Strategic report

Extract from the Annual Report and Accounts 2021, pages 2 to 67

Nationwide Building Society

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]

Which? Awards 2020 – 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).

Member-owned

We are owned by our members and run for their benefit.
Our members' interests shape everything we do, and we want them to be part of something special.

A safe home for our members' money and information

We are dependable and our members can be confident that we will keep their money and information secure.
Around two-thirds of our funding comes from our members trusting us with their money.

Attracting, developing and retaining talent.

We look to recruit the right people with the right skills and values.

Building society and investing in the future

Our decisions are guided by what is important to our members, and we act responsibly and in a sustainable way.
We invest so our service is amongst the best in the UK; we support local communities; and we seek to make a difference on issues that matter.

Helping people into a home

We are here to help people into a place fit to call home – whether that is owning or renting.
As a building society, at least 75% of our lending is secured on residential property.

We think about profits differently

We balance our need to be profitable with delivering value to our members.
Last year, we focused on keeping our members and colleagues safe through the pandemic, and ensuring we remained strong and built to last, to support our members through the uncertain times ahead.

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.

Strategic report
Governance
Risk report
Financial statements
Other information

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

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
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

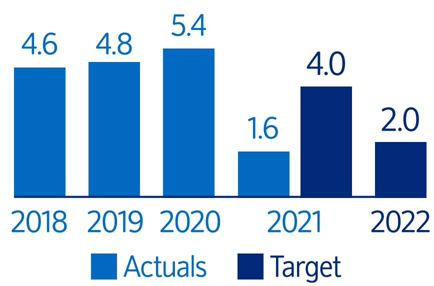
Giving our members great service

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.

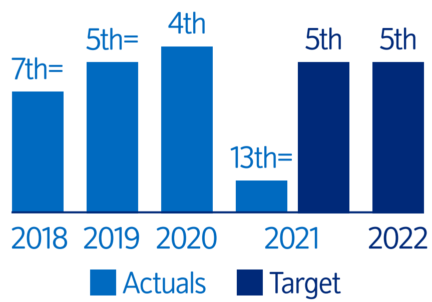
Core products satisfaction[2]
lead, %pts



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)

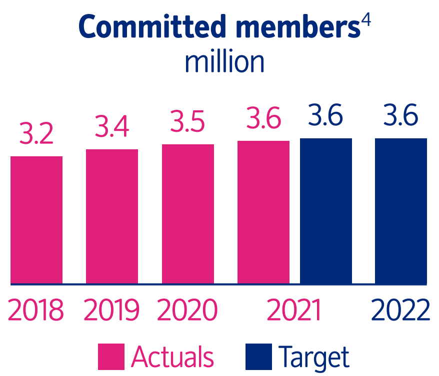
Value

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.

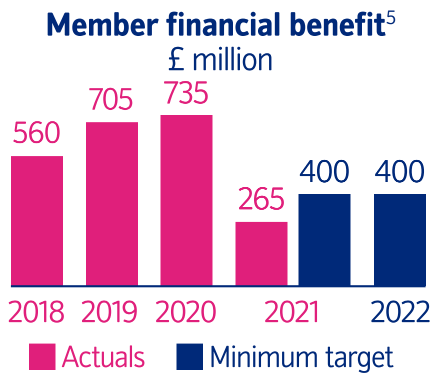
Committed membership is more aligned to our strategy to build deeper relationships with our members than engaged membership, and so going forward we will only report on committed membership. We have 9.5 million engaged members[4] and, similarly, would not have expected to achieve our 10 million target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

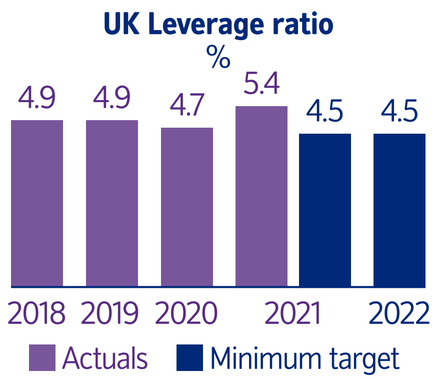


Strength

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.



[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 As a mutual organisation, we are owned by our members and we place great importance on being there when they need us. 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. 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. 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) • Interest rates for savers • Security and fraud prevention • Maintaining access to branches • Accessible and digital banking • 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 • In a low bank base rate environment, we launched propositions at competitive rates with some offering a chance to participate in prize draws • Extended our promise to keep a branch in every town or city we are in today until at least 2023 • Adapted our branches to make them Covid-19 safe • Invested in the security and resilience of our systems • Encouraged digital interactions • Held fraud education TalkBacks • Extended our green propositions, including a new cashback offer for those purchasing a property with a high-energy efficiency rating **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 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. 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 • Improving the quality of rental properties • 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 • Introduced further advance products, offering a discounted rate on borrowing for green improvements • Digital educational resources continue to help landlords understand their responsibilities and provide better homes for renters and better understand renter needs **Further information -** Building Thriving Membership cornerstone, on pages 19 to 20 and Building a National Treasure cornerstone on pages 29 to 31.
Colleagues 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. 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 • Health and wellbeing • Unacceptable behaviour faced by member-facing colleagues • Inclusion and diversity • Opportunities for personal and career development • Progress against our strategic objectives	• Homeworking made available to around 13,000 colleagues, whilst making branches and offices Covid-19 safe • Supported health and wellbeing; we gave our colleagues access to the Unmind wellbeing app • Mutual respect campaign to support member-facing colleagues • Worked with our Employee Network Groups to redesign many of our employee policies and our approach to employee wellbeing • Updated our cultural values to make our commitment to inclusion and diversity more explicit • Committed to giving our colleagues greater flexibility in their working arrangements permanently **Further information -** Building PRIDE cornerstone, on pages 25 to 28.
Community 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. 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 • Understanding the funding issues charities have faced during the pandemic • 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 • Carbon neutral for all energy use and emissions for internal operations and fleet vehicles • Committed to building a more mutually respectful and inclusive society, partnering with The Diana Award and the Football Association's Respect programme • Our Mutual Good Commitments are focused on building a better society **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.

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 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 • Environmental matters and climate change • Ethics, living wages and modern slavery • Inclusion, diversity and social enterprise • Prompt payment of invoices	• Our Procurement for Mutual Good programme, supporting a greener, more diverse and more ethical supply chain • Our target for our supply chain to be carbon neutral by 2030 • Code of Practice that we ask suppliers to commit to • Introduced quicker payments to our micro, small and medium size enterprise third party suppliers to support their cash flow during the Covid-19 pandemic **Further information -** Building a National Treasure strategic cornerstone on pages 29 to 31.
Regulators 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 In addition, regular and ad-hoc regulatory meetings were attended by our Board, NLT members and subject matter experts.	• Board and senior management accountability • Resolvability Assessment Framework • Financial Crime and Anti-Money Laundering regulations • Covid-19 support measures • Brexit • Operational resilience • Risk and controls framework • Management of conduct remediation • Outsourcing contracts • Access to cash • Fraud scams • Readiness for negative interest rates	• Responded to information requests to help inform regulator policy and decision-making • Responded to various consultations and other requests for comment and input • 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 • Played a full part in working with regulators and across the sector to support the response to Covid-19
Investors 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 • Impacts from Covid-19 and Brexit • Competition within UK financial services • Sustainability, in particular the Society's approach to climate change • Strength of our regulatory capital and liquidity • Asset quality	• Investors received strategic and financial updates • Feedback was used to develop our Annual Report and Accounts disclosures to ensure investor information needs are met **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** 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. 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. **Members** 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: • 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; • 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; • 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 • 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 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: • 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 • 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. **Community** The Board considered the interests of local communities and: • 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 • 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. **Regulators** The Board discussed the views of regulators, and in making the decision: • analysed the main considerations from a regulatory perspective, including receiving assurance from management that members would be supported through the changes; • recognised that the strategy would increase the regulatory scrutiny for our frontline and digital operations; • 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 • 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.

Key decisions taken by the Board (continued)

Board decision	**Re-imagining the future of work** 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. 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** 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. 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. **Suppliers** 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. **Members** 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. 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. **Community** 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

Strategic report
Governance
Risk report
Financial statements
Other information

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.

Putting our members and their money first
Rising to the challenge
Inspiring trust
Doing the right thing in the right way
Empowering 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)

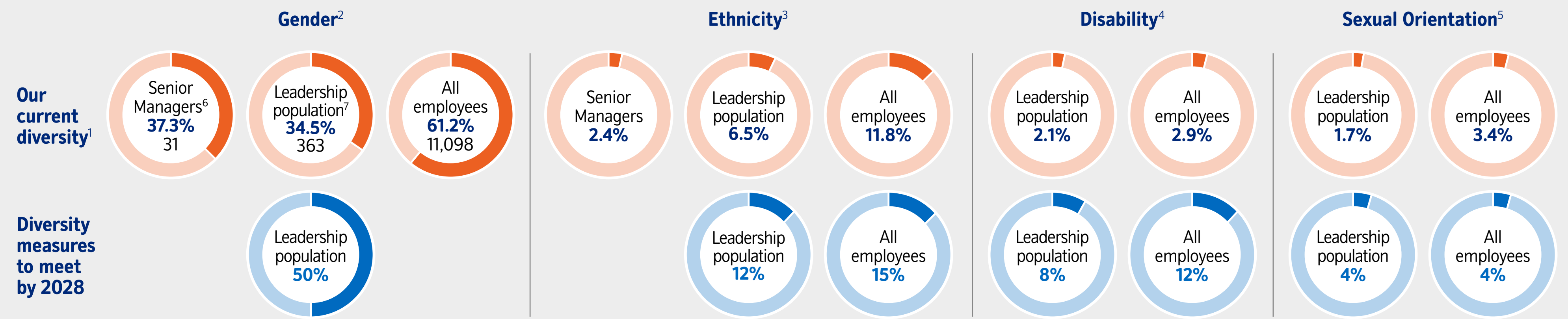
themselves and in others. This provides a strong driving force for our inclusion and diversity strategy, which the Board and our leadership team are committed to progressing, with a focus on long-term, sustainable change.

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.



[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.

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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.

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

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

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.

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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

Committed to doing the right thing (continued)

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: • Help 250,000 members to buy their first home • Help 25,000 members use the money built up in their home to live a better retirement • Equip 50,000 landlords with tools to improve tenants' lives	By 2030: • At least 50% of homes in our mortgage book will be rated EPC C or above • Our business operations, suppliers and commuting will be carbon neutral	By 2025 we will: • 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 • We will commit at least 1% of our pre-tax profits to charitable activities every year	By 2028: • Our people at every level will reflect the society that we represent
UN Sustainable Development Goals	SDG 1 – No poverty SDG 10 – Reduced inequalities	SDG 11 – Sustainable cities and communities SDG 12 – Responsible consumption and production SDG 13 – Climate action	SDG 1 – No poverty 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 How we're building society, nationwide	4 18
Our KPIs	A year of mutual difference	10
Our stakeholders	Our stakeholder engagement	12
Social matters	Committed to doing the right thing	33
Our key risks and their management	Risk overview Managing risk	56 56
Our employees	References are set out on page 33	
Environmental matters		
Human rights		
Financial crime and anti-corruption		

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 • Developed and tested our approach to climate change scenario analysis to quantify physical and transition risk • Formed cross-industry partnerships to drive real change • 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 • 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 • Further enhance understanding of the impacts of transition risk, and fold these into strategic considerations • 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 • Climate change risk governance established and matured, with senior management and Board level engagement • Education sessions on climate change held with the Board	• Further embedding and evolving the climate change governance at Board and management level • 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 • 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 • The most material climate change risks identified and understood • 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 • Physical and transition risk metrics produced to quantify impact • 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 • Explore setting science-based targets to help track our progress towards net zero emissions by 2050

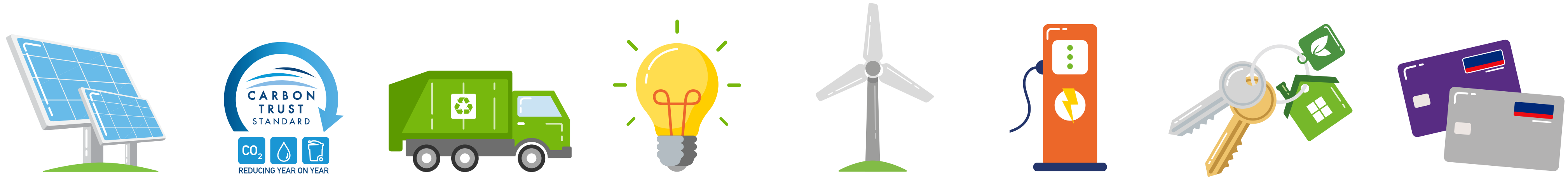
Using our collective voice, Nationwide is campaigning for...

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

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.

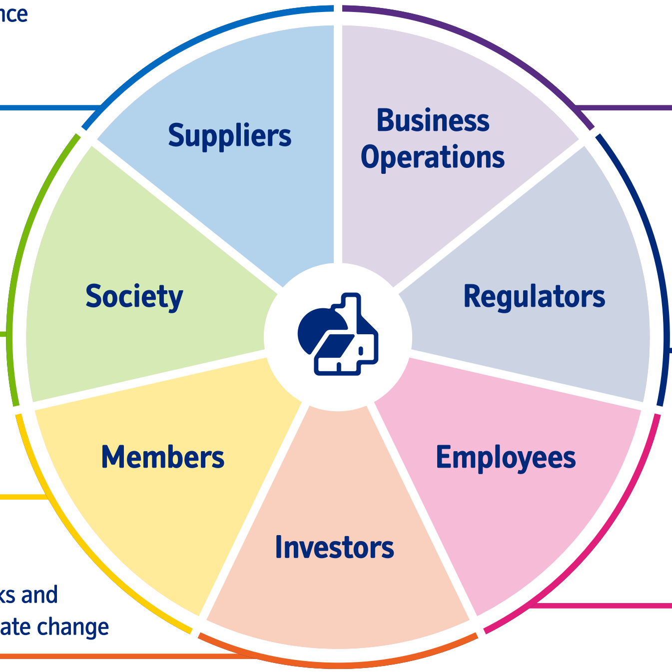
Nationwide's position on climate change is reflected in everything it does

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

Working with government and industry to make a positive difference to climate change with a focus on greening homes

Helping members to reduce their carbon emissions through our propositions

Demonstrating to investors that Nationwide is managing the risks and opportunities presented by climate change



Reducing our own carbon footprint

Building our capability to manage the financial risks from climate change and deliver our regulatory commitments

Encouraging increased engagement in green issues and making it easier for colleagues to reduce their carbon footprint whilst at work and home

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.

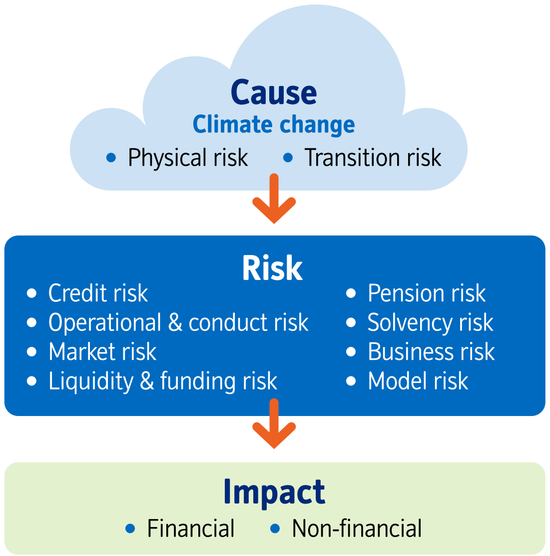
The ESG content on our website is being improved to make it easier for stakeholders to find what they are looking for. This includes information on all key themes and topics of interest to investors and ESG rating agencies. The first phase of these improvements went live in early 2021, with further enhancements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

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Strategy (continued)

- 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.

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

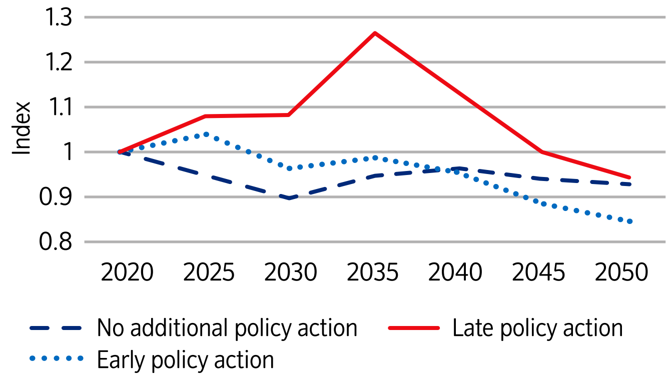
To assess transition risk, energy usage from EPCs was combined with electrical goods energy usage data from the Energy Savings Trust and combined with forecast energy prices (electricity, oil and natural gas prices) from the NGFS for the EU region.

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.

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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:

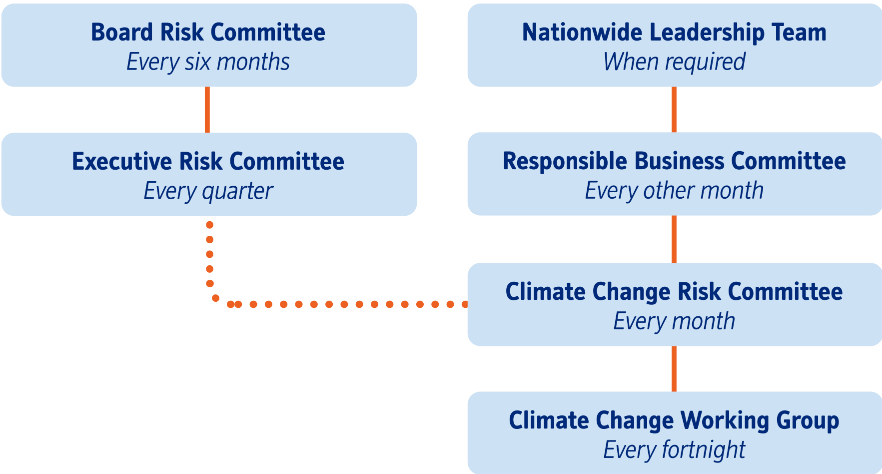
- Discussed the progress of the climate change and responsible business strategy
- Engaged in the development of green propositions, including a detailed execution roadmap
- Discussed the broader ESG implications, including inclusion and diversity, modern slavery and social investment, as well as climate 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 • Coordinating climate change scenario analysis • Ownership of the climate change risk standard • Ownership of the centralised climate change risk governance and reporting • 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 • Reporting of climate change risk against existing risk management information and enhancing decision-making to embed climate change • Developing and enhancing climate change scenario analysis capabilities
Financial planning & stress testing	• Helping to shape the climate change risk stress testing scenarios • 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 • Quantitative modelling for physical risk peril data • 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.

Risk management (continued)

Impact of climate change on Nationwide's principal risks

TOP 3 RISK CATEGORIES BY IMPACT OF CLIMATE CHANGE RISK: Credit; Operational & conduct; Liquidity & funding

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 • Declining house values due to aggressive housing policy (for example, introducing minimum EPC ratings) • 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 • Higher insurance prices leading to uninsured properties • Exposure to other financial services firms who are exposed to physical climate risk	Long	Medium
Operational & conduct	Transition	• Increased supply chain costs • Reconsideration of third-party relationships due to their carbon footprint • Reputational impact of carbon footprint of products and services leading to lower member and employee attraction and retention • 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 • Increased incidence of environmental perils affecting the delivery of third party goods and services • Increased member activity (for example, increased call volumes) resulting from physical risk impacting Nationwide's service capacity • 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 • Lower deposit balances due to members' loss of confidence in Nationwide relating to negative perceptions of climate credentials • 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 • 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 • 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.

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:

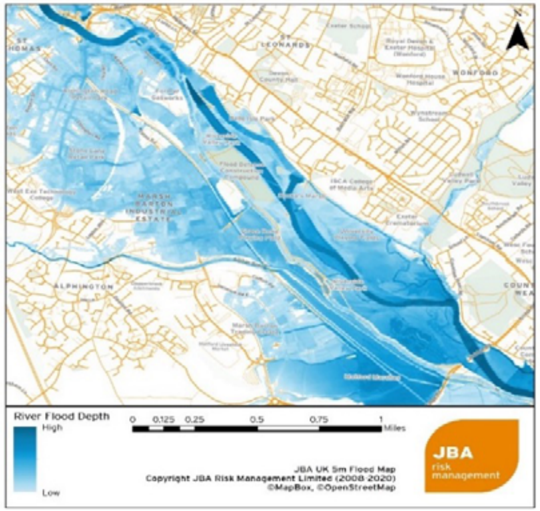
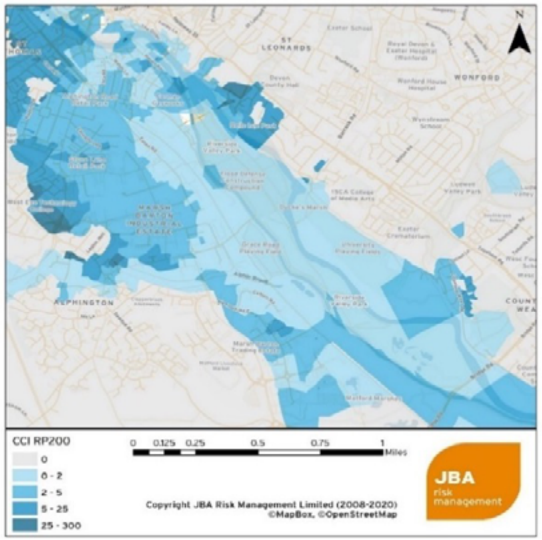


Image 2:



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.

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.

Metrics and targets (continued)

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.

Metrics and targets (continued)

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.

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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.

Chris Rhodes

"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.

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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.

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 £m**	2020 £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)

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	2020
	£m	£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.