two joint meetings with the Board Risk Committee to review and approve assurance plans for Risk and Compliance Oversight and Internal Audit.

During the year, the Committee met privately with the Chief Internal Auditor, the Society's external auditors and the Chief Risk Officer, without management present. These meetings provide the opportunity for the Committee to discuss any concerns directly and for participants to raise any concerns directly with the Committee. The Chair of the Audit Committee also has regular meetings with regulators, including the tripartite meetings with the audit firm.

The Committee reviewed its terms of reference and its activities over the previous year as part of an annual cycle to confirm that its activities were in line with its remit. More detail on the Committee's duties and responsibilities can be found within its terms of reference. The exercise to review the effectiveness of the Committee was conducted as part of the internal Board performance review and was led by the Chair. The conclusion of the review was positive, with the Board satisfied that the areas and activities currently delegated by the Board to the Committee remained appropriate to assist the Board with identifying any issues that required action or improvement. Further details of the review are available on page 95.

## What the Committee did in the year

### Financial reporting and the preparation of financial statements

The Committee scrutinised the Annual Report and Accounts and Preliminary Results Announcement. The Committee considered the Annual Report and Accounts as a whole and was satisfied that the reporting, including the disclosures in the notes to the accounts, fairly represented the results and business performance for the year. The Committee considered the Annual Report and Accounts against a number of hallmarks of 'fair, balanced and understandable', including whether the overall portrayal of Nationwide was open and honest, setting out both successes and challenges, and whether language was used that a person with reasonable knowledge of financial sector financial reporting could understand. The Committee also considered whether the reporting was relevant in the context of the Society's strategy, and whether the impacts of the Covid-19 pandemic were appropriately recognised.

The Committee discussed and challenged management's analyses, the external auditor's work, and conclusions on the main areas of judgement presented in the Annual Report and Accounts. The Committee was satisfied that internal controls and risk management systems are in place to provide assurance over the preparation of the Annual Report and Accounts. Financial information submitted for inclusion in the financial statements was attested by individuals with appropriate knowledge and experience. The Annual Report and Accounts was scrutinised throughout the process by relevant senior stakeholders before being submitted to the Audit Committee, who provided debate and challenge, before recommending to the Board for approval. Key controls in the process were subject to regular testing, the results of which were reported to the Audit Committee.

Each main area of focus in relation to the Annual Report and Accounts for 2021 was discussed with the external auditor during the year and, where appropriate, have been addressed as an area of audit focus in the Auditor's report.

The Committee also scrutinised the 2020/21 Interim Results and the accounting judgements made in their preparation.

### Going concern and viability statement

The going concern statement is included in the Directors' report on page 139 and the viability statement is included in the Strategic report on pages 58 to 59.

The Committee reviewed the going concern basis of preparation of the financial statements and the statement of business viability for recommendation to the Board for approval. It assessed, alongside the Board Risk Committee, the levels of capital and availability of funding and liquidity, together with output of stress tests and reverse stress tests. It also considered risks from business activities, technology change and economic factors such as the impacts of the Covid-19 pandemic and Brexit, which may affect the Society's future development, performance and financial position, together with the implications of principal risks including operational resilience and cyber security. The Committee also considered whether a longer period than three years should be covered in the viability statement, concluding that, as in the prior year, a period of three years was appropriate, particularly when taking into account changes in the economic, technological and regulatory environment.

Based on its thorough review, the Committee concluded that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the viability statement to the Board.

### Accounting policies and judgements

The Committee reviewed the Society's accounting policies and confirmed they were appropriate to be used in the financial statements. It also considered changes to policies and processes. Judgments considered for the 2021 reporting are set out within this report.

The Committee noted that there were no new standards, or amendments to standards, relevant to Nationwide that had become effective for the reporting period. It was agreed that Nationwide would be an early adopter of the IASB Interest Rate Benchmark Reform Phase 2.

### Alternative performance measures and disclosure of member financial benefit

Details of member financial benefit are shown on page 61.

The Committee continues to consider that certain non-GAAP measures, such as underlying profit, aid an understanding of the Society's results. The Committee considered the disclosure of and prominence given to underlying profit to be appropriate.

The other performance measure considered carefully by the Committee was the value for member financial benefit presented in Nationwide's financial reporting. This metric shows the benefit provided to members in the form of differentiated pricing and incentives, representing Nationwide's interest rate differential, lower fees and higher member incentives compared with market averages and is considered a key performance indicator. The Committee was satisfied with the approach to measurement of member financial benefit and the associated disclosure.

### Climate change risk and related disclosures

Disclosures are set out on page 36 of the Strategic report.

The Committee considered the disclosures set out within this document, to ensure that they presented fairly the current status of climate risk management and measurement, and the Society's governance arrangements.

The Committee discussed with management progress on working towards comprehensive disclosures by 2022 in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures.

## Significant financial reporting issues and accounting judgements considered by the Committee during the year

In compiling a set of financial statements, it is necessary to make estimates and judgements about outcomes that are typically dependent on future events. Significant matters are set out below.

| Area of focus | Committee's response |
|---|---|
| **Impairment provisions for loan portfolios and related disclosures**<br><br>Information on credit risk and assumptions relating to expected credit losses is included in note 10 to the financial statements | Given the materiality of Nationwide's loan portfolios, understanding the Society's exposure to credit risk and ensuring that impairment provisions are appropriate remain key priorities for the Committee, but took on even greater significance in the light of Covid-19 pandemic. A detailed review of Covid-19 impacts was undertaken to identify potential impacted areas.<br><br>The selection of, and probabilities applied to, a range of economic scenarios for the purpose of modelling expected credit losses continue to have a material impact on loan loss provisions, and the impact on economic conditions and forecasts of the Covid-19 pandemic in particular increased the level of uncertainty and judgement required. The Committee challenged management to demonstrate that provisions reflected appropriately the uncertainty in the economic outlook and the potential for an economic downturn. Discussions took into account contemporary economic data and management's forward-looking view of the economy in the period after Brexit and in light of the pandemic. Following detailed review and discussion, assumptions for central, upside and downside scenarios, as well as for a severe economic downturn, were agreed. The Committee concurred with management that the scenarios used reflected an appropriate range of assumptions and agreed the inclusion of an updated central economic scenario to reflect the impact of Covid-19. Following discussion, including the use of sensitivity analysis, scenario probability weights were unchanged from the half year at 10% for the upside scenario weight, 40% for the central scenario, 40% for the downside scenario and 10% for the severe downside scenario.<br><br>At the year end, the level of estimation uncertainty continued to be heightened by the impacts of the economic conditions and uncertain outlook resulting from Covid-19. The Committee challenged management to demonstrate that all relevant risks had been taken into account in the expected credit loss models, and that post model adjustments that rely on expert judgement were recognised, in particular for tail risks which could not be modelled due to an absence of historical data. The most significant area of focus was the impact of Covid-19 on expected credit losses, both in terms of the extent and timing of the impacts on the UK economy and the impacts of government interventions. This included consideration of the potential for the furlough scheme to delay unemployment increases, and the possible effect on house prices of the suspension of stamp duty on property purchases. The Committee also considered the performance of lending where borrowers had taken up payment holidays as a result of being affected by Covid-19. The Committee was satisfied that available evidence, including the use of sensitivity analysis to determine the materiality of changes to assumptions, supported the level of provisioning and it was satisfied that the disclosures and sensitivities set out in the accounts were sufficiently comprehensive to allow readers to understand the unusually high level of judgement associated with the provision at the year end.<br><br>Overall, disclosures in respect of credit risk and provisions were considered carefully to ensure that they were transparent and gave insight into Nationwide's credit risk profile, taking into account the most recent recommendations of the industry disclosure task force and the aims of the Prudential Regulation Authority and industry to improve consistency. The Committee was satisfied with the overall level of provisioning and related disclosures. |

## Significant financial reporting issues and accounting judgements considered by the Committee during the year (continued)

| Area of focus | Committee's response |
|---|---|
| **Provisions for customer redress**<br><br>Information on provisions is included in note 27 to the financial statements | The Committee received updates on a number of conduct-related matters during the year and considered whether provisions for customer redress were appropriate.<br><br>Assumptions used in calculating provisions for customer redress require judgements in relation to the number of cases and value of redress required, and in addition, judgement is applied to assessing the likelihood of potential conduct issues crystallising to evaluate whether a provision, or alternatively disclosure of a contingent liability, is required.<br><br>The Committee reviewed judgements and estimates for a number of conduct-related issues, discussing with management matters including administration of customer accounts, non-compliance with consumer credit legislation and other issues subject to ongoing remediation, including the historic sale of Payment Protection Insurance (PPI) and the related Plevin legal case in respect of undisclosed commission. Discussions included the criteria for recognition of new provisions or provision releases, as well as the estimation of liabilities.<br><br>Provisions for other conduct matters were reviewed and the basis for assumptions challenged, including the potential outcomes for those matters where less historic experience is available.<br><br>The Committee concluded that the provisions held by the Society were appropriate. |
| **Capitalisation and impairment of intangible assets** | Nationwide's significant investment in technology, together with fast-moving technology development and new techniques for delivery such as agile methodologies, increase the importance of detailed assessment of the nature of assets capitalised, the useful lives of assets and implications of new investment for the existing technology estate. The Committee scrutinised management's work to review both existing assets and ongoing capitalisation of development costs to ensure that the value of assets held on the balance sheet was appropriate, including the recognition of impairments arising from changes in the year. The Committee concurred with management's conclusions that only appropriate costs were capitalised, carrying values remained appropriate and that asset lives were reasonable. |
| **Pension scheme accounting** | Nationwide's defined benefit scheme assets and liabilities are material to the financial statements, and the valuation of liabilities involves making a number of assumptions. The Committee scrutinised assumptions made by management in calculating the surplus relating to the scheme, including reviewing benchmarking information to ensure that assumptions were appropriate in comparison with market trends. Pension asset valuations were also considered in light of current market conditions. The Committee was satisfied with the assumptions and judgements made. |

## Internal controls

**Control environment**
The Committee continued to monitor the overall effectiveness of the Society's control environment, including work to strengthen and enhance controls. The Committee was updated regularly on the status of important work to streamline the approach to control ownership, including management accountability for key controls and declarations of control effectiveness.

**Financial controls**
The Committee reviewed reporting by management on the effectiveness of the financial control framework, which included progress on strengthening the control environment.

During the course of the year, the Committee also discussed the potential impact of the introduction of new legislation and the introduction of a new regulatory regime. The Committee discussed the potential impact of the introduction of a UK version of the Sarbanes Oxley control framework following the publication of the Kingman and Brydon reports, and will monitor the response to the Department for Business, Energy and Industry Strategy (BEIS) consultation on restoring trust in audit and corporate governance.

The Committee received regular reports on the plan of activity to support the demonstrable embedding of the Risk and Control Simplification Programme, to further enhance control standards and gain efficiencies across the Society. During the year the Committee increased its focus on control improvements and the steps being taken by management to respond on a timely basis to internal audit findings. Accordingly, the Committee was supportive of management's decision to create a Chief Controls Office, agreeing that its establishment would simplify and enhance the Society's controls management.

**Security, IT controls and operational resilience**
The Committee monitored closely the work that has continued on strengthening aspects of security management, with quarterly updates received from the Chief Security and Resilience Officer. Internal Audit completed several related audits during the year, and the Committee discussed with the external auditors their view on controls over privileged access to IT systems. These reports, together with reporting by management, demonstrated the progress made in the year. The Committee will continue to monitor this important aspect of control.

**Financial crime**
Financial crime is a broad term that includes bribery and corruption, money laundering, fraud (including fraud scams), theft from customers' accounts and card related thefts. The Committee received a number of reports on each of these areas.

The Committee received two reports from the Group Anti-Money Laundering Officer and noted the improvements made to the control environment since the prior year and the associated positive impact that this had on members. The Committee emphasised the importance of the Society being able to identify proactively the risk of money laundering and apply enhanced due diligence measures.

The Committee reviewed a detailed report on anti-fraud controls, which noted the Society's fraud performance against risk appetite and key areas of focus for the forthcoming year. The Committee considered the continued external threat and was satisfied with the steps being taken to reduce losses from financial crime.

The Committee held a dedicated training session with its external auditors on fraud, where it reviewed the industry perspectives and developments in fraud risk, and in particular the impact of the Covid-19 pandemic on fraud risks in the sector. Arising from the session, and under the wider ambit of fraud risk and the impact that the Covid-19 pandemic had had on it, the Committee identified topics for further follow up, focusing on first and second line controls. This led to a series of deep dive sessions, which started towards the end of the reporting period and to date has included the controls over and monitoring of mortgage broker fraud, and an assessment of the Covid-19 fraud risks. During the next reporting year, the deep dive sessions will continue, and biannual fraud reviews have been scheduled on specific fraud topics.

As part of the Committee's wider responsibilities, other matters considered during the year were:

## Capital and distributions

The Committee is responsible for advising the Board on the affordability of making distributions to holders of core capital deferred shares (CCDS) and AT1 securities and recommended to the Board that the payments proposed by management during the financial year be approved.

## Tax

The Committee reviewed the management of Nationwide's tax affairs and discussed the management of tax risk in business activities. The Committee also reviewed developments in the year, areas of focus and judgements relating to tax made in the financial statements.

## Internal Audit

The Committee works closely with the Chief Internal Auditor who reports directly to the Chair of the Committee. Throughout the year, the Committee continued to monitor the progress of the internal audit function.

During the year, the Committee approved the appointment of Stephen Evenden as Chief Internal Auditor following a full selection exercise led by the Chair of the Committee. Mr Evenden's permanent appointment followed a period where he had served as Interim Chief Internal Auditor since April 2020 when the previous Chief Internal Auditor moved to a new internal role.

The Committee reviewed reports from the Chief Internal Auditor on a quarterly basis, which drew the Committee's attention to the most significant audit work, including issue management, operational resilience, foundational IT and security controls, system resilience and technology strategy. The Committee met jointly with the Board Risk Committee at the beginning of the year to approve a revised minimum viable audit plan for the first three months of the financial year because it was recognised that previous plans needed to be reviewed in light of new and emerging risks identified in relation to the pandemic. During the year, the Committee approved the transition from a full year audit plan to a rolling plan, updated every six months, increasing Internal Audit's ability to react more dynamically to changing environments. Subsequently, the Committee also approved the plan for the second half of the financial year.

The Committee continued to focus on the prompt and effective resolution of issues raised by Internal Audit; whilst progress was made during the year, this remains an area of focus, particularly in respect of complex issues which require extended time to resolve.

The Committee reviewed the resourcing of the internal audit function each quarter and was satisfied that the resources were appropriate. The Committee Chair and the Chief Internal Auditor reviewed progress against planned activities on a monthly basis. The Committee also noted changes to the organisational structure of the Internal Audit function implemented by the new Chief Internal Auditor, which recognised the changing focus of its activities since the onset of the Covid-19 pandemic working arrangements.

The quality of Internal Audit's work was monitored by a quality control function which reported findings directly to the Committee Chair; no major issues were reported.

## External Audit

One of the Committee's key responsibilities is overseeing the relationship with the external auditor, and the effectiveness of the audit process. Ernst & Young LLP (EY) has acted as the Society's external audit firm since appointment at the Annual General Meeting in July 2019. Nationwide's policy for auditor rotation and audit tender follows regulatory requirements, and the audit firm will be required to be rotated after no more than 20 years, with an audit tender to be held after no more than 10 years. EY's report can be found on pages 227 to 240.

## Audit quality and materiality

The Committee has responsibility for reviewing the quality and effectiveness of the external audit. The Committee approved the scope of the audit plan and materiality level in advance of the annual audit. Materiality is the level at which the auditor considers that a misstatement would compromise the truth or fairness of the financial statements. For 2020/21, overall audit materiality was set at £39.5 million (2020: £31.2 million).

## Senior statutory auditor

The Committee acknowledges the provisions contained in the UK Corporate Governance Code 2018 in respect of audit tendering and the UK legislation on mandatory audit rotation and audit tendering. Javier Faiz of EY became Nationwide's senior statutory auditor for the financial year 2019/20 following EY's appointment as Nationwide's external auditor at the Annual General Meeting in July 2019. Under regulation Mr Faiz's term as senior statutory auditor should not normally exceed a maximum duration of five years.

## Auditor independence

EY has confirmed that it has complied with relevant regulatory and professional requirements and its objectivity is not impaired. The Committee is satisfied that EY remained independent throughout the year.

The Board has an established policy setting out the non-audit services that can be provided by the external auditor. The aim of the policy, which is reviewed annually, is to safeguard the independence and objectivity of the external auditors and comply with the ethical standards of the Financial Reporting Council (FRC).

The policy specifies limited non-audit services permitted to be provided by the external auditor, and requires all non-audit work to be approved by the Audit Committee following a detailed assessment of the nature of the work, availability of alternative suppliers and implications for auditor independence.

## Audit and non-audit fees

During the year, the Committee reviewed and approved EY's terms of engagement for the statutory audit and the audit fee. In addition, the Committee regularly approves fees for non-audit services in accordance with the Society's policy.

In line with the Society's non-audit fees policy, all non-audit work is approved by the Committee where the fee is over £50,000, or by the Committee Chair and the Chief Financial Officer with ratification at the next Audit Committee meeting where the fee is below £50,000. Where aggregate non-audit fees reach 50% of the statutory audit fee in any given year, all non-audit work must be approved by the Audit Committee in advance.

During the year, the Committee considered a number of proposals from management to use the external auditors for non-audit services, ensuring that management had considered alternative suppliers and scrutinising analysis of any potential threats to auditor independence.

A regulatory cap on the annual value of non-audit fees of 70% of the average of three years' audit fee will be mandatory for Nationwide in 2022/23, being the fourth financial year following the change of auditor. The Committee reviewed the cumulative value of non-audit work quarterly with the aim of operating within this framework in advance of the regulatory requirement.

The fees paid to EY for the year ended 4 April 2021 totalled £5.2 million (2020: £4.0 million), of which £0.6 million (2020: £0.5 million) were for non-audit services. Total EY non-audit services represented 10% (2020: 10%) of the statutory audit fee.

No fees were paid to EY for individual services with an expenditure of more than £100,000. Non-audit services provided by EY relate to treasury funding activity.

The value of audit and non-audit fees in respect of the financial year are disclosed in note 8.

Having reviewed both the quantum of the non-audit fees and the nature of the work carried out, the Committee is satisfied that the non-audit work does not detract from EY's audit independence.

## Effectiveness of the external audit

The Committee reviews the effectiveness of the external audit process annually. EY reports to the Audit Committee key tests undertaken to support its opinion, focusing on judgemental and complex issues. The detailed reporting supports the Audit Committee's assessment of the quality of EY's work. Further, the Committee received a report on audit effectiveness based on a questionnaire to Committee members and those members of management who interact with the auditors, regarding the EY audit of the 2019/20 financial statements. It showed that the external auditor was performing its duties in an independent and effective manner.

During the year, the FRC conducted an Audit Quality Review of EY's 2020 audit of Nationwide. There were no significant points raised in this review. The findings and the actions EY will take in response to them, were considered by the Audit Committee. The Committee was satisfied that none of the findings were significant and noted that the FRC had accepted EY's response to the review.

# Board Risk Committee report

## *Dear fellow member,*

I am pleased to present the Board Risk Committee's report for the financial year ended 4 April 2021. During the year, we have continued to focus on the risks facing the Society from the current macroeconomic, political and pandemic conditions and worked to ensure that the Society remained resilient in light of these risks. Despite these challenges, the Society's risk profile has remained broadly stable, and the Committee and management continue to proactively monitor, manage and mitigate risk using the Society's risk management framework.

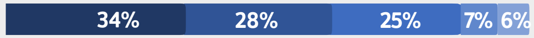
The Committee has continued to provide oversight of the important role played by our second line colleagues in risk management, independent of the Society's operational functions, and to scrutinise performance against risk appetite (the amount and type of risk the Society is prepared to accept in the delivery of its strategy). It continues to review the adequacy of the Society's systems for risk assessment, internal controls and reporting. The Committee continued to challenge management on internal risks such as those relating to operational changes made in response to the pandemic, incident management, credit risk, data risk, economic crime and the Society's response to governmental and regulatory policy decisions.

In relation to external risks, the Committee continued to monitor the Society's initiatives in relation to climate change, and its response to the Bank of England's consultation on negative interest rates. During the forthcoming financial year, the Committee will continue to actively support management in the implementation of the Society's Strategy, reviewing key risk policies and frameworks including key risk appetite statements, and monitoring the continued influence of the Society's Missions on the risk profile to continue to ensure fair outcomes for members.

**Tim Tookey** Chair – Board Risk Committee


*"During the year, we have continued to focus on the risks facing the Society from the current macroeconomic, political and pandemic conditions"*

### How the Committee spent its time in the year




- Prudential risk
- Operational and conduct risk
- Enterprise risk
- Governance and regulatory
- Other matters (including meeting administration)

## Who sits on the Committee

| Committee members | Meetings attended/eligible to attend |
|---|---|
| Tim Tookey (Chair) (note i) | 8/9 |
| Albert Hitchcock | 9/9 |
| Kevin Parry | 9/9 |
| Phil Rivett | 9/9 |
| Tamara Rajah (note ii) | 6/6 |

Notes:
i. Unable to attend the meeting in January 2021 due to illness.
ii. Joined the Committee in September 2020.

## How the Committee works

The Committee comprises at least three independent non-executive directors. Details of the skills and experience of the Committee members can be found in their biographies on pages 71 to 76. The Committee is required to meet four times a year. During the year there were two joint Audit and Board Risk Committee meetings to consider matters of common interest, for example reviewing the assurance plans for Internal Audit and Risk Oversight functions.

In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

Regular attendees of the Committee include the Chair of the Board, Chief Executive Officer, Chief Product and Marketing Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Internal Auditor, and representatives of the Society's auditors, Ernst & Young.

The Committee invites the Chief Executive Officer to give his perspectives on the current and emerging risk profile of the Society and receives a report from the Chief Risk Officer on the same matters at each meeting. Subject matter experts are invited to Committee meetings to present on a variety of topics. Following each meeting, updates are provided to the Board, which are supplemented by regular reports from the Chief Risk Officer.

The Committee oversees the Executive Risk Committee, which is the management committee responsible for ensuring a co-ordinated risk management approach across all the Society's risks. The oversight and challenge of the day-to-day IT and resilience risk, control and oversight arrangements of the Society is undertaken by the Board IT and Resilience Committee. This includes the effectiveness of the relevant aspects of the control environment. More detail on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee reviewed its activities to confirm that they were in line with its remit as set out in its terms of reference. The Committee's effectiveness is reviewed annually. In 2020, the effectiveness review was carried out internally as part of the overall review of the effectiveness of the Board and its committees. The review found that the Board was satisfied with the performance and effectiveness of the Board Risk Committee. The 2020 effectiveness review process is described on page 95.

## What the Committee did in the year

The principal purpose of the Committee is to provide oversight on behalf of, and advice to, the Board in relation to risk-related matters. The Committee fulfils this role by providing advice, oversight and challenge to enable management to promote, embed and maintain a strong risk awareness culture throughout the Society. The Society's approach to the management of risk is set out in more detail on pages 142 to 144.

In addition to considering the Society's current and emerging risk exposures, the Committee also considered longer-term risks to delivering the Society's strategy and emerging issues that could present risks in the future.

The Board considers the appropriateness of the Society's strategic plan in the context of its risk appetite. During the year, the Committee recommended the Society's Board Risk Appetite to the Board and monitored performance against it by undertaking appropriate reviews of material risk issues against the set risk appetite.

The Committee balanced its agenda to continue to focus on standing areas of risk management whilst ensuring key risks were escalated for consideration. As part of this, the Committee reviewed the Society's risk profile, facilitated by reporting and analysis from the Chief Risk Officer. An outline of other key matters considered by the Committee in the year is broken down by risk category and set out below.

## Prudential risk (includes credit, model, liquidity and funding, market, solvency and pension risks)

The Society lends in a responsible, affordable and sustainable way to ensure we safeguard members' interests and maintain financial strength through the credit cycle. It maintains sufficient capital and liquidity resources to support current business activity to remain resilient to significant stress. In this context, the Committee discussed macroeconomic risks against a challenging global geopolitical backdrop and the uncertainty around Brexit and the impacts of Covid-19. These risks and events were continually monitored and assessed to manage the impact on Nationwide's business and were considered alongside wider discussions relating to the competitive environment.

During the year, the Committee reviewed a number of aspects of prudential risk as required by the PRA, including the Society's capital and liquidity adequacy (as reported in the ICAAP and ILAAP respectively), the Pillar 3 risk disclosures, the recovery plan, the resolvability framework and associated regulatory reporting. It also reviewed and approved the 2020 reverse stress test. The Committee considered the Society's response to the uncertainties presented by the current economic and pandemic climate, and the impact of government and regulator policy decisions, such as the furlough scheme, payment holidays, and the stamp duty exemption for residential properties.

## Operational and conduct risk

The Society minimises member and customer disruption, financial loss and reputational damage through providing sustainable services and resilient systems.

During the year the Committee sought confirmation on the following risk matters related to Covid-19:

- Regular updates on health and safety;
- Maintaining robust controls during the extended period of operational change;
- Maintaining the integrity of the Society's IT systems during the extended period of colleague home working; and
- The resilience of the Society's supply chains.

The Committee considered the impact of Brexit on members resident in the EU 27 countries.

The Committee received the annual Data Protection Officer's Report, detailing the adequacy of data protection policies, procedures and governance arrangements to mitigate data protection risks and comply with data protection legislation, including the General Data Protection Regulation.

The Society always seeks to treat members and customers fairly, before, during and after the sales process through offering products and services which meet their needs and expectations, perform as represented and provide value for money. The Committee has continued to champion the Society's approach to the ongoing management of conduct risk, meaning that the Society's products and processes are focused on delivering good customer outcomes and minimising regulatory non-compliance and minimising the risk of economic crime.

## Enterprise risk (includes business risk)

The Committee has challenged the Society's business model in the current 'lower for longer' interest rate environment to ensure its mutual business model is sustainable and remains within the constraints of the Building Societies Act 1986 in a stress as set out below. In particular, it has:

- Endorsed the Board's risk appetite which clearly sets out the amount and type of risk that the Board is comfortable with the Society taking. This is to ensure that it remains sustainable in the long term for all members' benefit. Within the parameters set by the Board's risk appetite, the Committee performed a regular review of the Society's risk performance to ensure that appropriate action was being taken and to inform the Remuneration Committee's consideration of any potential risk adjustments to executive remuneration.
- Approved the results of the review of the Society's Enterprise Risk Management Framework – the system of risk management and internal controls which the Society operates within. The review concluded that the Society's system of risk management and internal control was adequate when assessed against the Board's overall risk appetite and improvement plans.
- Approved the results of a reverse stress test which assessed Nationwide's business model risk and strategic vulnerabilities over a 10 year time frame.
- Approved the Society's risk strategy which was updated based on enhancements to controls management capability; encouraging a risk culture that considers both risk and reward in decision making; and maturing the Society's approach to measuring risks associated with climate change, including the work ongoing in preparation for the Climate risk Biennial Exploratory Scenario.
- Reviewed the Society's compliance with the BCBS239 regulation on principles for effective risk data aggregation and risk reporting.
- Considered the potential propositional, operational and margin implications of negative interest rates on the Society.
- Ensured that Nationwide's pricing frameworks align with the requirements of the European Banking Authority Guidelines on Internal Governance.
- Approved the Third Party Risk Policy on behalf of the Board.

During the year, the Committee received regular updates from the Society's second line oversight functions. It satisfied itself that the Society's segregation of duties between the first, second and third lines of defence is sufficiently robust to ensure that the Society's operational decisions receive timely and appropriate challenge. The Committee also approved changes to the Terms of Reference of the Executive Risk Committee.

# Board IT and Resilience Committee report

### *Dear fellow member,*

I am pleased to present the Board IT and Resilience Committee's report for the financial year ended 4 April 2021. In a year dominated by the Covid-19 pandemic, the importance of resilient IT systems and digital strategy continues to be of paramount focus to Nationwide. During 2020/21, we have ensured that our digital and technology capabilities were able to support over a billion digital logins and a significant increase in online and e-commerce card transactions as more of our members completed digital transactions during periods of lockdown across the UK.

In September 2018, we announced plans for additional technology investment to enhance our existing technology programme, and we have invested an extra £702 million to date. Our technology investment is helping us deliver increased resilience, stronger security and better member outcomes through improved digital capabilities and better use of data, whilst also driving down ongoing and future costs. Throughout the financial year it became clear that the Covid-19 pandemic would have significant financial implications as we enter a period of economic uncertainty and prolonged low interest rates. As a result, we are now looking hard at our plans, to balance priorities for technology investment with the need to maintain day to day operations and ensure that Nationwide is financially secure for the future, and we expect to scale back some of this activity in the medium term.

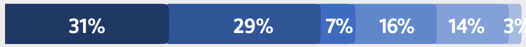
Over the past year, members have experienced technology changes enabling them to have increased accessibility across all platforms, contact centres staying open through remote working, and continued access to our branches across the UK throughout the Covid-19 pandemic. We will continue to deliver improvements to enhance the quality of the service we can offer, while prioritising the security and resilience our members expect.

The year ahead will be an exciting but challenging one as we continue to deliver technology change which will ultimately be transformative for the Society, instrumental in safeguarding future resilience and a key enabler to continuing to meet Nationwide's core purpose in years to come. The Committee will continue to challenge how operations run and the delivery of change, as well as provide oversight of management's prioritisation of technology change. It is recognised that there is a need to strike a balance between the enablement of operational continuity and security, meeting new regulatory requirements and delivering improvements for members in a challenging economic environment.

**Gunn Waersted** Chair – Board IT and Resilience Committee


*"Over the past year members have experienced technology changes enabling them to have increased accessibility across all platforms, contact centres staying open through remote working, and continued access to our branches across the UK throughout the Covid-19 pandemic."*

### How the Committee spent its time in the year




- Service delivery and operational resilience
- Technology programme
- Cyber and security
- Transformation
- IT risk and controls oversight
- Other (including meeting administration)

Strategic report
Governance
Risk report
Financial statements
Other information

## Who sits on the Committee

| Committee members | Meetings attended/eligible to attend |
|---|---|
| Gunn Waersted (Chair) | 6/6 |
| Mai Fyfield (note i) | 5/6 |
| Albert Hitchcock | 6/6 |
| Tim Tookey (note ii) | 5/6 |
| Tamara Rajah (note iii) | 4/4 |
| Phil Rivett | 6/6 |

Notes:
i. Unable to attend the meeting in July 2020 due to a prior engagement.
ii. Unable to attend the meeting in January 2021 due to illness.
iii. Joined the Committee on 1 September 2020.

## How the Committee works

The Board IT and Resilience Committee supports the Board and the Board Risk Committee and comprises non-executive directors whose attendance record is set out above.

Regular attendees of the Committee include the Chair of the Board, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Information Officer, Chief Internal Auditor; Member Mission Leads, and the Society's external advisers Conrad Prince and Oliver Bussmann. The Society's other external advisers partner business areas and attend the Committee where their specific expertise is relevant and valuable to the Committee.

Following each Committee meeting, the Chair of the Committee provides verbal updates to the Board and escalates items to the Board Risk Committee as appropriate.

In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

The Committee reviewed its activities to confirm that they were in line with its remit as set out in its terms of reference (available at **nationwide.co.uk**). The Committee's effectiveness was reviewed and was carried out as part of the overall review of the effectiveness of the Board and its committees. The 2020 performance review process is described on page 95. The conclusion of the review was that the Board was satisfied with the performance and effectiveness of the Committee. It was agreed that the Committee continued to provide effective oversight on behalf of the Board Risk Committee, ensuring that the impact of IT strategies and IT service delivery performance was understood in the context of the Society's risk appetite.

## What the Committee did in the year

### Service delivery and operational resilience

The Committee regularly reviewed the Society's IT service provision throughout the year, considering incidents and root causes, as part of a standing agenda item, the Chief Operating Officer's Report.

The Committee has sustained a focus on improving operational resilience. Following the approval of the Operational Resilience Strategy in May 2019 management has focused on making resilience improvements across the Society's key services. During 2020, the Committee received a detailed update on the approach that will be taken to set and operate within impact tolerances, ahead of an expected development in the regulatory approach in 2021. In addition, the Committee received specific operational resilience and IT service updates on activity undertaken in response to the Covid-19 pandemic. The Society enabled approximately 13,000 colleagues to work safely from home by making a number of changes to our IT estate, including the deployment of over 5,000 new laptops.

The Society's disaster recovery capability remains an area of focus and whilst progress has been made, the impact of the Covid-19 pandemic delayed some disaster recovery testing. Continued investment and an ongoing programme of work, including testing through 2021, has been agreed.

## Technology programme

In 2018, the Board approved a multi-year technology programme to simplify the Society's IT estate. At the start of the financial year, the Committee approved the priority areas of investment for the 2020/21 financial year, given lower than planned investment levels as a result of factors including the emerging Covid-19 pandemic. The Committee agreed a plan to ensure that the Society's IT estate remained resilient, alongside continued significant investment in its payment systems, disaster recovery, security, cloud computing and the simplification of its banking systems, whilst reducing investment in areas such as process automation.

Ahead of the refresh of the Society's strategy in October 2020, the Committee reviewed the options that formed part of the technology programme. These options were influenced by how the Covid-19 pandemic had changed the way our members interacted with the Society, and the amount of investment available within a revised financial plan. This ultimately led to the creation of a combined technology, digital and data strategy for the Society which contains four focus areas:

1. Continued investment in the Society's technology foundations to continue to improve resilience and agility.
2. A set of initiatives to reduce the cost of the Society's IT estate.
3. Investment in a new digital platform to modernise the services we provide for our members.
4. Enhancements to how we use data to create new experiences for our members based on modern analytical capabilities such as Artificial Intelligence.

As focus moved from agreeing the new strategy to mobilising the work to deliver it, the Committee received updates to chart the progress on the evolution of our culture, ways of working and the recruitment of additional technologists, all of which are crucial to the delivery of the strategy.

PricewaterhouseCoopers (PwC) have continued to provide external independent assurance over the execution of the technology programme to the Committee and Board. PwC, together with the Society's Oversight and Internal Audit functions, form part of a combined, multi-faceted and Society-wide assurance approach.

## Cyber and security

The cyber-threat environment presents an ongoing challenge. Throughout the course of the year, the Society and its supply chain have seen an increase in the sophistication and complexity of cyber-attacks, which it has monitored and fully mitigated to prevent impact on the Society and its members. The threat faced is common across the financial services industry.

The Committee has received regular updates from management, including a cyber security maturity update, which highlighted that the Society's overall security position continues to improve. The delivery of the technology programme provides opportunities to continually improve security within the IT estate and across the Society. Management, supported by the Committee, continues to provide focus and allocate investment to support and enable the ongoing improvement of its security capability, through sustained management of evolving threats and by taking a proactive approach to help keep members' money and data safe.

The Committee regularly receives expert advice from an industry-leading external adviser. Additionally, the Society continues to collaborate with the wider industry, the UK Government's National Cyber Security Centre and National Crime Agency to share good practice and inform understanding about new and evolving threats.

## Transformation

The Committee has continued to review management's progress against key transformation delivery objectives, some of which are enabled by change activity, by receiving updates and insight on change programmes including:

- Assessing the performance of the portfolio across all categories of strategic investment, including whether critical delivery milestones are met in line with planning estimates;
- Achieving compliance within our digital channel offerings and core IT systems, such as Strong Customer Authentication and Confirmation of Payee regulations;
- Maintaining our focus on improving operational resilience and other non-financial benefits;
- Oversight of dependencies, prioritisation and efficient sequencing of key investments;
- The response to Covid-19 and support to both colleagues and our members; and
- The implementation of a technology operating model, aligning to the new Member Missions.

## IT risk and controls oversight

The Committee is routinely provided with the output of independent reviews from the Society's Risk and Compliance Oversight and Internal Audit functions. This activity complements the first line's management of risk and control, which continues to improve as processes are enhanced and embedded.

# Nomination and Governance Committee report

## *Dear fellow member,*

I am pleased to report on the work of the Nominations and Governance Committee (the 'Committee') during the financial year ending 4 April 2021.

The Committee continues to play an important role in ensuring that the Society is led by a Board and senior management with the combination of skills and experience required to build sustainable success for the benefit of our members and other stakeholders.

It is essential that the Board is well balanced in terms of structure, skills, experience, diversity and knowledge to enable the Society to achieve its objectives and long-term strategy. A Board composition and skills matrix which provides a view of Board capability and skills is regularly updated and formally reviewed annually by the Committee to ensure it reflects our future competency priorities. To support the continued focus on inclusion and diversity (I&D) at Board level, acknowledgement of I&D as an essential lever in achieving the Society's strategic objectives has been incorporated into the Board composition and skills matrix.

We maintain and implement an effective succession plan to ensure that the Board is progressively refreshed. During the year, the Committee strengthened the Board's composition with the appointment of Tamara Rajah and Debbie Klein. More information on this can be found on page 112. Following the retirement of Baroness Usha Prashar in July 2020, Kevin Parry was appointed to the Remuneration Committee. In addition, to further strengthen the composition of the Nomination and Governance Committee, Gunn Waersted was appointed a member of the Committee in April 2021.

Succession at senior management levels remains a key aspect of the Committee's agenda, and during the year we received and considered updates on succession planning and the development of a diverse pipeline for succession on the Nationwide Leadership Team and other key roles.

As part of its remit, the Committee continues to exercise oversight of the Society's governance arrangements on behalf of the Board to ensure they are in line with best practice.

Our I&D strategy outlines our ambition to ensure our Society reflects the diversity of the wider communities we serve, and we have agreed a number of diversity measures to meet by 2028. These include measures of 50% female and 12% ethnically diverse representation for our senior leadership population. We have also agreed actions and interim measures to ensure we achieve the desired outcomes by the set date. The Board continues to sponsor the Society's I&D agenda with the Committee receiving regular updates on the progress made. More information on our diversity measures and progress made can be found on page 112.

In the coming year, the Committee will continue to focus on Board composition, senior management leadership and succession planning and monitoring the progress made against the Society's diversity measures.

**David Roberts** Chair – Nomination and Governance Committee


*"It is essential that the Board is well balanced in terms of structure, skills, experience, diversity and knowledge to enable the Society to achieve its objectives and long-term strategy."*

### How the Committee spent its time in the year


- Executive resourcing, leadership, talent and succession
- Other (including meeting administration)
- Governance and regulatory requirements
- Board composition and effectiveness
- Inclusion and diversity
- Individual accountability regimes

Strategic report
Governance
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Other information

## Who sits on the Committee

| Committee members | Meetings attended/eligible to attend |
|---|---|
| David Roberts (Chair) (note i) | 5/6 |
| Mai Fyfield | 6/6 |
| Kevin Parry | 6/6 |
| Tim Tookey (note ii) | 5/6 |
| Gunn Waersted (note iii) | 0/0 |

Notes:
i. Unable to attend a meeting due to unforeseen circumstances.
ii. Unable to attend a meeting due to illness.
iii. Joined the Committee on 1 April 2021.

## How the Committee works

The Committee is chaired by the Chair of the Board and the members are independent non-executive directors. Details of the skills and experience of the Committee members can be found in their biographies on pages 71 to 76. The Committee meets at least twice a year and otherwise as required. The number of meetings held in the year can be found in the table on page 86. The attendance record of Committee members is set out above. In addition to the members, regular attendees of the Committee include the Chief Executive Officer, Chief People Officer, Chief Legal Officer and Society Secretary and Director of Secretariat.

In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

Following each meeting, the Chair of the Committee provides updates to the Board, summarising activities undertaken, and key decisions taken.

The Committee reviewed its activities over the previous 12 months to confirm they were in line with its remit. The Committee also reviewed its terms of reference as part of an annual cycle to ensure they were fit for purpose and continue to reflect all applicable governance codes, guidelines, legislations and best practice. More details on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee's effectiveness is reviewed annually. In 2020, the review was carried out as part of the overall review of the effectiveness of the Board and board committees.

The results of the review indicate that Committee members are satisfied with the performance and effectiveness of the Committee. The Committee will continue to build into its agendas sufficient time to focus on executive succession planning. The review also identified the need for continuous improvements to management reports and papers to ensure an appropriate level of information is presented to the Committee. The 2020 effectiveness review process is described on page 95 and a report on the findings will be disclosed in next year's Annual Report.

## What the Committee did in the year

### Executive resourcing, leadership, talent, and succession

The Committee received updates on the flow of internal and external appointments, promotions, stretch and planned appointments for senior leadership and other key roles. There is a continued focus on recruitment processes to ensure an increase in diverse appointments.

The Committee continued to provide oversight for the implementation of the Society's 'leadership pathways' programme initiated in January 2019 and designed to identify opportunities that provide stretching roles and experiences for leaders to grow their capability and potential for the future and to strengthen leadership succession.

In overseeing the Society's approach to resourcing the needs of the business, and developing our colleagues, the Committee continued to focus on strengthening the Society's leadership to ensure it has the talent needed for the future. The Committee received updates on the Society's executive succession management which included a review of emergency succession plans and talent management development plans for longer term succession. This provided the Committee with a view of the talent pipeline of potential leaders as well their key strengths and development areas. It was noted that whilst the Society's succession pipeline is gender balanced, there is a lack of ethnic diversity over all time horizons. In recognition of this, with the 'leadership pathways' programme, there is particular focus on increasing diversity within the senior management population and ensuring succession management facilitates opportunities for diverse colleagues.

## Inclusion and diversity

The Committee continues to oversee the development and implementation of the Society's inclusion and diversity (I&D) strategy and objectives.

The Society's ambition is to build an inclusive culture where everyone can thrive and for the diversity of our Society to reflect the diversity of the communities we serve. Key to success is ensuring I&D is integrated into the Society's purpose and embedded in what we do across all business areas.

Good progress has been made in the last year; however, the Society's I&D outcomes are not yet where they need to be. In recognition of this, it was agreed at the Board Strategy Conference in October 2020 that I&D would form a critical focus for the next 3-5 years.

The Committee received updates on progress made in the key areas of focus for I&D. Notably this included:

- Embedding I&D into core people processes such as recruitment;
- Improving access to and use of data and insights to provide leaders with visibility of progress made;
- Educating and improving awareness amongst colleagues on building an inclusive Society; and
- Ensuring leadership accountability for the delivery of the I&D agenda.

More information on the Society's I&D mission, measures and progress made can be found on page 26.

The Board of Nationwide is committed to ensuring that it comprises a membership which is diverse and reflects the communities that it represents. It aims to achieve this by ensuring representation within the Board of race, age, gender, disability, and sexual orientation in addition to appropriate educational and professional backgrounds. This will be a key determinant of any new appointments. It will also be taken into consideration in the development of a diverse pipeline for succession. Selecting the best candidate is paramount and all appointments will be based on merit and objective criteria with due regard for the benefits of diversity on the Board. This will benefit the effectiveness of the Board by creating a breadth of perspective among directors.

Our current Board composition is 42% female, with 8% ethnically diverse representation. The Society is committed to maintaining the Board diversity target set by the Hampton-Alexander Review of a minimum of 33% female representation on the Board by 2020 and the Parker Review target of a minimum of one director from an ethnically diverse background by 2021.

The Board's Diversity Statement is set out in the Board Composition and Succession Policy which can be found on the Society's website: **nationwide.co.uk**

The Committee continues to review the development of the pipeline of both ethnically diverse and female senior management within the Society and as a signatory to the Women in Finance charter, the Society has committed to supporting the progression of women into senior roles.

To increase our focus on disability inclusion, the Society signed up to the Valuable 500 movement, which involves ensuring disability is discussed at Board level and requires signatories to publish a firm pledge for action.

The Society continues to play an active membership role in the 30% Club and is signed up to the BiTC Race at Work charter which involves a commitment at Board level to zero tolerance of harassment and bullying, particularly racial.

## Board composition and effectiveness

The remit of the Committee includes ensuring the Society has the right mix of knowledge, skills and behaviours on the Board for it to be effective in delivering its responsibilities to provide oversight and governance of the Society and to safeguard the interests of its members.
In determining the Board's needs, the Committee considers a range of factors including the diversity of the Board in its widest sense, the current and future challenges and opportunities facing the Society and the need to balance continuity and knowledge of the Society with progressively refreshing membership of the Board and its Committees. The recruitment process for directors is designed to ensure the Board possesses a range of skills and appropriate objectivity. It also involves detailed referencing and other checks to establish the candidate's credentials, including suitability, fitness and propriety. Regulatory approval is also required for certain Board roles.

During the year, the Committee oversaw and recommended to the Board the appointment of Tamara Rajah as a non-executive director. Korn Ferry, an executive search firm which has no other connection with the Society or its individual directors, was engaged to assist with the search. The Committee, supported by the search firm, prepared a candidate specification based on objective criteria, setting out the knowledge, skills, experience and attributes required. From the candidate specification, a longlist of potential candidates was drawn up from which a shortlist was compiled. Following a review of the shortlisted candidates, two preferred candidates emerged. They met with the Chair and other members of the Committee as well as the CEO. Feedback on the candidates was obtained through professional references and these, together with the feedback from the Committee members and CEO, were considered alongside the relative characters, skills and experience of the candidates. Following due and careful consideration of each of the candidates and the current needs of the Board, the Committee selected Tamara Rajah as the sole preferred candidate for the role. Tamara's appointment fulfils the need to further strengthen the Board with a non-executive director with skills and experience in one or more areas of digital technology, data, entrepreneurship or innovation, given some of the core strategic and operational challenges facing the Society over the next few years.

The Committee also oversaw and recommended to the Board, the appointment of Debbie Klein as a non-executive director. Following a review of the composition of the Board, taking into account the effect of planned departures, the Committee identified a potential gap on the Board and the need for a non-executive director with a deep understanding and practical experience of leading brand strategy and development, combined with an understanding of consumer/member insight, customer data and analytics.

The Society's Executive Resourcing Team assisted the Committee with the search. A candidate specification was prepared from which a longlist of potential candidates with varying backgrounds was drawn up and from which a shortlist was compiled. Following a review of the shortlisted candidates, two preferred candidates emerged. They met with the Chair and other members of the Committee as well as the CEO and the Chief Product & Marketing Officer. Feedback on the candidates was obtained through professional references and these, together with the feedback from the Committee members and CEO, were considered alongside the relative characters, skills and experience of the candidates. Following due and careful consideration of each of the candidates and the current needs of the Board, the Committee selected Debbie Klein as the sole preferred candidate and recommended her appointment. With her background and experience, Debbie will bring additional diversity of thought and approach and her understanding and experience of large-scale adoption of data and analytics in driving consumer and organisational value will prove invaluable to the Board. Debbie also brings considerable experience in the people and sustainability agenda.

The Committee oversaw the 2020 Board effectiveness review and examined the progress of the action plan arising out of that review. It endorsed the approach to be taken for the 2021 externally facilitated Board effectiveness review. More information on the effectiveness review can be found on page 96.

## Corporate governance

As part of its remit, the Committee is responsible for the oversight of the Society's governance arrangements on behalf of the Board. During the year the Committee reviewed and approved a revised version of the Nationwide Governance Manual and the Delegated Authority Framework which documents the top down framework in place at Nationwide to facilitate sound decision making and prudent management.

The Committee received an update from Mai Fyfield, the designated director for employee engagement, on the Employee Voice activity over the last year which included colleague views and lessons learnt from the engagement. An update was also received on the employee engagement plans for 2021.

In addition, the Committee reviewed the corporate governance disclosures in the 2020 and 2021 Annual Reports.

## Individual accountability regimes

The Senior Manager and Certification regimes (SM&CR) were introduced by the regulator to encourage individuals performing certain roles to take greater responsibility for their actions and to stop recurrence of poor behaviours which could result in poor member outcomes. The regimes allow regulators to act against individuals in cases where significant wrongdoing has occurred or been identified.

The Committee continues to focus on regulatory requirements to ascertain suitability, fitness and propriety of relevant individuals and ensure the SM&CR responsibilities are allocated appropriately through the Society's well-established mapping process. Overall, the Society's processes and controls in relation to the accountability regimes continued to operate effectively.

The Committee was also satisfied that all processes and controls relating to the assessment of the Financial Conduct Authority Conduct Rules breaches continue to operate effectively.

**Tamara** joined the Board in September 2020 and shares her experiences so far

### What attracted you to Nationwide, and what are your first impressions of the Society and its culture?

First, Nationwide is a brand I grew up with - my parents have been members for as long as I can remember - and to me it's an honour to serve such a trusted, household name. Second, from my very first conversations, it was evident that the principles of mutuality and purpose were very much heartfelt and deeply ingrained. It was a real hook to be able to contribute to an organisation that not only holds such strong principles at its core, but also applies them so visibly in decision-making for both members and its own people. Third, it's an exciting time for the sector as regards the consumer-facing digital and technological opportunities, and this is where I particularly felt I could bring my experiences to bear.

My first impressions have been how the Society is completely centred on its members, and how this shines through in every element of strategy, execution, and culture. From the moment my onboarding started, I was also able to experience how all at Nationwide are supportive, respectful, open, and receptive.

### How have you found joining a Board in the virtual world?

Whilst technology has done its best for us all over the past year, I have greatly missed the 'real life' element that comes from being able to visit branches and meet regularly with members and colleagues. I am very much looking forward to being able to do this in the coming months.

### What do you see as the main opportunities and challenges for Nationwide?

No-one really knows how consumer behaviour will be 6, 12 or 24 months post the Covid-19 pandemic. In particular, will the leaps in digital adoption that we've seen in the last 12 months be here to stay? Will previously very innovative technologies now become mainstream and expected? Shaping the future of customer service, with seamless touchpoints across physical and digital touchpoints, presents many exciting opportunities, but is not straightforward to navigate when the degree of turbulence and change in societal behaviours over the last year makes predictions in terms of consumer mindset, behaviour and expectations an art as much as a science.

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# Report of the directors on remuneration

For the year ended 4 April 2021

*Dear fellow member,*

I am pleased to share the Remuneration Committee's report. It sets out details of our directors' pay for the year to 4 April 2021. This report also includes a summary of the directors' remuneration policy and key decisions made in the year.

**Mai Fyfield**

*"Having the same goals helps make sure everyone works together to put our members' needs first."*

**The impact of the pandemic**

When I wrote my report last year, the Covid-19 pandemic was in its early stages. The past year has continued to be extremely challenging for our colleagues and our members, and the difficult economic environment has impacted our business and how we operate. Since the outset of the pandemic the decisions made by the Committee on performance pay outcomes have been guided by the experience of our members and our colleagues. Over the last two financial years we have exercised restraint whilst also recognising the exceptional work of colleagues to continue to support our members.

Last year, taking into account the emerging impact of the pandemic, along with a request to forego any performance pay they would otherwise have been due, the Committee determined that no performance pay award would be made to the leadership team, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), and that a flat award of £1,200 should be given to all other employees. At the start of 2020/21 we reduced the maximum amount of performance pay all our colleagues, including executive directors, could earn for performance during the year by around two-thirds. We also decided not to give any across-the-board pay rises to directors, senior employees, the Society Chair and non-executive directors. You will remember that, in the best interests of our members, Joe Garner, our CEO, also asked for a 20% reduction in his combined salary and pension for 2020/21. Chris Rhodes, our CFO, asked that his pension allowance drop to 16% of salary, in line with the wider workforce.

Our primary priority for 2020/21 was the safety of our colleagues and members. We gave our people certainty and promised not to make any permanent colleague leave Nationwide through redundancy in 2020 and we honoured that commitment. We also looked beyond our membership to wider society. For example, in April last year, our Society Chair and non-executive directors committed to personally giving 20% of their net fees from June to December 2020 to Shelter, our partner charity that helps people whose vulnerabilities increased as a result of Covid-19.

**Performance and pay for 2020/21**

We are enormously proud of, and grateful to, our colleagues for how they have risen to the challenges of the pandemic – doing their best for our members and keeping our essential services going. To reflect this, in view of the two thirds reduction in performance pay opportunity and the strong financial results for the year, the Committee agreed that it was appropriate to reward colleagues over and above the mechanical outcome of the Society's performance pay plan. The Committee agreed to use its discretion to make two small gestures. Whilst Society performance against the measures set last year was slightly below target, the Committee agreed to pay out the Society's performance pay plan for all colleagues at the target level. In addition, the Committee agreed to a one-off recognition payment of £300 for all employees, excluding the CEO and CFO. Together, these gestures will cost the Society an additional £7 million.

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Our results for the year show that the Society has continued to deliver strong performance against our purpose of *building society, nationwide*, and our strategic cornerstones. We have retained our position of first amongst our peer group on customer satisfaction[1], have grown our committed members, and achieved our target for total costs.

For our executive directors this means payments have been awarded under the Directors' Performance Award (DPA) in respect of the year. In line with the approach taken for all employees, the Committee agreed to pay out the Society measures under the plan at target level. A reduction was also made to the awards for executive directors to take into account risk factors in the year. Details of these payments, including the measures set and factors considered, are set out in this report.

## A reminder of our core principles

Pandemic or no pandemic, being a member-owned organisation, our approach to remuneration reflects the needs of our members and is designed to drive behaviours consistent with our purpose, strategy and values, alongside the need to remain competitive in the employment market. The remuneration we pay includes two elements: fixed pay and performance related pay. The latter includes three measures that apply to everyone. Having the same goals helps make sure everyone works together to put our members' needs first. For our senior leaders, performance pay also reflects their individual contribution. We measure not just what they have delivered through their individual objectives but also how they delivered them. In addition, the Nationwide Leadership Team is also assessed against the overall Society scorecard. This considers our performance against a range of financial and non-financial measures, including our improving sustainability and our inclusion and diversity ambitions. Further information on Nationwide's approach to environmental, social and governance (ESG) factors, which is intrinsically linked to our purpose, *building society, nationwide*, can be found on the responsible business section of our website: **nationwide.co.uk**

## Our safeguards

The Board will only pay any performance related pay if it is sure that the Society is financially secure. Performance payments for senior leaders are paid in instalments, over seven years in the case of our executive directors. This way, if one of our leaders leaves the Society, then some of the performance payments already awarded may be forfeited. The Committee also has the discretion to cancel all, or part of, previously awarded performance pay in the event of misconduct or if the Society's performance deteriorates significantly. A substantial proportion, therefore, remains 'money at risk', taking into account the Society's and the individual's performance over the seven-year period. We aim to be transparent with our members and voluntarily disclose details of our executive pay arrangements, including as required under the UK Corporate Governance Code where it is relevant for us to do so as a mutual.

## Looking ahead to 2021/22

As we look forward the Committee recognises the need to attract and retain the talent needed to deliver our strategy. With this in mind and taking into the account the Society's strong financial performance, the Committee agreed that having had two years of significantly reduced performance pay it was appropriate to reinstate performance pay opportunities for 2021/22 to pre Covid-19 levels. For 2021/22 our performance award will operate in a similar way to recent years, with the same gateways and a combination of Society measures including customer service satisfaction, committed members and total costs. For the element in which the most senior leaders participate, we are adding a controls measure to recognise our focus on continuing to ensure the Society remains safe and secure for the long term. We believe that these gateways and measures reflect what is important to our members.

The CEO made a voluntary reduction to his combined salary and pension of 20% in 2020/21. For 2021/22 the Committee approved a salary 2% above the CEO's salary prior to the voluntary reduction he made last year. However, the CEO's and CFO's pension allowance will remain at the reduced level of 16% of salary. The Committee also approved a salary increase of 2% for the CFO. These salary increases are aligned to the anticipated all-employee settlement. Following these changes, the combined salary and pension allowance for the CEO will remain below what it was on his appointment in 2016. For the CFO, the combined salary and pension allowance is also lower than it was on appointment to CFO in September 2019.

Over the coming year the Committee will undertake a review of executive pay arrangements, including how we link performance related pay to the achievement of the longer-term objectives of the Society, with a view to present a revised policy for your approval at the 2022 AGM. As part of this review we will look closely at whether the current permitted 1 to 1 ratio of fixed pay to performance pay limits our ability to attract, reward and retain the talent we need to remain competitive and best serve our members.

A core principle of our approach is that members' views and interests are considered when we design remuneration policies and determine pay outcomes. Our directors' remuneration policy received strong support at the 2020 AGM (with around 93% of votes 'For'), and I would like to thank members for this level of support. I confirm we operated in line with the approved policy, a summary of which is set out in this report. Our annual report on remuneration for 2020/21 will again be put forward for an advisory vote at the 2021 AGM. On behalf of the Remuneration Committee, I recommend that you endorse our annual report on remuneration and thank you for taking the time to read its content.

**Mai Fyfield**
Chair – Remuneration Committee

[1]© Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2021 and 12 months ending 31 March 2020. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 54,000 adults (aged 16+) a year in total across Great Britain. Interviews were face to face, over the phone and online, taking into account (and weighted to) the overall profile of the adult population. The results reflect the percentage of extremely satisfied and very satisfied customers minus the percentage of customers who were extremely or very or fairly dissatisfied across those customers with a main current account, mortgage or savings. Those in our peer group are providers with more than 3.5% of the main current account market as of April 2020 - Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB.

## What the Committee did in the year

### Who sits on the Committee

The members of the Remuneration Committee are all independent non-executive directors of the Society and include the Chair of the Audit Committee, who is also a member of the Board Risk Committee, and the Society Chair who is an attendee of the Board Risk Committee.

| Committee members | Meetings attended/eligible to attend |
|---|---|
| Mai Fyfield (Chair) | 13/13 |
| David Roberts (note i) | 12/13 |
| Rita Clifton (note ii) | 12/13 |
| Usha Prashar (note iii) | 4/4 |
| Kevin Parry (note iv) | 9/9 |

Notes:
i. Unable to attend a meeting due to unforeseen circumstances.
ii. Unable to attend a meeting arranged at short notice.
iii. Member to July 2020.
iv. Member from July 2020.

### How the Committee works

The Remuneration Committee is responsible for determining and agreeing with the Board the remuneration strategy, how the strategy is reflected in the remuneration policy and the specific remuneration packages for the Society Chair, the executive directors and other members of the Nationwide Leadership Team, as well as any other employees who are deemed to fall within scope of the PRA / FCA Remuneration Codes. This includes approving the design of, and determining the performance targets for, any discretionary performance pay plan operated by the Society for the benefit of these employees. The Committee also approves the outcomes of any performance pay plan and reviews the year-end pay outcomes for all these employees.

Regular attendees of the Committee include: the Chief Executive, the Leader of People and Culture, the Chief Risk Officer and the Director of People Policy, Reward and Governance. In no case is any person present when their own remuneration is discussed. Deloitte LLP, our independent external consultants, also attend. Deloitte were retained by the Committee during 2020/21 following a tender process in 2019. The Committee assesses the performance of Deloitte annually, including the quality and objectivity of advice provided, and ensures that advice received is independent. The Committee also reviews annually all other services provided by Deloitte to ensure they continue to be independent and objective. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. Deloitte's advisory team has no connection with any individual director of Nationwide. Their fees for advice provided to the Committee during 2020/21 were £200,250 (excluding VAT), typically charged on a time-and-materials basis. Deloitte also provided tax, financial advisory, risk, internal audit and consulting services to the Society during 2020/21.

The Remuneration Committee is supported by the Board Risk Committee on risk-related matters including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls. The Remuneration Committee is also supported by and receives input from the Audit Committee.

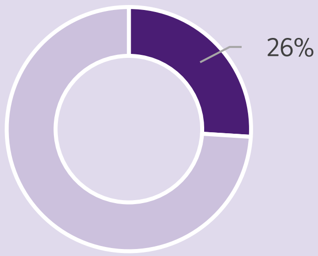
In making executive pay decisions, the Committee takes into account remuneration practices across the Society. This includes an update from the general secretary of the Nationwide Group Staff Union (NGSU) and the interaction the Committee Chair has with wider colleagues in her role as Voice of the Employee. More information on the Committee Chair's engagement with colleagues can be found in the Governance report on page 87.

Following the 2020 AGM, a colleague talkback took place where a range of topics from the AGM were discussed between Board members and colleagues, providing an opportunity for questions to be asked on executive pay. The Committee's decision to align executive directors' pensions with the wider workforce was previously shared during the colleague briefing sessions on the closure to the future accrual of the Nationwide Pension Fund.

The Committee reviewed and updated its terms of reference during the year. It also reviewed its activities over the previous year as part of an annual update to confirm that they were in line with its remit and the duties and responsibilities which can be found within its terms of reference at **nationwide.co.uk**

Report of the directors on remuneration (continued)

## How the Committee spent its time in the year

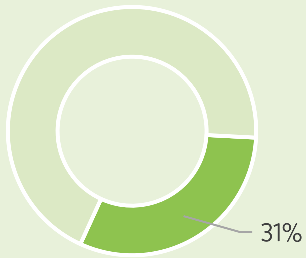



### Pay strategy and approach

**April - May 2020**
Agreed the approach to performance pay for 2020/21, including the scaling back of opportunities under the Directors' Performance Award (DPA) and across the Society.

**November 2020 and January 2021**
Undertook a strategic review of remuneration across the Society, including the approach to executive remuneration and performance pay plan design for 2021/22. Provided input into the Society's early design for performance enablement.

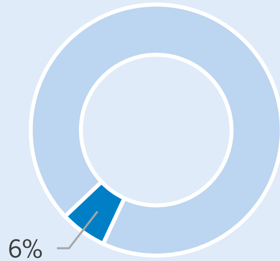
**March - May 2021**
Set performance measures and targets for the 2021/22 year, including the design of the new controls measure. Agreed the approach for the Nationwide Leadership Team pay review and Society Chair's fee for 2021/22.




### Performance award outcomes

**April - May 2020**
Taking into account input from the Board Risk and Audit committees, reviewed and approved the outcome of the DPA to be paid in respect of 2019/20, including the flat variable pay award of £1,200 to be given to all employees other than the CEO, CFO and broader Nationwide Leadership Team.

**May 2020 and November 2020**
Approved deferred payments in respect of prior years due for payment, including taking account of the PRA's request not to pay any cash bonuses to senior colleagues during 2020 due to economic uncertainty attributed to the Covid-19 enforced lockdowns.



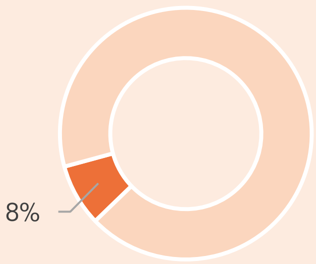

### Oversight of remuneration across the Society

**September 2020**
Reviewed the Society's gender and ethnicity pay gap reporting and received an update giving insight into the distribution of performance ratings by ethnicity across the Society.

**November 2020**
Received an update on pay policies and practices across the Society, including the distribution of exceptional pay awards by gender.

**January 2021**
Met with the Nationwide Group Staff Union and received an update on remuneration-related issues raised by NGSU members.

## How the Committee spent its time in the year (continued)

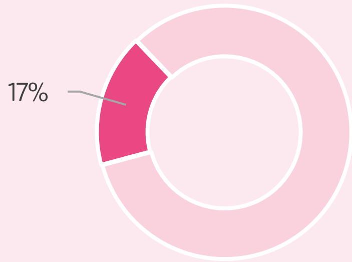



### Regulatory and reporting

Throughout the year received updates on key regulatory matters.

**September 2020 and February 2021**
Reviewed and approved the approach to identifying, and list of, employees who fall within the scope of the PRA/FCA Remuneration Codes.

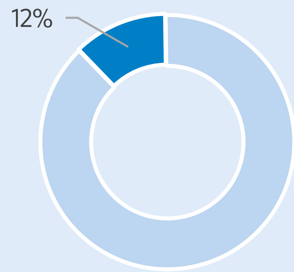
**November 2020**
Agreed the Society's annual Remuneration Policy Statement and provided this to the PRA/FCA. Reviewed the impact of the changes under CRD V on the Society's remuneration arrangements for employees within the scope of the PRA/FCA Remuneration Codes.




### Procedural matters

Throughout the year for all employees within the scope of the PRA/FCA Remuneration Codes, agreed the base pay and variable pay arrangements.

**May 2020**
Reviewed adviser's consultancy arrangements and confirmed continued independence.




### Governance

**March – May 2020**
Reviewed and approved the 'Report of the directors on remuneration' for 2019/20.

**September 2020 and March 2021**
Reviewed the Committee's effectiveness against its Terms of Reference for 2019/20.

**September 2020**
Approved updated Terms of Reference.

**September 2020 and March 2021**
Reviewed market trends in executive pay.

## How our approach to remuneration aligns with our strategic cornerstones for 2021/22

| | |
|---|---|
| **Building thriving membership** | The Society's aim to build a thriving membership is core to our approach to remuneration. Our committed members target is built into the DPA and drives our ambition to support members, including helping more people buy their own homes. Our executive directors' objectives, to which their remuneration is linked, include goals relating to the development of core products to meet our members' financial needs. |
| **Built to last** | Our total costs target built into the DPA ensures that all colleagues are incentivised to manage the Society's money wisely for our members. Delivering value to members while ensuring the Society is able to maintain financial resilience in the long term is a core part of our executive directors' objectives, along with goals relating to the resilience of our IT infrastructure. |
| **Building legendary service** | The quality of our customer service is a key priority in our approach to remuneration. Our customer service satisfaction rating continues to be built into the DPA and ensures that all colleagues are incentivised to deliver the best service to our members among our peer group. Our executive directors' objectives include goals relating to accessibility of our products and services, and our investment in continuing to provide human service while enhancing digital activity. |
| **Building PRIDE** | Our approach to remuneration aims to support an inclusive culture where our employees are reflective of the diversity of the wider communities we serve and all colleagues can thrive. Our executive directors' objectives include a wide range of goals that prioritise colleague engagement and wellbeing, as well as the delivery of our inclusion and diversity ambition. |
| **Building a national treasure** | Our social purpose is fundamental to our approach to remuneration. A key focus of our executive directors' objectives is progress on the Society's green agenda, and investment in our communities and on issues that matter to us and members. Our approach to remuneration also remains cognisant of external debate and public sentiment on pay and equality. |

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## Annual report on remuneration for 2020/21

### Base salary and pension

As announced in last year's report, no increases to base salary were awarded to the executive directors for 2020/21. Our CEO, J D Garner, voluntarily requested that his combined base salary and pension allowance be reduced by 20% for the 2020/21 year.

Our CFO, C S Rhodes, also voluntarily requested that his pension allowance be reduced to 16% of salary from 2020/21.

The base salaries which applied in the year were £783,000 (including the voluntary temporary reduction) and £654,000 for the CEO and CFO respectively.

The pension allowances of both executive directors are 16% of salary, which is the maximum benefit available to the wider employee population.

### Directors' Performance Award (DPA) 2020/21

A significant proportion of the overall remuneration for executive directors is dependent on the performance achieved in the year against a number of key measures.

The DPA has two elements: an all-employee element and an element for our most senior leaders. Performance under both elements of the DPA reward the attainment of challenging strategic and financial measures drawn from the Society's Plan and for 2020/21 this included specific measures linked to three of the five strategic cornerstones, as set out below. These measures ensure that we are focused on delivering benefits to our members. The senior element also incorporates an amount based on individual performance and behaviours.

**Building thriving membership** – Number of committed members

**Building legendary service** – Customer service satisfaction rating

**Built to last** – Total costs

+

**Individual performance**

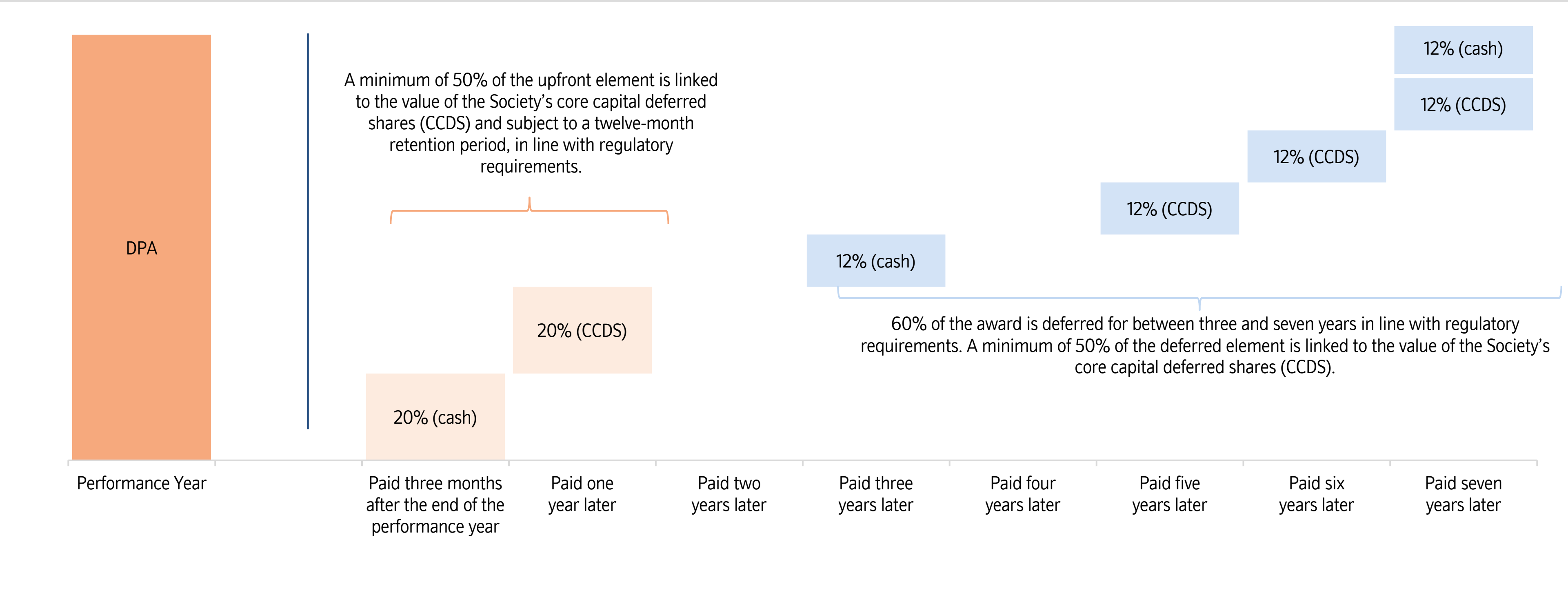
**Objectives reflecting each individual's contribution towards the delivery of the Society's Plan as well as individual conduct and behaviours**

As announced in last year's report, awards under the DPA for 2020/21 were set at around one-third of the normal opportunity. This was in line with the approach taken for all employees. The maximum potential award level for 2020/21 was therefore 51% of salary for the CEO and 37% of salary for the CFO. For the CEO, 28% of the maximum award was based on individual performance. For the CFO, this was 27% of the maximum award for 2020/21.

Payments under the plan are made at the discretion of the Remuneration Committee and delivered in instalments over the next seven years. Payments due over the seven year period remain "at risk" and may be reduced or cancelled if the Committee believes the plan outcomes are not representative of the overall performance of the Society, the individual or by reference to wider circumstances, as appropriate. The Society also has the ability to claw back performance pay awards for up to ten years after they were awarded in certain circumstances.

## Annual report on remuneration for 2020/21 (continued)

The illustration below shows how any awards under the plan would be released to executive directors over the long term:



Report of the directors on remuneration (continued)

# Outcomes for DPA 2020/21

## Audited Information

Three 'gateways' must be passed before any payment is made under the plan. The three gateways are based on measures of profit before tax, leverage ratio and conduct risk. These gateways were passed in 2020/21.

In reviewing performance under the DPA during 2020/21, the Committee assessed the Society's performance against the three measures, equally weighted, as illustrated below.

The Committee must also be satisfied that there are no significant conduct, risk, reputational, financial, operational or other reasons why awards should not be made, taking into account input from the Board Risk and Audit committees.

| Cornerstone | Measure | Performance target range: threshold, target and maximum, and performance achieved | Performance pay achieved (% of salary) | |
|---|---|---|---|---|
| | | | J D Garner | C S Rhodes |
| **Building thriving membership** | Number of committed members (note i) | Achieved: 3.55m; Threshold: 3.38m; Target: 3.56m; Maximum: 3.74m | 8.7% | 6.9% |
| **Building legendary service** | FRS satisfaction (note ii) | Achieved: 1st + 1.6%pts lead; Threshold: 1st; Target: 1st + 4%pts lead; Maximum: 1st + 6%pts lead | 6.4% | 5.0% |
| **Built to last** | Total costs (note i) | Achieved: £2,225m; Threshold: £2,256m; Target: £2,225m; Maximum: £2,174m | 8.9% | 7.1% |
| **Individual performance element** (see further detail below) | | | 12% | 9.5% |
| **Total performance pay achieved based on Society and individual performance** | | | 36.0% | 28.5% |
| **Remuneration Committee discretionary performance and risk assessment:** In line with the approach taken for all employees, the Committee exercised its discretion to pay out the Society measures under the plan at target in recognition of the resilient performance during the year. In determining award levels for the executive directors, the Committee also took into account a broad range of factors and then applied a downwards adjustment of 5% to the value of the award to take into account risk factors arising during the year. | | | 1.0% | 0.5% |
| **Total performance pay achieved based on Society and individual performance (after Remuneration Committee adjustment)** | | | 37% | 29% |
| **Out of a maximum opportunity (as a % of salary) of** | | | 51% | 37% |

Notes:

i. During the year, the Board approved changes to the Society's Plan for committed members and total costs. The Remuneration Committee subsequently approved these changes to be reflected in the targets for the DPA. Whilst the actual total costs outcome of £2,218 million for 2020/21 was lower than the revised plan target of £2,225 million, for the purposes of the DPA the outcome of this element was awarded at target.

ii. © Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2021. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 54,000 adults (aged 16+) a year in total across Great Britain. Interviews were over the phone and online, taking into account (and weighted to) the overall profile of the adult population. The results reflect the percentage of extremely satisfied and very satisfied customers minus the percentage of customers who were extremely or very or fairly dissatisfied across those customers with a main current account, mortgage or savings. Those in our peer group are providers with more than 3.5% of the main current account market as of April 2020 - Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB.

In the 2019/20 annual report on remuneration, the outcomes for DPA 2019/20 reflected performance achieved for the committed members measure as 3.56 million. The committed members for 4 April 2020 has since been restated to 3.52 million to reflect improved data quality since originally reported. As no awards were made to executive directors relating to this outcome, no restatement of performance awards is required.

## Outcomes for DPA 2020/21 (continued)

For the element based on individual performance, performance was assessed against both the delivery of the Society's strategic scorecard as well as individual goals, conduct and behaviours.

The tables below provide an overview of the individual performance for 2020/21 achieved by each executive director based on their objectives. The performance scorecard contains a number of ESG factors, including improving sustainability and our inclusion and diversity measures.

| J D Garner's individual objectives for 2020/21 | | |
|---|---|---|
| **Objectives** | **Performance** | **Achievement** |
| ***Building thriving membership*** | | |
| Develop a limited number of new propositions with a focus on helping members manage their homes and alleviating financial distress. | • Provided continued support for members in financial difficulty, recognising the need to balance financial and operational resilience and member financial benefit at a time of immense challenge.<br>• Implemented the 5-point Home Support Package, providing a range of support options to those members impacted financially by the pandemic.<br>• Introduced a number of new and innovative propositions to offer value beyond rate, including the Mutual Reward Bond to reward members' loyalty in a low interest rate environment.<br>• Continued to support the housing market and members by maintaining mortgage supply at a range of loan to values. | ✓ |
| ***Built to last*** | | |
| Deliver financial and overall performance through a very challenging and unpredictable year. | • Exceptional performance in leading the Society safely through the many and varied operational and external trading challenges that Covid-19 has brought. This included a strategy refresh in the context of a low interest rate environment. The Society is well placed for 2021/22 and beyond.<br>• Strong performance against the Society's collective performance scorecard, in particular in relation to total costs, underlying profit, wholesale funding ratio and leverage ratio.<br>• Continued strong net interest income, driven by strong income performance from mortgages and savings. The Society responded very well to strong mortgage demand. | ✓ |
| Progress with the simplification and enhanced resilience of IT infrastructure. | • Very strong performance in relation to operational resilience and the IT transformation agenda.<br>• Well-navigated incident response in the context of the pandemic, including the delivery of home working capability for colleagues, and digitalisation and automation of processes, such as mortgage holiday window requests, to address peaks in demand. | ✓ |
| Regulation and risk | • Progress made on audit actions and general control environment but more improvement needed. | = |
| Leadership and succession | • Exceptional leadership in navigating the Society through the pandemic whilst focusing on the years ahead.<br>• Good progress in developing medium-term succession options, with effective short-term solutions in place. | ✓ |

Key to achievement of objectives:

✓ Expectation achieved or exceeded

= Reasonable outcome against expectation

✗ Expectation not met

## Outcomes for DPA 2020/21 (continued)

| **J D Garner's individual objectives for 2020/21** (continued) | | |
|---|---|---|
| **Objectives** | **Performance** | **Achievement** |
| ***Building legendary service*** | | |
| Continue to focus on service, ethical values and support to meet member needs across digital and human interactions. | • Strong performance in adapting to changes in member behaviour, broadening and deepening the Society's member relationships by protecting human service delivery while enhancing digital activity.<br>• More than 90% of branches remained open and the Society has extended its Branch Promise made in 2019 from May 2021 to January 2023. The Society also continued to support vulnerable branch-dependent members with access to cash home deliveries.<br>• Rolled out video call technology, to speak with members in their homes, via Nationwide NOW.<br>• Which? Banking Brand of the Year for 2020 for the fourth year running. | ✓ |
| ***Building PRIDE*** | | |
| Build an inclusive culture where everyone can thrive, and a Society which reflects the diversity of the wider communities we serve. | • Showed relentless focus on colleague engagement, wellbeing and morale in the context of the pandemic.<br>• Significantly advanced progress as part of our refreshed inclusivity and diversity ambitions.<br>• Significant improvement against ethnic diversity measures with further progress to be made on other diversity metrics.<br>• Launched a Winter Support Package for colleagues and partnered with external providers to ensure employees have useful tools to support their mental wellbeing.<br>• Led evolution of how we operate to provide greater focus on member needs via the introduction of Member Missions. | = |
| ***Building a national treasure*** | | |
| Strengthen our leading brand position and external influence aligning to our core purpose. | • Strong progress on the Society's green agenda including the Society's Mutual Good Commitments and the development of Oakfield, a not-for-profit housing development in Swindon funded by the Society. The Society also partnered with Switchd, helping members to save on energy bills and switch to greener tariffs.<br>• Launched a Together Against Hate campaign to take a bolder stance on issues that matter to the Society and members.<br>• Partnered with the Football Association and the Diana Award to support the Society's Anti Bullying campaign.<br>• Made efforts to support the Society's suppliers throughout this period by accelerating payments.<br>• Convened business, civil society and opinion formers to reimagine how employees will work in a post-pandemic world.<br>• Significant contribution to the Inclusive Economy Partnership. | ✓ |

Key to achievement of objectives:

✓ Expectation achieved or exceeded = Reasonable outcome against expectation ✗ Expectation not met

## Outcomes for DPA 2020/21 (continued)

| C S Rhodes's individual objectives for 2020/21 | | |
|---|---|---|
| **Objectives** | **Performance** | **Achievement** |
| ***Building thriving membership*** | | |
| Support the embedding and success of the Society's member mission model to enable us to meet the ever-changing needs of our members more efficiently. | • Provided strong leadership in the development of the Society's organisational model which aligns our teams around end to end member outcomes.<br>• Excellent leadership contribution to the Society's leadership team, including in relation to propositions focused on helping members manage their finances and alleviating financial distress. | ✓ |
| ***Built to last*** | | |
| Deliver financial and overall performance through a very challenging and unpredictable year. | • Exceptional performance in leading decisive, early actions to secure the financial security and operational resilience of the Society.<br>• Provided strong leadership on the Society's efficiency objective, ensuring short and medium term cost targets can be met.<br>• Enabled the Society to continue to pay distributions to CCDS holders.<br>• Provided strong leadership in ensuring the Society's Brexit-readiness, with a particular focus on funding and liquidity.<br>• Strong performance in optimising returns from the Society's treasury portfolio and reducing the cost of the liquid asset buffer.<br>• Provided strong leadership in the development of the Society's planning and stress testing processes, ensuring the Board has the appropriate information to judge the long-term performance of the Society.<br>• Ensured investors received clear and transparent information on the Society's performance with a strong focus on asset quality and forbearance disclosure. | ✓ |
| Regulation and risk | • Progress made on improving the Society's controls with a strong focus on the financial control environment. | = |
| Leadership and succession | • Strong leadership in managing the Society through the financial impacts of the pandemic, whilst ensuring the Society continues to invest for the future.<br>• Good progress in developing medium-term succession options for the Finance and Efficiency community. | ✓ |

Key to achievement of objectives:

✓ Expectation achieved or exceeded = Reasonable outcome against expectation ✗ Expectation not met

## Outcomes for DPA 2020/21 (continued)

| **C S Rhodes's individual objectives for 2020/21** (continued) | | |
|---|---|---|
| **Objectives** | **Performance** | **Achievement** |
| ***Building legendary service*** | | |
| Provide support to give our members the great service they deserve. | • Showed strong and reliable judgement in the delivery of cost and efficiency outcomes while at the same time considering issues of member vulnerability. | = |
| ***Building PRIDE*** | | |
| Build an inclusive culture where everyone can thrive, and a Society which reflects the diversity of the wider communities we serve. | • Strong leadership on the engagement of colleagues through the pandemic with a focus on mental wellbeing and the ongoing support of working from home.<br>• Good progress on the Society's refreshed inclusivity and diversity ambitions. | ✓ |
| ***Building a national treasure*** | | |
| Protect and enhance the Society's brand and reputation, including managing investor and regulator relationships. | • Provided strong leadership on the ongoing development of the Society's ESG agenda, ensuring reporting continues to evolve in line with best practice.<br>• Excellent contribution to the progression of the Society's green agenda and wider societal contributions. | ✓ |

Key to achievement of objectives:

✓ Expectation achieved or exceeded

= Reasonable outcome against expectation

✗ Expectation not met

## Executive directors' remuneration

Where indicated, the tables in the following sections have been audited. These disclosures are included in compliance with the Building Societies Act 1986 and other mandatory reporting regulations, as well as the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which the Society has voluntarily adopted. The table below shows the total remuneration for each executive director for the years ended 4 April 2021 and 4 April 2020.

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

| **2021** | **Fixed remuneration** | | | | **Variable remuneration** | | **Total pay package** |
|---|---|---|---|---|---|---|---|
| **Executive directors** | **Salary £'000** | **Pension allowance £'000** | **Travel and other taxable benefits (note i) £'000** | **Total £'000** | **Directors' Performance Award (note ii) £'000** | **Total £'000** | **£'000** |
| J D Garner | **783** | **125** | **39** | **947** | **289** | **289** | **1,236** |
| C S Rhodes | **654** | **105** | **30** | **789** | **191** | **191** | **980** |
| **Total** | **1,437** | **230** | **69** | **1,736** | **480** | **480** | **2,216** |

| 2020 | Fixed remuneration | | | | Variable remuneration | | Total pay package |
|---|---|---|---|---|---|---|---|
| Executive directors | Salary £'000 | Pension allowance £'000 | Travel and other taxable benefits (note i) £'000 | Total £'000 | Directors' Performance Award (note ii) £'000 | Total £'000 | £'000 |
| J D Garner | 916 | 220 | 150 | 1,286 | - | - | 1,286 |
| C S Rhodes | 634 | 137 | 63 | 834 | - | - | 834 |
| T P Prestedge (note iii) | 601 | 144 | 144 | 889 | - | - | 889 |
| M M Rennison (note iv) | 306 | 73 | 59 | 438 | - | - | 438 |
| Total | 2,457 | 574 | 416 | 3,447 | - | - | 3,447 |

Notes:
i. This value is included as fixed remuneration for the calculation of the bonus cap in meeting our regulatory requirements. A full description of the taxable benefits is set out below.
ii. Variable remuneration consists of the awards under the DPA. A substantial proportion of any awards under this plan are subject to deferral with payments spread over the following seven years.
iii. T P Prestedge resigned from the Board on 10 March 2020.
iv. M M Rennison stepped down from the Board on 13 September 2019.

Our directors receive a number of benefits and, where appropriate, we pay on their behalf the tax associated with those benefits. In the single figure table above, 'taxable benefits' includes certain essential travel costs met by the Society, including any tax due under HMRC regulations, provided to enable the executive directors to work whilst travelling and undertake their responsibilities most effectively. Other benefits include medical insurance, car allowance and security.

## Society Chair and non-executive directors

### Fee policy changes for 2021/22

The fees for the Society Chair and non-executive directors were reviewed in March 2021, at which point increases of 1.97% were made to the Society Chair fee and the basic fee for non-executive directors. In light of changing market practice, the senior independent director will now receive committee membership fees, which were previously included within the senior independent director fee. In respect of this change, the senior independent director fee has reduced to £30,000. In consideration of market data, the Voice of the Employee fee has been increased by 10%.

**Fee Policy (note i)**

| | **Annual fees for 2021/22 £'000** | Annual fees for 2020/21 £'000 |
|---|---|---|
| Society Chair | **413** | 405 |
| Basic fee | **70** | 69 |
| Senior Independent Director (note ii) | **30** | 40 |
| Chair of the Audit, Board Risk or Remuneration Committee | **35** | 35 |
| Member of the Audit, Board Risk or Remuneration Committee | **15** | 15 |
| Member of the Nomination and Governance Committee | **6** | 6 |
| Chair of the Board IT and Resilience Committee | **25** | 25 |
| Member of the Board IT and Resilience Committee | **10** | 10 |
| Voice of the Employee | **11** | 10 |

Notes:

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

ii. For 2020/21 the Senior Independent Director fee was inclusive of committee membership fees. Committee Chair fees were paid in addition. For 2021/22 both committee membership and Chair fees will be paid in addition.

## Society Chair and non-executive directors (continued)

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

**Single total figure of remuneration for non-executive directors *(Audited)***

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Society and Group fees £'000** | **Travel and other taxable benefits (note i) £'000** | **Total fees and taxable benefits £'000** | Society and Group fees £'000 | Travel and other taxable benefits (note i) £'000 | Total fees and taxable benefits £'000 |
| D L Roberts (Society Chair) | **405** | **1** | **406** | 405 | 2 | 407 |
| R Clifton | **98** | **-** | **98** | 98 | 7 | 105 |
| M Fyfield | **130** | **3** | **133** | 119 | 4 | 123 |
| A Hitchcock | **94** | **-** | **94** | 94 | 7 | 101 |
| D Klein (note ii) | **6** | **-** | **6** | - | - | - |
| K A H Parry (Senior Independent Director) | **143** | **-** | **143** | 129 | 6 | 135 |
| U K Prashar (note iii) | **26** | **-** | **26** | 83 | 5 | 88 |
| T Rajah (note iv) | **55** | **-** | **55** | - | - | - |
| P Rivett (note v) | **109** | **-** | **109** | 63 | 1 | 64 |
| T J W Tookey | **134** | **-** | **134** | 134 | 3 | 137 |
| G Waersted | **94** | **-** | **94** | 94 | 7 | 101 |
| M A Lenson (note vi) | **-** | **-** | **-** | 28 | 1 | 29 |
| L M Peacock (note vii) | **-** | **-** | **-** | 96 | 3 | 99 |
| **Total** | **1,294** | **4** | **1,298** | 1,343 | 46 | 1,389 |
| Pension payments to past non-executive directors (note viii) | | | **242** | | | 248 |

Notes:

i. Taxable benefits for non-executive directors relate to expenses incurred in connection with travel and attendance at Board and committee meetings. HMRC deems these expenses to be taxable where the meetings take place at the Society's main offices; the Society settles the tax on behalf of the non-executive directors and this is included in the amounts shown.
ii. D Klein joined the Board on 1 March 2021.
iii. U K Prashar stepped down from the Board on 16 July 2020.
iv. T Rajah joined the Board on 1 September 2020.
v. P Rivett joined the Board on 1September 2019.
vi. M A Lenson stepped down from the Board on 18 July 2019.
vii. L M Peacock stepped down from the Board on 31 December 2019.
viii. The Society stopped granting pension rights to non-executive directors who joined the Board after January 1990.

## Additional disclosures

### Chief Executive Remuneration for the past ten years

The table shows details of the Chief Executive's remuneration for the previous ten years.

| Financial year | Total remuneration £'000 | Annual performance pay earned as % of maximum available % | Medium term performance pay earned as % of maximum available (note i) % |
|---|---|---|---|
| **2020/21** | **1,236** | **72.3 (note ii)** | **-** |
| 2019/20 | 1,286 | 0.0 | - |
| 2018/19 | 2,372 | 75.1 | - |
| 2017/18 | 2,317 | 69.5 | - |
| 2016/17 | 3,386 (note iii) | 71.9 | - |
| 2015/16 | 3,413 (note iv) | 75.8 | 80.8 |
| 2014/15 | 3,397 (note iv) | 74.4 | 84.5 |
| 2013/14 | 2,571 | 83.3 | 74.9 |
| 2012/13 | 2,258 | 60.6 | 41.7 |
| 2011/12 | 2,251 | 60.6 | 40.7 |

Notes:

i. Medium term performance pay ceased at the end of2015/16.

ii. Performance pay opportunity for 2020/21 was reduced by around two thirds.

iii. J D Garner commenced his role as Chief Executive on 5 April 2016. His total remuneration for 2016/17 included the value of buy-out awards on joining (2017: £1,070,752). These awards do not form part of ongoing remuneration. If this amount is excluded, the figure for 2016/17 would be £2,315,047.

iv. The Chief Executive in 2015/16 and all previous financial years shown in the table above was G J Beale. His total remuneration for 2015/16 and 2014/15 includes awards under the DPA as well as legacy payouts under the directors' previous medium term pay plan as a result of the transition period between plans.

## Comparison of annual change in directors' pay with average employee

The following table shows the percentage change in remuneration (base salary, benefits and annual performance pay) of each of the directors from 2019/20 to 2020/21 compared with the average for all other employees.

| | Salary/fees 2020/21 | Benefits (note i) 2020/21 | Annual performance pay 2020/21 |
|---|---|---|---|
| **Executive directors** | | | |
| J D Garner (note ii) | (14.5%) | (55.7%) | - (note iii) |
| C S Rhodes | 3.2% | (32.5%) | - (note iii) |
| **Non-executive directors (note iv)** | | | |
| D L Roberts (Society Chair) | 0% | (50%) | |
| R Clifton | 0% | (100%) | |
| M Fyfield | 9.2% | (25%) | |
| A Hitchock | 0% | (100%) | |
| D Klein (note v) | - | - | |
| K A H Parry | 10.9% | (100%) | |
| U K Prashar (note vi) | (68.7%) | (100%) | |
| T Rajah (note vii) | - | - | |
| P Rivett (note viii) | 73% | (100%) | |
| T J W Tookey | 0% | (100%) | |
| G Waersted | 0% | (100%) | |
| **All employees (note ix)** | | | |
| All employees | 3.2% | (5.3%) | 41.9% |

Notes:
i. The reduction in benefits reflects reduced travel costs in the year as a result of a significant reduction in travel due to the pandemic.
ii. The percentage decrease in salary for J D Garner reflects the voluntary temporary reduction in base salary for the year.
iii. The annual performance pay for J D Garner and C S Rhodes for 2019/20 was nil and therefore no percentage change is shown.
iv. The non-executive directors are not eligible to participate in the annual performance pay plan.
v. D Klein joined the Board on 1 March 2021 and therefore comparative remuneration data for 2019/20 is not available.
vi. U K Prashar stepped down from the Board on 16 July 2020 and remuneration for 2020/21 reflects approximately four months on the Board versus a full year in 2019/20.
vii. T Rajah joined the Board on 1 September 2020 and therefore comparative remuneration data for 2019/20 is not available.
viii. P Rivett joined the Board on 1 September 2019 and remuneration for 2020/21 reflects a full year on the Board versus seven months in 2019/20.
ix. Data for all employees has been calculated on a full-time equivalent basis and reflects all employees on 1 March 2020 and 1 March 2021.

## Relative importance of spend on pay

The chart below shows the cost of remuneration for all employees of Nationwide Building Society, compared with retained earnings.

**Remuneration cost for all employees**

| | **2020/21 £m** | 2019/20 £m |
|---|---|---|
| All-employee remuneration | **852** | 662 |
| Retained earnings | **453** | 215 |

Payroll costs represent 38.41% (2020: 28.63%) of total administrative expenses. Nationwide's profit after tax for the year was £618 million, of which £165 million was paid as distributions and the remaining £453 million is held as retained earnings. In the year ended 4 April 2020, all employee remuneration is net of a non-recurrent gain of £164 million relating to the closure to future accrual of the Nationwide Pension Fund.

## Other directorships

Executive directors and members of senior management may be invited to become non-executive directors of other companies, subject to the agreement of the Society. These appointments provide an opportunity to gain broader experience outside Nationwide and therefore benefit the Society, providing that appointments are not likely to lead to a conflict of interest. Any fees earned may be retained by the executive director concerned. No executive director earned any such fees during the year. The number of external appointments that executive and non-executive directors can hold is limited as required under both CRD IV and CRD V.

## Payments for loss of office

No payments for loss of office were made during the year.

## Payments to past directors

As set out in last year's report, T P Prestedge remained eligible for his salary, pension allowance and benefits during the period spent as an employee to 28 August 2020. This included a reduced pension allowance of 16% of salary (from 24%) and amounted to £361,527. T P Prestedge was not eligible for any awards under the DPA 2020/21.

## Pay gap reporting

The Society is fully committed to promoting a diverse and inclusive workplace. The gender pay gap measures the difference in earnings between women and men across all roles. Whilst the mandatory Gender Pay Reporting requirements were suspended for 2020, we nevertheless published our latest report in December 2020 which can be found at **nationwide.co.uk**, together with an update of progress on our inclusion and diversity ambition and Women in Finance Charter commitments. We have also voluntarily published our ethnicity pay gap, comparing the pay of all employees who have identified as black, Asian and minority ethnicity (ethnically diverse), with the pay for white (non-ethnically diverse) employees across Nationwide.

As at 5 April 2020, our mean average gender pay gap was 28% (unchanged on the previous year) and our mean ethnicity pay gap was 16% (decreasing from 17% in the previous year).

Pay gaps are not the same as equal pay. We carry out regular equal pay audits, checking the pay of people with different characteristics (such as gender and ethnicity) doing the same or similar roles. Our audits continue to show that our pay policies are operating fairly.

## CEO pay ratio reporting

The table below compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles). This reporting will build annually to cover a rolling ten-year period.

The reduction in the median pay ratio compared to 2019/20 is due to the 20% voluntary reduction in the CEO's combined salary and pension for 2020/21 and an increase to the total remuneration of the median employee.

| Year | Method | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|---|---|---|---|---|
| **2020/21** | **Option A** | **51:1** | **38:1** | **24:1** |
| 2019/20 | Option A | 53:1 | 41:1 | 26:1 |
| 2018/19 | Option A | 99:1 | 77:1 | 48:1 |

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2020/21 are:

| | 25th percentile | Median | 75th percentile |
|---|---|---|---|
| **Total remuneration** | £24,070 | £32,125 | £51,620 |
| **Salary** | £20,405 | £22,414 | £43,729 |

Notes:

i. The calculation is based on Option A as set out in the regulations which is considered to be the most statistically accurate methodology.

ii. Employee data includes full time equivalent total remuneration for all UK employees as at 1 March 2021. For each employee, remuneration was calculated based on all components of pay including base pay, performance pay for 2020/21, core benefits including medical insurance and car allowance, and pension payments.

iii. Whilst most employees participate in a defined contribution scheme with a fixed maximum employer contribution, there are other pension arrangements in place for some employees, including a defined benefit pension scheme which has been closed to new participants since 2007. Although it would be possible to recognise a higher value under the defined benefit scheme, in order to ensure accurate year on year comparative data going forward, a fixed value equal to the maximum employer contribution available to the defined contribution scheme members is included for all defined benefit scheme members.

iv. The Committee has considered the pay data for the three individuals identified for 2020/21 and confirms that the ratios reasonably represent the Society's approach to pay and reward for employees taken as a whole.

### Voting at AGM

Resolutions to approve both the 2019/20 'Report of the directors on remuneration' and the Directors' Remuneration Policy were passed at the 16 July 2020 AGM. In each case votes were cast as follows:

| | Report of the directors on remuneration | Remuneration Policy |
|---|---|---|
| Votes in favour | 478,066 (93.5%) | 474,181 (92.8%) |
| Votes against | 33,238 (6.5%) | 36,789 (7.2%) |
| Votes withheld | 7,588 | 7,933 |

## The year ahead

A summary of the remuneration policy approved by our members in 2020 is set out below, together with an overview of how it will be applied in 2021/22. In applying this policy, the Committee is guided by the need to ensure executives are appropriately motivated and rewarded to deliver demonstrable value for our members. This summary does not replace or override the full approved policy, which is available at **nationwide.co.uk**

As set out in the Committee Chair's letter, J D Garner's base salary will return to the 2020/21 level that would have applied in 2020/21, had the temporary voluntary reduction not been made. An increase of 2% has been applied to J D Garner's base salary thereafter. A 2% increase has also been applied to C S Rhodes's base salary. The reduction in pension allowances in 2020/21 will continue to apply, with the pension allowances of both executive directors continuing to be aligned with the maximum benefit available to the wider employee population. Taking into account the Society's resilient performance over the year and the need to remain competitive so that the Society is able to attract and retain the appropriate talent, the Committee has agreed to reinstate the potential performance pay opportunities for all employees for 2021/22, following the temporary reduction for 2020/21. For our executive directors, this means that the performance pay opportunities for the year ahead will be in line with the normal levels in our approved policy, as summarised in the table below.

In determining any awards under the plan, the Committee will consider the overall performance of the Society over the year and the economic circumstances at that time. The actual maximum amount that may be awarded in respect of any year will be subject to the limit prescribed by regulation, which is currently set such that variable remuneration does not exceed 100% of fixed remuneration. This means in certain cases, the actual maximum opportunity available under the DPA may be lower than the values set out in the table.

The Committee will continue to focus on ensuring our remuneration structure supports the right culture and behaviours as well as our values as a mutual. Awards under the DPA will continue to be aligned to measures which are most important to our members. For the element in which the most senior leaders participate we are adding a controls measure to recognise our focus on continuing to ensure the Society remains safe and secure for the long term. Targets are commercially sensitive and so will be disclosed, along with performance achieved, in next year's report. Gateway measures will continue to have to be met before any payments are made under the plan. For 2021/22 these gateways will be based on profit before tax, leverage ratio and conduct risk.

**Remuneration policy implementation for 2021/22**

| Remuneration element | Summary of policy | Implementation in 2021/22 |
|---|---|---|
| **Base salary** | • Normally reviewed on an annual basis, taking into account market data for similar roles in comparable organisations, the individual's skills, experience and performance and the approach being taken on salaries in the wider organisation. | J D Garner £934,320 (19.3% increase on reduced salary / 2% increase on 2020/21 salary prior to voluntary reduction).<br>C S Rhodes £667,080 (2% increase). |
| **Benefits** | • Include car benefits, healthcare and insurance benefits. | No change for 2021/22. |
| **Pension** | • Executive directors receive a cash allowance in lieu of pension.<br>• The maximum pension allowance payable is set at a level in line with the wider employee population (currently 16% of base salary). | No change for 2021/22. |

## The year ahead (continued)

| Remuneration policy implementation for 2021/22 | | |
|---|---|---|
| **Remuneration element** | **Summary of policy** | **Implementation in 2021/22** |
| **Directors' Performance Award (DPA)**<br><br>Comprises two elements:<br>i. an all-employee element<br>ii. an element in which the most senior leaders participate subject to deferral provisions | • The gateway and Society performance measures selected for both elements of the DPA will normally reflect a mix of financial measures and measures relating to the strategic performance of the Society as well as regulatory obligations. Individual performance (including conduct and behaviours) will also be assessed.<br>• The targets reflected in the Society's plan need to be achieved to generate a 'target' award against the Society measures, and considerably exceeded to generate the maximum award.<br>• No more than 40% of the total performance pay award (i.e. the sum of both elements of the DPA) is paid after the end of the performance period and at least 60% is deferred for between three and seven years.<br>• A minimum of 50% of both the upfront and deferred elements is linked to the value of the Society's core capital deferred shares (CCDS) and subject to a twelve-month retention period.<br>• The all-employee element operates on the same basis for all employees. | For awards made in respect of 2021/22, maximum variable pay opportunities including both elements are as follows:<br>• 152% of base salary for the Chief Executive Officer (CEO)<br>• 112% of base salary for the Chief Financial Officer (CFO)<br>Performance measures:<br>• Gateway measures based on profit before tax, leverage ratio and conduct risk; and<br>• Society performance, which accounts for 72%/73% of the award for the CEO and CFO respectively and is subject to minimum performance thresholds, assessed against the following cornerstones:<br>o Building thriving membership:<br>o Number of committed members<br>o Building legendary service<br>o Customer service satisfaction rating<br>o Built to last<br>o Total costs<br>o Controls (for senior leaders only)<br>A portion of the award assessed is based on individual contribution, behaviours and conduct (28%/27% of the award for the CEO and CFO respectively). |
| Society Chair and non-executive director fees | • The Society Chair's fee is normally reviewed and approved by the Remuneration Committee on an annual basis.<br>• Non-executive director fees are normally reviewed and approved by the executive directors and the Society Chair on an annual basis.<br>• The Society Chair and non-executive directors do not take part in any performance pay plans or in any pension arrangements. Benefits may be provided if considered appropriate, including reimbursement of any reasonable expenses. | As set out in this report, increases of 1.97% were made to the Society Chair fee and the basic fee for non-executive directors. The senior independent director will now receive committee membership fees, and, in recognition of this, the senior independent director fee has reduced to £30,000. The Voice of the Employee fee has been increased by 10%. |

## What our directors could earn in 2021/22 based on performance

The table below illustrates the amounts that executive directors would be paid under three different scenarios.

| Breakdown of total remuneration for 2021/22 (£'000) | | |
|---|---|---|
| | **J D Garner** | **C S Rhodes** |
| **Fixed pay** | | |
| Salary | 934 | 667 |
| Pension as a % of salary | 16% | 16% |
| **Performance pay** | | |
| Target as a % of salary | 98% | 78% |
| Maximum as a % of salary | 152% | 112% |
| **Total remuneration** | | |
| Fixed pay – base salary, pension and benefits (note i) | 1,234 | 837 |
| Target – assuming we deliver target levels or performance against measures set out in the DPA | 2,149 | 1,357 |
| Maximum - assuming DPA arrangements pay out in full. This would only occur where performance has been truly exceptional across all measures set (note ii) | 2,654 | 1,584 |

Notes:
i. Includes benefits based on 2019/20 actuals, in line with the scenario charts included in our directors' remuneration policy report.
ii. The actual maximum amount that may be awarded in respect of any year would be subject to the limit laid down by regulatory standards, which is currently set such that variable remuneration does not exceed 100% of fixed remuneration.

# Directors' report for the year ended 4 April 2021

Information for the 'Content' items listed in the table below can be found in the section of the accounts as shown. These items are required to be included in the Directors' report by the Building Societies Act 1986 and are incorporated into the Directors' report by this cross referencing.

| Content | Section | Pages |
|---|---|---|
| Business objectives and future plans | Strategic report | 7 to 32 |
| Nationwide results and key performance indicators | Strategic report – A letter from your Society's Chief Executive | 7 to 9 |
| Charitable donations | Strategic report – Building a national treasure | 29 to 32 |
| Employee involvement, engagement, development, inclusion and diversity | Strategic report – Building PRIDE | 25 to 28 |
| Viability statement | Strategic report | 58 to 59 |
| Directors' remuneration | Governance – Report of the directors on remuneration | 115 to 137 |
| Mortgage arrears | Risk report | 163 to 164 |
| Risk management | Risk report | 142 to 144 |
| Principal risks | Risk report | 145 |
| Top and emerging risks | Strategic report – Risk overview | 56 to 57 |
| Directors' share options | Annual business statement | 329 |
| CRD IV country-by-country reporting | Published online – **www.nationwide.co.uk/about/corporate-information/results-and-accounts** | - |
| Distributions on CCDS instruments | Financial statements – note 31 | 317 |
| Business relationships | Strategic report – section 172(1) statement | 12 to 17 |
| Financial instruments | Financial statements – note 15 | 290 to 293 |
| Corporate Governance statement | Corporate governance report | 69 to 96 |

## Board of directors

The names of the directors of the Society who were in office at the date of signing the financial statements, along with their biographies, are set out on pages 71 to 76.

The changes in the year and up to the date of signing the financial statements are as follows:

- the retirement of Baroness Usha Prashar (non-executive director) in July 2020;
- the appointment of Tamara Rajah (non-executive director) in November 2020; and
- the appointment of Debbie Klein (non-executive director) in March 2021.

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

The Board has agreed that in accordance with the UK Corporate Governance Code, all the directors will stand for election or re-election on an annual basis.

## Political donations

The Society is politically neutral and does not support, or seek to influence public support for, any political party nor make donations, contributions or pay subscriptions to any party. However, the Society will from time to time make payments to third parties to participate in events organised by them at party conferences and which are related to matters of interest to the Society and its members so as to communicate its position and understand that of others. These activities are not intended or considered to be in the nature of party political campaigning, activity or support.

## Participation in the unclaimed assets scheme

The Society participates in the Government-backed unclaimed assets scheme, whereby savings accounts that have been inactive for 15 years, and where the account holder cannot be traced, are eligible to be transferred into a central reclaim fund. The central reclaim fund has the responsibility for retaining sufficient monies to meet the costs of future reclaims for any previously transferred dormant account balances, and to transfer any surplus to the Big Lottery Fund for the benefit of good causes which have a social or environmental purpose. On 12 August 2020 Nationwide made a transfer of £3,644,472 to the Reclaim Fund Limited, the administrators of the unclaimed assets scheme. This follows the previous transfer the Society made in October 2019 (£3,644,473). The total contribution from inception to August 2020 is £76,931,288.

## Creditor payment policy

The Group's policy is to agree the terms of payment with suppliers at the start of trading, ensure that suppliers are aware of the terms of payment, and pay in accordance with its contractual and other legal obligations. The Group's policy is to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms. The Society's creditor days, calculated based on year end creditor balances and total spend, were 7 days at 4 April 2021 (2020: 9 days).

## Environment

The Society reports its greenhouse gas emissions, within the Strategic report, as set out by the Companies Act 2006. More information on the Society's environmental sustainability performance can be found in the Strategic report on page 50.

## New activities

There were no new activities in which the Society or any of its subsidiaries engaged during the financial year of a different nature from those in which the Society previously engaged.

## Research and development

In the ordinary course of business, the Society regularly develops new products and services.

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

The following statement, which should be read in conjunction with the Independent auditor's report on pages 227 to 240, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, the directors' emoluments disclosures within the Report of the directors on remuneration, the Annual business statement and the Directors' report.

The Group and Society financial statements included within the Annual Report and Accounts are prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) that are applicable. International accounting standards which have been adopted for use within the UK have also been applied in these financial statements. The Group financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

A copy of the Annual Report and Accounts can be found on Nationwide Building Society's website at **nationwide.co.uk** (Results and accounts section). The directors are responsible for the maintenance and integrity of statutory and audited information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Building Societies Act 1986 (the Act)

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

- Selected appropriate accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable;
- Stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepared the financial statements on the going concern basis.

### UK Finance Code for Financial Reporting Disclosure

The Group has continued to adopt the UK Finance Code for Financial Reporting Disclosure and its Annual Report and Accounts 2021 have been prepared in compliance with its principles.

### Going Concern

The Group's business activities, along with its financial position, capital structure, liquidity and funding, risk management approach and factors likely to affect its future performance are described in the Strategic report on pages 58.

The Group's forecasts and projections, taking account of possible changes in trading performance and funding retention, and including stress testing and scenario analysis, show that the Group will be able to operate at adequate levels of both liquidity and capital for the next 12 months. Furthermore, the Group's capital ratios and its total capital resources are comfortably in excess of Prudential Regulation Authority (PRA) requirements.

The directors have made enquiries and considered the implications of the Covid-19 pandemic on the Group's financial position, projected funding, capital structure, and the impact of further stress-testing and scenario analysis, along with other key risks as set out in the Principal risks and uncertainties section of the Risk report on page 145. On the basis of those enquiries and considerations the directors are satisfied that the Group has adequate resources to continue in business for a period of at least 12 months from the date of this report and that, therefore, it is appropriate to adopt the going concern basis in preparing the financial statements.

**Fair, balanced and understandable**

The directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for members and other stakeholders to assess the Group's position and performance, business model and strategy. Details of the governance procedures that have been embedded to support this can be found in the Audit Committee report.

**Enhanced Disclosure Task Force (EDTF)**

The EDTF established by the Financial Stability Board, published its report 'Enhancing the Risk Disclosures of Banks' in October 2012, with an update in November 2015 covering IFRS 9 expected credit losses. The Taskforce on Disclosures about Expected Credit Losses (DECL), jointly established by the Financial Conduct Authority, Financial Reporting Council and the Prudential Regulation Authority, published its phase 2 report recommendations in December 2019. EDTF and DECL recommendations are reflected in either the Annual Report and Accounts or Pillar 3 Disclosures.

## Directors' statement pursuant to the disclosure guidance and transparency rules

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the directors have included a fair review of the business and a description of the principal risks and uncertainties facing the Group. The directors confirm that, to the best of each director's knowledge and belief:

- The Chief Executive's review and the Financial review contained in the Strategic report include a fair review of the development and performance of the business and the position of the Group and Society. In addition, the Strategic report contains a description of the principal risks and uncertainties.

- The financial statements, prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Society.

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

## Directors' responsibilities in respect of accounting records and internal control

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

- Keep accounting records which disclose with reasonable accuracy the financial position of the Society and the Group and which enable them to ensure that the Annual Report and Accounts comply with the Building Societies Act 1986.

- Take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to the Society.

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

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

## The auditors

A resolution to re-appoint Ernst & Young LLP (EY) as auditors will be proposed at the Annual General Meeting.

**David Roberts**
Chair
20 May 2021

# Risk report

Effective risk management is critical to our purpose of building society, nationwide and ensures that we keep our members' money safe and secure. Nationwide adopts a prudent approach to risk management, taking only those risks which support our strategy and managing those risks rigorously through a consistent and robust methodology.

# Risk report

## Introduction

Risk management is at the heart of our business and has an important part to play in delivering our shared purpose of *building society, nationwide* by making sure we are safe and secure for the future.

All business activities involve some degree of risk, Nationwide seeks to protect its members by managing appropriately the risks that arise from its activities. Nationwide's risk management processes ensure it is built to last by:

- identifying risks through a robust assessment of principal risks and uncertainties facing the Society, including those that would threaten its business model, future performance, solvency, or liquidity;
- robust decision making, ensuring we take the right risks, in a way that is considered and supports the strategy;
- ensuring the risks we do take are understood, controlled, and managed appropriately; and
- maintaining an appropriate balance between delivering member value and remaining a prudent and responsible lender.

## Managing risk

**Enterprise risk management framework (ERMF)**

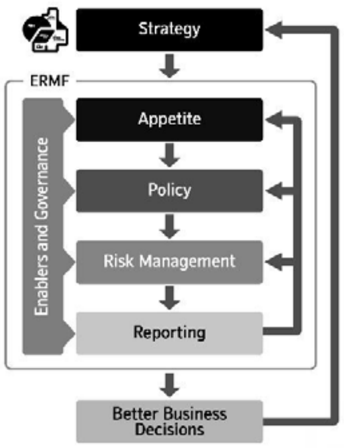
The Society operates an Enterprise Risk Management Framework (ERMF) which articulates the Society's approach to risk management. The structure is based on eight principal risk categories, establishing risk appetite, and implementing risk management through the three lines of defence model. The ERMF is underpinned by processes, policies and standards that are specific to individual risk categories and focus on the responsibilities of key executives and risk practitioners. The outputs of the ERMF are governed through the Society's risk committee structure.

The Society continues to develop its risk management capabilities. In March 2020, the Society launched its new Governance, Risk and Compliance tool, MetricStream, which provides the Society with enhanced, industry standard operational and conduct risk and control management capabilities. During the year, MetricStream has been embedded across the Society, in addition to enhancing the operational and conduct risk taxonomy and controls taxonomy (though the principal risks themselves remain unaffected).

The design of the ERMF has been and will continue to be improved, to ensure it remains fit for purpose and reflects changes to the internal and external risk profile, allowing tailored responses to be developed where further maturity or improvements are considered appropriate. The strengthening of the operational and conduct risk environment will continue to be a focus in 2021/22 and beyond.

## Managing risk (continued)

The structure of the ERMF is summarised below:




**Appetite** - articulates how much risk the Society is prepared to take in the pursuit of its objectives.

**Policy** - sets out the objectives to be met by relevant critical controls to ensure that specific material risks are managed on a day-to-day basis, in line with risk appetite.

**Risk Management** - defines the standard processes, tools and systems needed for the practical operation of risk management across the Society.

**Reporting** - ensures the appropriate monitoring, aggregation, and escalation of relevant risk, loss event and control information to the Board, risk committees, and management to enable effective, risk-based, decision-making and achieve better outcomes.

### Three lines of defence

The Society adopts a Three Lines of Defence (3LoD) model in the way it structures its risk management activities. We have tailored this approach to reflect our size, complexity, and business model. Though everyone has a role to play in risk management, the overall responsibilities and accountabilities are outlined through this 3LoD model, which are:

| **Line of defence** | **First line**<br>**Risk and control ownership** | **Second line**<br>**Oversight, support, challenge, and advice** | **Third line**<br>**Assurance** |
|---|---|---|---|
| **Responsibilities** | Designing and running business operations, owning and operating most controls to manage the Society's risks and meet regulatory requirements. | Overseeing, through support, challenge and the provision of advice, the effectiveness of risk management by the first line. | Providing assurance to the Board on the effectiveness of our control environment. |
| **Accountabilities** | • Setting business objectives<br>• Defining management risk appetite<br>• Identifying, owning, and managing risks<br>• Defining, operating, and testing controls<br>• Implementing and maintaining regulatory compliance<br>• Adhering to the Society's minimum standards for risk management and associated policies<br>• Identifying future threats and risks | • Providing expert advice on business initiatives<br>• Advising the Board on setting risk appetite<br>• Reporting aggregate enterprise level risks to the Board<br>• Conducting independent and risk-based assurance<br>• Interpreting material regulatory change<br>• Setting the Society's minimum standards for risk management and associated policies<br>• Identifying future threats and risks | • Performing independent audits of the effectiveness of first line risk and control and second line risk oversight, support, challenge, and advice<br>• Taking a risk-based approach to the programme of audit work<br>• Preparing an annual opinion on the risk management and controls framework across the Society to present to the Audit Committee |

# Managing risk (continued)

**Risk committee structure**

The Board Risk Committee (BRC), Board IT & Resilience Committee and Audit Committee provide oversight and advice to the Board. Further details are set out in the Governance report.

The Executive Risk Committee (ERC), chaired by the Chief Risk Officer, sits below these and ensures a co-ordinated management approach across all risks and provides regular updates to the Board Risk Committee on areas where the Committee has challenged management and key decisions. The committee structure leading to ERC (including each committee's purpose) is shown below. Business Risk is managed directly by ERC.

### Executive Risk Committee

- Determines and amend the Society's attitude to risk and set thresholds for endorsement by the Board and/or the BRC;
- Exercises responsibility for controlling risk across the Society, ensuring that controls are adequately designed and operating effectively;
- Monitors and review the risk exposures of the Society in accordance with the ERMF, board risk appetite, Nationwide's Strategy and the Plan; and
- Approves changes to the above within the Committees mandate.

#### Model Risk Oversight Committee

- Promotes best practice for the Society's use of models;
- Oversees the model risk profile of the Society;
- Assesses whether the models are fit for purpose; and
- Reviews and challenges the use and management of models to manage risk.

#### Credit Committee

- Determines and amend the Society's attitude to credit risk and set thresholds for endorsement by the ERC and the BRC; and
- Manages the credit risk profile of the Society in accordance with the ERMF, board risk appetite, Nationwide's Strategy and the Plan.

#### Assets & Liabilities Committee

- Determines the Society's approach to financial risk and sets thresholds for each risk for endorsement by ERC and approved by Board; and
- Manages the financial risk profile of the Society in accordance with the ERMF, board risk appetite, Nationwide's Strategy and the Plan.

#### Conduct & Operational Risk Committee

- Monitors the Society's actual and future operational, regulatory and conduct risk appetite and profile to ensure alignment with strategy, business objectives, risk and corporate culture and values;
- Makes recommendations to the ERC on the Society's operational, regulatory and conduct risk appetites and the corresponding metrics and limits, and approve management risk appetite metrics; and
- Escalates items of significant risk or opportunity to the ERC and performs any other duties aligned to the operational, regulatory and conduct risk categories as determined by the Board.

## Principal risks and uncertainties

The principal risk types set out below are the key risks relevant to the Society's business model and achievement of its strategic objectives. These principal risks are further broken down into lower level categories to support day to day management. The principal risk categories remain unchanged from last year and are managed through the Society's Enterprise Risk Management Framework. The impacts of, and responses to, the Covid-19 pandemic are set out in relevant sections of this Risk report.

| Principal risk | Definition | Risk Committee | Further risk detail |
|---|---|---|---|
| **Credit risk** | The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. | Credit Committee | Page 146 |
| **Liquidity and funding risk** | Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and other stakeholder confidence.<br>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. | Assets and Liabilities Committee | Page 189 |
| **Solvency risk** | The risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and to maintain the confidence of current and prospective members, investors, the Board, and regulators. | Assets and Liabilities Committee | Page 200 |
| **Market risk** | The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes. As Nationwide does not have a trading book, market risk only arises in the banking book. | Assets and Liabilities Committee | Page 207 |
| **Pension risk** | The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit. | Assets and Liabilities Committee | Page 215 |
| **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. | Executive Risk Committee | Page 218 |
| **Model risk** | The risk of an adverse outcome (incorrect or unintended decision or financial loss) that occurs as a direct result of weaknesses or failures in the development, implementation or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to Nationwide's reputation. | Model Risk Oversight Committee | Page 224 |
| **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. | Conduct and Operational Risk Committee (note i) | Page 219 |

Note:
i. Conduct and Operational Risk Committee was incepted in Q1 2021 and brought together two previous senior committees, Operational Risk Committee and Conduct & Compliance Committee.

## Credit risk – Overview

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk encompasses:

- borrower/counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay the interest or principal on a loan, or on a financial product, or for a service, on time;
- security/collateral risk – the risk of loss arising from deteriorating security/collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification; and
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

Nationwide manages credit risk for the following portfolios:

| Portfolio | Definition |
|---|---|
| Residential mortgages | Loans secured on residential property |
| Consumer banking | Unsecured lending comprising current account overdrafts, personal loans and credit cards |
| Commercial and other lending | Loans to registered social landlords, project finance loans made under the Private Finance Initiative, commercial real estate lending and other balances due from counterparties not covered by other categories |
| Treasury | Treasury liquidity, derivatives and discretionary investment portfolios |

**Management of credit risk**

At Nationwide, we lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of the Society's strategy, which is articulated as Board risk appetite statements and underlying principles:

We safeguard our members by lending responsibly

- We will only lend to members, customers or counterparties who demonstrate that they can afford to borrow.
- We will support members and customers buying mortgageable houses of wide-ranging types and qualities.
- We will work with members, customers and counterparties to recover their financial position should there be a delay, or risk of delay, in meeting their financial obligations.

We safeguard the Society's financial performance, strength and reputation

- We will manage asset quality so that losses through an economic cycle will not undermine profitability, financial strength and our standing with internal and external stakeholders.
- We will ensure that no material segment of our lending exposes the Society to excessive loss.
- We will proactively manage credit risk and comply with regulation.

We operate with a commitment to responsible lending and a focus on championing good conduct and fair outcomes. In this respect, we formulate appropriate credit criteria and policies which are aimed at mitigating risk against individual transactions and ensuring that the Society's credit risk exposure remains within risk appetite. Under a governed delegated mandate structure from the Board Risk Committee, the Credit Committee, the Executive Sanctioning Committee, individual Material Risk Takers and underwriters holding personal lending mandates make credit decisions, based on a thorough credit risk assessment, to ensure that customers are able to meet their obligations.

## Credit risk – Overview (continued)

At a portfolio level, we measure and manage our risk profile and the performance of our credit portfolios on an ongoing basis. Compliance with Board risk appetite is measured against absolute limits and risk metrics including impairment provisions and is reported to the Society's Credit Committee (members of which include the Chief Risk Officer, the Chief Financial Officer and the Chief Credit Officer) monthly, with adverse trends being investigated and corrective action taken to mitigate the risk and bring performance back on track.

Nationwide is committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. Accounts in arrears, or where the borrower is in financial difficulty, are managed by specialist teams within Nationwide to ensure an optimal outcome for our members, customers and the Society.

**Forbearance**

Forbearance occurs when concessions are made to the contractual terms of a loan when the customer is facing or about to face difficulties in meeting their financial commitments. A concession is where the customer receives assistance, which could be a modification to the previous terms and conditions of a facility or a total or partial refinancing of debt, either mid-term or at maturity. Requests for concessions are principally attributable to:

- temporary cash flow problems;
- breaches of financial covenants; or
- an inability to repay at contractual maturity.

In addition, we are supporting borrowers financially affected by the Covid-19 pandemic with payment holidays and other concessions.

Consistent with the European Banking Authority reporting definitions, loans that meet the regulatory forbearance exit criteria are not reported as forborne. The concession events used to classify balances subject to forbearance for residential mortgages, consumer banking and commercial lending are described in the relevant sections of this report.

**Impairment provision**

Impairment provisions on financial assets are calculated on an expected credit loss (ECL) basis for assets held at amortised cost and at fair value through other comprehensive income (FVOCI). ECL impairment provisions are based on an assessment of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted to give a net present value. Provision calculations for retail portfolios are typically performed on a collective rather than individual loan basis. For collective assessments, whilst each loan will have an associated ECL calculation, the calculation will be based on cohort level data for assets with shared credit risk characteristics (e.g. origination date, origination loan to value, term).

Impairment provisions are calculated using a three stage approach depending on changes in credit risk since original recognition of the assets:

- an asset which is not credit impaired on initial recognition and has not subsequently experienced a significant increase in credit risk is categorised as being within stage 1, with a provision equal to a 12 month ECL (losses arising on default events expected to occur within 12 months);
- where a loan's credit risk increases significantly, it is moved to stage 2. The provision recognised is equal to the lifetime ECL (losses on default events expected to occur at any point during the life of the asset);
- if a loan meets the definition of credit impaired, it is moved to stage 3 with a provision equal to its lifetime ECL.

For loans and advances held at amortised cost, the stage distribution and the provision coverage ratios are shown in this report for each individual portfolio. The provision coverage ratio is calculated by dividing the provisions by the gross balances for each main lending portfolio. Loans remain on the balance sheet, net of associated provisions, until they are deemed no longer recoverable, when such loans are written off.

# Credit risk – Overview (continued)

**Governance and oversight of impairment provisions**

The models used in the calculation of impairment provisions are governed in accordance with the Society's Model Risk Framework as described in the Model risk section. PD, EAD and LGD models are subject to regular monitoring and back testing and are reviewed annually. Where necessary, adjustments are approved for risks not captured in model outputs, for example where insufficient historic data exists. The economic scenarios used in the calculation of impairment provisions and associated probability weightings are proposed by our Chief Economist. Details of these economic assumptions and material adjustments are included in note 10 to the financial statements.

Governance and oversight of economic assumptions, weightings applied to economic scenarios and all key judgements relating to impairment provisions is through a formal monthly meeting including the Chief Financial Officer, Chief Risk Officer and Chief Credit Officer. Impairment provisions are regularly reported to the Audit Committee, which reviews and challenges the key judgements and estimates made by management.

**Performance overview**

A significant and prolonged contraction in economic activity was observed during the year, due to the Covid-19 pandemic and government measures to reduce the spread of the virus.

Government support schemes introduced at the onset of the Covid-19 pandemic and the Society's own support mechanisms, including a moratorium on possessions activity to protect and reassure members struggling with the financial impact of the pandemic and the furlough and payment deferral schemes, provided temporary financial relief for our members.

Help and support continues to be offered to members who have been impacted in these challenging times. This includes offering payment deferrals to affected borrowers, to temporarily suspend their contractual payments. In accordance with regulatory guidance, these payment concessions are not recorded as forbearance and do not automatically have an impact on the staging of balances used in calculating provisions. For borrowers applying for an initial payment deferral the deadline for applications was March 2021; payment deferrals can be taken beyond this point if they are consecutive, but all must end by July 2021. For borrowers who continue to need financial support after the payment deferral scheme ends, we will continue to offer non-arrears bearing concessions based on consideration of their individual circumstances.

The various measures of support have affected the relationship between the economic drivers for the retail models used in determining ECL. Specifically, unemployment rates remained relatively stable, whereas GDP saw a significant decline in 2020. To account for this, GDP forecasts, where used within the retail impairment models, have been updated. Due to these factors, careful consideration has been given to model performance during their annual reviews, and model monitoring continues to show the models are performing as expected.

Observed credit quality and performance has remained broadly stable over the period, with residential mortgage and consumer banking arrears remaining at a relatively low level. Whilst balances subject to arrears and forbearance have reduced during the reporting period, stage 2 balances have increased due to a change to our staging criteria. In our judgement, arrears performance has benefited from the government measures in combination with reduced spending on current account and credit cards and the low bank base rate environment, which have had the effect of suppressing what would otherwise have been a degradation in performance due to reduced economic activity that may have a lasting impact on consumer preferences and behaviour.

In addition, since the initial lockdown, housing market activity has recovered strongly. This has been driven by a combination of pent-up demand, stamp duty changes and a behavioural shift as people reassess their housing needs and preferences. This increased activity has resulted in house price growth, with the Nationwide House Price Index recording a 7.3% rise in house prices in 2020.

**Outlook**

Despite the stable performance over the year, the economic outlook and effects of the pandemic on the portfolio remain uncertain. Payment deferrals have now largely matured but may have suppressed underlying cases of financial difficulty which may now emerge; similarly, as the various support schemes offered by the Government (including the furlough scheme) begin to wind down

## Credit risk – Overview (continued)

this may expose more borrowers to difficulties in making their repayments. There remains wider uncertainty related to the pandemic and its short- and medium-term impacts on the economy. Taken together, this points to a likely increase in arrears and losses over the next year. The potential impact on impairment is captured by the economic scenarios used within our IFRS 9 calculation. Further details are included in note 10 to the financial statements.

**Maximum exposure to credit risk**

Nationwide's maximum exposure to credit risk has increased to £265 billion (2020: £256 billion), principally reflecting higher holdings of liquid assets.

Credit risk largely arises from loans and advances to customers, which account for 81% (2020: 83%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 94% (2020: 94%) of total loans and advances to customers and comprise high quality assets with historically low occurrences of arrears and possessions.

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

| **Maximum exposure to credit risk** | | | | | | |
|---|---|---|---|---|---|---|
| **2021** | **Gross balances** | **Impairment provisions** | **Carrying value** | **Commitments (note i)** | **Maximum credit risk exposure** | **% of total credit risk exposure** |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | **£m** | **%** |
| **Amortised cost loans and advances to customers:** | | | | | | |
| Residential mortgages | 190,955 | (317) | 190,638 | 12,039 | 202,677 | 76 |
| Consumer banking | 4,404 | (502) | 3,902 | 43 | 3,945 | 2 |
| Commercial and other lending | 6,267 | (33) | 6,234 | 1,176 | 7,410 | 3 |
| Fair value adjustment for micro hedged risk (note ii) | 653 | - | 653 | - | 653 | - |
| | 202,279 | (852) | 201,427 | 13,258 | 214,685 | 81 |
| **FVTPL loans and advances to customers:** | | | | | | |
| Residential mortgages (note iii) | 68 | - | 68 | - | 68 | - |
| Commercial | 52 | - | 52 | - | 52 | - |
| | 120 | - | 120 | - | 120 | - |
| **Other items:** | | | | | | |
| Cash | 16,693 | - | 16,693 | - | 16,693 | 6 |
| Loans and advances to banks and similar institutions | 3,660 | - | 3,660 | - | 3,660 | 1 |
| Investment securities – FVOCI | 24,218 | - | 24,218 | - | 24,218 | 9 |
| Investment securities – Amortised cost | 1,243 | - | 1,243 | - | 1,243 | 1 |
| Investment securities – FVTPL | 12 | - | 12 | 1 | 13 | - |
| Derivative financial instruments | 3,809 | - | 3,809 | - | 3,809 | 2 |
| Fair value adjustment for portfolio hedged risk (note ii) | 946 | - | 946 | - | 946 | - |
| | 50,581 | - | 50,581 | 1 | 50,582 | 19 |
| **Total** | 252,980 | (852) | 252,128 | 13,259 | 265,387 | 100 |

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# Credit risk – Overview (continued)

| Maximum exposure to credit risk 2020 (Audited) | Gross balances £m | Impairment provisions £m | Carrying value £m | Commitments (note i) £m | Maximum credit risk exposure £m | % of total credit risk exposure % |
|---|---|---|---|---|---|---|
| Amortised cost loans and advances to customers: | | | | | | |
| Residential mortgages | 188,768 | (252) | 188,516 | 10,734 | 199,250 | 78 |
| Consumer banking | 4,994 | (494) | 4,500 | 40 | 4,540 | 2 |
| Commercial and other lending | 7,133 | (40) | 7,093 | 642 | 7,735 | 3 |
| Fair value adjustment for micro hedged risk (note ii) | 741 | - | 741 | - | 741 | - |
| | 201,636 | (786) | 200,850 | 11,416 | 212,266 | 83 |
| FVTPL loans and advances to customers: | | | | | | |
| Residential mortgages (note iii) | 71 | - | 71 | - | 71 | - |
| Commercial | 57 | - | 57 | - | 57 | - |
| | 128 | - | 128 | - | 128 | - |
| Other items: | | | | | | |
| Cash | 13,748 | - | 13,748 | - | 13,748 | 5 |
| Loans and advances to banks and similar institutions | 3,636 | - | 3,636 | - | 3,636 | 1 |
| Investment securities – FVOCI | 18,367 | - | 18,367 | - | 18,367 | 7 |
| Investment securities – Amortised cost | 1,625 | - | 1,625 | - | 1,625 | 1 |
| Investment securities – FVTPL | 12 | - | 12 | - | 12 | - |
| Derivative financial instruments | 4,771 | - | 4,771 | - | 4,771 | 2 |
| Fair value adjustment for portfolio hedged risk (note ii) | 1,774 | - | 1,774 | - | 1,774 | 1 |
| | 43,933 | - | 43,933 | - | 43,933 | 17 |
| Total | 245,697 | (786) | 244,911 | 11,416 | 256,327 | 100 |

Notes:

i. In addition to the amounts shown above, Nationwide has revocable commitments of £10,624 million (2020: £10,139 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by Nationwide, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

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

iii. FVTPL residential mortgages include equity release and shared equity loans.

**Commitments**

Irrevocable undrawn commitments to lend are within the scope of provision requirements. The commitments in the table above consist of overpayment reserves and separately identifiable irrevocable commitments for the pipeline of residential mortgages, personal loans, commercial loans and investment securities. These commitments are not recognised on the balance sheet and are predominantly within stage 1, with an associated provision of £0.5 million (2020: £0.4 million) which is included within provisions for liabilities and charges.

Revocable commitments relating to overdrafts and credit cards are included in ECL provisions, with the allowance for future drawdowns made as part of the exposure at default element of the ECL calculation.

# Credit risk – Residential mortgages

## Summary

Nationwide's residential mortgages comprise prime, buy to let and legacy loans. Prime residential mortgages are mainly Nationwide-branded advances made through the branch network and intermediary channels. Buy to let mortgages are now only originated under The Mortgage Works (UK) plc (TMW) brand. Legacy mortgages are smaller portfolios in run-off.

As highlighted in the Credit risk overview section of this report the Covid-19 pandemic has had a significant impact on the residential mortgage market and, whilst house prices have increased, the economic outlook is uncertain.

To date arrears remain low and credit quality continues to be strong; however, this performance is supported by government intervention, payment deferrals and the low bank base rate environment.

| Residential mortgage gross balances | | | | |
|---|---|---|---|---|
| | **2021** | | 2020 | |
| ***(Audited)*** | **£m** | **%** | £m | % |
| **Prime** | **149,706** | **78** | 151,069 | 80 |
| | | | | |
| **Buy to let and legacy (note i):** | | | | |
| Buy to let (note ii) | **39,312** | **21** | 35,539 | 19 |
| Legacy (note iii) | **1,937** | **1** | 2,160 | 1 |
| | **41,249** | **22** | 37,699 | 20 |
| | | | | |
| **Amortised cost loans and advances to customers** | **190,955** | **100** | 188,768 | 100 |
| | | | | |
| **FVTPL loans and advances to customers** | **68** | | 71 | |
| **Total residential mortgages** | **191,023** | | 188,839 | |

Notes:
i. This category of lending was previously referred to as specialist lending.
ii. Buy to let mortgages include £37,983 million (2020: £34,031 million) originated under the TMW brand.
iii. Legacy includes self-certified, near prime and sub-prime lending, all of which were discontinued in 2009.

Total balances across the residential mortgage portfolios have grown by 1% during the year to £191 billion (2020: £189 billion), in particular within the buy to let portfolio which saw 11% growth in the year.

# Credit risk – Residential mortgages (continued)

### Impairment losses for the year

| Impairment losses and write-offs for the year | | |
|---|---|---|
| | **2021** | 2020 |
| ***(Audited)*** | **£m** | £m |
| Prime | **39** | 13 |
| Buy to let and legacy | **32** | 40 |
| **Total impairment losses** | **71** | 53 |
| | | |
| | **%** | % |
| **Impairment charge as a % of average gross balance** | **0.04** | 0.03 |
| | | |
| | **£m** | £m |
| **Gross write-offs** | **9** | 11 |

Impairment losses for the year include the impact of updating macroeconomic assumptions and weightings to reflect the impact of the Covid-19 pandemic; further details are included in note 10 to the financial statements. Updates to the severe downside scenario assumptions increased provisions by £33 million during the year. Additional provisions totalling £56 million have been recognised to reflect an increased risk relating to property valuations. This comprises £23 million to reflect risks associated with flats where work is required to meet fire safety standards, and £33 million to reflect an increase in the idiosyncratic risk associated with property recovery values for repossessed properties over the next few years. The prior year impairment losses included a £51 million charge reflecting the estimated impact of Covid-19 at 4 April 2020.

The following table shows residential mortgage lending balances carried at amortised cost, the stage allocation of the loans, impairment provisions and the resulting provision coverage ratios.

| **Residential mortgages staging analysis** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2021** | **Stage 1** | **Stage 2 total** | **Stage 2 Up to date (note i)** | **Stage 2 1 – 30 DPD (note i)** | **Stage 2 >30 DPD (note i)** | **Stage 3** | **POCI (note ii)** | **Total** |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Gross balances** | | | | | | | | |
| Prime | **143,500** | **5,313** | **4,606** | **505** | **202** | **893** | **-** | **149,706** |
| Buy to let and legacy | **35,247** | **5,346** | **5,009** | **201** | **136** | **508** | **148** | **41,249** |
| **Total** | **178,747** | **10,659** | **9,615** | **706** | **338** | **1,401** | **148** | **190,955** |
| | | | | | | | | |
| **Provisions** | | | | | | | | |
| Prime | **17** | **39** | **33** | **3** | **3** | **37** | **-** | **93** |
| Buy to let and legacy | **49** | **137** | **118** | **9** | **10** | **38** | **-** | **224** |
| **Total** | **66** | **176** | **151** | **12** | **13** | **75** | **-** | **317** |
| | | | | | | | | |
| **Provisions as a % of total balance** | **%** | **%** | **%** | **%** | **%** | **%** | **%** | **%** |
| Prime | **0.01** | **0.74** | **0.73** | **0.59** | **1.39** | **4.10** | **-** | **0.06** |
| Buy to let and legacy | **0.14** | **2.58** | **2.38** | **4.28** | **7.18** | **7.46** | **-** | **0.54** |
| **Total** | **0.04** | **1.66** | **1.59** | **1.64** | **3.72** | **5.32** | **-** | **0.17** |

## Credit risk – Residential mortgages (continued)

| Residential mortgages staging analysis | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2020 | Stage 1 | Stage 2 total | Stage 2 Up to date (note i) | Stage 2 1 – 30 DPD (note i) | Stage 2 >30 DPD (note i) | Stage 3 | POCI (note ii) | Additional provision (note iii) | Total |
| *(Audited)* | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Gross balances | | | | | | | | | |
| Prime | 148,355 | 1,953 | 998 | 698 | 257 | 761 | - | - | 151,069 |
| Buy to let and legacy | 29,399 | 7,642 | 7,115 | 270 | 257 | 503 | 155 | - | 37,699 |
| Total | 177,754 | 9,595 | 8,113 | 968 | 514 | 1,264 | 155 | - | 188,768 |
| | | | | | | | | | |
| Provisions | | | | | | | | | |
| Prime | 27 | 8 | 2 | 3 | 3 | 10 | - | 11 | 56 |
| Buy to let and legacy | 13 | 117 | 87 | 11 | 19 | 27 | (1) | 40 | 196 |
| Total | 40 | 125 | 89 | 14 | 22 | 37 | (1) | 51 | 252 |
| | | | | | | | | | |
| Provisions as a % of total balance | % | % | % | % | % | % | % | % | % |
| Prime | 0.02 | 0.41 | 0.22 | 0.46 | 1.02 | 1.30 | - | - | 0.04 |
| Buy to let and legacy | 0.05 | 1.53 | 1.23 | 3.93 | 7.22 | 5.33 | - | - | 0.52 |
| Total | 0.02 | 1.30 | 1.11 | 1.42 | 4.12 | 2.90 | - | - | 0.13 |

Notes:
i. Days past due (DPD) is a measure of arrears status.
ii. POCI loans are those which were credit-impaired on purchase or acquisition. The POCI loans shown in the table above were recognised on the balance sheet when the Derbyshire Building Society was acquired in December 2008. These balances, which are mainly interest-only, were 90 days or more in arrears when they were acquired and so have been classified as credit-impaired on acquisition. The gross balance for POCI is shown net of the lifetime ECL of £5 million (2020: £6 million).
iii. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 4 April 2021.

At 4 April 2021, 93% (2020: 94%) of the residential mortgage portfolio is in stage 1, reflecting the portfolio's underlying strong credit quality. During the year there has been an increase in stage 2 balances to £10,659 million (2020: £9,595 million). The prime portfolio stage 2 balance has increased by £3,360 million. This increase is the result of a change to staging criteria from a multiple of 4 times origination PD to a multiple of 2. The change in criteria was made to increase staging sensitivity during the current uncertain economic conditions. In addition, a higher risk segment of loans with payment deferrals moved to stage 2 from stage 1. This change did not have a significant impact on provisions.

The buy to let and legacy portfolio stage 2 balances have reduced by £2,296 million, primarily due to a reduction in the refinance risk associated with interest only loans. The refinance assessment estimates the ability of a borrower with an interest only loan to refinance at maturity and considers both collateral values and affordability criteria. Due to the low bank base rate assumption used in the modelling of expected credit losses, a higher proportion of interest only mortgages are expected to meet the affordability criteria, so have therefore moved from stage 2 to stage 1 during the year. This reduction has been partially offset by the change in the multiple of PD described above. The impact of the staging criteria change across both portfolios has had no significant impact on provisions due to strong quality of the loans affected.

## Credit risk – Residential mortgages (continued)

Stage 3 loans in the residential mortgage portfolio equate to 1% (2020: 1%) of the total residential mortgage exposure. Of the total £1,401 million (2020: £1,264 million) stage 3 loans, £690 million (2020: £679 million) is in respect of loans which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeliness to pay such as forbearance or the bankruptcy of the borrower. Stage 3 provisions have increased by £38 million during the year, primarily driven by an additional provision of £33 million to recognise an increase in the idiosyncratic risk associated with property recovery values for repossessed properties over the next few years. The uncertainty has arisen from shifts in the housing market, partly due to Covid-19, with the expectation that future repossessed properties may be more difficult to sell and may not follow the modelled HPI recovery assumed for the wider market.

For loans subject to forbearance, accounts are transferred from stage 3 to stages 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months; £242 million (2020: £244 million) of the stage 3 balances in forbearance are in this probation period.

The table below summarises the movements between stages in the Group's residential mortgages held at amortised cost. The movements within the table are an aggregation of monthly movements over the year.

**Reconciliation of movements in gross residential mortgage balances and impairment provisions**

| | Non-credit impaired | | | | Credit impaired (note i) | | | |
|---|---|---|---|---|---|---|---|---|
| | Subject to 12-month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 and POCI | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| At 5 April 2020 (note ii) | 177,754 | 40 | 9,595 | 125 | 1,419 | 36 | 188,768 | 252 |
| | | | | | | | | |
| **Stage transfers:** | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | **(17,422)** | **(15)** | **17,422** | **15** | **-** | **-** | **-** | **-** |
| Transfers to Stage 3 | **(409)** | **-** | **(812)** | **(38)** | **1,221** | **38** | **-** | **-** |
| Transfers from Stage 2 to Stage 1 | **15,250** | **100** | **(15,250)** | **(100)** | **-** | **-** | **-** | **-** |
| Transfers from Stage 3 | **255** | **-** | **541** | **12** | **(796)** | **(12)** | **-** | **-** |
| Net remeasurement of ECL arising from transfer of stage | | **(82)** | | **130** | | **(19)** | | **29** |
| **Net movement arising from transfer of stage** | **(2,326)** | **3** | **1,901** | **19** | **425** | **7** | **-** | **29** |
| | | | | | | | | |
| New assets originated or purchased | **29,452** | **9** | **-** | **-** | **-** | **-** | **29,452** | **9** |
| Net impact of further lending and repayments | **(8,303)** | **(3)** | **(127)** | **-** | **(28)** | **-** | **(8,458)** | **(3)** |
| Changes in risk parameters in relation to credit quality | **-** | **22** | **-** | **40** | **-** | **43** | **-** | **105** |
| Other items impacting income statement charge/(reversal) (including recoveries) | **-** | **-** | **-** | **-** | **-** | **(3)** | **-** | **(3)** |
| Redemptions | **(17,830)** | **(5)** | **(710)** | **(8)** | **(247)** | **(2)** | **(18,787)** | **(15)** |
| Removal of year-end additional provision for Covid-19 (note ii) | | | | | | | | **(51)** |
| Income statement charge for the year | | | | | | | | **71** |
| Decrease due to write-offs | **-** | **-** | **-** | **-** | **(20)** | **(9)** | **(20)** | **(9)** |
| Other provision movements | **-** | **-** | **-** | **-** | **-** | **3** | **-** | **3** |
| **4 April 2021** | **178,747** | **66** | **10,659** | **176** | **1,549** | **75** | **190,955** | **317** |
| **Net carrying amount** | | **178,681** | | **10,483** | | **1,474** | | **190,638** |

Risk report (continued)

# Credit risk – Residential mortgages (continued)

Reconciliation of movements in gross residential mortgage balances and impairment provisions

| | Non-credit impaired | | | | Credit impaired (note i) | | | |
|---|---|---|---|---|---|---|---|---|
| | Subject to 12-month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 and POCI | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| *(Audited)* | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2019 | 176,023 | 37 | 8,479 | 127 | 1,438 | 42 | 185,940 | 206 |
| | | | | | | | | |
| Stage transfers: | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | (15,257) | (15) | 15,257 | 15 | - | - | - | - |
| Transfers to Stage 3 | (315) | - | (779) | (31) | 1,094 | 31 | - | - |
| Transfers from Stage 2 to Stage 1 | 12,923 | 66 | (12,923) | (66) | - | - | - | - |
| Transfers from Stage 3 | 199 | 1 | 539 | 13 | (738) | (14) | - | - |
| Net remeasurement of ECL arising from transfer of stage | | (52) | | 72 | | (12) | | 8 |
| Net movement arising from transfer of stage | (2,450) | - | 2,094 | 3 | 356 | 5 | - | 8 |
| | | | | | | | | |
| New assets originated or purchased | 30,501 | 5 | - | - | - | - | 30,501 | 5 |
| Net impact of further lending and repayments | (8,230) | (3) | (140) | 1 | (45) | (2) | (8,415) | (4) |
| Changes in risk parameters in relation to credit quality | - | 4 | - | 3 | - | 3 | - | 10 |
| Other items impacting income statement charge/(reversal) (including recoveries) | - | - | - | - | - | (4) | - | (4) |
| Redemptions | (18,090) | (3) | (838) | (9) | (295) | (1) | (19,223) | (13) |
| Additional provision for Covid-19 (note ii) | | | | | | | | 51 |
| Income statement charge for the year | | | | | | | | 53 |
| Decrease due to write-offs | - | - | - | - | (35) | (11) | (35) | (11) |
| Other provision movements | - | - | - | - | - | 4 | - | 4 |
| 4 April 2020 (note ii) | 177,754 | 40 | 9,595 | 125 | 1,419 | 36 | 188,768 | 252 |
| Net carrying amount | | 177,714 | | 9,470 | | 1,383 | | 188,516 |

Notes:
i. Gross balances of credit impaired loans include £148 million (2020: £155 million) of POCI loans, which are presented net of lifetime ECL impairment provisions of £5 million (2020: £6 million).
ii. At 4 April 2020, an additional provision for credit losses of £51 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans, nor was it attributed to stages. During the year, this provision has been allocated to underlying loans and is reflected in the movements within the table and the 4 April 2021 position.

The increase in stage 2 balances is driven by a combination of the change to staging criteria, the movement of a higher risk segment of loans with payment deferrals to stage 2 from stage 1 and a reduction in the refinance risk associated with interest only loans. As the stage of individual loans is assessed monthly, the gross movements between stages 1 and 2 include the cumulative impact of transfers caused by changes in PD leading to the loans breaching the criteria for transferring assets to stage 2 and vice versa.

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 14 to the financial statements.

Risk report (continued)

# Credit risk – Residential mortgages (continued)

| Reason for residential mortgages being included in stage 2 (notes i and ii) | | | | | | |
|---|---|---|---|---|---|---|
| **2021** | **Prime** | | **Buy to let and legacy** | | **Total** | |
| | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Quantitative criteria:** | | | | | | |
| Payment status (greater than 30 DPD) | **202** | **3** | **136** | **10** | **338** | **13** |
| Increase in PD since origination (less than 30 DPD) | **5,067** | **36** | **3,288** | **70** | **8,355** | **106** |
| | | | | | | |
| **Qualitative criteria:** | | | | | | |
| Forbearance (less than 30 DPD) | **6** | **-** | **3** | **-** | **9** | **-** |
| Interest only – significant risk of inability to refinance at maturity (less than 30 DPD) | **-** | **-** | **1,914** | **57** | **1,914** | **57** |
| Other qualitative criteria | **38** | **-** | **5** | | **43** | **-** |
| | | | | | | |
| **Total Stage 2 gross balances** | **5,313** | **39** | **5,346** | **137** | **10,659** | **176** |

| Reason for residential mortgages being included in stage 2 (note i and ii) | | | | | | |
|---|---|---|---|---|---|---|
| 2020 | Prime | | Buy to let and legacy | | Total | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| | £m | £m | £m | £m | £m | £m |
| Quantitative criteria: | | | | | | |
| Payment status (greater than 30 DPD) | 257 | 3 | 257 | 19 | 514 | 22 |
| Increase in PD since origination (less than 30 DPD) | 1,509 | 5 | 2,697 | 27 | 4,206 | 32 |
| | | | | | | |
| Qualitative criteria: | | | | | | |
| Forbearance (less than 30 DPD) | 165 | - | 5 | - | 170 | - |
| Interest only – significant risk of inability to refinance at maturity (less than 30 DPD) | - | - | 4,678 | 71 | 4,678 | 71 |
| Other qualitative criteria | 22 | - | 5 | - | 27 | - |
| | | | | | | |
| Total Stage 2 gross balances | 1,953 | 8 | 7,642 | 117 | 9,595 | 125 |

Notes:
i. Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.
ii. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 4 April 2021.

## Credit risk – Residential mortgages (continued)

Loans which are reported within stage 2 are those which have experienced a significant increase in credit risk since origination, determined through both quantitative and qualitative indicators, as shown in the table below.

| Criteria | Detail |
|---|---|
| Quantitative | The primary quantitative indicators are the outputs of internal credit risk assessments. For residential mortgage exposures, PDs are derived using scorecards, which use external information such as that from credit reference agencies, as well as internal information such as known instances of arrears or other financial difficulty. While different approaches are used within each portfolio, current and historical data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default. 12-month and lifetime PDs are calculated for each loan.<br><br>The 12-month and lifetime PDs are compared to pre-determined benchmarks at each reporting date to ascertain whether a relative or absolute increase in credit risk has occurred. The indicators for a significant increase in credit risk are:<br><br>• Absolute measures:<br>- The 12-month PD exceeds the benchmark 12-month PD that is indicative, at the assessment date, of an account being in arrears.<br>- The residual lifetime PD exceeds the benchmark residual lifetime PD, set at inception, which represents the maximum credit risk that would have been accepted at that point.<br><br>• Relative measure:<br>- The residual lifetime PD has increased by at least 75 basis points and a multiple of 2 (2020: 4x multiple). |
| Qualitative | Qualitative indicators include the increased risk associated with interest only loans which may not be able to refinance at maturity.<br><br>Also included are forbearance events where full repayment of principal and interest is still anticipated, on a discounted basis. |
| Backstop | In addition to the primary criteria for stage allocation described above, accounts that are more than 30 days past due are also transferred to stage 2. |

The value of loans reported within stage 2 as a result of being in arrears by 30 days or more has reduced to £338 million, 0.18% of total gross balances (2020: £514 million, 0.27% of total gross balances). Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes and an adjustment has been made to recognise the underlying risk where modelled provisions would otherwise have been reduced.

Stage 2 loans include all loans greater than 30 days past due (DPD), including those where the original reason for being classified as stage 2 was other than arrears over 30 DPD. The total value of loans in stage 2 due solely to payment status is less than 0.1% (2020: <0.1%) of total stage 2 balances.

# Credit risk – Residential mortgages (continued)

### Credit quality

The residential mortgages portfolio comprises many small loans which are broadly homogenous, have low volatility of credit risk outcomes and are geographically diversified. The table below shows the loan balances and provisions for residential mortgages held at amortised cost, by PD range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

**Loan balance and provisions by PD (notes i and ii)**

| **2021** | **Gross balances** | | | | **Provisions** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ***(Audited)*** | **Stage 1** | **Stage 2** | **Stage 3 and POCI** | **Total** | **Stage 1** | **Stage 2** | **Stage 3 and POCI** | **Total** | **Provision coverage** |
| **PD Range** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **%** |
| 0.00 to < 0.15% | **156,099** | **2,573** | **52** | **158,724** | **34** | **28** | **-** | **62** | **0.04** |
| 0.15 to < 0.25% | **10,402** | **1,369** | **44** | **11,815** | **7** | **13** | **-** | **20** | **0.17** |
| 0.25 to < 0.50% | **7,334** | **1,298** | **29** | **8,661** | **9** | **19** | **-** | **28** | **0.31** |
| 0.50 to < 0.75% | **2,326** | **636** | **22** | **2,984** | **3** | **10** | **-** | **13** | **0.44** |
| 0.75 to < 2.50% | **2,442** | **1,085** | **60** | **3,587** | **10** | **19** | **-** | **29** | **0.82** |
| 2.50 to < 10.00% | **143** | **823** | **70** | **1,036** | **3** | **16** | **-** | **19** | **1.81** |
| 10.00 to < 100% | **1** | **2,875** | **324** | **3,200** | **-** | **71** | **8** | **79** | **2.48** |
| 100% (default) | **-** | **-** | **948** | **948** | **-** | **-** | **67** | **67** | **7.07** |
| **Total** | **178,747** | **10,659** | **1,549** | **190,955** | **66** | **176** | **75** | **317** | **0.17** |

Loan balance and provisions by PD (note i and ii)

| 2020 | Gross balances | | | | Provisions | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(Audited)* | Stage 1 | Stage 2 | Stage 3 and POCI | Total | Stage 1 | Stage 2 | Stage 3 and POCI | Total | Provision coverage |
| PD Range | £m | £m | £m | £m | £m | £m | £m | £m | % |
| 0.00 to < 0.15% | 168,240 | 5,124 | 103 | 173,467 | 33 | 40 | - | 73 | 0.04 |
| 0.15 to < 0.25% | 4,756 | 945 | 23 | 5,724 | 3 | 9 | - | 12 | 0.20 |
| 0.25 to < 0.50% | 2,317 | 477 | 35 | 2,829 | 2 | 7 | - | 9 | 0.29 |
| 0.50 to < 0.75% | 1,227 | 287 | 12 | 1,526 | 1 | 5 | - | 6 | 0.37 |
| 0.75 to < 2.50% | 1,109 | 866 | 54 | 2,029 | 1 | 18 | - | 19 | 0.96 |
| 2.50 to < 10.00% | 105 | 1,102 | 111 | 1,318 | - | 19 | - | 19 | 1.51 |
| 10.00 to < 100% | - | 794 | 203 | 997 | - | 27 | 2 | 29 | 2.97 |
| 100% (default) | - | - | 878 | 878 | - | - | 34 | 34 | 3.80 |
| Total | 177,754 | 9,595 | 1,419 | 188,768 | 40 | 125 | 36 | 201 | 0.11 |

Notes:

i. Includes POCI loans of £148 million (2020: £155 million).

ii. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans or attributed to stages and is therefore excluded from this table. During the year this provision has been assigned across the stages and is reflected in the allocations for 4 April 2021. The additional provision resulted in a 4 April 2020 total provision coverage of 0.13%

## Credit risk – Residential mortgages (continued)

At 4 April 2021, 97% (2020: 98%) of the portfolio had a PD of less than 2.5%, reflecting the high quality of the residential mortgage portfolios. The provisions allocated to the lowest PD range primarily reflect the fact that the majority of loans are in this range. The increase during the year within the 10.00% to 100% band is largely a result of an increase in the PD assigned to the higher risk loans with payment deferrals within the prime portfolio. The reduction in the stage 2 balance within the 0.00% to < 0.15% band is due to lower risk interest only cases within the buy to let and legacy portfolio moving from stage 2 to 1, as described below the residential mortgages staging analysis table on page 152.

**Distribution of new business by borrower type (by value)**

| Distribution of new business by borrower type (by value) (note i) | | |
|---|---|---|
| | **2021** | 2020 |
| | **%** | % |
| Prime: | | |
| First time buyers | **27** | 33 |
| Home movers | **28** | 24 |
| Remortgages | **19** | 20 |
| Other | **1** | 1 |
| **Total prime** | **75** | 78 |
| | | |
| Buy to let: | | |
| Buy to let new purchases | **9** | 6 |
| Buy to let remortgages | **16** | 16 |
| **Total buy to let** | **25** | 22 |
| | | |
| **Total new business** | **100** | 100 |

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

The proportion of lending by borrower type has been impacted by the pandemic with the house purchase market virtually closed during the initial lockdown. Following the lockdown, the housing market recovered strongly but the lower maximum LTV caps that were introduced (see LTV and credit risk concentration below) had a bigger impact on prime than buy to let. This is most evident in the proportion of lending to first time buyers which has reduced to 27% (2020: 33%).

## Credit risk – Residential mortgages (continued)

### LTV and credit risk concentration

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

| LTV distribution of new business (by value) (note i) | 2021 | 2020 |
|---|---|---|
| | % | % |
| 0% to 60% | **26** | 22 |
| 60% to 75% | **36** | 34 |
| 75% to 80% | **7** | 7 |
| 80% to 85% | **17** | 11 |
| 85% to 90% | **12** | 22 |
| 90% to 95% | **2** | 4 |
| Over 95% | **-** | - |
| **Total** | **100** | 100 |

Notes:
i. The LTV of new business excludes further advances and product switches.
ii. The average LTV of loan stock includes both amortised cost and FVTPL balances. There have been no new FVTPL advances during the year.

| Average LTV of new business (by value) (note i) | 2021 | 2020 |
|---|---|---|
| | % | % |
| Prime | **71** | 74 |
| Buy to let | **67** | 65 |
| **Group** | **70** | 72 |

| Average LTV of loan stock (by value) (note ii) | 2021 | 2020 |
|---|---|---|
| | % | % |
| Prime | **55** | 58 |
| Buy to let and legacy | **57** | 59 |
| **Group** | **56** | 58 |

The average LTV of prime new business completed in the period has reduced to 71% (2020: 74%), reflecting the withdrawal from higher LTV lending at the start of the pandemic. The maximum LTV was initially reduced to 85% in April 2020 and has since been increased back to 90% (2020: 95%). The average LTV of buy to let new business increased from 65% to 67% due to higher proportion of loans being originated close to the maximum allowable LTV of 75%. With house price increases during the year, the average indexed LTV of total loan stock has reduced to 56% (2020: 58%).

## Credit risk – Residential mortgages (continued)

### Residential mortgage balances by LTV and region

### Geographical concentration by stage

The following table shows residential mortgages, excluding FVTPL balances, by LTV and region across stages 1 and 2 (non credit-impaired) and stage 3 (credit-impaired).

| Residential mortgage gross balances by LTV and region<br>2021<br>*(Audited)* | Greater London<br>£m | Central England<br>£m | Northern England<br>£m | South East England<br>£m | South West England<br>£m | Scotland<br>£m | Wales<br>£m | Northern Ireland<br>£m | Total<br>£m | Provision Coverage (note i)<br>% |
|---|---|---|---|---|---|---|---|---|---|---|
| **Stage 1 and 2 loans** | | | | | | | | | | |
| Fully collateralised | | | | | | | | | | |
| LTV ratio: | | | | | | | | | | |
| Up to 50% | 24,487 | 12,484 | 9,340 | 8,930 | 6,454 | 3,526 | 1,944 | 995 | 68,160 | 0.06 |
| 50% to 60% | 10,968 | 6,432 | 5,630 | 4,137 | 3,263 | 2,103 | 1,245 | 391 | 34,169 | 0.10 |
| 60% to 70% | 11,326 | 7,119 | 6,351 | 4,653 | 3,653 | 2,427 | 1,311 | 446 | 37,286 | 0.13 |
| 70% to 80% | 9,537 | 6,147 | 5,826 | 4,262 | 3,276 | 2,354 | 1,109 | 469 | 32,980 | 0.18 |
| 80% to 90% | 6,129 | 2,828 | 1,914 | 2,132 | 1,741 | 974 | 359 | 237 | 16,314 | 0.20 |
| 90% to 100% | 118 | 53 | 50 | 14 | 33 | 32 | 3 | 49 | 352 | 2.82 |
| | 62,565 | 35,063 | 29,111 | 24,128 | 18,420 | 11,416 | 5,971 | 2,587 | 189,261 | 0.12 |
| Not fully collateralised | | | | | | | | | | |
| Over 100% LTV | 8 | 4 | 28 | 1 | 2 | 18 | 1 | 83 | 145 | 15.07 |
| *Collateral value* | 7 | 3 | 25 | 1 | 2 | 16 | 1 | 73 | 128 | |
| *Negative equity* | 1 | 1 | 3 | - | - | 2 | - | 10 | 17 | |
| **Total stage 1 and 2 loans** | 62,573 | 35,067 | 29,139 | 24,129 | 18,422 | 11,434 | 5,972 | 2,670 | 189,406 | 0.13 |
| **Stage 3 and POCI loans** | | | | | | | | | | |
| Fully collateralised | | | | | | | | | | |
| LTV ratio: | | | | | | | | | | |
| Up to 50% | 264 | 100 | 86 | 77 | 44 | 24 | 16 | 13 | 624 | 1.72 |
| 50% to 60% | 110 | 60 | 51 | 31 | 31 | 16 | 9 | 5 | 313 | 2.90 |
| 60% to 70% | 67 | 61 | 58 | 28 | 30 | 17 | 12 | 6 | 279 | 4.60 |
| 70% to 80% | 36 | 37 | 51 | 22 | 14 | 15 | 9 | 6 | 190 | 8.15 |
| 80% to 90% | 32 | 11 | 25 | 10 | 7 | 8 | 3 | 5 | 101 | 12.49 |
| 90% to 100% | 2 | 1 | 10 | - | - | 2 | - | 3 | 18 | 26.42 |
| | 511 | 270 | 281 | 168 | 126 | 82 | 49 | 38 | 1,525 | 4.31 |
| Not fully collateralised | | | | | | | | | | |
| Over 100% LTV | 1 | 1 | 5 | 1 | - | 2 | - | 14 | 24 | 41.07 |
| *Collateral value* | 1 | 1 | 4 | 1 | - | 2 | - | 12 | 21 | |
| *Negative equity* | - | - | 1 | - | - | - | - | 2 | 3 | |
| **Total stage 3 and POCI loans** | 512 | 271 | 286 | 169 | 126 | 84 | 49 | 52 | 1,549 | 4.80 |
| **Total residential mortgages** | 63,085 | 35,338 | 29,425 | 24,298 | 18,548 | 11,518 | 6,021 | 2,722 | 190,955 | 0.17 |
| **Total geographical concentrations** | 33% | 19% | 15% | 13% | 10% | 6% | 3% | 1% | 100% | |

Risk report (continued)

## Credit risk – Residential mortgages (continued)

| Residential mortgage gross balances by LTV and region | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | Greater London | Central England | Northern England | South East England | South West England | Scotland | Wales | Northern Ireland | Total | Provision Coverage (note i) |
| *(Audited)* | £m | £m | £m | £m | £m | £m | £m | £m | £m | % |
| Stage 1 and 2 loans | | | | | | | | | | |
| Fully collateralised | | | | | | | | | | |
| LTV ratio: | | | | | | | | | | |
| Up to 50% | 22,883 | 10,946 | 7,695 | 8,033 | 5,713 | 3,040 | 1,606 | 913 | 60,829 | 0.03 |
| 50% to 60% | 10,973 | 6,151 | 4,726 | 4,051 | 3,080 | 1,715 | 1,004 | 373 | 32,073 | 0.06 |
| 60% to 70% | 10,701 | 6,871 | 6,552 | 4,180 | 3,418 | 2,351 | 1,386 | 412 | 35,871 | 0.09 |
| 70% to 80% | 9,018 | 5,659 | 5,593 | 3,795 | 3,030 | 2,466 | 1,085 | 419 | 31,065 | 0.12 |
| 80% to 90% | 8,360 | 4,047 | 3,665 | 3,448 | 2,375 | 1,574 | 666 | 346 | 24,481 | 0.11 |
| 90% to 100% | 764 | 562 | 249 | 386 | 503 | 269 | 46 | 91 | 2,870 | 0.32 |
| | 62,699 | 34,236 | 28,480 | 23,893 | 18,119 | 11,415 | 5,793 | 2,554 | 187,189 | 0.08 |
| Not fully collateralised | | | | | | | | | | |
| Over 100% LTV | 5 | 5 | 16 | 2 | 3 | 6 | - | 123 | 160 | 11.27 |
| *Collateral value* | *4* | *4* | *13* | *2* | *2* | *6* | *-* | *106* | *137* | |
| *Negative equity* | *1* | *1* | *3* | *-* | *1* | *-* | *-* | *17* | *23* | |
| | | | | | | | | | | |
| Total stage 1 and 2 loans | 62,704 | 34,241 | 28,496 | 23,895 | 18,122 | 11,421 | 5,793 | 2,677 | 187,349 | 0.09 |
| Stage 3 and POCI loans | | | | | | | | | | |
| Fully collateralised | | | | | | | | | | |
| LTV ratio: | | | | | | | | | | |
| Up to 50% | 214 | 81 | 70 | 66 | 40 | 20 | 12 | 11 | 514 | 0.73 |
| 50% to 60% | 109 | 48 | 46 | 32 | 26 | 13 | 9 | 4 | 287 | 1.01 |
| 60% to 70% | 52 | 61 | 53 | 31 | 29 | 19 | 8 | 4 | 257 | 1.79 |
| 70% to 80% | 27 | 48 | 55 | 16 | 20 | 17 | 14 | 6 | 203 | 3.51 |
| 80% to 90% | 16 | 13 | 44 | 7 | 5 | 8 | 8 | 3 | 104 | 4.85 |
| 90% to 100% | 2 | 1 | 15 | - | - | 3 | 1 | 5 | 27 | 15.46 |
| | 420 | 252 | 283 | 152 | 120 | 80 | 52 | 33 | 1,392 | 1.99 |
| Not fully collateralised | | | | | | | | | | |
| Over 100% LTV | - | 1 | 4 | 1 | - | 1 | 1 | 19 | 27 | 32.00 |
| *Collateral value* | *-* | *1* | *3* | *1* | *-* | *1* | *1* | *16* | *23* | |
| *Negative equity* | *-* | *-* | *1* | *-* | *-* | *-* | *-* | *3* | *4* | |
| | | | | | | | | | | |
| Total stage 3 and POCI loans | 420 | 253 | 287 | 153 | 120 | 81 | 53 | 52 | 1,419 | 2.57 |
| Total residential mortgages | 63,124 | 34,494 | 28,783 | 24,048 | 18,242 | 11,502 | 5,846 | 2,729 | 188,768 | 0.11 |
| Total geographical concentrations | 34% | 18% | 15% | 13% | 10% | 6% | 3% | 1% | 100% | |

Note:
i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £51 million was included in the impairment provisions for residential mortgages at 4 April 2020. This additional provision was not allocated to underlying loans or attributed to stages and is therefore excluded from this table. During the year this provision has been assigned across the stages and is reflected in the allocations for the year.

Risk report (continued)

# Credit risk – Residential mortgages (continued)

Over the year, the geographical distribution of residential mortgages across the UK has remained stable, with the highest concentration continuing to be in Greater London, at 33% of the total (2020: 34%).

In addition to balances held at amortised cost shown in the table above, there are £68 million (2020: £71 million) of residential mortgages held at FVTPL which have an average LTV of 38% (2020: 39%). The largest geographical concentration within the FVTPL balances is also in Greater London, at 54% (2020: 49%).

**Arrears and possessions**

Residential mortgage lending continues to have a low risk profile as demonstrated by the low level of arrears compared to the industry average:

| Number of cases more than 3 months in arrears as % of total book (note i) | | |
|---|---|---|
| | **2021** | 2020 |
| | **%** | % |
| Prime | **0.35** | 0.33 |
| Buy to let and legacy | **0.72** | 0.74 |
| **Total** | **0.43** | 0.41 |
| | | |
| **UK Finance (UKF) industry average** | **0.85** | 0.74 |

Note:

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

| Number of properties in possession as % of total book | | | | |
|---|---|---|---|---|
| | **2021** | | 2020 | |
| | **Number of properties** | **%** | Number of properties | % |
| Prime | **33** | **0.00** | 98 | 0.01 |
| Buy to let and legacy | **51** | **0.01** | 150 | 0.05 |
| **Total** | **84** | **0.00** | 248 | 0.02 |
| | | | | |
| **UKF industry average** | | **0.01** | | 0.03 |

During the year, the proportion of cases more than 3 months in arrears has increased to 0.43% (2020: 0.41%). Whilst payment deferrals have helped supress the flow of cases into arrears, the ability of some borrowers to recover from arrears has slowed given the pressures on income. In addition, cases have remained in arrears as a result of the suspended flow of cases from arrears to possessions following the introduction of Nationwide's Home Support Package, which included flexibility for mortgage repayments and a pledge for no repossessions before 31 May 2021. Another factor explaining the increase in the number of cases more than 3 months in arrears is that under the UKF definition, as monthly payments reduced following the reduction in bank base rate from 0.75% to 0.1%, the arrears balance on mortgages linked to bank base rate will now represent a greater number of monthly payments.

## Credit risk – Residential mortgages (continued)

### Residential mortgages by payment status

The following table shows the payment status of all residential mortgages.

| Residential mortgages gross balances by payment status | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Prime | Buy to let and legacy | Total | | Prime | Buy to let and legacy | Total | |
| *(Audited)* | £m | £m | £m | % | £m | £m | £m | % |
| Not past due | 148,285 | 40,460 | 188,745 | 98.8 | 149,387 | 36,684 | 186,071 | 98.5 |
| Past due 0 to 1 month | 842 | 278 | 1,120 | 0.6 | 1,062 | 356 | 1,418 | 0.8 |
| Past due 1 to 3 months | 259 | 159 | 418 | 0.2 | 311 | 307 | 618 | 0.3 |
| Past due 3 to 6 months | 149 | 121 | 270 | 0.2 | 177 | 142 | 319 | 0.2 |
| Past due 6 to 12 months | 113 | 108 | 221 | 0.1 | 112 | 109 | 221 | 0.1 |
| Past due over 12 months | 123 | 113 | 236 | 0.1 | 82 | 81 | 163 | 0.1 |
| Possessions | 3 | 10 | 13 | - | 9 | 20 | 29 | - |
| **Total residential mortgages** | 149,774 | 41,249 | 191,023 | 100 | 151,140 | 37,699 | 188,839 | 100 |

The balance of cases past due by up to 3 months has decreased to £1,538 million (2020: £2,036 million). Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes and an adjustment has therefore been made to recognise the underlying risk, retaining provisions of £21 million which would have otherwise been released.

The balance of cases past due by more than 12 months has increased to £236 million (2020: £163 million); this is principally due to the possession moratorium. The moratorium will remain in place until the end of May 2021 and has reduced possession balances to £13 million (2020: £29 million).

### Interest only mortgages

Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a subsequent change in terms to an interest only basis was agreed. Maturities on interest only mortgages are managed closely, engaging regularly with borrowers to ensure the loan is redeemed or to agree a strategy for repayment. 90% of the buy to let and legacy portfolio relate to interest only balances (2020: 89%) and buy to let remains open to new interest only lending under standard terms. Nationwide also re-entered the prime market for interest only lending under a newly established credit policy in April 2020.

## Credit risk – Residential mortgages (continued)

| Interest only mortgages (gross balance) – term to maturity (note i) | Term expired (still open) | Due within one year | Due after one year and before two years | Due after two years and before five years | Due after more than five years | Total | % of book |
|---|---|---|---|---|---|---|---|
| **2021** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **%** |
| Prime | **74** | **303** | **357** | **1,256** | **6,757** | **8,747** | **5.8** |
| Buy to let and legacy | **175** | **271** | **338** | **1,360** | **34,963** | **37,107** | **90.0** |
| **Total** | **249** | **574** | **695** | **2,616** | **41,720** | **45,854** | **24.0** |
| | | | | | | | |
| 2020 | £m | £m | £m | £m | £m | £m | % |
| Prime | 68 | 258 | 370 | 1,412 | 7,726 | 9,834 | 6.5 |
| Buy to let and legacy | 134 | 211 | 334 | 1,236 | 31,737 | 33,652 | 89.3 |
| Total | 202 | 469 | 704 | 2,648 | 39,463 | 43,486 | 23.0 |

Note:
i. Balances subject to forbearance with agreed term extensions are presented based on the latest agreed contractual term.

Interest only loans that are term expired (still open) are not considered to be past due where contractual interest payments continue to be met, pending renegotiation of the facility. These loans are, however, treated as credit impaired and categorised as stage 3 balances from three months after the maturity date.

**Forbearance**

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. In addition, we are supporting borrowers financially affected by the Covid-19 pandemic. Further details of this support are provided at the end of this forbearance section.

The Group applies the European Banking Authority (EBA) definition of forbearance.

The following concession events are included within the forbearance reporting for residential mortgages:

***Past term interest only concessions***

Nationwide works with borrowers who are unable to repay the capital at term expiry of their interest only mortgage. Where a borrower is unable to renegotiate the facility within six months of maturity, but no legal enforcement is pursued, the account is considered forborne. Should another concession event such as a term extension occur within the six month period, this is also classed as forbearance.

***Interest only concessions***

Where a temporary interest only concession is granted the loans do not accrue arrears for the period of the concession and these loans are categorised as impaired.

***Capitalisation***

When a borrower emerges from financial difficulty, provided they have made at least six full monthly instalments, they are offered the option to capitalise arrears. This results in the account being repaired and the loans are categorised as not impaired provided contractual repayments are maintained.

## Credit risk – Residential mortgages (continued)

***Capitalisation – temporary suspension of payments following notification of death of a borrower***

On notification of death, we offer a 12 month capitalisation concession to allow time for the estate to redeem the account. The loan does not accrue arrears for the period of the concession although interest will continue to be added. Accounts subject to this concession will be classed as forborne if the full contractual payment is not received.

***Term extensions (within term)***

Customers in financial difficulty may be allowed to extend the term of their mortgage. On a capital repayment mortgage this will reduce their monthly commitment; interest only borrowers will benefit by having a longer period to repay the capital at maturity.

***Permanent interest only conversions***

In the past, some borrowers in financial difficulty were granted a permanent interest only conversion, normally reducing their monthly commitment. This facility was withdrawn in March 2012; it remains available for buy to let lending in line with Nationwide's new business credit policy.

The table below provides details of residential mortgages held at amortised cost subject to forbearance. Accounts that are currently subject to forbearance are assessed as in either stage 2 or stage 3:

| **Gross balances subject to forbearance (note i)** | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Prime** | **Buy to let and legacy** | **Total** | Prime | Buy to let and legacy | Total |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Past term interest only (note ii) | **126** | **123** | **249** | 117 | 120 | 237 |
| Interest only concessions | **725** | **41** | **766** | 533 | 48 | 581 |
| Capitalisation | **71** | **37** | **108** | 75 | 42 | 117 |
| Capitalisation – notification of death of borrower (note iii) | **103** | **91** | **194** | 156 | 70 | 226 |
| Term extensions (within term) | **35** | **15** | **50** | 34 | 13 | 47 |
| Permanent interest only conversions | **2** | **41** | **43** | 2 | 35 | 37 |
| **Total forbearance** (note iv) | **1,062** | **348** | **1,410** | 917 | 328 | 1,245 |
| | | | | | | |
| Of which stage 2 | **200** | **66** | **266** | 160 | 53 | 213 |
| Of which stage 3 | **635** | **258** | **893** | 472 | 188 | 660 |
| | | | | | | |
| **Impairment provisions on forborne loans** | **19** | **18** | **37** | 5 | 12 | 17 |

Notes:

i. Where more than one concession event has occurred, balances are reported under the latest event.

ii. Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.

iii. The prior period comparative for Capitalisation - notification of death of borrower has been restated for buy to let and legacy lending, increasing the balance by £10 million to £70 million.

iv. For loans subject to concession events, accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months.

## Credit risk – Residential mortgages (continued)

Over the year, total balances subject to forbearance have increased to £1,410 million (2020: £1,245 million) driven largely by interest only concessions which accounts for the increase in stage 3 balances. Interest only concession balances have increased as some borrowers require further support following the expiry of their second payment deferral. However, this proportion is low with only 1% of borrowers exiting a payment deferral currently having gone on to take an interest only concession.

The average LTV for forborne accounts is 50% (2020: 50%).

In addition to the amortised cost balances above, there are £68 million FVTPL balances (2020: £71 million), of which £8 million (2020: £9 million) are forborne.

***Support for borrowers impacted by Covid-19***

Payment deferrals continue to be offered to impacted borrowers in accordance with regulatory guidance; in isolation these payment deferrals are not recorded as forbearance and do not automatically have an impact on the default status of borrowers. For borrowers who continue to need financial support after completion of a payment deferral period, Nationwide offers tailored concessions. Under regulatory guidance, where these concessions are not arrears-bearing they are treated as forbearance and are included, as applicable, in the reported staging balance. The following table shows the value of residential mortgages with a payment deferral related to Covid-19, showing total deferrals granted and those still in place at year end.

**Payment and interest deferrals granted due to Covid-19**

| | **4 April 2021** | | 4 April 2020 |
|---|---|---|---|
| ***(Audited)*** | **Payment deferrals granted to date** | **Payment deferrals outstanding** | Payment deferrals outstanding |
| **Prime** | | | |
| Number of properties (000s) | **211** | **8** | 167 |
| Balance (£m) | **26,919** | **1,151** | 23,541 |
| *Share of book, balance (%)* | ***18%*** | ***1%*** | *16%* |
| *Weighted average LTV (%)* | ***59%*** | ***61%*** | *63%* |
| | | | |
| **Buy to let and legacy** | | | |
| Number of properties (000s) | **45** | **1** | 37 |
| Balance (£m) | **5,968** | **208** | 5,037 |
| *Share of book, balance (%)* | ***15%*** | ***1%*** | *13%* |
| *Weighted average LTV (%)* | ***59%*** | ***60%*** | *61%* |
| | | | |
| **Total Residential** | | | |
| Number of properties (000s) | **256** | **9** | 204 |
| Balance (£m) | **32,887** | **1,359** | 28,578 |
| *Share of book, balance (%)* | ***17%*** | ***1%*** | *15%* |
| *Weighted average LTV (%)* | ***59%*** | ***61%*** | *62%* |

The outstanding balances of borrowers on a payment deferral have reduced to 1% (2020: 15%) of the total portfolio. The majority of the payment deferrals which have expired to date have resumed payments. For residential mortgages, a provision of £36 million (2020: £22 million) has been recognised in respect of Covid-19 payment deferrals; this includes payment deferrals taken during the period that have since expired but where risk is judged to remain elevated.

# Credit risk – Consumer banking

**Summary**

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. Over the year, total balances across these portfolios have decreased by £590 million to £4,404 million (2020: £4,994 million), equating to a 12% reduction. The reduction in balances primarily reflects lower customer spending during the Covid-19 pandemic, as well as reduced customer demand for new borrowing and the implementation of controls that reduce new lending in response to the increased risk arising from Covid-19.

To date arrears remain low and credit quality is stable; however, this performance has benefited from the impact of government support schemes, payment deferrals and the low base rate environment.

| **Consumer banking gross balances** | | | | |
|---|---|---|---|---|
| | **2021** | | 2020 | |
| ***(Audited)*** | **£m** | **%** | £m | % |
| Overdrawn current accounts | **233** | **5** | 280 | 5 |
| Personal loans | **2,797** | **64** | 3,030 | 61 |
| Credit cards | **1,374** | **31** | 1,684 | 34 |
| **Total consumer banking** | **4,404** | **100** | 4,994 | 100 |

All consumer banking loans are classified and measured at amortised cost.

| **Impairment losses and write-offs for the year** | | |
|---|---|---|
| | **2021** | 2020 |
| ***(Audited)*** | **£m** | £m |
| Overdrawn current accounts | **19** | 21 |
| Personal loans | **76** | 82 |
| Credit cards | **30** | 56 |
| **Total impairment losses** | **125** | 159 |
| | | |
| | **%** | % |
| **Impairment charge as a % of average gross balance** | **2.68** | 3.27 |
| | | |
| | **£m** | £m |
| **Gross write-offs** | **124** | 87 |

Impairment losses for the year include the impact of updating macroeconomic assumptions and weightings to reflect the impact of the Covid-19 pandemic; further details are included in note 10 of the financial statements. Updates to the severe downside scenario assumptions increased provisions by £20 million in the year, primarily in relation to personal loans. Another factor in the charge for impairment losses is the number of loans with payment deferrals and interest holidays granted in the year; provisions against these loans total £38 million (2020: £17 million). The performance of those loans where the concession has ended remains in line with our expectations. The prior year impairment losses included a £43 million charge reflecting the estimated impact of Covid-19 at 4 April 2020.

Risk report (continued)

## Credit risk – Consumer banking (continued)

The following table shows consumer banking balances by stage, with the corresponding impairment provisions and resulting provision coverage ratios:

**Consumer banking product and staging analysis**

| | 2021 | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Additional provision (note i) | Total |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m | £m |
| **Gross balances** | | | | | | | | | |
| Overdrawn current accounts | **121** | **78** | **34** | **233** | 149 | 89 | 42 | - | 280 |
| Personal loans | **2,144** | **521** | **132** | **2,797** | 2,597 | 296 | 137 | - | 3,030 |
| Credit cards | **876** | **391** | **107** | **1,374** | 1,111 | 442 | 131 | - | 1,684 |
| **Total** | **3,141** | **990** | **273** | **4,404** | 3,857 | 827 | 310 | - | 4,994 |
| | | | | | | | | | |
| **Provisions** | | | | | | | | | |
| Overdrawn current accounts | **5** | **23** | **32** | **60** | 2 | 17 | 37 | 3 | 59 |
| Personal loans | **25** | **77** | **118** | **220** | 15 | 33 | 119 | 23 | 190 |
| Credit cards | **18** | **108** | **96** | **222** | 15 | 91 | 122 | 17 | 245 |
| **Total** | **48** | **208** | **246** | **502** | 32 | 141 | 278 | 43 | 494 |
| | | | | | | | | | |
| **Provisions as a % of total balance** | **%** | **%** | **%** | **%** | % | % | % | % | % |
| Overdrawn current accounts | 3.89 | 29.38 | 93.36 | 25.64 | 1.75 | 19.06 | 87.02 | - | 21.21 |
| Personal loans | 1.18 | 14.81 | 89.06 | 7.87 | 0.56 | 11.15 | 86.78 | - | 6.27 |
| Credit cards | 2.00 | 27.68 | 89.99 | 16.13 | 1.33 | 20.67 | 92.86 | - | 14.55 |
| **Total** | 1.51 | 21.04 | 89.97 | 11.39 | 0.82 | 17.09 | 89.39 | - | 9.90 |

Note:
i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million was included in the impairment provisions for consumer banking at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not been attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 4 April 2021.

At 4 April 2021, 71% (2020: 77%) of the consumer banking portfolio is in stage 1. This reduction is largely the result of a change to our staging criteria from a multiple of 4 times origination PD to a multiple of 2, thus making the models more sensitive to relative PD changes over time. This change resulted in an increase in the proportion of stage 2 balances to 23% (2020: 17%), with no significant impact on provisions given the strong quality of the loans affected. The proportion of total balances in stage 3 is unchanged at 6% (2020: 6%), reflecting broadly stable underlying credit performance. The increase in provisions to £502 million (2020: £494 million) is due to the uncertain economic outlook and how the impact of the Covid-19 pandemic is reflected in the economic scenarios used to model expected credit losses.

Risk report (continued)

## Credit risk – Consumer banking (continued)

Consumer banking stage 3 gross balances and provisions include charged off balances. These are accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months) whilst recovery activities take place. Excluding these charged off balances and related provisions, provisions amount to 7.2% (2020: 5.7%) of gross balances.

The table below summarises the movements in the Group's consumer banking balances held at amortised cost. The movements within the table are an aggregation of monthly movements over the year.

**Reconciliation of movements in gross consumer banking balances and impairment provisions**

| | Non-credit impaired | | | | Credit impaired | | | |
|---|---|---|---|---|---|---|---|---|
| | Subject to 12-month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| ***(Audited)*** | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2020 (note i) | 3,857 | 32 | 827 | 141 | 310 | 278 | 4,994 | 494 |
| | | | | | | | | |
| **Stage transfers:** | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | (1,960) | (46) | 1,960 | 46 | - | - | - | - |
| Transfers to Stage 3 | (10) | - | (118) | (87) | 128 | 87 | - | - |
| Transfers from Stage 2 to Stage 1 | 1,506 | 219 | (1,506) | (219) | - | - | - | - |
| Transfers from Stage 3 | 2 | 2 | 17 | 13 | (19) | (15) | - | - |
| Net remeasurement of ECL arising from transfer of stage | | (161) | | 230 | | 9 | | 78 |
| **Net movement arising from transfer of stage** | (462) | 14 | 353 | (17) | 109 | 81 | - | 78 |
| | | | | | | | | |
| New assets originated or purchased | 1,611 | 35 | - | - | - | - | 1,611 | 35 |
| Net impact of further lending and repayments | (1,210) | (50) | (29) | (29) | (17) | (19) | (1,256) | (98) |
| Changes in risk parameters in relation to credit quality | - | 17 | - | 118 | - | 31 | - | 166 |
| Other items impacting income statement charge/(reversal) (including recoveries) | - | - | - | - | - | (6) | - | (6) |
| Redemptions | (655) | - | (161) | (5) | (5) | (2) | (821) | (7) |
| Removal of year-end additional provision for Covid-19 (note i) | | | | | | | | (43) |
| Income statement charge for the year | | | | | | | | 125 |
| Decrease due to write-offs | - | - | - | - | (124) | (124) | (124) | (124) |
| Other provision movements | - | - | - | - | - | 7 | - | 7 |
| **4 April 2021** | 3,141 | 48 | 990 | 208 | 273 | 246 | 4,404 | 502 |
| **Net carrying amount** | | 3,093 | | 782 | | 27 | | 3,902 |

Risk report (continued)

## Credit risk – Consumer banking (continued)

| Reconciliation of movements in gross consumer banking balances and impairment provisions | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-credit impaired | | | | Credit impaired | | | |
| | Subject to 12-month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| *(Audited)* | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2019 | 3,538 | 27 | 761 | 132 | 287 | 259 | 4,586 | 418 |
| | | | | | | | | |
| Stage transfers: | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | (1,505) | (25) | 1,505 | 25 | - | - | - | - |
| Transfers to Stage 3 | (15) | - | (141) | (79) | 156 | 79 | - | - |
| Transfers from Stage 2 to Stage 1 | 1,334 | 160 | (1,334) | (160) | - | - | - | - |
| Transfers from Stage 3 | 2 | 2 | 14 | 10 | (16) | (12) | - | - |
| Net remeasurement of ECL arising from transfer of stage | | (132) | | 189 | | 29 | | 86 |
| Net movement arising from transfer of stage | (184) | 5 | 44 | (15) | 140 | 96 | - | 86 |
| | | | | | | | | |
| New assets originated or purchased | 2,248 | 26 | - | - | - | - | 2,248 | 26 |
| Net impact of further lending and repayments | (1,123) | (23) | 77 | (11) | (27) | (16) | (1,073) | (50) |
| Changes in risk parameters in relation to credit quality | - | (3) | - | 38 | - | 28 | - | 63 |
| Other items impacting income statement charge/(reversal) (including recoveries) | 1 | - | - | - | (1) | (4) | - | (4) |
| Redemptions | (623) | - | (55) | (3) | (2) | (2) | (680) | (5) |
| Income statement charge for the year | | | | | | | | 43 |
| Additional provision for Covid-19 (note i) | | | | | | | | 159 |
| Decrease due to write-offs | - | - | - | - | (87) | (87) | (87) | (87) |
| Other provision movements | - | - | - | - | - | 4 | - | 4 |
| 4 April 2020 (note i) | 3,857 | 32 | 827 | 141 | 310 | 278 | 4,994 | 494 |
| Net carrying amount | | 3,825 | | 686 | | 32 | | 4,500 |

Note:

i. At 4 April 2020, an additional provision for credit losses of £43 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the year, this provision has been allocated to underlying loans and is reflected in the movements within the table and the 4 April 2021 position.

The change to the staging criteria from a multiple of 4 times origination PD to a multiple of 2 drove the increase in the proportion of stage 2 balances to 23% (2020: 17%). As the staging of individual loans is assessed monthly, the gross movements between stages 1 and 2 include the cumulative impact of transfers caused by changes in PD leading to the loans breaching the criteria for transferring assets to stage 2 and vice versa.

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 14 to the financial statements.

# Credit risk – Consumer banking (continued)

| **Reason for consumer banking balances being included in stage 2 (note i)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2021** | **Overdrawn current accounts** | | **Personal loans** | | **Credit cards** | | **Total** | |
| | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Quantitative criteria:** | | | | | | | | |
| Payment status (greater than 30 DPD) (note ii) | **3** | **2** | **6** | **5** | **4** | **3** | **13** | **10** |
| Increase in PD since origination (less than 30 DPD) | **66** | **20** | **510** | **72** | **364** | **101** | **940** | **193** |
| | | | | | | | | |
| **Qualitative criteria:** | | | | | | | | |
| Forbearance (less than 30 DPD) (note iii) | **1** | **-** | **-** | **-** | **-** | **-** | **1** | **-** |
| Other qualitative criteria (less than 30 DPD) | **8** | **1** | **5** | **-** | **23** | **4** | **36** | **5** |
| | | | | | | | | |
| **Total Stage 2 gross balances** | **78** | **23** | **521** | **77** | **391** | **108** | **990** | **208** |

| Reason for consumer banking balances being included in stage 2 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2020 | Overdrawn current accounts | | Personal loans | | Credit cards | | Total | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Quantitative criteria: | | | | | | | | |
| Payment status (greater than 30 DPD) (note ii) | 4 | 3 | 12 | 5 | 7 | 5 | 23 | 13 |
| Increase in PD since origination (less than 30 DPD) | 74 | 13 | 278 | 28 | 399 | 78 | 751 | 119 |
| | | | | | | | | |
| Qualitative criteria: | | | | | | | | |
| Forbearance (less than 30 DPD) (note iii) | 2 | - | - | - | - | - | 2 | - |
| Other qualitative criteria (less than 30 DPD) | 9 | 1 | 6 | - | 36 | 8 | 51 | 9 |
| | | | | | | | | |
| Total Stage 2 gross balances | 89 | 17 | 296 | 33 | 442 | 91 | 827 | 141 |

Notes:

i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million was included in the impairment provisions for consumer banking at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 4 April 2021.

ii. This category includes all loans greater than 30 DPD, including those whose original reason for being classified as stage 2 was not arrears over 30 DPD.

iii. Stage 2 forbearance relates to cases where full repayment of principal and interest is still anticipated.

Balances reported within stage 2 are those which have experienced a significant increase in credit risk since origination. The significant increase is determined through both quantitative and qualitative indicators. Of the £990 million stage 2 balances (2020: £827 million), only 1% (2020: 3%) are in arrears by 30 days or more, with the majority of balances in stage 2 due to an increase in

## Credit risk – Consumer banking (continued)

PD since origination. The increase in personal loans stage 2 balances is largely the result of a change to staging criteria from a multiple of 4 times origination PD to a multiple of 2, thus making the models more sensitive to relative PD changes over time. The reductions in credit cards and overdrawn current accounts are consistent with the reduction in total balances for these products in the year.

The table below outlines the main criteria used to determine whether a significant increase in credit risk since origination has occurred.

| Criteria | Detail |
|---|---|
| Quantitative | The primary quantitative indicators are the outputs of internal credit risk assessments. For consumer banking exposures, PDs are derived using scorecards, which use external information such as that from credit reference agencies, as well as internal information such as known instances of arrears or other financial difficulty. While different approaches are used within each portfolio, current and historical data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default. 12-month and lifetime PDs are calculated for each loan.<br><br>The 12-month and lifetime PDs are compared to pre-determined benchmarks at each reporting date to ascertain whether a relative or absolute increase in credit risk has occurred. The indicators for a significant increase in credit risk are:<br><br>• Absolute measures:<br>- The 12-month PD exceeds the benchmark 12-month PD that is indicative, at the assessment date, of an account being in arrears.<br>- The residual lifetime PD exceeds the benchmark residual lifetime PD, set at inception, which represents the maximum credit risk that would have been accepted at that point.<br><br>• Relative measure:<br>- The residual lifetime PD has increased by at least 75 basis points and a multiple of 2 (2020: 4x multiple). |
| Qualitative | Qualitative criteria include both forbearance events and, within the credit card portfolio, recognition of the risk related to borrowers in persistent debt. |
| Backstop | In addition to the primary criteria for stage allocation described above, accounts that are more than 30 days past due are also transferred to stage 2. |

# Credit risk – Consumer banking (continued)

### Credit quality

Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising from the portfolio.

The following table shows gross balances and provisions for consumer banking balances held at amortised cost, by PD range. The PD distributions shown are based on a 12-month IFRS 9 PDs at the reporting date.

**Consumer banking gross balances and provisions by PD (note i)**

| **2021** | **Gross balances** | | | | **Provisions** | | | | **Provision** |
|---|---|---|---|---|---|---|---|---|---|
| ***(Audited)*** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **coverage** |
| **PD range** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **%** |
| 0.00 to <0.15% | **913** | **3** | **-** | **916** | **9** | **-** | **-** | **9** | **1.01** |
| 0.15 to < 0.25% | **361** | **21** | **-** | **382** | **4** | **1** | **-** | **5** | **1.30** |
| 0.25 to < 0.50% | **614** | **79** | **-** | **693** | **6** | **6** | **-** | **12** | **1.73** |
| 0.50 to < 0.75% | **303** | **84** | **-** | **387** | **4** | **6** | **-** | **10** | **2.66** |
| 0.75 to < 2.50% | **682** | **297** | **1** | **980** | **13** | **31** | **-** | **44** | **4.53** |
| 2.50 to < 10.00% | **261** | **302** | **3** | **566** | **11** | **54** | **-** | **65** | **11.54** |
| 10.00 to < 100% | **7** | **204** | **12** | **223** | **1** | **110** | **5** | **116** | **51.57** |
| 100% (default) | **-** | **-** | **257** | **257** | **-** | **-** | **241** | **241** | **93.57** |
| **Total** | **3,141** | **990** | **273** | **4,404** | **48** | **208** | **246** | **502** | **11.39** |

Consumer banking gross balances and provisions by PD

| 2020 | Gross balances | | | | Provisions | | | | Provision |
|---|---|---|---|---|---|---|---|---|---|
| *(Audited)* | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | coverage |
| PD range | £m | £m | £m | £m | £m | £m | £m | £m | % |
| 0.00 to <0.15% | 934 | 4 | - | 938 | 3 | - | - | 3 | 0.36 |
| 0.15 to < 0.25% | 479 | 6 | - | 485 | 2 | - | - | 2 | 0.40 |
| 0.25 to < 0.50% | 719 | 19 | - | 738 | 3 | 1 | - | 4 | 0.61 |
| 0.50 to < 0.75% | 376 | 26 | - | 402 | 2 | 2 | - | 4 | 1.05 |
| 0.75 to < 2.50% | 970 | 205 | - | 1,175 | 11 | 18 | - | 29 | 2.44 |
| 2.50 to < 10.00% | 371 | 378 | 1 | 750 | 10 | 54 | - | 64 | 8.47 |
| 10.00 to < 100% | 8 | 189 | 4 | 201 | 1 | 66 | 3 | 70 | 34.51 |
| 100% (default) | - | - | 305 | 305 | - | - | 275 | 275 | 90.28 |
| Total | 3,857 | 827 | 310 | 4,994 | 32 | 141 | 278 | 451 | 9.02 |

Note:

i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £43 million was included in the impairment provisions for consumer banking at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. During the reporting period this provision has been assigned across the stages and is reflected in the allocations for 4 April 2021.

The credit quality of the consumer banking portfolio has remained stable with 89% of the portfolio (2020: 90%) considered good quality with a PD of less than 10%.

Risk report (continued)

# Credit risk – Consumer banking (continued)

### Consumer banking balances by payment due status

Credit risk in the consumer banking portfolios is primarily monitored and reported based on arrears status which is set out below.

**Consumer banking gross balances by payment due status**

| | 2021 | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Overdrawn current accounts** | **Personal loans** | **Credit cards** | **Total** | | Overdrawn current accounts | Personal loans | Credit cards | Total | |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | **%** | £m | £m | £m | £m | % |
| Not past due | **189** | **2,616** | **1,259** | **4,064** | **92.3** | 226 | 2,830 | 1,528 | 4,584 | 91.8 |
| Past due 0 to 1 month | **9** | **34** | **11** | **54** | **1.2** | 11 | 53 | 23 | 87 | 1.7 |
| Past due 1 to 3 months | **3** | **10** | **8** | **21** | **0.5** | 5 | 12 | 13 | 30 | 0.6 |
| Past due 3 to 6 months | **3** | **16** | **7** | **26** | **0.6** | 4 | 11 | 9 | 24 | 0.5 |
| Past due 6 to 12 months | **2** | **11** | **2** | **15** | **0.3** | 3 | 14 | 2 | 19 | 0.4 |
| Past due over 12 months | **3** | **12** | **-** | **15** | **0.3** | 3 | 12 | - | 15 | 0.3 |
| Charged off (note i) | **24** | **98** | **87** | **209** | **4.8** | 28 | 98 | 109 | 235 | 4.7 |
| **Total** | **233** | **2,797** | **1,374** | **4,404** | **100** | 280 | 3,030 | 1,684 | 4,994 | 100 |

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

Total balances subject to arrears, excluding charged off balances, have reduced to £131 million (2020: £175 million), representing 3.1% (2020: 3.7%) of the total balance excluding charged off balances. The arrears performance has benefited from Covid-19 government support schemes and payment deferrals, as well as reduced spending on current account and credit cards. It is management's judgement that the arrears reduction is temporary and therefore this improvement in portfolio performance has not been reflected within the provisions at 4 April 2021.

### Forbearance

Nationwide is committed to supporting customers facing financial difficulty, including those impacted by Covid-19, by working with them to find a solution through proactive arrears management and forbearance.

The Group applies the European Banking Authority definition of forbearance.

The following concession events are included within the forbearance reporting for consumer banking:

***Payment concession***

This concession consists of reduced monthly payments over an agreed period and may be offered to customers with an overdraft or credit card. For credit cards subject to such a concession, arrears do not increase provided the payments are made.

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## Credit risk – Consumer banking (continued)

***Interest suppressed payment arrangement***

This temporary interest payment concession results in reduced monthly payments and may be offered to customers with an overdraft, credit card or personal loan. Interest payments and fees are suppressed during the period of the concession and arrears do not increase. Cases subject to this concession are classified as impaired.

***Balances re-aged/re-written***

As customers repay their debt in line with the terms of their new arrangement, their accounts are re-aged, bringing them into an up-to-date and performing position. For personal loans we will re-write the loan to extend the term and thus maintain a reduced monthly payment. For credit cards we re-age the account and set the payment status to 'up-to-date', at which point the customer is treated in the same way as any other performing account.

The table below provides details of consumer banking balances subject to forbearance. Accounts that are currently subject to a concession are all assessed as either stage 2, or stage 3 (credit-impaired) where full repayment of principal and interest is no longer anticipated.

| **Gross balances subject to forbearance (note i)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2021** | | | | 2020 | | | |
| | **Overdrawn current accounts** | **Personal loans** | **Credit cards** | **Total** | Overdrawn current accounts | Personal loans | Credit cards | Total |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| Payment concession | **7** | **-** | **1** | **8** | 14 | - | 1 | 15 |
| Interest suppressed payment concession | **6** | **42** | **13** | **61** | 7 | 39 | 15 | 61 |
| Balance re-aged/re-written | **-** | **1** | **2** | **3** | - | 1 | 3 | 4 |
| **Total forbearance** | **13** | **43** | **16** | **72** | 21 | 40 | 19 | 80 |
| | | | | | | | | |
| Of which stage 2 | **5** | **2** | **4** | **11** | 11 | 4 | 3 | 18 |
| Of which stage 3 | **7** | **41** | **12** | **60** | 9 | 31 | 15 | 55 |
| | | | | | | | | |
| **Impairment provisions on forborne loans** | **8** | **31** | **11** | **50** | 12 | 27 | 13 | 52 |

Note:
i. Where more than one concession event has occurred, balances are reported under the latest event.

Over the year, total balances subject to forbearance have reduced to £72 million (2020: £80 million), with forborne balances as a percentage of the total consumer banking lending remaining stable at 1.6% (2020: 1.6%). The balance reduction is likely to be temporary as borrowers have utilised payment deferrals as a method of support during the pandemic. These payment deferrals are not reported as forbearance. The forbearance position has not increased as most customers have not required immediate further support following the expiry of their payment deferral.

## Credit risk – Consumer banking (continued)

***Support for borrowers impacted by Covid-19***

The ongoing impact of Covid-19 continues to be a concern for our consumer banking customers, and for those financially impacted we have offered additional help and continued support in these challenging times.

In response to Covid-19, and in accordance with regulatory guidance, Nationwide has been offering payment deferrals on credit cards and personal loans, as well as interest holidays on current accounts, since March 2020. For borrowers applying for an initial payment deferral, the deadline for applications was March 2021; payment deferrals can be taken beyond this point if they are consecutive, but all must end by July 2021.

In line with Financial Conduct Authority (FCA) guidance during the period, no arrears or forbearance will be reported on the customer's credit file as a result of these measures. In isolation these concessions are not reported as forbearance and do not automatically impact the reported stage allocation.

The following table shows the value of consumer credit products with a payment deferral or using an interest-free period related to Covid-19.

**Gross balances subject to a payment deferral or interest holiday due to Covid-19**

| | **2021** | | | | 2020 | |
|---|---|---|---|---|---|---|
| | **Granted to date** | | **Outstanding** (note i) | | Outstanding (note i) | |
| ***(Audited)*** | **£m** | **Percentage of gross balance %** | **£m** | **Percentage of gross balance %** | £m | Percentage of gross balance % |
| **Payment deferral** | | | | | | |
| Personal Loans | **301** | **11** | **20** | **1** | 225 | 7 |
| Credit Cards | **85** | **6** | **7** | **1** | 64 | 4 |
| **Interest holiday** | | | | | | |
| Current Accounts | **20** | **9** | **-** | **-** | 8 | 3 |
| **Total** | **406** | **9** | **27** | **1** | 297 | 6 |

Note:
i. Includes consumer credit products with a payment deferral or using an interest-free period related to Covid-19 as used in the calculation of expected credit losses.

The outstanding balances of borrowers on a payment deferral have reduced to 1% (2020: 6%). The majority of customers have not required immediate further support following the expiry of their payment deferral. For consumer banking, provisions include £38 million (2020: £17 million) in respect of Covid-19 payment deferrals and interest holidays.

# Credit risk – Commercial

## Summary

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, commercial real estate investors and project finance initiatives. The commercial real estate and project finance portfolios are closed to new business.

Nationwide continues to support commercial borrowers where income has been disrupted through the impacts of Covid-19. Credit quality is stable, although portfolio performance has benefited from the impact of government support schemes, payment deferrals and the low interest rate environment.

| Commercial gross balances | | |
|---|---|---|
| | **2021** | 2020 |
| ***(Audited)*** | **£m** | £m |
| Registered social landlords (note i) | **4,828** | 5,425 |
| Commercial real estate (CRE) | **769** | 996 |
| Project finance (note ii) | **670** | 712 |
| **Commercial balances at amortised cost** | **6,267** | 7,133 |
| Fair value adjustment for micro hedged risk (note iii) | **653** | 741 |
| Commercial balances – FVTPL | **52** | 57 |
| **Total** | **6,972** | 7,931 |

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

Over the year, total balances across the commercial portfolios continued to reduce, most significantly in the registered social landlords portfolio where loan amortisation and repayments exceeded drawdowns on new lending to this sector. The reduction in commercial real estate balances is driven by amortisation and early repayments, reflecting the closed book strategy.

| Impairment reversals and write-offs for the year | | |
|---|---|---|
| | **2021** | 2020 |
| ***(Audited)*** | **£m** | £m |
| **Total impairment reversals** | **(6)** | (3) |
| | | |
| **Gross write-offs** | **3** | 1 |

The reduction in impairment is driven by improvements to the collateral value or anticipated cashflows for a small number of individually assessed exposures.

## Credit risk – Commercial (continued)

The following table shows commercial balances carried at amortised cost on the balance sheet, with the stage allocation of the exposures, impairment provisions and resulting provision coverage ratios.

**Commercial product and staging analysis**

| | 2021 | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 | Additional provision (note i) | Total |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m | £m |
| **Gross balances** | | | | | | | | | |
| Registered social landlords | **4,782** | **46** | **-** | **4,828** | 5,385 | 40 | - | - | 5,425 |
| CRE | **574** | **120** | **75** | **769** | 791 | 155 | 50 | - | 996 |
| Project finance | **595** | **53** | **22** | **670** | 616 | 73 | 23 | - | 712 |
| **Total** | **5,951** | **219** | **97** | **6,267** | 6,792 | 268 | 73 | - | 7,133 |
| | | | | | | | | | |
| **Provisions** | | | | | | | | | |
| Registered social landlords | **1** | **-** | **-** | **1** | 1 | - | - | - | 1 |
| CRE | **1** | **2** | **23** | **26** | 2 | 2 | 18 | 7 | 29 |
| Project finance | **-** | **2** | **4** | **6** | - | 1 | 9 | - | 10 |
| **Total** | **2** | **4** | **27** | **33** | 3 | 3 | 27 | 7 | 40 |
| | | | | | | | | | |
| **Provisions as a % of total balance** | **%** | **%** | **%** | **%** | % | % | % | % | % |
| Registered social landlords | **0.01** | **0.13** | **-** | **0.01** | 0.02 | 0.12 | - | - | 0.02 |
| CRE | **0.19** | **1.89** | **29.81** | **3.34** | 0.25 | 1.29 | 36.00 | - | 2.91 |
| Project finance | **0.02** | **2.97** | **21.86** | **0.97** | 0.02 | 1.37 | 39.13 | - | 1.40 |
| **Total** | **0.03** | **1.78** | **28.01** | **0.52** | 0.04 | 1.12 | 36.99 | - | 0.56 |

Note:
i. In recognition of the financial impact that Covid-19 may have on our borrowers, an additional provision of £7 million was included in the impairment provisions for the CRE portfolio at 4 April 2020. This additional provision was not allocated to underlying loans and therefore was not attributed to stages. At 4 April 2021 all provisions have been attributed to underlying loans and stages.

Over the year, the performance of the commercial portfolio has remained stable, with 95% (2020: 95%) of balances remaining in stage 1. Of the £219 million (2020: £268 million) stage 2 loans, which represent 3.5% (2020: 3.8%) of total balances, £6 million (2020: £1 million) were in arrears by 30 days or more, with the remainder in stage 2 due to a deterioration in risk profile.

A number of loans have been impacted by a disruption to rental income as a result of the impacts of Covid-19; some of this disruption is considered temporary in nature and short-term concessions have been applied. A small number of loans which are considered to have been adversely impacted in the longer term have contributed to an increase in stage 3 (credit-impaired) CRE loans to £75 million (2020: £50 million), equating to 10% (2020: 5%) of the total CRE exposure.

Within the registered social landlord portfolio, there are no stage 3 assets, and only 1% (2020: 1%) of the exposure is in stage 2.

# Credit risk – Commercial (continued)

Loans in the project finance portfolio benefit from long-term cash flows, which typically emanate from the provision of assets such as schools, hospitals, police stations, government buildings and roads, procured under the Private Finance Initiative. 97% of these balances are in respect of fully developed assets. During the year, the project finance stage 3 provisions have reduced to £4 million (2020: £9 million).

**Credit quality**

Nationwide applies robust credit management policies and processes to identify and manage the risks arising from the portfolio.

The following table shows the CRE portfolio by risk grade and the provision coverage for each category. The table includes balances held at amortised cost only.

**CRE gross balances by risk grade and provision coverage**

| | **2021** | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Provision coverage** | Stage 1 | Stage 2 | Stage 3 | Total | Provision coverage |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | **%** | £m | £m | £m | £m | % |
| Strong | **343** | **4** | **-** | **347** | **0.1** | 433 | 18 | - | 451 | 0.1 |
| Good | **192** | **37** | **-** | **229** | **0.2** | 289 | 67 | - | 356 | 0.6 |
| Satisfactory | **39** | **24** | **-** | **63** | **1.4** | 69 | 10 | - | 79 | 1.7 |
| Weak | **-** | **55** | **-** | **55** | **3.1** | - | 60 | - | 60 | 1.2 |
| Impaired | **-** | **-** | **75** | **75** | **31.1** | - | - | 50 | 50 | 36.2 |
| **Total** | **574** | **120** | **75** | **769** | **3.3** | 791 | 155 | 50 | 996 | 2.3 |

The risk grades in the table above are based upon the IRB supervisory slotting approach for specialised lending exposures, under which exposures are classified into categories depending on the underlying credit risk, with the assessment based upon financial strength, asset characteristics, strength of the sponsor and the security. The credit quality of the CRE portfolio has declined slightly with 83% (2020: 89%) of the portfolio rated as satisfactory or better. This reflects the run-off of the portfolio combined with limited migration to the weaker grades driven by cashflow volatility and reduced asset values.

Risk grades for the project finance portfolio are also based upon supervisory slotting approach for specialised lending, with 90% of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model with the major drivers being financial strength, evaluations of the borrower's oversight and management, and their type and size. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults in the portfolio, the credit quality remains high, with an average 12-month PD of 0.04% across the portfolio.

In addition to the above, £52 million (2020: £57 million) of commercial lending balances are classified as FVTPL.

# Credit risk – Commercial (continued)

**CRE balances by LTV and region**

The following table includes both amortised cost and FVTPL CRE balances.

**CRE lending gross balances by LTV and region (note i)**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **London** | **Rest of UK** | **Total** | London | Rest of UK | Total |
| ***(Audited)*** | **£m** | **£m** | **£m** | £m | £m | £m |
| Fully collateralised | | | | | | |
| LTV ratio (note ii): | | | | | | |
| Less than 25% | **56** | **45** | **101** | 62 | 59 | 121 |
| 25% to 50% | **214** | **154** | **368** | 315 | 254 | 569 |
| 51% to 75% | **141** | **104** | **245** | 167 | 115 | 282 |
| 76% to 90% | **15** | **20** | **35** | 3 | 43 | 46 |
| 91% to 100% | **20** | **11** | **31** | - | - | - |
| | **446** | **334** | **780** | 547 | 471 | 1,018 |
| Not fully collateralised: | | | | | | |
| Over 100% LTV | **-** | **38** | **38** | - | 32 | 32 |
| *Collateral value* | **-** | ***25*** | ***25*** | - | *19* | *19* |
| *Negative equity* | **-** | ***13*** | ***13*** | - | *13* | *13* |
| | | | | | | |
| **Total CRE loans** | **446** | **372** | **818** | 547 | 503 | 1,050 |
| | | | | | | |
| **Geographical concentration** | **55%** | **45%** | **100%** | 52% | 48% | 100% |

Notes:
i. A CRE loan may be secured on assets located in different regions, with the allocation being based upon the value of the underlying assets in each region.
ii. The approach to revaluing assets charged as security is determined by the industry sector, the loan balance outstanding and the indexed value of the most recent independent external collateral valuation, with higher risk loans subject to more frequent revaluations to determine provision requirements. The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value. The Investment Property (IPD) monthly index is used.

Changes to the regional distribution of the CRE portfolio reflect the managed reduction of the portfolio, with 55% (2020: 52%) of the CRE exposure now being secured against assets located in London. The LTV distribution of CRE balances has also changed as a result of reduced CRE property values, with 87% (2020: 93%) of the portfolio now having an LTV of 75% or less, and 57% (2020: 66%) of the portfolio having an LTV of 50% or less.

# Credit risk – Commercial (continued)

### Credit risk concentration by industry sector

The following table includes balances held at amortised cost only.

| CRE lending gross balances and provisions by industry sector (note i) | | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Gross balances | Provisions | Gross balances | Provisions |
| | £m | £m | £m | £m |
| Retail | 166 | 3 | 202 | 3 |
| Office | 148 | 19 | 222 | 12 |
| Residential | 331 | 1 | 419 | 1 |
| Industrial and warehouse | 46 | - | 56 | 2 |
| Leisure and hotel | 66 | 1 | 84 | - |
| Other | 12 | 2 | 13 | 4 |
| **Total CRE lending** | 769 | 26 | 996 | 22 |

Note:
i. The £7 million additional Covid-19 provision at 4 April 2020 was not allocated to underlying loans and is therefore excluded from this table.

Credit risk exposure by industry sector is broadly unchanged from the prior year. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For CRE exposures, excluding FVTPL balances, the largest exposure is to the residential sector, which represents 43% (2020: 42%) of the total CRE portfolio balance. The exposure to retail assets has reduced to £166 million (2020: £202 million), with a weighted average LTV of 63% (2020: 53%). Exposure to the leisure and hotel sector has reduced to £66 million (2020: £84 million), with a weighted average LTV of 55% (2020: 46%).

In addition to the amortised cost balances, there are £49 million (2020: £54 million) of FVTPL CRE commercial lending balances, of which £36 million (2020: £42 million) relates to the office sector and £13 million (2020: £12 million) relates to the retail sector.

### CRE balances by payment due status

Of the £818 million (2020: £1,050 million) CRE exposure, including FVTPL balances, £61 million (2020: £14 million) relates to balances with arrears. Of these, £32 million (2020: £6 million) have arrears greater than 3 months. The increase in arrears balances is driven principally by a small number of loans that are being actively managed.

### Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance. In addition, we are supporting borrowers financially affected by the Covid-19 pandemic. Further details of this support are provided at the end of this forbearance section.

Forbearance is recorded and reported at borrower level and applies to all commercial lending, including impaired exposures and borrowers subject to enforcement and recovery action. The Group applies the European Banking Authority definition of forbearance.

For commercial customers in financial difficulty, the following concession events are included within forbearance reporting:

## Credit risk – Commercial (continued)

***Refinance***

Debt restructuring, either mid-term or at maturity, will be considered where asset sales or external refinance cannot be secured to repay facilities in full and where a restructure is considered to provide the best debt recovery outcome for both the customer and Nationwide.

***Interest concession***

The temporary postponement of interest or a reduction to the interest rate charged, during which period the loans do not accrue arrears, may be considered where the customer is experiencing payment difficulties.

***Capital concession***

Capital concessions consist of temporary suspensions to capital repayments to allow the customer time to overcome payment difficulties, the full or partial consolidation of previous payment arrears or the partial write-off of debt.

***Security amendment***

Where a borrower seeks the release of assets charged to Nationwide as security for their commercial loan, this will be treated as forbearance where Nationwide's position is weakened in terms of either the loan to value of the remaining exposure or the level of interest cover available.

***Extension at maturity***

Borrowers who are unable to repay the loan at term expiry may be given short-term maturity extensions to allow them time to negotiate the repayment of facilities in full either via asset sales or external refinance.

***Breach of covenant***

Where a borrower is unable to comply with either financial or non-financial covenants, as specified in their loan agreement, a temporary waiver or amendment to the covenants will be considered, as appropriate.

The table below provides details of commercial loans that are currently subject to forbearance by concession event.

| **Gross balances subject to forbearance (note i)** | | |
|---|---|---|
| | **2021** | 2020 |
| | **£m** | £m |
| Refinance | **8** | 43 |
| Modifications: | | |
| Payment concession | **100** | 31 |
| Security amendment | **6** | 8 |
| Extension at maturity | **7** | 19 |
| Breach of covenant | **123** | 126 |
| **Total** | **244** | 227 |
| | | |
| **Total impairment provision on forborne loans** | **29** | 14 |

Note:
i. Loans where more than one concession event has occurred are reported under the latest event.

## Credit risk – Commercial (continued)

The increase in payment concessions during the year reflects the measures put in place to support borrowers financially affected by the Covid-19 pandemic. The increase in the total impairment provision on forborne loans to £29 million (2020: £14 million) is reflective of a reduction in asset values and apportionment of the £7 million Covid-19 provision overlay at 4 April 2020 to individual borrowers where appropriate at 4 April 2021.

In addition to the amortised cost balances included in the table above, there are £52 million (2020: £57 million) of FVTPL commercial lending balances, none (2020: none) of which are forborne.

***Support for borrowers impacted by Covid-19***

Support continues to be offered to impacted borrowers via payment deferrals, interest only concessions and loan extensions.

No concessions have been applied for in the registered social landlord or project finance portfolios.

The following table shows the amortised cost balances of the CRE portfolio with a concession related to Covid-19 at the balance sheet date:

**Gross CRE balances subject to a concession due to Covid-19**

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| ***(Audited)*** | **Loan Balance £m** | **Percentage of book %** | **Weighted Average LTV %** | Loan Balance £m | Percentage of book % | Weighted Average LTV % |
| 3 month capital and interest repayment holiday | **37** | **4.8** | **85** | 113 | 11.3 | 49 |
| 6 month capital repayment holiday | **58** | **7.6** | **59** | 100 | 10.1 | 41 |
| Extension at maturity | **84** | **10.8** | **47** | 1 | 0.1 | 29 |
| **Total** | **179** | **23.2** | **59** | 214 | 21.5 | 45 |

Balances subject to Covid-19 related temporary measures, at £179 million (2020: £214 million), represent 23.2% (2020: 21.5%) of the CRE portfolio balances and 9% (2020: 11%) of our CRE borrowers. The cases that have received these temporary concessions have a weighted average LTV of 59% (2020: 45%), and £61 million (2020: £2.2 million) of the loan balances have an LTV greater than 65%. Concessions have been agreed across all industry sectors, with a weighting towards the residential sector, which accounts for 42% (2020: 47%) of the balances subject to a concession due to Covid-19, reflecting the portfolio concentration to this industry sector. The increase in maturity extensions is driven by the closed book status of this portfolio requiring support for borrowers by allowing additional time to source an alternative lender or other means of repayment at a time of reduced market appetite for CRE lending.

# Credit risk – Treasury assets

## Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 4 April 2021 treasury assets represented 19.5% (2020: 17.0%) of total assets. There are no exposures to emerging markets, hedge funds or credit default swaps. The table below shows the classification of treasury asset balances.

**Treasury asset balances**

| *(Audited)* | Classification | 2021 £m | 2020 £m |
|---|---|---|---|
| Cash | Amortised cost | **16,693** | 13,748 |
| Loans and advances to banks and similar institutions | Amortised cost | **3,660** | 3,636 |
| Investment securities (note i) | FVOCI | **24,218** | 18,367 |
| Investment securities (note i) | FVTPL | **12** | 12 |
| Investment securities | Amortised cost | **1,243** | 1,625 |
| Liquidity and investment portfolio | | **45,826** | 37,388 |
| Derivative instruments (note ii) | FVTPL | **3,809** | 4,771 |
| **Treasury assets** | | **49,635** | 42,159 |

Notes:
i. Investment securities at FVOCI include £20 million (2020: £6 million) and investment securities at FVTPL include £12 million (2020: £12 million) which relate to investments not included within the Group's liquidity portfolio. These investments primarily relate to investments made in Fintech companies which are being held for long-term strategic purposes.
ii. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. As at 4 April 2021, derivative liabilities were £1,622 million (2020: £1,924 million).

Investment activity remains focused on high quality liquid assets, including assets eligible for central bank operations. The size of the portfolio has increased predominantly in cash balances and government bond holdings. Derivatives are used to economically hedge financial risks inherent in core lending and funding activities and are not used for trading or speculative purposes.

## Managing treasury credit risks

Credit risk within the treasury portfolio arises from the instruments held and transacted by the Treasury function for operational, liquidity and investment purposes. In addition, counterparty credit risk arises from the use of derivatives to reduce exposure to market risks; these are only transacted with highly-rated organisations and are collateralised under market standard documentation. The Treasury Credit Risk function manages all aspects of credit risk in accordance with Nationwide's risk governance frameworks, under the supervision of the Credit Committee. No changes in policy or risk appetite have been made or are proposed as a result of Covid-19.

A monthly review is undertaken of the current and expected future performance of treasury assets that determines expected credit loss (ECL) provision requirements. There were no impairment losses for the year ended 4 April 2021 (2020: £nil). For financial assets held at amortised cost or at FVOCI, all exposures within the table below are classified as stage 1, reflecting the strong and stable credit quality of treasury assets.

**Impairment provisions on treasury assets**

| | 2021 | | 2020 | |
|---|---|---|---|---|
| *(Audited)* | Gross balances £m | Provisions £m | Gross balances £m | Provisions £m |
| Loans and advances to banks and similar institutions | **3,660** | **-** | 3,636 | - |
| Investment securities – FVOCI | **24,218** | **-** | 18,367 | - |
| Investment securities – amortised cost | **1,243** | **-** | 1,625 | - |

## Credit risk – Treasury assets (continued)

### Liquidity and investment portfolio

The liquidity and investment portfolio of £45,826 million (2020: £37,388 million) comprises liquid assets and other securities as set out below.

**Liquidity and investment portfolio by credit rating (note i)**

| 2021<br>*(Audited)* | £m | AAA<br>% | AA<br>% | A<br>% | Other<br>% | UK<br>% | US<br>% | Europe<br>% | Japan<br>% | Other<br>% |
|---|---|---|---|---|---|---|---|---|---|---|
| **Liquid assets:** | | | | | | | | | | |
| Cash and reserves at central banks | 16,693 | - | 100 | - | - | 100 | - | - | - | - |
| Government bonds (note ii) | 20,310 | 28 | 60 | 12 | - | 39 | 18 | 26 | 10 | 7 |
| Supranational bonds | 1,053 | 75 | 25 | - | - | - | - | - | - | 100 |
| Covered bonds | 1,748 | 100 | - | - | - | 62 | - | 25 | - | 13 |
| Residential mortgage backed securities (RMBS) | 474 | 100 | - | - | - | 72 | - | 28 | - | - |
| Asset backed securities (other) | 301 | 100 | - | - | - | 75 | - | 25 | - | - |
| **Liquid assets total** | 40,579 | 22 | 72 | 6 | - | 65 | 9 | 14 | 5 | 7 |
| **Other securities (note iii):** | | | | | | | | | | |
| RMBS FVOCI | 291 | 100 | - | - | - | 100 | - | - | - | - |
| RMBS amortised cost | 1,243 | 83 | 14 | 3 | - | 100 | - | - | - | - |
| Other investments (note iv) | 53 | - | 38 | - | 62 | 62 | - | 38 | - | - |
| **Other securities total** | 1,587 | 83 | 12 | 3 | 2 | 99 | - | 1 | - | - |
| Loans and advances to banks and similar institutions | 3,660 | - | 65 | 34 | 1 | 89 | 2 | 8 | - | 1 |
| **Total** | 45,826 | 22 | 70 | 8 | - | 68 | 8 | 13 | 5 | 6 |

| 2020<br>*(Audited)* | £m | % | % | % | % | % | % | % | % | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Liquid assets: | | | | | | | | | | |
| Cash and reserves at central banks | 13,748 | - | 100 | - | - | 100 | - | - | - | - |
| Government bonds (note ii) | 14,914 | 34 | 58 | 8 | - | 47 | 25 | 16 | 7 | 5 |
| Supranational bonds | 983 | 87 | 13 | - | - | - | - | - | - | 100 |
| Covered bonds | 1,583 | 100 | - | - | - | 68 | - | 16 | - | 16 |
| Residential mortgage backed securities (RMBS) | 483 | 100 | - | - | - | 72 | - | 28 | - | - |
| Asset backed securities (other) | 351 | 100 | - | - | - | 59 | - | 41 | - | - |
| Liquid assets total | 32,062 | 26 | 70 | 4 | - | 70 | 11 | 9 | 3 | 7 |
| Other securities (note iii): | | | | | | | | | | |
| RMBS FVOCI | 17 | 100 | - | - | - | 100 | - | - | - | - |
| RMBS amortised cost | 1,625 | 83 | 12 | 5 | - | 100 | - | - | - | - |
| Other investments (note iv) | 48 | - | 62 | - | 38 | 38 | - | 62 | - | - |
| Other securities total | 1,690 | 81 | 13 | 4 | 2 | 98 | - | 2 | - | - |
| Loans and advances to banks and similar institutions | 3,636 | - | 79 | 20 | 1 | 92 | 3 | 4 | - | 1 |
| Total | 37,388 | 26 | 69 | 5 | - | 73 | 10 | 9 | 3 | 5 |

Notes:
i. Ratings used are obtained from Standard & Poor's (S&P) and from Moody's or Fitch if no S&P rating is available. For loans and advances to banks and similar institutions, internal ratings are used.
ii. Balances classified as government bonds include government guaranteed and agency bonds.
iii. Includes RMBS (UK buy to let and UK Non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).
iv. Includes investment securities held at FVTPL of £12 million (2020: £12 million).

# Credit risk – Treasury assets (continued)

### Country exposures

This table summarises the exposure (shown at the balance sheet carrying value) to institutions outside the UK.

| Country exposures<br>2021<br>*(Audited)* | Government Bonds (note i)<br>£m | Mortgage backed securities<br>£m | Covered bonds<br>£m | Supranational bonds<br>£m | Loans and advances to banks and similar institutions<br>£m | Other assets<br>£m | Total<br>£m |
|---|---|---|---|---|---|---|---|
| Austria | **545** | **-** | **-** | **-** | **-** | **-** | **545** |
| Belgium | **645** | **-** | **-** | **-** | **-** | **-** | **645** |
| Finland | **606** | **-** | **24** | **-** | **-** | **-** | **630** |
| France | **1,505** | **-** | **108** | **-** | **147** | **20** | **1,780** |
| Germany | **1,069** | **-** | **44** | **-** | **151** | **76** | **1,340** |
| Ireland | **154** | **-** | **-** | **-** | **-** | **-** | **154** |
| Netherlands | **503** | **133** | **-** | **-** | **-** | **-** | **636** |
| Spain | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total Eurozone** | **5,027** | **133** | **176** | **-** | **298** | **96** | **5,730** |
| USA | **3,722** | **-** | **-** | **-** | **80** | **-** | **3,802** |
| Japan | **2,116** | **-** | **-** | **-** | **-** | **-** | **2,116** |
| Rest of world (note i) | **1,510** | **-** | **494** | **1,053** | **28** | **-** | **3,085** |
| **Total** | **12,375** | **133** | **670** | **1,053** | **406** | **96** | **14,733** |
| | | | | | | | |
| 2020<br>*(Audited)* | £m | £m | £m | £m | £m | £m | £m |
| Austria | 369 | - | - | - | - | - | 369 |
| Belgium | 390 | - | - | - | - | - | 390 |
| Finland | 381 | - | 25 | - | - | - | 406 |
| France | 265 | - | 22 | - | - | 30 | 317 |
| Germany | 639 | - | 31 | - | 162 | 144 | 976 |
| Ireland | 44 | - | - | - | - | - | 44 |
| Netherlands | 194 | 133 | - | - | - | - | 327 |
| Spain | - | - | - | - | 1 | - | 1 |
| Total Eurozone | 2,282 | 133 | 78 | - | 163 | 174 | 2,830 |
| USA | 3,703 | - | - | - | 94 | - | 3,797 |
| Japan | 1,024 | - | - | - | - | - | 1,024 |
| Rest of world (note i) | 934 | - | 424 | 983 | 43 | - | 2,384 |
| Total | 7,943 | 133 | 502 | 983 | 300 | 174 | 10,035 |

Note:
i. Rest of world exposure is to Canada, Denmark, Norway and Sweden (2020: Australia, Canada, Denmark, Norway and Sweden)

# Credit risk – Treasury assets (continued)

**Derivative financial instruments**

Derivatives are used to manage exposure to market risks, and not for trading or speculative purposes, although the application of accounting rules can create volatility in the income statement in a given financial year. The fair value of derivative assets as at 4 April 2021 was £3.8 billion (2020: £4.8 billion) and the fair value of derivative liabilities was £1.6 billion (2020: £1.9 billion).

To comply with EU regulatory requirements, Nationwide, as a direct member of a central counterparty (CCP), has central clearing capability which it uses to clear standardised derivatives. Where derivatives are not cleared at a CCP they are transacted under the International Swaps and Derivatives Association (ISDA) Master Agreement. A Credit Support Annex (CSA) is always executed in conjunction with the ISDA Master Agreement. Under the terms of a CSA, collateral is passed between parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions. CSAs are two-way agreements where both parties post collateral dependent on the exposure of the derivative. Collateral is paid or received on a regular basis (typically daily) to mitigate the mark to market exposures. Market standard CSA collateral allows GBP, EUR and USD cash, and in some cases, extends to high grade sovereign debt securities; both cash and securities are currently held as collateral by the Society.

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

Under the terms of CSA netting agreements, outstanding transactions with the same counterparty can be offset and settled on a net basis following a default, or another predetermined event. Under these arrangements, netting benefits of £1.4 billion (2020: £1.6 billion) were available and £2.4 billion (2020: £3.0 billion) of collateral was held.

This table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral.

**Derivative credit exposure**

| | **2021** | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| **Counterparty credit quality** | **AA** | **A** | **BBB** | **Total** | AA | A | BBB | Total |
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| Gross positive fair value of contracts as reported on the balance sheet | **742** | **3,052** | **15** | **3,809** | 1,470 | 3,291 | 10 | 4,771 |
| Netting benefits | **(249)** | **(1,187)** | **(4)** | **(1,440)** | (481) | (1,157) | (10) | (1,648) |
| **Net current credit exposure** | **493** | **1,865** | **11** | **2,369** | 989 | 2,134 | - | 3,123 |
| Collateral (cash) | **(489)** | **(1,775)** | **(11)** | **(2,275)** | (982) | (1,924) | - | (2,906) |
| Collateral (securities) | **-** | **(84)** | **-** | **(84)** | - | (91) | - | (91) |
| **Net derivative credit exposure** | **4** | **6** | **-** | **10** | 7 | 119 | - | 126 |

# Liquidity and funding risk

**Summary**

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

Liquidity and funding risks are managed within a comprehensive risk framework which includes policies, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that Nationwide maintains stable and diverse funding sources and a sufficient holding of high-quality liquid assets such that there is no significant risk that liabilities cannot be met as they fall due.

Liquidity and funding levels continued to be within Board risk appetite and regulatory requirements throughout the year. This includes the Liquidity Coverage Ratio (LCR), which ensures that sufficient high-quality liquid assets are held to survive a short term severe but plausible liquidity stress. Nationwide's average LCR over the 12 months ending 4 April 2021 increased to 159% (2020: 152%). The LCR as at 4 April 2021 was 165% (2020: 163%). Nationwide continues to manage its liquidity prudently, with its internal risk appetite well within regulatory requirements.

The position against the longer-term funding metric, the Net Stable Funding Ratio (NSFR) is also monitored. Based on current interpretations of expected regulatory requirements and guidance, the NSFR at 4 April 2021 was 141% (2020: 134%), well in excess of the expected 100% minimum future requirement.

**Funding risk**

***Funding strategy***

Nationwide's funding strategy is to remain predominantly retail funded, as set out below.

| Funding profile | | | | | |
|---|---|---|---|---|---|
| **Assets (note i)** | **2021 £bn** | 2020 £bn | **Liabilities** | **2021 £bn** | 2020 £bn |
| Retail mortgages | **190.7** | 188.6 | Retail funding | **170.3** | 159.7 |
| Treasury assets (including liquidity portfolio) | **45.8** | 37.4 | Wholesale funding | **59.5** | 62.3 |
| Commercial lending | **6.9** | 7.9 | Other liabilities | **3.2** | 3.5 |
| Consumer lending | **3.9** | 4.5 | Capital and reserves (note ii) | **21.9** | 22.5 |
| Other assets | **7.6** | 9.6 | | | |
| **Total** | **254.9** | 248.0 | **Total** | **254.9** | 248.0 |

Notes:
i. Figures in the above table are stated net of impairment provisions where applicable.
ii. Includes all subordinated liabilities and subscribed capital.

At 4 April 2021, Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 115.3% (2020: 122.4%).

# Liquidity and funding risk (continued)

**Wholesale funding**

The wholesale funding portfolio comprises a range of secured and unsecured instruments to ensure that a stable and diversified funding base is maintained across a range of instruments, currencies, maturities and investor types. Part of Nationwide's wholesale funding strategy is to remain active in core markets and currencies. A funding risk limit framework also ensures that a prudent funding mix and maturity concentration profile is maintained and limits the level of encumbrance to ensure enough contingent funding capacity is retained in the event of a stress.

Wholesale funding has decreased by £2.8 billion to £59.5 billion during the year. The decrease is primarily driven by £4.8 billion decrease in covered bonds, due to a debt buy-back exercise and maturities during the year, along with a decrease in short-term wholesale funding. This decrease was partially offset by increased repo activity. The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) was 26.7% at 4 April 2021 (2020: 28.5%).

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

| Wholesale funding by currency | 2021 | | | | | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **GBP £bn** | **EUR £bn** | **USD £bn** | **Other £bn** | **Total £bn** | **% of total** | GBP £bn | EUR £bn | USD £bn | Other £bn | Total £bn | % of total |
| Repos | **4.2** | **0.8** | **2.9** | **0.2** | **8.1** | **14** | 0.5 | 0.1 | - | - | 0.6 | 1 |
| Deposits | **6.4** | **0.6** | **-** | **-** | **7.0** | **12** | 6.2 | 1.2 | 1.3 | - | 8.7 | 14 |
| Certificates of deposit | **0.1** | **-** | **-** | **-** | **0.1** | **-** | 1.5 | 0.4 | 0.1 | - | 2.0 | 3 |
| Commercial paper | **-** | **-** | **-** | **-** | **-** | **-** | - | - | 1.6 | - | 1.6 | 3 |
| Covered bonds | **5.4** | **8.5** | **0.7** | **0.4** | **15.0** | **25** | 5.0 | 13.4 | 0.8 | 0.6 | 19.8 | 31 |
| Medium term notes | **2.0** | **3.2** | **3.4** | **0.6** | **9.2** | **15** | 1.9 | 2.5 | 2.2 | 0.6 | 7.2 | 12 |
| Securitisations | **2.0** | **0.5** | **0.4** | **-** | **2.9** | **5** | 2.2 | 0.9 | 1.1 | - | 4.2 | 7 |
| Term Funding Scheme with additional incentives for SMEs (TFSME) | **16.4** | **-** | **-** | **-** | **16.4** | **28** | - | - | - | - | - | - |
| Term Funding Scheme (TFS) | **-** | **-** | **-** | **-** | **-** | **-** | 17.0 | - | - | - | 17.0 | 27 |
| Other | **0.2** | **0.5** | **0.1** | **-** | **0.8** | **1** | 0.2 | 0.8 | 0.2 | - | 1.2 | 2 |
| **Total** | **36.7** | **14.1** | **7.5** | **1.2** | **59.5** | **100** | 34.5 | 19.3 | 7.3 | 1.2 | 62.3 | 100 |

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

## Liquidity and funding risk (continued)

**Wholesale funding – residual maturity**

| 2021 | Not more than one month £bn | Over one month but not more than three months £bn | Over three months but not more than six months £bn | Over six months but not more than one year £bn | Subtotal less than one year £bn | Over one year but not more than two years £bn | Over two years £bn | Total £bn |
|---|---|---|---|---|---|---|---|---|
| Repos | 7.9 | 0.2 | - | - | 8.1 | - | - | 8.1 |
| Deposits | 4.6 | 0.7 | 1.6 | 0.1 | 7.0 | - | - | 7.0 |
| Certificates of deposit | 0.1 | - | - | - | 0.1 | - | - | 0.1 |
| Commercial paper | - | - | - | - | - | - | - | - |
| Covered bonds | - | - | - | 2.5 | 2.5 | 2.6 | 9.9 | 15.0 |
| Medium term notes | 0.2 | - | 0.6 | - | 0.8 | 2.0 | 6.4 | 9.2 |
| Securitisations | 0.5 | - | - | 0.1 | 0.6 | 1.1 | 1.2 | 2.9 |
| TFSME | - | - | - | - | - | - | 16.4 | 16.4 |
| Other | - | - | - | 0.1 | 0.1 | 0.1 | 0.6 | 0.8 |
| **Total** | 13.3 | 0.9 | 2.2 | 2.8 | 19.2 | 5.8 | 34.5 | 59.5 |
| Of which secured | 8.4 | 0.2 | - | 2.7 | 11.3 | 3.8 | 28.0 | 43.1 |
| Of which unsecured | 4.9 | 0.7 | 2.2 | 0.1 | 7.9 | 2.0 | 6.5 | 16.4 |
| **% of total** | 22.4 | 1.5 | 3.7 | 4.7 | 32.3 | 9.7 | 58.0 | 100.0 |

Wholesale funding – residual maturity

| 2020 | Not more than one month £bn | Over one month but not more than three months £bn | Over three months but not more than six months £bn | Over six months but not more than one year £bn | Subtotal less than one year £bn | Over one year but not more than two years £bn | Over two years £bn | Total £bn |
|---|---|---|---|---|---|---|---|---|
| Repos | 0.6 | - | - | - | 0.6 | - | - | 0.6 |
| Deposits | 5.2 | 1.6 | 1.9 | - | 8.7 | - | - | 8.7 |
| Certificates of deposit | 0.1 | 1.7 | 0.2 | - | 2.0 | - | - | 2.0 |
| Commercial paper | - | 0.9 | 0.7 | - | 1.6 | - | - | 1.6 |
| Covered bonds | - | - | 0.9 | 2.6 | 3.5 | 2.6 | 13.7 | 19.8 |
| Medium term notes | - | - | - | 0.2 | 0.2 | 0.7 | 6.3 | 7.2 |
| Securitisations | 0.3 | - | 0.5 | 0.4 | 1.2 | 0.7 | 2.3 | 4.2 |
| TFS | - | - | - | 6.0 | 6.0 | 11.0 | - | 17.0 |
| Other | - | - | - | - | - | 0.2 | 1.0 | 1.2 |
| Total | 6.2 | 4.2 | 4.2 | 9.2 | 23.8 | 15.2 | 23.3 | 62.3 |
| Of which secured | 0.9 | 1.2 | 1.4 | 9.0 | 12.5 | 14.5 | 16.8 | 43.8 |
| Of which unsecured | 5.3 | 3.0 | 2.8 | 0.2 | 11.3 | 0.7 | 6.5 | 18.5 |
| % of total | 10.0 | 6.7 | 6.7 | 14.8 | 38.2 | 24.4 | 37.4 | 100.0 |

At 4 April 2021, cash, government bonds and supranational bonds included in the liquid asset buffer represented 157% of wholesale funding maturing in less than one year, assuming no rollovers (2020: 122%).

During the year, Nationwide fully repaid its £17.0 billion of TFS drawings and drew £16.4 billion from the TFSME, which has a four-year flexible maturity.

## Liquidity and funding risk (continued)

**Liquidity risk**

**Liquidity strategy**

Sufficient liquid assets, both in terms of amount and quality, are held to meet daily cash flow needs as well as simulated stressed requirements driven by the Society's risk appetite and regulatory assessments. This includes prudent management of the currency mix of liquid assets to ensure there is no undue reliance on currencies not consistent with the profile of stressed outflows.

Liquid assets are held and managed centrally by the Treasury function. A high-quality liquidity portfolio is maintained, predominantly comprising reserves held at central banks and highly-rated debt securities issued by a restricted range of governments, central banks and supranationals.

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

**Liquid assets**

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

| Liquid assets | 2021 | | | | | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **GBP** | **EUR** | **USD** | **JPY** | **Other (note i)** | **Total** | GBP | EUR | USD | JPY | Other (note i) | Total |
| | **£bn** | **£bn** | **£bn** | **£bn** | **£bn** | **£bn** | £bn | £bn | £bn | £bn | £bn | £bn |
| Cash and reserves at central banks | 16.7 | - | - | - | - | 16.7 | 13.7 | - | - | - | - | 13.7 |
| Government bonds (note ii) | 4.2 | 4.5 | 1.2 | 2.1 | 0.7 | 12.7 | 6.8 | 2.3 | 3.8 | 1.0 | 0.5 | 14.4 |
| Supranational bonds | - | 0.5 | 0.4 | - | - | 0.9 | 0.3 | 0.4 | 0.2 | - | - | 0.9 |
| Covered bonds | 0.5 | 1.1 | 0.1 | - | - | 1.7 | 0.5 | 1.0 | 0.1 | - | - | 1.6 |
| Residential mortgage backed securities (RMBS) (note iii) | 0.8 | 0.1 | - | - | - | 0.9 | 0.5 | 0.1 | 0.1 | - | - | 0.7 |
| Asset-backed securities and other securities | 0.3 | 0.1 | - | - | - | 0.4 | 0.2 | 0.1 | - | - | - | 0.3 |
| **Total** | 22.5 | 6.3 | 1.7 | 2.1 | 0.7 | 33.3 | 22.0 | 3.9 | 4.2 | 1.0 | 0.5 | 31.6 |

Notes:
i. Other currencies primarily consist of Canadian dollars.
ii. Balances classified as government bonds include government guaranteed and agency bonds.
iii. Balances include all RMBS held by the Society which can be monetised through sale or repo.

The average combined month end balance during the year of cash and reserves at central banks, and government and supranational bonds, was £42.1 billion (2020: £29.3 billion).

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

During the year, Nationwide set its first Environmental, Social and Governance (ESG) Investment policy for treasury assets. This includes annual investment targets with the aim of holding £1.5 billion of ESG assets by 4 April 2023. Nationwide has met its 2021 target of £750 million. Nationwide's criteria for ESG assets are currently restricted to bonds issued by Multilateral Development Banks. ESG investment criteria are subject to ongoing review.

## Liquidity and funding risk (continued)

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

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

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

### Residual maturity of financial assets and liabilities

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

| **Residual maturity (note i)** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2021** | **Due less than one month (note ii)** | **Due between one and three months** | **Due between three and six months** | **Due between six and nine months** | **Due between nine and twelve months** | **Due between one and two years** | **Due between two and five years** | **Due after more than five years** | **Total** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Financial assets** | | | | | | | | | |
| Cash | 16,693 | - | - | - | - | - | - | - | 16,693 |
| Loans and advances to banks and similar institutions | 2,815 | - | - | - | - | - | - | 845 | 3,660 |
| Investment securities | 39 | 136 | 197 | 47 | 137 | 938 | 8,101 | 15,878 | 25,473 |
| Derivative financial instruments | 119 | 26 | 39 | 62 | 475 | 331 | 1,183 | 1,574 | 3,809 |
| Fair value adjustment for portfolio hedged risk | 4 | 23 | 62 | 59 | 83 | 295 | 322 | 98 | 946 |
| Loans and advances to customers | 2,616 | 1,515 | 2,188 | 2,204 | 2,128 | 8,462 | 23,359 | 159,075 | 201,547 |
| **Total financial assets** | 22,286 | 1,700 | 2,486 | 2,372 | 2,823 | 10,026 | 32,965 | 177,470 | 252,128 |
| | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | |
| Shares | 149,985 | 1,976 | 2,501 | 2,085 | 2,312 | 6,864 | 3,495 | 1,095 | 170,313 |
| Deposits from banks and similar institutions | 10,417 | 166 | - | 9 | - | - | 16,430 | - | 27,022 |
| *Of which repo* | *7,984* | *165* | - | - | - | - | - | - | *8,149* |
| *Of which TFSME* | - | - | - | - | - | - | *16,430* | - | *16,430* |
| Other deposits | 2,234 | 642 | 1,568 | 34 | 24 | 15 | 5 | - | 4,522 |
| Fair value adjustment for portfolio hedged risk | 1 | 6 | 3 | - | 1 | 9 | 5 | - | 25 |
| Secured funding – ABS and covered bonds | 467 | 23 | 29 | 892 | 1,780 | 3,715 | 5,816 | 5,783 | 18,505 |
| Senior unsecured funding | 202 | 48 | 561 | - | 5 | 2,053 | 5,072 | 1,477 | 9,418 |
| Derivative financial instruments | 50 | 3 | 16 | 10 | 10 | 144 | 443 | 946 | 1,622 |
| Subordinated liabilities | 29 | - | 29 | 3 | - | - | 3,114 | 4,400 | 7,575 |
| Subscribed capital (note iii) | 1 | 1 | 1 | - | - | - | - | 240 | 243 |
| **Total financial liabilities** | 163,386 | 2,865 | 4,708 | 3,033 | 4,132 | 12,800 | 34,380 | 13,941 | 239,245 |
| Off-balance sheet commitments (note iv) | 13,259 | - | - | - | - | - | - | - | 13,259 |
| **Net liquidity difference** | (154,359) | (1,165) | (2,222) | (661) | (1,309) | (2,774) | (1,415) | 163,529 | (376) |
| **Cumulative liquidity difference** | (154,359) | (155,524) | (157,746) | (158,407) | (159,716) | (162,490) | (163,905) | (376) | |

# Liquidity and funding risk (continued)

| Residual maturity (note i) 2020 | Due less than one month (note ii) £m | Due between one and three months £m | Due between three and six months £m | Due between six and nine months £m | Due between nine and twelve months £m | Due between one and two years £m | Due between two and five years £m | Due after more than five years £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | | | |
| Cash | 13,748 | - | - | - | - | - | - | - | 13,748 |
| Loans and advances to banks and similar institutions | 2,832 | - | - | - | - | - | - | 804 | 3,636 |
| Investment securities | 18 | 495 | 376 | 107 | 137 | 373 | 4,715 | 13,783 | 20,004 |
| Derivative financial instruments | 33 | 77 | 347 | 35 | 212 | 862 | 978 | 2,227 | 4,771 |
| Fair value adjustment for portfolio hedged risk | 25 | 65 | 124 | 150 | 122 | 388 | 554 | 346 | 1,774 |
| Loans and advances to customers | 2,856 | 1,395 | 2,067 | 2,152 | 2,129 | 8,629 | 23,624 | 158,126 | 200,978 |
| Total financial assets | 19,512 | 2,032 | 2,914 | 2,444 | 2,600 | 10,252 | 29,871 | 175,286 | 244,911 |
| | | | | | | | | | |
| Financial liabilities | | | | | | | | | |
| Shares | 139,870 | 1,205 | 1,905 | 2,003 | 1,932 | 5,219 | 6,377 | 1,180 | 159,691 |
| Deposits from banks and similar institutions | 3,610 | 1,202 | - | 2,000 | 4,000 | 11,000 | - | - | 21,812 |
| *Of which repo* | *638* | - | - | - | - | - | - | - | *638* |
| *Of which TFS* | - | - | - | *2,000* | *4,000* | *11,000* | - | - | *17,000* |
| Other deposits | 2,164 | 377 | 1,881 | 17 | 23 | 10 | 10 | - | 4,482 |
| Fair value adjustment for portfolio hedged risk | 5 | 2 | 1 | 2 | - | 7 | 12 | - | 29 |
| Secured funding – ABS and covered bonds | 242 | 26 | 1,475 | 548 | 2,474 | 3,425 | 10,062 | 6,703 | 24,955 |
| Senior unsecured funding | 150 | 2,673 | 824 | - | 117 | 750 | 3,866 | 2,628 | 11,008 |
| Derivative financial instruments | 152 | 95 | 12 | 33 | 44 | 29 | 266 | 1,293 | 1,924 |
| Subordinated liabilities | 32 | - | 729 | 2 | - | - | 2,577 | 5,977 | 9,317 |
| Subscribed capital (note iii) | 1 | 1 | 1 | - | - | - | - | 250 | 253 |
| Total financial liabilities | 146,226 | 5,581 | 6,828 | 4,605 | 8,590 | 20,440 | 23,170 | 18,031 | 233,471 |
| Off-balance sheet commitments (note iv) | 11,416 | - | - | - | - | - | - | - | 11,416 |
| Net liquidity difference | (138,130) | (3,549) | (3,914) | (2,161) | (5,990) | (10,188) | 6,701 | 157,255 | 24 |
| Cumulative liquidity difference | (138,130) | (141,679) | (145,593) | (147,754) | (153,744) | (163,932) | (157,231) | 24 | - |

Notes:

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

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

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

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

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

# Liquidity and funding risk (continued)

The 4 April 2021 table above includes the impact of a debt buy-back exercise that involved the Society repurchasing seven outstanding series of covered bonds totalling £2 billion (GBP equivalent). This exercise followed the issuance of senior unsecured debt predominantly for the purpose of securing our credit rating with Moody's. The impact of unwinding associated derivative financial instruments is also reflected.

**Financial liabilities – gross undiscounted contractual cash flows**

The tables below provide an analysis of gross contractual cash flows. The totals differ from the analysis of residual maturity as they include estimated future interest payments, calculated using balances outstanding at the balance sheet date, contractual maturities and appropriate forward-looking interest rates.

Amounts are allocated to the relevant maturity band based on the timing of individual contractual cash flows.

| **Gross contractual cash flows 2021** | **Due less than one month (note i)** | **Due between one and three months** | **Due between three and six months** | **Due between six and nine months** | **Due between nine and twelve months** | **Due between one and two years** | **Due between two and five years** | **Due after more than five years** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| ***(Audited)*** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Shares | 149,985 | 2,017 | 2,540 | 2,122 | 2,346 | 6,966 | 3,631 | 1,095 | 170,702 |
| Deposits from banks and similar institutions | 10,417 | 170 | 4 | 13 | 4 | 16 | 16,455 | - | 27,079 |
| Other deposits | 2,234 | 643 | 1,568 | 34 | 24 | 15 | 5 | - | 4,523 |
| Secured funding – ABS and covered bonds | 469 | 32 | 51 | 918 | 1,860 | 3,883 | 6,119 | 5,899 | 19,231 |
| Senior unsecured funding | 203 | 51 | 588 | 3 | 64 | 2,172 | 5,298 | 1,528 | 9,907 |
| Subordinated liabilities | 32 | - | 91 | 39 | 86 | 248 | 3,606 | 4,765 | 8,867 |
| Subscribed capital (note ii) | 1 | 1 | 4 | 3 | 4 | 13 | 43 | 247 | 316 |
| **Total non-derivative financial liabilities** | **163,341** | **2,914** | **4,846** | **3,132** | **4,388** | **13,313** | **35,157** | **13,534** | **240,625** |
| | | | | | | | | | |
| Derivative financial liabilities: | | | | | | | | | |
| Gross settled derivative outflows | (2,803) | (337) | (416) | (199) | (571) | (3,584) | (8,449) | (6,752) | (23,111) |
| Gross settled derivative inflows | 2,798 | 333 | 385 | 178 | 553 | 3,371 | 8,136 | 6,461 | 22,215 |
| Gross settled derivatives – net flows | (5) | (4) | (31) | (21) | (18) | (213) | (313) | (291) | (896) |
| Net settled derivative liabilities | (104) | (175) | (183) | (189) | (222) | (583) | (1,037) | (798) | (3,291) |
| **Total derivative financial liabilities** | **(109)** | **(179)** | **(214)** | **(210)** | **(240)** | **(796)** | **(1,350)** | **(1,089)** | **(4,187)** |
| **Total financial liabilities** | **163,232** | **2,735** | **4,632** | **2,922** | **4,148** | **12,517** | **33,807** | **12,445** | **236,438** |
| | | | | | | | | | |
| Off-balance sheet commitments (note iii) | 13,259 | - | - | - | - | - | - | - | 13,259 |
| **Total financial liabilities including off-balance sheet commitments** | **176,491** | **2,735** | **4,632** | **2,922** | **4,148** | **12,517** | **33,807** | **12,445** | **249,697** |

# Liquidity and funding risk (continued)

| Gross contractual cash flows<br>2020<br>(Audited) | Due less than one month (note i)<br>£m | Due between one and three months<br>£m | Due between three and six months<br>£m | Due between six and nine months<br>£m | Due between nine and twelve months<br>£m | Due between one and two years<br>£m | Due between two and five years<br>£m | Due after more than five years<br>£m | Total<br>£m |
|---|---|---|---|---|---|---|---|---|---|
| Shares | 139,870 | 1,260 | 1,958 | 2,052 | 1,977 | 5,358 | 6,597 | 1,180 | 160,252 |
| Deposits from banks and similar institutions | 3,610 | 1,206 | 4 | 2,004 | 4,003 | 11,005 | - | - | 21,832 |
| Other deposits | 2,164 | 382 | 1,883 | 17 | 23 | 10 | 10 | - | 4,489 |
| Secured funding – ABS and covered bonds | 247 | 34 | 1,506 | 581 | 2,644 | 3,589 | 10,526 | 6,609 | 25,736 |
| Senior unsecured funding | 151 | 2,681 | 871 | 4 | 182 | 890 | 4,145 | 2,621 | 11,545 |
| Subordinated liabilities | 36 | - | 806 | 43 | 96 | 276 | 3,188 | 6,304 | 10,749 |
| Subscribed capital (note ii) | 1 | 1 | 4 | 3 | 4 | 13 | 40 | 255 | 321 |
| Total non-derivative financial liabilities | 146,079 | 5,564 | 7,032 | 4,704 | 8,929 | 21,141 | 24,506 | 16,969 | 234,924 |
| | | | | | | | | | |
| Derivative financial liabilities: | | | | | | | | | |
| Gross settled derivative outflows | (1,124) | (967) | (791) | (165) | (665) | (427) | (6,495) | (5,915) | (16,549) |
| Gross settled derivative inflows | 1,101 | 928 | 771 | 142 | 621 | 387 | 6,146 | 5,605 | 15,701 |
| Gross settled derivatives – net flows | (23) | (39) | (20) | (23) | (44) | (40) | (349) | (310) | (848) |
| Net settled derivative liabilities | (70) | (175) | (174) | (258) | (300) | (865) | (1,373) | (1,224) | (4,439) |
| Total derivative financial liabilities | (93) | (214) | (194) | (281) | (344) | (905) | (1,722) | (1,534) | (5,287) |
| Total financial liabilities | 145,986 | 5,350 | 6,838 | 4,423 | 8,585 | 20,236 | 22,784 | 15,435 | 229,637 |
| | | | | | | | | | |
| Off-balance sheet commitments (note iii) | 11,416 | - | - | - | - | - | - | - | 11,416 |
| Total financial liabilities including off-balance sheet commitments | 157,402 | 5,350 | 6,838 | 4,423 | 8,585 | 20,236 | 22,784 | 15,435 | 241,053 |

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. The principal amount for undated subscribed capital is included within the due more than five years column.
iii. Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid and commitments to acquire financial assets.

**Asset encumbrance**

Encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise the Covered Bond and securitisation programmes (further information is included in note 14 to the financial statements) and from participation in the Bank of England's TFS and TFSME.

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

## Liquidity and funding risk (continued)

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

**Asset encumbrance**

| **2021** | **Assets encumbered as a result of transactions with counterparties other than central banks** | | | | **Other assets (comprising assets encumbered at the central bank and unencumbered assets)** | | | | | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | **Assets not positioned at the central bank** | | | | |
| | **As a result of covered bonds** | **As a result of securitisations** | **Other** | **Total** | **Assets positioned at the central bank (i.e. prepositioned plus encumbered)** | **Readily available for encumbrance** | **Other assets that are capable of being encumbered** | **Cannot be encumbered** | **Total** | |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Cash | **628** | **921** | **-** | **1,549** | **-** | **14,963** | **-** | **181** | **15,144** | **16,693** |
| Loans and advances to banks and similar institutions | **-** | **-** | **1,218** | **1,218** | **1,376** | **-** | **-** | **1,066** | **2,442** | **3,660** |
| Investment securities | **-** | **-** | **8,621** | **8,621** | **-** | **15,676** | **-** | **1,176** | **16,852** | **25,473** |
| Derivative financial instruments | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,809** | **3,809** | **3,809** |
| Loans and advances to customers | **23,611** | **12,779** | **-** | **36,390** | **69,321** | **43,970** | **51,866** | **-** | **165,157** | **201,547** |
| Non-financial assets | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,786** | **2,786** | **2,786** |
| Other financial assets | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **946** | **946** | **946** |
| **Total** | **24,239** | **13,700** | **9,839** | **47,778** | **70,697** | **74,609** | **51,866** | **9,964** | **207,136** | **254,914** |
| 2020 | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Cash | 600 | 657 | - | 1,257 | - | 12,193 | - | 298 | 12,491 | 13,748 |
| Loans and advances to banks and similar institutions | - | - | 1,555 | 1,555 | 1,355 | - | - | 726 | 2,081 | 3,636 |
| Investment securities | - | - | 2,506 | 2,506 | - | 16,006 | - | 1,492 | 17,498 | 20,004 |
| Derivative financial instruments | - | - | - | - | - | - | - | 4,771 | 4,771 | 4,771 |
| Loans and advances to customers | 28,003 | 15,177 | - | 43,180 | 42,217 | 65,687 | 49,894 | - | 157,798 | 200,978 |
| Non-financial assets | - | - | - | - | - | - | - | 3,130 | 3,130 | 3,130 |
| Other financial assets | - | - | - | - | - | - | - | 1,774 | 1,774 | 1,774 |
| Total | 28,603 | 15,834 | 4,061 | 48,498 | 43,572 | 93,886 | 49,894 | 12,191 | 199,543 | 248,041 |

## Liquidity and funding risk (continued)

### Managing liquidity and funding risk

Nationwide's management of liquidity and funding risks aims to ensure that there are sufficient liquid assets at all times, both as to amount and quality, to:

- cover cash flow mismatches and fluctuations in funding
- retain public confidence
- meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows, and through the translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile sufficient levels of high-quality liquid assets and appropriate encumbrance levels are maintained.

The liquidity and funding risk framework is reviewed by the Board as part of the annual Internal Liquidity Adequacy Assessment Process (ILAAP). ALCO is responsible for managing the balance sheet structure, including the Funding Plan, and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

A Liquidity Contingency Plan (LCP), which is part of the wider recovery plan framework, is maintained which describes early warning triggers for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust. Nationwide's Recovery Plan describes potential actions that could be utilised in a more extreme stress.

### Liquidity stress testing

To mitigate liquidity and funding risks generated by its business activities, Nationwide aims to maintain a liquid asset buffer of at least 100% of the anticipated outflows seen under internal stress test scenarios and the regulatory-prescribed LCR.

Potential contractual and behavioural stress outflows are assessed across a range of liquidity risk drivers over 30 calendar days, with the key assumptions shown below. An assessment over three months is also performed against which LCP capacity is assessed. Internal stress assumptions are reviewed regularly with changes approved by ALCO and approved annually by the Board as part of the ILAAP.

| Liquidity risk driver | Modelling assumptions used |
| --- | --- |
| Retail funding | Significant unexpected outflows are experienced with no new deposits received. |
| Wholesale funding | Following a credit rating downgrade:<br>• zero roll-over of maturing long-term wholesale funding;<br>• zero roll-over of maturing short-term funding received from financial counterparties and partial roll-over from non-financial counterparties; and<br>• no new wholesale funding received. |
| Off-balance sheet | Contractual outflows occur in relation to secured funding programmes due to credit rating downgrades.<br>Lending commitments continue to be met.<br>Collateral outflows arise due to adverse movements in market rates.<br>Expected inflows from mortgages or retail and commercial loans are recognised. |
| Intra-day | Liquidity is needed to pre-fund outgoing payments. |
| Liquid assets | Asset values are reduced in recognition of the stressed conditions assumed. |

## Liquidity and funding risk (continued)

At 4 April 2021, under the most severe internal 30 calendar day stress test (a combined market-wide and Nationwide-specific stress scenario), the liquid asset buffer as a percentage of stressed net outflows equated to 138% (2020: 140%).

**External credit ratings**

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

**Credit ratings**

| | Senior preferred | Short-term | Senior non-preferred | Tier 2 | Date of last rating action / confirmation | Outlook |
|---|---|---|---|---|---|---|
| Standard & Poor's | A | A-1 | BBB+ | BBB | January 2021 | Stable |
| Moody's | A1 | P-1 | Baa2 | Baa2 | July 2020 | Stable |
| Fitch | A+ | F-1 | A | BBB+ | February 2021 | Negative |

In January 2021, Standard & Poor's affirmed Nationwide's Issuer Credit Rating and stable outlook.

In July 2020, Moody's revised Nationwide's outlook to stable from negative, following Nationwide's €1 billion senior preferred issuance.

In September 2020 and February 2021, Fitch affirmed Nationwide's Long-Term Issuer Default Rating and negative outlook.

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

| | Cumulative adjustment for a one notch downgrade | Cumulative adjustment for a two notch downgrade |
|---|---|---|
| | £bn | £bn |
| **2021** | **0.8** | **2.3** |
| 2020 | 0.2 | 3.8 |

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

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# Solvency risk

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

**Managing solvency risk**

A number of tools are employed to support the management of solvency risk. The Board is responsible for setting risk appetite with respect to solvency risk, which is articulated through its risk appetite statements, and it defines minimum levels of capital, including leverage, that it is willing to operate with. These are translated into specific risk metrics, which are monitored by the Board Risk Committee (BRC), Assets and Liabilities Committee (ALCO) and other internal management reviews.

The capital structure is managed to ensure that Nationwide continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, strong capital ratios are targeted relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the fair value through other comprehensive income reserve and defined benefit pension deficit) are all considered.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. With general reserves forming the majority of capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which forms part of the Society's Board risk appetite metrics as well as forming part of the performance monitoring activity for individual product segments. In recent years, Nationwide's ability to supplement retained earnings through the issuance of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital instruments has been demonstrated.

Capital is held to meet Pillar 1 requirements for credit, operational and market risks. In addition, the PRA requires firms to hold capital to meet Pillar 2A requirements, which form an Individual Capital Requirement (ICR). This is a point in time estimate, set by the PRA on an annual basis based on the submission of the results of the annual Internal Capital Adequacy Assessment Process (ICAAP). This process confirms the amount of capital required to be held to meet risks partly covered by Pillar 1 such as credit concentration and operational risk, and risks not covered by Pillar 1 such as pension and interest rate risk. The combination of Pillar 1 and Pillar 2A requirements form Nationwide's Total Capital Requirement (TCR).

Nationwide's latest Pillar 2A ICR and TCR were received in December 2020. The ICR equates to £2.7 billion, of which at least £1.5 billion must be met by CET1 capital. Nationwide's ICR was equivalent to 8.3% of risk weighted assets (RWAs) as at 4 April 2021 (2020: 7.6% of RWA), largely reflecting the low average risk weight, given that approximately 75% (2020: 76%) of total assets are in the form of secured residential mortgages.

To protect against the risk of consuming Pillar 1 and Pillar 2A requirements (thereby breaching TCR), firms are subject to regulatory capital buffers which are set out in Capital Requirements Directive IV (CRD IV). The PRA may set an additional firm-specific PRA buffer based upon supervisory judgement informed by the results of the Bank of England's stress testing scenarios. This assessment will consider the impacts on a firm's capital requirements and resources and other factors including leverage, systemic importance and any weaknesses in firms' risk management and governance procedures. The ICAAP also considers appropriate internal capital buffers to ensure that the impact of a severe but plausible stress can be absorbed.

Regular stress tests are undertaken, covering Nationwide and its subsidiaries, to enhance the understanding of potential vulnerabilities and how management actions might be deployed in the event of stressed conditions developing. These stress tests project capital resources and requirements over a multi-year period, during severe but plausible scenarios that cover a range of macro-economic or market-wide stresses, and idiosyncratic scenarios that test particular risks to Nationwide's business model. Stress test results are reported to the Board Risk Committee.

Nationwide aims to be in a position to maintain strong capital and leverage ratios in the event of a severe but plausible economic or idiosyncratic stress. Embedded in the risk appetite framework is an expectation to maintain CET1 and leverage ratios in excess of regulatory minima under stressed conditions.

Nationwide maintain a Recovery Plan under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD). This contains a set of management actions that would be available to support our capital position in the event of a breach of one or more of our risk metrics. In addition, reverse stress testing is carried out where management identify and assess the likelihood of tail risk events occurring in order to test business model viability.

## Solvency risk (continued)

As part of the Bank of England announcement on 20 March 2020 in relation to Covid-19, the planned concurrent stress testing activities for 2020 were cancelled. This was intended to aid participants in their continued focus on the provision of services during the Covid-19 pandemic, where the Bank of England and PRA noted that the 2019 stress test showed that the UK banking system was resilient to periods of stress that are more severe overall than that caused by the 2007-08 global financial crisis. In October 2020, the Bank of England published the results of their stress tests of the major UK banks, which showed that the banking system was strong enough to keep lending to UK households and businesses, even in the face of severe economic difficulties given the increases in CET1 capital buffers.

During 2019, the major UK banks and building societies, including Nationwide, took part in the PRA's annual concurrent stress test (CST), which included two scenarios. The main scenario, the Annual Cyclical Scenario (ACS), assessed firms' resilience to a severe economic downturn, characterised by an increase in the Bank of England base rate to 4%, a 33% fall in UK house prices and a 4.7% fall in UK GDP. The Financial Policy Committee (FPC) uses these results to assess the resilience of participating firms to periods of severe but plausible stress.

Despite the severity of the ACS, the results illustrate the strength and resilience of Nationwide, with low point CET1 and UK leverage ratios of 13.1% and 4.8% respectively after the application of management actions. Whilst the leverage ratio remained relatively stable, risk weighted assets increased significantly causing a reduction in the CET1 ratio, largely due to the use of Point in Time (PiT) modelling approaches for secured portfolios.

In January 2021 the Bank of England announced the Solvency Stress Test which the major UK banks and building societies will be undertaking. The results will act as a cross-check on the Financial Policy Committee's (FPC's) judgement of how severe the current stress would need to be in order to jeopardise banks' resilience and challenge their ability to absorb losses and continue to lend. The Bank of England noted that there will be no regulatory response from the results in terms of PRA capital buffer requirements. In addition, it was stated the outcome of the test will be used to update the FPC's judgements about the most appropriate ways in which the banking system can continue to support the economy through the stress. It will also be used as an input into the PRA's transition back to its standard approach to capital-setting and shareholder distributions through 2021.

Whilst the future economic impact of Covid-19 continues to be unclear, the potential for increased levels of unemployment and lower house prices over the coming financial year may lead to some RWA inflation as well as some migration of loans into IFRS 9 Stage 3. This could therefore lead to a lower CET1 ratio in the medium term. The changes to Nationwide's IRB Mortgage models in by January 2022 (see 'regulatory developments' section below) are expected to have a larger impact, with the CET1 ratio expected to fall by around a third. Nationwide continues to undertake planning activities which reflect a range of potential outcomes. However, the current capital position and the published stress testing results show that we are well capitalised and positioned to meet such periods of financial stress.

## Solvency risk (continued)

### Capital position

The capital disclosures included in this report are in line with CRD IV and on an end point basis with IFRS 9 transitional arrangements applied. This assumes that all CRD IV requirements are in force during the period, with no CRD IV transitional provisions permitted. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

| Capital ratios | | |
|---|---|---|
| | **2021** | 2020 |
| **Solvency** | **%** | % |
| Common Equity Tier 1 (CET1) ratio | **36.4** | 31.9 |
| Total Tier 1 ratio | **40.5** | 33.7 |
| Total regulatory capital ratio | **49.1** | 43.6 |
| **Leverage** | **£m** | £m |
| UK leverage exposure | **248,402** | 240,707 |
| CRR leverage exposure | **265,079** | 254,388 |
| Tier 1 capital | **13,343** | 11,258 |
| | **%** | % |
| UK leverage ratio | **5.4** | 4.7 |
| CRR leverage ratio | **5.0** | 4.4 |

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio of 36.4% (2020: 31.9%) above Nationwide's CET1 capital requirement of 12.7%. This includes a minimum CET1 capital requirement of 9.2% (Pillar 1 and Pillar 2A) and the CRD IV combined buffer requirements of 3.5% of RWAs.

The increase in the CET1 ratio results from an increase in CET1 capital of £1.3 billion and a reduction in RWAs of £0.4 billion. The CET1 capital increase was driven by £0.6 billion profit after tax and a £0.1 billion increase in IFRS 9 transitional capital relief. In addition, £0.6 billion of software intangible assets are no longer deducted from capital due to a regulatory change; the PRA is expected to reverse this change in future as explained further below. The reduction in RWAs was driven by unsecured loan RWAs linked to decreasing total loan balance and reduced probability of default (PD). In addition, modifications were made to risk weights for small and medium-sized enterprises (SMEs) and infrastructure loans in line with EU Regulation 2020/873, culminating in a reduction of commercial loan RWAs. Further detail is included in the total regulatory capital table and risk weighted asset table on pages 204 and 205.

On 27 June 2020, EU Regulation 2020/873 came into force amending CRR and CRR II in a number of areas in response to the Covid-19 pandemic, including an extension to the IFRS 9 relief on increases in Stage 1 and Stage 2 expected credit losses from 1 January 2020 for two years. The Covid-19 package also brought forward the implementation date of the application of certain more favourable treatments that had previously been due to apply from June 2021. As noted above, this included a reduction in risk weights for exposures to SMEs and for infrastructure lending.

Also included in the package was the option to temporarily remove specific fair value gains or losses, accrued since 31 December 2019, from CET1 capital resources. This primarily relates to central government debt and is in place to neutralise any potential impact of fair value movements on capital ratios. Nationwide has opted to apply the temporary treatment, and as an unrealised gain was recognised in the period, a £41 million deduction to CET1 capital was applied.

## Solvency risk (continued)

On 23 December 2020, EU Regulation 2020/2176 also came into force providing an amendment to the deduction of intangible assets from CET1 items for ‘prudently valued software assets, the value of which is not negatively affected by resolution, insolvency or liquidation of the institution’, and instead calculate a risk weighted asset value of 100% to those assets not deducted. The PRA confirmed as part of CP5/21 ‘Implementation of Basel standards’ that they found no credible evidence that software assets would absorb losses effectively in a stress. Consequently, they have confirmed their intention to modify the applicable regulation and reverse this change by 1 January 2022. If the revised rules had not been applied, Nationwide’s CET1 ratio and UK Leverage ratio at 4 April 2021 would have been 35.4% and 5.2% respectively.

CRD IV requires firms to calculate a leverage ratio, which is non-risked based, to supplement risk-based capital requirements. The UK leverage ratio increased to 5.4% (2020: 4.7%), with Tier 1 capital increasing by £2.1 billion as a result of the CET1 capital movements outlined above and the issuance of £0.7 billion of AT1 capital instruments in June 2020. Partially offsetting the impact of this, there was an increase in UK leverage exposure of £7.7 billion, primarily as a result of net retail lending and treasury investments in the period. This position remains in excess of Nationwide’s capital requirement of 3.6%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.35%. The buffer requirement reflects a 0% countercyclical leverage ratio buffer announced as part of the Bank of England responses to the impacts of Covid-19 made on 11 March 2020.

The CRR leverage ratio increased by 0.6%, closing at 5.0% (2020: 4.4%). The difference between the Capital Requirements Regulation (CRR) leverage ratio and the UK leverage ratio is driven by the exclusion of qualifying central bank claims from the UK leverage exposure measure as per the PRA Rulebook.

Leverage requirements continue to be Nationwide’s binding capital constraint, as they are in excess of risk-based requirements, and it is expected that this will continue despite the impact of IRB mortgage model changes, proposed mortgage risk weight floors in 2022 and Basel III reforms on risk-based capital requirements in 2023 (see the ‘regulatory developments’ section below). Our internal assessment, however, is still subject to PRA IRB mortgage model approval and the forthcoming PRA consultation on the Basel III reforms. The expected impact of the reforms on Nationwide’s UK leverage ratio is negligible. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

Further details on the leverage exposure can be found in the Group’s annual Pillar 3 Disclosure 2021 at **nationwide.co.uk**

## Solvency risk (continued)

The table below shows how the components of members interest and equity contribute to total regulatory capital calculated on an end-point basis and so does not include non-qualifying instruments.

| Total regulatory capital | | |
|---|---|---|
| | **2021** | 2020 |
| ***(Audited)*** | **£m** | £m |
| General reserve | **11,140** | 10,749 |
| Core capital deferred shares (CCDS) | **1,334** | 1,325 |
| Revaluation reserve | **44** | 48 |
| Fair value through other comprehensive income (FVOCI) reserve | **110** | (17) |
| Cashflow hedge and other hedging reserves | **149** | 264 |
| Regulatory adjustments and deductions: | | |
| FVOCI reserve temporary relief (note i) | **(41)** | - |
| Cashflow hedge and other hedging reserves (note ii) | **(149)** | (264) |
| Foreseeable distributions (note iii) | **(71)** | (61) |
| Prudent valuation adjustment (note iv) | **(39)** | (54) |
| Own credit and debit valuation adjustments (note v) | **(3)** | (3) |
| Intangible assets (note vi) | **(525)** | (1,200) |
| Goodwill (note vi) | **(12)** | (12) |
| Defined-benefit pension fund asset (note vi) | **(112)** | (190) |
| Excess of regulatory expected losses over impairment provisions (note vii) | **(1)** | - |
| IFRS 9 transitional arrangements (note viii) | **183** | 80 |
| Total regulatory adjustments and deductions | **(770)** | (1,704) |
| **Common Equity Tier 1 capital** | **12,007** | 10,665 |
| Other equity instruments (Additional Tier 1) | **1,336** | 593 |
| **Total Tier 1 capital** | **13,343** | 11,258 |
| Dated subordinated debt (note ix) | **2,833** | 3,265 |
| Excess of impairment provisions over regulatory expected losses (note vii) | **144** | 113 |
| IFRS 9 transitional arrangements (note viii) | **(144)** | (58) |
| **Tier 2 capital** | **2,833** | 3,320 |
| **Total regulatory capital** | **16,176** | 14,578 |

Notes:

i. Includes a temporary adjustment to mitigate the impact of volatility in central government debt on capital ratios, in line with the Covid-19 banking package.

ii. In accordance with CRR article 33, institutions shall not include the fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value.

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

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

v. Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in our own credit standing and risk, as per CRD IV rules.

vi. Intangible, goodwill and defined-benefit pension fund asset (excluding applicable software assets) are deducted from capital resources after netting associated deferred tax liabilities.

vii. Where capital expected loss exceeds accounting provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where provisions exceed capital expected loss, the excess amount is added to Tier 2 capital, gross of tax. This calculation is not performed for equity exposures, in line with Article 159 of CRR. The expected loss amounts for equity exposures are deducted from CET1 capital, gross of tax.

viii. The transitional adjustments to capital resources apply scaled relief due to the impact of the introduction of IFRS 9 and increases in expected credit losses due to the Covid-19 pandemic. Further detail regarding these adjustments is provided in the annual Pillar 3 disclosures at **nationwide.co.uk**

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

Risk report (continued)

## Solvency risk (continued)

As part of the Bank Recovery and Resolution Directive (BRRD), the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and eligible liabilities (MREL) and provided firms with indicative MREL. From 1 January 2020, Nationwide is required to hold twice the minimum capital requirements (6.5% of UK leverage exposure), plus the applicable capital requirement buffers, which amount to 0.35% of UK leverage exposure.

At 4 April 2021, total MREL resources were equal to 8.5% (2020: 8.4%) of UK leverage ratio exposure, in excess of the 2021 loss-absorbing requirement of 6.85% described above.

**Risk weighted assets**

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

| Risk weighted assets | | | | | | |
|---|---|---|---|---|---|---|
| | **2021** | | | 2020 | | |
| | **Credit Risk (note i) £m** | **Operational Risk (note ii) £m** | **Total Risk Weighted Assets £m** | Credit Risk (note i) £m | Operational Risk (note ii) £m | Total Risk Weighted Assets £m |
| Retail mortgages | **14,523** | **2,966** | **17,489** | 14,498 | 3,145 | 17,643 |
| Retail unsecured lending | **5,503** | **965** | **6,468** | 6,029 | 887 | 6,916 |
| Commercial loans | **2,671** | **116** | **2,787** | 3,183 | 143 | 3,326 |
| Treasury | **1,588** | **327** | **1,915** | 1,541 | 304 | 1,845 |
| Counterparty credit risk (note iii) | **1,491** | **-** | **1,491** | 1,619 | - | 1,619 |
| Other (note iv) | **2,365** | **455** | **2,820** | 1,783 | 267 | 2,050 |
| **Total** | **28,141** | **4,829** | **32,970** | 28,653 | 4,746 | 33,399 |

Notes:
i. This column includes credit risk exposures, securitisations, counterparty credit risk exposures and exposures below the thresholds for deduction that are subject to a 250% risk weight.
ii. RWAs have been allocated according to the business lines within the standardised approach to operational risk, as per article 317 of CRR.
iii. Counterparty credit risk relates to derivative financial instruments, securities financing transactions (repurchase agreements) and exposures to central counterparties.
iv. Other relates to equity, fixed, intangible software and other assets.

RWAs reduced by £0.4 billion driven by unsecured loan RWAs linked to decreasing total loan size and reduced probability of default (PD). In addition, there was a reduction in commercial loan RWAs due to decreasing total loan size but also due to the application of more favourable treatments for SME and infrastructure lending in line with Regulation 2020/873. In contrast, RWAs for 'Other' assets increased due to the new application of risk weights to intangible software assets deducted from capital, as per EU Regulation 2020/2176.

More detailed analysis of RWAs is included in the Group's annual Pillar 3 Disclosure 2021 at **nationwide.co.uk**

## Solvency risk (continued)

**IRB model risk**

The performance and accuracy of IRB models is critical to the calculation of credit risk capital requirements. The effectiveness of the models is achieved through clear allocation of roles and responsibilities covering model ownership, approval and governance, ongoing model monitoring, review and independent validation. Further information can be found in the 'model risk management of IRB risk ratings systems' section of the Group's annual Pillar 3 Disclosure at **nationwide.co.uk**

**Regulatory developments**

Key areas of regulatory change are set out below. Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any resulting change.

New residential mortgage IRB models were submitted to the PRA for approval in 2021 with the expectation that these models will be implemented by 1 January 2022. This is in line with the revised deadline set by the Bank of England on 20 March 2020 which delays implementation by 1 year from the original January 2021 implementation date set out in PS13/17. The new models will also reflect the PRA's approach to implementing the European Banking Authority's (EBA's) recommendations relating to PD and LGD estimation, and the treatment of defaulted exposures. This is as part of the IRB approach to credit risk as set out in PS 11/20. The PRA is currently consulting on the application of risk weight floors to mortgage assets (7% for individual loans and 10% for all UK residential mortgages to which the firm applies the IRB approach), also to be implemented in January 2022. It is currently estimated that the impact of these new model changes, together with the 7% risk weight floor, will be to reduce the reported CET1 ratio by approximately one third from the current level, given the material increase in risk weighted assets. This is based on Nationwide's assessment of the consultation which is yet to be concluded by the PRA.

On 12 February 2021, the PRA published CP5/21 'Implementation of Basel standards'. The purpose of these rules is to implement the remaining Basel international standards. The consultation paper includes a revised standardised approach to counterparty credit risk (SA-CCR) and the revised Basel framework for exposures to central counterparties (CCPs) amongst other changes due for implementation on 1 January 2022.

The Basel Committee published their final reforms to the Basel III framework in December 2017, now denoted by the PRA as Basel 3.1. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor. The rules are subject to a lengthy revised transitional period from 2023 to 2028 and will lead to a significant increase in Nationwide's RWAs relative to both the current position and that expected under the new mortgage IRB models, mainly due to the application of standardised floors for mortgages. Following the IRB model implementation and Basel III reforms, the total estimated impact on the reported CET1 ratio will be a reduction of approximately a half relative to the position at 4 April 2021. This impact is before organic earnings in the period to 2028 which will partly mitigate the reduction in the CET1 ratio. The Basel III reforms represent a re-calibration of regulatory requirements with no underlying change in the capital resources held or the risk profile of assets. Final impacts are uncertain as they are subject to future balance sheet size and mix, and because the final detail of some elements of the regulatory changes remain at the PRA's discretion. We are expecting the PRA to consult on the UK implementation of Basel 3.1 by autumn of 2021.

Risk report (continued)

# Market risk

## Summary

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates, currency rates or equity prices. Nationwide has limited appetite for market risk and does not have a trading book. Market risk is closely monitored and managed to ensure the level of risk remains within appetite. Market risks are not taken unless they are essential to core business activities and they provide stability of earnings, minimise costs or enable operational efficiency.

The principal market risks, linked to Nationwide's balance sheet assets, liabilities, capital and reserves are listed in the table below, irrespective of materiality.

**Market risk linkage to the balance sheet**

| | 2021 £bn | Market risk | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Interest rate risk | Basis risk | Swap spread risk | Currency risk | Inflation risk | Product option risk | Structural risk |
| **Assets** | | | | | | | | |
| Cash | 16.7 | ● | ● | | | | | ● |
| Loans and advances to banks and similar institutions | 3.7 | ● | ● | | ● | | | ● |
| Investment securities | 25.5 | ● | ● | ● | ● | ● | | |
| Derivative financial instruments | 3.8 | ● | ● | ● | ● | ● | ● | |
| Loans and advances to customers | 201.5 | ● | ● | | ● | | ● | ● |
| Other assets (note i) | 3.7 | ● | ● | | ● | | | |
| **Total assets** | **254.9** | | | | | | | |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Shares (customer deposits) | 170.3 | ● | ● | | | | ● | ● |
| Deposits from banks and similar institutions | 27.0 | ● | ● | | ● | | | |
| Other deposits | 4.5 | ● | ● | | ● | | | ● |
| Debt securities in issue | 27.9 | ● | ● | | ● | | | |
| Derivative financial instruments | 1.6 | ● | ● | ● | ● | ● | ● | |
| Subordinated liabilities | 7.6 | ● | ● | | ● | | | |
| Other liabilities | 1.9 | ● | ● | | ● | | | |
| **Total liabilities** | **240.8** | | | | | | | |
| | | | | | | | | |
| **Total members' interests and equity** | **14.1** | ● | | | | | | ● |

Note:

i. Other assets include the difference between the assets and liabilities of the Nationwide Pension Fund (a defined benefit pension scheme). Nationwide's obligations to the Nationwide Pension Fund result in Pension risk, which includes exposure to market risk factors such as interest rate risk, inflation risk, and equity risk (share prices). Pension risk is managed separately from the market risk arising from Nationwide's core business. For further details, see the 'Pension risk' section of this report.

## Market risk (continued)

**Global market conditions**

During the year, markets were dominated by the impacts of Covid-19, with political uncertainty from Brexit having a more muted impact than might otherwise have been expected.

Swap rates trended down and remained low throughout 2020, as the impact of Covid-19 and the steps taken to mitigate its impact took hold. On the back of positive vaccine news and better than expected economic measures, 2021 has seen an uptick in Sterling Overnight Index Average (Sonia) swap rates with the 2-year swap rate down 0.01% at 0.11% and the 5-year swap rate increasing from 0.20% to 0.44% in the year. At 1 April 2021, the year on year movement for Sterling was up 3.6% against the Euro and up 13% against the US Dollar.

During the year, the Bank of England (BoE) left the bank base rate unchanged at 0.1%, citing continued, albeit less severe than expected, economic weakness. The first serious consideration to cutting to negative rates was well publicised. The year saw the BoE continue its quantitative easing programme, with an additional £100 billion in June 2020 and a further £170 billion in November, which included £20 billion of non-financial investment grade corporate bonds.

Economies globally followed similar patterns to the UK, as the impacts from Covid-19, and latterly the vaccine, dominated the economic landscape. UK equities have not performed as well as those in other major developed economies, despite the UK's resurgence in the past year, remaining some way off their 2019 highs. In contrast, other global markets have set new or are near all-time highs.

**Regulation**

Following the announcement by the FCA in 2017 that panel banks will not be compelled to submit Libor rates after 2021, the Society has made significant progress in its transition away from Libor. Libor had previously been the primary benchmark to which the Society would manage its balance sheet risk and its financial planning process. In the UK, as a replacement for GBP Libor, the BoE has nominated Sonia as the preferred alternative risk-free-rate. Nationwide's Libor Working Group (LWG) identified three key areas of focus for transition: mortgages, commercial lending and treasury.

Nationwide does not offer Libor-linked mortgage products; however, a small proportion of the residential portfolio consists of legacy Libor-referencing loans. The Society, working alongside industry bodies and regulators, is considering options for the transition of these loans to an alternative reference rate, with fair and legal treatment of our members and customers at the forefront of these considerations. Similar activity is also underway with legacy commercial loans linked to Libor, with new social housing lending now referencing Sonia, in line with the Working Group on Sterling Risk-Free Reference Rates (RFRWG) milestones.

Treasury activity, in terms of balance sheet hedging, bond issuance and asset purchases, is no longer transacted referencing Libor. In wholesale funding markets, Nationwide has been a pioneer in the adoption of Sonia in its issuances across markets and has successfully converted the majority of legacy Libor bonds by seeking the consent of investors. For derivatives, the Society has adopted the ISDA fallback protocols and is working to ensure a smooth and successful switchover of all Libor swaps later in 2021. A risk-based approach to manage existing Libor positions in the interim period means that new Libor swaps are only entered into to ensure a neutral net position is maintained.

Please see note 15 to the financial statements for additional information relating to quantitative Libor exposures.

**Market risk appetite**

Nationwide's market risk exposure arises in the banking book; it does not have a trading book. Most of the exposure to market risk arises from fixed rate mortgages or savings and changes in the market value of the liquidity portfolio. There is a limited amount of currency risk on non-sterling financial assets and liabilities held.

The Board is responsible for setting market risk appetite and ALCO is responsible for managing Nationwide's market risk profile within this defined risk appetite. Market risk is managed within a comprehensive risk framework which includes policies, limit setting and monitoring, stress testing and robust governance controls. This includes setting and monitoring more granular limits within Board limits with relevant market risk metrics reported monthly to ALCO.

## Market risk (continued)

### Market risk management

The principal market risks that affect Nationwide are listed below together with the types of risk reporting measures used:

| Market risk exposure | Definition | Reporting measure |
|---|---|---|
| Interest rate risk | The impact of market movements in interest rates, which affect interest rate margin realised from lending and borrowing activities. Volatility in short-term interest rates can also impact net income contribution from rate insensitive liabilities. | Value sensitivity / Value at risk / Net interest income sensitivity / Economic value of equity sensitivity |
| Basis risk | The impact on earnings of relative changes in short-term interest rate benchmarks, for example between Bank Base Rate and Sonia | Earnings sensitivity |
| Swap spread risk | The impact on the market value of treasury investments arising from changes in the spread between bond yields and swap rates | Value at risk |
| Inflation risk | The impact on the market value of treasury investments arising from changes in the spread between asset prices and swap rates | Value sensitivity |
| Currency risk | The impact on earnings due to changes in exchange rates | Value sensitivity / Value at risk |
| Product option risk | The impact from changes to hedging which may be required when customer behaviour deviates from expectations, principally resulting from early repayment of fixed rate loans | Value at risk / Economic value of equity sensitivity |
| Structural interest rate risk | The impact of market movements in interest rates, which affect the income arising from balance sheet items that have stable balances, have an interest rate that is fixed, or are non-interest bearing or insensitive to changes in market rates, and have no defined maturity date. This includes the asymmetric risk which arises in very low or negative interest rate scenarios. | Duration / Value at risk / Net interest income sensitivity |

Nationwide has a capital requirement for each of the above market risks. In addition, stress analysis is used to evaluate the impact of more extreme, but plausible events. These analytical techniques are described below with a review of the exposures during the year.

### Value and earning sensitivities

Sensitivity analysis is used to assess the change in value of the net exposure to defined parallel and non-parallel shifts in interest rates. For example, a one basis point (0.01%) shift is measured using PV01. This analysis is performed daily by currency. Earning sensitivity metrics are used to measure and quantify exposure to interest rate risks, including basis risk. These techniques assess the impact on earnings when rate shocks are applied to the rates paid on liabilities and to the rates earned on assets.

Nationwide also measures interest rate risk through Net Interest Income (NII) and Economic Value of Equity (EVE) measures, under a range of shock scenarios which include behavioural assumptions for retail products as interest rates change. These measures are assessed based on the standard shocks prescribed, as well as against internally generated shock scenarios.

- NII sensitivities assess the impact to earnings in different interest rate shocks over a one-year period. Sensitivities are calculated based on a static balance sheet, where all assets and liabilities maturing within the year are reinvested in like for like products. The sensitivity also includes the impact arising from off-balance sheet exposures.
- EVE sensitivities measure the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks. Sensitivities are calculated on a run-off balance sheet basis.

Both NII and EVE sensitivities are measured periodically, with risk limits set against the various shocks.

# Market risk (continued)

**Value at Risk (VaR)**

VaR is a technique that estimates the minimum potential losses that could occur from risk positions because of future movements in market rates and prices, over a specified time horizon, to a given level of statistical confidence. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This considers inter-relationships between different markets and rates.

The VaR model incorporates risk factors based on historic interest rate and currency movements. A 10-day horizon and a 99% confidence level is typically used in day to day VaR monitoring. VaR is used to monitor interest rate, swap spread, currency and product option risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by management to test the validity of the assumptions and factors used in the VaR calculation. The values reported below are on the same basis as those used internally.

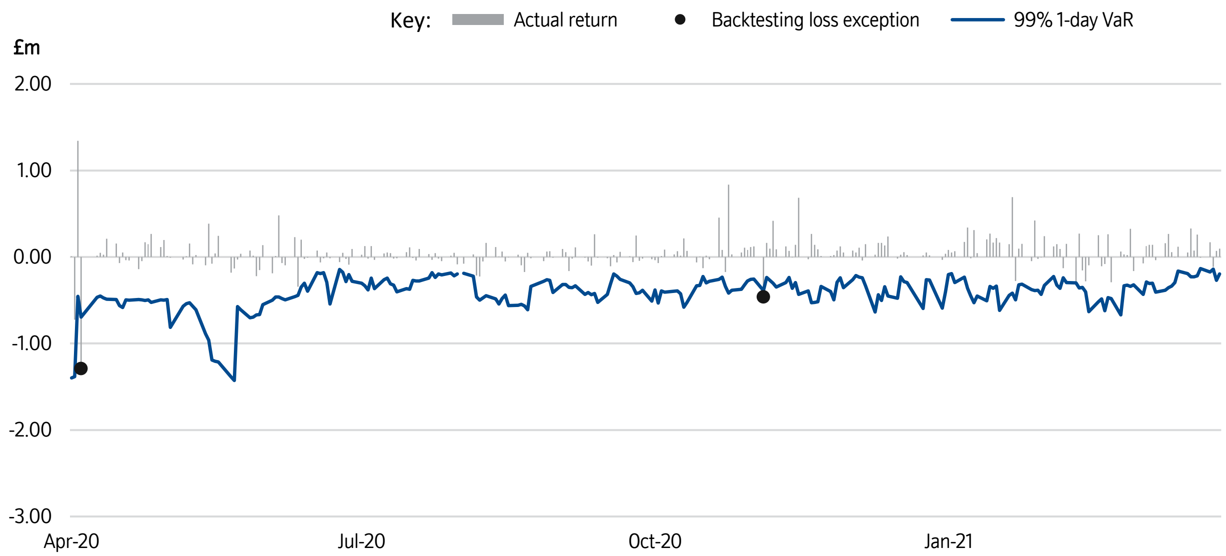
Although VaR is a valuable risk measure, it needs to be viewed in the context of the following limitations which may mean that exposures could be higher than modelled:

- The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence;
- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of offsetting positions in those extreme events;
- The VaR model uses historical data to predict future events. Extreme market moves outside of those used to calibrate the model will deliver exceptions. In periods where volatility is increasing, the model is likely to under-predict market risks and in periods where volatility is decreasing it is likely to over-predict market risks; and
- Historical data may not adequately predict circumstances arising from government interventions and stimulus packages, which increase the difficulty of evaluating risks.

To seek to mitigate these limitations, backtesting of the VaR model is undertaken regularly to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss occurs that is greater than the VaR on any given day. The chart below shows the results of this backtesting. The loss exceptions seen were both driven by significant movements in market rates, the earliest exception in reaction to lockdown and the later exception following vaccine news. In 2020/21, the backtesting and broader model governance did not highlight any model deficiencies.

# Market risk (continued)

**VaR backtesting 99%/1-day**




The model will continue to be subject to an annual review process to ensure it remains appropriate for risk reporting. The types of risks not captured in VaR include:

- Market liquidity risk – this has a limited impact because, whilst Nationwide requires an appropriate level of market liquidity to manage market risk, it does not have a high ongoing dependency on liquidity for market risk purposes as it does not operate a trading book;
- Level 3 asset valuation uncertainty – only a very small portfolio of these assets is held so the impact is limited. Any valuation uncertainty is included within the Prudent Valuation Adjustment reflected in capital resources; and
- Interest rate movements that can impact valuation adjustments, including credit, debit and funding valuation adjustments (CVA/DVA/FVA) – these are not captured in the VaR or sensitivity analysis but are negligible.

**Stress analysis**

To evaluate the potential impact of more extreme but plausible events or movements in a set of financial variables, the standard VaR metric is supported with sensitivity and stress analysis. For example, for interest rate risk exposures, the standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily. In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two-year period with a 99% confidence level and on a 10-day basis, but uses market data from a period of significant financial stress.

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# Market risk (continued)

### Interest rate risk

Nationwide's main market risk is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities. To reduce the impact of such movements, hedging activities are undertaken by Nationwide's Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO. In addition to our primary lending and borrowing activities, income volatility arising from certain rate insensitive products (including reserves and CCDS) are structurally hedged. Nationwide's interest rate risk is measured using a combination of value-based assessments and earnings sensitivity assessments.

The table below highlights Nationwide's limited exposure to interest rate risk, shown against a range of value-based assessments. The risk exposure is calculated each day and summarised over the financial year:

| Interest rate risk | | | | | | |
|---|---|---|---|---|---|---|
| | **2021** | | | 2020 | | |
| | **Average** | **High** | **Low** | Average | High | Low |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| VaR (99%/10-day) *(audited)* | **1.3** | **4.5** | **0.4** | 1.3 | 4.2 | 0.4 |
| Sensitivity analysis (PV01) *(audited)* | **(0.0)** | **0.1** | **(0.1)** | 0.0 | 0.1 | 0.0 |
| Stress testing (PV200: all currencies) | **16.1** | **40.5** | **(15.5)** | 6.1 | 22.6 | (14.1) |

The interest rate sensitivities in the table above do not include retail product behavioural changes, which are captured by other measures.

The fall in interest rates during 2020 led to the increase in PV200. This is caused by floating rate wholesale funding instruments where the coupon is assumed to be floored at zero. A large downward shock in interest rates can cause these instruments to behave like fixed rate instruments and therefore the interest rate risk as measured by the PV200 metric has increased.

### Net Interest Income sensitivity (NII)

Earnings sensitivity assessments measure the risk that income is adversely affected by changes in interest rates. The sensitivity of earnings to changes in interest rates is measured monthly using a forecasting model and potential interest rate scenarios.

The table below sets out the sensitivity of pre-tax future earnings over a one-year period to instantaneous parallel rises and falls in interest rates. For 2021, the size of the interest rate shifts has been adjusted to better reflect the prevailing interest rate environment, with a significant rate shock less probable, alongside a number of behavioural assumption changes. These changes reduced the 2021 sensitivity by £36 million in the -25 basis point shift; the prior year number has not been restated.

| Potential favourable/(adverse) impact on annual earnings | | |
|---|---|---|
| *(Audited)* | **2021** | 2020 |
| | **£m** | £m |
| +25 basis points shift | **8** | (note i) |
| -10 basis points shift | **(34)** | (note i) |
| -25 basis points shift | **(100)** | (70) |

Note:
i. +25 and -10 basis point shifts have not been run for prior year sensitivities.

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## Market risk (continued)

The increased sensitivity to a -25 basis point shift in 2021 compared to 2020 is due to an increase in retail savings balances paying less than 25 basis points. Savings balances are assumed to pay zero basis points when the bank base rate would be -15 basis points.

The following key judgements should be noted in respect of the table above:

- the interest rate sensitivities are illustrative only and are based on a static balance sheet; all assets and liabilities maturing within the year are assumed to reinvest in like for like products;
- the reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, product pricing, market conditions, and strategic changes to the balance sheet mix, and should not therefore be considered a guide to future performance;
- the sensitivity analysis includes all financial assets and liabilities held;
- the model assumes that changes in interest rates are fully passed through to managed rate variable products, unless a 0% floor is reached;
- the sensitivities do not take account of any management actions; and
- the values above are reported on a pre-tax basis.

**Economic Value of Equity (EVE)**

Nationwide also measures interest rate risk through EVE sensitivity which identifies the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks prescribed by the PRA. This measure includes behavioural assumptions using a run-off balance sheet basis. EVE is managed against internal and regulatory risk limits and is monitored by ALCO.

**Basis risk**

Basis risk arises where variable rate assets and liabilities re-price with reference to differing short-term interest rate benchmarks. The primary interest rates that Nationwide is exposed to are the Bank of England base rate,  Sonia and three-month sterling Libor. If the difference between these interest rates changes over time, this may impact earnings.

Assets and liabilities are offset when their reference rate, or 'basis' type, is matched. Exposure to the net mismatch is mitigated, where required, by transacting basis swaps to ensure Nationwide remains within internally agreed risk limits.

**Swap spread risk**

A liquidity portfolio is held to manage Nationwide's liquidity risk. These assets are predominantly fixed rate sovereign debt securities. Interest rate swaps are used to hedge the interest rate risk associated with these assets. However, there remains a residual risk associated with the possible movement in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects the fact that the market value of the liquidity portfolio assets can change due to movements in bond yields and the swaps due to movements in swap rates. In economic terms, this risk is only realised if a bond is sold and the swap is cancelled ahead of maturity.

Swap spread risk is monitored using a historical VaR metric and the risk is controlled via internal limits linked to capital requirements. Exposures are monitored daily and are reported monthly to ALCO.

**Inflation risk**

The risk arising from Nationwide's inflation-linked investments is mitigated using inflation swaps. Residual inflation risk is monitored on these investments using IE01 metrics, calculated as the impact of a one basis point parallel shift in inflation swaps rates. Inflation risk is captured within our swap spread VaR risk measurement.

## Market risk (continued)

### Currency risk

Currency exposure is managed through natural offsetting on the balance sheet, with derivatives used to maintain the net exposures within limits. ALCO sets and monitors limits on the net currency exposure. The table below sets out the limited extent of the residual exposure to currency risk:

| Currency risk | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Average** | **High** | **Low** | Average | High | Low |
| ***(Audited)*** | **£m** | **£m** | **£m** | £m | £m | £m |
| VaR (99%/10-day) | **0.0** | **0.5** | **0.0** | 0.0 | 0.3 | 0.0 |

### Product option risk

Market risk also arises when customers exercise options contained within fixed rate products which can require changes to hedging. The key product risks are prepayment risk (early redemption or under- or over-payment of fixed rate mortgages), access risk (early withdrawal of fixed rate savings), and take-up risk (higher or lower completions of fixed rate mortgages than expected). These risk exposures are quantified under a range of stress scenarios using models that predict customer behaviour in response to changes in interest rates. The potential impacts are then closely monitored. These stressed risk measures are subject to a set of limits and are reported to ALCO, along with proposed management actions where necessary to bring the exposures within limits. This approach is also used to assess internal capital requirements for product option risks.

### Structural interest rate risk

Nationwide has structural hedging programmes in place to stabilise earnings as interest rates change. Structural hedging is transacted to manage the interest rate risk from balance sheet items that have stable balances have an interest rate that is fixed or are non-interest bearing, and have no defined maturity date. The most material hedging programmes are in place to manage liabilities, including reserves and customer deposits. During 2020, asset structural hedging programmes were put in place for balances which meet these criteria.

Without hedging, the returns earned on these balances are subject to the volatility of short-term interest rates. The structural hedging programme smooths the volatility in net interest margin arising from changes in interest rates. The structural hedges convert the return, through a rolling hedge, into a more stable medium-term return.

Structural hedging is managed to a target duration. A two-and-a-half-year target duration is applied to eligible reserves and customer deposit balances. Nationwide's approach to financial planning assumes that structural hedging will be maintained in line with the target duration, with risk limits in place to mitigate deviation from the target duration.

In addition to the structural hedging programmes, Nationwide also undertakes other balance sheet hedging to mitigate the asymmetric risk which arises in very low or negative interest rate scenarios.

# Pension risk

**Summary**

Pension risk is defined as the risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit. Pension risk can negatively impact Nationwide's capital position and may result in increased cash funding obligations to the pension schemes.

Nationwide has funding obligations to a number of defined benefit pension schemes, the largest of which is the Nationwide Pension Fund (the Fund) which represents over 99% of the Society's pension obligations. The Fund has over 29,000 participants (Fund members), the majority of whom are deferred members (former employee members, not yet retired). The Fund closed to new entrants in 2007 and closed to future accrual on 31 March 2021. Further detail is set out below and in note 30 to the financial statements.

In accordance with UK legislation, the assets of the Fund are held in a legally separate trust from Nationwide's assets and are administered by a board of trustees (the Trustee) which has fiduciary responsibilities to Fund members.

Nationwide has a responsibility to ensure that Fund members are paid the pension they have been promised. To support this aim, Nationwide has a specialist pensions team to ensure that pension risk is appropriately monitored and managed, whilst helping to educate and engage Fund members about their pension benefits.

**Risk factors**

Volatility in investment returns from the assets and the value of the liabilities both affect the Fund's net deficit or surplus position. The key risk factors which impact this position are set out below. These factors can have a positive or negative effect on the position.

*Asset performance*

The Fund's liabilities are calculated using a discount rate set with reference to high quality bond yields. This creates a risk that the Fund's assets perform worse than those bond yields, resulting in the Fund's net position being volatile or worsening.

The Fund holds a significant proportion of return-seeking assets, including equities and credit investments. Return seeking assets are expected to outperform liabilities in the long-term, but they are risky and volatile in the short to medium-term. Investments in return-seeking assets are monitored by both the Trustee and Nationwide to ensure they remain appropriate given the Fund's long-term objectives. Further details are set out in note 30 to the financial statements.

*Liabilities*

There is a risk that the Fund's liabilities increase to a level which is not supported by asset performance, whether through discount rate changes, increases in long-term inflation expectations, or increases in the life expectancy (longevity) of Fund members.

*Actuarial assumptions*

There is a risk that a change in the methodology used to derive key actuarial assumptions (for example, the discount rate or longevity assumptions) results in a step change in the assessment of the liabilities and therefore in the net surplus or deficit (potentially impacting Nationwide's capital and/or deficit funding requirements). The ultimate cost of providing pension benefits over the life of the Fund will depend on actual future events, rather than assumptions made.

## Pension risk (continued)

**Changes in the year**

The Fund closed to future accrual from 1 April 2021. This resulted in active members' benefits being linked to the Consumer Prices Index (CPI) before retirement rather than the Retail Prices Index (RPI) and salary increases.

In November 2020, Nationwide and the Trustee entered into an arrangement whereby Nationwide has agreed to provide £1.7 billion of collateral (a contingent asset) in the form of retained notes issued by Silverstone Master Issuer plc to provide additional security to the Fund. The Fund would have access to these notes in the case of certain events such as insolvency of Nationwide.

During the year, Nationwide and the Trustee agreed to a new Schedule of Contributions and Deficit Recovery Plan following the finalisation of the Fund's 31 March 2019 actuarial valuation. Employer contributions in respect of employee benefit accrual were paid in line with the new Schedule of Contributions, until closure to future accrual on 31 March 2021. As a consequence of entering into the contingent asset arrangement, no employer deficit contributions were required in the year ended 4 April 2021 nor will be required in the year ending 4 April 2022. The next actuarial valuation of the Fund will be as at 31 March 2022.

On 25 November 2020, the UK Government and UK Statistics Authority confirmed that the change from RPI to the CPI Index including owner occupiers' housing costs (CPIH) cannot be implemented until after 2030. Following this announcement, a review of the actuarial assumptions was performed. The estimated impact of the RPI reform has been taken into account in the calculation of the pension surplus.

The retirement benefit position on the balance sheet as at 4 April 2021 is a £172 million surplus within assets (2020: £294 million surplus) as set out below:

| Changes in the present value of net defined benefit asset/(liability) | 2021 £m | 2020 £m |
|---|---|---|
| At 5 April | 294 | (105) |
| Pension (charge)/credit | **(83)** | 74 |
| Net interest credit | **7** | 3 |
| Actuarial remeasurement | **(112)** | 195 |
| Employer contributions (including deficit contributions) | **66** | 127 |
| **At 4 April** | **172** | 294 |

The movement in the retirement benefit obligation is primarily driven by the narrowing of credit spreads over the year which increases the liabilities relative to the assets. This has been partially offset by an increase in the value of equities and illiquid assets held by the Fund.

The actuarial remeasurement quantifies the impact on the net obligation from updating financial assumptions (e.g. discount rate and long-term inflation), demographic assumptions (e.g. longevity), reflecting up-to-date membership data, and the return on Fund assets being greater than expected. Further details can be found in note 30 to the financial statements.

## Pension risk (continued)

**Outlook**

Regular analysis, insight and monitoring supports pension risk management and helps Nationwide to anticipate any management actions that may be required. This includes risk appetite articulation and regular reporting to governance committees. In addition, pension risk is embedded into Nationwide's Enterprise Risk Management Framework and stress testing processes. Nationwide monitors all pension regulation and legislation change which may impact Nationwide's obligations to the Fund.

Over the long term, the Trustee intends to further reduce the Fund's risk factors, and Nationwide actively engages with the Trustee to ensure broad alignment on investment objectives and implementation. This is supported by Nationwide's representation at the Trustee's Investment and Funding Committee and investment working groups, and the sharing of management information between Nationwide and the Trustee in order to consider specific risk management initiatives.

Potential risk management initiatives include, but are not limited to, adjusting the asset allocation (for example reducing the allocation to equities and increasing the allocation to bonds), implementing derivative and other hedging strategies and adjusting contribution levels.

# Business risk

**Summary**

Nationwide defines business risk as 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, competitor, regulatory or other external events. We actively manage this risk so that we continue to provide value to our current and future members, with a focus on long-term sustainability rather than short-term benefit. Nationwide ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value commensurate with risk appetite. The Society monitors this risk as part of ongoing business performance reporting to, and through regular discussion of business model risks by, senior management and the Board.

Nationwide's business model is reliant on generating net interest margin – primarily the difference between the interest rate paid to savers and that received from mortgage holders. In the competitive and low interest environment over recent years, this margin has been squeezed. Whilst this pressure has eased slightly during the pandemic, the Society continues to consider ways to mitigate the risk of future margin compression through increasing efficiency and diversifying income streams.

**Managing business risk**

Business risks are identified as part of the Society's strategy and financial planning processes and through regular horizon scanning exercises. These risks inform potential areas of strategy development and are assessed using a range of sensitivities to the financial plan.

This activity is complemented by ongoing financial forecasting and monitoring as well as a range of stress testing activity to consider tail risks or longer-term risks to the Society. Ongoing strategy development ensures that the strategy and associated plans continue to evolve to address risks to the business model by considering changes in the external environment including new technology, consumer behaviour, regulation, or market conditions/disruption.

These risks are assessed against Board risk appetite, which ensures the right balance between distributing value to members, investing in the business, and maintaining financial strength. Business risk is managed and mitigated through a range of measures which include:

- **Financial forecasting –** As part of the financial planning process Nationwide forecasts income and costs over a five-year period with an updated forecast reviewed by management regularly, taking into consideration the key risks and sensitivities.
- **Monitoring of financial and business performance –** The various components of financial performance are monitored monthly against internal forecasts and key indicators across a variety of committees and forums, which consider potential risks and possible mitigating actions. In addition, business areas monitor the demand for products and services to ensure we continue to provide propositions that our members want and need, and which provide value to the Society and our members.
- **Stress testing and sensitivity analysis –** Business risk is regularly stress tested as part of internal management reporting such as the financial plan downside and upside scenarios, Internal Capital Adequacy Assessment Process, and reverse stress tests. In addition, the Prudential Regulatory Authority's solvency stress testing scenarios provide a test of the business model and the risks it is exposed to. As an output from these activities the Society identifies potential actions that can be taken if risks crystallise. To effectively manage more extreme events the Society maintains a Recovery Plan, in line with regulatory guidance, that contains a range of indicators which are regularly monitored, and a list of strategic actions that could be taken, if necessary, to protect the Society from severe stresses and ensure it remains sustainable over the long term.

**Outlook**

Business risks are closely linked to the top and emerging risks outlined on page 56 of the Risk overview. The Covid-19 outbreak, and the global response to it, has materially impacted the economic environment and consumer behaviours, including a move to digital channels of engagement. Internal stress testing exercises undertaken since the pandemic emerged have demonstrated that Nationwide has the financial strength to be resilient against the potential economic shocks which may develop.

The continued vaccine rollout, extension of government support measures and the easing of lockdown restrictions are giving a boost to economic confidence. Whilst the competitive environment has eased slightly in the last six months, we expect interest rates to remain at current low levels and competition to return as confidence in the housing market increases; this will in turn increase

## Business risk (continued)

the level of business risk for Nationwide. During the year we completed a reverse stress test exercise focusing on the resilience of our business model to external threats and heightened competition in our core markets. This reinforced the importance of the Society's current strategic priorities and the need to focus on efficiency.

## Operational and conduct risk

**Summary**

Nationwide defines operational and conduct risk as the risk of impacts resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. We manage our operational and conduct risks through the operation of proportionate controls embedded within processes to identify and prevent failures affecting our members, colleagues or the Society. This is operated as detailed in the Managing risk section on page 142.

Over the last year, the Society's operational and conduct risk profile has been impacted by Covid-19, while we have faced the additional challenges of a high volume of complex regulatory developments and the UK's exit from the European Union. During this time, the Society has continued to meet the high standards expected by members and regulators in the management of operational and conduct risk across key areas as detailed below.

### Current Environment

**Covid-19**

In response to the pandemic, it was necessary to implement new ways of working and adapt operational processes, the associated risks of which have been actively assessed for mitigation or acceptance as appropriate. The overall operational and conduct risk profile has remained relatively stable but is subject to ongoing review as the situation unfolds and the longer-term impacts of Covid-19 are fully understood. The Society continues to plan for, and respond to, further developments to ensure continuity of service, minimise the impact on the risk profile, keep our colleagues and members safe and comply with UK Government guidance. While the roll-out of Covid-19 vaccines is underway, it will be some time before this materially reduces the impact of the pandemic on our day-to-day operations, and those of our suppliers.

As a result of the financial and economic impact of Covid-19, governments and regulators have introduced a number of support measures to ensure customers are protected and markets continue to function well. While we have undertaken significant work to successfully implement these measures, their rapid introduction has a number of associated conduct risk implications, which are ongoing and are likely to be heightened as support schemes are unwound. These considerations primarily relate to the fair treatment of customers in financial difficulty. We are committed to ensuring the right customer outcomes are achieved in all circumstances.

**The UK's exit from the European Union**

On 31 December 2020, the transition period following the UK's departure from the European Union (EU) ended. Both the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) have worked to ensure a robust regulatory system remains in place, and working with the Government have implemented a number of measures to minimise the potential for disruption. As Nationwide is a UK-domiciled and UK-focused building society, exit from the EU does not have material implications for our business model, financial soundness, or ability to continue to provide services to our UK-based members. For the small number of EU resident members, we continue to provide services where local regulation allows.

**IT and operational resilience**

The Society's focus on operational resilience continues to grow in line with members' expectations, the Society's strategy, and the regulatory environment. Members rightly expect services to be available when they want to use them. The demand for contactless payments and the rapid increase in transaction volumes driven by customer behaviour, for example, have led the Society to embark on a multi-year modernisation programme of its IT estate. This will deliver increased capacity and availability of service and build resilience for future growth. We continue to invest in new

## Operational and conduct risk (continued)

systems and processes to make further improvements to member experience and continue to test internal capability through a series of resilience exercises to ensure an effective response to incidents should they occur. This ongoing investment in technology ensures the Society remains resilient and secure, while also delivering new features and services to our members at speed.

There continues to be significant regulatory interest in this area from the Bank of England (BoE) and regulators, and financial services providers are increasingly expected to have a deep understanding of the impact of service disruptions on their customers. This includes identifying their most important services, defining acceptable levels of interruption to these services

and ensuring these are not exceeded. Nationwide has developed a suite of impact tolerances defining the maximum tolerable level of disruption to important services and these will be subject to ongoing validation against regulatory and member expectations.

**Cyber security**

As we manage our IT systems and deliver new technology for the future, the impact that a successful cyber attack could have on our members' ability to manage their finances remains under constant review. Significant effort is put into our cyber risk management capabilities, including investment in the prevention and detection of attacks, and the testing of our response should an attack be successful. The decision to move colleagues to a work from home arrangement as a result of Covid-19 considered the inherent risks and the additional security measures needed to manage these.

As Nationwide continues its adoption of new third party and cloud services, we will be working to understand the associated risk profile and ensure appropriate risk mitigations are in place. We continue to build in security controls when adopting these services. We ensure these services are introduced with minimal risk through the delivery of existing and, where required, new security controls. The large cloud providers continue to invest significant levels of capital to ensure these environments are safe and secure. Security standards are rigorously reviewed when adopting new member services supported by third parties.

Applying lessons learned is critical to managing cyber risk effectively. Testing of our multi-layered approach to protect our information is undertaken on an ongoing basis, including the use of techniques and procedures practiced by individuals and organisations that attempt to conduct malicious activity. This provides the Society with confidence in its controls and allows a better understanding of how to prevent future attacks, ensuring technical controls are constantly improved, resource is repositioned and funding is allocated appropriately.

We continue to work closely with the National Cyber Security Centre, other government bodies and our peers in financial services and the wider industry. This enables us to remain informed about both the potential threats and responses, while sharing best practice in combatting cyber crime. We continue to increase cyber security awareness across both our member and employee landscape.

**Data**

We are committed to protecting member and employee data. To ensure this is achieved we have implemented three key control frameworks which span data privacy, data governance and security, helping us to protect the data we hold now and will hold in the future. Investment in data architecture and technology continues, allowing strategic solutions to be implemented and enabling the Society to store, manage and protect personal data more effectively in an evolving digital environment. Progress continues to be made on data quality and member data processes to improve member experience and reduce the likelihood of a data breach.

The complexity and cost of managing data securely and effectively increases as the data used in digital services expands and continues to be impacted by the steady flow of regulation influencing data management. The General Data Protection Regulation (GDPR) adequacy decision post-Brexit will determine whether transfers of personal data from the EU to the UK are permitted. This is an important milestone, in addition to the arrangements to be put in place for the transfer of data between countries outside of the EU. The Society remains agile in its response to these changing requirements and development of the control landscape.

## Operational and conduct risk (continued)

### People

The safety and wellbeing of our colleagues are at the forefront of our people agenda. The Society relies on the talent and dedication of its people to deliver its strategy, provide first class service, and operate a strong risk and control culture - never has this been more evident than during the ongoing Covid-19 crisis. We are adapting the way we work as lessons are learned and are rethinking future ways of working as and when restrictions are lifted. We continue to monitor and manage closely the impact of the pandemic on our resourcing as we deliver the products, services and experience members want, to ensure the required levels of skill, knowledge and engagement are maintained. Support for colleagues to date has included the delivery of enabling technology and key equipment to support working from home arrangements, and allowing flexibility around domestic situations with the offer of additional paid leave where necessary. Physical measures within our branches and offices comply with the UK Government Covid-19 guidelines to protect those unable to work from home. An internally led campaign called 'sticks and stones' has emphasised zero

tolerance towards verbal and aggressive behaviour and gained momentum as a sharp rise in incidents has been witnessed, alongside the introduction of initiatives to help maintain the mental health of all our colleagues.

### External fraud

We continue to work hard in a constantly evolving environment to minimise the impact of fraud and scams on our members as financial crime levels rise in the industry. We are working closely with regulatory bodies and our banking peers to collaboratively drive improvements in prevention, education, and fair outcomes.

Card fraud remains the largest driver of cases and overall losses. This has been driven by increasing transaction volumes as a result of business growth and member behaviour, including a sustained material shift of point of sale (POS) transactions to online shopping during the pandemic. Online losses have also increased this year, in line with industry trends, as fraudsters increasingly target consumers with scams to obtain personal information, often spanning multiple channels. Our round-the-clock operation reacts quickly to the fraudsters' changing tactics, minimising the impact to members, and we continue to invest in system defences to ensure we maintain a strong position in the industry.

The Society is one of nine firms which have signed up to the Lending Standards Board (LSB)'s Contingent Reimbursement Model (CRM) voluntary code and we are fully committed to its principles. We are continually developing our approach to helping members protect themselves from Authorised Push Payment (APP) scams, focusing on improving detection, warnings and intervention where appropriate, as well as dealing sympathetically and consistently with those impacted. We are working openly with the LSB on areas where the industry can improve consumer protection.

### Use of third parties

The Society continues to rely on a network of third parties to provide both core and non-core services covering IT infrastructure, back office, and member-facing services. When outsourcing activities to our partners, we retain responsibility for all services and the associated risks. Significant work has been undertaken to focus resource on our most critical suppliers, including uplifting our risk assessment processes and tightening our contractual arrangements to meet enhanced regulatory requirements under the European Banking Association's Guidelines on Outsourcing. These improvements increasingly help the Society to deliver resilience across the supply chain.

The use of cloud-based solutions is a key strategic enabler and offers the potential to improve aspects of the Society's operational risk profile. Given the increasing reliance on cloud services, alongside the shared responsibility model which underpins such arrangements, it is important we clearly understand and manage the associated risks and delivery aspects. Significant progress continues to be made in addressing these risks.

### Digital services

The Society continues to invest and innovate in a range of everyday services which have members' needs at their heart. Investment was prioritised in the 2020/21 financial year to address exceptional demand during the pandemic for our online banking services; for example the mortgage payment deferral process was redesigned to make it easier for our members to use.
We have further developed our Banking app and internet bank which allow our members to complete transactions in the safety of their own homes, at a time convenient to them. Protecting members' money during such transactions is critical, and the enhancements resulting from the introduction of Confirmation of Payee and Strong Customer Authentication rules, such as one-time

## Operational and conduct risk (continued)

passcodes for digital payments, help to reduce fraud and give members greater assurance that they are sending payments to the intended recipient. These will be further developed in line with regulatory timelines.

The Society supports Open Banking, which allows members a view of all their financial holdings in one place and is developing our offering in line with regulatory requirements. The FCA has opened a discussion on ‘Open Finance’, which would extend this approach to other financial products and sectors to give consumers more control over a wider range of their financial data. The Society will engage closely with the industry and regulators in the development of this, ensuring lessons are learned from the implementation of Open Banking.

**Pace of change**

Over the last year, a significant degree of change has been delivered at pace to meet the demands which the pandemic has placed on the way the Society operates, and we expect this high volume and pace of change to continue. Agile ways of working are being embedded to support varied and rapidly evolving requirements, making it easier for members to transact through a range of channels. We remain focused on the management of associated risks, developing in-house capabilities and reducing reliance on third parties and contingent workers where we can.

**Vulnerable customers**

As Covid-19 continues to impact the wellbeing of our members, supporting vulnerable customers remains a key focus for the Society. It also remains a priority for the FCA, which has set out best practice guidance for firms to do more to protect vulnerable consumers, providing greater detail on expectations of firms at all stages of the product lifecycle. Our strategic focus is on embedding consideration of the additional needs of vulnerable consumers into our culture, making it the responsibility of all colleagues whose work impacts our member products and services.

**Access to cash**

While cash use is declining, cash remains important for many of our members. Nationwide is committed to supporting a cash system that works for those who need it most, and is working with regulators, policymakers, and other stakeholders to ensure a flexible, cost effective solution that meets changing customer needs.

**Resolvability Assessment Framework**

Since the last financial crisis, significant steps have been taken to ensure that banks and building societies are fully resolvable (able to fail without wider economic consequences), an outcome which the PRA and BoE are required to achieve by 2022. The Resolvability Assessment Framework is the final major piece of this work. While regulatory deadlines have been delayed due to the impact of Covid-19, work is ongoing to ensure the Society will be resolvable and compliant with the incoming rules. In due course, we will finalise an assessment of our resolvability and make a subsequent public disclosure of this assessment.

**The transition away from Libor**

Significant work has been undertaken to prepare for the planned discontinuation of Libor benchmarks by the end of 2021. We have a relatively small number of legacy retail and commercial loans which reference Libor, and work is ongoing to manage the impact on the Society and its customers. We are also engaged with both the PRA and FCA, and with industry bodies, to work towards an industry solution. Further information can be found on page 208.

**Bank of England base rate**

Members of the BoE’s Monetary Policy Committee have begun to set out their thoughts on the potential reduction of the bank base rate to (or below) zero. Nationwide continues to prepare for this possibility, considering the Society’s own operational readiness, the extent to which we are reliant on third party providers to accommodate any necessary changes, and the impact that this could have on our members.

# Operational and conduct risk (continued)

### Operational and conduct risk experience

The Society monitors and reports on the operational and conduct risk events which have occurred, to better understand those exposures and drive sustainable mitigation to prevent recurrence. For the purposes of this report, events include only those where a financial loss arises from an incident. Internally the Society records events against causal categories, in addition to reporting them against the categories defined by the Basel Committee on Banking Supervision in Basel II. This allows comparison of risk experience with our main banking competitors.

**Operational risk events by Basel risk category, % of total events by value (note i)**

| | 2021<br>% | 2020 (note ii)<br>% |
|---|---|---|
| Clients, products and business practices | **28.9** | 58.0 |
| External fraud | **15.8** | 11.9 |
| Execution, delivery and process management | **40.9** | 30.0 |
| Internal fraud | **0.1** | 0.0 |
| Business disruption and system failure | **0.6** | 0.0 |
| Damage to physical assets | **0.0** | 0.0 |
| Employment practices and workplace safety (note iii) | **13.7** | 0.1 |
| **Total** | **100.0** | 100.0 |

**Operational risk events by Basel risk category, % of total events by number (note i)**

| | 2021<br>% | 2020 (note ii)<br>% |
|---|---|---|
| Clients, products and business practices | **1.1** | 1.8 |
| External fraud | **90.5** | 89.6 |
| Execution, delivery and process management | **6.7** | 7.6 |
| Internal fraud | **0.4** | 0.2 |
| Business disruption and system failure | **0.3** | 0.0 |
| Damage to physical assets | **0.0** | 0.1 |
| Employment practices and workplace safety | **1.0** | 0.7 |
| **Total** | **100.0** | 100.0 |

Notes:
i. Risk events with aggregated gross losses of £5,000 and over (excluding monies recovered); multiple losses relating to the same event are counted once.
ii. Comparatives were restated to include additional historic data where more information has been received.
iii. Following guidance provided by Operational Riskdata eXchange Association (ORX), costs enabling restoration of operations following the impact of Covid-19 are reportable as operational risk events. It includes the costs of keeping our colleagues and members safe, for example, Personal Protective Equipment (PPE), and enabling new ways of working, for example, laptops and software licenses to continue to provide the service our members expect. Employment practices and workplace safety was considered the most appropriate category for the Society's spend on Covid-19.

The value of losses against the 'clients, products and business practices' category decreased in 2021 predominantly due to the significant reduction in the number of Payment Protection Insurance (PPI) claims processed. Due to treating these losses as a single event, this is not reflected in the number of instances.

The increase in the value of risk events recorded in the 'execution, delivery and process management' category compared to last financial year relates primarily to one risk event which did not lead to a significant financial loss.

### Outlook

The Society's operational and conduct risk outlook is impacted by the environment it operates in and its strategy. The drivers of operational and conduct risk are expected to remain broadly consistent, with the main themes being:

- ongoing operational challenges, conduct considerations and long-term impact of Covid-19 and Brexit;
- the volume of complex regulatory developments impacting the financial services industry;
- the scale and pace of change, particularly in a digital environment, partly driven by the Society's technology strategy and impacted by changes to customer behaviour and expectations;
- IT resilience, the continued increase in the sophistication of cyber security threats and external fraud;
- continued reliance on strategic third-party partners, including increased adoption of cloud-based solutions;
- development of our understanding and approach to the operational risk elements of climate change and how it sits within our Enterprise Risk Management Framework; and
- the possibility of the bank base rate being reduced to (or below) zero.

The Society continues to invest to maintain and develop appropriate controls in all these areas to ensure residual risk exposures are managed within appetite.

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# Model risk

**Summary**

Model risk is the risk of an adverse outcome as a direct result of weaknesses or failures in the development, implementation or use of a model. A model is defined as 'a simplification of a business system using assumptions and mathematical concepts to help describe, predict or forecast' and may include approaches which are partially or wholly qualitative, or based on expert judgement. There is an inherent risk associated with models because, by their very nature, they are imperfect and incomplete representations that rely on assumptions and theoretical methodologies, and use historic data which may not represent future outcomes, leading to the potential for errors and uncertainty.

Model errors can arise when models are implemented incorrectly or misused, for instance when applied to uses that they were not designed for, or where there is a failure to update key assumptions where appropriate. Model errors and uncertainty are the primary sources of model risk and, if crystallised, could result in poor lending decisions, holding inappropriate levels of capital or provisions, inappropriate pricing decisions or financial loss.

Nationwide relies on models to support a broad range of business and risk management activities across the Society. Key examples include the use of model outputs in the credit approval process, capital and liquidity assessments, stress testing, financial planning, loss provisioning and pricing strategies.

Model risk is heightened due to the significant change in the economic environment and uncertainty arising out of the Covid-19 pandemic. This has led to enhanced monitoring of the models and greater reliance on model adjustments.

**Managing model risk**

These unprecedented economic conditions and disruption to economic activity mean that the historical data on which some models have been built and calibrated to operate has become less representative of the current environment and there are challenges regarding the relationship between economic assumptions and model outputs. In addition, some existing models were not designed to deal with the complexities arising from regulatory guidance on the treatment of members who have been impacted by the pandemic, such as the granting of payment holidays. Our short-term mitigating actions have included bespoke model monitoring focusing on certain sub-populations, enhanced communication of model weaknesses and limitations to senior management committees, and increased use of model adjustments based on judgement.

Nationwide manages model risk at an enterprise level through the Model Risk Framework and within a defined risk appetite set by the Board. The framework prescribes Society-wide requirements including roles and responsibilities, governance, independent oversight, risk appetite, monitoring and independent assurance.

The framework is supported by model risk policies and standards covering documentation, development, implementation, validation, change processes and monitoring. This ensures that all models are developed consistently, are of sufficient quality, adequately maintained and controlled to support effective business decisions and meet regulatory requirements where applicable.

Responsibility for oversight of model risk is delegated from the Executive Risk Committee to the Model Risk Oversight Committee (MROC). MROC assesses whether models are fit for purpose and monitors model risk exposure on a Society-wide aggregated basis.

Model risk appetite is expressed through assessments of the most material models. This considers the percentage of models that have been independently assessed as meeting internal standards. Issues are escalated to the Executive Risk Committee when necessary, or where a breach of risk appetite has occurred.

## Model risk (continued)

**Responsibilities under the three lines of defence**

Each model is required to have a first line model owner who is responsible for ensuring that their models comply with the requirements of the framework. Responsibility for approving the use of material models resides with first line risk committees, such as the Asset & Liability Committee and Credit Committee. The role of these committees is to review, approve and monitor all material aspects of the models within their remit.

The second line oversight of model risk is performed by the Model Risk Oversight (MRO) function which provides independent validation, setting of model standards, reporting of the model risk profile and maintenance of the Society's model inventory. The scope of independent validation includes a review of model inputs, model design and model outputs. This is further broken down into detailed dimensions covering areas such as data, methodology, performance, use and documentation. The outcome of the validation is a report which includes a model risk score, key risks, model capabilities, conditions for use, limitations, validation findings and a recommendation as to whether models are fit for purpose or not.

While all material models are reviewed and re-approved for continued use each year, the validation frequency and level of challenge applied by MRO is tailored to the materiality and complexity of each model. Once validated and correctly implemented, models are subject to regular monitoring. A central model inventory is used to maintain data on models and validation issues raised by MRO are tracked through to resolution. An annual model universe assessment is used ensure the completeness and accuracy of the model inventory.

Nationwide's Internal Audit function, the third line of defence, considers model risk to be an area of focus and the Model Risk Framework is subject to review through a cyclical programme of audits that assess the appropriateness of its design and overall effectiveness, and may assess how specific models used in Nationwide comply with it. The findings of the audit reviews are reported to model owners, senior management, first line committees and appropriate stakeholders.

**Developments in the year**

Over the past year Nationwide has enhanced the models used to quantify key risks and continued to make improvements in the management of model risk across several areas including:

- development of a number of Internal Rating Based (IRB) rating systems to comply with the regulatory roadmap;
- developed a capability to assess the impact of aspects of climate change risk;
- delivered a number of new IFRS 9 model redevelopments;
- built the capability to assess the value of Nationwide in the event of resolution;
- enhanced the frequency and scope of model risk reporting provided to senior management committees to ensure they are aware of model weaknesses and limitations, particularly those arising from the impact of the Covid-19 pandemic; and
- enhanced the standards and policies covering model adjustments and data to reflect a greater reliance on the use of model adjustments and importance of data quality respectively.

**Outlook**

The pandemic will continue to have a material impact on our model risk profile. In the medium term, we expect model changes and modifications to reflect the ongoing extreme economic shocks, but these will take time to develop and need more data on which models can be calibrated. We have robust internal governance structures to regularly monitor the application of model adjustments and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate. Depending on the path of the pandemic and the shape of the economic recovery, we will continue to assess the extent of these changes and identify which models will require redevelopment.

The Society remains subject to ongoing significant levels of regulatory change and scrutiny related to models. Regulatory change continues to be a significant factor driving model development, validation and model risk management activity. The IRB models, used in credit risk capital calculations, are undergoing significant regulatory reform as regulators drive for greater consistency across the industry. Nationwide is well advanced through the programme of work designed to redevelop all the IRB models to ensure compliance with the new regulations when they come into force from 1 January 2022. The Valuation in Resolution models are in the final stages of development and going through validation, ready to support our resolution capability during 2021.

# Financial statements

# Independent auditor's report
## to the members of Nationwide Building Society



### Report on the audit of the financial statements

**Opinion**

In our opinion, the financial statements:

- Give a true and fair view of the state of the Group's and the Society's affairs as at 4 April 2021 and of the Group's and the Society's income and expenditure for the year then ended; and
- Have been properly prepared in accordance with International Accounting Standards, which have been adopted for use within the UK, in conformity with the requirements of the Building Societies Act 1986; and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union (EU); and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts 2021 (the 'Annual Report') of Nationwide Building Society, which comprise:

| Group | Society |
|---|---|
| • Consolidated balance sheet as at 4 April 2021;<br>• Consolidated income statement for the year then ended;<br>• Consolidated statement of comprehensive income for the year then ended;<br>• Consolidated statement of movements in members' interests and equity for the year then ended;<br>• Consolidated cash flow statement for the year then ended;<br>• Related notes 1 to 38 to the financial statements, including a statement of accounting policies;<br>• Information identified as 'audited' in the Report of directors on remuneration; and<br>• Information identified as 'audited' in the Risk report. | • Balance sheet as at 4 April 2021;<br>• Income statement for the year then ended;<br>• Statement of comprehensive income for the year then ended;<br>• Statement of movements in members' interests and equity for the year then ended;<br>• Cash flow statement for the year then ended;<br>• Related notes 1 to 38 to the financial statements, including a statement of accounting policies. |

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Building Societies Act 1986 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the EU.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC)'s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

The directors have voluntarily complied with the UK Corporate Governance Code (the 'Code') and Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority (FCA) and provided a statement in relation to going concern, required for companies with a premium listing on the London Stock Exchange.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group's and Society's ability to continue to adopt the going concern basis of accounting included the following:

- We obtained management's going concern assessment for the Group, including forecasts for the going concern period covering 12 months from the date of signing this audit opinion.
- We confirmed that the opening position in the Group forecast agreed to the audited balances as at 4 April 2021.
- We evaluated the reasonableness of the Group's forecasts. We used EY financial modelling specialists in assessing the assumptions used to develop forecasted results using relevant peer and sector comparatives. We challenged the trading volume assumptions and assessed the refinancing risk of wholesale funding maturing in the 12 months from the date of signing our opinion.
- We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional and HM Treasury consensus forecasts and Bank of England fan charts.
- Management has modelled adverse scenarios in order to incorporate unexpected changes to forecasted liquidity and capital positions of the Group. We reviewed these scenarios to identify whether they indicated significant issues that might impact the Group's and Society's ability to continue as a going concern or impact its viability in the window of assessment.
- We evaluated the results of management's stress testing, including its reverse stress testing exercise, to assess the reasonableness of the economic assumptions in light of the impact of the Covid-19 pandemic ('Covid-19'), and their impact on the Group's solvency and liquidity. We also considered the impact of Covid-19 on considerations relating to operational resilience, third-party and other non-financial risks.
- We compared previous periods' budgeted financial information with historical actual results, in order to form a view on the reliability of the forecasting process.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group's and Society's ability to continue as a going concern.
- We reviewed the Group's going concern disclosures included in the Annual Report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Society's ability to continue as a going concern for a period up to 20 May 2022, being not less than 12 months from when the financial statements are approved for issue.

In relation to the Group's and Society's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or Society's ability to continue as a going concern.

## Independent auditor’s report to the members of Nationwide Building Society (continued)

**Overview of our audit approach**

| | |
|---|---|
| **Key audit matters** | • Measurement of IFRS 9 expected credit losses<br>• Recoverability of capitalised software costs<br>• Customer redress provisioning<br>• Risk of fraud in revenue recognition relating to effective interest rate (EIR) accounting<br>• Measurement of the net defined benefit pension asset |
| **Audit scope** | • We performed an audit of the complete financial information of two entities within the Nationwide Group and audit procedures on specific balances for a further three entities.<br>• The entities where we performed audit procedures over complete financial information or over specific balances accounted for 87% of the adjusted profit before tax measure used to calculate materiality, 100% of revenue, and 100% of total assets. |
| **Materiality** | • Overall Group materiality of £39.5 million and Society materiality of £21.9 million represents, in both cases, 5% of adjusted profit before tax. |

**An overview of the scope of our audit**

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size and risk profile, when assessing the level of work to be performed in respect of each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements of the Group, we selected five entities, which represent the principal business units within the Group.

Of the five entities selected, we performed an audit of the complete financial information of two entities (‘full scope entities’) which were selected based on their size or risk characteristics. For the remaining three entities (‘specific scope entities’), we performed audit procedures on specific accounts within each entity that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole and in our opinion thereon, and we do not provide a separate opinion on these matters.

| **Measurement of IFRS 9 expected credit losses**<br>*Group and Society; Refer to the Audit Committee report (page 97); Accounting policies (page 247); and note 10 of the consolidated financial statements (page 269)* | |
|---|---|
| **Key audit matter** | **Our response to the key audit matter** |
| **Provisions for impairment losses on loans and advances to customers: £852 million (2020: £786 million)**<br>The degree of uncertainty in estimating expected credit losses (ECLs), and thus the subjectivity of management's judgements and estimates related to ECLs remains elevated in the current year as a result of the consequences of the ongoing pandemic. The risk of material misstatement of the Group's and Society's financial statements within ECLs manifests itself across the following five areas:<br><br>*Staging:*<br>The qualitative and quantitative criteria applied by management may not completely and accurately identify a significant increase in credit risk or credit impairment on a timely basis in accordance with IFRS 9; and the criteria may not adequately reflect the impact of Covid-19 on underlying significant deterioration in credit risk. | *Staging:*<br>We reviewed the Group's accounting policies and tested their application to ensure they remained compliant with the requirements of IFRS 9.<br>We tested the design and effectiveness of controls used by management to assess staging criteria.<br>We assessed the appropriateness of the staging criteria and their logical application through the modelled environment, and then independently recalculated staging results for the entire retail portfolio by recreating the staging model code and recreating the results in our own environment. In performing this work, we considered the impact on staging of government pronouncements, such as payment deferrals. We also tested the staging of the commercial portfolio on a sample basis. |
| *Modelling:*<br>ECL component models, including probability of default (PD), loss given default (LGD) and exposure at default (EAD) models, may be inaccurate due to accounting interpretations applied, modelling assumptions or techniques used, models implemented incorrectly or complexities of data flows to and from the models. | *Modelling:*<br>We tested the design and effectiveness of controls, with a focus on governance and control over model validation and monitoring.<br>We incorporated EY model risk specialists into our team to lead the qualitative and quantitative risk assessment of the models, and to perform a combination of desktop reviews, model implementation testing, model reperformance testing, model assumptions testing and model sensitivity analyses, based on the risk designated to each model.<br>We took a fully substantive approach to testing the critical data inputs to the ECL models as the key data quality scorecard solutions to be used by the Society over model inputs are still being developed. We substantively tested the accuracy of all critical data items, and a sample of non-critical data items, as well as the accuracy of loan data lineage from the ECL models back to the source systems. |
| *Multiple Economic Scenarios (MES):*<br>ECLs may be inaccurate because the range of scenarios considered and the probability weightings applied to them are not sufficient or appropriate to capture all relevant factors required, including the expected impacts of Covid-19 and Brexit, or because the MES may not be incorporated into the estimation of PD, LGD, and EAD appropriately. | *MES:*<br>With support of EY economic specialists, we considered both the appropriateness of the scenario weightings and the underlying macroeconomic variables, with specific focus on the impact of Covid-19. In addition, we evaluated management's approach to lagging and smoothing GDP within the models due to unprecedented movements in the year. We carried out comparison to consensus forecasts and other independently derived assumptions. |

## Independent auditor's report to the members of Nationwide Building Society (continued)

| **Measurement of IFRS 9 expected credit losses**<br>*Group and Society; Refer to the Audit Committee report (page 97); Accounting policies (page 247); and note 10 of the consolidated financial statements (page 269)* | |
|---|---|
| | We tested the design and effectiveness of controls, including key governance forums where the MES assumptions and scenario weightings are reviewed and challenged; and we independently tested the appropriate application of the MES data within the models. |
| *In-model adjustments and post model adjustments (PMAs):*<br>In-model adjustments and PMAs could be inappropriate, incomplete, or in the case of in-model adjustments, incorrectly incorporated into the estimation of PD, LGD, and EAD. This risk is elevated as additional significant adjustments have been incorporated in the current year, most of which adjust for expected ongoing impacts of Covid-19 and related government measures. | *In-model adjustments and PMAs:*<br>With the help of credit risk and modelling specialists, we assessed whether the inventory of adjustments was complete considering the evolution of external factors, including the pandemic, climate change, Brexit and cladding remediation requirements and whether each adjustment included was appropriate.<br>In performing the desktop review for a sample of models, we considered whether there were shortcomings that could require further adjustment. We reviewed risk registers and governance meeting materials to identify potential risks not captured in existing models, and we performed a benchmarking exercise between management's model adjustment register and those seen in the market.<br>We also evaluated the appropriate application of each in-model adjustment and PMA and independently re-calculated the amounts to confirm they were recorded correctly.<br>We reviewed the model scripts for each in-model adjustment and PMA and independently recalculated the output which we reconciled to the reported balance. For the severe downside scenario PMA we established a reasonable range within which we would expect the PMA to fall. |
| *Individually impaired assets:*<br>Individual impairment may not be identified on a timely basis, or the provisions recognised may be incorrectly measured taking into account the impact of Covid-19 on exit strategies, collateral valuations and time to collect. | *Individually impaired assets:*<br>We utilised EY real estate specialists in our assessment of the completeness and reasonableness of impairment recorded for individually assessed loans. We selected a sample to recalculate the expected credit loss, and as part of this recalculation we independently recalculated the impact through the application of various scenarios after considering the collateral values estimated by management in reviewing the individual provision assessments. |

**Key observations communicated to the Audit Committee**

Based on the work we performed, we were satisfied that the staging, modelling, MES, in-model adjustments and PMAs and individually impaired assets were reasonably measured and that IFRS 9 expected credit losses were reasonably stated.

- Our independent model testing showed that IFRS 9 ECL models performed as expected and were aligned to the standard requirements, and that the external data, internal data and assumption data feeding into the IFRS 9 ECL models are complete and accurate.
- Economic assumptions and probability weightings assigned to the multiple economic scenarios used within the models were concluded to be reasonable.
- Staging criteria were appropriate and the results of staging reperformance indicated their application was complete and accurate.
- Our independently replicated PMA calculations confirmed they had been accurately recorded, and we were satisfied that they were complete and appropriate.
- Individual provisions recorded for the stage 3 commercial portfolio were in line with the industry-specific risks highlighted by our EY real estate specialists; and
- Our assessment of the overall provision balance through peer benchmarking and analysis of key indicators, such as the ratio of provisions to loan balances, indicated the provisions recorded as at year end were appropriately aligned.

| **Recoverability of capitalised software costs**<br>*Group and Society; Refer to the Audit Committee report (page 97); Accounting policies (page 247); and note 25 of the consolidated financial statements (page 305)* | |
|---|---|
| **Key audit matter** | **Our response to the key audit matter** |
| **Intangible assets: £1,101 million (2020: £1,239 million)**<br>The Group capitalises significant software and IT costs associated with serving its members. These costs are subsequently amortised over the useful economic lives of the related assets. Management undertakes bi-annual impairment assessments to determine whether the capitalised costs should be written down to lower recoverable amounts. We identified the following risks associated with capitalised software costs:<br><br>Project costs capitalised for newly created software could be inappropriate if economic benefits to the Group have not been established.<br><br>Amounts recorded for amortisation rely on judgements made in determining useful economic lives of capitalised software and IT assets and in periodic impairment assessments undertaken by management. There is therefore a risk that management override of controls could result in a material misstatement to amortisation. | We reviewed changes to the application of the software capitalisation policy, ensured compliance with the requirements of IFRS, and audited its application to individual projects on a sample basis.<br><br>We tested the design and effectiveness of key controls over the Group's asset capitalisation process.<br><br>We assessed the appropriateness of capitalised costs for a sample of asset additions during the year, including both externally generated and internally generated costs, and assets in use as well as work in progress, by obtaining evidence to challenge whether the asset will lead to future economic benefit.<br><br>We assessed the reasonableness of the amortisation charge by testing and validating the underlying calculations and performing substantive analytical review.<br><br>We reviewed the impairment assessment at both the individual project level and the cash generating unit level, taking into account the impacts of changes to the technology strategy and likely future use of assets. For those assets deemed to be impaired, we reviewed and recalculated the impairment charge and challenged the completeness of, and rationale for impairments recorded. |
| **Key observations communicated to the Audit Committee**<br>We are satisfied that the Society's accounting policies and their application to the capitalisation of new software assets and the determination of related impairments are in compliance with the accounting standards, IAS 38 and IAS 36, and we concluded that the amounts that the Society has newly capitalised, impaired and amortised in the current period are materially appropriate. | |

## Independent auditor's report to the members of Nationwide Building Society (continued)

| **Customer redress provisioning**<br>*Group and Society; Refer to the Audit Committee report (page 97); Accounting policies (page 247); and note 27 of the consolidated financial statements (page 308)* | |
|---|---|
| **Key audit matter** | **Our response to the key audit matter** |
| **Provisions for liabilities and charges – certain customer redress provisioning: £38 million (2020: £nil)**<br>In our risk assessment, we considered the degree of uncertainty inherent in each estimated provision on account of the risks not being fully known, or where there was a higher degree of uncertainty over the redress cost across the impacted population. This key audit matter is focused on a redress project arising from historical quality control procedures, for which the degree of uncertainty necessitated a greater degree of audit focus.<br><br>We considered the risk within the provision, including the reasonableness of assumptions used in estimating the population for the provision, the appropriate measurement of the redress, associated administration costs, and the associated disclosures. | We assessed the completeness and accuracy of the customer accounts identified as eligible for redress under the project. This included testing management's assumptions in arriving at this population. We reconciled the relevant population to that used in management's models to measure the provision and reperformed the underlying calculations supporting the provision in the financial statements. We reviewed a sample of redress payments to ensure they were appropriate and accurately recorded.<br><br>We involved EY conduct risk specialists to help assess compliance with relevant financial conduct requirements and to challenge whether all relevant assumptions were being included within management's provisioning model.<br><br>We tested the key assumptions applied in the model and performed sensitivity analysis to better understand the impact of changes in assumptions on the provision. Where there was a higher degree of uncertainty in management's assumptions, we assessed them collectively as well as individually by comparison to observed or implied ranges.<br><br>We reviewed the disclosures relating to the populations excluded from the provision, where further testing is required to support a best estimate, to confirm the disclosure appropriately meets the requirements of IAS 37. |
| **Key observations communicated to the Audit Committee**<br>Based on the procedures performed and evidence obtained, we found the judgements applied to calculate the provision for customer redress and the associated disclosures to be appropriate. | |

## Independent auditor's report to the members of Nationwide Building Society (continued)

| **Risk of fraud in revenue recognition relating to effective interest rate (EIR) accounting**<br>*Group and Society; Refer to the Audit Committee report (page 97); Accounting policies (page 247); and note 3 of the consolidated financial statements (page 260)* | |
|---|---|
| **Key audit matter** | **Our response to the key audit matter** |
| **EIR adjustment to loans and advances: £108 million (2020: £180 million)**<br>Significant management judgement is required in initially recognising financial instruments under the EIR method, and assumptions made by management will also impact subsequent amortisation of EIR adjustments. This leads to a heightened risk that management override of controls could result in a material misstatement of the financial statements.<br><br>We assessed two elements of the EIR calculation as most critical and requiring increased audit focus:<br>• The period over which to defer upfront fees and costs, which is determined based on analysis of historical customer behaviours; and<br>• The extent to which early redemption charges (ERC) and variable interest expected to be collected in the future should be recognised as revenue/assets now. | We understood and tested the design and effectiveness of the Group's controls over revenue recognition, including key reconciliations and processes to ensure complete and accurate capture of fees, interest charges, payments and balances.<br><br>We tested the data extracted from systems to be used in the EIR models, including historical data used to analyse historical customer behaviours.<br><br>We reviewed the appropriateness of the accounting policy and the types of fees and expenses being deferred and amortised. For those fees and expenses that were deferred, we assessed the reasonableness of the period over which they were being amortised by assessing the behavioural lives of the loans with reference to historical behaviour and challenging the basis on which assumptions have been made as to future customer behaviours, including additional considerations related to the pandemic.<br><br>We involved EY risk specialists in the verification of complete and accurate extraction of historical data from the mortgage systems to validate the historical data that is used within the Group's calculations.<br><br>We benchmarked key assumptions used within the EIR calculation to equivalent assumptions made by peers, performed sensitivity analyses over key assumptions and judgements, and extended the analysis in line with the increased uncertainty and irregularities in behaviour arising from the backlog of purchasing and switching activity attributable to Covid-19.<br><br>We also reviewed the accuracy of the amortisation model, confirmed its inputs, and recalculated a sample of the amortisation profiles used to amortise the fees and expenses. |
| **Key observations communicated to the Audit Committee**<br>We concluded that the fees and costs being deferred are reasonable and complete, the average lives used in the EIR model are reasonable, the extent of ERC fees recognised upfront is reasonable and the data populating the EIR model is complete and accurate. | |

Independent auditor's report to the members of Nationwide Building Society (continued)

| **Measurement of the net defined benefit pension asset**<br>*Group and Society; Refer to the Audit Committee report (page 97); Accounting policies (page 247); and note 30 of the consolidated financial statements (page 311)* | |
|---|---|
| **Key audit matter** | **Our response to the key audit matter** |
| **Retirement benefit asset: £172 million (2020: £294 million)**<br>The Society has a net defined benefit pension asset which represents the fair value of pension plan assets less the present value of defined benefit obligations after applying the asset ceiling test as required by IFRIC 14. This includes one material defined benefit ('DB') pension fund, which is a contributory DB scheme, with both final salary and career average revalued earnings ('CARE') sections. The pension fund was closed to new entrants in 2007 and ceased to accrue benefits for active members on 31 March 2021.<br><br>The net defined benefit pension asset is sensitive to changes in key judgements and estimates. Those which we consider to be higher risk and that form part of this key audit matter include:<br>• Assumptions - Actuarial assumptions and inputs, including discount rate, inflation, and longevity, which are used to determine the valuation of retirement benefit liabilities;<br>• Valuations - Pricing inputs and calibrations for illiquid or complex valuations of certain investments held by the fund. | We involved EY actuarial specialists in the audit to help evaluate the actuarial assumptions including the discount rate used to calculate the pension liability.<br><br>We assessed the impact on pension liabilities of changes in financial, demographic and longevity assumptions over the year, including any effects of Covid-19 on retail price index (RPI) and mortality, and whether these assumptions were supported by objective external evidence and rationale.<br><br>We considered the appropriateness of the Society's recognition of a pension asset in accordance with IFRIC 14. Specifically, we assessed whether Nationwide was entitled to an unconditional right of refund. We assessed this by reference to the terms of the pension agreement and confirmed that the Society did have such a right.<br><br>We involved valuation specialists to assess the appropriateness of management's valuation methodology and the significant assumptions used in the valuation of complex and illiquid pension assets.<br><br>We tested the fair value of scheme assets by calculating an independent fair value for a sample of the assets held. |
| **Key observations communicated to the Audit Committee**<br>Based on the procedures performed and the evidence obtained, we were satisfied with the valuation of plan assets and the present value of the defined benefit obligations after applying the asset ceiling test. We were also satisfied that the net pension asset was recognisable in accordance with the terms of IFRIC 14. | |

In the prior year, our auditor's report included a key audit matter in relation to IT access management. We did not consider this to be a key audit matter in the current year as the majority of the remediation work around privileged access management that was in flight when we started the 2020 audit has been completed. As such, this matter had less impact on our overall audit strategy and the amount of audit effort was comparatively less.

Independent auditor's report to the members of Nationwide Building Society (continued)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

**Materiality**

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £39.5 million (2020: £31.2 million) which is 5% (2020: 5%) of adjusted profit before tax, and 0.3% (2020: 0.2%) of net assets. We determined materiality for the Society to be £21.9 million (2020: £13.3 million), which is 5% (2020: 5%) of adjusted profit before tax, and 0.2% (2020: 0.1%) of net assets.

We assessed adjusted profit before tax to be an appropriate basis for materiality given the users of the financial statements, including the Society's members and regulators, focus on pre-tax profit in assessing the Society's performance. Profit before tax was adjusted in 2021 to take into account estimated impacts of non-recurring items during the year, including certain redundancy and office closure costs, and establishment of new conduct provisions, and in 2020 to take into account estimated impacts of Covid-19 in the last 6 weeks of the year.

**Performance materiality**

*The application of materiality at the individual account or balance level. Performance materiality is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was £19.7 million for the Group and £10.9 million for the Society (2020: £15.6 million and £6.6 million), in both cases being 50% (2020: 50%) of our planning materiality.

Audit work for underlying entities for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative scale and risk of the entity to the Group as a whole and our assessment of the risk of misstatement in that entity. In the current year, the range of performance materiality allocated to entities was £10.9 million to £19.7 million.

**Reporting threshold**

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.9 million for the Group and £1.0 million for the Society, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**Other information**

Other information comprises the information included in the Annual Report, other than the financial statements as defined above and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matters prescribed by the Building Societies Act 1986**

In our opinion:

- The Annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- The information given in the Annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The Group's or Society's financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

## Voluntary reporting matters

**Corporate governance statement**

The directors have voluntarily complied with the UK Corporate Governance Code (the 'Code') and prepare a Corporate Governance Statement in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ('FCA').

The directors have requested that we review the parts of the Corporate Governance Statement relating to the Society's compliance with the Code, containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) as if the Society were a premium listed company. The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit:

- The directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 139;
- The directors' statement on fair, balanced and understandable, set out on page 140;
- The directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate, set out on page 58;
- The board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 56;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 96; and;
- The section describing the work of the Audit Committee, set out on page 98.

**Report of the directors on remuneration**

The Society voluntarily prepares a Report of the directors on remuneration in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Report of the directors on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 139, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Building Societies Act 1986.
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's operational risk framework and internal control processes.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing, as referred to in the Key audit matters section above.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We made enquiries of management and internal audit and held a fraud-focused discussion with EY forensic specialists and members of the Board to supplement our assessment of how fraud might occur. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates, and testing year end adjustments and other targeted journal entries.
- The Group operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities** This description forms part of our auditor's report.

## Independent auditor’s report to the members of Nationwide Building Society (continued)

**Other matters we are required to address**

- We were appointed by the Society at the Annual General Meeting in July 2019 and engaged on 2 August 2019 to audit the financial statements for the year ending 4 April 2020 and subsequent financial periods.
- The non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.
- The audit opinion is consistent with our additional report to the Audit Committee.

**Use of our report**

This report is made solely to the Society’s members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society’s members as a body, for our audit work, for this report, or for the opinions we have formed.

**Javier Faiz (Senior statutory auditor)**
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom

20 May 2021

# Income statements

| For the year ended 4 April 2021 | | | | | |
|---|---|---|---|---|---|
| | | Group | | Society | |
| | | 2021 | 2020 | 2021 | 2020 |
| | Notes | £m | £m | £m | £m |
| Interest receivable and similar income/(expense): | | | | | |
| Calculated using the effective interest rate method | 3 | 4,122 | 5,157 | 3,806 | 4,792 |
| Other | 3 | 2 | (27) | 2 | (27) |
| Total interest receivable and similar income | 3 | 4,124 | 5,130 | 3,808 | 4,765 |
| Interest expense and similar charges | 4 | (978) | (2,320) | (1,153) | (2,412) |
| **Net interest income** | | 3,146 | 2,810 | 2,655 | 2,353 |
| Fee and commission income | 5 | 379 | 439 | 375 | 435 |
| Fee and commission expense | 5 | (231) | (270) | (231) | (270) |
| Other operating (expense)/income | 6 | (9) | 67 | 48 | 105 |
| Gains/(losses) from derivatives and hedge accounting | 7 | 34 | (7) | (21) | 19 |
| **Total income** | | 3,319 | 3,039 | 2,826 | 2,642 |
| Administrative expenses | 8 | (2,218) | (2,312) | (2,216) | (2,309) |
| Impairment losses on loans and advances to customers | 10 | (190) | (209) | (158) | (170) |
| Provisions for liabilities and charges | 27 | (88) | (52) | (89) | (53) |
| **Profit before tax** | | 823 | 466 | 363 | 110 |
| Taxation | 11 | (205) | (101) | (121) | (30) |
| **Profit after tax** | | 618 | 365 | 242 | 80 |

The notes on pages 247 to 325 form part of these financial statements.

# Statements of comprehensive income

**For the year ended 4 April 2021**

| | | Group | | Society | |
|---|---|---|---|---|---|
| | | **2021** | 2020 | **2021** | 2020 |
| | **Notes** | **£m** | £m | **£m** | £m |
| **Profit after tax** | | **618** | 365 | **242** | 80 |
| | | | | | |
| **Other comprehensive (expense)/income:** | | | | | |
| | | | | | |
| **Items that will not be reclassified to the income statement** | | | | | |
| Remeasurements of retirement benefit obligations: | | | | | |
| Retirement benefit remeasurements | 30 | **(112)** | 195 | **(112)** | 195 |
| Taxation | 11 | **40** | (76) | **40** | (76) |
| | | **(72)** | 119 | **(72)** | 119 |
| Revaluation of property: | | | | | |
| Revaluation losses | 26 | **(9)** | (13) | **(9)** | (13) |
| Taxation | 11 | **11** | 2 | **11** | 2 |
| | | **2** | (11) | **2** | (11) |
| Movements in fair value of equity shares held at fair value through other comprehensive income: | | | | | |
| Fair value movements taken to members' interests and equity | | **4** | - | **-** | - |
| Taxation | 11 | **(1)** | - | **-** | - |
| | | **3** | - | **-** | - |
| | | | | | |
| | | **(67)** | 108 | **(70)** | 108 |
| **Items that may subsequently be reclassified to the income statement** | | | | | |
| Cash flow hedge reserve | | | | | |
| Fair value movements taken to members' interests and equity | | **(98)** | 56 | **(83)** | 64 |
| Amount transferred to income statement | | **(54)** | (65) | **2** | (12) |
| Taxation | 11 | **41** | (5) | **24** | (16) |
| | | **(111)** | (14) | **(57)** | 36 |
| Other hedging reserve | | | | | |
| Fair value movements taken to members' interests and equity | | **(4)** | (57) | **20** | (21) |
| Amount transferred to income statement | | **(2)** | - | **(6)** | - |
| Taxation | 11 | **2** | 15 | **2** | 15 |
| | | **(4)** | (42) | **16** | (6) |
| Fair value through other comprehensive income reserve: | | | | | |
| Fair value movements taken to members' interests and equity | | **215** | (51) | **215** | (51) |
| Amount transferred to income statement | | **(40)** | (40) | **(40)** | (40) |
| Taxation | 11 | **(47)** | 24 | **(47)** | 23 |
| | | **128** | (67) | **128** | (68) |
| | | | | | |
| **Other comprehensive (expense)/income** | | **(54)** | (15) | **17** | 70 |
| | | | | | |
| **Total comprehensive income** | | **564** | 350 | **259** | 150 |

The notes on pages 247 to 325 form part of these financial statements.

# Balance sheets

**At 4 April 2021**

| | | Group | | Society | |
|---|---|---|---|---|---|
| | | **2021** | 2020 | **2021** | 2020 |
| | **Notes** | **£m** | £m | **£m** | £m |
| **Assets** | | | | | |
| Cash | | **16,693** | 13,748 | **16,693** | 13,748 |
| Loans and advances to banks and similar institutions | | **3,660** | 3,636 | **3,633** | 3,617 |
| Investment securities | 13 | **25,473** | 20,004 | **25,451** | 19,996 |
| Derivative financial instruments | 15 | **3,809** | 4,771 | **3,185** | 3,636 |
| Fair value adjustment for portfolio hedged risk | | **946** | 1,774 | **946** | 1,774 |
| Loans and advances to customers | 14 | **201,547** | 200,978 | **160,366** | 163,206 |
| Investments in Group undertakings | 33 | **-** | - | **38,252** | 35,207 |
| Intangible assets | 25 | **1,101** | 1,239 | **1,089** | 1,227 |
| Property, plant and equipment | 26 | **1,018** | 1,172 | **1,018** | 1,172 |
| Accrued income and prepaid expenses | | **213** | 205 | **864** | 1,660 |
| Deferred tax | 11 | **72** | 76 | **62** | 62 |
| Current tax assets | | **-** | 65 | **1** | 62 |
| Other assets | | **210** | 79 | **187** | 69 |
| Retirement benefit assets | 30 | **172** | 294 | **173** | 296 |
| **Total assets** | | **254,914** | 248,041 | **251,920** | 245,732 |
| **Liabilities** | | | | | |
| Shares | | **170,313** | 159,691 | **170,313** | 159,691 |
| Deposits from banks and similar institutions | 16 | **27,022** | 21,812 | **26,453** | 20,636 |
| Other deposits | 17 | **4,522** | 4,482 | **5,670** | 6,024 |
| Fair value adjustment for portfolio hedged risk | | **25** | 29 | **25** | 29 |
| Debt securities in issue | 18 | **27,923** | 35,963 | **24,470** | 30,894 |
| Derivative financial instruments | 15 | **1,622** | 1,924 | **2,502** | 3,673 |
| Other liabilities | | **933** | 915 | **3,192** | 4,513 |
| Provisions for liabilities and charges (note i) | 27 | **159** | 146 | **159** | 146 |
| Accruals and deferred income (note i) | | **307** | 340 | **299** | 337 |
| Subordinated liabilities | 19 | **7,575** | 9,317 | **7,575** | 9,317 |
| Subscribed capital | 20 | **243** | 253 | **243** | 253 |
| Deferred tax | 11 | **150** | 207 | **62** | 108 |
| Current tax liabilities | | **7** | - | **-** | - |
| **Total liabilities** | | **240,801** | 235,079 | **240,963** | 235,621 |
| **Members' interests and equity** | | | | | |
| Core capital deferred shares | 31 | **1,334** | 1,325 | **1,334** | 1,325 |
| Other equity instruments | 32 | **1,336** | 593 | **1,336** | 593 |
| General reserve | | **11,140** | 10,749 | **8,122** | 8,102 |
| Revaluation reserve | | **44** | 48 | **44** | 48 |
| Cash flow hedge reserve | | **195** | 306 | **4** | 61 |
| Other hedging reserve | | **(46)** | (42) | **10** | (6) |
| Fair value through other comprehensive income reserve | | **110** | (17) | **107** | (12) |
| **Total members' interests and equity** | | **14,113** | 12,962 | **10,957** | 10,111 |
| **Total members' interests, equity and liabilities** | | **254,914** | 248,041 | **251,920** | 245,732 |

The notes on pages 247 to 325 form part of these financial statements.

Approved by the Board of directors on 20 May 2021.

**D L Roberts** Chairman
**J D Garner** Chief Executive Officer
**C S Rhodes** Chief Financial Officer

Note:
i. Comparatives have been restated as detailed in note 1.

# Group statement of movements in members' interests and equity

| **For the year ended 4 April 2021** | **Core capital deferred shares** | **Other equity instruments** | **General reserve** | **Revaluation reserve** | **Cash flow hedge reserve** | **Other hedging reserve** | **FVOCI reserve** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| At 5 April 2020 | 1,325 | 593 | 10,749 | 48 | 306 | (42) | (17) | 12,962 |
| Profit for the year | **-** | **-** | **618** | **-** | **-** | **-** | **-** | **618** |
| Net remeasurements of retirement benefit obligations | **-** | **-** | **(72)** | **-** | **-** | **-** | **-** | **(72)** |
| Net revaluation of property | **-** | **-** | **-** | **2** | **-** | **-** | **-** | **2** |
| Net movement in cash flow hedge reserve | **-** | **-** | **-** | **-** | **(111)** | **-** | **-** | **(111)** |
| Net movement in other hedging reserve | **-** | **-** | **-** | **-** | **-** | **(4)** | **-** | **(4)** |
| Net movement in FVOCI reserve | **-** | **-** | **-** | **-** | **-** | **-** | **131** | **131** |
| **Total comprehensive income** | **-** | **-** | **546** | **2** | **(111)** | **(4)** | **131** | **564** |
| Reserve transfer | **-** | **-** | **10** | **(6)** | **-** | **-** | **(4)** | **-** |
| Issuance of core capital deferred shares | **9** | **-** | **-** | **-** | **-** | **-** | **-** | **9** |
| Issuance of Additional Tier 1 capital | **-** | **743** | **-** | **-** | **-** | **-** | **-** | **743** |
| Distribution to the holders of core capital deferred shares | **-** | **-** | **(108)** | **-** | **-** | **-** | **-** | **(108)** |
| Distribution to the holders of Additional Tier 1 capital | **-** | **-** | **(57)** | **-** | **-** | **-** | **-** | **(57)** |
| **At 4 April 2021** | **1,334** | **1,336** | **11,140** | **44** | **195** | **(46)** | **110** | **14,113** |

| For the year ended 4 April 2020 | Core capital deferred shares | Other equity instruments | General reserve | Revaluation reserve | Cash flow hedge reserve | Other hedging reserve | FVOCI reserve | Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2019 | 1,325 | 992 | 10,418 | 64 | 320 | - | 50 | 13,169 |
| Profit for the year | - | - | 365 | - | - | - | - | 365 |
| Net remeasurements of retirement benefit obligations | - | - | 119 | - | - | - | - | 119 |
| Net revaluation of property | - | - | - | (11) | - | - | - | (11) |
| Net movement in cash flow hedge reserve | - | - | - | - | (14) | - | - | (14) |
| Net movement in other hedging reserve | - | - | - | - | - | (42) | - | (42) |
| Net movement in FVOCI reserve | - | - | - | - | - | - | (67) | (67) |
| Total comprehensive income | - | - | 484 | (11) | (14) | (42) | (67) | 350 |
| Reserve transfer | - | - | 5 | (5) | - | - | - | - |
| Issuance of Additional Tier 1 capital | - | 593 | - | - | - | - | - | 593 |
| Redemption of Additional Tier 1 capital | - | (992) | (8) | - | - | - | - | (1,000) |
| Distribution to the holders of core capital deferred shares | - | - | (108) | - | - | - | - | (108) |
| Distribution to the holders of Additional Tier 1 capital | - | - | (42) | - | - | - | - | (42) |
| At 4 April 2020 | 1,325 | 593 | 10,749 | 48 | 306 | (42) | (17) | 12,962 |

The notes on pages 247 to 325 form part of these financial statements.

# Society statement of movement in members' interests and equity

| **For the year ended 4 April 2021** | **Core capital deferred shares** | **Other equity instruments** | **General reserve** | **Revaluation reserve** | **Cash flow hedge reserve** | **Other hedging reserve** | **FVOCI reserve** | **Total** |
|---|---|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| At 5 April 2020 | 1,325 | 593 | 8,102 | 48 | 61 | (6) | (12) | 10,111 |
| Profit for the year | - | - | 242 | - | - | - | - | 242 |
| Net remeasurements of retirement benefit obligations | - | - | (72) | - | - | - | - | (72) |
| Net revaluation of property | - | - | - | 2 | - | - | - | 2 |
| Net movement in cash flow hedge reserve | - | - | - | - | (57) | - | - | (57) |
| Net movement in other hedging reserve | - | - | - | - | - | 16 | - | 16 |
| Net movement in FVOCI reserve | - | - | - | - | - | - | 128 | 128 |
| **Total comprehensive income** | - | - | 170 | 2 | (57) | 16 | 128 | 259 |
| Reserve transfer | - | - | 15 | (6) | - | - | (9) | - |
| Issuance of core capital deferred shares | 9 | - | - | - | - | - | - | 9 |
| Issuance of Additional Tier 1 capital | - | 743 | - | - | - | - | - | 743 |
| Distribution to the holders of core capital deferred shares | - | - | (108) | - | - | - | - | (108) |
| Distribution to the holders of Additional Tier 1 capital | - | - | (57) | - | - | - | - | (57) |
| **At 4 April 2021** | **1,334** | **1,336** | **8,122** | **44** | **4** | **10** | **107** | **10,957** |

| For the year ended 4 April 2020 | Core capital deferred shares | Other equity instruments | General reserve | Revaluation reserve | Cash flow hedge reserve | Other hedging reserve | FVOCI reserve | Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2019 | 1,325 | 992 | 8,056 | 64 | 25 | - | 56 | 10,518 |
| Profit for the year | - | - | 80 | - | - | - | - | 80 |
| Net remeasurements of retirement benefit obligations | - | - | 119 | - | - | - | - | 119 |
| Net revaluation of property | - | - | - | (11) | - | - | - | (11) |
| Net movement in cash flow hedge reserve | - | - | - | - | 36 | - | - | 36 |
| Net movement in other hedging reserve | - | - | - | - | - | (6) | - | (6) |
| Net movement in FVOCI reserve | - | - | - | - | - | - | (68) | (68) |
| Total comprehensive income | - | - | 199 | (11) | 36 | (6) | (68) | 150 |
| Reserve transfer | - | - | 5 | (5) | - | - | - | - |
| Issuance of Additional Tier 1 capital | - | 593 | - | - | - | - | - | 593 |
| Redemption of Additional Tier 1 capital | - | (992) | (8) | - | - | - | - | (1,000) |
| Distribution to the holders of core capital deferred shares | - | - | (108) | - | - | - | - | (108) |
| Distribution to the holders of Additional Tier 1 capital | - | - | (42) | - | - | - | - | (42) |
| At 4 April 2020 | 1,325 | 593 | 8,102 | 48 | 61 | (6) | (12) | 10,111 |

The notes on pages 247 to 325 form part of these financial statements.

# Cash flow statements

| For the year ended 4 April 2021 | | Group | | Society | |
|---|---|---|---|---|---|
| | | **2021** | 2020 | **2021** | 2020 |
| | **Notes** | **£m** | £m | **£m** | £m |
| **Cash flows generated from/(used in) operating activities** | | | | | |
| Profit before tax | | **823** | 466 | **363** | 110 |
| Adjustments for: | | | | | |
| Non-cash items included in profit before tax (note i) | 36 | **1,009** | 924 | **1,037** | 866 |
| Changes in operating assets and liabilities (note i) | 36 | **9,368** | 2,273 | **9,739** | 2,590 |
| Taxation | | **(138)** | (252) | **(74)** | (139) |
| **Net cash flows generated from operating activities** | | **11,062** | 3,411 | **11,065** | 3,427 |
| | | | | | |
| **Cash flows (used in)/generated from investing activities** | | | | | |
| Purchase of investment securities | | **(14,360)** | (13,162) | **(14,349)** | (13,156) |
| Investment in subsidiary share capital | | **-** | - | **(22)** | (24) |
| Sale and maturity of investment securities | | **7,173** | 10,138 | **7,173** | 10,138 |
| Purchase of property, plant and equipment | | **(96)** | (264) | **(96)** | (267) |
| Sale of property, plant and equipment | | **23** | 27 | **23** | 27 |
| Purchase of intangible assets | | **(245)** | (403) | **(245)** | (403) |
| **Net cash flows used in from investing activities** | | **(7,505)** | (3,664) | **(7,516)** | (3,685) |
| | | | | | |
| **Cash flows (used in)/generated from financing activities** | | | | | |
| Distributions paid to the holders of core capital deferred shares | | **(108)** | (108) | **(108)** | (108) |
| Issuance of core capital deferred shares | | **9** | - | **9** | - |
| Distributions paid to the holders of Additional Tier 1 capital | | **(57)** | (42) | **(57)** | (42) |
| Issuance of Additional Tier 1 capital | | **743** | 593 | **743** | 593 |
| Redemption of Additional Tier 1 capital | | **-** | (1,000) | **-** | (1,000) |
| Issue of subordinated liabilities | | **-** | 1,603 | **-** | 1,603 |
| Redemption of subordinated liabilities | | **(661)** | - | **(661)** | - |
| Interest paid on subordinated liabilities | | **(166)** | (202) | **(166)** | (202) |
| Interest paid on subscribed capital | | **(4)** | (5) | **(4)** | (5) |
| Repayment of lease liabilities | | **(27)** | (27) | **(27)** | (27) |
| **Net cash flows (used in)/generated from financing activities** | | **(271)** | 812 | **(271)** | 812 |
| | | | | | |
| Effect of exchange rate changes on cash and cash equivalents | | **(55)** | 41 | **(55)** | 42 |
| **Net increase in cash and cash equivalents** | | **3,231** | 600 | **3,223** | 596 |
| Cash and cash equivalents at start of year | | **14,474** | 13,874 | **14,455** | 13,859 |
| **Cash and cash equivalents at end of year** | 36 | **17,705** | 14,474 | **17,678** | 14,455 |

Note:
i. Comparatives have been restated to reflect the change in presentation of the bank levy as detailed in note 1.

The notes on pages 247 to 325 form part of these financial statements.

Strategic report
Governance
Risk report
Financial statements
Other information

# Notes to the financial statements

## 1. Statement of accounting policies

**Basis of preparation**

The Group and Society financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) that are applicable. International accounting standards which have been adopted for use within the UK have also been applied in these financial statements.

The Group financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, branches and non-specialised buildings, financial assets measured at fair value through other comprehensive income (FVOCI), and derivatives and certain other financial assets and liabilities measured at fair value through profit and loss (FVTPL). As stated in the Directors' report, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

A summary of the Group's accounting policies is set out below. The accounting policies have been consistently applied, except for changes arising from adoption of new and revised IFRSs and certain voluntary changes in accounting policy, as described below.

Further information about judgements in applying accounting policies and critical accounting estimates is provided in note 2.

**Adoption of new and revised IFRSs**

With effect from 5 April 2020 the Group has adopted the Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Further information on the impacts of adopting these amendments is set out below.

In addition, a number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of 1 January 2020. Those relevant to these financial statements include minor amendments to IAS 1 'Presentation of Financial Statements', IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', and the Conceptual Framework. The adoption of these amendments and interpretations had no significant impact on the Group.

***Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16***

In August 2020, the IASB issued amendments arising from Phase 2 of its work on Interest Rate Benchmark Reform. The amendments focus on accounting for the replacement of existing benchmark interest rates, and provide relief allowing entities:

- not to recognise significant modification gains or losses on financial instruments if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis; and
- to continue existing hedging relationships despite changes to hedge documentation for modifications required as a direct consequence of IBOR reform.

These amendments, which were endorsed by the EU and UK in January 2021, are applicable to the Group from 5 April 2021, with early adoption permitted. The Group has early adopted the amendments in these financial statements, with no significant impact. The disclosures required by these amendments have been included in note 15.

**Change in presentation of bank levy**

To reflect better the nature of liabilities associated with the UK Bank Levy, a liability of £12 million at 4 April 2021 has been reclassified to be presented within accruals and deferred income on the balance sheet. Previously, this liability was included within provisions for liabilities and charges.

Comparatives at 4 April 2020 have been restated as shown below.

| Balance sheet extract at 4 April 2020 | Previously published | Adjustment | Restated |
|---|---|---|---|
| | £m | £m | £m |
| **Group** | | | |
| Provisions for liabilities and charges | 176 | (30) | 146 |
| Accruals and deferred income | 310 | 30 | 340 |
| **Society** | | | |
| Provisions for liabilities and charges | 176 | (30) | 146 |
| Accruals and deferred income | 307 | 30 | 337 |

This change had no impact on the Group or Society's net assets or members' interests and equity at 4 April 2020.

# 1. Statement of accounting policies (continued)

**Future accounting developments**

The IASB has issued a number of minor amendments to IFRSs that become effective from 1 January 2021 or subsequent years, some of which have not yet been endorsed for use in the UK. These amendments are not expected to have a significant impact for the Group.

IFRS 17 'Insurance Contracts' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 is effective for accounting periods beginning on or after 1 January 2023 and has not yet been endorsed for use by the UK. The requirements of IFRS 17 are currently being assessed; however, it is not expected that the new standard will have a significant impact for the Group.

**Basis of consolidation**

The assets, liabilities and results of the Society and its undertakings, which include subsidiaries and structured entities, are included in the financial statements on the basis of accounts made up to the reporting date.

The Group consolidates an entity from the date on which the Group: (i) has power over the entity; (ii) is exposed to, or has rights to variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through the exercise of its power. The assessment of control is based on all facts and circumstances. The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Group ceases to consolidate subsidiaries from the date that control ceases.

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control. The Group considers factors such as the purpose and design of the entity, size and exposure to variability of returns and nature of the relationship.

Upon consolidation, all intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated.

Investments in subsidiary undertakings are stated in the Society accounts at cost less provisions for any impairment in value. The directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Adjustment is made for individually significant transactions arising between 31 March and the Society's year end.

**Securitisation and covered bond transactions**

The Group has securitised certain mortgage loans by the transfer of the loans to structured entities controlled by the Group. The securitisation enables a subsequent issuance of debt, either by the Society or the structured entities, to investors who gain the security of the underlying assets as collateral. Those structured entities are fully consolidated into the Group accounts.

The transfers of the mortgage loans to the structured entities are not treated as sales by the Society. The Society continues to recognise the mortgage loans on its own balance sheet after the transfer because it retains their risks and rewards through the receipt of substantially all of the profits or losses of the structured entities. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the structured entities.

For covered bonds, the Society itself and not the structured entity issues the covered bonds and then lends the proceeds to the structured entity on back to back terms. The structured entity then uses these proceeds as consideration for the loans transferred from the Society. In the accounts of the Society, neither the loan to the structured entity nor the consideration for the transfer of mortgage loans is recognised separately as an additional asset and liability.

The Group has also entered into self-issuances of debt to be used as collateral for repurchase ('repo') and similar transactions. Investments in self-issued debt and the related obligation, together with the related income, expenditure and cash flows, are not recognised in the Society's or Group's financial statements. This avoids the 'grossing-up' of the financial statements that would otherwise arise.

To manage interest rate risk, the Society enters into derivative transactions with the structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans are not derecognised. All other derivatives relating to securitisations are treated as explained in the derivatives and hedge accounting policy below.

**Interest receivable and interest expense**

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

# 1. Statement of accounting policies (continued)

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example early redemption penalty charges) and anticipated customer behaviour but does not consider future credit losses. The calculation includes all fees received and paid and costs incurred that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts above or below market rates.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. net of the allowance for expected credit losses (ECLs)). Where loans are credit impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. For these assets the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest receivable and similar income/(expense) calculated using the effective interest rate method also includes interest on financial assets classified as fair value through other comprehensive income, and on derivatives in qualifying hedge relationships.

Interest income not calculated using the effective interest rate method, including interest on financial assets classified as fair value through profit or loss and derivatives not in qualifying hedge relationships, is presented as other interest receivable and similar income/(expense).

**Fees and commissions**

Fees and commission income and expense includes fees other than those that are an integral part of EIR. Fees and commissions relating to current accounts, mortgages and credit cards are either:

- transaction-based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to the provision of services over a period of time and therefore recognised on a systematic basis over the life of the agreement as services are provided.

The transaction prices and provision of services are defined within the product terms and conditions.

Trail commission relating to investments under administration, general insurance and protection products sold on behalf of third parties may include variable consideration. Where this is the case the trail commission is recognised either on the accruals basis over the period to which the commission relates or, if the uncertainties are more significant, once the uncertainties are resolved.

Fee and commission income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

**Segmental reporting**

The Nationwide Leadership Team (NLT) is responsible for allocating resources and assessing the performance of the business and is therefore identified as the chief operating decision maker.

The Group has determined that it has one reportable segment as the NLT reviews performance and makes decisions based on the Group as whole. No segmental analysis is required on geographical lines as substantially all of the Group’s activities are in the United Kingdom. As a result, no segmental disclosure is provided.

**Leases**

At inception, the Group assesses whether a contract is or contains a lease. This assessment involves exercising judgment as to whether the contract conveys the right to control the use of an identified asset, and the right to obtain substantially all of the economic benefits from this asset, for a period of time. The leases held by the Group as a lessee consist primarily of property contracts for branches and office buildings.

The Group recognises a right-of-use (RoU) asset and a lease liability at the commencement of the lease, except for short-term leases (defined as leases with a lease term of less than 12 months) and leases of low value assets. Payments for short-term leases and leases of low value assets are generally recognised in the income statement on a straight-line basis.

## 1. Statement of accounting policies (continued)

The lease liability is initially measured at the present value of the payments over the lease term, with the rate used to discount the payments reflecting the rate implicit in the lease or, if this is not readily determinable, the Group's incremental borrowing rate. The lease term includes the non-cancellable period of the lease, together with an assessment of any extension or termination options which are reasonably certain to be exercised. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured (with a corresponding adjustment to the RoU asset) when there is a change in future lease payments due to a modification of lease terms, changes to an index or rate, or a reassessment of options.

The RoU asset is initially measured based on the value of the corresponding lease liability, plus any initial direct costs and any lease payments made at or before the commencement, less any incentives received. The RoU asset is subsequently measured at cost less depreciation and any accumulated impairment. Assets are depreciated over the shorter of the lease term or the useful life of the underlying asset. The Group applies IAS 36 to determine whether a RoU asset is impaired, as described in the property, plant and equipment accounting policy. RoU assets are included in the 'Property, plant and equipment' balance sheet line item and the lease liabilities are included in the 'Other liabilities' line item.

All leases of owned properties where the Group is lessor are classified as operating leases, as substantially all risks and rewards of ownership have been retained. When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the RoU asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases and finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return.

**Intangible assets**

Intangible assets held by the Group consist primarily of externally acquired and internally developed computer software which is held at cost less accumulated amortisation and impairment. In accordance with IAS 38 'Intangible Assets', software development costs are capitalised if it is probable that the asset created will generate future economic benefits and those benefits can be controlled by the Group. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Web development costs are capitalised where the expenditure is incurred on developing an income generating website.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Computer software intangible assets are amortised using the straight-line method over their estimated useful lives which generally range between 3 and 10 years. Amortisation commences when the assets are ready for their intended use. Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Intangible assets, including computer software, are reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount. The estimated recoverable amount is based on value in use calculations where there is no basis for making a reliable estimate of fair value less costs of disposal.

**Property, plant and equipment**

Freehold and long leasehold properties comprise mainly branches and office buildings.

Branches and non-specialised buildings are stated at revalued amounts, being the fair value, determined by market-based evidence at the date of the valuation, less any subsequent accumulated depreciation and subsequent impairment. Valuations are completed annually as at 4 April, or more frequently if required, by external, independent and qualified surveyors who have recent experience in the location and type of properties. Valuations are performed in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards and are performed on a vacant possession basis, using a comparative method of valuation with reference to sales prices and observable market rents for similar properties in similar locations.

Increases in the valuations of branches and non-specialised buildings are credited to other comprehensive income except where they reverse decreases for the same asset previously recognised in the income statement, in which case the increase in the valuation is recognised in the income statement. Decreases in valuations are recognised in the income statement except where they reverse amounts previously credited to other comprehensive income for the same asset, in which case the decrease in valuation is recognised in other comprehensive income.

# 1. Statement of accounting policies (continued)

The Group holds a small number of investment properties comprising properties held for rental. These properties include both owned properties and leased properties for which the RoU asset is held for rental under an operating sublease. Investment properties are stated at fair value, determined by market-based evidence at the date of the valuation. Valuations of owned properties are completed annually as at 4 April, or more frequently if required, by independent surveyors. The fair value of an investment property which is a RoU asset reflects the expected cash flows to be received under its sublease. Changes in fair value are included in the income statement. Depreciation is not charged on investment properties.

Other property, plant and equipment, including specialised administration buildings, are included at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Land is not depreciated. The depreciation of other assets commences when the assets are ready for their intended use and is calculated using the straight-line method to allocate their cost or valuation over the following estimated useful lives:

| | |
|---|---|
| Branches and non-specialised buildings | 60 years |
| Specialised administration buildings | up to 60 years |
| Plant and machinery | 5 to 15 years |
| Equipment, fixtures, fittings and vehicles | 3 to 10 years |

Estimated useful lives and residual values are reviewed annually and adjusted, if appropriate, in light of technological developments, usage and other relevant factors.

Assets are reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

Gains and losses on disposals are included in other operating income/(expense) in the income statement.

**Taxation**

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effects of tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (for example, in other comprehensive income or directly in equity). In this case, the tax appears in the same statement as the transaction that gave rise to it. An exception to this principle relates to the tax consequences of the Group's distributions on other equity instruments. Although such distributions are recognised directly in equity, the tax consequences are credited to the income statement, where the profit being distributed originally arose.

## 1. Statement of accounting policies (continued)

**Employee benefits**

(a) Pensions

The Group operates a number of defined benefit and defined contribution pension arrangements.

*Defined benefit pension arrangements*

A defined benefit plan is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.

The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where a net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan. Refunds of a surplus are not considered to be available if the right to a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within an entity's control. The rights of third parties, such as trustees, are considered in assessing the extent to which a surplus can be recognised. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows derived from yields of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in forward looking actuarial assumptions. Actuarial remeasurements are recognised in full, in the year they occur, in other comprehensive income.

Past service costs are recognised immediately in the income statement.

*Defined contribution pension arrangements*

A defined contribution arrangement is one into which the Group and the employee pay fixed contributions, without any further obligation to pay additional contributions. Payments to defined contribution schemes are charged to the income statement as they fall due.

(b) Other post-retirement obligations

The Group provides post-retirement healthcare to a small number of former employees. The Group recognises this obligation and the actuarial remeasurement in a similar manner to the defined benefit pension plans.

(c) Other long-term employee benefits

The cost of bonuses and other long-term employee benefits payable 12 months or more after the end of the year in which they are earned is accrued over the period from the start of the performance year until all relevant criteria have been met.

(d) Short-term employee benefits

The cost of short-term employee benefits, including wages and salaries, social security costs and healthcare for current employees, is recognised in the year of service.

**Provisions**

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled, and it can be reliably estimated. This includes management's best estimate of amounts payable for customer redress.

The Group has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised, to the extent that it can be reliably estimated, when the levy is legally enforceable, in line with IFRIC 21 'Levies'. The amount provided is based on information received from the FSCS and the Group's historic share of industry protected deposits.

**Financial assets**

Financial assets comprise cash, loans and advances to banks and similar institutions, investment securities, derivative financial instruments and loans and advances to customers.

## 1. Statement of accounting policies (continued)

*Recognition and derecognition*

All financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all the risks and rewards of ownership have been transferred.

The fair value of a financial instrument on initial recognition is normally the transaction price (plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss). On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. Any difference between the fair value at initial recognition and the transaction price is recognised immediately as a gain or loss in the income statement where the fair value is based on a quoted price in an active market or a valuation using only observable market data. In all other cases, any gain or loss is deferred and recognised over the life of the transaction, or until valuation inputs become observable.

*Modification of contractual terms*

An instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms (such as renegotiations of commercial loans). Residential mortgages reaching the end of a fixed interest deal period are deemed repricing events, rather than a modification of contractual terms, as the change in interest rate at the end of the fixed rate period was envisaged in the original mortgage contract.

Where an instrument is renegotiated and not derecognised, the change is considered a modification of contractual terms. Where this arises, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate. Any gain or loss on recalculation is recognised immediately in the income statement.

*Classification and measurement*

The classification and subsequent measurement of financial assets is based on an assessment of the Group's business models for managing the assets and their contractual cash flow characteristics. Financial assets are classified into the following three categories:

*(a) Amortised cost*

Financial assets held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified as amortised cost. This category of financial assets includes cash, loans and advances to banks and similar institutions, the majority of the Group's residential and commercial mortgage loans, all unsecured lending, and certain investment securities within a 'hold to collect' business model.

Financial assets within this category are recognised on either the receipt of cash or deposit of funds into one of the Group's bank accounts (for cash and loans and advances to banks and similar institutions), when the funds are advanced to borrowers (for residential, commercial and unsecured lending) or on the trade date for purchases of investment securities. After initial recognition, the assets are measured at amortised cost using the effective interest rate method, less provisions for expected credit losses.

*(b) Fair value through other comprehensive income*

Debt instruments held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where contractual terms comprise solely payments of principal and interest (SPPI), are classified and measured at FVOCI. This category of financial assets includes most of the Group's investment securities which are held to manage liquidity requirements.

Financial assets within this category are recognised on trade date. The assets are measured at fair value using, in the majority of cases, market prices or, where there is no active market, prices obtained from market participants. In sourcing valuations, the Group makes use of a consensus pricing service, in line with standard industry practice. In cases where market prices or prices from market participants are not available, discounted cash flow models are used.

Interest on FVOCI assets is recognised in interest receivable and similar income in the income statement, using the effective interest rate method.

Unrealised gains and losses arising from changes in value are recognised in other comprehensive income. Provisions for expected credit losses and foreign exchange gains or losses are recognised in the income statement.

Cumulative gains or losses arising on sale are recognised in the income statement within other operating income/(expense), net of any credit or foreign exchange gains or losses already recognised.

## 1. Statement of accounting policies (continued)

*(c) Fair value through profit or loss*

All other financial assets are measured at FVTPL. Financial assets within this category primarily include derivative instruments and a small number of residential and commercial loans and investment securities with contractual cash flow characteristics which do not meet the SPPI criteria. The contractual terms for these cash flows include contingent or leverage features, or returns based on movements in underlying collateral values such as house prices.

Fair values are based on observable market data, valuations obtained by third parties or, where these are not available, internal models. Gains or losses arising from changes in the fair value of these instruments and on disposal are recognised in the income statement within other operating income.

Hedge accounting is not applied to assets classified as FVTPL; however, hedging may be applied for economic purposes. Gains or losses arising from changes in the fair value of derivatives economically hedging FVTPL financial assets is also included within other operating income.

**Impairment of financial assets**

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at either amortised cost or FVOCI. These include cash, loans and advances to banks and similar institutions, and the majority of investment securities and loans and advances to customers. Also within scope are irrevocable undrawn commitments to lend and intra-group lending (the latter being eliminated on consolidation in the Group accounts).

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument, including any undrawn commitment. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward looking economic assumptions and a range of possible outcomes. ECLs are typically calculated from initial recognition of the financial asset for the maximum contractual period that the Group is exposed to the credit risk. However, for revolving credit loans such as credit cards and overdrafts, the Group's credit risk is not limited to their contractual period and therefore the expected life of the loan and associated undrawn commitment is calculated based on the behavioural life of the loan.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the balance sheet is net of impairment provisions. For financial assets classified as FVOCI, any credit losses recognised are offset against cumulative fair value movements within the other comprehensive income reserve. For separately identifiable irrevocable loan commitments, where the related financial asset has not yet been advanced, the provision is presented in provisions for liabilities and charges in the balance sheet.

*Forward looking economic inputs*

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases. To capture any non-linear relationship between economic assumptions and credit losses, a minimum of three scenarios is used. This includes a central scenario which reflects the Group's view of the most likely future economic conditions, together with an upside and a downside scenario representing alternative plausible views of economic conditions, weighted based on management's view of their probability.

*Credit risk categorisation*

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

*Stage 1: no significant increase in credit risk since initial recognition*

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

*Stage 2: significant increase in credit risk*

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

Whether a significant increase in credit risk has occurred is ascertained by comparing the probability of default at the reporting date to the probability of default at origination, based on quantitative and qualitative factors. Quantitative considerations take into account changes in the residual lifetime probability of default (PD) of the asset. As a backstop, all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in stage 2.

## 1. Statement of accounting policies (continued)

Qualitative factors that may indicate a significant change in credit risk include concession events where full repayment of principal and interest is envisaged, on a discounted basis.

Further information about the identification of significant increases in credit risk is provided in note 10.

*Stage 3: credit impaired (or defaulted) loans*

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cash flows; or
- the loan is otherwise considered to be in default.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The gross balance sheet value of stage 3 loans reflects the contractual terms of the assets, and continues to increase over time with the contractually accrued interest.

*Purchased or originated credit impaired (POCI) loans*

Where loans are credit impaired on origination, or when purchased from third parties, lifetime ECLs are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition, and the amount recognised as a loss allowance subsequently is equal to the changes in lifetime ECLs since initial recognition of the asset discounted at the credit impaired EIR. POCI loans are separately disclosed as credit impaired loans and cannot be transferred out of the POCI designation, even if there is a significant improvement in credit quality.

*Transfers between stages*

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above.

For assets in stage 2 or 3, loans can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met. For loans subject to concession events such as forbearance, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months.

*Write-off*

Loans remain on the balance sheet, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment losses recorded in the income statement.

**Financial liabilities**

Borrowings, including shares, deposits, debt securities in issue, subordinated liabilities and permanent interest-bearing shares (subscribed capital) are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

Derivative financial liabilities are measured at FVTPL. Borrowings that are designated as hedged items are subject to measurement under the hedge accounting requirements described in the derivatives and hedge accounting policy below.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired. The financial liabilities of dormant shares and deposit accounts are extinguished when balances have been transferred to the Government-backed unclaimed asset scheme under the terms of the Dormant Accounts and Building Society Accounts Act 2008 with no impact on the income statement.

## 1. Statement of accounting policies (continued)

**Fair value of assets and liabilities**

IFRS 13 'Fair Value Measurement' requires an entity to classify assets and liabilities held at fair value, and those not measured at fair value but for which the fair value is disclosed, according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

*Level 1 – Valuation using quoted market prices*

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

*Level 2 – Valuation technique using observable inputs*

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forward rate agreements which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

*Level 3 – Valuation technique using significant unobservable inputs*

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

**Derivatives and hedge accounting**

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk, and are not used for speculative purposes.

(a) Derivative financial instruments

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or on valuations obtained from third parties. For collateralised positions the Group uses discount curves based on overnight indexed swap rates such as Sonia, and for non-collateralised positions the Group uses discount curves based on term Libor rates.

In the first instance fair values are calculated using mid prices. An adjustment is then made to derivative assets and liabilities to value them on a bid and offer basis respectively. The bid-offer adjustment is calculated on a portfolio basis and reflects the costs that would be incurred if substantially all residual net portfolio market risks were closed out using available hedging instruments or by disposing of or unwinding actual positions. The methodology for determining the bid-offer adjustments involves netting between long and short positions and the grouping of risk by type, in accordance with hedging strategy. Bid-offer spreads are derived from market sources such as broker data and are reviewed periodically.

In measuring fair value, separate credit valuation and debit valuation adjustments are made for counterparty or own credit risk to the extent not already included in the valuation. Funding valuation adjustments are also made to reflect an estimate of the adjustment a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal right and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

# 1. Statement of accounting policies (continued)

Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks and similar institutions. Similarly, where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks and similar institutions. Where securities collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities have not been derecognised as the Group has retained substantially all the risks and rewards of ownership.

(b) Embedded derivatives

Some complex contracts may be hybrid in nature, in that a derivative element is included within a non-derivative host contract, in which case the derivative is termed an embedded derivative. If the host contract is an asset within the scope of IFRS 9 the entire contract has its accounting classification assessed under IFRS 9. If the host contract is a liability or an asset which does not fall within the scope of IFRS 9, the embedded derivative is separated and treated as a standalone derivative instrument if:

- its economic characteristics are not closely related to the host,
- a separate instrument with the same terms would meet the definition of a derivative, and
- the hybrid contract is not already being fair valued through the income statement.

(c) Hedge accounting

The Group has adopted the general hedge accounting requirements of IFRS 9 but continues to apply the scope exception which allows ongoing application of IAS 39 for fair value hedge accounting for a portfolio (macro) hedge of interest rate risk. When transactions meet the criteria specified in IFRS 9, the Group can apply two types of hedge accounting: either hedges of the changes in fair value of the financial asset or liability (fair value hedge accounting) or hedges of the variability in cash flows of the financial asset or liability (cash flow hedge accounting). The Group does not have hedges of net investments.

At inception each hedge relationship is formally documented, including a description of the hedged item (a financial asset or liability which is being economically hedged) and the hedging instrument (a derivative), as well as the methods which will be used to assess the effectiveness of the hedge. Hedges accounted for under IFRS 9 are required to be effective on a prospective basis, in line with risk management strategy. Macro hedges which continue to be accounted for under IAS 39 are required to be highly effective on both a retrospective and a prospective basis.

Fair value and cash flow hedges may have residual hedge ineffectiveness. This is the degree to which the change in fair value of the hedging instrument does not offset the change in fair value of the hedged item. This ineffectiveness is recognised in the income statement and typically arises from:

i) differences in the magnitude or timing of future expected cash flows in the hedged item and hedging instrument;
ii) differences in the market curves used to value the hedged item and hedging instrument;
iii) unexpected adjustments to either the hedged item or hedging instrument, due to early repayments or disposals;
iv) the ongoing amortisation of any existing balance sheet mismatch between the fair value of the hedged item and hedging instrument.

The Group discontinues hedge accounting when:

i) it is evident from testing that a hedging instrument ceases to meet the hedge effectiveness requirements;
ii) the hedging instrument expires, or is sold, terminated or exercised;
iii) the hedged item matures or is sold or repaid or, in the case of a forecasted item, is no longer deemed to be highly probable to occur.

For macro hedges which continue to be accounted for under IAS 39, the Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge. For hedges accounted for under IFRS 9, the Group is unable to voluntarily de-designate hedging relationships, unless there has been a change to risk management objectives.

*Fair value hedge accounting*

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the risk being hedged. This creates an offset to the fair value movements of the hedging instrument. Changes in the fair value of the hedged items and hedging instruments are recorded in the income statement, except for changes in the fair value of hedging instruments accounted for under IFRS 9 which are attributable to foreign currency basis spreads. Where foreign currency basis spreads are excluded from hedge designation, this element of fair valuation of the hedging instrument is instead recognised directly within equity within the 'other hedging reserve'.

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# 1. Statement of accounting policies (continued)

For larger and distinctively identifiable assets and liabilities, such as investment securities and debt securities in issue, a single or small number of hedging instruments may be used. This is referred to as a micro fair value hedge. If the hedge is effective, the Group adjusts the carrying value of that specific asset or liability to reflect changes in its fair value due to movements in the designated benchmark rate, such as Libor or Sonia. This creates an offset to the fair value movement of the hedging instruments.

For hedged items which are classified as FVOCI, such as investment securities, there is no further need to adjust their carrying value as they are already held at fair value. Instead, hedge accounting results in an amount being removed from the FVOCI reserve and instead reported in the income statement, to create an offset to the change in fair value of the hedging instrument.

For balances within portfolios of homogeneous instruments, such as mortgages, savings and commercial loans, derivatives may be used to hedge risks on a portfolio basis. The Group creates separate portfolio (macro) hedges for assets and liabilities. The Group determines the hedged item by identifying portfolios of similar assets or liabilities and scheduling the expected future cash flows from these items into repricing time buckets, based on expected rather than actual repricing dates. A portion of the total cash flow from each time bucket is then included in the hedged item. The size of this portion is set so that it is expected to create a highly effective fair value offset to the equivalent future cash flows from the hedging instruments. If the hedge is highly effective the Group records an adjustment in the fair value adjustment for portfolio hedged risk category on the balance sheet. Macro hedges are frequently rebalanced to include new business.

In fair value hedge accounting relationships, if the hedging instrument no longer meets the criteria for hedge accounting, the cumulative fair value hedge adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the hedged item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

*Cash flow hedge accounting*

In a cash flow hedge accounting relationship, the portion of the hedging instrument's fair value movement that is deemed to be an effective hedge is deferred to the cash flow hedge reserve, instead of being immediately recognised in the income statement. The ineffective portion of the derivative fair value movement is recognised immediately in the income statement.

Amounts deferred to the cash flow hedge reserve are subsequently recycled to the income statement. This recycling occurs when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised. In cash flow hedge accounting relationships, if the derivative no longer meets the criteria for hedge accounting, the cumulative gain or loss from the effective portion of the movement in the fair value of the derivative remains in other comprehensive income until the cash flows from the underlying hedged item are recognised in the income statement. If the hedged item is sold or repaid, the cumulative gain or loss in other comprehensive income is immediately recognised in the income statement.

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported on the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

**Sale and repurchase agreements (including securities borrowing and lending)**

Investment and other securities may be lent or sold subject to a commitment to repurchase them at a pre-determined price (a repo). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership (typically, the interest rate risk and credit risk on the asset) remain within the Group, and the counterparty liability is included separately on the balance sheet within deposits from banks and similar institutions as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a reverse repo) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans within loans and advances to banks and similar institutions, and the securities are not included on the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

# 1. Statement of accounting policies (continued)

**Equity instruments**

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments. Where the Group does have a present obligation, the instrument is classified as a financial liability.

The proceeds of the issuance of equity instruments are included in equity. Costs incurred that are incremental and directly attributable to the issuance are deducted from the proceeds (net of applicable tax).

Distributions to holders of equity instruments are recognised when they become irrevocable and are deducted from the general reserve.

**Foreign currency translation**

The consolidated financial statements are presented in sterling, which is the functional currency of the Society. Items included in the financial statements of each of the Group's entities are measured using sterling which is also the functional currency of each entity. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement as disclosed in note 7.

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, included within cash and loans and advances to banks and similar institutions on the balance sheet.

**Contingent liabilities**

Contingent liabilities are possible obligations whose existence will be confirmed only by the outcome of uncertain future events, and present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the likelihood of an outflow of economic resources is remote.

**IFRS disclosures**

The audited sections in the Risk report and the Report of the directors on remuneration form an integral part of these financial statements. These disclosures (where marked as 'audited') are covered by the Independent auditor's report for this Annual Report and Accounts.

# 2. Judgements in applying accounting policies and critical accounting estimates

The preparation of the Group's financial statements in accordance with IFRS involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 4 April 2021, this evaluation has considered the ongoing impacts of Covid-19.

The key areas involving a higher degree of judgement or areas involving significant sources of estimation uncertainty made by management in applying the Group's accounting policies are disclosed in the following notes, including any additional information relating to Covid-19 where relevant.

| | Estimates | Judgements |
|---|---|---|
| Impairment losses and provisions on loans and advances to customers | Note 10 | Note 10 |
| Provisions for customer redress | Note 27 | |
| Retirement benefit obligations (pensions) | Note 30 | |

Notes to the financial statements (continued)

## 3. Interest receivable and similar income

| | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| On financial assets measured at amortised cost: | | | | |
| Residential mortgages | **4,246** | 4,553 | **3,110** | 3,407 |
| Connected undertakings | **-** | - | **833** | 798 |
| Other loans | **557** | 655 | **548** | 642 |
| Other liquid assets | **35** | 152 | **31** | 148 |
| Investment securities | **16** | 27 | **16** | 27 |
| On investment securities measured at FVOCI | **137** | 172 | **137** | 172 |
| On financial instruments hedging assets in a qualifying hedge accounting relationship | **(869)** | (402) | **(869)** | (402) |
| **Total interest receivable and similar income calculated using the effective interest rate method** | **4,122** | 5,157 | **3,806** | 4,792 |
| Interest on net defined benefit pension asset (note 30) | **7** | 3 | **7** | 3 |
| Other interest and similar expense (note i) | **(5)** | (30) | **(5)** | (30) |
| **Total** | **4,124** | 5,130 | **3,808** | 4,765 |

Note:
i. Includes interest on financial instruments hedging assets that are not in a qualifying hedge accounting relationship.

## 4. Interest expense and similar charges

| | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| On shares held by individuals | **527** | 1,361 | **527** | 1,361 |
| On subscribed capital | **14** | 14 | **14** | 14 |
| On deposits and other borrowings: | | | | |
| Subordinated liabilities | **281** | 309 | **281** | 309 |
| Connected undertakings | **-** | - | **25** | 54 |
| Other | **56** | 240 | **56** | 241 |
| On debt securities in issue | **539** | 745 | **505** | 678 |
| Net income on financial instruments hedging liabilities | **(439)** | (349) | **(255)** | (245) |
| **Total** | **978** | 2,320 | **1,153** | 2,412 |

## 5. Fees and commission income and expense

| Group | 2021 Income £m | 2021 Expense £m | 2021 Net £m | 2020 Income £m | 2020 Expense £m | 2020 Net £m |
|---|---|---|---|---|---|---|
| Current account and savings | **228** | **(183)** | **45** | 266 | (217) | 49 |
| General insurance | **46** | **-** | **46** | 50 | - | 50 |
| Protection and investments | **52** | **-** | **52** | 59 | - | 59 |
| Mortgage | **18** | **(8)** | **10** | 15 | (6) | 9 |
| Credit card | **30** | **(34)** | **(4)** | 44 | (43) | 1 |
| Other fees and commissions | **5** | **(6)** | **(1)** | 5 | (4) | 1 |
| **Total** | **379** | **(231)** | **148** | 439 | (270) | 169 |

The Society's fee and commission income and expense is as shown above for the Group, except that it excludes £4 million (2020: £4 million) of mortgage income.

## 6. Other operating expense/income

| | Group 2021 £m | Group 2020 £m | Society 2021 £m | Society 2020 £m |
|---|---|---|---|---|
| Gains/(losses) on financial assets measured at FVTPL | **-** | 17 | **(1)** | 17 |
| Gains on disposal of FVOCI investment securities | **41** | 40 | **41** | 40 |
| Recharges for services to connected undertakings | **-** | - | **54** | 38 |
| Other (expense)/income | **(50)** | 10 | **(46)** | 10 |
| **Total** | **(9)** | 67 | **48** | 105 |

Other (expense)/income in the year ended 4 April 2021 includes losses of £37 million realised from the repurchase of £2.1 billion of covered bonds that were issued under the Nationwide Covered Bond programme. Other (expense)/income also includes fair value movements on balances relating to previous investment disposals, the net amount of rental income, profits or losses on the sale of property, plant and equipment and increases or decreases in the valuations of branches and non-specialised buildings which are not recognised in other comprehensive income.

There were no gains or losses on disposal of financial assets measured at amortised cost in the year ended 4 April 2021 (2020: £nil).

## 7. Gains/losses from derivatives and hedge accounting

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. More information on how the Group manages market risk can be found in the Risk report. Hedge accounting is employed by the Group to minimise the accounting volatility associated with the change in fair value of derivative financial instruments. This volatility does not reflect the economic reality of the Group's hedging strategy. The Group only uses derivatives for the hedging of risks; however, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not currently achievable. The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other market risks are continually managed.

Note 1 describes how fair value and cash flow hedge accounting affect the financial statements and the main sources of the residual hedge ineffectiveness remaining in the income statement. Further information on the current derivative portfolio and the allocation to hedge accounting types is included in note 15.

| | **Group** | | **Society** | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Gains from fair value hedge accounting | **-** | 61 | **38** | 24 |
| Losses from cash flow hedge accounting | **(1)** | (2) | **(1)** | (1) |
| Fair value gains/(losses) from other derivatives (note i) | **45** | (74) | **(46)** | (13) |
| Foreign exchange retranslation (note ii) | **(10)** | 8 | **(12)** | 9 |
| **Total** | **34** | (7) | **(21)** | 19 |

Notes:
i. This category includes derivatives used for economic hedging purposes, but which are not currently in a hedge accounting relationship, as well as valuation adjustments which are applied at a portfolio level and so are not allocated to individual hedge accounting relationships.
ii. Gains or losses arise from the retranslation of foreign currency monetary items not subject to effective hedge accounting.

Gains from fair value hedge accounting include gains of £50 million (2020: £53 million) from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts, and losses of £50 million (2020: gains of £8 million) relating to micro hedges which arise due to a combination of hedge ineffectiveness, disposals and restructuring, and the amortisation of existing balance sheet amounts. Fair value gains from other derivatives include gains of £49 million (2020: losses of £51 million) caused by a narrowing of bid-offer spreads. These gains are largely a reversal of bid-offer spread losses reported in the Annual Report and Accounts 2020, which were caused by spreads widening at the end of the financial year as financial markets reacted to Covid-19.

# 7. Gains/losses from derivatives and hedge accounting (continued)

### Fair value hedge accounting

Interest rate and currency derivatives are used to economically hedge the fair value of fixed rate assets and liabilities. The market risk from fixed rate assets and liabilities may be netted down before deciding to use derivatives. The derivatives used are predominantly interest rate swaps, which convert fixed rate cash flows to a benchmark floating rate such as Libor or Sonia, and cross currency swaps which convert foreign currency cash flows to GBP cash flows. In addition, bond forwards are used to reduce swap spread risk within the investment securities portfolio and inflation swaps are used to economically hedge contractual inflation risk within investment securities. The table below provides further information on the Group's fair value hedges.

| **Fair value hedge accounting 2021 Group** | | | **Change in fair value used for determining hedge ineffectiveness** | | **Hedge ineffectiveness recognised in the income statement** | **Carrying amount of the hedged item** | **Of which: accumulated fair value adjustment** |
|---|---|---|---|---|---|---|---|
| **Hedged item balance sheet classification** | **Hedging instrument** | **Risk category** | **Hedged item** | **Instrument (note i)** | | | |
| | | | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Assets:** | | | | | | | |
| Loans and advances to customers (note ii) | Interest rate swaps | Interest rate | **(915)** | **967** | **52** | **102,777** | **1,599** |
| Investment securities | Interest rate swaps, bond forwards | Interest rate | **(547)** | **551** | **4** | **4,900** | **(141)** |
| Investment securities | Interest rate swaps, cross currency interest rate swaps | Interest rate and foreign exchange | **(260)** | **282** | **22** | **12,527** | **92** |
| Investment securities | Interest rate swaps, inflation swaps, cross currency interest rate swaps | Interest rate, inflation and foreign exchange | **(10)** | **10** | **-** | **822** | **(10)** |
| Investment securities | Inflation swaps | Interest rate and inflation | **5** | **(4)** | **1** | **4,171** | **63** |
| **Total assets** | | | **(1,727)** | **1,806** | **79** | **125,197** | **1,603** |
| **Liabilities:** | | | | | | | |
| Shares (note iii) | Interest rate swaps | Interest rate | **4** | **(6)** | **(2)** | **25** | **25** |
| Debt securities in issue | Interest rate swaps, | Interest rate | **41** | **(41)** | **-** | **3,272** | **150** |
| Debt securities in issue | Interest rate swaps, cross currency interest rate swaps | Interest rate and foreign exchange | **339** | **(390)** | **(51)** | **18,824** | **626** |
| Subordinated liabilities | Interest rate swaps, cross currency interest rate swaps | Interest rate and foreign exchange | **330** | **(355)** | **(25)** | **6,010** | **305** |
| Subscribed capital | Interest rate swaps | Interest rate | **10** | **(11)** | **(1)** | **233** | **33** |
| **Total liabilities** | | | **724** | **(803)** | **(79)** | **28,364** | **1,139** |
| **Total fair value hedges** | | | **(1,003)** | **1,003** | **-** | | |

# 7. Gains/losses from derivatives and hedge accounting (continued)

| Fair value hedge accounting 2020 Group | | | Change in fair value used for determining hedge ineffectiveness | | Hedge ineffectiveness recognised in the income statement | Carrying amount of the hedged item | Of which: accumulated fair value adjustment |
|---|---|---|---|---|---|---|---|
| Hedged item balance sheet classification | Hedging instrument | Risk category | Hedged item | Instrument (note i) | | | |
| | | | £m | £m | £m | £m | £m |
| Assets: | | | | | | | |
| Loans and advances to customers (note ii) | Interest rate swaps | Interest rate | 1,220 | (1,169) | 51 | 106,163 | 2,514 |
| Investment securities | Interest rate swaps, bond forwards | Interest rate | 158 | (159) | (1) | 6,322 | 406 |
| Investment securities | Interest rate swaps, cross currency interest rate swaps | Interest rate and foreign exchange | 277 | (291) | (14) | 8,439 | 352 |
| Investment securities | Inflation swaps | Interest rate and inflation | 39 | (41) | (2) | 2,427 | 58 |
| Total assets | | | 1,694 | (1,660) | 34 | 123,351 | 3,330 |
| Liabilities: | | | | | | | |
| Shares (note iii) | Interest rate swaps | Interest rate | (46) | 48 | 2 | 4,562 | 29 |
| Debt securities in issue | Interest rate swaps, | Interest rate | (11) | 19 | 8 | 3,309 | 191 |
| Debt securities in issue | Interest rate swaps, cross currency interest rate swaps | Interest rate and foreign exchange | (503) | 508 | 5 | 22,961 | 965 |
| Subordinated liabilities | Interest rate swaps, cross currency interest rate swaps | Interest rate and foreign exchange | (598) | 611 | 13 | 9,304 | 635 |
| Subscribed capital | Interest rate swaps | Interest rate | (3) | 2 | (1) | 243 | 43 |
| Total liabilities | | | (1,161) | 1,188 | 27 | 40,379 | 1,863 |
| Total fair value hedges | | | 533 | (472) | 61 | | |

Notes:

i. The Group does not include cross currency basis spreads within its hedge accounting relationships. The change in fair value is instead deferred to an 'other hedging reserve' and so is not included in the change in value of the hedging instrument.

ii. Some of the Group's loans and advances to customers have been included as hedged items in macro fair value hedges of interest rate risk. £946 million (2020: £1,774 million) of the accumulated fair value hedge adjustment is recognised in the separate balance sheet asset 'fair value adjustment for portfolio hedged risk.' The remaining amount relates to the fair value adjustment to commercial loans in a micro fair value hedge accounting relationship and is included in the carrying value of these loans as shown in note 14.

iii. In the year ended 4 April 2020, some of the Group's shares were included as hedged items in macro fair value hedges of interest rate risk, with the accumulated fair value hedge adjustments recognised in the separate balance sheet liability 'fair value adjustment for portfolio hedged risk'. As at 4 April 2021, shares were no longer designated in a fair value hedge accounting relationship. As a result, the carrying amount at 4 April 2021 is the value of the historic hedge adjustments remaining from previous hedge relationships, which are amortising over the life of the shares.

# 7. Gains/losses from derivatives and hedge accounting (continued)

### Cash flow hedge accounting

The Group's risk management approach may involve creating future cash flow certainty. The Group uses cross currency interest rate swaps to hedge non-sterling debt securities in issue and subordinated liabilities. A portion of the interest rate flows within these derivatives has been included as a hedging instrument in cash flow hedges. In addition, inflation swaps are used to hedge RPI-linked debt securities in issue. The table below provides further information on the Group's cash flow hedges.

| **Cash flow hedge accounting 2021 Group** | | | **Change in fair value used for determining hedge ineffectiveness** | | **Changes in instrument fair value reported as** | | **Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation)** | |
|---|---|---|---|---|---|---|---|---|
| **Hedged item balance sheet classification** | **Hedging instrument** | **Risk category** | **Hedged item** | **Hedging instrument** | **Hedge ineffectiveness recognised in the income statement** | **Net amounts deferred to other comprehensive income (note i)** | **Continuing hedges** | **Discontinued hedges** |
| | | | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Liabilities:** | | | | | | | | |
| Debt securities in issue | Inflation swaps | Interest rate and inflation | (3) | 2 | (1) | 3 | 1 | - |
| Debt securities in issue | Cross currency interest rate swaps | Interest rate and foreign exchange | 20 | (20) | - | (20) | (9) | 263 |
| Subordinated liabilities | Cross currency interest rate swaps | Interest rate and foreign exchange | 71 | (71) | - | (71) | (16) | 29 |
| **Total liabilities** | | | **88** | **(89)** | **(1)** | **(88)** | **(24)** | **292** |
| **Total cash flow hedges** | | | **88** | **(89)** | **(1)** | **(88)** | **(24)** | **292** |

# 7. Gains/losses from derivatives and hedge accounting (continued)

| Cash flow hedge accounting | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2020 Group | | | Change in fair value used for determining hedge ineffectiveness | | Changes in instrument fair value reported as | | Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation) | |
| Hedged item balance sheet classification | Hedging instrument | Risk category | Hedged item | Hedging instrument | Hedge ineffectiveness recognised in the income statement | Net amounts deferred to other comprehensive income (note i) | Continuing hedges | Discontinued hedges |
| | | | £m | £m | £m | £m | £m | £m |
| Assets: | | | | | | | | |
| Loans and advances to customers | Interest rate swaps | Interest rate | 2 | (3) | (1) | (2) | - | - |
| Total assets | | | 2 | (3) | (1) | (2) | - | - |
| Liabilities: | | | | | | | | |
| Debt securities in issue | Inflation swaps | Interest rate and inflation | 8 | (7) | 1 | (8) | (2) | - |
| Debt securities in issue | Cross currency interest rate swaps | Interest rate and foreign exchange | (11) | 9 | (2) | 11 | 11 | 318 |
| Subordinated liabilities | Cross currency interest rate swaps | Interest rate and foreign exchange | (55) | 55 | - | 55 | 55 | 37 |
| Total liabilities | | | (58) | 57 | (1) | 58 | 64 | 355 |
| Total cash flow hedges | | | (56) | 54 | (2) | 56 | 64 | 355 |

Note:
i. The net deferral to other comprehensive income of losses before tax of £88 million (2020: gains of £56 million) is shown within the cash flow hedge reserve section of the statements of comprehensive income. The cash flow hedge reserve also includes amounts previously deferred on instruments which have since been migrated to fair value hedges. Amortisation of these amounts of £61 million (2020: £65 million) is presented within the fair value hedge accounting table within the change in fair value of the hedging instrument.

# 8. Administrative expenses

| | Notes | Group 2021 £m | Group 2020 £m | Society 2021 £m | Society 2020 £m |
|---|---|---|---|---|---|
| Employee costs: | | | | | |
| Wages and salaries | | **570** | 561 | **570** | 561 |
| Bonuses | | **30** | 21 | **30** | 21 |
| Social security costs | | **72** | 65 | **72** | 65 |
| Pension costs (note i) | 30 | **180** | 15 | **180** | 15 |
| | | **852** | 662 | **852** | 662 |
| Other administrative expenses: | | | | | |
| Other staff related costs (note i) | | **54** | 178 | **54** | 178 |
| Property lease rental | | **6** | 9 | **6** | 9 |
| Other property running costs | | **98** | 96 | **98** | 96 |
| Printing, postage and stationery (note ii) | | **30** | 40 | **30** | 40 |
| IT and communications | | **294** | 323 | **294** | 323 |
| Marketing and advertising (note ii) | | **62** | 58 | **62** | 58 |
| Product operating costs | | **45** | 48 | **45** | 47 |
| Legal, professional and consultancy (note ii) | | **78** | 97 | **78** | 96 |
| Other operating costs (note ii) | | **75** | 80 | **73** | 79 |
| | | **742** | 929 | **740** | 926 |
| | | | | | |
| Bank levy | | **27** | 55 | **27** | 55 |
| Depreciation, amortisation and impairment | | **597** | 666 | **597** | 666 |
| **Total** | | **2,218** | 2,312 | **2,216** | 2,309 |

Notes:

i. In the year ended 4 April 2020, pension costs are net of a gain of £164 million and other staff related costs include an expense of £60 million relating to the closure of the Nationwide Pension Fund to future accrual on 31 March 2021. Further information is included in note 30.

ii. Expense categories have been updated to better align with how the Group manages and monitors expenses. Comparatives have been restated to present £13 million of costs previously in 'marketing and advertising' within other categories to align with the current year presentation.

The bonus expense within employee costs in the above table includes £4 million (2020: £4 million) of long-term bonuses which will be paid more than one year from the balance sheet date.

Executive directors and certain senior executives are entitled to bonus payments under the Directors' Performance Award (DPA) scheme. Under this scheme, awards are based on current year results but are paid over a period of up to seven years, with part of the awards linked to the value of Nationwide's core capital deferred shares (CCDS). The payment of deferred elements remains subject to further discretion by the Remuneration Committee. These bonuses are recognised in the income statement over the period from the start of the performance year until all relevant criteria have been met.

Notes to the financial statements (continued)

# 8. Administrative expenses (continued)

The table below shows actual and expected charges to the income statement in respect of all DPA bonuses for each relevant scheme year.

| Income statement charge for long-term bonuses | | | | |
|---|---|---|---|---|
| | Group and Society | | | |
| | Actual 2019/20 | **Actual 2020/21 (note i)** | Expected 2021/22 (note ii) | Expected 2022/23 and beyond (note ii) |
| | £m | **£m** | £m | £m |
| Directors Performance Award: | | | | |
| 2018/19 and previous years | 7.8 | **6.7** | 1.4 | 1.7 |
| 2019/20 | - | **-** | - | - |
| 2020/21 | - | **4.7** | 2.6 | 1.4 |
| Income statement charge for long-term bonuses | 7.8 | **11.4** | 4.0 | 3.1 |

Notes:
i. In the year ended 4 April 2021, £6 million (2020: £4 million) was recognised in the income statement in relation to awards linked to share based payments, being amounts dependent on the performance of the Group's CCDS. An element of this cost has been deferred and therefore included in accruals and deferred income on the balance sheet.
ii. The amount expected is an estimate based on past performance together with current assumptions of future leaver rates and future CCDS performance.

Directors' emoluments, including details of the bonus scheme, are shown in the Report of the directors on remuneration in accordance with Schedule 10A, paragraphs 1 to 9 of the Building Societies Act 1986.

PricewaterhouseCoopers LLP (PwC) stepped down as auditor to the Group at the AGM in July 2019 and were succeeded by Ernst & Young LLP (EY). The figures shown in the table below relate to fees paid to PwC until July 2019, and to EY as external auditor to the Group for both full financial years.

| External auditors' remuneration | | | | |
|---|---|---|---|---|
| | Group | | Society | |
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Audit fees for the Group and Society statutory audit (note i) | **4.3** | 3.5 | **4.3** | 3.5 |
| Fees payable for other services: | | | | |
| Audit of Group subsidiaries | **0.3** | 0.3 | **-** | - |
| Audit-related assurance services (note ii) | **0.6** | 0.8 | **0.6** | 0.8 |
| Total audit and audit-related assurance services | **5.2** | 4.6 | **4.9** | 4.3 |
| Other non-audit services | **-** | 0.8 | **-** | 0.8 |
| **Total** | **5.2** | 5.4 | **4.9** | 5.1 |

Notes:
i. In the year ended 4 April 2020, audit fees of £3.5 million include £0.3 million relating to the PwC audit for the year ended 4 April 2019.
ii. Audit-related assurance services fees of £0.8 million include £0.3 million relating to services provided by PwC for the year ended 4 April 2020.

## 9. Employees

| | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| The average number of persons employed during the year was: | | | | |
| Full time | **14,066** | 13,980 | **14,060** | 13,973 |
| Part time | **4,578** | 4,594 | **4,578** | 4,594 |
| **Total** | **18,644** | 18,574 | **18,638** | 18,567 |
| Society: | | | | |
| Central administration (notes i, ii) | **12,667** | 11,810 | **12,667** | 11,810 |
| Branches (note ii) | **5,971** | 6,757 | **5,971** | 6,757 |
| Subsidiaries | **6** | 7 | **-** | - |
| **Total** | **18,644** | 18,574 | **18,638** | 18,567 |

Notes:

i. Includes employees engaged in direct customer facing operations in administrative centres.

ii. The reduction in branch employees and corresponding increase in central administration employees is linked to the Group's response to the Covid-19 pandemic, during which certain branch employees have been redeployed to better support customers through virtual and telephone services.

## 10. Impairment losses and provisions on loans and advances to customers

The following tables set out impairment losses and reversals during the year and the closing provision balances which are deducted from the relevant asset values in the balance sheet.

| **Impairment losses/(reversals)** | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Prime residential | **39** | 13 | **38** | 13 |
| Buy to let and legacy residential | **32** | 40 | **1** | 1 |
| Consumer banking | **125** | 159 | **125** | 159 |
| Commercial and other lending | **(6)** | (3) | **(6)** | (3) |
| **Total** | **190** | 209 | **158** | 170 |

| **Impairment provisions** | Group | | Society | |
|---|---|---|---|---|
| | **4 April 2021** | 4 April 2020 | **4 April 2021** | 4 April 2020 |
| | **£m** | £m | **£m** | £m |
| Prime residential | **93** | 56 | **92** | 55 |
| Buy to let and legacy residential | **224** | 196 | **5** | 4 |
| Consumer banking | **502** | 494 | **502** | 494 |
| Commercial and other lending | **33** | 40 | **33** | 40 |
| **Total** | **852** | 786 | **632** | 593 |

# 10. Impairment losses and provisions on loans and advances to customers (continued)

**Critical accounting estimates and judgements**

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, the Group uses outputs from statistical models, incorporating a number of estimates and judgements to determine the probability of default (PD), the exposure at default, and the loss given default (LGD) for each loan.

The most significant areas of estimation uncertainty are:

- the impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)
- the performance of interest only mortgages at maturity
- the level of future recoveries for retail lending
- the use of forward looking economic information

The most significant area of judgement is:

- the approach to identifying significant increases in credit risk and impairment.

The table below shows the impact on impairment provisions at 4 April 2021 of the most significant areas of estimation uncertainty, with further details provided on the following pages.

| Significant areas of estimation uncertainty | | |
|---|---|---|
| | **2021 £m** | 2020 £m |
| **Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)** | | |
| Economic impact of Covid-19 scenario at 4 April 2020 (note i) | **-** | 62 |
| Relationship between GDP and expected defaults | **25** | - |
| Suppressed credit risk associated with payment deferrals | **74** | 39 |
| Temporary reduction in arrears | **57** | - |
| | | |
| **Performance of interest only mortgages at maturity** | **69** | 72 |
| | | |
| **Level of future recoveries for retail lending** | | |
| Residential mortgages: collateral values | **56** | - |
| Consumer banking: future recoveries | **22** | 21 |
| | | |
| **Use of forward looking economic information** | | |
| Impact of applying multiple economic scenarios (note ii) | **159** | 123 |

Notes:
i. The economic impact of Covid-19 as separately disclosed as at 4 April 2020; during the year ended 4 April 2021 this has been integrated into modelled provisions.
ii. £159 million is the total impact of applying multiple economic scenarios, £41 million of which is also included in the values disclosed for other key judgements in the table.

## 10. Impairment losses and provisions on loans and advances to customers (continued)

**Critical accounting estimates and judgements (continued)**

**Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)**

As at 4 April 2020, an additional provision for credit losses totalling £101 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. This additional provision comprised £62 million for economic impacts (£55 million from revised economic assumptions and £7 million relating to commercial lending) and £39 million to reflect suppressed credit risk associated with payment deferrals. These risks have been integrated into the IFRS 9 provision process where required.

*Relationship between GDP and expected defaults*

The impact of Covid-19 on the UK economy is unprecedented, with the significant GDP fall, impact of government support and use of payment deferrals creating a unique combination of economic impacts. These factors have changed the relationships between economic variables, such as GDP and unemployment, and the subsequent expected defaults. GDP is an input into consumer banking ECL modelling, and the GDP fall during 2020 would ordinarily be expected to result in an increase in defaults in the short term. However, due to government intervention, the increase in defaults is expected to be delayed. A change has therefore been made to increase the assumed time lag between GDP changes and defaults within the IFRS 9 models and thus reflect the judgement that the consequent credit losses have been delayed but not avoided. Had this change not been made, the ECL on consumer banking portfolios would have been lower by £25 million.

*Suppressed credit risk associated with payment deferrals*

Payment deferrals or other similar concessions have been offered on all retail products as a result of Covid-19. The Group recognises that in some cases borrowers will experience longer-term financial difficulty as a result of the pandemic, and additional ECLs have therefore been recognised in respect of some borrowing with payment deferrals. Unlike other concessions granted to borrowers in financial difficulty, these payment deferrals have not been subject to detailed affordability assessments, and therefore the degree of financial difficulty experienced by the members and customers who apply for them requires estimation.

During the year, additional payment deferrals have been granted and the payment deferral schemes have been extended. For all retail portfolios the additional provision has been updated to reflect additional requests received during the year. Further analysis of the risk characteristics of the retail payment deferral population has been carried out using internal and external credit risk data, to estimate the proportion of loans judged to carry increased risk which may not be evident due to payment deferrals suppressing arrears. The probability of default has been increased where appropriate. These changes have increased the total provision for this risk across all lending portfolios to £74 million (2020: £39 million). The proportion of payment deferrals to which the adjustment was applied varied between 10% to 27%, depending on the portfolio; an increase in this proportion by 5 percentage points would have increased provisions by £27 million.

As a result of the recognition of increased probability of default in respect of payment deferrals, £2 billion of residential mortgages have transferred to stage 2.

*Temporary reduction in arrears*

Arrears balances across all products have reduced during the year, leading to a reduction in modelled provisions. Management has judged this to be a temporary position due to the availability of government support and payment deferral schemes, and an adjustment has therefore been made to recognise the underlying risk, retaining provisions of £57 million (residential mortgages £21 million, consumer banking £36 million) which would have otherwise been released. This adjustment is expected to reduce once government support schemes come to an end and arrears start to return to the levels associated with prevailing economic conditions. This adjustment has been allocated to stage 2 loans.

## 10. Impairment losses and provisions on loans and advances to customers (continued)

**Critical accounting estimates and judgements (continued)**

**Performance of interest only mortgages at maturity**

There is a risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Buy to let mortgages are typically advanced on an interest only basis. Interest only balances for prime residential mortgages relate primarily to historical balances which were originally advanced as interest only mortgages or where a change in terms to an interest only basis has been agreed. The impact of the allowance for unredeemed interest only mortgages at contractual maturity in the central scenario amounts to £45 million (2020: £44 million), with an additional impact of £24 million (2020: £28 million) reflecting the impact of forward looking economic information. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2. The ability of a borrower to refinance is calculated using current lending criteria which considers LTV and affordability assessments. If the interest rate used within the affordability assessment was increased by 1%, provisions would increase by £8 million.

**Level of future recoveries for retail lending**

*Residential mortgages: collateral values*

For residential mortgages, the estimate of future collateral values is a key source of estimation uncertainty. During the year ended 4 April 2021, two new model adjustments have been introduced to reflect risks which are not reflected in the modelled outputs.

Firstly, an adjustment has been introduced to reflect the risks associated with flats subject to fire safety risks such as unsuitable cladding. The current government funding available is anticipated to be below the amount required to remediate such properties, and the desirability of the properties is expected to be severely affected for several years. Due to limited data availability to identify affected properties individually, it is assumed that a proportion of the flats securing loans in the residential mortgage portfolios are affected, in line with UK market exposure estimates. Assumptions relating to property values have been applied based upon the height of the affected buildings. The ECL adjustment is £23 million, of which £6 million relates to buildings with six or more stories.

Secondly, an adjustment has been introduced to reflect the idiosyncratic risk relating to recovery values for repossessed properties over the next few years. The uncertainty has arisen from shifts in the housing market, partly due to Covid-19, with the expectation that future repossessed properties may be more difficult to sell and may not follow the modelled HPI recovery assumed for the wider market. This adjustment has been applied by reducing modelled property valuations, and also by increasing the expected variance in valuations achieved across the portfolio. The ECL adjustment totals £33 million, which equates to a 2% increase in the stage 3 provision coverage ratio.

*Consumer banking: future recoveries*

For consumer banking, the estimate of future recoveries is a key source of estimation uncertainty. The Group uses a combination of both historical data and management judgement in estimating the level and timing of future recoveries. It is management's judgement that the recovery experience over recent years is not sustainable in the future, and therefore additional provisions totalling £22 million (2020: £21 million) are held on charged off assets to reflect a future reduction in recovery rates. This represents 11% of total charged off balances.

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## 10. Impairment losses and provisions on loans and advances to customers (continued)

**Critical accounting estimates and judgements (continued)**

**Use of forward looking economic information**

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of multiple scenarios. The economic scenarios are reviewed and updated on a quarterly basis. The provision recognised is the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and associated probability weights are derived using external data and statistical methodologies, together with management judgement, to determine scenarios which span an appropriately wide range of plausible economic conditions. The Group continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes. The impact of applying multiple economic scenarios (MES) is to increase provisions by £159 million (2020: £123 million), compared with provisions based on the central economic scenario.

At 4 April 2021, the probability weightings for each scenario were reviewed and the probabilities allocated to the upside, central and downside scenarios remain unchanged from 30 September 2020. The increase in the upside weighting during the year reflects that this scenario now includes the impact of Covid-19, therefore incorporating more conservative economic assumptions than at 4 April 2020. The probabilities allocated to the central and downside scenarios reflect the uncertainty of the potential outcomes regarding Covid-19. The probability weightings applied to the scenarios are shown in the table below.

| Scenario probability weighting (%) | Upside scenario | Central scenario | Downside scenario | Severe downside scenario |
|---|---|---|---|---|
| **4 April 2021** | **10** | **40** | **40** | **10** |
| 30 September 2020 | 10 | 40 | 40 | 10 |
| 4 April 2020 | 5 | 50 | 35 | 10 |

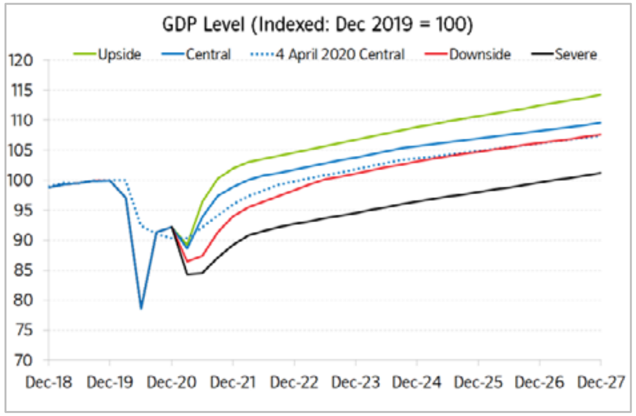
All four economic scenarios reflect the potential impact of Covid-19 to differing degrees. There is continued uncertainty regarding the economic impacts that could arise from new variants of Covid-19, offset by the effectiveness of the vaccination programme, and also uncertainty over the extent to which government support schemes will have avoided or merely delayed the adverse credit consequences of the pandemic. The scenarios also reflect the fact that the UK reached a free trade agreement deal with the EU at the end of 2020, consistent with the assumptions incorporated in the prior year central scenario. In the central scenario at 4 April 2021, GDP recovers to levels slightly higher than those used in the central scenario at 4 April 2020. For unemployment the impacts are comparable to previous assumptions, albeit the adverse impacts are delayed and the peak of unemployment is slightly higher at 8.0%. The house price forecast reflects the 7% growth during 2020, with reductions expected in 2022 across the central and downside scenarios. The bank base rate is forecast to remain at 0.1% across all scenarios between 2020 and 2025, with the exception of the upside scenario, where an increase to 0.25% is forecast in 2024. The downside scenario reflects both a higher peak level of unemployment and a more gradual recovery in the economy. The severe downside scenario continues to be aligned with internal stress testing and reflects a severe and long-lasting impact on the UK economy.

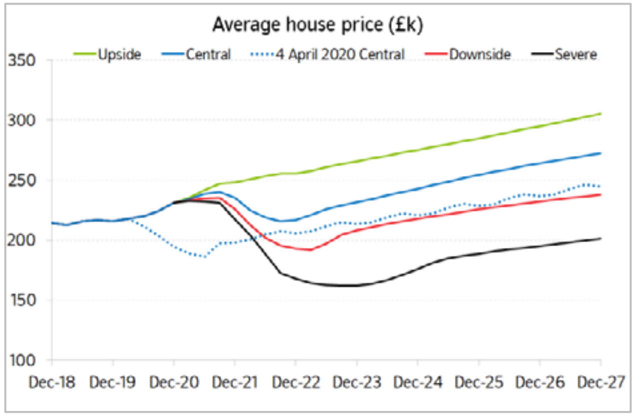
During the year, the severe downside scenario has been incorporated into the core provision models. However, due to the severity of the scenario it is management's judgement that the modelled outputs do not reflect the non-linear impacts that would arise from the economic assumptions. Using information from internal and external stress testing exercises, management have derived adjustments to probability of default and loss given default at a portfolio level, which increased provisions by £102 million (2020: £77 million).

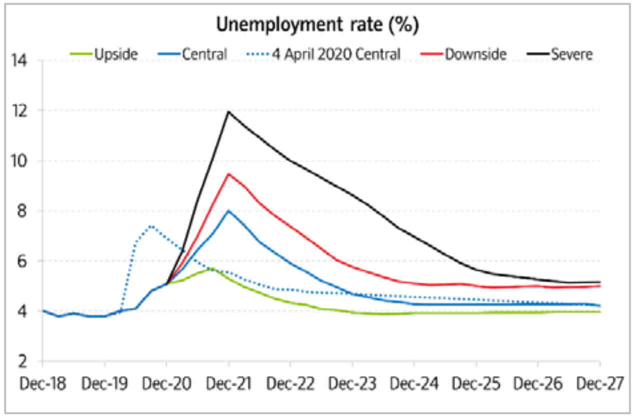
# 10. Impairment losses and provisions on loans and advances to customers (continued)

### Critical accounting estimates and judgements (continued)

The graphs below show the historical and forecasted GDP level, average house price and unemployment rate for the Group's economic scenarios, including the previous central economic scenario. The GDP level has been indexed at December 2019 to show the GDP reductions experienced during 2020.




The tables below provide a summary of the values of the key UK economic variables used within the economic scenarios over the first five years of the scenario.

| Economic variables | Rate/annual growth rate at December 2020-2025 | | | | | | 5-year average (note i) | Dec-20 to peak (notes ii and iii) | Dec-20 to trough (notes ii and iii) |
|---|---|---|---|---|---|---|---|---|---|
| | Actual | Forecast | | | | | | | |
| 4 April 2021 | 2020 % | 2021 % | 2022 % | 2023 % | 2024 % | 2025 % | % | % | % |
| **GDP growth** | | | | | | | | | |
| Upside scenario | (7.8) | 10.6 | 2.6 | 2.0 | 2.0 | 1.6 | 3.7 | 20.0 | (3.2) |
| Central scenario | (7.8) | 7.2 | 2.9 | 2.0 | 1.8 | 1.2 | 3.0 | 16.0 | (4.0) |
| Downside scenario | (7.8) | 2.0 | 4.6 | 2.8 | 2.0 | 1.6 | 2.6 | 13.6 | (6.2) |
| Severe downside scenario | (7.8) | (3.2) | 3.9 | 2.0 | 2.0 | 1.6 | 1.2 | 6.3 | (8.5) |
| **HPI growth** | | | | | | | | | |
| Upside scenario | 7.0 | 7.5 | 3.0 | 3.9 | 3.5 | 3.5 | 4.3 | 23.4 | 2.0 |
| Central scenario | 7.0 | 1.9 | (7.8) | 6.9 | 4.9 | 4.7 | 2.0 | 10.2 | (6.6) |
| Downside scenario | 7.0 | (2.2) | (14.7) | 8.0 | 4.7 | 3.5 | (0.5) | 1.9 | (16.9) |
| Severe downside scenario | 7.0 | (5.9) | (22.8) | (3.5) | 8.8 | 7.2 | (4.0) | 0.8 | (29.9) |
| **Unemployment** | | | | | | | | | |
| Upside scenario | 5.1 | 5.3 | 4.3 | 3.9 | 3.9 | 3.9 | 4.4 | 5.7 | 3.9 |
| Central scenario | 5.1 | 8.0 | 5.9 | 4.7 | 4.3 | 4.3 | 5.4 | 8.0 | 4.3 |
| Downside scenario | 5.1 | 9.5 | 7.4 | 5.8 | 5.1 | 5.0 | 6.5 | 9.5 | 5.0 |
| Severe downside scenario | 5.1 | 12.0 | 10.0 | 8.6 | 7.0 | 5.7 | 8.5 | 12.0 | 5.7 |

# 10. Impairment losses and provisions on loans and advances to customers (continued)

**Critical accounting estimates and judgements (continued)**

| 4 April 2020 | Rate/annual growth rate at December 2020-2024 Forecast 2020 % | 2021 % | 2022 % | 2023 % | 2024 % | 5-year average (note i) % | Dec-19 to peak (notes ii and iii) % | Dec-19 to trough (notes ii and iii) % |
|---|---|---|---|---|---|---|---|---|
| GDP growth | | | | | | | | |
| Upside scenario | 2.0 | 2.4 | 2.9 | 2.0 | 2.4 | 2.4 | 12.3 | 0.9 |
| Central scenario | (9.6) | 6.1 | 4.1 | 2.0 | 1.8 | 0.7 | 3.7 | (9.6) |
| Downside scenario | 0.4 | (1.7) | 1.2 | 1.6 | 1.7 | 0.7 | 3.4 | (1.2) |
| Severe downside scenario | (4.7) | 0.7 | 1.3 | 0.9 | 1.1 | (0.2) | (0.4) | (4.7) |
| HPI growth | | | | | | | | |
| Upside scenario | 5.0 | 5.5 | 6.0 | 4.6 | 4.1 | 5.0 | 27.9 | 0.5 |
| Central scenario | (10.0) | 2.0 | 4.0 | 3.5 | 3.5 | 0.5 | 3.0 | (13.8) |
| Downside scenario | (1.0) | (5.0) | (4.0) | 0.0 | 1.4 | (1.7) | (0.6) | (10.7) |
| Severe downside scenario | (11.1) | (16.4) | (8.9) | 5.5 | 5.7 | (5.5) | (1.0) | (32.4) |
| Unemployment | | | | | | | | |
| Upside scenario | 3.8 | 3.7 | 3.6 | 3.6 | 3.5 | 3.7 | 3.8 | 3.5 |
| Central scenario | 6.9 | 5.6 | 4.9 | 4.7 | 4.6 | 5.3 | 7.4 | 3.9 |
| Downside scenario | 4.4 | 5.7 | 6.0 | 5.8 | 5.7 | 5.4 | 6.0 | 3.8 |
| Severe downside scenario | 7.2 | 9.2 | 8.7 | 8.1 | 7.4 | 7.8 | 9.2 | 3.8 |

Notes:
i. The average rate for GDP and HPI is based on the cumulative annual growth rate over the forecast period. Average unemployment is calculated using a simple average using quarterly points.
ii. GDP growth and HPI are shown as the largest cumulative growth/fall from 31 December over the forecast period.
iii. The unemployment rate is shown as the highest/lowest rate over the forecast period from 31 December.

# 10. Impairment losses and provisions on loans and advances to customers (continued)

**Critical accounting estimates and judgements (continued)**

To give an indication of the sensitivity of ECLs to different economic scenarios, the table below shows the ECL and stage 2 balance proportion if 100% weighting is applied to each scenario.

| Sensitivity analysis impact of multiple economic scenarios | Upside scenario | Central scenario | Downside scenario | Severe downside scenario | Reported provision | Proportion of balances in stage 2: Upside scenario | Central scenario | Downside scenario | Severe downside scenario (note i) | Reported |
|---|---|---|---|---|---|---|---|---|---|---|
| **4 April 2021** | **£m** | **£m** | **£m** | **£m** | **£m** | **%** | **%** | **%** | **%** | **%** |
| Residential mortgages | **158** | **212** | **261** | **998** | **317** | **5.9** | **5.4** | **5.9** | **6.4** | **5.6** |
| Consumer banking | **428** | **449** | **458** | **916** | **502** | **20.1** | **22.1** | **26.1** | **31.0** | **22.5** |
| Commercial lending | **29** | **32** | **34** | **38** | **33** | **3.5** | **3.5** | **3.7** | **3.9** | **3.5** |
| **Total** | **615** | **693** | **753** | **1,952** | **852** | | | | | |
| | | | | | | | | | | |
| 4 April 2020 | £m | £m | £m | £m | £m | | | | | |
| Residential mortgages | 136 | 149 | 254 | 674 | 252 | | | | | |
| Consumer banking | 432 | 438 | 466 | 736 | 494 | | | | | |
| Commercial lending | 37 | 37 | 40 | 55 | 40 | | | | | |
| Total | 605 | 624 | 760 | 1,465 | 786 | | | | | |

Note:
i. The severe scenario stage 2 proportion reflects only the modelled output and not the additional ECL added on through judgement.

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation; this is based on a weighted average PD which takes into account the economic scenarios. A probability weighted 12 month or lifetime ECL (which takes into account the economic scenarios) is then calculated based on the stage allocation.

The table below shows the sensitivity at 4 April 2021 to some of the key assumptions used within the ECL calculation.

| Sensitivity to key forward looking information assumptions<br>2021 | Increase in provision<br>£m |
|---|---|
| **Single-factor sensitivity to key economic variables (note i)** | |
| 10% decrease in HPI at 4 April 2021 and throughout the forecast period (note ii) | **36** |
| 1% increase in unemployment at 4 April 2021 and throughout the forecast period (note iii) | **21** |
| **Sensitivity to changes in scenario probability weightings** | |
| 10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%) | **14** |
| 5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%) | **61** |

Notes:
i. As these are single-factor sensitivities, they should not be extrapolated due to the likely non-linear effects.
ii. Central scenario impact on LGD.
iii. Central scenario impact on PD.

## 10. Impairment losses and provisions on loans and advances to customers (continued)

**Critical accounting estimates and judgements (continued)**

**Identifying significant increases in credit risk (stage 2)**

Loans are allocated to stage 1 or stage 2 according to whether there has been a significant increase in credit risk. The Group has used judgement to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place. These criteria have been detailed within the credit risk report. The primary quantitative indicators are the outputs of internal credit risk assessments. While different approaches are used within each portfolio, the intention is to combine current and historical data relating to the exposure with forward looking economic information to determine the probability of default (PD) at each reporting date. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD has increased by at least 75bps and a 2x multiple of the original lifetime PD (2020: 4x multiple).

The change to the staging criteria from a multiple of 4 times origination PD to a multiple of 2 has made the models more sensitive to relative PD changes, and has therefore transferred £4 billion of residential mortgages and £0.3 billion of consumer banking balances from stage 1 to 2. The impact on provisions was an increase of £10 million (residential mortgages £7 million, consumer banking £3 million).

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk. The sensitivity of ECLs to stage allocation is such that a transfer of 1% of current stage 1 balances to stage 2 would increase provisions by £18 million for residential mortgages, and £5 million for consumer banking.

**Identifying credit impaired loans (stage 3)**

The identification of credit impaired loans is an important judgement within the IFRS 9 staging approach. A loan is credit impaired where it has an arrears status of more than 90 days past due, is considered to be in default or it is considered unlikely that the borrower will repay the outstanding balance in full, without recourse to actions such as realising security.

# 11. Taxation

| Tax charge in the income statement | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Current tax: | | | | |
| UK corporation tax | **226** | 168 | **134** | 86 |
| Adjustments in respect of prior years | **(6)** | (4) | **(6)** | (4) |
| Total current tax | **220** | 164 | **128** | 82 |
| | | | | |
| Deferred tax: | | | | |
| Current year credit | **(26)** | (48) | **(13)** | (35) |
| Adjustments in respect of prior years | **16** | 2 | **11** | 2 |
| Effect of deferred tax provided at different tax rates | **(5)** | (17) | **(5)** | (19) |
| Total deferred taxation | **(15)** | (63) | **(7)** | (52) |
| **Tax charge** | **205** | 101 | **121** | 30 |

## 11. Taxation (continued)

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

| Reconciliation of tax charge | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Profit before tax: | **823** | 466 | **363** | 110 |
| Tax calculated at a tax rate of 19% | **156** | 89 | **69** | 21 |
| Adjustments in respect of prior years | **10** | (2) | **5** | (2) |
| Tax credit on distribution to the holders of Additional Tier 1 capital | **(12)** | (9) | **(12)** | (9) |
| Banking surcharge | **38** | 24 | **38** | 24 |
| Temporary differences where no deferred tax is recognised | **2** | - | **2** | - |
| Expenses not deductible for tax purposes/(income not taxable): | | | | |
| Depreciation on non-qualifying assets | **2** | 3 | **2** | 3 |
| Bank levy | **5** | 11 | **5** | 11 |
| Effect of results of LLP structured entity (note i) | **-** | - | **9** | (7) |
| Customer redress | **8** | 4 | **8** | 4 |
| Other | **1** | (2) | **-** | 1 |
| Effect of deferred tax provided at different tax rates | **(5)** | (17) | **(5)** | (16) |
| **Tax charge** | **205** | 101 | **121** | 30 |

Note:
i. The Society is liable for tax on the results of Nationwide Covered Bonds LLP, the profit or loss of which is reported within that entity.

The tax on items through other comprehensive income is as follows.

| Tax (credit)/charge on items through other comprehensive income | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Relating to: | | | | |
| FVOCI investment securities | **48** | (24) | **47** | (23) |
| Cash flow hedges | **(41)** | 5 | **(24)** | 16 |
| Other hedging | **(2)** | (15) | **(2)** | (15) |
| Unrealised revaluation gains | **(11)** | (2) | **(11)** | (2) |
| Retirement benefit obligations | **(40)** | 76 | **(40)** | 76 |
| **Total** | **(46)** | 40 | **(30)** | 52 |

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# 11. Taxation (continued)

## Deferred tax

Deferred tax is determined using tax rates and laws that are expected to apply in the period when the deferred tax asset is realised or deferred tax liability is settled based on rates enacted or substantively enacted at the balance sheet date, including the banking surcharge where applicable. It was announced in the Budget on 3 March 2021 that the main rate of corporation tax of 19% would be increased to 25% with effect from April 2023. It was also announced that a review of the current bank surcharge rate will take place later this year to ensure that the combined level of corporation tax applicable to banking entities does not increase significantly from its current level. Since this review is yet to take place, it is not possible to quantify any potential impact on the deferred tax balances of the Group.

The movements on the deferred tax account are as follows.

| Movements in deferred taxation | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| At 5 April | (131) | (91) | (46) | 6 |
| **Deferred tax credit/(charge) in the income statement:** | | | | |
| Fixed assets timing differences | **13** | 10 | **13** | 10 |
| Temporary differences where no deferred tax is recognised | **(10)** | - | **(9)** | - |
| Effect of deferred tax provided at different tax rates | **2** | 17 | **3** | 19 |
| Other items | **10** | 36 | **-** | 23 |
| Taxation on items through the income statement | **15** | 63 | **7** | 52 |
| | | | | |
| **Deferred tax (charge)/credit in other comprehensive income:** | | | | |
| FVOCI investment securities | **(31)** | 18 | **(31)** | 18 |
| Cash flow hedges | **17** | (9) | **17** | (10) |
| Other hedging | **1** | 10 | **1** | 10 |
| Unrealised revaluation losses | **9** | 3 | **9** | 3 |
| Retirement benefit obligations | **23** | (76) | **23** | (76) |
| Effect of deferred tax provided at different tax rates | **18** | (49) | **19** | (49) |
| Other | **1** | - | **1** | - |
| Taxation on items through other comprehensive income | **38** | (103) | **39** | (104) |
| **At 4 April** | **(78)** | (131) | **-** | (46) |

The majority of deferred tax assets are anticipated to be recoverable after one year. Deferred tax assets have not been recognised in respect of gross temporary differences of £52 million (2020: £nil). These differences relate primarily to revalued properties, for which capital losses realised on disposal can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable gains will be available against which they can be utilised.

Deferred tax assets and liabilities are attributable to the following items.

| Deferred tax assets and liabilities | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| **Deferred tax assets** | | | | |
| Fixed assets timing differences | **32** | 13 | **32** | 13 |
| IFRS 9 transition | **35** | 39 | **23** | 26 |
| Unrealised revaluation losses | **-** | 1 | **1** | - |
| Cash flow hedges | **-** | (24) | **-** | (24) |
| Other hedging | **17** | 15 | **17** | 15 |
| FVOCI investment securities | **(40)** | 4 | **(40)** | 4 |
| Other items | **28** | 28 | **29** | 28 |
| | **72** | 76 | **62** | 62 |
| **Deferred tax liabilities** | | | | |
| Unrealised revaluation gains | **-** | (6) | **-** | (6) |
| Cash flow hedges | **(75)** | (98) | **-** | - |
| Retirement benefit obligations | **(61)** | (104) | **(61)** | (104) |
| Other items | **(14)** | 1 | **(1)** | 2 |
| | **(150)** | (207) | **(62)** | (108) |
| **Net deferred tax liability** | **(78)** | (131) | **-** | (46) |

For deferred tax assets recognised on the balance sheet, the Group considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

As a result of exemptions on dividends from subsidiaries and on capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries.

## 12. Classification and measurement

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in this note and notes 21 to 24 are on a consolidated basis. The following table summarises the classification of carrying amounts of the Group's financial assets and liabilities.

**Classification of financial assets and liabilities**

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortised cost | Fair value through other comprehensive income | Fair value through profit or loss (note i) | Total | Amortised cost | Fair value through other comprehensive income | Fair value through profit or loss (note i) | Total |
| **Group** | £m | £m | £m | £m | £m | £m | £m | £m |
| **Financial assets** | | | | | | | | |
| Cash | 16,693 | - | - | 16,693 | 13,748 | - | - | 13,748 |
| Loans and advances to banks and similar institutions | 3,660 | - | - | 3,660 | 3,636 | - | - | 3,636 |
| Investment securities | 1,243 | 24,218 | 12 | 25,473 | 1,625 | 18,367 | 12 | 20,004 |
| Derivative financial instruments | - | - | 3,809 | 3,809 | - | - | 4,771 | 4,771 |
| Fair value adjustment for portfolio hedged risk | 946 | - | - | 946 | 1,774 | - | - | 1,774 |
| Loans and advances to customers | 201,427 | - | 120 | 201,547 | 200,850 | - | 128 | 200,978 |
| **Total financial assets** | 223,969 | 24,218 | 3,941 | 252,128 | 221,633 | 18,367 | 4,911 | 244,911 |
| Other non-financial assets | | | | 2,786 | | | | 3,130 |
| **Total assets** | | | | 254,914 | | | | 248,041 |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Shares | 170,313 | - | - | 170,313 | 159,691 | - | - | 159,691 |
| Deposits from banks and similar institutions | 27,022 | - | - | 27,022 | 21,812 | - | - | 21,812 |
| Other deposits | 4,522 | - | - | 4,522 | 4,482 | - | - | 4,482 |
| Fair value adjustment for portfolio hedged risk | 25 | - | - | 25 | 29 | - | - | 29 |
| Debt securities in issue | 27,923 | - | - | 27,923 | 35,963 | - | - | 35,963 |
| Derivative financial instruments | - | - | 1,622 | 1,622 | - | - | 1,924 | 1,924 |
| Subordinated liabilities | 7,575 | - | - | 7,575 | 9,317 | - | - | 9,317 |
| Subscribed capital | 243 | - | - | 243 | 253 | - | - | 253 |
| Lease liabilities | 262 | - | - | 262 | 265 | - | - | 265 |
| **Total financial liabilities** | 237,885 | - | 1,622 | 239,507 | 231,812 | - | 1,924 | 233,736 |
| Other non-financial liabilities | | | | 1,294 | | | | 1,343 |
| **Total liabilities** | | | | 240,801 | | | | 235,079 |

Note:

i. As at 4 April 2021 and 4 April 2020 the Group had no financial assets or liabilities for which it had taken the option to designate at FVTPL.

Further information on the fair value of financial assets and liabilities is included in notes 21 to 23.

## 13. Investment securities

| | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Government, government guaranteed and supranational investment securities | **21,363** | 15,897 | **21,363** | 15,897 |
| Other debt investment securities | **4,083** | 4,094 | **4,081** | 4,092 |
| Investments in equity shares | **27** | 13 | **7** | 7 |
| **Total** | **25,473** | 20,004 | **25,451** | 19,996 |

The Group may use its investment securities as collateral. Investment securities with a fair value of £8,608 million (2020: £2,506 million) have been used as collateral in short term repurchase agreements. The Group also holds £867 million (2020: £1,824 million) of investment securities as collateral under reverse repurchase agreements which are not recognised in the table above. Further information on investment securities is included in the 'Credit risk - Treasury assets' section of the Risk report.

## 14. Loans and advances to customers

| | **2021** | | | | | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Loans held at amortised cost** | | | | **Loans held at FVTPL** | **Total** | Loans held at amortised cost | | | | Loans held at FVTPL | Total |
| | **Gross** | **Provisions** | **Other (note i)** | **Total** | | | Gross | Provisions | Other (note i) | Total | | |
| **Group** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m | £m | £m |
| Prime residential mortgages | **149,706** | **(93)** | **-** | **149,613** | **68** | **149,681** | 151,069 | (56) | - | 151,013 | 71 | 151,084 |
| Buy to let and legacy residential mortgages | **41,249** | **(224)** | **-** | **41,025** | **-** | **41,025** | 37,699 | (196) | - | 37,503 | - | 37,503 |
| Consumer banking | **4,404** | **(502)** | **-** | **3,902** | **-** | **3,902** | 4,994 | (494) | - | 4,500 | - | 4,500 |
| Commercial and other lending | **6,267** | **(33)** | **653** | **6,887** | **52** | **6,939** | 7,133 | (40) | 741 | 7,834 | 57 | 7,891 |
| **Total** | **201,626** | **(852)** | **653** | **201,427** | **120** | **201,547** | 200,895 | (786) | 741 | 200,850 | 128 | 200,978 |

| | **2021** | | | | | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Loans held at amortised cost** | | | | **Loans held at FVTPL** | **Total** | Loans held at amortised cost | | | | Loans held at FVTPL | Total |
| | **Gross** | **Provisions** | **Other (note i)** | **Total** | | | Gross | Provisions | Other (note i) | Total | | |
| **Society** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m | £m | £m |
| Prime residential mortgages | **149,444** | **(93)** | **-** | **149,351** | **68** | **149,419** | 150,740 | (55) | - | 150,685 | 71 | 150,756 |
| Buy to let and legacy residential mortgages | **477** | **(4)** | **-** | **473** | **-** | **473** | 526 | (4) | - | 522 | - | 522 |
| Consumer banking | **4,404** | **(502)** | **-** | **3,902** | **-** | **3,902** | 4,994 | (494) | - | 4,500 | - | 4,500 |
| Commercial and other lending | **5,913** | **(33)** | **653** | **6,533** | **39** | **6,572** | 6,682 | (40) | 741 | 7,383 | 45 | 7,428 |
| **Total** | **160,238** | **(632)** | **653** | **160,259** | **107** | **160,366** | 162,942 | (593) | 741 | 163,090 | 116 | 163,206 |

Note:
i. 'Other' represents a fair value adjustment for micro hedged risk for commercial loans that were previously hedged on an individual basis.

Notes to the financial statements (continued)

## 14. Loans and advances to customers (continued)

The tables below summarise the movements in gross loans and advances to customers held at amortised cost, including the impact of ECL impairment provisions and excluding the fair value adjustment for micro hedged risk. The lines within the tables are an aggregation of monthly movements over the year. Residential mortgages represent the majority of the Group's loans and advances to customers. Additional tables summarising the movements for the Group's residential mortgages and consumer banking are presented in the Credit risk section of the Risk report.

The reasons for key movements shown in the table below are as follows:

- The movement in gross balances is principally a result of £32,014 million of new lending, offset by a reduction of £31,138 million from repayments and redemptions. The majority of these movements relate to residential mortgages.
- Of the £136 million of write-offs, £124 million relates to unsecured lending, £9 million to residential mortgages and £3 million to commercial and other lending.
- Impairment provisions increased by £66 million in the period to £852 million. Further detail on the impairment provisions and losses by portfolio is shown in note 10.

**Reconciliation of movements in gross balances and impairment provisions**

| | Non-credit impaired | | | | Credit impaired (note i) | | | |
|---|---|---|---|---|---|---|---|---|
| | Subject to 12 month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 and POCI | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| **Group** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| At 5 April 2020 (note ii) | 188,403 | 75 | 10,690 | 269 | 1,802 | 341 | 200,895 | 786 |
| | | | | | | | | |
| **Stage transfers:** | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | (19,556) | (61) | 19,556 | 61 | - | - | - | - |
| Transfers to Stage 3 | (419) | - | (972) | (126) | 1,391 | 126 | - | - |
| Transfers from Stage 2 to Stage 1 | 16,910 | 320 | (16,910) | (320) | - | - | - | - |
| Transfers from Stage 3 | 257 | 2 | 560 | 25 | (817) | (27) | - | - |
| Net remeasurement of ECL arising from transfer of stage | | (244) | | 360 | | (9) | | 107 |
| **Net movement arising from transfer of stage (note iii)** | (2,808) | 17 | 2,234 | - | 574 | 90 | - | 107 |
| | | | | | | | | |
| New assets originated or purchased (note iv) | 32,014 | 45 | - | - | - | - | 32,014 | 45 |
| Net impact of further lending and repayments (note v) | (10,100) | (52) | (162) | (26) | (58) | (21) | (10,320) | (99) |
| Changes in risk parameters in relation to credit quality (note vi) | - | 37 | - | 157 | - | 78 | - | 272 |
| Other items impacting income statement charge/(reversal) including recoveries | - | - | - | - | - | (12) | - | (12) |
| Redemptions (note vii) | (19,670) | (6) | (894) | (12) | (252) | (4) | (20,816) | (22) |
| Reversal of additional Covid-19 provision (note ii) | | | | | | | | (101) |
| Income statement charge for the year | | | | | | | | 190 |
| Decrease due to write-offs | - | - | - | - | (147) | (136) | (147) | (136) |
| Other provision movements | - | - | - | - | - | 12 | - | 12 |
| **4 April 2021** | 187,839 | 116 | 11,868 | 388 | 1,919 | 348 | 201,626 | 852 |
| **Net carrying amount** | | 187,723 | | 11,480 | | 1,571 | | 200,774 |

## 14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions

| | Non-credit impaired | | | | Credit impaired (note i) | | | |
|---|---|---|---|---|---|---|---|---|
| | Subject to 12 month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 and POCI | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| Group | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2019 | 187,368 | 68 | 9,539 | 261 | 1,797 | 336 | 198,704 | 665 |
| | | | | | | | | |
| Stage transfers: | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | (16,930) | (39) | 16,930 | 39 | - | - | - | - |
| Transfers to Stage 3 | (330) | - | (938) | (110) | 1,268 | 110 | - | - |
| Transfers from Stage 2 to Stage 1 | 14,397 | 226 | (14,397) | (226) | - | - | - | - |
| Transfers from Stage 3 | 202 | 2 | 554 | 23 | (756) | (25) | - | - |
| Net remeasurement of ECL arising from transfer of stage | | (184) | | 262 | | 18 | | 96 |
| Net movement arising from transfer of stage (note iii) | (2,661) | 5 | 2,149 | (12) | 512 | 103 | - | 96 |
| | | | | | | | | |
| New assets originated or purchased (note iv) | 34,049 | 31 | - | - | - | - | 34,049 | 31 |
| Net impact of further lending and repayments (note v) | (9,947) | (24) | (77) | (10) | (81) | (21) | (10,105) | (55) |
| Changes in risk parameters in related to credit quality (note vi) | - | (1) | - | 42 | - | 26 | - | 67 |
| Other items impacting income statement charge/(reversal) including recoveries | - | - | - | - | (1) | (11) | (1) | (11) |
| Redemptions (note vii) | (20,406) | (4) | (921) | (12) | (302) | (4) | (21,629) | (20) |
| Additional provision for Covid-19 (note ii) | | | | | | | | 101 |
| Income statement charge for the year | | | | | | | | 209 |
| Decrease due to write-offs | - | - | - | - | (123) | (99) | (123) | (99) |
| Other provision movements | - | - | - | - | - | 11 | - | 11 |
| 4 April 2020 (note ii) | 188,403 | 75 | 10,690 | 269 | 1,802 | 341 | 200,895 | 786 |
| Net carrying amount (note ii) | | 188,328 | | 10,421 | | 1,461 | | 200,109 |

Notes:

i. Group gross balances of credit impaired loans include £148 million (2020: £155 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £5 million (2020: £6 million).

ii. At 4 April 2020, an additional provision for credit losses of £101 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans nor was it attributed to stages. During the period, this provision has been allocated to underlying loans and is reflected in the movements within the table and the 4 April 2021 position.

iii. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.

iv. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in Stage 1.

v. This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.

vi. This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.

vii. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

## 14. Loans and advances to customers (continued)

**Reconciliation of movements in gross balances and impairment provisions**

| | Non-credit impaired | | | | Credit impaired | | | |
|---|---|---|---|---|---|---|---|---|
| | Subject to 12 month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 and POCI | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| **Society** | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2020 (note i) | 158,612 | 62 | 3,183 | 157 | 1,147 | 312 | 162,942 | 593 |
| | | | | | | | | |
| **Stage transfers:** | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | (12,258) | (51) | 12,258 | 51 | - | - | - | - |
| Transfers to Stage 3 | (296) | - | (639) | (95) | 935 | 95 | - | - |
| Transfers from Stage 2 to Stage 1 | 7,896 | 251 | (7,896) | (251) | - | - | - | - |
| Transfers from Stage 3 | 149 | 2 | 340 | 16 | (489) | (18) | - | - |
| Net remeasurement of ECL arising from transfer of stage | | (190) | | 290 | | 9 | | 109 |
| **Net movement arising from transfer of stage (note ii)** | (4,509) | 12 | 4,063 | 11 | 446 | 86 | - | 109 |
| | | | | | | | | |
| New assets originated or purchased (note iii) | 25,015 | 40 | - | - | - | - | 25,015 | 40 |
| Net impact of further lending and repayments (note iv) | (9,650) | (51) | (143) | (25) | (50) | (21) | (9,843) | (97) |
| Changes in risk parameters related to credit quality (note v) | - | 8 | - | 119 | - | 62 | - | 189 |
| Other items impacting income statement charge/(reversal) including recoveries | - | - | - | - | (1) | (9) | (1) | (9) |
| Redemptions (note vi) | (17,082) | (3) | (513) | (6) | (144) | (3) | (17,739) | (12) |
| Reversal of additional Covid-19 provision (note i) | | | | | | | | (62) |
| Income statement charge for the year | | | | | | | | 158 |
| Decrease due to write-offs | - | - | - | - | (136) | (128) | (136) | (128) |
| Other provision movements | - | - | - | - | - | 9 | - | 9 |
| **4 April 2021** | 152,386 | 68 | 6,590 | 256 | 1,262 | 308 | 160,238 | 632 |
| **Net carrying amount** | | 152,318 | | 6,334 | | 954 | | 159,606 |

## 14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions

| | Non-credit impaired | | | | Credit impaired | | | |
|---|---|---|---|---|---|---|---|---|
| | Subject to 12 month ECL | | Subject to lifetime ECL | | Subject to lifetime ECL | | Total | |
| | Stage 1 | | Stage 2 | | Stage 3 | | | |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions | Gross balances | Provisions |
| Society | £m | £m | £m | £m | £m | £m | £m | £m |
| At 5 April 2019 | 159,592 | 54 | 3,243 | 148 | 1,117 | 304 | 163,952 | 506 |
| | | | | | | | | |
| Stage transfers: | | | | | | | | |
| Transfers from Stage 1 to Stage 2 | (7,137) | (27) | 7,137 | 27 | - | - | - | - |
| Transfers to Stage 3 | (226) | - | (568) | (85) | 794 | 85 | - | - |
| Transfers from Stage 2 to Stage 1 | 6,480 | 176 | (6,480) | (176) | - | - | - | - |
| Transfers from Stage 3 | 120 | 2 | 302 | 13 | (422) | (15) | - | - |
| Net remeasurement of ECL arising from transfer of stage | | (147) | | 209 | | 28 | | 90 |
| Net movement arising from transfer of stage (note ii) | (763) | 4 | 391 | (12) | 372 | 98 | - | 90 |
| | | | | | | | | |
| New assets originated or purchased (note iii) | 27,441 | 30 | - | - | - | - | 27,441 | 30 |
| Net impact of further lending and repayments (note iv) | (9,575) | (23) | (42) | (11) | (60) | (20) | (9,677) | (54) |
| Changes in risk parameters related to credit quality (note v) | - | - | - | 37 | - | 24 | - | 61 |
| Other items impacting income statement charge/(reversal) including recoveries | - | - | - | - | (1) | (7) | (1) | (7) |
| Redemptions (note vi) | (18,083) | (3) | (409) | (5) | (180) | (4) | (18,672) | (12) |
| Additional provision for Covid-19 (note i) | | | | | | | | 62 |
| Income statement charge for the year | | | | | | | | 170 |
| Decrease due to write-offs | - | - | - | - | (101) | (89) | (101) | (89) |
| Other provision movements | - | - | - | - | - | 6 | - | 6 |
| 4 April 2020 (note i) | 158,612 | 62 | 3,183 | 157 | 1,147 | 312 | 162,942 | 593 |
| Net carrying amount (note i) | | 158,550 | | 3,026 | | 835 | | 162,349 |

Notes:

i. At 4 April 2020, an additional provision for credit losses of £62 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 4 April 2020, this additional provision was not allocated to underlying loans nor was it attributed to stages. During the period, this provision has been allocated to underlying loans and is reflected in the movements within the table and the 4 April 2021 position.

ii. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.

iii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in stage 1.

iv. This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.

v. This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.

vi. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

## 14. Loans and advances to customers (continued)

### Maturity analysis

The following table shows the residual maturity of loans and advances to customers, based on their contractual maturity.

| Residual maturity of loans and advances to customers | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Repayable: | | | | |
| On demand | **1,608** | 1,965 | **1,608** | 1,965 |
| In not more than three months | **2,540** | 2,302 | **2,313** | 2,137 |
| In more than three months but not more than one year | **6,548** | 6,371 | **6,318** | 6,182 |
| In more than one year but not more than five years | **31,925** | 32,352 | **30,087** | 30,669 |
| In more than five years | **159,125** | 158,033 | **120,019** | 122,105 |
| | **201,746** | 201,023 | **160,345** | 163,058 |
| | | | | |
| Impairment provision on loans and advances | **(852)** | (786) | **(632)** | (593) |
| Fair value adjustment for micro hedged risk | **653** | 741 | **653** | 741 |
| **Total** | **201,547** | 200,978 | **160,366** | 163,206 |

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced, which are likely to be materially different. Arrears are spread across the remaining term of the loan.

## 14. Loans and advances to customers (continued)

### Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for the Bank of England's (BoE) Term Funding Scheme with additional incentives for SMEs (TFSME) and other short-term liquidity facilities. The programmes have enabled the Group to obtain secured funding. Mortgages pledged and the carrying values of the notes in issue are as follows.

**Mortgages pledged to asset backed funding programmes**

| | 2021 | | | | | 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Notes in issue | | | | | Notes in issue | | | |
| | | | Held by the Group | | | | | Held by the Group | | |
| Group | Mortgages pledged (note i) £m | Held by third parties (note ii) £m | Drawn (note iii) £m | Undrawn (note iv) £m | Total notes in issue £m | Mortgages pledged (note i) £m | Held by third parties (note ii) £m | Drawn (note iii) £m | Undrawn (note iv) £m | Total notes in issue £m |
| Covered bond programme | **23,611** | **15,640** | **-** | **-** | **15,640** | 28,003 | 20,740 | - | - | 20,740 |
| Securitisation programme | **12,779** | **2,865** | **-** | **2,505** | **5,370** | 15,177 | 4,215 | - | 2,533 | 6,748 |
| Whole mortgage loan pools | **21,479** | **-** | **16,430** | **-** | **16,430** | 23,570 | - | 18,183 | - | 18,183 |
| **Total** | **57,869** | **18,505** | **16,430** | **2,505** | **37,440** | 66,750 | 24,955 | 18,183 | 2,533 | 45,671 |

Notes:
i. Mortgages pledged include £13.9 billion (2020: £14.3 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.
ii. Notes in issue which are held by third parties are included within debt securities in issue. Further information on debt securities is included in note 18.
iii. Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn with the BoE under the TFSME and, in the prior year, the BoE's Term Funding Scheme (TFS) and US dollar (USD) funding operations. At 4 April 2021 the Group had outstanding TFSME drawings of £16.4 billion (2020: TFS £17.0 billion) and USD funding operations of £nil (2020: £1.2 billion).
iv. Notes in issue, held by the Group and undrawn, are debt securities issued by the programmes to the Society and mortgage loan pools that have been pledged to the BoE but not utilised.

Mortgages pledged under the Nationwide Covered Bond programme provide security for issues of covered bonds made by the Society. During the year ended 4 April 2021, £1.0 billion (sterling equivalent) of notes were issued, and £5.5 billion (sterling equivalent) of notes matured or were repurchased.

The securitisation programme notes are issued by Silverstone Master Issuer plc and are not included in the accounts of the Society. Silverstone Master Issuer plc is fully consolidated into the accounts of the Group. The issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Society. The remaining beneficial interest in the pledged mortgages of £7.2 billion (2020: £8.2 billion) stays with the Society and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2021 £1.2 billion (sterling equivalent) of notes matured.

## 14. Loans and advances to customers (continued)

The whole mortgage loan pools are pledged at the BoE Single Collateral Pool. Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. At 4 April 2021, £21.5 billion (2020: £23.6 billion) of pledged collateral supported £16.4 billion of TFSME drawdowns (2020: TFS £17.0 billion) and £nil (2020: £1.2 billion) of USD Funding Operations.

In accordance with accounting standards, notes in issue and held by the Group are not recognised in the Group's or Society's balance sheets. Mortgages pledged are not derecognised from the Group or Society balance sheets as the Group has retained substantially all the risks and rewards of ownership. The Group and Society continue to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

The following table sets out the carrying value and fair value of the transferred assets and liabilities for the Silverstone Master Trust.

| | Carrying value | | | Fair value | | |
|---|---|---|---|---|---|---|
| | Transferred assets | Associated liabilities | Total | Transferred assets | Associated liabilities | Total |
| | £m | £m | £m | £m | £m | £m |
| **At 4 April 2021** | **12,779** | **(5,370)** | **7,409** | **12,828** | **(5,429)** | **7,399** |
| At 4 April 2020 | 15,177 | (6,748) | 8,429 | 15,210 | (6,604) | 8,606 |

The Society holds cash deposited by the Nationwide Covered Bond programme of £0.6 billion (2020: £0.6 billion) and by the Silverstone programme of £0.9 billion (2020: £0.7 billion).

## 15. Derivative financial instruments

All of the Group's derivative financial instruments are used to manage economic risk, although not all of the derivatives are subject to hedge accounting. Note 7 sets out the link between economic risk management and the hedge accounting applied by the Group. The table below provides an analysis of the notional amount and fair value of derivatives by both hedge accounting type and instrument type. The amount of ineffectiveness recognised for each hedge type is shown in note 7. Contract/notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

**Derivatives by instrument and hedge type**

| | 2021 | | | | | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Group | | | Society | | | Group | | | Society | | |
| | Contract/ notional amount (note i) | Fair value Assets | Fair value Liabilities | Contract/ notional amount | Fair value Assets | Fair value Liabilities | Contract/ notional amount (note i) | Fair value Assets | Fair value Liabilities | Contract/ notional amount | Fair value Assets | Fair value Liabilities |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| **Micro fair value hedges:** | | | | | | | | | | | | |
| Interest rate swaps | **43,885** | **1,075** | **7** | **39,461** | **867** | **7** | 47,955 | 1,512 | 129 | 40,462 | 1,181 | 129 |
| Cross currency interest rate swaps | **37,834** | **1,915** | **696** | **33,072** | **1,443** | **599** | 35,392 | 2,876 | 371 | 28,024 | 1,928 | 385 |
| Bond forwards | **1,439** | **53** | **-** | **1,439** | **53** | **-** | 1,650 | - | 94 | 1,650 | - | 94 |
| Inflation swaps | **4,970** | **52** | **41** | **4,970** | **52** | **41** | 2,340 | 10 | 42 | 2,340 | 10 | 42 |
| | **88,128** | **3,095** | **744** | **78,942** | **2,415** | **647** | 87,337 | 4,398 | 636 | 72,476 | 3,119 | 650 |
| **Macro fair value hedges:** | | | | | | | | | | | | |
| Interest rate swaps | **167,515** | **118** | **703** | **167,515** | **118** | **703** | 148,610 | 1 | 991 | 148,610 | 1 | 991 |
| | **167,515** | **118** | **703** | **167,515** | **118** | **703** | 148,610 | 1 | 991 | 148,610 | 1 | 991 |
| **Cash flow hedges:** | | | | | | | | | | | | |
| Cross currency interest rate swaps | **28,242** | **4** | **59** | **23,480** | **4** | **47** | 28,661 | 71 | 60 | 21,293 | 69 | 28 |
| Inflation swaps | **280** | **41** | **-** | **280** | **41** | **-** | 280 | 36 | - | 280 | 36 | - |
| | **28,522** | **45** | **59** | **23,760** | **45** | **47** | 28,941 | 107 | 60 | 21,573 | 105 | 28 |
| **Not subject to hedge accounting:** | | | | | | | | | | | | |
| Interest rate swaps | **120,000** | **376** | **27** | **125,139** | **377** | **715** | 77,250 | 80 | 59 | 84,852 | 80 | 983 |
| Cross currency interest rate swaps | **4,489** | **136** | **64** | **9,453** | **191** | **365** | 3,534 | 58 | 118 | 11,262 | 204 | 961 |
| Foreign exchange swaps | **4,663** | **20** | **12** | **4,663** | **20** | **12** | 5,860 | 126 | 44 | 5,860 | 126 | 44 |
| Other derivatives | **3,827** | **19** | **13** | **3,827** | **19** | **13** | 741 | 1 | 16 | 741 | 1 | 16 |
| | **132,979** | **551** | **116** | **143,082** | **607** | **1,105** | 87,385 | 265 | 237 | 102,715 | 411 | 2,004 |
| | | | | | | | | | | | | |
| **Total** | **417,144** | **3,809** | **1,622** | **413,299** | **3,185** | **2,502** | 352,273 | 4,771 | 1,924 | 345,374 | 3,636 | 3,673 |

Note:

i. Where the same derivative contract has been used in more than one hedge type, for example where one risk component has been included in a fair value hedge and another risk component has been included in a cash flow hedge, the Group has included the full notional amount in both categories.

# 15. Derivative financial instruments (continued)

The contractual maturity of derivatives used as hedging instruments in micro fair value and cash flow hedges is provided in the table below. As described in note 1, macro fair value hedges are frequently rebalanced to include new business. As a result, these hedges have not been included in the analysis below.

| **Contractual maturity of hedging instruments (contract/notional amount)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2021** | **Group** | | | | **Society** | | | |
| | **Less than one year** | **Between one and five years** | **More than five years** | **Total** | **Less than one year** | **Between one and five years** | **More than five years** | **Total** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **Micro fair value hedges** | | | | | | | | |
| Interest rate swaps | **3,255** | **20,368** | **20,262** | **43,885** | **1,553** | **18,497** | **19,411** | **39,461** |
| Cross currency interest rate swaps | **3,368** | **19,369** | **15,097** | **37,834** | **2,022** | **16,832** | **14,218** | **33,072** |
| Bond forwards | **1,439** | **-** | **-** | **1,439** | **1,439** | **-** | **-** | **1,439** |
| Inflation swaps | **-** | **1,692** | **3,278** | **4,970** | **-** | **1,692** | **3,278** | **4,970** |
| | **8,062** | **41,429** | **38,637** | **88,128** | **5,014** | **37,021** | **36,907** | **78,942** |
| **Cash flow hedges** | | | | | | | | |
| Cross currency interest rate swaps | **3,139** | **15,117** | **9,986** | **28,242** | **1,793** | **12,580** | **9,107** | **23,480** |
| Inflation swaps | **160** | **120** | **-** | **280** | **160** | **120** | **-** | **280** |
| | **3,299** | **15,237** | **9,986** | **28,522** | **1,953** | **12,700** | **9,107** | **23,760** |

| Contractual maturity of hedging instruments (contract/notional amount) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2020 | Group | | | | Society | | | |
| | Less than one year | Between one and five years | More than five years | Total | Less than one year | Between one and five years | More than five years | Total |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Micro fair value hedges | | | | | | | | |
| Interest rate swaps | 5,422 | 18,422 | 24,111 | 47,955 | 3,439 | 13,794 | 23,229 | 40,462 |
| Cross currency interest rate swaps | 4,869 | 16,073 | 14,450 | 35,392 | 3,178 | 11,275 | 13,571 | 28,024 |
| Bond forwards | 1,650 | - | - | 1,650 | 1,650 | - | - | 1,650 |
| Inflation swaps | - | 716 | 1,624 | 2,340 | - | 716 | 1,624 | 2,340 |
| | 11,941 | 35,211 | 40,185 | 87,337 | 8,267 | 25,785 | 38,424 | 72,476 |
| Cash flow hedges | | | | | | | | |
| Cross currency interest rate swaps | 4,755 | 14,065 | 9,841 | 28,661 | 3,065 | 9,267 | 8,961 | 21,293 |
| Inflation swaps | - | 280 | - | 280 | - | 280 | - | 280 |
| | 4,755 | 14,345 | 9,841 | 28,941 | 3,065 | 9,547 | 8,961 | 21,573 |

# 15. Derivative financial instruments (continued)

The weighted average rates of hedging instruments which achieve fixed rates are summarised in the table below. Fair value and cash flow hedging instruments which do not achieve a fixed rate have not been included in this analysis.

| **Average rates achieved 2021** | **Group** | | | | **Society** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Less than one year** | **Between one and five years** | **More than five years** | **Total** | **Less than one year** | **Between one and five years** | **More than five years** | **Total** |
| **Cross currency interest rate swaps** | | | | | | | | |
| Average EUR/GBP rate | **1.38** | **1.19** | **1.18** | **1.21** | **1.26** | **1.17** | **1.19** | **1.19** |
| Average USD/GBP rate | **1.30** | **1.34** | **1.32** | **1.33** | **1.30** | **1.34** | **1.32** | **1.33** |
| Average JPY/GBP rate | **134.35** | **138.15** | **135.12** | **137.5** | **134.35** | **138.15** | **135.12** | **137.50** |
| Average NOK/GBP rate | **-** | **10.06** | **11.23** | **11.05** | **-** | **10.06** | **11.23** | **11.05** |
| Average HKD/GBP rate | **-** | **12.13** | **11.52** | **11.85** | **-** | **12.13** | **11.52** | **11.85** |
| Average CHF/GBP rate | **-** | **1.24** | **1.24** | **1.24** | **-** | **1.24** | **1.24** | **1.24** |
| Average CAD/GBP rate | **-** | **1.71** | **1.74** | **1.73** | **-** | **1.71** | **1.74** | **1.73** |
| | | | | | | | | |
| **Inflation swaps** | | | | | | | | |
| Average fixed interest rate (GBP %) | **3.37** | **3.79** | **-** | **3.55** | **3.37** | **3.79** | **-** | **3.55** |
| Average inflation rate (RPI index) | **255.90** | **256.30** | **-** | **256.07** | **255.90** | **256.30** | **-** | **256.07** |

| Average rates achieved 2020 | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than one year | Between one and five years | More than five years | Total | Less than one year | Between one and five years | More than five years | Total |
| Cross currency interest rate swaps | | | | | | | | |
| Average EUR/GBP rate | 1.25 | 1.26 | 1.23 | 1.25 | 1.20 | 1.23 | 1.26 | 1.23 |
| Average USD/GBP rate | 1.36 | 1.32 | 1.35 | 1.33 | 1.36 | 1.32 | 1.35 | 1.34 |
| Average JPY/GBP rate | 142.20 | 137.46 | 137.62 | 138.04 | 142.20 | 137.46 | 137.62 | 138.04 |
| Average NOK/GBP rate | 9.19 | 10.06 | 11.23 | 10.59 | 9.19 | 10.06 | 11.23 | 10.59 |
| Average HKD/GBP rate | - | 11.89 | 11.85 | 11.85 | - | 11.89 | 11.85 | 11.85 |
| Average CHF/GBP rate | - | - | 1.24 | 1.24 | - | - | 1.24 | 1.24 |
| | | | | | | | | |
| Inflation swaps | | | | | | | | |
| Average fixed interest rate (GBP %) | - | 3.55 | - | 3.55 | - | 3.55 | - | 3.55 |
| Average inflation rate (RPI index) | - | 256.07 | - | 256.07 | - | 256.07 | - | 256.07 |

## 15. Derivative financial instruments (continued)

A variety of benchmark interest rates are used in global financial markets to calculate interest payments and fair values for derivative contracts. The Group's derivative portfolio includes contracts which reference GBP Libor and other benchmark rates, which are expected to either be reformed or be replaced by alternative reference rates. GBP Libor is expected to be discontinued on 31 December 2021, with the alternative benchmark rate being the reformed sterling overnight index average (Sonia). The Group is already using Sonia as the reference rate for new derivative contracts where it is possible to do so.

The Group's Libor Transition Working Group, which reports to the Assets and Liabilities Committee (ALCO), is managing the full range of transition-related issues, including the conversion of existing contracts and the impact on valuations and systems. The Group has used basis swaps, which convert one benchmark rate to another, to reduce the economic exposure to affected benchmark rates within the portfolio of existing contracts. For new transactions which mature after an expected discontinuation date, the Group is avoiding the use of affected benchmark rates. The Group has signed up to the ISDA fallback protocols for derivative contracts which were launched in October 2020. This, alongside a transition mechanism which is in place with the London Clearing House, ensures that outstanding Libor derivatives are contractually ready for transition.

A number of the Group's current fair value and cash flow hedge accounting structures are expected to be affected by benchmark rate reforms. In the year ended 4 April 2020, the Group adopted the amendments to IFRS 9, IAS 39 and IFRS 7 arising from Phase 1 of the IASB's work on Interest Rate Benchmark Reform, which provide relief to the potential adverse hedge accounting impacts in the period until benchmark rates are replaced.

In August 2020, the IASB issued further amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 arising from Phase 2 of its work on Interest Rate Benchmark Reform. These amendments focus on the accounting for the replacement of existing benchmark interest rates. The Group has early adopted these amendments for the year ended 4 April 2021.

The table below summarises the current notional amount of financial instruments expected to be affected by benchmark reform.

**Contact/notional amount of financial instruments affected by benchmark reform**

| Current benchmark (note i) | Expected future benchmark | Loans and advances to customers | Investment securities | Debt securities in issue | Subscribed capital | Derivative financial instruments |
|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m |
| GBP Libor | Sterling overnight index average (Sonia) | 3,167 | 1,124 | - | 10 | 105,275 |
| USD Libor | Secured overnight financing rate (Sofr) | - | 1 | 515 | - | 16,590 |
| GBP Libor and USD Libor (note ii) | Sonia and Sofr | - | - | - | - | 14,759 |
| Other benchmarks (note ii) | Various | - | - | - | - | 1,952 |
| **Total** | | 3,167 | 1,125 | 515 | 10 | 138,576 |

Notes:

i. The Group expects that Euribor will continue as a benchmark rate for the foreseeable future; Euribor hedging instruments and hedged items have therefore been excluded from the table.

ii. Some hedging instruments, such as cross currency swaps, may reference more than one affected benchmark rate.

## 16. Deposits from banks and similar institutions

Deposits from banks and similar institutions are repayable from the balance sheet date in the ordinary course of business as follows.

| | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Accrued interest | **-** | - | **-** | - |
| Repayable: | | | | |
| On demand | **2,433** | 2,957 | **1,864** | 1,781 |
| In not more than three months | **8,150** | 1,855 | **8,150** | 1,855 |
| In more than three months but not more than one year | **9** | 6,000 | **9** | 6,000 |
| In more than one year but not more than five years | **16,430** | 11,000 | **16,430** | 11,000 |
| **Total** | **27,022** | 21,812 | **26,453** | 20,636 |

For the Group and Society, deposits from banks and similar institutions include £16.4 billion drawn down against the TFSME (2020: TFS £17.0 billion).

**Event after the reporting period**

During April 2021, the Society drew down a further £5.3 billion against the Bank of England's TFSME.

## 17. Other deposits

Other deposits are repayable from the balance sheet date in the ordinary course of business as follows.

| | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Accrued interest | **-** | 1 | **-** | 1 |
| Repayable: | | | | |
| On demand | **2,081** | 1,977 | **3,229** | 3,519 |
| In not more than three months | **794** | 563 | **794** | 563 |
| In more than three months but not more than one year | **1,627** | 1,921 | **1,627** | 1,921 |
| In more than one year but not more than five years (note i) | **20** | 20 | **20** | 20 |
| **Total** | **4,522** | 4,482 | **5,670** | 6,024 |

Note:
i. Includes £14 million (2020: £9 million) of other financial liabilities relating to contractual indemnity obligations.

Other deposits primarily comprise wholesale and commercial deposits. The Society's other deposits as at 4 April 2021 include £1,148 million (2020: £1,542 million) of deposits from subsidiary undertakings.

# 18. Debt securities in issue

| | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Certificates of deposit and commercial paper | **81** | 3,613 | **81** | 3,613 |
| Medium term notes | **9,196** | 7,157 | **9,196** | 7,157 |
| Covered bonds | **15,005** | 19,826 | **15,009** | 19,832 |
| Asset backed securities | **2,865** | 4,211 | **-** | - |
| | **27,147** | 34,807 | **24,286** | 30,602 |
| Fair value adjustment for micro hedged risk | **776** | 1,156 | **184** | 292 |
| **Total** | **27,923** | 35,963 | **24,470** | 30,894 |
| | | | | |
| Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows: | | | | |
| Accrued interest | **133** | 167 | **130** | 156 |
| Residual maturity repayable: | | | | |
| In not more than one year | **3,807** | 8,328 | **3,195** | 7,056 |
| In more than one year | **23,207** | 26,312 | **20,961** | 23,390 |
| | **27,147** | 34,807 | **24,286** | 30,602 |
| Fair value adjustment for micro hedged risk | **776** | 1,156 | **184** | 292 |
| **Total** | **27,923** | 35,963 | **24,470** | 30,894 |

The total for debt securities in issue in the Group includes £18,505 million (2020: £24,955 million), and in the Society includes £15,009 million (2020: £19,832 million), secured on certain loans and advances to customers. Further information is given in note 14.

## 19. Subordinated liabilities

| | Issuance date | Next call date | Maturity date | Group and Society 2021 £m | 2020 £m |
|---|---|---|---|---|---|
| **Senior non-preferred** | | | | | |
| 3.766% senior non-preferred notes (US Dollar 1 billion) | 8 March 2018 | 8 March 2023 | 8 March 2024 | **726** | 818 |
| 1.5% senior non-preferred notes (Euro 1 billion) | 8 March 2018 | 8 March 2025 | 8 March 2026 | **852** | 882 |
| 4.302% senior non-preferred notes (US Dollar 0.75 billion) | 8 March 2018 | 8 March 2028 | 8 March 2029 | **544** | 613 |
| 4.363% senior non-preferred notes (US Dollar 1 billion) | 1 August 2018 | 1 August 2023 | 1 August 2024 | **729** | 822 |
| 3.4675% senior non-preferred notes (Norwegian Kroner 1 billion) | 5 October 2018 | | 5 October 2026 | **86** | 79 |
| 0.805% senior non-preferred notes (Japanese Yen 1 billion) | 24 October 2018 | 24 October 2023 | 24 October 2024 | **7** | 7 |
| 0.9925% senior non-preferred notes (Japanese Yen 4 billion) | 30 October 2018 | 30 October 2025 | 30 October 2026 | **26** | 30 |
| 3.875% senior non-preferred notes (Norwegian Kroner 0.3 billion) | 13 November 2018 | | 13 November 2028 | **26** | 23 |
| 3.9% senior non-preferred notes (Norwegian Kroner 1 billion) | 13 November 2018 | | 13 November 2028 | **86** | 79 |
| 1.2775% senior non-preferred notes (Japanese Yen 3 billion) | 14 November 2018 | 14 November 2028 | 14 November 2029 | **20** | 23 |
| 3.622% senior non-preferred notes (US Dollar 1 billion) | 26 April 2019 | 26 April 2022 | 26 April 2023 | **735** | 829 |
| 3.96% senior non-preferred notes (US Dollar 1 billion) | 18 July 2019 | 18 July 2029 | 18 July 2030 | **730** | 822 |
| 0.85% senior non-preferred notes (Japanese Yen 5 billion) | 16 August 2019 | 16 August 2029 | 16 August 2030 | **33** | 38 |
| | | | | | |
| **Tier 2 eligible** | | | | | |
| 6.75% subordinated notes (Euro 0.75 billion) | 22 July 2010 | | 22 July 2020 | **-** | 692 |
| 4% subordinated notes (US Dollar 1.25 billion) | 14 September 2016 | | 14 September 2026 | **907** | 1,022 |
| 2% subordinated notes (Euro 1 billion) | 25 July 2017 | 25 July 2024 | 25 July 2029 | **863** | 894 |
| 4.125% subordinated notes (US Dollar 1.25 billion) | 18 October 2017 | 18 October 2027 | 18 October 2032 | **922** | 1,039 |
| | | | | **7,292** | 8,712 |
| Fair value hedge accounting adjustments | | | | **305** | 635 |
| Unamortised premiums and issue costs | | | | **(22)** | (30) |
| **Total** | | | | **7,575** | 9,317 |

Senior non-preferred notes are a class of subordinated liability which rank equally with each other and behind the claims against the Society of all depositors, creditors and investing members other than holders of Tier 2 eligible subordinated notes, permanent interest-bearing shares (PIBS), Additional Tier 1 (AT1) instruments and core capital deferred shares (CCDS). Senior non-preferred notes contribute to meeting the Society's minimum requirement for own funds and eligible liabilities (MREL) and loss absorbing requirements.

The Tier 2 eligible subordinated notes rank equally with each other and ahead of claims against the Society of holders of PIBS, AT1 instruments and CCDS. During the year, Euro 750 million (£692 million equivalent) of Tier 2 subordinated notes matured.

The interest rate and foreign exchange risks arising from the issuance of fixed rate and foreign currency subordinated liabilities have been mitigated through the use of derivatives.

# 20. Subscribed capital

| | Notes | Next call date | Group and Society 2021 £m | 2020 £m |
|---|---|---|---|---|
| 7.25% permanent interest-bearing shares | i | 5 December 2021 | **34** | 34 |
| 6.25% permanent interest-bearing shares | i | 22 October 2024 | **45** | 45 |
| 5.769% permanent interest-bearing shares | i | 6 February 2026 | **84** | 84 |
| 7.859% permanent interest-bearing shares | i | 13 March 2030 | **39** | 39 |
| Floating rate (6-month Libor + 2.4%) permanent interest-bearing shares | ii | | **10** | 10 |
| | | | **212** | 212 |
| Fair value hedge accounting adjustments | | | **33** | 43 |
| Unamortised premiums and issue costs | | | **(2)** | (2) |
| **Total** | | | **243** | 253 |

Notes:
i. Repayable, at the option of the Society, in full on the initial call date or every fifth anniversary thereafter. If not repaid on a call date, then the interest rate is reset at a margin to the yield on the then prevailing five-year benchmark gilt rate.
ii. Only repayable in the event of winding up the Society.

All PIBS are denominated in sterling and only repayable with the prior consent of the PRA.

PIBS rank equally with each other and the Group's AT1 instruments. They are deferred shares of the Society and rank behind the claims against the Society of all noteholders, depositors, creditors and investing members of the Society, other than the holders of CCDS.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

# 21. Fair value hierarchy of financial assets and liabilities held at fair value

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in notes 21 to 24 are on a consolidated basis. The following tables show the Group's financial assets and liabilities that are held at fair value by fair value hierarchy, balance sheet classification and product type.

| | **2021** | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fair values based on** | | | | Fair values based on | | | |
| | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m |
| **Financial assets** | | | | | | | | |
| Government, government guaranteed and supranational investment securities | **21,363** | **-** | **-** | **21,363** | 15,897 | - | - | 15,897 |
| Other debt investment securities | **1,748** | **1,087** | **5** | **2,840** | 1,583 | 881 | 5 | 2,469 |
| Investments in equity shares | **-** | **-** | **27** | **27** | - | - | 13 | 13 |
| **Total investment securities (note i)** | **23,111** | **1,087** | **32** | **24,230** | 17,480 | 881 | 18 | 18,379 |
| Interest rate swaps | **-** | **1,569** | **-** | **1,569** | - | 1,593 | - | 1,593 |
| Cross currency interest rate swaps | **-** | **2,055** | **-** | **2,055** | - | 3,005 | - | 3,005 |
| Foreign exchange swaps | **-** | **20** | **-** | **20** | - | 126 | - | 126 |
| Inflation swaps | **-** | **-** | **112** | **112** | - | 46 | - | 46 |
| Bond forwards | **-** | **53** | **-** | **53** | - | 1 | - | 1 |
| **Total derivative financial instruments** | **-** | **3,697** | **112** | **3,809** | - | 4,771 | - | 4,771 |
| Loans and advances to customers | **-** | **-** | **120** | **120** | - | - | 128 | 128 |
| **Total financial assets** | **23,111** | **4,784** | **264** | **28,159** | 17,480 | 5,652 | 146 | 23,278 |
| | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Interest rate swaps | **-** | **(737)** | **-** | **(737)** | - | (1,179) | - | (1,179) |
| Cross currency interest rate swaps | **-** | **(819)** | **-** | **(819)** | - | (549) | - | (549) |
| Foreign exchange swaps | **-** | **(12)** | **-** | **(12)** | - | (44) | - | (44) |
| Inflation swaps | **-** | **-** | **(52)** | **(52)** | - | (52) | - | (52) |
| Bond forwards | **-** | **(2)** | **-** | **(2)** | - | (94) | - | (94) |
| Swaptions | **-** | **-** | **-** | **-** | - | (6) | - | (6) |
| **Total derivative financial instruments** | **-** | **(1,570)** | **(52)** | **(1,622)** | - | (1,924) | - | (1,924) |
| **Total financial liabilities** | **-** | **(1,570)** | **(52)** | **(1,622)** | - | (1,924) | - | (1,924) |

Note:
i. Investment securities exclude £1,243 million of investment securities held at amortised cost (2020: £1,625 million).

The Group's Level 1 portfolio comprises government and other highly rated securities for which traded prices are readily available. Asset valuations for Level 2 investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 investment securities are valued using models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs. More detail on the Level 3 portfolio is provided in note 22.

## 21. Fair value hierarchy of financial assets and liabilities held at fair value (continued)

**Transfers between fair value hierarchies**

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation, and are recognised at the date of the event or change in circumstances which caused the transfer. There were no transfers between the Level 1 and Level 2 portfolios during the year. At 30 September 2020, £51 million of inflation swap derivative assets and £116 million of inflation swap derivative liabilities were transferred from Level 2 to Level 3 as detailed in note 22.

## 22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio

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

**Loans and advances to customers**

Certain loans and advances to customers have been classified as FVTPL. Level 3 assets in this category include a closed portfolio of residential mortgages and a small number of commercial loans.

**Investment securities**

The Level 3 items in this category primarily include investments made in FinTech companies, of which £21 million (2020: £6 million) are equity investments which have been designated at FVOCI as the investments are being held for long term strategic purposes.

**Derivative financial instruments (inflation swaps)**

Inflation swaps are used to hedge the Group's investments in index-linked government debt. Adjustments to the inflation curve to reflect seasonality in inflation index publications is required to determine a valuation; however, unlike most derivative valuation inputs, this market data is not available and therefore the input is internally derived rather than observable. During the year, the Group began transacting Euro and US Dollar inflation swaps, for which seasonality is a more significant input than for equivalent sterling swaps. As a result, seasonality has become significant to the valuation of the inflation swap portfolio as a whole, and the portfolio was therefore transferred from Level 2 to Level 3 from 30 September 2020.

## 22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

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

**Movements in Level 3 portfolio**

| | **2021** | | | | 2020 | |
|---|---|---|---|---|---|---|
| | **Investment securities** | **Derivative financial assets** | **Derivative financial liabilities** | **Loans and advances to customers** | Investment securities | Loans and advances to customers |
| | **£m** | **£m** | **£m** | **£m** | £m | £m |
| At 5 April | 18 | - | - | 128 | 81 | 129 |
| Gains/(losses) recognised in the income statement, within: | | | | | | |
| Net interest income | **-** | **(56)** | **(17)** | **3** | - | 3 |
| Gains from derivatives and hedge accounting (note i) | **-** | **110** | **81** | **-** | 1 | - |
| Other operating income/(expense) | **-** | **2** | **1** | **(1)** | 11 | 7 |
| Gains/(losses) recognised in other comprehensive income, within: | | | | | | |
| Fair value through other comprehensive income reserve | **4** | **-** | **-** | **-** | (1) | - |
| Additions | **10** | **-** | **-** | **-** | 6 | - |
| Disposals | **-** | **(2)** | **(1)** | **-** | (80) | - |
| Settlements/repayments | **-** | **7** | **-** | **(10)** | - | (11) |
| Transfers into Level 3 portfolio | **-** | **51** | **(116)** | **-** | - | - |
| **At 4 April** | **32** | **112** | **(52)** | **120** | 18 | 128 |

Note:
i. Includes foreign exchange revaluation gains/losses.

**Level 3 portfolio sensitivity analysis of valuations using unobservable inputs**

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or significant unobservable market inputs. Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or members' interests and equity.

# 22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

**Sensitivity of Level 3 fair values**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | | Income statement | | | Income statement | |
| | Fair value | Favourable changes | Unfavourable changes | Fair value | Favourable changes | Unfavourable changes |
| | £m | £m | £m | £m | £m | £m |
| Investment securities | 32 | 13 | (6) | 18 | 2 | (1) |
| Derivative financial instruments - assets | 112 | 21 | (21) | - | - | - |
| Derivative financial instruments - liabilities | (52) | 28 | (28) | - | - | - |
| Loans and advances to customers | 120 | 2 | (3) | 128 | 4 | (5) |
| **Total** | 212 | 64 | (58) | 146 | 6 | (6) |

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market. The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply. Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

**Significant unobservable inputs**

| | 2021 | | | | | | | | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total assets | Total liabilities | Valuation technique | Significant unobservable inputs | Range (note i) | | Weighted average (note ii) | Units | Total assets | Valuation technique | Significant unobservable inputs | Range (note i) | | Weighted average (note ii) | Units |
| | £m | £m | | | | | | | £m | | | | | | |
| Investment securities | 32 | - | Discounted cash flows | Discount rate | 10.00 | 15.00 | 12.70 | % | 18 | Discounted cash flows | Discount rate | 10.00 | 15.00 | 12.70 | % |
| | | | | Cash flow projections | 95.00 | 105.00 | 100.00 | % | | | | | | | |
| Derivative financial instruments | 112 | (52) | Discounted cash flows | Seasonality | 0.00 | 0.81 | 0.22 | % | | | | | | | |
| Loans and advances to customers | 120 | - | Discounted cash flows | Discount rate | 2.09 | 9.75 | 3.87 | % | 128 | Discounted cash flows | Discount rate | 2.94 | 9.75 | 4.33 | % |

Notes:
i. The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the table of sensitivities above.
ii. Weighted average represents the input values used in calculating the fair values for the above financial instruments.

### Discount rate

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

Notes to the financial statements (continued)

## 22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

**Cash flow projections**

Cash flow projections for certain investments held at 4 April 2021 represent a significant unobservable input. Where the fair value of an investment is derived using a discounted cash flow model, the total amount of projected cash flows is estimated according to the overall expectation of performance of the entity to which the investment is made. The lower the cash flow projection, the lower the valuation and vice versa.

**Seasonality**

An inflation swap curve is built using inflation swap quotes to forecast the UK retail price index and EU and US consumer price indices. This curve is used to calculate future cash flows. While these instruments give a good indication of annual growth in inflation, monthly index fixings throughout the year tend to behave differently and so the inflation swap curve is adjusted for this seasonality accordingly. The higher the seasonality, the greater the adjustment to the inflation swap curve.

## 23. Fair value of financial assets and liabilities measured at amortised cost

The following table summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet.

| Fair value of financial assets and liabilities (note i) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2021** | | | | | 2020 | | | | |
| | **Carrying value** | **Fair values based on** | | | **Total fair value** | Carrying value | Fair values based on | | | Total fair value |
| | | **Level 1** | **Level 2** | **Level 3** | | | Level 1 | Level 2 | Level 3 | |
| | **£m** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m | £m |
| **Financial assets** | | | | | | | | | | |
| Loans and advances to banks and similar institutions | **3,660** | **-** | **3,660** | **-** | **3,660** | 3,636 | - | 3,636 | - | 3,636 |
| Investment securities | **1,243** | **-** | **1,245** | **-** | **1,245** | 1,625 | - | 1,594 | - | 1,594 |
| Loans and advances to customers: | | | | | | | | | | |
| Residential mortgages | **190,638** | **-** | **-** | **193,645** | **193,645** | 188,516 | - | - | 190,580 | 190,580 |
| Consumer banking | **3,902** | **-** | **-** | **3,866** | **3,866** | 4,500 | - | - | 4,452 | 4,452 |
| Commercial and other lending | **6,887** | **-** | **-** | **6,638** | **6,638** | 7,834 | - | - | 8,010 | 8,010 |
| **Total** | **206,330** | **-** | **4,905** | **204,149** | **209,054** | 206,111 | - | 5,230 | 203,042 | 208,272 |
| **Financial liabilities** | | | | | | | | | | |
| Shares | **170,313** | **-** | **170,415** | **-** | **170,415** | 159,691 | - | 159,891 | - | 159,891 |
| Deposits from banks and similar institutions | **27,022** | **-** | **27,022** | **-** | **27,022** | 21,812 | - | 21,810 | - | 21,810 |
| Other deposits | **4,522** | **-** | **4,508** | **14** | **4,522** | 4,482 | - | 4,474 | 9 | 4,483 |
| Debt securities in issue | **27,923** | **13,455** | **15,178** | **-** | **28,633** | 35,963 | 19,618 | 16,396 | - | 36,014 |
| Subordinated liabilities | **7,575** | **-** | **7,833** | **-** | **7,833** | 9,317 | - | 8,658 | - | 8,658 |
| Subscribed capital | **243** | **-** | **233** | **-** | **233** | 253 | - | 230 | - | 230 |
| **Total** | **237,598** | **13,455** | **225,189** | **14** | **238,658** | 231,518 | 19,618 | 211,459 | 9 | 231,086 |

Note:
i. The tables above exclude cash for which fair value approximates to carrying value.

## 23. Fair value of financial assets and liabilities measured at amortised cost (continued)

The fair values of loans and advances to customers are further analysed, between those credit-impaired and those non-credit impaired, as follows.

**Fair value of loans and advances to customers**

| | 2021 | | | | | | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Non-credit impaired (Stages 1 and 2)** | | **Credit-impaired (Stage 3 and POCI) (note i)** | | **Total** | | Non-credit impaired (Stages 1 and 2) | | Credit-impaired (Stage 3 and POCI) (note i) | | Covid-19 additional provision (note ii) | Total | |
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** | Carrying value | Fair value | Carrying value | Fair value | Carrying and Fair value | Carrying value | Fair value |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m | £m | £m | £m |
| Residential mortgages | **189,164** | **192,147** | **1,474** | **1,498** | **190,638** | **193,645** | 187,184 | 189,233 | 1,383 | 1,398 | (51) | 188,516 | 190,580 |
| Consumer banking | **3,875** | **3,839** | **27** | **27** | **3,902** | **3,866** | 4,511 | 4,463 | 32 | 32 | (43) | 4,500 | 4,452 |
| Commercial and other lending | **6,817** | **6,564** | **70** | **74** | **6,887** | **6,638** | 7,795 | 7,966 | 46 | 51 | (7) | 7,834 | 8,010 |
| **Total** | **199,856** | **202,550** | **1,571** | **1,599** | **201,427** | **204,149** | 199,490 | 201,662 | 1,461 | 1,481 | (101) | 200,850 | 203,042 |

Notes:
i. POCI loans are those which were credit-impaired when purchased or originated.
ii. For the year ended 4 April 2020, an additional provision for Covid-19 was recognised; this has not been allocated to a provisioning stage.

**Loans and advances to banks and similar institutions**

The fair value of loans and advances to banks and similar institutions is estimated by discounting expected cash flows at a market discount rate.

**Investment securities**

The fair value of investment securities is sourced from consensus pricing or other observable market prices.

**Loans and advances to customers**

The fair value of loans and advances to customers is estimated by discounting expected cash flows at rates that reflect current rates for similar lending. Consistent modelling techniques are used across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR) which, for example, in the case of the Group's residential base mortgage rate (BMR) mortgage book, generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

**Shares, deposits and amounts due to customers**

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

**Debt securities in issue**

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes for which quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

**Subordinated liabilities and subscribed capital**

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

## 24. Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or realise the asset and liability simultaneously. In accordance with IAS 32 'Financial Instruments: Presentation,' where the right to set off is not unconditional in all circumstances this does not result in an offset of balance sheet assets and liabilities. The following table shows the impact on financial assets and financial liabilities relating to transactions where:

- there is an enforceable master netting arrangement or similar agreement in place, an unconditional right to offset is in place and there is an intention to settle net ('amounts offset'),
- there is an enforceable master netting arrangement or similar agreement in place, but the offset criteria are otherwise not satisfied ('master netting arrangements'), and
- financial collateral is paid and received ('financial collateral').

**Offsetting financial assets and financial liabilities**

| | 2021 | | | | | | 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Gross amounts recognised** | **Amounts offset (note i)** | **Net amounts reported on the balance sheet** | **Master netting arrangements** | **Financial collateral (note ii)** | **Net amounts** | Gross amounts recognised | Amounts offset (note i) | Net amounts reported on the balance sheet | Master netting arrangements | Financial collateral (note ii) | Net amounts |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £m | £m | £m |
| **Financial assets** | | | | | | | | | | | | |
| Derivative financial assets | **5,021** | **(1,212)** | **3,809** | **(1,440)** | **(2,359)** | **10** | 6,376 | (1,605) | 4,771 | (1,648) | (2,997) | 126 |
| Reverse repurchase agreements | **883** | **(477)** | **406** | **-** | **(406)** | **-** | 1,805 | (1,805) | - | - | - | - |
| **Total financial assets** | **5,904** | **(1,689)** | **4,215** | **(1,440)** | **(2,765)** | **10** | 8,181 | (3,410) | 4,771 | (1,648) | (2,997) | 126 |
| | | | | | | | | | | | | |
| **Financial liabilities** | | | | | | | | | | | | |
| Derivative financial liabilities | **4,075** | **(2,453)** | **1,622** | **(1,440)** | **(104)** | **78** | 5,049 | (3,125) | 1,924 | (1,648) | (161) | 115 |
| Repurchase agreements | **8,626** | **(477)** | **8,149** | **-** | **(8,148)** | **1** | 2,443 | (1,805) | 638 | - | (637) | 1 |
| **Total financial liabilities** | **12,701** | **(2,930)** | **9,771** | **(1,440)** | **(8,252)** | **79** | 7,492 | (4,930) | 2,562 | (1,648) | (798) | 116 |

Notes:

i. Amounts offset for derivative financial assets of £1,212 million (2020: £1,605 million) include cash collateral netted of £258 million (2020: £416 million). Amounts offset for derivative financial liabilities of £2,453 million (2020: £3,125 million) include cash collateral netted of £1,499 million (2020: £1,936 million).

ii. The balances presented for financial collateral on repurchase agreements and reverse repurchase agreements are less than the financial collateral balances reported in note 13, as the amounts disclosed above are limited to the net amounts reported on the balance sheet after amounts offset as shown in the table.

Master netting arrangements consist of agreements such as an International Swaps and Derivatives Association (ISDA) Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net, either unconditionally or following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash settled, typically daily or weekly, to mitigate the credit risk on the fair value of derivative contracts. Financial collateral on repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The net amounts after offsetting presented above show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements.

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# 25. Intangible assets

| **Group 2021** | **Computer software Externally acquired £m** | **Computer software Internally developed £m** | **Total computer software £m** | **Goodwill £m** | **Total £m** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 5 April 2020 | 405 | 2,262 | 2,667 | 12 | 2,679 |
| Additions | **28** | **205** | **233** | **-** | **233** |
| Disposals | **(34)** | **(123)** | **(157)** | **-** | **(157)** |
| **At 4 April 2021** | **399** | **2,344** | **2,743** | **12** | **2,755** |
| | | | | | |
| **Accumulated amortisation and impairment** | | | | | |
| At 5 April 2020 | 241 | 1,199 | 1,440 | - | 1,440 |
| Amortisation charge | **58** | **278** | **336** | **-** | **336** |
| Impairment in the year | **2** | **33** | **35** | **-** | **35** |
| Disposals | **(34)** | **(123)** | **(157)** | **-** | **(157)** |
| **At 4 April 2021** | **267** | **1,387** | **1,654** | **-** | **1,654** |
| | | | | | |
| **Net book value** | | | | | |
| **At 4 April 2021** | **132** | **957** | **1,089** | **12** | **1,101** |

| Group 2020 | Computer software Externally acquired £m | Computer software Internally developed £m | Total computer software £m | Goodwill £m | Total £m |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 5 April 2019 | 362 | 2,089 | 2,451 | 12 | 2,463 |
| Additions | 80 | 307 | 387 | - | 387 |
| Disposals | (37) | (134) | (171) | - | (171) |
| At 4 April 2020 | 405 | 2,262 | 2,667 | 12 | 2,679 |
| | | | | | |
| Accumulated amortisation and impairment | | | | | |
| At 5 April 2019 | 217 | 922 | 1,139 | - | 1,139 |
| Amortisation charge | 60 | 270 | 330 | - | 330 |
| Impairment in the year | 1 | 141 | 142 | - | 142 |
| Disposals | (37) | (134) | (171) | - | (171) |
| At 4 April 2020 | 241 | 1,199 | 1,440 | - | 1,440 |
| | | | | | |
| Net book value | | | | | |
| At 4 April 2020 | 164 | 1,063 | 1,227 | 12 | 1,239 |

## 25. Intangible assets (continued)

Computer software capitalised during the year primarily relates to the Group's investment in digital services and data capabilities, together with ensuring the resilience and simplification of the technology estate. The total cost at 4 April 2021 includes £96 million (2020: £216 million) of assets in the course of construction which, to the extent that they are not yet ready for use by the business, have no amortisation charged against them. For all other computer software capitalised the estimated useful life of individual assets is predominantly 5 years.

An impairment loss of £35 million (2020: £142 million) was recognised in the year primarily in respect of assets relating to the Society's ongoing activity to simplify its technology estate.

The Society's intangible assets are as shown above for the Group, except that they exclude £12 million (2020: £12 million) of goodwill relating to the acquisition of The Mortgage Works (UK) plc which is only recognised at Group level. Capital expenditure contracted for but not accrued at 4 April 2021 was £9 million (2020: £22 million).

## 26. Property, plant and equipment

| **Group**<br>**2021** | **Branches and non-specialised buildings**<br>**£m** | **Specialised administration buildings**<br>**£m** | **Investment properties**<br>**£m** | **Plant and machinery**<br>**£m** | **Equipment, fixtures, fittings and vehicles**<br>**£m** | **Right-of-use branches and non-specialised buildings**<br>**£m** | **Total**<br>**£m** |
|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | |
| At 5 April 2020 | 195 | 176 | 2 | 291 | 1,131 | 274 | 2,069 |
| Additions | **-** | **-** | **-** | **19** | **75** | **18** | **112** |
| Transfers (note i) | **-** | **-** | **20** | **-** | **-** | **(28)** | **(8)** |
| Revaluation | **(15)** | **-** | **(4)** | **-** | **-** | **-** | **(19)** |
| Disposals | **(16)** | **(10)** | **-** | **(13)** | **(115)** | **(1)** | **(155)** |
| **At 4 April 2021** | **164** | **166** | **18** | **297** | **1,091** | **263** | **1,999** |
| | | | | | | | |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 5 April 2020 | - | 89 | - | 197 | 580 | 31 | 897 |
| Depreciation charge | **-** | **3** | **-** | **25** | **135** | **26** | **189** |
| Transfers (note i) | **-** | **-** | **-** | **-** | **-** | **(8)** | **(8)** |
| Impairment | **-** | **-** | **-** | **11** | **14** | **12** | **37** |
| Disposals | **-** | **(10)** | **-** | **(13)** | **(111)** | **-** | **(134)** |
| **At 4 April 2021** | **-** | **82** | **-** | **220** | **618** | **61** | **981** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| **At 4 April 2021** | **164** | **84** | **18** | **77** | **473** | **202** | **1,018** |

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## 26. Property, plant and equipment (continued)

| Group<br>2020 | Branches and non-specialised buildings | Specialised administration buildings | Investment properties | Plant and machinery | Equipment, fixtures, fittings and vehicles | Right-of-use branches and non-specialised buildings | Total |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| Cost or valuation | | | | | | | |
| At 5 April 2019 | 222 | 176 | 9 | 278 | 1,010 | 181 | 1,876 |
| Additions | 2 | - | - | 16 | 225 | 93 | 336 |
| Revaluation | (17) | - | - | - | - | - | (17) |
| Disposals | (12) | - | (7) | (3) | (104) | - | (126) |
| At 4 April 2020 | 195 | 176 | 2 | 291 | 1,131 | 274 | 2,069 |
| | | | | | | | |
| Accumulated depreciation and impairment | | | | | | | |
| At 5 April 2019 | - | 86 | - | 176 | 544 | - | 806 |
| Depreciation charge | - | 3 | - | 24 | 127 | 25 | 179 |
| Impairment | - | - | - | - | 9 | 6 | 15 |
| Disposals | - | - | - | (3) | (100) | - | (103) |
| At 4 April 2020 | - | 89 | - | 197 | 580 | 31 | 897 |
| | | | | | | | |
| Net book value | | | | | | | |
| At 4 April 2020 | 195 | 87 | 2 | 94 | 551 | 243 | 1,172 |

Note:

i. During the year, there has been a transfer of a leased building from right-of-use branches and non-specialised buildings to investment properties, following its permanent vacation and subsequent marketing for sub lease.

Group property, plant and equipment at 4 April 2021 includes £2 million (2020: £2 million) of specialised administration buildings held by subsidiary undertakings.

Property, plant and equipment includes £71 million (2020: £116 million) of assets in the course of construction. Capital expenditure contracted for but not accrued at 4 April 2021 was £8 million (2020: £33 million).

As at 4 April 2021, branches and non-specialised buildings includes £8 million (2020: £10 million) of properties which are classified as held for sale.

An impairment loss of £37 million (2020: £15 million) was recognised in the year, due largely to the decision to vacate three leased right-of-use administrative buildings and the associated write down of capitalised improvements to these buildings.

Branches and non-specialised buildings are valued annually at the balance sheet date by independent surveyors. The current use of all branches and non-specialised buildings equates to highest and best use, and there have been no changes to the valuation technique during the year.

IFRS 13 requires that all assets held at fair value are classified according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. Branches and non-specialised buildings valuations are classified within Level 2 of the fair value hierarchy.

Branches and non-specialised buildings revalued annually would have a carrying value under the historic cost model of £73 million (2020: £75 million).

# 27. Provisions for liabilities and charges

| Group | Customer redress £m | Other provisions £m | Total £m |
|---|---|---|---|
| At 5 April 2020 (note i) | 114 | 32 | 146 |
| Provisions utilised | (77) | (54) | (131) |
| Charge for the year | 100 | 63 | 163 |
| Release for the year | (13) | (6) | (19) |
| Net income statement charge (note ii) | 87 | 57 | 144 |
| **At 4 April 2021** | **124** | **35** | **159** |

Notes:
i. Comparatives have been restated to reflect the change in presentation of the bank levy as detailed in note 1.
ii. The net income statement charge relating to customer redress is included in provisions for liabilities and charges. The net income statement charge relating to other provisions is recognised in administrative expenses, with the exception of £1 million in respect of obligations under the Financial Services Compensation Scheme which is included in provisions for liabilities and charges.

The Society's provisions for liabilities and charges are the same as shown above for the Group.

**Customer redress**

During the course of its business, the Group receives complaints from customers in relation to past sales or ongoing administration. The Group is also subject to enquiries from and discussions with its regulators and governmental and other public bodies, including the Financial Ombudsman Service (FOS), on a range of matters. Customer redress matters may also exist in relation to other aspects of past sales and administration of customer accounts, quality control issues and non-compliance with consumer credit legislation or other regulatory matters. Consideration of such customer redress matters may result in a provision, a contingent liability or both, depending upon relevant facts and circumstances. No provision is made where it is concluded that it is not probable that a quantifiable payment will be made; this will include circumstances where the facts are unclear or further time is required to reasonably quantify the expected payment.

At 4 April 2021, the Group holds provisions of £124 million (2020: £114 million) in respect of the potential costs of remediation and redress in relation to past sales of PPI, issues relating to administration of customer accounts, issues relating to historical quality control procedures, non-compliance with consumer credit legislation and other regulatory matters.

Within provisions for customer redress, £38 million is held as a result of the Group's investigations into its historical quality control procedures. The provision has been based on detailed reviews completed to date into specific areas of concern and represents the Group's best estimate of the liability. As further work is undertaken on these areas, it is possible that the ultimate liability may be higher or lower than the amount provided at 4 April 2021. An estimate of the potential impact of any contingent liabilities associated with the ongoing investigations has not been provided as it is not practicable to do so.

**Other provisions**

Other provisions primarily include amounts for severance costs, a number of property-related provisions and expected credit losses on irrevocable personal loan and mortgage lending commitments.

## 27. Provisions for liabilities and charges (continued)

**Critical accounting estimates and judgements**

There is significant estimation uncertainty in estimating the probability, timing and amount of any cash outflows associated with customer redress provisions.

Provisions are recognised for matters relating to customer redress where an outflow is probable and can be estimated reliably. Amounts provided are based on management's best estimate of the number of customers impacted and anticipated remediation. As any new matters emerge, an estimate is made of the outcome, although in some cases uncertainties remain as to the eventual costs given the inherent difficulties in determining the number of impacted customers and the amount of any redress applicable.

Provisions relating specifically to PPI mis-selling are no longer considered to contain significant estimation uncertainty due to the time elapsed since the PPI claims deadline in August 2019. Sources of significant estimation uncertainty in provisions for customer redress relate specifically to matters in respect of administration of customer accounts and quality control procedures. A number of assumptions are applied in estimating provisions relating to the past administration of customer accounts, including the identification and segmentation of customer groups expected to receive redress and the amount of redress payable for each customer group. If the total number of customers expected to receive redress changed by 10%, the provision would change by £3 million. If the amount of redress expected to be payable changed by 10%, the provision would change by £2 million. For provisions relating to quality control procedures, if the number of customers expected to receive redress changed by 10%, the provision would change by £5 million. Provisions will be adjusted in future periods as further information becomes available.

## 28. Leasing

The Group leases various offices, branches and other premises under leasing arrangements. The following tables show the amounts recognised in the income statement and on the balance sheet arising from these leases.

| Leasing amounts recognised in the income statement | | | |
|---|---|---|---|
| | | Group | |
| | | **2021** | 2020 |
| | **Income statement classification** | **£m** | £m |
| Interest expense | Interest expense and similar charges | **(5)** | (5) |
| Depreciation and impairment of right-of-use assets | Administrative expenses | **(38)** | (31) |
| Lease expense in respect of short term and low value leases | Administrative expenses | **(9)** | (6) |
| Amounts receivable under leases where the Group is a lessor | Other operating income | **2** | 4 |

| Leasing amounts recognised at the balance sheet date | | | |
|---|---|---|---|
| | | Group | |
| | | **2021** | 2020 |
| | **Balance sheet classification** | **£m** | £m |
| Right-of-use assets | Property, plant and equipment | **202** | 243 |
| Lease liabilities | Other liabilities | **(262)** | (265) |

In addition to the above, the Society holds a lease liability and right-of-use asset of £2 million (2020: £2 million) relating to the lease of an investment property owned by one of its subsidiaries which is eliminated on consolidation.

## 28. Leasing (continued)

Total leasing cash outflows in the year were £38 million (2020: £34 million). £5 million (2020: £4 million) of lease commitments were entered into but had not yet commenced at the balance sheet date. Future undiscounted minimum payments under lease liabilities were as follows:

| Leasing commitments | Group and Society 2021 £m | Group and Society 2020 £m |
|---|---|---|
| Amounts falling due: | | |
| Within one year | **26** | 20 |
| Between one and two years | **32** | 26 |
| Between two and three years | **31** | 29 |
| Between three and four years | **29** | 29 |
| Between four and five years | **28** | 28 |
| After five years | **165** | 185 |
| **Total** | **311** | 317 |

At the balance sheet date £10 million (2020: £11 million) of future minimum lease payments were receivable under leases where the Group is a lessor, of which £2 million (2020: £3 million) were receivable under non-cancellable subleases.

## 29. Contingent liabilities

During the ordinary course of business, the Group may be subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. Any such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability.

The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote. The Group also does not disclose an estimate of the potential financial impact or effect on the Group of contingent liabilities where it is not currently practicable to do so. The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position.

Contingent liabilities associated with redress provisions are discussed further in note 27.

## 30. Retirement benefit obligations

The Group operates two defined contribution pension schemes in the UK – the Nationwide Group Personal Pension Plan (GPP) and the Nationwide Temporary Workers Pension Scheme. New employees are automatically enrolled into one of these schemes. Outside of the UK, there is a defined contribution pension scheme for a small number of employees in the Isle of Man.

The Group also has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day to day administration. The Group's largest pension scheme is the Nationwide Pension Fund (the Fund). This is a contributory defined benefit pension scheme, with both final salary and career average revalued earnings (CARE) sections. The Fund was closed to new entrants in 2007 and since that date employees have been able to join the GPP. In line with UK pensions legislation, a formal actuarial valuation ('Triennial Valuation') of the assets and liabilities of the Fund is carried out at least every three years by independent actuaries.

The Fund was closed to future accrual on 31 March 2021, with affected employees being moved to the GPP for future pension savings. From 1 April 2021, members moved from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index (CPI). In the year ended 4 April 2020, a gain of £164 million was recognised as a past service credit within administrative expenses relating to the closure, and £60 million was accrued within 'administrative expenses – other staff related costs' for the cost of one-off payments to be made to affected members in the form of cash or as contributions to their pensions.

In November 2020, Nationwide and the Trustee of the Fund entered into an arrangement whereby Nationwide has agreed to provide £1.7 billion of collateral (a contingent asset) in the form of self-issued Silverstone notes to provide additional security to the Fund. The Fund would have access to these notes in the case of certain events such as insolvency of Nationwide.

Further information on the Group's obligations to defined benefit pension schemes is set out below.

**Defined benefit pension schemes**

| Retirement benefit obligations on the balance sheet | Group | |
|---|---|---|
| | **2021** | 2020 |
| | **£m** | £m |
| Fair value of fund assets | **7,033** | 6,530 |
| Present value of funded obligations | **(6,853)** | (6,228) |
| Present value of unfunded obligations | **(8)** | (8) |
| **Surplus at 4 April** | **172** | 294 |

Most members of the Fund can draw their pension when they reach the Fund's retirement age of 65. The methodology for calculating the level of pension benefits accrued before 1 April 2011 varies; however, most are based on 1/54th of final salary for each year of service. Pension benefits accrued after 1 April 2011 are usually based on 1/60th of average earnings, revalued to the age of retirement, for each year of service (also called CARE). As noted above, there will be no further accrual of benefits from 1 April 2021, and future indexation of previously accrued benefits will be valued on the basis of CPI.

On the death of a Fund member, benefits may be payable in the form of a spouse/dependant's pension, lump sum (paid within five years of a Fund member beginning to take their pension), or refund of Fund member contributions. Prior to 1 April 2021, Fund members were able to place redundancy severance into their pension.

# 30. Retirement benefit obligations (continued)

Approximately 68% of the Fund's pension obligations have been accrued in relation to deferred Fund members (current and former employees not yet drawing their pension) and 32% for current pensioners and dependants. The average duration of the Fund's pension obligation is approximately 22 years, reflecting the split of the obligation between deferred members (25 years) and current pensioners (14 years).

The Group's retirement benefit obligations include £1 million (2020: £2 million) recognised in a subsidiary company, Nationwide (Isle of Man) Limited. This obligation relates to a defined benefit scheme providing benefits based on both final salary and CARE, which was closed to new entrants in 2009. The Group's retirement benefit obligations also include £8 million (2020: £8 million) in respect of unfunded legacy defined benefit arrangements.

The amounts recognised in the income statement are as follows:

| Retirement benefit obligations recognised in the income statement | | |
|---|---|---|
| | Group | |
| | **2021** | 2020 |
| | **£m** | £m |
| Defined contribution cost | **(97)** | (89) |
| Defined benefit schemes | | |
| Current service cost | **(72)** | (90) |
| Past service (cost)/credit (note i) | **(5)** | 169 |
| Administrative expenses | **(6)** | (5) |
| Included in employee costs (note 8) | **(180)** | (15) |
| Interest on net defined benefit asset (note 3) | **7** | 3 |
| **Total** | **(173)** | (12) |

Note:
i. In the year ended 4 April 2020, the past service credit reflects a gain of £164 million relating to the closure of the Fund to future accrual on 31 March 2021.

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

| Movements in net defined benefit asset/(liability) | | |
|---|---|---|
| | Group | |
| | **2021** | 2020 |
| | **£m** | £m |
| Surplus/(deficit) at 5 April | 294 | (105) |
| Current service cost | **(72)** | (90) |
| Past service (cost)/credit | **(5)** | 169 |
| Interest on net defined benefit asset | **7** | 3 |
| Return on assets greater than discount rate | **467** | 141 |
| Contributions by employer | **66** | 127 |
| Administrative expenses | **(6)** | (5) |
| Actuarial (losses)/gains on defined benefit obligations | **(579)** | 54 |
| **Surplus at 4 April** | **172** | 294 |

## 30. Retirement benefit obligations (continued)

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

Past service cost represents a £5 million (2020: £2 million) increase in liabilities arising from Fund members choosing to pay additional contributions (AVCs or pension credits). Included within the past service credit for the year ended 4 April 2020 is a gain of £164 million relating to the decision to close the Fund to future accrual on 31 March 2021 and a gain of £7 million in respect of Fund members made redundant during that year.

The interest on the net defined benefit asset represents the interest accruing on the liabilities over the year, offset by the interest income on assets. A net interest credit of £7 million was recognised in the year ended 4 April 2021 (2020: £3 million).

The £467 million gain relating to the return on assets greater than the discount rate (2020: £141 million) is driven by gains on equities and investments in unlisted asset classes.

During the year, Nationwide and the Trustee agreed to a new Deficit Recovery Plan and Schedule of Contributions following the finalisation of the Fund’s 31 March 2019 actuarial valuation. As a consequence of entering into the contingent asset arrangement, no employer deficit contributions were required in the year ended 4 April 2021. Additionally, no employer deficit contributions will be required in the year ending 4 April 2022 or in future years under the terms of the new Deficit Recovery Plan. Employer contributions of £66 million in the year ended 4 April 2021 relate to the final contributions in respect of benefit accrual prior to the Fund closing to future accrual on 31 March 2021.

The £579 million actuarial loss on defined benefit obligations (2020: £54 million actuarial gain) is due to:

- An experience gain of £43 million (2020: £117 million gain) primarily reflecting the difference between estimates of long-term inflation and membership assumptions compared to actual long-term inflation.
- A £581 million loss (2020: £34 million loss) from changes in financial assumptions, driven by a 0.50% increase in assumed Retail Price Index (RPI) inflation and 0.75% increase in assumed Consumer Price Index (CPI) inflation (which increases the value of the liabilities), partially offset by a 0.05% increase in the discount rate (which decreases the value of liabilities).
- A £41 million loss (2020: £29 million loss) arising from updates to reflect the Fund’s new commutation factors, partially offset by the impact of updating to the latest industry standard actuarial model for projecting future longevity improvements.

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

| Movements in defined benefit obligations | Group | |
|---|---|---|
| | **2021** | 2020 |
| | **£m** | £m |
| At 5 April | (6,236) | (6,383) |
| Current service cost | **(72)** | (90) |
| Past service (cost)/credit | **(5)** | 169 |
| Interest expense on retirement obligation | **(120)** | (148) |
| Experience gain on plan assumptions | **43** | 117 |
| Changes in demographic assumptions | **(41)** | (29) |
| Changes in financial assumptions | **(581)** | (34) |
| Contributions by employees | **(8)** | - |
| Benefits paid | **159** | 162 |
| **At 4 April** | **(6,861)** | (6,236) |

## 30. Retirement benefit obligations (continued)

Changes in the fair value of plan assets for the pension schemes are as follows:

| Movements in plan assets | | |
|---|---|---|
| | **Group** | |
| | **2021** | 2020 |
| | **£m** | £m |
| At 5 April | 6,530 | 6,278 |
| Interest income on assets | **127** | 151 |
| Return on assets greater than discount rate | **467** | 141 |
| Administrative expenses | **(6)** | (5) |
| Contributions by employer | **66** | 127 |
| Contributions by employees | **8** | - |
| Benefits paid | **(159)** | (162) |
| **At 4 April** | **7,033** | 6,530 |

The Group offers a salary sacrifice arrangement whereby regular employee contributions are deducted from pay before their salary is paid each month, therefore the majority of regular employee contributions are reflected in contributions by employer. In the year ended 4 April 2021, contributions made directly by employees of £8 million relate to the one-off payment made to scheme members due to the closure of the Fund to future accrual. Certain members elected to have all or part of their payment directed into the Fund as a voluntary contribution.

The major categories of assets held for the pension schemes, stated at fair value, are as follows:

| Categories of plan assets | | |
|---|---|---|
| | **Group** | |
| | **2021** | 2020 |
| | **£m** | £m |
| Listed equities (quoted) | **1,055** | 626 |
| Government bonds (quoted) | **4,816** | 4,952 |
| Corporate bonds and other credit investments (quoted) | **644** | 504 |
| Infrastructure (unquoted) | **221** | 198 |
| Property (unquoted) | **685** | 645 |
| Private equity investments (unquoted) | **484** | 404 |
| Private debt investments (unquoted) | **282** | 202 |
| Cash and derivatives | **198** | 139 |
| Liability relating to repurchase agreement | **(1,411)** | (1,263) |
| Other assets and liabilities | **59** | 123 |
| **Total** | **7,033** | 6,530 |

The defined benefit pension schemes do not invest in the Group's own financial instruments or property. Certain investments in private equity, infrastructure and property are not quoted in active markets or valued based on observable inputs.

## 30. Retirement benefit obligations (continued)

The Fund's liabilities are well hedged by matching assets, primarily government bonds and corporate bonds. In addition, the Fund invests in alternative matching assets such as property ground rents and property leases (included in property above) that are expected to generate inflation-linked income over the long term.

The Fund also holds return-seeking assets which are primarily listed equities. These are expected to generate a return over and above the Fund's liabilities in the long term but may create risk and volatility in the short to medium term.

During the year the Trustee has continued to manage interest rate and inflation risk in the Fund through the use of certain investments and derivative instruments to reduce volatility from changes to long-term interest rates and inflation expectations. The Fund's investments also continue to be supported by the utilisation of a repurchase agreement (a loan, collateralised against the Fund's government bonds), which totals £1,411 million at 4 April 2021 (2020: £1,263 million).

The investments are monitored by both the Trustee and the Group to ensure they remain appropriate given the Fund's long-term objectives.

The principal actuarial assumptions used are as follows:

| Principal actuarial assumptions | 2021<br>% | 2020<br>% |
|---|---|---|
| Discount rate | **2.00** | 1.95 |
| Future salary increases | **-** | 2.65 |
| Future pension increases (maximum 5%) | **3.00** | 2.55 |
| Retail price index (RPI) inflation | **3.10** | 2.60 |
| Consumer price index (CPI) inflation | **2.40** | 1.65 |

An assumption for future salary increases is no longer required due to the closure of the Fund to future accrual from 1 April 2021.

The assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancies and are adjusted to represent the Fund's membership. The assumptions made are illustrated in the table below, showing how long the Group would expect the average Fund member to live for after the age of 60, based on reaching that age at 4 April 2021 or in 20 years' time at 4 April 2041.

| Life expectancy assumptions (years) | 2021 | 2020 |
|---|---|---|
| Age 60 at 4 April 2021 | | |
| Males | **27.6** | 27.6 |
| Females | **29.4** | 29.3 |
| Age 60 at 4 April 2041: | | |
| Males | **29.0** | 29.0 |
| Females | **30.7** | 30.6 |

## 30. Retirement benefit obligations (continued)

**Critical accounting estimates and judgements**

**Retirement benefit obligations**

The key assumptions used to calculate the defined benefit obligation which represent significant sources of estimation uncertainty are the discount rate, inflation assumptions and mortality assumptions. If different assumptions were used, this could have a material effect on the reported surplus. The sensitivity of the results to these assumptions is shown below.

| Change in key assumptions at 4 April 2021 | Increase/(decrease) in surplus from assumption change |
|---|---|
| | £m |
| 0.1% increase in discount rate | 145 |
| 0.1% increase in inflation assumption | (132) |
| 1 year increase in life expectancy at age 60 in respect of all members | (233) |

The above sensitivities apply to individual assumptions in isolation. The 0.1% sensitivity to the inflation assumption includes a corresponding 0.1% increase in the future pension increase assumptions.

## 31. Core capital deferred shares

| Group and Society | Number of shares | CCDS | Share premium | Total |
|---|---|---|---|---|
| | | £m | £m | £m |
| **At 4 April 2021** | **10,555,500** | **11** | **1,323** | **1,334** |
| At 4 April 2020 | 10,500,000 | 11 | 1,314 | 1,325 |

During the year ended 4 April 2021, the Society issued 55,500 of £1 core capital deferred shares (CCDS). These CCDS form a single series together with previous issuances. The proceeds of the issuance were £9 million (gross and net of issuance costs).

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

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

Notes to the financial statements (continued)

## 31. Core capital deferred shares (continued)

In the event of a winding up or dissolution of the Society and if a surplus was available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £126.39 per share.

There is a cap on the distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £16.73 per share and is adjusted annually in line with CPI. A final distribution of £54 million (£5.125 per share) for the financial year ended 4 April 2020 was paid on 22 June 2020 and an interim distribution of £54 million (£5.125 per share) in respect of the period to 30 September 2020 was paid on 21 December 2020. These distributions have been recognised in the statement of movements in members' interests and equity.

Since the balance sheet date, the directors have declared a distribution of £5.125 per share in respect of the period to 4 April 2021, amounting in aggregate to £54 million. This has not been reflected in these financial statements as it will be recognised in the year ending 4 April 2022, by reference to the date at which it was declared.

## 32. Other equity instruments

| | Group and Society | |
|---|---|---|
| | **2021** | 2020 |
| | **£m** | £m |
| At 5 April | 593 | 992 |
| Redemptions | **-** | (992) |
| Issuances | **743** | 593 |
| **At 4 April** | **1,336** | 593 |

Other equity instruments are Additional Tier 1 (AT1) capital instruments.

The Society issued £750 million (£743 million net of issuance costs) of new AT1 capital instruments on 10 June 2020. The AT1 instruments rank equally to each other and are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS. The AT1 instruments pay a fully discretionary, non-cumulative fixed interest at an initial rate of 5.75% per annum. The rate will reset on 20 December 2027 and every five years thereafter to the benchmark gilt reset reference rate plus 5.625% per annum. Coupons are paid semi-annually in June and December.

The Society issued £600 million (£593 million net of issuance costs) of new AT1 capital instruments on 17 September 2019. The AT1 instruments rank equally to each other and are junior to claims against the Society of all depositors, creditors and investing members, other than the holders of CCDS. The AT1 instruments pay fully discretionary, non-cumulative fixed interest coupons at an initial rate of 5.875% per annum. The rate will reset on 20 June 2025 and every five years thereafter to the benchmark gilt reset reference rate plus 5.39% per annum. Coupons are paid semi-annually in June and December. The Society redeemed £1 billion (£992 million net of issuance costs) of AT1 capital instruments in full on 20 June 2019.

Interest payments totalling £57 million were made in the year ended 4 April 2021 (2020: £42 million), representing the maximum non-cumulative fixed coupon amounts. These payments have been recognised in the statement of movements in member's interest and equity. A coupon payment of £39 million is expected to be paid on 22 June 2021 and will be recognised in the statement of movements in members' interests and equity in the financial year ending 4 April 2022.

AT1 instruments have no maturity date but are repayable at the option of the Society from the first reset date, and on every fifth anniversary reset date thereafter. If the fully loaded CET1 ratio for the Society, on either a consolidated or unconsolidated basis, falls below 7% the AT1 instruments convert to CCDS instruments at the rate of one CCDS share for every £100 of AT1 holding.

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# 33. Investments in Group undertakings

The Society's investments in Group undertakings are as follows.

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Shares £m** | **Loans £m** | **Total £m** | Shares £m | Loans £m | Total £m |
| At 5 April | 339 | 34,868 | 35,207 | 315 | 31,905 | 32,220 |
| Additions | **22** | **3,474** | **3,496** | 24 | 3,426 | 3,450 |
| Disposals, redemptions and repayments | **-** | **(451)** | **(451)** | - | (463) | (463) |
| **At 4 April** | **361** | **37,891** | **38,252** | 339 | 34,868 | 35,207 |

**Subsidiary undertakings**

The interests of the Society in its subsidiary undertakings as at 4 April 2021 are set out below.

| Subsidiary name | Notes |
|---|---|
| **Regulated subsidiaries** | |
| Derbyshire Home Loans Limited | i |
| E-Mex Home Funding Limited | i |
| The Mortgage Works (UK) plc | i |
| UCB Home Loans Corporation Limited | i |
| | |
| **Other subsidiaries** | |
| Dunfermline BS Nominees Limited | ii |
| First Nationwide | ii |
| Home Propositions Limited | ii |
| Jubilee Mortgages Limited | ii |
| Monument (Sutton) Limited | ii |
| Nationwide (Isle of Man) Limited | |
| Nationwide Syndications Limited | ii |
| NBS Ventures Limited | ii |
| NBS Ventures Management Limited | ii |
| Piper Javelin Holding Company Limited | ii |
| Piper Javelin No 1 Limited | |
| The Derbyshire (Premises) Limited | ii |

| Subsidiary name |
|---|
| **Dormant subsidiaries** |
| at.home nationwide Limited |
| Confederation Mortgage Services Limited |
| Ethos Independent Financial Services Limited |
| Exeter Trust Limited |
| LBS Mortgages Limited |
| Nationwide Anglia Property Services Limited |
| Nationwide Financial Service Limited |
| Nationwide Home Loans Limited |
| Nationwide Housing Trust Limited |
| Nationwide International Limited |
| Nationwide Lease Finance Limited |
| Nationwide Overseas (UK) Limited |
| Nationwide Trust Limited |
| NBS CoSec Limited |
| NIN1 Limited (formerly Nationwide Investments (No.1) Limited) |
| Staffordshire Leasing Limited |

Notes:

i. Audited accounts are prepared for regulated entities.

ii. For these companies, the Group has adopted the audit exemption for the year ended 4 April 2021 under Section 479A of the Companies Act 2006. The Society guarantees all outstanding liabilities of the exempted subsidiary undertakings.

## 33. Investments in Group undertakings (continued)

Home Propositions Limited was incorporated on 3 August 2020. The Society directly or indirectly holds 100% of the ordinary share capital for each subsidiary undertaking. All of the subsidiary undertakings are limited liability companies, with the exception of First Nationwide which is an unlimited company.

The registered office for all subsidiary undertakings, other than those listed in the table below, is Nationwide House, Pipers Way, Swindon, SN38 1NW.

| Subsidiary name | Registered office |
|---|---|
| Dunfermline BS Nominees Limited | Caledonia House, Carnegie Avenue, Dunfermline, KY11 8PJ |
| Nationwide (Isle of Man) Limited | 5-11 St. Georges Street, Douglas, Isle of Man, IM99 1RN |

There are no significant restrictions on any of the Society's subsidiaries in paying dividends or repaying loans, subject to their financial and operating performance and availability of distributable reserves.

The Group has no material shares in associates. Further details regarding the Group's interests in equity shares are included in note 13.

**Subsidiaries by virtue of control**

Details of consolidated and unconsolidated structured entities are set out in note 34.

## 34. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

**Consolidated structured entities**

Structured entities are assessed for consolidation in accordance with the accounting policy set out in note 1. The following structured entities are consolidated in the Group's results.

| Structured entity name | Nature of business | Registered office |
|---|---|---|
| Nationwide Covered Bonds LLP | Mortgage acquisition and guarantor of covered bonds | Nationwide House, Pipers Way, Swindon, SN38 1NW |
| Silverstone Master Issuer plc | Funding vehicle | Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF |
| Silverstone Funding (No.1) Limited | Funding vehicle | |

Further details on the activities of the above structured entities are included in note 14.

**Unconsolidated structured entities**

The Group has interests in structured entities which it does not sponsor or control. These largely consist of holdings of mortgage backed securities and covered bonds issued by entities that are sponsored by other unrelated financial institutions. The entities are financed primarily by investments from investors, such as the purchase of issued notes.

## 34. Structured entities (continued)

The Group's direct interests in unconsolidated structured entities comprise primarily investments in asset backed securities which are reported within investment securities on the balance sheet. The total carrying value of these interests at 4 April 2021 is £4,078 million (2020: £4,089 million). Further details on the credit risk that the Group is exposed to in respect of these asset backed securities can be found in the 'Credit risk - Treasury assets' section of the Risk report.

Management has concluded that the Group has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss. During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any such support. There were no transfers to or from these unconsolidated structured entities during the year.

## 35. Related party transactions

**Subsidiary, parent and ultimate controlling party**

The Group is controlled by Nationwide Building Society, the ultimate parent, which is registered in England and Wales. Details of subsidiary undertakings are shown in note 33.

**Key management personnel compensation**

Members of the Nationwide Leadership Team (including executive directors), together with the non-executive directors of the Society, are considered to be the key management personnel as defined by IAS 24 'Related Party Disclosures'. Total compensation for key management personnel for the year was as follows.

| Key management personnel compensation | **2021** | 2020 |
|---|---|---|
| | **£'000** | £'000 |
| Short term employee benefits | **8,084** | 8,511 |
| Other long-term benefits | **883** | 782 |
| Termination benefits | **253** | 1,107 |
| Share based payments | **2,054** | 1,736 |
| **Total** | **11,274** | 12,136 |

Other long-term benefits include amounts relating to long-term bonus schemes, some of which will be paid in future periods. Further information on these can be found in note 8. Share based payments include amounts that are dependent on the performance of the CCDS. Further information is included in the Report of the directors on remuneration.

# 35. Related party transactions (continued)

**Transactions with related parties**

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and the payment and recharge of administrative expenses. The outstanding balances for these related party transactions at the year end, and the associated income and expenses for the year are as follows:

**Transactions with related parties**

| | Society subsidiaries | | Key management personnel | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| **Loans payable to the Society** | | | | |
| Loans outstanding at 5 April | 34,868 | 31,905 | 0.9 | 1.5 |
| Loans issued during the year | **3,474** | 3,426 | **2.1** | 0.5 |
| Loan repayments during the year | **(451)** | (463) | **(0.6)** | (1.1) |
| **Loans outstanding at 4 April** | **37,891** | 34,868 | **2.4** | 0.9 |
| | | | | |
| **Deposits payable by the Society** | | | | |
| Deposits outstanding at 5 April | 1,785 | 1,545 | 5.1 | 4.3 |
| Deposits placed during the year | **1** | 240 | **12.5** | 12.4 |
| Deposit repayments during the year | **(638)** | - | **(12.7)** | (11.6) |
| **Deposits outstanding at 4 April** | **1,148** | 1,785 | **4.9** | 5.1 |
| | | | | |
| **Net interest income** | | | | |
| Interest receivable | **833** | 798 | **-** | - |
| Interest expense | **25** | 54 | **-** | - |
| | | | | |
| **Other income and expenses** | | | | |
| Fees and expenses paid to the Society | **54** | 38 | **-** | - |
| | | | | |
| **Other balance sheet items** | | | | |
| Accrued income and prepaid expenses due to the Society | **650** | 1,454 | **-** | - |
| Other liabilities payable by the Society | **2,259** | 3,362 | **-** | - |
| Right-of-use asset leased from subsidiary | **2** | 2 | **-** | - |
| Liability for right-of-use asset leased from subsidiary | **2** | 2 | **-** | - |

In addition, the Society enters into derivative financial instruments with the consolidated structured entities used in its asset backed funding programmes, which are described in note 14. As at 4 April 2021, the Society held intercompany derivative assets of £55 million and intercompany derivative liabilities of £987 million (2020: £146 million and £1,791 million, respectively) in respect of these instruments.

## 35. Related party transactions (continued)

**Transactions with key management personnel**

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group. A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and directors of the Society or persons connected with directors of the Society.

The register will be available for inspection by members at the Annual General Meeting on 21 July 2021 and during normal office hours at the Society's principal office (Nationwide House, Pipers Way, Swindon, SN38 1NW) during the period of 15 days prior to the meeting.

**Transactions with Group companies**

Transactions with Group companies arise in the normal course of business. Interest on outstanding loans and deposits accrues at a transfer pricing rate agreed between the Society and its subsidiary undertakings. The Society does not charge the net defined benefit cost to the subsidiary undertakings that participate in the Nationwide Pension Fund. The pension cost to these subsidiary undertakings equals the contributions payable to the Fund.

## 36. Notes to the cash flow statements

| Non-cash items included in profit before tax | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Net increase in impairment provisions | **66** | 121 | **39** | 87 |
| Net increase/(decrease) in provisions for liabilities and charges (note i) | **13** | (30) | **13** | (29) |
| Amortisation and losses on investment securities | **113** | 18 | **113** | 18 |
| Depreciation, amortisation and impairment | **597** | 666 | **597** | 666 |
| Profit on sale of property, plant and equipment | **(2)** | (4) | **(2)** | (4) |
| Loss on the revaluation of property, plant and equipment | **6** | 5 | **6** | 6 |
| Loss on the revaluation of investment properties | **4** | - | **4** | - |
| Net charge/(credit) in respect of retirement benefit obligations | **76** | (77) | **76** | (77) |
| Interest on subordinated liabilities | **166** | 213 | **166** | 213 |
| Interest on subscribed capital | **4** | 5 | **4** | 5 |
| (Gains)/losses from derivatives and hedge accounting | **(34)** | 7 | **21** | (19) |
| **Total (note i)** | **1,009** | 924 | **1,037** | 866 |

# 36. Notes to the cash flow statements (continued)

| Changes in operating assets and liabilities | Group | | Society | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **£m** | £m | **£m** | £m |
| Loans and advances to banks and similar institutions | **315** | (282) | **315** | (282) |
| Net derivative financial instruments | **(41)** | (197) | **(1,360)** | 471 |
| Loans and advances to customers | **(723)** | (2,190) | **2,713** | 1,012 |
| Other operating assets | **(135)** | (26) | **(2,000)** | (3,752) |
| Shares | **10,623** | 5,722 | **10,621** | 5,722 |
| Deposits from banks and similar institutions, customers and others | **5,630** | 1,030 | **5,843** | 924 |
| Debt securities in issue | **(6,247)** | (1,731) | **(4,996)** | (2,785) |
| Contributions to defined benefit pension scheme | **(66)** | (127) | **(65)** | (127) |
| Other operating liabilities (note i) | **12** | 74 | **(1,332)** | 1,407 |
| **Total (note i)** | **9,368** | 2,273 | **9,739** | 2,590 |
| **Cash and cash equivalents** | | | | |
| Cash | **16,693** | 13,748 | **16,693** | 13,748 |
| Loans and advances to banks and similar institutions repayable in 3 months or less | **1,012** | 726 | **985** | 707 |
| **Total** | **17,705** | 14,474 | **17,678** | 14,455 |

Note:

i. Comparatives have been restated to reflect the changes in presentation of the bank levy as detailed in note 1.

## 36. Notes to the cash flow statements (continued)

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 4 April 2021, amounted to £1,376 million (2020: £1,355 million). These balances are included within loans and advances to banks and similar institutions on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature. The Group also maintains cash collateral and other deposit balances relating to derivative activities totalling £1,220 million (2020: £1,555 million).

Movements in liabilities arising from financing activities are set out below.

**Movements in liabilities arising from financing activities**

| | 2021 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group and Society** | **Subordinated liabilities £m** | **Subscribed capital £m** | **Lease liabilities £m** | **Total £m** | Subordinated liabilities £m | Subscribed capital £m | Lease liabilities £m | Total £m |
| At 5 April | 9,317 | 253 | 265 | 9,835 | 6,706 | 250 | 197 | 7,153 |
| Issuances/additions | **-** | **-** | **18** | **18** | 1,603 | - | 92 | 1,695 |
| Redemptions/repayments | **(683)** | **-** | **(27)** | **(710)** | - | - | (27) | (27) |
| Foreign exchange | **(705)** | **-** | **-** | **(705)** | 390 | - | - | 390 |
| Fair value and other movements | **(354)** | **(10)** | **6** | **(358)** | 618 | 3 | 3 | 624 |
| **At 4 April** | **7,575** | **243** | **262** | **8,080** | 9,317 | 253 | 265 | 9,835 |

The Society's liabilities arising from financing activities are materially the same as shown for Group.

Derivative financial instruments used to hedge financing liabilities include interest rate and cross-currency swaps. Interest received and proceeds on redemption of these hedging instruments are included within financing cash flows and for the year ended 4 April 2021 amounted to £156 million and £22 million (2020: £86 million and £nil) respectively. Other changes in the value of these derivatives in the year ended 4 April 2021 included decreases of £1,005 million (2020: increases of £1,122 million) due to foreign exchange, fair value and other movements.

## 37. Capital management

The Group is subject to the regulatory capital requirements applied by its regulator, the Prudential Regulation Authority (PRA). Regulatory capital comprises the Group's general reserve, fair value through other comprehensive income reserve, revaluation reserve, core capital deferred shares, other equity instruments, permanent interest-bearing shares (PIBS) and subordinated debt, subject to various adjustments and transitional arrangements required by the capital rules.

During the year the Group complied with the capital requirements applied by the PRA. Further unaudited details about the Group's capital position can be found in the 'Solvency risk' section of the Risk report.

## 38. Registered office

Nationwide is a building society, incorporated and domiciled in the United Kingdom. The address of its registered office is:

Nationwide Building Society
Nationwide House
Pipers Way
Swindon
SN38 1NW

# Other information

# Annual business statement for the year ended 4 April 2021

## 1. Statutory percentages

| Statutory percentages | 2021 % | Statutory limit % |
|---|---|---|
| Lending limit | **6.21** | 25.00 |
| Funding limit | **26.83** | 50.00 |

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997 and the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Group plus impairment provisions on loans and advances to customers, less liquid assets, property, plant and equipment, intangible fixed assets and investment properties as shown in the Group balance sheet.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of:

i) the principal value of, and interest accrued on, shares in the Society,
ii) the principal of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society excluding offshore deposits in an EEA subsidiary, and
iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking, less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

## 2. Other percentages

| Other percentages | 2021 % | 2020 % |
|---|---|---|
| As a percentage of shares and borrowings: | | |
| Gross capital | **9.5** | 10.2 |
| Free capital | **9.0** | 9.4 |
| Liquid assets | **19.9** | 16.8 |
| | | |
| Profit for the financial year as a percentage of mean total assets | **0.25** | 0.15 |
| Management expenses as a percentage of mean total assets | **0.88** | 0.95 |

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, deposits from banks and similar institutions, other deposits and debt securities in issue
- 'Gross capital' represents the aggregate of general reserve, revaluation reserve, fair value through other comprehensive income reserve, cash flow hedge reserve, CCDS, Additional Tier 1 capital, subscribed capital and subordinated liabilities
- 'Free capital' represents the aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets
- 'Liquid assets' represent the total of cash, loans and advances to banks and similar institutions and investment securities
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year
- 'Management expenses' represent administrative expenses including depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

## 3. Information relating to directors at 4 April 2021

| Information relating to directors at 4 April 2021 | | | |
|---|---|---|---|
| **Name and date of birth** | **Occupation** | **Date of appointment** | **Other directorships** |
| D L Roberts CBE<br>Chair<br>12 September 1962 | Non-executive director | 1 September 2014 | Campion Willcocks Limited<br>Beazley plc (Chair)<br>Beazley Furlonge Limited (Chair)<br>NHS England (Vice Chair) |
| J D Garner<br>23 June 1969 | Executive director | 5 April 2016 | UK Finance |
| R A Clifton CBE<br>30 January 1958 | Non-executive director | 1 July 2012 | Rita Clifton Limited<br>Ascential plc<br>The John Lewis Partnership<br>Leaderbrand Limited<br>The Green Alliance Trust |
| R M Fyfield<br>3 May 1969 | Non-executive director | 2 June 2015 | Roku, Inc<br>BBC Commercial Holdings Limited<br>Asos plc |
| A Hitchcock<br>16 January 1965 | Non-executive director | 2 December 2018 | |
| D Klein<br>10 August 1968 | Non-executive director | 1 March 2021 | |
| K A H Parry OBE<br>Senior Independent Director<br>29 January 1962 | Non-executive director | 23 May 2016 | Daily Mail and General Trust plc<br>K A H Parry Limited<br>Royal London Mutual Insurance Society Limited (Chair)<br>Royal London Asset Management Limited (Chair)<br>Royal London Asset Management Holdings Limited (Chair) |
| T Rajah MBE<br>24 August 1982 | Non-executive director | 1 September 2020 | Holland & Barrett Limited<br>Live Better With Limited (CEO)<br>Unforgettable Trading Limited<br>London & Partners Limited<br>London & Partners Ventures Limited<br>Dot London Domains Limited |

## 3. Information relating to directors at 4 April 2021 (continued)

| Information relating to directors at 4 April 2021 | | | |
|---|---|---|---|
| **Name and date of birth** | **Occupation** | **Date of appointment** | **Other directorships** |
| C S Rhodes<br>17 March 1963 | Executive director | 20 April 2009 | at.home Nationwide Limited<br>Derbyshire Home Loans Limited<br>E-Mex Home Funding Limited<br>Jubilee Mortgages Limited<br>The Mortgage Works (UK) plc<br>UCB Home Loans Corporation Limited<br>NBS Ventures Management Limited<br>First Nationwide<br>LBS Mortgages Limited<br>Nationwide Housing Trust Limited<br>Nationwide Investment No.1 Limited<br>Nationwide Syndications Limited<br>Staffordshire Leasing Limited<br>Silverstone Securitisation Holdings Limited<br>Arkose Funding Limited |
| P G Rivett<br>27 June 1955 | Non-executive director | 1 September 2019 | Standard Chartered plc<br>Standard Chartered Bank plc |
| T J W Tookey<br>17 July 1962 | Non-executive director | 2 June 2015 | Westmoreland Court Management (Beckenham) Limited<br>Royal London Mutual Insurance Society Limited |
| G Waersted<br>16 March 1955 | Non-executive director | 1 June 2017 | Telenor ASA (Chair)<br>Petoro AS (Chair)<br>Lukris Invest AS<br>Fidelity International<br>Saferoad ASA |

**Directors' service address**
Documents may be served on any of the directors c/o Addleshaw Goddard, One St Peter's Square, Manchester M2 3DE.

**Directors' service contracts**
Executive directors' terms and conditions of employment are detailed in their individual contracts or service agreements which include a notice period of 12 months from the Society to the individual and a notice period of six months from the individual to the Society. The notice period offered to any new recruit would be in line with this approach.

**Directors' share options**
A proportion of executive directors' variable pay is linked to the value of the Society's core capital deferred shares (CCDS), details of which have been provided in the Report of the directors on remuneration. For 2020/21, the Directors' Performance Award (DPA) was the only variable pay plan in which directors participated. 20% of awards under the DPA are payable in June 2021 with 20% retained until June 2022. The remaining 60% is deferred, payable between years three and seven following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS). These CCDS linked elements are payable in cash subject to a 12 month retention period. No directors held securities in Nationwide Building Society during the year.

## Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 61. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across periods. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.

## Forward looking statements

Certain statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward-looking statements are reasonable, Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. The economic outlook also remains unusually uncertain due to Brexit and the impacts of Covid-19. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward-looking statements.

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

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

## Glossary

The glossary for Annual Report and Accounts 2021 is available at:
**https://www.nationwide.co.uk/about/corporate-information/results-and-accounts**

If you have hearing or speech difficulties and are a textphone user, you can call us direct in text on **0800 37 80 01**.

We also accept calls via BT Text Relay. Just dial **18001** followed by the full telephone number you wish to ring.

**Nationwide Building Society**
Head Office: Nationwide House, Pipers Way, Swindon, Wiltshire SN38 1NW.
**nationwide.co.uk**

G101 (A) 2021

Nationwide
Building Society