Nationwide Building Society

Preliminary Results Announcement for the year ended 4 April 2022

Contents

Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 10. The purpose of the underlying profit measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across periods. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.

Forward-looking statements

Certain statements in this document are forward-looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward-looking statements are reasonable, Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. The economic outlook also remains unusually uncertain due to the impacts of the UK's exit from the EU, the Covid-19 pandemic and the conflict in Ukraine. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward-looking statements.

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

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

Leading customer satisfaction and strong financial performance show the strength of Nationwide's mutual model

Headlines

- High member demand for mortgages, savings and current accounts delivers a strong financial performance
- Current account market share reaches new high of 10.3%[1]
- No. 1 for customer satisfaction for a decade among our peer group[2]
- Member financial benefit increased by 23% to £325m (2021: £265m)
- Members benefit from prize draws and scam protection
- Committed to working towards net zero and to decarbonise UK homes
- Debbie Crosbie to succeed Joe Garner as CEO on 2 June 2022

Numbers at a glance

Financial highlights

- Underlying profit increased to £1,604m (2021: £790m) and statutory profit increased to £1,597m (2021: £853m) primarily due to:
    - Higher net interest income of £3,562m (2021: £3,146m), as a result of stronger margins on mortgages taken out early in the pandemic, as well as growth in core products
    - Net release of £27m of credit provisions (2021: charge of £190m), reflecting an improved economic outlook in the year
    - £166m increase in other income, in part reflecting higher income from banking products, as volumes improved after the pandemic
- Net interest margin improved to 1.26% (2021: 1.21%)
- Strong leverage ratio of 5.4% (2021: 5.4%), comfortably higher than our 4.5% minimum target
- CET 1 capital resources grew to £12.5bn (2021: £12.0bn), although our reported CET1 ratio was lower at 24.1% (2021: 36.4%) due to changes in industry-wide regulation

Trading highlights

- Gross mortgage lending increased to £36.5bn (2021: £29.6bn); stock market share of mortgage balances of 12.4% (2021: 12.5%)
- Helped over 87,000 first time buyers into homes, overcoming barriers to home ownership with 95% LTV loans and lending on higher income multiples
- Deposits grew by £7.7bn (2021: £10.6bn), maintaining our market share of 9.4% (2021: 9.4%), helped by competitive products, a strong 2021 ISA season and lockdown savings
- On average Nationwide paid rates above the market average, but strong competition in mortgage lending, and high liquidity from customer deposits across the market, constrained our ambitions to increase rates further
- Switching incentives attracted a record 604,000 new current account openings, and took our current account market share to a new high of 10.3% (2021: 10.2%)[1]

Kevin Parry, Chairman, Nationwide Building Society, said:

Nationwide has emerged from two years of a pandemic with a thriving membership, strong profitability and enhanced financial strength, thanks to the sound decisions made by the Society's leadership team. These strengths will stand the Society in good stead, as we transition to a new leadership team and respond to new geopolitical uncertainties. We've announced today that Debbie Crosbie will succeed Joe Garner as CEO on 2 June, and I would like to take this opportunity to thank Joe, and David Roberts, my predecessor as Chair, for their dedicated leadership of the Society. The Society has remained true to the values and ethos of mutuality, and we face into another period of uncertainty from a position of strength.

I know society as a whole is appalled by the devastating human crisis that is unfolding in Ukraine. Nationwide has directly, and through its members and colleagues, supported the Red Cross's fundraising. We will continue to plan for geopolitical risks and economic pressures arising directly and indirectly from the war in Ukraine, notably the rising energy bills and inflation, which are intensifying pressure on household budgets, which are already under strain. Given our financial strength, we are well-positioned to manage these impacts, as well as to evolve our services to meet our members' changing needs.

[1] CACI's Current Account and Savings Database, Stock (February 2022 and February 2021).

[2] © Ipsos 2022, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2022. For more information, see footnote 6 on page 7.

Joe Garner, Chief Executive, Nationwide Building Society, said:

Nationwide Building Society exists to serve our members and fulfil our purpose which we express as 'building society, nationwide'. Despite the uncertainties brought about by the pandemic and more recently by the devastating war in Ukraine, our colleagues have risen to the challenge and supported our members. We've focused on delivering great value products and leading service. This benefits existing members and attracts new ones, which can be seen in the growth in each of our core markets – mortgages, savings and current accounts. We have continued to deliver excellent service, extending our decade-long lead over our peer group for customer satisfaction[3].

Our financial performance for the year was better than anticipated, as market conditions recovered more strongly than expected over the course of the year, leading to significantly higher profits. As a mutual, these profits are retained for the benefit of our members, to support future lending, provide value to savers, and enable investment in the Society and its services for the future. In a fast-changing world, our financial strength gives the Society's new leadership team the solid foundation from which to shape the Society's future direction in our members' interests.

Chris Rhodes, Chief Financial Officer, Nationwide Building Society, said:

The strong financial performance we've reported today reflects the strength of our business in all three main products. We performed well in a buoyant and competitive mortgage market, attracted new current account holders and increased deposits. Our net interest margin improved to 1.26%. The combination of higher margins on mortgages, with growth in core products, has resulted in significantly higher income.

As we emerged from the pandemic, the improved economic outlook in the year led to the release of credit provisions, but there are significant economic and geopolitical uncertainties ahead.

Together, these factors have delivered a very strong overall financial performance. Our balance sheet remains strong. Our leverage ratio is substantially above our minimum target. Our capital resources grew to £12.5bn in absolute terms, although our reported CET1 ratio is lower because of regulatory changes to how our capital requirement is calculated. The strength of our finances will stand us in good stead against an uncertain environment.

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[3] © Ipsos 2022, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2022. For more information, see footnote 6 on page 7.

Performance summary

	2022		2021	
Financial performance		**£m**		£m
Total underlying income		**3,867**		3,285
Administrative expenses		**2,234**		2,218
Underlying profit before tax (note i)		**1,604**		790
Statutory profit before tax		**1,597**		823
Mortgage lending	**£bn**	**%**	£bn	%
Group residential – gross/*market share*	**36.5**	***11.8***	29.6	*11.1*
Group residential – net/*market share*	**7.1**	***9.4***	1.9	*2.1*
Average loan to value of new residential lending (by value)		**70**		70
Deposit balances	**£bn**	**%**	£bn	%
Member deposits balance movement/*market share* (note ii)	**7.7**	**9.3**	10.6	*5.6*
Key ratios		**%**		%
Underlying cost income ratio (note iii)		**57.8**		67.5
Statutory cost income ratio (note iii)		**57.9**		66.8
Net interest margin		**1.26**		1.21

	2022		2021	
Balance sheet	**£bn**	**%**	£bn	%
Total assets	**272.4**		254.9	
Loans and advances to customers	**208.1**		201.5	
Mortgage balances/*market share*	**197.9**	***12.4***	191.0	*12.5*
Member deposits/*market share* (note ii)	**178.0**	***9.4***	170.3	*9.4*

Asset quality	**%**	%
Residential mortgages		
Proportion of residential mortgage accounts 3 months+ in arrears	**0.34**	0.43
Impairment (release)/charge as a % of average gross balance (note iv)	**(0.07)**	0.04
Average indexed loan to value (by value)	**52**	56
Consumer banking		
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.13**	1.33
Impairment charge as a % of average gross balance (note iv)	**2.04**	2.68

Key ratios	**%**	%
Capital (note v)		
Common Equity Tier 1 ratio	**24.1**	36.4
Leverage ratio	**5.4**	5.4
Other balance sheet ratios		
Liquidity coverage ratio (note vi)	**183**	159
Wholesale funding ratio (note vii)	**28.8**	26.7

Notes:

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

ii. Member deposits include current account credit balances.

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.

iv. In the calculation of 'Impairment charge as a % of average gross balance', average gross balance is calculated as the average of balances at each month end date.

v. More information on capital ratios can be found on page 16.

vi. The liquidity coverage ratio represents a simple average of the ratios reported for the prior 12 month-ends.

vii. The wholesale funding ratio includes all balance sheet sources of funding (including securitisations).

Chief Executive's review

Our innovative propositions have been popular with members and led to volume growth

Nationwide exists to help members buy homes of their own, save for their future and manage their money well, as these are the foundations of financial security and wellbeing. Demand for our products last year was very healthy, thanks to attractive propositions as well as higher lockdown savings and a buoyant housing market.

Our overall mortgage lending to homebuyers and landlords grew substantially. Our market share of lending also rose slightly, reflecting the good value we were able to offer. We helped over 87,000 people buy their first home, one in seven of all first time buyers, helping to remove the barriers to home ownership by offering 95% loan to value mortgages and allowing homebuyers to borrow higher multiples of their salary. There was also high demand from landlords for buy to let mortgages in our subsidiary, The Mortgage Works.

We saw good deposit growth and maintained our savings market share. We have continued to offer savers above average interest rates but, as the rates we can pay are influenced by volume of mortgage lending and the mortgage interest we earn, savings rates have been impacted by competition in the mortgage market.

We introduced our new current account switching incentive, which triggered the highest ever number of current account switches to the Society last September, helping grow our current account market share. Over the last five years, we have been the no.1 net-gainer of current accounts, gaining nearly twice as many as our nearest competitor.[4]

We want to encourage and reward the loyalty of our members, through special rates on some accounts and our Member Prize Draw. It is encouraging to see the number of committed members[5] choosing us for two or more products continue to grow, reaching 3.62 million (2021: 3.55 million).

Strong profits and finances provide solid foundations for the future

Our financial performance for the year was the strongest on record. Profitability was high, as we continued to benefit from the higher margins on mortgages taken out early in the pandemic, as well as growth across our core product areas. Underlying profit was £1,604 million (2021: £790 million) and statutory profit was £1,597 million (2021: £823 million). Our capital base remains robust and in absolute terms has increased through the year, while changes in industry-wide regulation have resulted in a decrease in our Common Equity Tier 1 (CET1) ratio to 24.1% (2021: 36.4%). Without these changes, the CET1 ratio would have increased by 4.1% to 40.5%. Our leverage ratio, a measure of Nationwide's ability to withstand economic shocks, is 5.4% (2021: 5.4%), comfortably higher than our minimum regulatory threshold.

We continue to put our members at the heart of what we do. As well as providing leading service, we aim to provide better pricing and incentives than the market average, which we call our member financial benefit. This benefit increased to £325 million (2021: £265 million), as increases in bank base rate enabled us to provide more value to our savings members, in addition to the strong ISA products that we offered in 2021. However, member financial benefit remains below target, reflecting historically low interest rates and strong mortgage market competition.

Nationwide has always focused on the quality of member outcomes, and we will use the Financial Conduct Authority's new Consumer Duty as a catalyst to ensure their needs remain at the heart of all we do.

The pandemic has accelerated the digital transformation, and we invested in building greater capacity and resilience into our payments platform, systems and controls. Upgrading systems comes with some risk, and regrettably we experienced some payments outages linked to the upgrades. By upgrading our systems, members will benefit from a more resilient platform in the future, with capacity to meet growing demand.

We have continued to carefully manage costs, although accelerated amortisation of £53 million relating to a review of intangible assets has resulted in total costs being £16 million higher than last year, at £2,234 million (2021: £2,218 million).

[4] Current Account Switch Service data from the last three months of 2016 to the last three months of 2021.

[5] Committed members have their main personal current account with us, or a mortgage of at least £5,000, or at least £1,000 in savings accounts, plus at least one other product.

Chief Executive's review (continued)

Increasing our service lead as we respond to members' needs

We are proud to have been ranked no.1 for service among our peer group for 10 years running and our service lead bounced back to over 4% points again this year[6]. We also compare our member satisfaction against businesses in all sectors, through the UK Customer Satisfaction Index. Our score improved this year, but our ranking fell to joint 22nd, below our target of being in the top five[7].

Well over half our active current account members now enjoy the convenience of our banking app, with users growing by 11% to 4.2 million (2021: 3.7 million).

We continue to invest in developing our digital capabilities to meet members' changing preferences but we are keen to maintain personal services as well. We are looking at new ways of working, to make our branch network sustainable for the future. One of the ways we are doing this is by trialling a different branch model, where staff have flexible roles and support members over the phone and online, as well as looking after those coming into the branch.

We are also continuing to modernise our operations and technology, to further strengthen our operational resilience and control processes and ensure our systems remain fit for purpose. We are investing heavily in fraud prevention and prevented £97 million (2021: £113 million) of fraud against members last year. We have also launched a Scam Checker Service that members can use if they are about to make a bank transfer to someone else in the UK, which over 300,000 members have used since it was launched in September 2021.

Ensuring members continue to have easy access to cash in an increasingly digital world is important to us. We are working with the industry-wide Access to Cash Action Group to protect access to cash in the long term.

New ways of working will open new opportunities for colleagues and the Society

The pandemic has ushered in new ways of working. Our move towards greater flexibility for our 13,000 colleagues who were office-based before the pandemic has enabled them to balance their work and home lives better. Our new Hybrid and Homeworking Policy upholds our commitment to flexible ways of working, while encouraging our people to use our office spaces to stay connected to our teams and culture, so that we can support the needs of our members. We were pleased to be one of Glassdoor's top 20 employers for work-life balance in 2021 and continue to work hard to remain an attractive place to work.

The wellbeing of our colleagues remains of paramount importance and we are pleased to have been awarded the 2021 Mind Workplace Wellbeing Gold Award, recognising our success in embedding mental health into our policies and practices, and our long-term, in-depth commitment to our colleagues' mental wellbeing.

We continue to work hard to create an inclusive working environment where people can be themselves and thrive, irrespective of gender, ethnicity, sexual orientation or disability. Among other things, colleagues have access to mentoring and sponsorship schemes, and peer support from colleague-led networks. We are making progress towards the ethnicity, disability and sexual orientation measures we want to achieve by 2028, but there is more to do to achieve increased representation of women in senior roles. We believe that the policies and practices we are putting in place now will deliver a more inclusive and diverse Society.

Purpose remains central to our efforts to build society, nationwide

The Society was founded to help everyday people into homes of their own and we continue to seek new ways to improve homes and housing. Thanks to our members' vote, we commit at least 1% of pre-tax profits to social investment. We share this investment between the Nationwide Foundation, an independent charity focused on affordable housing that we fund, and our own programmes. This year, we gave £4 million in direct funding through our Community Grants programme to support 94 local housing charities or projects, chosen by our members. Since the Community Boards were founded four years ago, we have awarded a total of £17.7 million across 444 projects. We are also responding to the humanitarian crisis in Ukraine, donating and encouraging our members and colleagues to donate to the British Red Cross Ukraine Crisis Appeal. Together with our members' and colleagues' donations, we have raised over £1,000,000 for the appeal, including a donation of £250,000 by the Society.

We are committed to reducing our environmental impact and are working towards a net-zero future. It is our ambition to lead the greening of homes in the UK, working with industry and government to deliver the policy and solutions to reduce the carbon emissions of homes on which we lend. We continue to offer low-cost green mortgages and home improvement loans through our ring-fenced £1 billion green lending fund.

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[6] Lead at March 2022: 4.6%pts, March 2021: 1.6%pts. © Ipsos 2022, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to 12 months ending 31 March 2022. Results based on a sample of around 48,000 adults (aged 16+). The survey contacts around 53,000 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 2021 – 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.

[7] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2022.and January 2021

Chief Executive's review (continued)

We continue to campaign for better standards in homes, and this year established four cross-industry action groups to tackle challenges around the affordability, availability and sustainability of housing. We continue to progress with Oakfield, our sustainable development of 239 homes in Swindon and whilst work onsite has temporarily paused, the first properties are planned to go on sale later this year.

We continue to build mutual respect between communities, and to be bold in speaking up against hate and abuse. Our Together Against Hate campaign has focused on protecting frontline workers across all industries from unacceptable behaviour. Working with MPs, trade unions and other high street brands, we supported tougher sentencing guidelines, which were introduced in July 2021. In addition, our partnerships with the Diana Trust and the FA champion the importance of mutual respect and nurture those values in young people.

Outlook

The UK economy has proved resilient in recent years with low levels of unemployment. The emergence of higher inflation, which has been exacerbated by the war in Ukraine, is likely to exert a significant drag on the economy in the near term. Higher inflation will place significant pressure on household budgets, especially for those on lower incomes who also accumulated fewer savings during Covid-related lockdowns. Despite this, the Bank of England may still need to increase interest rates, given the lack of spare capacity in the economy more widely, and the labour market in particular.

Housing market activity remains higher than pre-pandemic levels, with prices increasing at a double-digit annual rate so far in 2022 as demand from those wanting to move home exceeds the number of available properties. Higher property prices and interest rates, together with steep increases in the cost of living, mean housing has become less affordable and we expect housing market activity to slow and the rate of house price growth to moderate in the coming quarters. There is a risk of a downward movement in house prices, given the pressure on household budgets.

While the outlook remains challenging, the Society continues to demonstrate its resilience. Nationwide's financial strength and strong social purpose mean we can continue to support members, colleagues and communities.

Financial review

The results below are prepared in accordance with International Financial Reporting Standards (IFRSs). Underlying results are shown on page 10, together with a reconciliation to the statutory results.

In summary

The decisions we made early in the pandemic, alongside better than expected macroeconomic and trading conditions in the past year, have contributed to the strength of Nationwide's financial results. However, the economic outlook remains highly uncertain, with many of our members facing a significant cost of living increase.

Underlying profit for the year has improved to £1,604 million (2021: £790 million) and statutory profit increased to £1,597 million (2021: £823 million). This reflects income growth, together with a release of credit impairment provisions from an improvement in the macroeconomic outlook as pandemic-related restrictions ease.

Total income increased by £582 million, as our net interest margin (NIM) increased to 1.26% (2021: 1.21%). Mortgage income was higher as a result of stronger new business margins across the market during 2020 and robust lending in the year.

An increase in other income to £305 million (2021: £139 million) reflects higher income from banking products, in part from a return to pre-pandemic spending behaviours over the past year.

Member financial benefit has increased by £60 million to £325 million (2021: £265 million), supported by our savings propositions.

We have continued to support our members' borrowing and savings needs during the year, and as a result have delivered robust growth in our mortgage and deposit balances.

Net deposit growth of £7.7 billion (2021: £10.6 billion) was primarily driven by suppressed spending during the first half of the year as pandemic restrictions remained in place, and through competitively priced savings products. Our market share of deposit balances has remained stable at 9.4% (2021: 9.4%).

Total mortgage lending was £36.5 billion during the year (2021: £29.6 billion). Nationwide's market share of mortgage balances has remained broadly stable at 12.4% (2021: 12.5%).

Whilst total costs have increased by £16 million to £2,234 million (2021: £2,218 million), this includes accelerated amortisation of £53 million relating to the shortening of the useful economic life of specific intangible assets and £16 million relating to historic fraud cases. Excluding these items, costs have reduced by £53 million.

Over the past two financial years, we have recognised an elevated credit impairment charge compared to pre-pandemic levels, reflecting the period of macroeconomic uncertainty. Arrears performance on lending has also improved during the year. Overall, this has resulted in a net credit impairment release of £27 million for the year (2021: charge of £190 million).

Nationwide's balance sheet remains very strong, with capital resources increasing by £0.5 billion during the year. The leverage ratio is 5.4% (4 April 2021: 5.4%). The Common Equity Tier 1 (CET1) ratio reduced to 24.1% (4 April 2021: 36.4%), reflecting changes in industry-wide regulation. Without these changes, the CET1 ratio would have increased by 4.1% to 40.5%.

Preserving our capital strength means that we can face the future with confidence and continue to support our members through a highly uncertain period.

Underlying profit:
£1,604m
(2021: £790m)

Statutory profit:
£1,597m
(2021: £823m)

Leverage ratio:
5.4%
(2021: 5.4%)

Financial review (continued)

Income statement

Underlying and statutory results

	2022	2021
	£m	£m
Net interest income	**3,562**	3,146
Net other income	**305**	139
Total underlying income	**3,867**	3,285
Administrative expenses	**(2,234)**	(2,218)
Impairment release/(charge)	**27**	(190)
Provisions for liabilities and charges	**(56)**	(87)
Underlying profit before tax	**1,604**	790
Financial Services Compensation Scheme (FSCS) (note i)	**-**	(1)
(Losses)/gains from derivatives and hedge accounting (notes i, ii)	**(7)**	34
Statutory profit before tax	**1,597**	823
Taxation	**(345)**	(205)
Profit after tax	**1,252**	618

Net Interest Margin: 1.26% (2021: 1.21%)
Underlying Cost Income Ratio: 57.8% (2021: 67.5%, note iii)
Statutory Cost Income Ratio: 57.9% (2021: 66.8%, note iii)
Return on Assets 0.46% (2021: 0.24%)

Notes:

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

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

Net interest income increased by £416 million to £3,562 million (2021: £3,146 million) and net interest margin increased to 1.26% (2021: 1.21%). This is primarily driven by macroeconomic uncertainty during much of 2020 leading to elevated mortgage new business margins, and by the better-than-expected macroeconomic and market performance over the past year, including the rising bank base rate, stronger House Price Index (HPI) growth and mortgage volumes.

Net other income increased by £166 million to £305 million (2021: £139 million), in part reflecting a return to pre-pandemic spending behaviours over the past year as pandemic restrictions have eased, and further driven by net higher income for our current account travel insurance products and increased gains from investments. In addition, for the year ended 4 April 2021, net other income included losses of £37 million realised from the repurchase of £2.1 billion of covered bonds issued under the Nationwide Covered Bond programme.

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 competitive mortgage, savings and banking products that we offer compared to the market average. Member financial benefit is calculated by comparing, in aggregate, Nationwide's average interest rates and incentives 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.

Financial review (continued)

Member financial benefit (continued)

The components of member financial benefit were updated during the first half of the year to include the recently launched Member Prize Draw, which contributed £7 million to member financial benefit in the year.

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.
- Current Account Switching Incentive: the amount paid to members when they switch their current account to the Society, compared to a market benchmark.
- 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 over the financial year of £18 is included in the member financial benefit measure.
- Member Prize Draw: every month, all eligible members are automatically entered into the prize draw with a total prize pot of £1 million. The prize draw was launched in September 2021 and will run until August 2022.

For the year ended 4 April 2022, we have increased the financial benefit provided to our members to £325 million (2021: £265 million), supported by strategic pricing of our savings ISA products and the increases in bank base rate during the year which have enabled us to provide more value to our savings members. A highly competitive mortgage market, however, limited the financial benefit we could provide for those members.

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.

Financial review (continued)

Administrative expenses

Administrative expenses increased by £16 million to £2,234 million (2021: £2,218 million). The increase is driven by accelerated amortisation of £53 million relating to the shortening of the useful economic life of specific intangible assets and £16 million relating to historical fraud cases. Excluding these items, costs have reduced by £53 million, which is attributable to a £55 million reduction in restructuring costs together with a £33 million decrease in business-as-usual costs, despite growth of our business. These have been offset in part by a £35 million increase in investment spend and depreciation.

Impairment (release)/charge on loans and advances to customers

Impairment (release)/charge (note i)		
	2022	2021
	£m	£m
Residential lending	**(128)**	71
Consumer banking	**93**	125
Retail lending	**(35)**	196
Commercial	**8**	(6)
Impairment (release)/charge on loans and advances	**(27)**	190

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

Improvements in the macroeconomic outlook and significant house price growth during the year have resulted in a credit impairment release of £27 million for the year (2021: charge of £190 million). The underlying arrears performance of our portfolios has improved during the year, with arrears rates remaining below pre-pandemic levels. It is expected that the current low level of arrears is temporary and is a result of both government support schemes and reduced opportunities for discretionary spend during the pandemic. Pressures on our borrowers from the rising cost of living are expected to result in an increase in arrears in the short to medium term.

More information on the key judgements, including the forward-looking economic information used in our impairment calculations, is included in note 8 to the consolidated 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 of £56 million (2021: £87 million) is primarily as a result of a £33 million charge relating to historical quality control procedures. The remainder relates to remediation costs for other redress issues, including remediation in relation to the past administration of customer accounts. More information is included in note 12 to the consolidated financial statements.

Taxation

The tax charge for the year of £345 million (2021: £205 million) represents an effective tax rate of 21.6% (2021: 24.9%) which is higher than the statutory UK corporation tax rate of 19% (2021: 19%). The effective tax rate is higher due to the 8% banking surcharge of £72 million (2021: £38 million) and the tax effect of disallowable bank levy and customer redress costs of £3 million and £4 million (2021: £5 million and £8 million) respectively. This has been partly offset by adjustments in respect of prior years resulting in a credit of £23 million (2021: charge of £10 million) and the tax credit on the distribution to the holders of Additional Tier 1 capital instruments of £15 million (2021: £12 million). Further information is provided in note 9 to the consolidated financial statements.

Financial review (continued)

Balance sheet

Total assets have increased by 7% to reach £272.4 billion at 4 April 2022 (2021: £254.9 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 £7.7 billion to £178.0 billion (2021: £170.3 billion), due to reduced consumer spending during the first half of the year as lockdown restrictions remained in place, leading to an increase in savings and current account balances.

Assets	2022		2021	
	£m	**%**	£m	%
Cash	**30,221**		16,693	
Residential mortgages (note i)	**198,120**	***95***	191,023	*95*
Commercial	**6,054**	***3***	6,972	*3*
Consumer banking	**4,638**	***2***	4,404	*2*
	208,812	***100***	202,399	*100*
Impairment provisions	**(746)**		(852)	
Loans and advances to customers	**208,066**		201,547	
Other financial assets	**30,816**		33,888	
Other non-financial assets	**3,251**		2,786	
Total assets	**272,354**		254,914	

Asset quality	**%**		%	
Residential mortgages (note i):				
Proportion of residential mortgage accounts more than 3 months in arrears	**0.34**		0.43	
Average indexed loan to value (by value)	**52**		56	
Consumer banking:				
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	**1.13**		1.33	

12-month average Liquidity Coverage Ratio (note ii):

183%

(2021: 159%)

Notes:
i. Residential mortgages include prime, buy to let and legacy lending.
ii. This represents a simple average of liquidity coverage ratio reported for the prior 12 month-ends.

Cash

Cash comprises liquidity held by our Treasury function. The £13.5 billion increase in cash is driven by inflows of member deposits during the year, the drawdown of funds from the Bank of England's TFSME, and increased repurchase agreement balances.

The average Liquidity Coverage Ratio over the 12 months ended 4 April 2022 was 183% (12 months ended 4 April 2021: 159%). Liquidity continues to be monitored against 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.

Financial review (continued)

Residential mortgages

Total gross mortgage lending in the year was £36.5 billion (2021: £29.6 billion), supported by a housing market that maintained significant momentum, which also continued after the stamp duty holiday concluded in September 2021. Our market share of gross lending was 11.8% (2021: 11.1%). Total mortgage net lending in the year was £7.1 billion (2021: £1.9 billion) which includes buy to let mortgage net lending of £2.4 billion (2021: £3.6 billion). Strong mortgage lending resulted in prime mortgage balances increasing to £154.4 billion (2021: £149.8 billion) and buy to let and legacy mortgage balances growing to £43.7 billion (2021: £41.2 billion).

Arrears remain low and have decreased during the year, with cases more than three months in arrears at 0.34% (2021: 0.43%) of the total portfolio. It is expected that the current low level of arrears is temporary and is a result of both government support schemes and reduced opportunities to spend discretionary income during the pandemic. Impairment provision balances have decreased to £187 million (2021: £317 million) due to improvements in the macroeconomic outlook and house price growth during the year.

Consumer banking

Consumer banking balances have increased to £4.6 billion (2021: £4.4 billion). Consumer banking comprises personal loans of £2.9 billion (2021: £2.8 billion), credit cards of £1.5 billion (2021: £1.4 billion) and overdrawn current account balances of £0.3 billion (2021: £0.2 billion). Market demand for consumer credit has increased with the easing of pandemic related restrictions.

Impairment provision balances have increased to £529 million (4 April 2021: £502 million). Arrears performance has improved during the year, although the affordability pressures which our borrowers are currently experiencing from the rising cost of living are expected to result in an increase in arrears in the short to medium term.

Commercial lending

During the year, commercial lending balances have decreased to £6.1 billion (2021: £7.0 billion). Continuing the deleveraging activity in previous financial years, the overall portfolio remains weighted towards public sector lending. This includes registered social landlords with balances of £4.3 billion (2021: £4.8 billion), where we remain open to new lending, and project finance with balances of £0.6 billion (2021: £0.7 billion). With a smaller book and fewer active borrowers requiring further lending, commercial real estate balances decreased during the year to £0.6 billion (2021: £0.8 billion). Both project finance and commercial real estate books are closed to new lending.

Impairment provision balances have decreased to £30 million (4 April 2021: £33 million). The credit performance of the commercial portfolio has been stable during the year.

Other financial assets

Other financial assets total £30.8 billion (2021: £33.9 billion) and comprise investment assets held by our Treasury function amounting to £25.5 billion (2021: £25.5 billion), loans and advances to banks and similar institutions of £3.0 billion (2021: £3.7 billion), derivatives with positive fair values of £4.7 billion (2021: £3.8 billion) and fair value adjustments for portfolio hedged risk of £(2.4) billion (2021: £0.9 billion). 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		
	2022	2021
	£m	£m
Member deposits	**177,967**	170,313
Debt securities in issue	**25,629**	27,923
Other financial liabilities	**51,509**	41,009
Other liabilities	**1,550**	1,556
Total liabilities	**256,655**	240,801
Members' interests and equity	**15,699**	14,113
Total members' interests, equity and liabilities	**272,354**	254,914

Wholesale funding ratio:
28.8%
(2021: 26.7%)

Financial review (continued)

Member deposits

Member deposit balance growth of £7.7 billion (2021: £10.6 billion) to £178.0 billion (2021: £170.3 billion) represents growth in retail savings balances and current account credit balances of £4.7 billion and £3.0 billion respectively. This growth, across both savings and current account balances, was primarily driven by suppressed spending during the first half of the year as pandemic-related restrictions remained in place. Savings balance growth was further supported by strong 2021 ISA volumes, enabled by our competitive 2021 Member Exclusive Fixed Rate ISA product. In the latter half of the year, we increased our market share of account openings, supported by the launch of a new current account switching incentive in August 2021. Our market share of deposit balances has remained stable at 9.4% (2021: 9.4%), with our market share of all current accounts increasing slightly to 10.3% (2021: 10.2%)[8].

Debt securities in issue and other financial liabilities

Debt securities in issue primarily comprise wholesale funding, excluding subordinated debt which is included within other financial liabilities. Balances have decreased to £25.6 billion (2021: £27.9 billion) largely due to a change in funding mix as member deposit balances have grown significantly. Other financial liabilities have increased to £51.5 billion (2021: £41.0 billion) principally due to increases in drawings under the Bank of England's TFSME and repurchase agreement balances as we continue to manage the liquidity portfolio. Nationwide's wholesale funding ratio has also increased to 28.8% (2021: 26.7%) 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 £15.7 billion (2021: £14.1 billion) largely as a result of retained profits.

Statement of comprehensive income

Statement of comprehensive income (note i)	**2022** **£m**	2021 £m
Profit after tax	**1,252**	618
Net remeasurement of pension obligations	**543**	(72)
Net movement in cash flow hedge reserve	**(11)**	(111)
Net movement in other hedging reserve	**3**	(4)
Net movement in fair value through other comprehensive income reserve	**(20)**	131
Net movement in revaluation reserve	**5**	2
Total comprehensive income	**1,772**	564

Note:

i. Movements are shown net of related taxation.

Gross movements are set out in the consolidated financial statements on page 80. Further information on movements in the pension obligation is included in note 14 to the consolidated financial statements.

[8] CACI's Current Account and Savings Database, Stock (February 2022 and February 2021)

Financial review (continued)

Capital structure

Nationwide's capital position remains strong, with both the Common Equity Tier 1 (CET1) ratio and leverage ratio comfortably above regulatory capital requirements of 11.0% and 3.6% respectively. The CET1 ratio reduced to 24.1% (2021: 36.4%) reflecting a change in industry wide regulation, described below. The leverage ratio is 5.4% (2021: 5.4%). The capital disclosures included in this report are in line with UK Capital Requirements Directive V (UK CRD V) with IFRS 9 transitional arrangements included.

Capital structure		
	2022	2021
	£m	£m
Capital resources		
CET1 capital	**12,471**	12,007
Total Tier 1 capital	**13,807**	13,343
Total regulatory capital	**16,466**	16,176
Capital requirements		
Risk weighted assets (RWAs)	**51,823**	32,970
Leverage exposure (note i)	**255,407**	248,402
UK CRD V capital ratios	**%**	%
CET1 ratio	**24.1**	36.4
Leverage ratio (note i)	**5.4**	5.4

Note:
i. The PRA simplified the leverage framework by applying a single Leverage Exposure Measure (LEM), which excludes central bank claims, from 1 January 2022. This metric is used by the PRA for the purposes of supervising the capital adequacy of financial institutions in the UK. The simplification of the leverage framework has resulted in the removal of the CRR leverage ratio disclosure, which included central bank claims. The 'UK' prefix that was included in 2021 to distinguish between the two ratios is no longer required and we now only refer to the leverage ratio.

The CET1 ratio reduced to 24.1% (2021: 36.4%) as a result of an increase in RWAs of £18.9 billion, partially offset by the impact of an increase in CET1 capital of £0.5 billion.

The overall increase in RWAs principally reflects two long-expected regulatory changes which had an aggregate effect of increasing RWAs by £21.3 billion. This is only partially mitigated by reductions in mortgage RWAs of £0.5 billion due to improving asset quality, and a further £1.5 billion reduction following approval by the PRA of a new overdraft Internal Ratings Based (IRB) model (independent of the regulatory change outlined below). Commercial RWAs also reduced by £0.4 billion as the total loan portfolio continued to reduce.

The regulatory changes impacting RWAs are as follows:

- Policy statements came into force from 1 January 2022 which changed industry-wide calibration of IRB models used for calculating RWAs, to ensure less volatility in risk-based capital requirements through periods of economic stress by increasing starting RWAs closer to a through-the-cycle average. As the models developed by Nationwide in response to this are yet to be approved by the PRA, a model adjustment has been made to ensure outcomes consistent with the revised IRB regulations. The impact of this adjustment was a £21.8 billion increase in RWAs. In line with other industry participants, we continue to work with the PRA on the precise calibration of the revised IRB models.
- PS17/21 'Implementation of Basel standards' changed the treatment of intangible software assets which are no longer risk weighted, reducing RWAs by £0.5 billion. These assets are now deducted from CET1 resources, reducing resources by £0.5 billion.

Excluding these regulatory changes, the CET1 ratio would have increased by 4.1% to 40.5%.

The RWA increase was fully expected and the CET1 ratio annual movement aligns to the one third reduction which we anticipated and reported on in the Annual Report and Accounts 2021.

Financial review (continued)

The CET1 capital resources increase was driven by £1.1 billion profit after tax, net of distributions, partially offset by a £0.4 billion movement in deductible intangible assets, which includes the impact of the regulation change, and a £0.2 billion movement in other CET1 regulatory adjustments including IFRS 9 transitional arrangements.

The leverage ratio was 5.4% (2021: 5.4%), with Tier 1 capital increasing by £0.5 billion as a result of the CET1 capital movements referenced above. Partially offsetting the impact of this was an increase in leverage exposure of £7.0 billion primarily as a result of net retail lending in the period. Excluding the impact of the intangible asset regulation change the leverage ratio would have increased to 5.6%.

Despite the increase in RWAs, leverage requirements continue to be Nationwide's binding Tier 1 capital constraint, as they are in excess of minimum risk-based and regulatory buffer requirements.

Further details of the capital position and future regulatory developments are described in the Capital risk section of the Risk report.

Risk report

Contents

Risk report

Introduction

Risk management is at the heart of our business and has an important part to play in delivering our shared purpose of building society, nationwide, by making sure we are safe and secure for the future.

All business activities involve some degree of risk; Nationwide seeks to protect its members by managing appropriately the risks that arise from its activities. Nationwide's risk management processes ensure it is built to last by:

- identifying risks through a robust assessment of principal risks and uncertainties facing the Society, including those that would threaten its business model, future performance, solvency, or liquidity
- robust decision making, ensuring we take the right risks, in a way that is considered and supports the strategy, maintaining a reputation for high standards of business conduct
- ensuring the risks Nationwide takes are understood, controlled, and managed appropriately; and
- maintaining an appropriate balance between delivering member value and remaining a prudent and responsible lender.

Risks to Nationwide

The risks which Nationwide faces can be divided across two broad categories:

- Top and emerging risks are specific current or future risks which have the potential to materially impact Nationwide's financial results and delivery of its strategic objectives. The most significant of these are described below, together with key developments, a summary of actions we are taking to reduce the risk, and the strategic objectives which are most likely to be impacted by each risk.
- Principal risks encompass all of the different types of risk to which Nationwide is exposed. Further information on these risks can be found on page 22 in the Risk report.

How the conflict in Ukraine affects our risk profile

Nationwide has no direct and limited indirect exposure to Russia or Ukraine, minimising the immediate financial impact of the conflict on the delivery of our strategy. However, the conflict has materially impacted our risk profile in the short to medium term. The most significant risks impacted are:

- Compliance with financial crime regulation and anti-money laundering – we are implementing the complex and evolving sanctions regimes introduced in response to the conflict, ensuring we meet the requirements as laid out by government;
- Cyber risk – we continue to monitor our risk and control environment in response to the heightened threat of cyber-attack against UK institutions, infrastructure and our members; and
- Conduct, Credit and People risks – we continue to support members and colleagues impacted by the conflict, whether directly or indirectly, in line with our social purpose.

The conflict is likely to have significant and long-lasting implications on the geopolitical and macro-economic environment, exacerbating the increases to energy costs and food prices which are already affecting our members in the aftermath of the pandemic. We are also preparing for a range of potential scenarios as the conflict evolves, to ensure we are able to respond swiftly and appropriately to any escalation or expansion of hostilities.

Top and emerging risks

Overview of risk	Developments and outlook	Mitigating actions
Climate change ➔		
Climate change poses two main threats to our members and the Society's activities: the physical risks to UK housing stock and property, and the transitional risks, including the risks to economic growth, as the country moves towards zero net emissions.	The potential risks relating to climate change continue to evolve as government policy develops and technologies mature. Furthermore, energy performance certificate (EPC) minimum requirements for housing are set to increase over coming years, which may impact the viability of some buy to let customers' properties and, along with other transition activities, will materially impact a number of key risks.	We limit the impact our activities have on climate change by investing in sustainable business practices and adjusting our lending criteria to minimise risk. To support this, we continue to develop our processes to reflect potential changes in macro-economic conditions and the housing market as we transition to a low carbon economy.
Competitive environment ➚		
The operating environment is highly competitive, with competition in our core markets from traditional financial service providers as well as a number of new entrants looking to disrupt existing providers or our relationship with members.	We continue to experience heightened competition across our products, with excess liquidity across our peer group continuing to put pressure on mortgage margins. There are also new entrants looking to compete primarily via digital channels, including well established financial services companies, seeking to gain a share of the current account market.	We continuously refine and enhance our systems, services, and products to meet the evolving needs of our members and price our propositions competitively whilst remaining within risk appetite. We leverage our expertise in credit risk to offer innovative products to meet our members' needs and which support our social purpose.
Data ➚		
Our customers trust us with their data so that we can deliver the services and experience which they need and expect. These expectations and industry practices continue to evolve at pace.	The rapid growth of digitisation and member demand for a better customer experience leads to greater volumes of data to control and more complex challenges in ensuring that data is used ethically and appropriately. Additionally, both member expectations and complexity of purposes for which data is used are increasing year-on-year across the industry. This requires an evolving set of skills to ensure a rigorous focus on member outcomes.	Ongoing investment in our data architecture and technology ensures we continue to protect personal data effectively and meet the expectations of our members as the digital environment evolves. This includes further developing our employee proposition to ensure we have the right people and capabilities in a changing landscape. We are also working proactively with third party suppliers to ensure their data controls are as robust as our own.

Key (change in level of risk to Nationwide in year)
➚ Increased level of risk ➔ Stable level of risk ➘ Decreased level of risk

Top and emerging risks (continued)

Geopolitical and macro-economic 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. In addition, geopolitical instability has the potential to disrupt operations.	Whilst the economy continues to recover following the pandemic, there remain several headwinds with increasing living costs and rising interest rates impacting member finances and the long-term impact of the conflict in Ukraine on government policy, supply chains, trade and economic growth yet to emerge. In addition, heightened geopolitical tensions increase the threat of cyber and financial crime.	We maintain strong capital and liquidity levels in excess of regulatory minimums and regularly undertake robust internal and regulatory stress tests to ensure our financial resources are sufficient under a range of severe but plausible scenarios. We continuously review and adjust our credit policies to ensure they remain appropriate for the prevailing economic conditions and monitor the cyber threat level to respond appropriately.
People risk ➔		
We rely upon our people to deliver for our members. Throughout the pandemic, ensuring the safety and wellbeing of our colleagues has been of paramount importance, whilst ensuring that we are able to serve our members effectively and efficiently.	The easing of workplace restrictions and the decreasing impact of Covid-19 mean that colleagues are gradually able to return to more normal working patterns safely, improving collaboration and productivity. However, steep wage inflation in numerous roles, and the rise of flexible working across the industry, pose both risks and opportunities for the recruitment and retention of talent.	We continue to prioritise the safety of members and colleagues, having adapted our workplace to comply with government Covid-19 guidance, and have redeveloped our policies to support flexible working where appropriate. This has enabled colleagues to work from the most appropriate location, whilst ensuring appropriate controls are in place. We continue to evolve our employee proposition to remain competitive and attract talent.
Regulation ➔		
It is imperative the Society complies with a range of complex and evolving regulation to continue trading and serving members effectively.	The regulatory environment continues to develop with a number of significant changes to regulation either in progress or expected in the next year, including in relation to capital models, climate change, consumer duty and resilience.	We implement relevant regulatory developments promptly and appropriately whilst maintaining continuous engagement with all our regulators.
Resilience ➚		
Our members rely upon our systems and services being available when they need them. The risk of outages and system failures is increased both by the age and complexity of the Society's technology estate, and the volume of system changes to improve it.	We are investing in our technology estate both to respond to the evolving needs of our members and to ensure future service resilience. However, as we develop and change our systems, we increase the risk of outages and system failures impacting operational resilience risk in the short term.	We continue to strategically invest in and strengthen our control environment and systems to improve resilience and proactively balance service resilience with the need to respond to members' current and future needs as we update and develop our systems.

Key (change in level of risk to Nationwide in year)
➚ Increased level of risk ➔ Stable level of risk ➘ Decreased level of risk

Principal risks and uncertainties

The principal risks set out in the table below are the key risks relevant to the Society's business model and achievement of its strategic objectives. Where under the control of Nationwide, these risks have a defined risk appetite consisting of statements supported by metrics, including rationale, limits and triggers. The principal risks are further sub-divided into more detailed categories of risk, for which management risk appetite is set in the context of the Board's risk appetite. The relationship between principal risks and top and emerging risks is set out on page 19.

The previous Solvency risk category has been renamed Capital risk to align with wider financial services sector terminology. The nature of the underlying risk exposure remains unchanged.

Principal risk	Definition	Risk committee
Credit risk	The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations.	Credit Committee
Liquidity and funding risk	Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and other stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage retail funding risk that can arise from excessive concentrations of higher risk deposits.	Assets and Liabilities Committee
Capital risk	The risk that Nationwide fails to maintain sufficient capital to absorb losses throughout a full economic cycle and sufficient to maintain the confidence of current and prospective investors, members, the Board and regulators.	
Market risk	The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes.	
Pension risk	The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit.	
Business risk	The risk that achievable volumes or margins decline relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, regulatory, competitor or other external events.	Executive Risk Committee
Operational and conduct risk	The risk of Society impacts resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events.	Conduct and Operational Risk Committee
Model risk	The risk of an adverse outcome that occurs as a direct result of weaknesses or failures in the development, implementation or use of a model. The adverse consequences include financial loss, poor business or strategic decision making, or damage to Nationwide's reputation.	Model Risk Committee

Information on key developments and updated quantitative disclosures for credit risk, liquidity and funding risk, and capital risk are included within this Risk report. Updated net interest income sensitivity analysis is included in the market risk section of this Risk report.

We continue to monitor how the increasing cost of living and the ongoing conflict in Ukraine are affecting our members and altering the Society's risk profile, ensuring we are prepared to respond proactively to any new developments or threats.

Credit risk – Overview

Credit risk is the risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations. Credit risk encompasses:

- borrower/counterparty risk – the risk of loss arising from a borrower or counterparty failing to pay, or becoming increasingly likely not to pay, the interest or principal on a loan or financial product, or for a service, on time;
- security/collateral risk – the risk of loss arising from deteriorating security/collateral quality;
- concentration risk – the risk of loss arising from insufficient diversification; and
- refinance risk – the risk of loss arising when a repayment of a loan or other financial product occurs later than originally anticipated.

Nationwide manages credit risk for the following portfolios:

Portfolio	Definition
Residential mortgages	Loans secured on residential property
Consumer banking	Unsecured lending comprising current account overdrafts, personal loans and credit cards
Commercial and other lending	Loans to registered social landlords, project finance loans made under the Private Finance Initiative, commercial real estate lending and other balances due from counterparties not covered by other categories
Treasury	Treasury liquidity, derivatives and discretionary investment portfolios

Forbearance

Forbearance occurs when concessions are made to the contractual terms of a loan when the borrower is facing or about to face difficulties in meeting their financial commitments. A concession is where the borrower receives assistance, which could be a modification to the previous terms and conditions of a facility or a total or partial refinancing of debt, either mid-term or at maturity. Requests for concessions are principally attributable to:

- temporary cash flow problems;
- breaches of financial covenants; or
- an inability to repay at contractual maturity.

Consistent with the European Banking Authority reporting definitions, loans that meet the regulatory forbearance exit criteria are not reported as forborne. The concession events used to classify balances subject to forbearance for residential mortgages, consumer banking and commercial lending are shown in the relevant sections of this report.

Impairment provision

Impairment provisions on financial assets are calculated on an expected credit loss (ECL) basis for assets held at amortised cost and at fair value through other comprehensive income (FVOCI). ECL impairment provisions are based on an assessment of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), discounted to give a net present value. Provision calculations for retail portfolios are typically performed on a collective rather than individual loan basis. For collective assessments, whilst each loan will have an associated ECL calculation, the calculation will be based on cohort level data for assets with shared credit risk characteristics (for example, origination date, origination loan to value, term).

Credit risk – Overview (continued)

Impairment provisions are calculated using a three-stage approach depending on changes in credit risk since original recognition of the assets:

- an asset which is not credit impaired on initial recognition and has not subsequently experienced a significant increase in credit risk is categorised as being within stage 1, with a provision equal to a 12-month ECL (losses arising on default events expected to occur within 12 months);
- where a loan's credit risk increases significantly, it is moved to stage 2. The provision recognised is equal to the lifetime ECL (losses on default events expected to occur at any point during the life of the asset);
- if a loan meets the definition of credit impaired, it is moved to stage 3 with a provision equal to its lifetime ECL.

For loans and advances held at amortised cost, the stage distribution and the provision coverage ratios are shown in this report for each individual portfolio. The provision coverage ratio is calculated by dividing the provisions by the gross balances for each main lending portfolio. Loans remain on the balance sheet, net of associated provisions, until they are deemed no longer recoverable, when such loans are written off.

Governance and oversight of impairment provisions

The models used in the calculation of impairment provisions are governed in accordance with the Society's Model Risk Framework. PD, EAD and LGD models are subject to regular monitoring and back testing and are reviewed annually. Where necessary, adjustments are approved for risks not captured in model outputs, for example where insufficient historic data exists. The economic scenarios used in the calculation of impairment provisions and associated probability weightings are developed by Nationwide's Chief Economist. Details of these economic assumptions and material adjustments are included in note 8 to the consolidated financial statements.

Governance and oversight of economic assumptions, weightings applied to economic scenarios and all key judgements relating to impairment provisions is through a formal monthly meeting attended by the Chief Financial Officer, Chief Risk Officer and Chief Credit Officer. Impairment provisions are regularly reported to the Audit Committee, which reviews and challenges the key judgements and estimates made by management.

Performance overview

The UK economy has seen a period of continued growth throughout the year, supported by the end of national lockdown restrictions.

Observed credit quality and performance has remained broadly stable. Performance has benefited from the impact of government schemes and payment deferrals to support borrowers facing financial difficulties during the pandemic. Although these have now ended, residential mortgages and consumer banking arrears remain at a relatively low level. We continue to offer help and support for members who remain impacted in these challenging times, with concessions granted based on consideration of their individual circumstances.

Initially supported by the stamp duty holiday, the housing market has seen strong activity and continues to remain resilient as demand outstrips the limited available stock, with the Nationwide House Price Index recording a 14.3% increase in house prices year on year. Combined with other improvements in economic conditions, including the continued resilience of the labour market, and removal of provisions held for payment deferrals, this has resulted in a reduction to total provisions for residential mortgages.

Within consumer banking, similar reductions have been offset by the impact of affordability challenges associated with a high inflation environment, resulting in an increase in provisions.

Outlook

Despite a period of economic growth and stable credit performance over the year, continued inflationary pressures are expected to put more pressure on personal finances. In combination with the lifting of the energy price cap and increase in National Insurance contributions, disposable income is likely to be put under more strain in the coming months. These factors will increase pressure on housing affordability, and we therefore expect housing market activity to slow and the rate of house price growth to moderate in the coming quarters, with a risk of a downward movement in house prices.

Credit risk – Overview (continued)

Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk has increased to £284 billion (2021: £265 billion), principally reflecting higher cash and residential mortgages balances.

Credit risk largely arises from loans and advances to customers, which account for 78% (2021: 81%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 95% (2021: 94%) of total loans and advances to customers and comprise high quality assets with historically low occurrences of arrears and possessions.

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

Maximum exposure to credit risk 2022	Gross balances	Impairment provisions	Carrying value	Commitments (note i)	Maximum credit risk exposure	% of total credit risk exposure
	£m	£m	£m	£m	£m	%
Amortised cost loans and advances to customers:						
Residential mortgages	198,056	(187)	197,869	13,807	211,676	74
Consumer banking	4,638	(529)	4,109	35	4,144	2
Commercial and other lending	5,453	(30)	5,423	1,415	6,838	2
Fair value adjustment for micro hedged risk (note ii)	549	-	549	-	549	-
	208,696	(746)	207,950	15,257	223,207	78
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	64	-	64	-	64	-
Commercial	52	-	52	-	52	-
	116	-	116	-	116	-
Other items:						
Cash	30,221	-	30,221	-	30,221	11
Loans and advances to banks and similar institutions	3,052	-	3,052	-	3,052	1
Investment securities – FVOCI	25,349	-	25,349	-	25,349	9
Investment securities – Amortised cost	118	-	118	-	118	-
Investment securities – FVTPL	17	-	17	1	18	-
Derivative financial instruments	4,723	-	4,723	-	4,723	2
Fair value adjustment for portfolio hedged risk (note ii)	(2,443)	-	(2,443)	-	(2,443)	(1)
	61,037	-	61,037	1	61,038	22
Total	269,849	(746)	269,103	15,258	284,361	100

Credit risk – Overview (continued)

Maximum exposure to credit risk 2021	Gross balances £m	Impairment provisions £m	Carrying value £m	Commitments (note i) £m	Maximum credit risk exposure £m	% of total credit risk exposure %
Amortised cost loans and advances to customers:						
Residential mortgages	190,955	(317)	190,638	12,039	202,677	76
Consumer banking	4,404	(502)	3,902	43	3,945	2
Commercial and other lending	6,267	(33)	6,234	1,176	7,410	3
Fair value adjustment for micro hedged risk (note ii)	653	-	653	-	653	-
	202,279	(852)	201,427	13,258	214,685	81
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	68	-	68	-	68	-
Commercial	52	-	52	-	52	-
	120	-	120	-	120	-
Other items:						
Cash	16,693	-	16,693	-	16,693	6
Loans and advances to banks and similar institutions	3,660	-	3,660	-	3,660	1
Investment securities – FVOCI	24,218	-	24,218	-	24,218	9
Investment securities – Amortised cost	1,243	-	1,243	-	1,243	1
Investment securities – FVTPL	12	-	12	1	13	-
Derivative financial instruments	3,809	-	3,809	-	3,809	2
Fair value adjustment for portfolio hedged risk (note ii)	946	-	946	-	946	-
	50,581	-	50,581	1	50,582	19
Total	252,980	(852)	252,128	13,259	265,387	100

Notes:

i. In addition to the amounts shown above, Nationwide has revocable commitments of £10,622 million (2021: £10,624 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain considerations. Such commitments are cancellable by Nationwide, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

ii. The fair value adjustment for portfolio hedged risk and the fair value adjustment for micro hedged risk (which relates to the commercial lending portfolio) represent hedge accounting adjustments.

iii. FVTPL residential mortgages include equity release and shared equity loans.

Commitments

Irrevocable undrawn commitments to lend are within the scope of provision requirements. The commitments in the table above consist of overpayment reserves and separately identifiable irrevocable commitments for the pipeline of residential mortgages, personal loans, commercial loans and investment securities. These commitments are not recognised on the balance sheet; the associated provision of £0.4 million (2021: £0.5 million) is included within provisions for liabilities and charges.

Revocable commitments relating to overdrafts and credit cards are included in the calculation of impairment provisions, with the allowance for future drawdowns included in the estimate of the exposure at default.

Credit risk – Residential mortgages

Summary

Nationwide's residential mortgages comprise prime, buy to let and legacy loans. Prime residential mortgages are mainly Nationwide-branded advances made through the branch network and intermediary channels. Buy to let mortgages are now only originated under The Mortgage Works (UK) plc (TMW) brand. Legacy mortgages are smaller portfolios in run-off.

Although government support schemes and payment deferrals introduced following the outbreak of the pandemic have now ended, the arrears rates on the residential mortgage portfolios remain low. However, rising inflation, increasing interest rates, and increased national insurance contributions will place a greater strain on household finances, increasing the risk of default.

The housing market remains strong where demand continues to exceed supply, driving up house prices and reducing the average LTV of the residential portfolios.

Residential mortgage gross balances				
	2022		2021	
	£m	**%**	£m	%
Prime	**154,363**	**78**	149,706	78
Buy to let and legacy:				
Buy to let (note i)	**42,014**	**21**	39,312	21
Legacy (note ii)	**1,679**	**1**	1,937	1
	43,693	**22**	41,249	22
Amortised cost loans and advances to customers	**198,056**	**100**	190,955	100
FVTPL loans and advances to customers	**64**		68	
Total residential mortgages	**198,120**		191,023	

Notes:
i. Buy to let mortgages include £40,879 million (2021: £37,983 million) originated under the TMW brand.
ii. Legacy includes self-certified, near prime and sub-prime lending, all of which were discontinued in 2009.

Credit risk – Residential mortgages (continued)

Impairment (release)/charge for the year

Impairment (release)/charge and write-offs for the year		
	2022	2021
	£m	£m
Prime	**(19)**	39
Buy to let and legacy	**(109)**	32
Total impairment (release)/charge	**(128)**	71
	%	%
Impairment (release)/charge as a % of average gross balance	**(0.07)**	0.04
	£m	£m
Gross write-offs	**5**	9

The impairment release for the year includes the impact of updating macroeconomic assumptions and scenario weightings to reflect the improvement in economic outlook since 4 April 2021; further details are included in note 8 to the consolidated financial statements. Closing provisions have reduced to £187 million (2021: £317 million). The prior year impairment charge reflected an increase in provisions during a period of significant economic uncertainty.

The following table shows residential mortgage lending balances carried at amortised cost, the stage allocation of the loans, impairment provisions and the resulting provision coverage ratios.

Residential mortgages staging analysis								
2022	**Stage 1**	**Stage 2 total**	**Stage 2 Up to date (note i)**	**Stage 2 1 – 30 DPD (note i)**	**Stage 2 >30 DPD (note i)**	**Stage 3**	**POCI (note ii)**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross balances								
Prime	**146,786**	**6,782**	**6,057**	**535**	**190**	**795**	**-**	**154,363**
Buy to let and legacy	**33,462**	**9,667**	**9,333**	**229**	**105**	**429**	**135**	**43,693**
Total	**180,248**	**16,449**	**15,390**	**764**	**295**	**1,224**	**135**	**198,056**
Provisions								
Prime	**6**	**41**	**20**	**12**	**9**	**26**	**-**	**73**
Buy to let and legacy	**16**	**64**	**51**	**6**	**7**	**36**	**(2)**	**114**
Total	**22**	**105**	**71**	**18**	**16**	**62**	**(2)**	**187**
Provisions as a % of total balance	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Prime	**0.00**	**0.61**	**0.34**	**2.33**	**4.49**	**3.29**	**-**	**0.05**
Buy to let and legacy	**0.05**	**0.67**	**0.55**	**2.67**	**6.96**	**8.42**	**-**	**0.26**
Total	**0.01**	**0.64**	**0.46**	**2.43**	**5.37**	**5.09**	**-**	**0.09**

Credit risk – Residential mortgages (continued)

Residential mortgages staging analysis								
2021	Stage 1	Stage 2 total	Stage 2 Up to date (note i)	Stage 2 1 – 30 DPD (note i)	Stage 2 >30 DPD (note i)	Stage 3	POCI (note ii)	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Gross balances								
Prime	143,500	5,313	4,606	505	202	893	-	149,706
Buy to let and legacy	35,247	5,346	5,009	201	136	508	148	41,249
Total	178,747	10,659	9,615	706	338	1,401	148	190,955
Provisions								
Prime	17	39	33	3	3	37	-	93
Buy to let and legacy	49	137	118	9	10	38	-	224
Total	66	176	151	12	13	75	-	317
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Prime	0.01	0.74	0.73	0.59	1.39	4.10	-	0.06
Buy to let and legacy	0.14	2.58	2.38	4.28	7.18	7.46	-	0.54
Total	0.04	1.66	1.59	1.64	3.72	5.32	-	0.17

Notes:

i. Days past due (DPD) is a measure of arrears status.

ii. POCI loans are those which were credit-impaired on purchase or acquisition. The POCI loans shown in the table above were recognised on the balance sheet when the Derbyshire Building Society was acquired in December 2008. These balances, which are mainly interest-only, were 90 days or more in arrears when they were acquired and so have been classified as credit-impaired on acquisition. The gross balance for POCI is shown net of the lifetime ECL of £5 million (2021: £5 million).

During the year residential mortgage provisions have reduced to £187 million (2021: £317 million). Of this reduction, £110 million relates to buy to let and legacy mortgages. The overall reduction is largely the result of an improved economic outlook for both house prices and unemployment rates, combined with a stronger than expected performance of accounts which had utilised payment deferrals. Further information regarding economic scenarios used in ECL modelling and associated weightings is provided in note 8 to the consolidated financial statements.

Credit performance continues to be strong, although this is likely to have benefited from government support. The improvement in credit performance since the start of the pandemic is judged to be temporary, with an uplift to PD being applied to reverse the average credit score improvement observed over the past two years. An additional PD uplift has been applied to reflect the inflationary pressures that borrowers are likely to face in the near future. The combined impact of uplifting the PD for these risks has resulted in £4.6 billion of mortgage balances moving to stage 2, increasing provisions by £13 million. The provision impact is modest as the PD and LGD of these mortgages remain low. The increase in stage 2 balance has been partially offset by the removal of the PD uplifts which were previously applied to reflect the risk associated with payment deferrals and an improvement in economic outlook. The increase in buy to let and legacy stage 2 balances to £9,667 million (2021: £5,346 million) is predominantly the result of changes to the bank base rate forecast, which now includes rate increases to reflect tighter fiscal policy to mitigate inflation.

Stage 3 loans in the residential mortgage portfolio equate to 0.6% (2021: 0.7%) of the total residential mortgage exposure. Of the total £1,224 million (2021: £1,401 million) stage 3 loans, £552 million (2021: £690 million) is in respect of loans which are more than 90 days past due, with the remainder being impaired due to other indicators of unlikeliness to pay such as forbearance or the bankruptcy of the borrower.

For loans subject to forbearance, accounts are transferred from stage 3 to stages 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months; £346 million (2021: £242 million) of the stage 3 balances in forbearance are in this probation period.

Credit risk – Residential mortgages (continued)

The table below summarises the movements between stages in the Group's residential mortgages held at amortised cost. The movements within the table are an aggregation of monthly movements over the year.

Reconciliation of movements in gross residential mortgage balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2021	178,747	66	10,659	176	1,549	75	190,955	317
Stage transfers:								
Transfers from stage 1 to stage 2	**(24,029)**	**(35)**	**24,029**	**35**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(255)**	**-**	**(622)**	**(18)**	**877**	**18**	**-**	**-**
Transfers from stage 2 to stage 1	**16,713**	**129**	**(16,713)**	**(129)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**283**	**3**	**406**	**17**	**(689)**	**(20)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(106)**		**85**		**2**		**(19)**
Net movement arising from transfer of stage	**(7,288)**	**(9)**	**7,100**	**(10)**	**188**	**-**	**-**	**(19)**
New assets originated or purchased	**35,181**	**5**	**-**	**-**	**-**	**-**	**35,181**	**5**
Net impact of further lending and repayments	**(7,876)**	**(3)**	**(249)**	**(3)**	**(50)**	**-**	**(8,175)**	**(6)**
Changes in risk parameters in relation to credit quality	**-**	**(32)**	**-**	**(46)**	**-**	**2**	**-**	**(76)**
Other items impacting income statement (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Redemptions	**(18,516)**	**(5)**	**(1,061)**	**(12)**	**(310)**	**(12)**	**(19,887)**	**(29)**
Income statement release for the year								**(128)**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(18)**	**(5)**	**(18)**	**(5)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
4 April 2022	**180,248**	**22**	**16,449**	**105**	**1,359**	**60**	**198,056**	**187**
Net carrying amount		**180,226**		**16,344**		**1,299**		**197,869**

Note:

i. Gross balances of credit impaired loans include £135 million (2021: £148 million) of POCI loans, which are presented net of lifetime ECL impairment provisions of £5 million (2021: £5 million).

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 8 to the consolidated financial statements.

Credit risk – Residential mortgages (continued)

Reason for residential mortgages being included in stage 2 (note i)

2022	Prime			Buy to let and legacy			Total		
	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance
	£m	£m	%	£m	£m	%	£m	£m	%
Quantitative criteria:									
Payment status (greater than 30 DPD)	**190**	**9**	**4.49**	**105**	**7**	**6.96**	**295**	**16**	**5.37**
Increase in PD since origination (less than 30 DPD)	**6,398**	**32**	**0.51**	**7,623**	**27**	**0.35**	**14,021**	**59**	**0.42**
Qualitative criteria:									
Forbearance (less than 30 DPD)	**151**	**-**	**0.01**	**5**	**-**	**0.05**	**156**	**-**	**0.05**
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**-**	**-**		**1,926**	**30**	**1.58**	**1,926**	**30**	**1.58**
Other qualitative criteria	**43**	**-**	**0.40**	**8**	**-**	**0.44**	**51**	**-**	**0.11**
Total stage 2 gross balances	**6,782**	**41**	**0.61**	**9,667**	**64**	**0.67**	**16,449**	**105**	**0.64**

Reason for residential mortgages being included in stage 2 (note i)

2021	Prime			Buy to let and legacy			Total		
	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance
	£m	£m	%	£m	£m	%	£m	£m	%
Quantitative criteria:									
Payment status (greater than 30 DPD)	202	3	1.39	136	10	7.18	338	13	3.72
Increase in PD since origination (less than 30 DPD)	5,067	36	0.72	3,288	70	2.13	8,355	106	1.28
Qualitative criteria:									
Forbearance (less than 30 DPD)	6	-	0.15	3	-	0.32	9	-	0.22
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	-	-	-	1,914	57	2.99	1,914	57	2.99
Other qualitative criteria	38	-	0.14	5	-	0.83	43	-	0.23
Total stage 2 gross balances	5,313	39	0.74	5,346	137	2.58	10,659	176	1.66

Note:
i. Where loans satisfy more than one of the criteria for determining a significant increase in credit risk, the corresponding gross balance has been assigned in the order in which the categories are presented above.

Credit risk – Residential mortgages (continued)

Loans which are reported within stage 2 are those which have experienced a significant increase in credit risk since origination, determined through both quantitative and qualitative indicators, as shown in the table below.

Criteria	Detail
Quantitative	The primary quantitative indicators are the outputs of internal credit risk assessments. For residential mortgage exposures, PDs are derived using models, which use external information such as that from credit reference agencies, as well as internal information such as known instances of arrears or other financial difficulty. Current and historical data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default. 12-month and lifetime PDs are calculated for each loan. The 12-month and lifetime PDs are compared to pre-determined benchmarks at each reporting date to ascertain whether a relative or absolute increase in credit risk has occurred. The indicators for a significant increase in credit risk are: • Absolute measures: - The 12-month PD exceeds the benchmark 12-month PD that is indicative, at the assessment date, of an account being in arrears. - The residual lifetime PD exceeds the benchmark residual lifetime PD, set at inception, which represents the maximum credit risk that would have been accepted at that point. • Relative measure: - The residual lifetime PD has increased by at least 75 basis points and has at least doubled.
Qualitative	Qualitative indicators include the increased risk associated with interest only loans which may not be able to refinance at maturity. Also included are forbearance events where full repayment of principal and interest is still anticipated, on a discounted basis.
Backstop	In addition to the primary criteria for stage allocation described above, accounts that are more than 30 days past due are also transferred to stage 2.

The value of loans reported within stage 2 as a result of being in arrears by 30 days or more has reduced to £295 million, 0.15% of total gross balances (2021: £338 million, 0.18% of total gross balances). The majority of loans reported within stage 2 are as a result of increasing their PD since origination. This category includes £4.6 billion of loans where the modelled PD has been uplifted to reverse the temporary improvements in borrower credit quality observed since the start of the pandemic and also to reflect an increase in affordability risk as a result of inflationary pressures. In both instances the uplift has resulted in these loans breaching existing quantitative PD thresholds.

Stage 2 loans include all loans greater than 30 days past due (DPD), including those where the original reason for being classified as stage 2 was other than arrears over 30 DPD. The total value of loans in stage 2 due solely to payment status is less than 0.1% (2021: <0.1%) of total stage 2 balances.

Credit risk – Residential mortgages (continued)

Credit quality

The residential mortgages portfolio comprises many small loans which are broadly homogenous, have low volatility of credit risk outcomes and are geographically diversified. The table below shows the loan balances and provisions for residential mortgages held at amortised cost, by PD range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

Loan balance and provisions by PD (note i)									
2022	**Gross balances**				**Provisions**				
	Stage 1	**Stage 2**	**Stage 3 and POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**	**Provision coverage**
PD Range	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
0.00 to < 0.15%	**150,439**	**4,594**	**124**	**155,157**	**11**	**11**	**-**	**22**	**0.01**
0.15 to < 0.25%	**13,639**	**1,863**	**35**	**15,537**	**3**	**4**	**-**	**7**	**0.05**
0.25 to < 0.50%	**9,507**	**2,381**	**52**	**11,940**	**3**	**9**	**-**	**12**	**0.10**
0.50 to < 0.75%	**2,852**	**743**	**31**	**3,626**	**1**	**4**	**-**	**5**	**0.15**
0.75 to < 2.50%	**3,637**	**2,292**	**89**	**6,018**	**3**	**16**	**-**	**19**	**0.32**
2.50 to < 10.00%	**173**	**2,097**	**108**	**2,378**	**1**	**18**	**1**	**20**	**0.84**
10.00 to < 100%	**1**	**2,479**	**125**	**2,605**	**-**	**43**	**3**	**46**	**1.74**
100% (default)	**-**	**-**	**795**	**795**	**-**	**-**	**56**	**56**	**7.04**
Total	**180,248**	**16,449**	**1,359**	**198,056**	**22**	**105**	**60**	**187**	**0.09**

Loan balance and provisions by PD (note i)									
2021	Gross balances				Provisions				
	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	Provision coverage
PD Range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to < 0.15%	156,099	2,573	52	158,724	34	28	-	62	0.04
0.15 to < 0.25%	10,402	1,369	44	11,815	7	13	-	20	0.17
0.25 to < 0.50%	7,334	1,298	29	8,661	9	19	-	28	0.31
0.50 to < 0.75%	2,326	636	22	2,984	3	10	-	13	0.44
0.75 to < 2.50%	2,442	1,085	60	3,587	10	19	-	29	0.82
2.50 to < 10.00%	143	823	70	1,036	3	16	-	19	1.81
10.00 to < 100%	1	2,875	324	3,200	-	71	8	79	2.48
100% (default)	-	-	948	948	-	-	67	67	7.07
Total	178,747	10,659	1,549	190,955	66	176	75	317	0.17

Note:
i. Includes POCI loans of £135 million (2021: £148 million).

At 4 April 2022, 97% (2021: 97%) of the portfolio had a PD of less than 2.5%, reflecting the high quality of the residential mortgage portfolios. The increase in balance in the higher PD bands is due to the PD being uplifted to reverse the temporary improvements in borrower credit quality observed since the start of the pandemic and also to reflect an increase in affordability risk as a result of inflationary pressures.

Credit risk – Residential mortgages (continued)

Distribution of new business by borrower type (by value)

Distribution of new business by borrower type (by value) (note i)	2022	2021
	%	%
Prime:		
First time buyers	**29**	27
Home movers	**30**	28
Remortgages	**20**	19
Other	**1**	1
Total prime	**80**	75
Buy to let:		
Buy to let new purchases	**8**	9
Buy to let remortgages	**12**	16
Total buy to let	**20**	25
Total new business	**100**	100

Note:
i. All new business measures exclude further advances and product switches.

The proportion of new lending by buyer type has returned to pre-pandemic distributions with notable year-on-year increases in the proportion of house purchase lending, driven by a strong housing market, external demand through the stamp duty holiday and the reintroduction of lending up to 95% LTV following an improvement in the economic outlook. The combination of these factors has driven the proportion of lending to first time buyers up to 29% (2021: 27%) and home movers up to 30% (2021: 28%). In absolute terms house purchase lending also increased on buy to let but reduced as a proportion of all new business due to the increase in prime lending.

Credit risk – Residential mortgages (continued)

LTV and credit risk concentration

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

LTV distribution of new business (by value) (note i)		
	2022	2021
	%	%
0% to 60%	**27**	26
60% to 75%	**35**	36
75% to 80%	**11**	7
80% to 85%	**14**	17
85% to 90%	**11**	12
90% to 95%	**2**	2
Over 95%	**-**	-
Total	**100**	100

Average LTV of new business (by value) (note i)		
	2022	2021
	%	%
Prime	**71**	71
Buy to let	**67**	67
Group	**70**	70

Average LTV of loan stock (by value) (note ii)		
	2022	2021
	%	%
Prime	**51**	55
Buy to let and legacy	**54**	57
Group	**52**	56

Notes:

i. The LTV of new business excludes further advances and product switches.

ii. The average LTV of loan stock includes both amortised cost and FVTPL balances. There have been no new FVTPL advances during the year.

Despite increased lending to first time buyers, the proportion of new lending at 75% LTV and above has remained stable at 38% (2021: 38%), as has the average LTV for new lending at 70% (2021: 70%)

Higher than average demand in the housing market has driven up house prices, with the Nationwide House Price Index showing a 14.3% increase year on year. This has caused the Group average LTV to reduce to 52% (2021: 56%).

Credit risk – Residential mortgages (continued)

Residential mortgage balances by LTV and region

Geographical concentration by stage

The following table shows residential mortgages, excluding FVTPL balances, by LTV and region across stages 1 and 2 (non credit-impaired) and stage 3 (credit-impaired). The LTV is calculated using the latest indexed valuation based on the Nationwide House Price Index.

Residential mortgage gross balances by LTV and region 2022	Greater London £m	Central England £m	Northern England £m	South East England £m	South West England £m	Scotland £m	Wales £m	Northern Ireland £m	Total £m	Provision coverage %
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	28,062	15,543	12,035	10,334	8,257	4,483	2,682	1,136	82,532	0.02
50% to 60%	12,499	7,740	6,631	4,887	4,074	2,417	1,430	449	40,127	0.06
60% to 70%	12,739	7,959	7,272	5,246	4,230	2,756	1,373	518	42,093	0.08
70% to 80%	10,195	4,627	3,841	2,972	2,167	1,546	634	379	26,361	0.11
80% to 90%	1,534	952	1,029	546	419	339	200	163	5,182	0.20
90% to 100%	44	54	67	25	24	52	18	43	327	1.39
	65,073	36,875	30,875	24,010	19,171	11,593	6,337	2,688	196,622	0.06
Not fully collateralised										
Over 100% LTV	5	3	9	1	3	13	-	41	75	9.27
Collateral value	4	2	8	1	2	12	-	38	67	
Negative equity	1	1	1	-	1	1	-	3	8	
Total stage 1 and 2 loans	65,078	36,878	30,884	24,011	19,174	11,606	6,337	2,729	196,697	0.06
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	286	118	95	81	54	27	22	12	695	1.32
50% to 60%	88	54	55	32	28	19	11	4	291	2.89
60% to 70%	49	42	53	23	20	16	8	6	217	5.10
70% to 80%	38	15	27	10	6	9	2	4	111	9.80
80% to 90%	3	1	10	1	1	4	-	4	24	26.61
90% to 100%	-	-	2	-	-	2	-	3	7	50.19
	464	230	242	147	109	77	43	33	1,345	3.71
Not fully collateralised										
Over 100% LTV	1	-	3	1	-	1	-	8	14	84.71
Collateral value	1	-	2	1	-	1	-	7	12	
Negative equity	-	-	1	-	-	-	-	1	2	
Total stage 3 and POCI loans	465	230	245	148	109	78	43	41	1,359	4.45
Total residential mortgages	65,543	37,108	31,129	24,159	19,283	11,684	6,380	2,770	198,056	0.09
Total geographical concentrations	33%	19%	16%	12%	10%	6%	3%	1%	100%	

Credit risk – Residential mortgages (continued)

Residential mortgage gross balances by LTV and region 2021	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	Provision coverage
	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
Stage 1 and 2 loans										
Fully collateralised										
LTV ratio:										
Up to 50%	24,487	12,484	9,340	8,930	6,454	3,526	1,944	995	68,160	0.06
50% to 60%	10,968	6,432	5,630	4,137	3,263	2,103	1,245	391	34,169	0.10
60% to 70%	11,326	7,119	6,351	4,653	3,653	2,427	1,311	446	37,286	0.13
70% to 80%	9,537	6,147	5,826	4,262	3,276	2,354	1,109	469	32,980	0.18
80% to 90%	6,129	2,828	1,914	2,132	1,741	974	359	237	16,314	0.20
90% to 100%	118	53	50	14	33	32	3	49	352	2.82
	62,565	35,063	29,111	24,128	18,420	11,416	5,971	2,587	189,261	0.12
Not fully collateralised										
Over 100% LTV	8	4	28	1	2	18	1	83	145	15.07
Collateral value	7	3	25	1	2	16	1	73	128	
Negative equity	1	1	3	-	-	2	-	10	17	
Total stage 1 and 2 loans	62,573	35,067	29,139	24,129	18,422	11,434	5,972	2,670	189,406	0.13
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	264	100	86	77	44	24	16	13	624	1.72
50% to 60%	110	60	51	31	31	16	9	5	313	2.90
60% to 70%	67	61	58	28	30	17	12	6	279	4.60
70% to 80%	36	37	51	22	14	15	9	6	190	8.15
80% to 90%	32	11	25	10	7	8	3	5	101	12.49
90% to 100%	2	1	10	-	-	2	-	3	18	26.42
	511	270	281	168	126	82	49	38	1,525	4.31
Not fully collateralised										
Over 100% LTV	1	1	5	1	-	2	-	14	24	41.07
Collateral value	1	1	4	1	-	2	-	12	21	
Negative equity	-	-	1	-	-	-	-	2	3	
Total stage 3 and POCI loans	512	271	286	169	126	84	49	52	1,549	4.80
Total residential mortgages	63,085	35,338	29,425	24,298	18,548	11,518	6,021	2,722	190,955	0.17
Total geographical concentrations	33%	19%	15%	13%	10%	6%	3%	1%	100%	

Credit risk – Residential mortgages (continued)

Over the year, the geographical distribution of residential mortgages across the UK has remained stable. The highest concentration for both prime and buy to let portfolios is in Greater London, with proportions of 30% and 46% (2021: 30% and 46%) respectively.

In addition to balances held at amortised cost shown in the table above, there are £64 million (2021: £68 million) of residential mortgages held at FVTPL which have an average LTV of 33% (2021: 38%). The largest geographical concentration within the FVTPL balances is also in Greater London, at 57% (2021: 54%) of total FVTPL balances.

Arrears and possessions

Residential mortgage lending continues to have a low risk profile as demonstrated by the low level of arrears compared to the industry average.

Number of cases more than 3 months in arrears as % of total book (note i)		
	2022	2021
	%	%
Prime	**0.30**	0.35
Buy to let and legacy	**0.50**	0.72
Total	**0.34**	0.43
UK Finance (UKF) industry average (note ii)	**0.83**	0.92

Notes:

i. The methodology for calculating mortgage arrears is based on the UKF definition of arrears, where months in arrears is determined by dividing the arrears balance outstanding by the latest monthly contractual payment.

ii. The data shown for 2022 is as at December 2021. During the year, UKF restated the 2021 industry average arrears rate as a result of improved data reporting. The previously reported 2021 rate was 0.85%.

Number of properties in possession as % of total book				
	2022		2021	
	Number of properties	**%**	Number of properties	%
Prime	**53**	**0.00**	33	0.00
Buy to let and legacy	**106**	**0.03**	51	0.01
Total	**159**	**0.01**	84	0.00
UKF industry average		**0.01**		0.01

The end of payment deferrals (July 2021) and the furlough scheme (September 2021) did not result in the anticipated increase in mortgage arrears. Unemployment has remained stable and the proportion of cases more than 3 months in arrears has decreased during the year to 0.34% (2021: 0.43%). Arrears levels are expected to increase as a result of the rising cost of living but to remain low relative to the industry average.

Credit risk – Residential mortgages (continued)

Residential mortgages by payment status

The following table shows the payment status of all residential mortgages.

Residential mortgages gross balances by payment status	2022				2021			
	Prime	**Buy to let and legacy**	**Total**		Prime	Buy to let and legacy	Total	
	£m	**£m**	**£m**	**%**	£m	£m	£m	%
Not past due	**152,932**	**43,000**	**195,932**	**98.9**	148,285	40,460	188,745	98.8
Past due 0 to 1 month	**920**	**305**	**1,225**	**0.6**	842	278	1,120	0.6
Past due 1 to 3 months	**240**	**127**	**367**	**0.2**	259	159	418	0.2
Past due 3 to 6 months	**122**	**78**	**200**	**0.1**	149	121	270	0.2
Past due 6 to 12 months	**99**	**74**	**173**	**0.1**	113	108	221	0.1
Past due over 12 months	**109**	**95**	**204**	**0.1**	123	113	236	0.1
Possessions	**5**	**14**	**19**	**-**	3	10	13	-
Total residential mortgages	**154,427**	**43,693**	**198,120**	**100**	149,774	41,249	191,023	100

The balance of cases past due by more than 3 months has reduced to £596 million (2021: £740 million). There was a relatively small increase in possessions to £19 million (2021: £13 million) as activity which was put on hold early in the pandemic has since recommenced.

As at 4 April 2022, the mortgage portfolios include 1,924 (2021: 2,150) mortgage accounts, including those in possession, where payments were more than 12 months in arrears. The total principal outstanding in these cases was £215 million (2021: £245 million), and the total value of arrears was £30 million (2021: £29 million).

Interest only mortgages

As at 4 April 2022 interest only balances of £7,824 million (2021: £8,747 million) account for 5.1% (2021: 5.8%) of prime residential mortgages. Nationwide re-entered the prime market for interest only lending under a newly established credit policy in April 2020; however the majority of the current population relates to historical balances which were originally advanced as interest only mortgages or where a subsequent change in terms to an interest only basis was agreed. Maturities on interest only mortgages are managed closely, engaging regularly with borrowers to ensure the loan is redeemed or to agree a strategy for repayment.

Of the buy to let and legacy portfolio, £39,591 million (2021: £37,107 million) relates to interest only balances, representing 91% (2021: 90%) of balances. Buy to let remains open to new interest only lending under standard terms.

There is a risk that a proportion of interest only mortgages will not be redeemed at their contractual maturity date, because a borrower does not have a means of capital repayment or has been unable to refinance the loan. Interest only loans which are judged to have a significantly increased risk of inability to refinance at maturity are transferred to stage 2. The ability of a borrower to refinance is calculated using current lending criteria which considers LTV and affordability assessments. The impact of recognising the risk of inability to refinance or repay at maturity is to increase provisions by £46 million (2021: £69 million).

Credit risk – Residential mortgages (continued)

Interest only mortgages (gross balance) – term to maturity (note i)	Term expired (still open)	Due within one year	Due after one year and before two years	Due after two years and before five years	Due after more than five years	Total	% of book
2022	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Prime	**81**	**263**	**307**	**1,167**	**6,006**	**7,824**	**5.1**
Buy to let and legacy	**201**	**256**	**276**	**1,607**	**37,251**	**39,591**	**90.6**
Total	**282**	**519**	**583**	**2,774**	**43,257**	**47,415**	**23.9**
2021	£m	£m	£m	£m	£m	£m	%
Prime	74	303	357	1,256	6,757	8,747	5.8
Buy to let and legacy	175	271	338	1,360	34,963	37,107	90.0
Total	249	574	695	2,616	41,720	45,854	24.0

Note:
i. Balances subject to forbearance with agreed term extensions are presented based on the latest agreed contractual term.

Interest only loans that are term expired (still open) are not considered to be past due where contractual interest payments continue to be met, pending renegotiation of the facility. These loans are, however, treated as credit impaired and categorised as stage 3 balances from three months after the maturity date.

Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance.

The Group applies the European Banking Authority (EBA) definition of forbearance.

The following concession events are included within the forbearance reporting for residential mortgages:

Past term interest only concessions

Nationwide works with borrowers who are unable to repay the capital at term expiry of their interest only mortgage. Where a borrower is unable to renegotiate the facility within six months of maturity, but no legal enforcement is pursued, the account is considered forborne. Should another concession event such as a term extension occur within the six month period, this is also classed as forbearance.

Interest only concessions

Where a temporary interest only concession is granted the loans do not accrue arrears for the period of the concession and these loans are categorised as impaired.

Capitalisation

When a borrower emerges from financial difficulty, provided they have made at least six full monthly instalments, they are offered the option to capitalise arrears. This results in the account being repaired and the loans are categorised as not impaired provided contractual repayments are maintained.

Credit risk – Residential mortgages (continued)

Capitalisation – temporary suspension of payments following notification of death of a borrower

On notification of death, we offer a 12 month capitalisation concession to allow time for the estate to redeem the account. The loan does not accrue arrears for the period of the concession although interest will continue to be added. Accounts subject to this concession will be classed as forborne if the full contractual payment is not received.

Term extensions (within term)

Customers in financial difficulty may be allowed to extend the term of their mortgage. On a capital repayment mortgage this will reduce their monthly commitment; interest only borrowers will benefit by having a longer period to repay the capital at maturity.

Permanent interest only conversions

In the past, some borrowers in financial difficulty were granted a permanent interest only conversion, normally reducing their monthly commitment. This facility was withdrawn in March 2012; it remains available for buy to let lending in line with Nationwide's new business credit policy.

The table below provides details of residential mortgages held at amortised cost subject to forbearance. Accounts that are granted forbearance are transferred to either stage 2 or stage 3. Accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months.

Gross balances subject to forbearance (note i)	**2022**			2021		
	Prime	**Buy to let and legacy**	**Total**	Prime	Buy to let and legacy	Total
	£m	**£m**	**£m**	£m	£m	£m
Past term interest only (note ii)	**113**	**141**	**254**	126	123	249
Interest only concessions	**639**	**32**	**671**	725	41	766
Capitalisation	**88**	**30**	**118**	71	37	108
Capitalisation – notification of death of borrower	**81**	**93**	**174**	103	91	194
Term extensions (within term)	**32**	**16**	**48**	35	15	50
Permanent interest only conversions	**2**	**32**	**34**	2	41	43
Total forbearance	**955**	**344**	**1,299**	1,062	348	1,410
Of which stage 2	**204**	**73**	**277**	200	66	266
Of which stage 3	**565**	**240**	**805**	635	258	893
Impairment provisions on forborne loans	**12**	**18**	**30**	19	18	37

Notes:

i. Where more than one concession event has occurred, balances are reported under the latest event.

ii. Includes interest only mortgages where a customer is unable to renegotiate the facility within six months of maturity and no legal enforcement is pursued. Should a concession event such as a term extension occur within the six-month period, this will also be classed as forbearance.

During the year, balances subject to forbearance have decreased to £1,299 million (2021: £1,410 million), which equates to 0.7% (2021: 0.7%) of the total residential mortgage exposure. The average LTV for forborne accounts is 46% (2021: 50%). In addition to the amortised cost balances above, there are £64 million FVTPL balances (2021: £68 million), of which £4 million (2021: £8 million) are forborne.

Credit risk – Consumer banking

Summary

The consumer banking portfolio comprises balances on unsecured retail banking products: overdrawn current accounts, personal loans and credit cards. During the year, total balances across these portfolios have increased by 5% to £4,638 million (2021: £4,404 million) as consumer confidence improved following the easing of national lockdown restrictions, resulting in increased demand for personal loans and spending on credit cards and current accounts.

To date arrears remain low and credit quality is stable; this credit performance has benefited from the impact of government support schemes and payment deferrals, and reduced discretionary spending earlier in the pandemic. However, rising inflation, interest rates and national insurance contributions will place a greater strain on future household finances and increase the risk of default. An additional £98 million provision has been recognised to reflect this.

Consumer banking gross balances				
	2022		2021	
	£m	**%**	£m	%
Overdrawn current accounts	**286**	**6**	233	5
Personal loans	**2,864**	**62**	2,797	64
Credit cards	**1,488**	**32**	1,374	31
Total consumer banking	**4,638**	**100**	4,404	100

All consumer banking loans are classified and measured at amortised cost.

Impairment charge and write-offs for the year		
	2022	2021
	£m	£m
Overdrawn current accounts	**23**	19
Personal loans	**4**	76
Credit cards	**66**	30
Total impairment charge	**93**	125
	%	%
Impairment charge as a % of average gross balance	**2.04**	2.68
	£m	£m
Gross write-offs	**83**	124

The reduced impairment charge for the year is the result of a reduction in the number of accounts flowing into default. The prior year impairment charge included an increase in provisions during a period of significant economic uncertainty.

Credit risk – Consumer banking (continued)

The following table shows consumer banking balances by stage, with the corresponding impairment provisions and resulting provision coverage ratios.

Consumer banking product and staging analysis	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross balances								
Overdrawn current accounts	**121**	**131**	**34**	**286**	121	78	34	233
Personal loans	**1,735**	**989**	**140**	**2,864**	2,144	521	132	2,797
Credit cards	**790**	**600**	**98**	**1,488**	876	391	107	1,374
Total	**2,646**	**1,720**	**272**	**4,638**	3,141	990	273	4,404
Provisions								
Overdrawn current accounts	**4**	**36**	**31**	**71**	5	23	32	60
Personal loans	**11**	**60**	**124**	**195**	25	77	118	220
Credit cards	**10**	**165**	**88**	**263**	18	108	96	222
Total	**25**	**261**	**243**	**529**	48	208	246	502
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Overdrawn current accounts	**3.34**	**27.33**	**90.86**	**24.63**	3.89	29.38	93.36	25.64
Personal loans	**0.62**	**6.09**	**88.50**	**6.80**	1.18	14.81	89.06	7.87
Credit cards	**1.33**	**27.51**	**89.78**	**17.69**	2.00	27.68	89.99	16.13
Total	**0.95**	**15.18**	**89.25**	**11.40**	1.51	21.04	89.97	11.39

During the year, provisions have increased to £529 million (2021: £502 million). This includes provisions totalling £98 million reflecting the higher risk of non-repayment in a high inflation environment. This has been offset by an improved outlook for the labour market since 4 April 2021, and the removal of the provision previously held in relation to accounts that had payment deferrals (2021: £38 million).

Credit performance continues to be strong, although it is acknowledged that this has benefited from government support and reduced discretionary spend following the outbreak of the pandemic. An uplift to PD has therefore been applied to reverse the temporary improvement in reported performance. An additional PD uplift has also been applied to reflect the inflationary pressures that borrowers are likely to face in the near future. The combined impact of these uplifts has resulted in £700 million of balances moving to stage 2, increasing the proportion of balances in stage 2 to 37% (2021: 22%).

The provision adjustments applied in 2021 for Covid-19 related risks, including those associated with payment deferrals, had a limited impact on stage 2 balances. Therefore, the movement of additional balances to stage 2 during the year has resulted in a reduction in the stage 2 provisions as a percentage of gross balances to 15% (2021: 21%).

The proportion of total balances in stage 3 is unchanged at 6% (2021: 6%), reflecting broadly stable underlying credit performance. Consumer banking stage 3 gross balances and provisions include charged off balances. These are accounts which are closed to future transactions and are held on the balance sheet for an extended period (up to 36 months) whilst recovery activities take place. Excluding these charged off balances and related provisions, provisions amount to 7.6% (2021: 7.2%) of gross balances.

Credit risk – Consumer banking (continued)

The table below summarises the movements in the Group's consumer banking balances held at amortised cost. The movements within the table are an aggregation of monthly movements over the year.

Reconciliation of movements in gross consumer banking balances and impairment provisions								
	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2021	3,141	48	990	208	273	246	4,404	502
Stage transfers:								
Transfers from stage 1 to stage 2	**(2,175)**	**(35)**	**2,175**	**35**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(15)**	**(2)**	**(124)**	**(86)**	**139**	**88**	**-**	**-**
Transfers from stage 2 to stage 1	**1,288**	**158**	**(1,288)**	**(158)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**7**	**3**	**26**	**13**	**(33)**	**(16)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(144)**		**231**		**-**		**87**
Net movement arising from transfer of stage	**(895)**	**(20)**	**789**	**35**	**106**	**72**	**-**	**87**
New assets originated or purchased	**1,782**	**41**	**-**	**-**	**-**	**-**	**1,782**	**41**
Net impact of further lending and repayments	**(805)**	**(29)**	**12**	**(28)**	**(22)**	**(19)**	**(815)**	**(76)**
Changes in risk parameters in relation to credit quality	**-**	**(15)**	**-**	**51**	**-**	**28**	**-**	**64**
Other items impacting income statement (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(17)**	**-**	**(17)**
Redemptions	**(577)**	**-**	**(71)**	**(5)**	**(2)**	**(1)**	**(650)**	**(6)**
Income statement charge for the year								**93**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(83)**	**(83)**	**(83)**	**(83)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**17**	**-**	**17**
4 April 2022	**2,646**	**25**	**1,720**	**261**	**272**	**243**	**4,638**	**529**
Net carrying amount		**2,621**		**1,459**		**29**		**4,109**

Further information on movements in total gross loans and advances to customers and impairment provisions, including the methodology applied in preparing the table, is included in note 8 to the consolidated financial statements.

Credit risk – Consumer banking (continued)

Reason for consumer banking balances being included in stage 2

2022	Overdrawn current accounts			Personal loans			Credit cards			Total		
	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance
	£m	£m	%	£m	£m	%	£m	£m	%	£m	£m	%
Quantitative criteria:												
Payment status (greater than 30 DPD) (note i)	**3**	**2**	**78**	**7**	**5**	**69**	**4**	**4**	**84**	**14**	**11**	**76**
Increase in PD since origination (less than 30 DPD)	**120**	**33**	**27**	**978**	**55**	**6**	**582**	**159**	**27**	**1,680**	**247**	**15**
Qualitative criteria:												
Forbearance (less than 30 DPD) (note ii)	**-**	**-**	**19**	**1**	**-**	**11**	**-**	**-**	**27**	**1**	**-**	**15**
Other qualitative criteria (less than 30 DPD)	**8**	**1**	**11**	**3**	**-**	**3**	**14**	**2**	**17**	**25**	**3**	**13**
Total stage 2 gross balances	**131**	**36**	**27**	**989**	**60**	**6**	**600**	**165**	**28**	**1,720**	**261**	**15**

Reason for consumer banking balances being included in stage 2

2021	Overdrawn current accounts			Personal loans			Credit cards			Total		
	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance	Gross balances	Provisions	Provisions as a % of balance
	£m	£m	%	£m	£m	%	£m	£m	%	£m	£m	%
Quantitative criteria:												
Payment status (greater than 30 DPD) (note i)	3	2	63	6	5	77	4	3	71	13	10	72
Increase in PD since origination (less than 30 DPD)	66	20	20	510	72	12	364	101	22	940	193	16
Qualitative criteria:												
Forbearance (less than 30 DPD) (note ii)	1	-	18	-	-	9	-	-	20	1	-	17
Other qualitative criteria (less than 30 DPD)	8	1	9	5	-	5	23	4	17	36	5	13
Total stage 2 gross balances	78	23	29	521	77	15	391	108	28	990	208	21

Notes:

i. This category includes all loans greater than 30 DPD, including those whose original reason for being classified as stage 2 was not arrears over 30 DPD.

ii. Stage 2 forbearance relates to cases where full repayment of principal and interest is still anticipated.

Balances reported within stage 2 are those which have experienced a significant increase in credit risk since origination. The significant increase is determined through both quantitative and qualitative indicators. Of the £1,720 million stage 2 balances (2021: £990 million), only 1% (2021: 1%) are in arrears by 30 days or more, with the majority of balances in stage 2 due to an increase in PD since origination. This category includes £700 million of loans where the modelled PD has been uplifted to reverse the improvements in observed performance since the start of the pandemic and also to reflect an increase in affordability risk as a result of inflationary pressures. In both instances the uplift has resulted in these loans breaching our existing quantitative PD thresholds.

Credit risk – Consumer banking (continued)

The table below outlines the main criteria used to determine whether a significant increase in credit risk since origination has occurred.

Criteria	Detail
Quantitative	The primary quantitative indicators are the outputs of internal credit risk assessments. For consumer banking exposures, PDs are derived using models, which use external information such as that from credit reference agencies, as well as internal information such as known instances of arrears or other financial difficulty. Current and historical data relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default. 12-month and lifetime PDs are calculated for each loan. The 12-month and lifetime PDs are compared to pre-determined benchmarks at each reporting date to ascertain whether a relative or absolute increase in credit risk has occurred. The indicators for a significant increase in credit risk are: • Absolute measures: - The 12-month PD exceeds the benchmark 12-month PD that is indicative, at the assessment date, of an account being in arrears. - The residual lifetime PD exceeds the benchmark residual lifetime PD, set at inception, which represents the maximum credit risk that would have been accepted at that point. • Relative measure: - The residual lifetime PD has increased by at least 75 basis points and has at least doubled.
Qualitative	Qualitative criteria include both forbearance events and, within the credit card portfolio, recognition of the risk related to borrowers in persistent debt.
Backstop	In addition to the primary criteria for stage allocation described above, accounts that are more than 30 days past due are also transferred to stage 2.

Credit risk – Consumer banking (continued)

Credit quality

Nationwide adopts robust credit management policies and processes designed to recognise and manage the risks arising from the portfolio.

The following table shows gross balances and provisions for consumer banking balances held at amortised cost, by PD range. The PD distributions shown are based on 12-month IFRS 9 PDs at the reporting date.

Consumer banking gross balances and provisions by PD									
2022	**Gross balances**				**Provisions**				**Provision coverage**
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
PD range	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
0.00 to <0.15%	**747**	**7**	**-**	**754**	**2**	**-**	**-**	**2**	**0.25**
0.15 to < 0.25%	**386**	**36**	**-**	**422**	**1**	**1**	**-**	**2**	**0.44**
0.25 to < 0.50%	**546**	**136**	**-**	**682**	**2**	**3**	**-**	**5**	**0.75**
0.50 to < 0.75%	**255**	**164**	**-**	**419**	**2**	**4**	**-**	**6**	**1.33**
0.75 to < 2.50%	**450**	**507**	**1**	**958**	**6**	**24**	**-**	**30**	**3.19**
2.50 to < 10.00%	**238**	**537**	**2**	**777**	**9**	**80**	**-**	**89**	**11.50**
10.00 to < 100%	**24**	**333**	**6**	**363**	**3**	**149**	**2**	**154**	**42.66**
100% (default)	**-**	**-**	**263**	**263**	**-**	**-**	**241**	**241**	**91.29**
Total	**2,646**	**1,720**	**272**	**4,638**	**25**	**261**	**243**	**529**	**11.40**

Consumer banking gross balances and provisions by PD									
2021	Gross balances				Provisions				Provision coverage
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
PD range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to <0.15%	913	3	-	916	9	-	-	9	1.01
0.15 to < 0.25%	361	21	-	382	4	1	-	5	1.30
0.25 to < 0.50%	614	79	-	693	6	6	-	12	1.73
0.50 to < 0.75%	303	84	-	387	4	6	-	10	2.66
0.75 to < 2.50%	682	297	1	980	13	31	-	44	4.53
2.50 to < 10.00%	261	302	3	566	11	54	-	65	11.54
10.00 to < 100%	7	204	12	223	1	110	5	116	51.57
100% (default)	-	-	257	257	-	-	241	241	93.57
Total	3,141	990	273	4,404	48	208	246	502	11.39

The credit quality of the consumer banking portfolio has remained strong. 87% (2021: 89%) of the portfolio has a PD of less than 10%. This reduction reflects uplifts to PD to reverse the temporary improvements in borrower credit quality observed since the start of the pandemic and to recognise an increase in affordability risk due to inflationary pressures.

Credit risk – Consumer banking (continued)

Consumer banking balances by payment due status

Credit risk in the consumer banking portfolios is primarily monitored and reported based on arrears status which is set out below.

Consumer banking gross balances by payment due status	2022					2021				
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**		Overdrawn current accounts	Personal loans	Credit cards	Total	
	£m	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
Not past due	**240**	**2,681**	**1,377**	**4,298**	**92.7**	189	2,616	1,259	4,064	92.3
Past due 0 to 1 month	**11**	**35**	**14**	**60**	**1.3**	9	34	11	54	1.2
Past due 1 to 3 months	**4**	**11**	**8**	**23**	**0.5**	3	10	8	21	0.5
Past due 3 to 6 months	**4**	**16**	**6**	**26**	**0.6**	3	16	7	26	0.6
Past due 6 to 12 months	**3**	**8**	**1**	**12**	**0.2**	2	11	2	15	0.3
Past due over 12 months	**3**	**9**	**-**	**12**	**0.2**	3	12	-	15	0.3
Charged off (note i)	**21**	**104**	**82**	**207**	**4.5**	24	98	87	209	4.8
Total	**286**	**2,864**	**1,488**	**4,638**	**100.0**	233	2,797	1,374	4,404	100

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

Total balances subject to arrears, excluding charged off balances, have remained stable at £133 million (2021: £131 million), representing 3.0% (2021: 3.1%) of the total balance excluding charged off balances. The arrears performance has benefited from Covid-19 government support schemes and payment deferrals, as well as reduced spending on current accounts and credit cards early in the pandemic.

Forbearance

Nationwide is committed to supporting customers facing financial difficulty, including those impacted by Covid-19, by working with them to find a solution through proactive arrears management and forbearance.

The Group applies the European Banking Authority definition of forbearance.

The following concession events are included within the forbearance reporting for consumer banking:

Payment concession

This concession consists of reduced monthly payments over an agreed period and may be offered to customers with an overdraft or credit card. For credit cards subject to such a concession, arrears do not increase provided the payments are made.

Credit risk – Consumer banking (continued)

Interest suppressed payment arrangement

This temporary interest payment concession results in reduced monthly payments and may be offered to customers with an overdraft, credit card or personal loan. Interest payments and fees are suppressed during the period of the concession and arrears do not increase. Cases subject to this concession are classified as impaired.

Balances re-aged/re-written

As customers repay their debt in line with the terms of their new arrangement, their accounts are re-aged, bringing them into an up to date and performing position. For personal loans we will re-write the loan to extend the term and thus maintain a reduced monthly payment. For credit cards we re-age the account and set the payment status to 'up to date', at which point the customer is treated in the same way as any other performing account.

The table below provides details of consumer banking balances subject to forbearance. Accounts that are currently subject to a concession are all assessed as either stage 2, or stage 3 (credit-impaired) where full repayment of principal and interest is no longer anticipated.

Gross balances subject to forbearance (note i)								
	2022				2021			
	Overdrawn current accounts	**Personal loans**	**Credit cards**	**Total**	Overdrawn current accounts	Personal loans	Credit cards	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Payment concession	**4**	**-**	**1**	**5**	7	-	1	8
Interest suppressed payment concession	**4**	**36**	**11**	**51**	6	42	13	61
Balance re-aged/re-written	**-**	**2**	**2**	**4**	-	1	2	3
Total forbearance (note ii)	**8**	**38**	**14**	**60**	13	43	16	72
Of which stage 2	**3**	**6**	**4**	**13**	5	2	4	11
Of which stage 3	**5**	**30**	**10**	**45**	7	41	12	60
Impairment provisions on forborne loans	**6**	**28**	**9**	**43**	8	31	11	50

Notes:
i. Where more than one concession event has occurred, balances are reported under the latest event.
ii. For loans subject to concession events, accounts are transferred back to stage 1 or 2 only after being up to date and meeting contractual obligations for a period of 12 months.

Over the year, total balances subject to forbearance have reduced to £60 million (2021: £72 million), with forborne balances as a percentage of the total consumer lending improving to 1.3% (2021: 1.6%).

Credit risk – Commercial

Summary

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, commercial real estate investors and project finance initiatives. Total balances have continued to reduce, reflecting the closed book and managed run-off strategy for commercial real estate and project finance and continued loan amortisation and repayments exceeding new lending to residential social landlords. The credit quality of the portfolio has remained stable.

Commercial gross balances		
	2022	2021
	£m	£m
Registered social landlords (note i)	**4,329**	4,828
Commercial real estate (CRE)	**513**	769
Project finance (note ii)	**611**	670
Commercial balances at amortised cost	**5,453**	6,267
Fair value adjustment for micro hedged risk (note iii)	**549**	653
Commercial balances – FVTPL	**52**	52
Total	**6,054**	6,972

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

Impairment charge/(release) and write-offs for the year		
	2022	2021
	£m	£m
Total impairment charge/(release)	**8**	(6)
Gross write-offs	**12**	3

The increase in impairment charge is driven by a reduction to the property values for a small number of individually assessed exposures.

Credit risk – Commercial (continued)

The following table shows commercial balances carried at amortised cost on the balance sheet, the stage allocation of the exposures, impairment provisions and resulting provision coverage ratios.

Commercial product and staging analysis	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Gross balances								
Registered social landlords	**4,292**	**37**	**-**	**4,329**	4,782	46	-	4,828
CRE	**393**	**65**	**55**	**513**	574	120	75	769
Project finance	**552**	**54**	**5**	**611**	595	53	22	670
Total	**5,237**	**156**	**60**	**5,453**	5,951	219	97	6,267
Provisions								
Registered social landlords	**1**	**-**	**-**	**1**	1	-	-	1
CRE	**-**	**1**	**13**	**14**	1	2	23	26
Project finance	**-**	**13**	**2**	**15**	-	2	4	6
Total	**1**	**14**	**15**	**30**	2	4	27	33
Provisions as a % of total balance	%	%	%	%	%	%	%	%
Registered social landlords	**0.01**	**0.16**	**-**	**0.01**	0.01	0.13	-	0.01
CRE	**0.15**	**1.22**	**23.41**	**2.80**	0.19	1.89	29.81	3.34
Project finance	**0.02**	**23.40**	**46.69**	**2.46**	0.02	2.97	21.86	0.97
Total	**0.02**	**8.62**	**25.35**	**0.55**	0.03	1.78	28.01	0.52

Over the year, the performance of the commercial portfolio has remained stable, with 96% (2021: 95%) of balances remaining in stage 1. Of the £156 million (2021: £219 million) stage 2 loans, which represent 2.9% (2021: 3.5%) of total balances, £7 million (2021: £6 million) were in arrears by 30 days or more.

Repayment of loans and exit of defaulted exposures has resulted in the reduction in stage 2 and 3 CRE loan balances, and the decrease in CRE stage 3 provisions to £13 million (2021: £23 million).

Loans in the project finance portfolio benefit from long-term cash flows, which typically emanate from the provision of assets such as schools, hospitals, police stations, government buildings and roads, procured under the Private Finance Initiative. The increase in stage 2 provisions relates to a specific distressed project. Payments received during the year reduced the stage 3 balances and provisions on a project that is in default.

Credit risk – Commercial (continued)

Credit quality

Nationwide applies robust credit management policies and processes to identify and manage the risks arising from the portfolio.

The following table shows the CRE portfolio by risk grade and the provision coverage for each category. The table includes balances held at amortised cost only.

CRE gross balances by risk grade and provision coverage

	2022					2021				
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Provision coverage**	Stage 1	Stage 2	Stage 3	Total	Provision coverage
	£m	**£m**	**£m**	**£m**	**%**	£m	£m	£m	£m	%
Strong	**258**	**5**	**-**	**263**	**0.0**	343	4	-	347	0.1
Good	**107**	**18**	**-**	**125**	**0.2**	192	37	-	229	0.2
Satisfactory	**26**	**16**	**-**	**42**	**0.8**	39	24	-	63	1.4
Weak	**2**	**26**	**1**	**29**	**2.6**	-	55	-	55	3.1
Impaired	**-**	**-**	**54**	**54**	**23.7**	-	-	75	75	31.1
Total	**393**	**65**	**55**	**513**	**2.8**	574	120	75	769	3.3

The risk grades in the table above are based upon the IRB supervisory slotting approach for specialised lending exposures. Exposures are classified into categories depending on the underlying credit risk, with the assessment based upon financial strength, property characteristics, strength of sponsor and any other forms of security. The credit quality of the CRE portfolio has remained stable with 84% (2021: 83%) of the portfolio balances rated as strong, good, or satisfactory.

Risk grades for the project finance portfolio use the same slotting approach for specialised lending, with 90% (2021: 90%) of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model with the major drivers being financial strength, evaluations of the borrower's oversight and management, and their type and size. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults in the portfolio, the credit quality remains high, with an average 12-month PD of 0.03% (2021: 0.04%) across the portfolio.

In addition to the above, £52 million (2021: £52 million) of commercial lending balances are classified as FVTPL, comprising CRE balances of £50 million (2021: £49 million) and registered social landlord balances of £2 million (2021: £3 million).

Credit risk – Commercial (continued)

CRE balances by LTV

The following table includes both amortised cost and FVTPL CRE balances.

CRE lending gross balances by LTV	2022 £m	2021 £m
Fully collateralised		
LTV ratio (note i):		
Less than 25%	**83**	101
25% to 50%	**258**	368
51% to 75%	**173**	245
76% to 90%	**14**	35
91% to 100%	**28**	31
	556	780
Not fully collateralised:		
Over 100% LTV	**7**	38
Collateral value	***5***	*25*
Negative equity	***2***	*13*
Total CRE loans	**563**	818

Note:

i. The approach to revaluing assets charged as security is determined by the industry sector, the loan balance outstanding and the indexed value of the most recent independent external collateral valuation, with higher risk loans subject to more frequent revaluations to determine provision requirements. The LTV ratio is calculated using the on-balance sheet carrying amount of the loan divided by the indexed value. The Investment Property (IPD) monthly index is used.

The LTV distribution of CRE balances has improved, with 91% (2021: 87%) of the portfolio having an LTV of 75% or less, and 61% (2021: 57%) of the portfolio having an LTV of 50% or less.

Credit risk – Commercial (continued)

Credit risk concentration by industry sector

The following table includes balances held at amortised cost only.

CRE lending gross balances and provisions by industry sector (note i)				
	2022		2021	
	Gross balances	**Provisions**	Gross balances	Provisions
	£m	**£m**	£m	£m
Residential	**227**	**1**	331	1
Retail	**99**	**3**	166	3
Office	**95**	**9**	148	19
Leisure and hotel	**53**	**-**	66	1
Industrial and warehouse	**28**	**-**	46	-
Other	**11**	**1**	12	2
Total CRE lending	**513**	**14**	769	26

Note:
i. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector.

Credit risk exposure by industry sector as a percentage of balances is broadly unchanged from the prior year. The largest exposure is to the residential sector, which represents 44% (2021: 43%) of the total CRE balance, with a weighted average LTV of 34% (2021: 38%). The exposure to retail assets has reduced to 19% (2021: 22%), with a weighted average LTV of 51% (2021: 63%). Exposure to office assets has remained at 19% (2021: 19%), with a weighted average LTV of 59% (2021: 76%).

In addition to the amortised cost balances, there are £50 million (2021: £49 million) of FVTPL CRE commercial lending balances, of which £36 million (2021: £36 million) relates to the office sector and £14 million (2021: £13 million) relates to the retail sector.

Credit risk – Commercial (continued)

CRE balances by payment due status

Of the £563 million (2021: £818 million) CRE exposure, including FVTPL balances, £44 million (2021: £61 million) relates to balances with arrears. Of these, £24 million (2021: £32 million) have arrears greater than 3 months. These arrears balances are represented by a small number of loans that are being actively managed.

Forbearance

Nationwide is committed to supporting borrowers facing financial difficulty by working with them to find a solution through proactive arrears management and forbearance.

Forbearance is recorded and reported at borrower level and applies to all commercial lending, including impaired exposures and borrowers subject to enforcement and recovery action. The Group applies the European Banking Authority definition of forbearance.

The table below provides details of commercial loans that are currently subject to forbearance by concession event.

Gross balances subject to forbearance (note i)	2022 £m	2021 £m
Modifications:		
Payment concession	**125**	100
Extension at maturity	**37**	7
Breach of covenant	**14**	123
Security amendment	**2**	6
Refinance	**7**	8
Total	**185**	244
Total impairment provision on forborne loans	**27**	29

Note:

i. Loans where more than one concession event has occurred are reported under the latest event.

Total forbearance (excluding FVTPL) has reduced to £185 million, comprising CRE of £116 million and project finance of £69 million (2021: £244 million; CRE £155 million and project finance £89 million), driven by loan repayments over the year. The principal modification granted continues to be payment concessions (where capital or interest is suspended or postponed due to borrowers experiencing payment difficulties) driven by loans transferring from other concession types such as covenant breach.

In addition, there are £36 million (2021: £nil) of FVTPL commercial lending balances which are forborne that relate to a maturity extension for a single exposure.

Credit risk – Treasury assets

Summary

The treasury portfolio is held primarily for liquidity management and, in the case of derivatives, for market risk management. As at 4 April 2022 treasury assets represented 23.3% (2021: 19.5%) of total assets. There are no exposures to emerging markets, hedge funds or credit default swaps. Treasury does not invest in liquid assets or other securities issued by Russian or Ukrainian entities. The table below shows the classification of treasury asset balances.

Treasury asset balances

	Classification	2022 £m	2021 £m
Cash	Amortised cost	**30,221**	16,693
Loans and advances to banks and similar institutions	Amortised cost	**3,052**	3,660
Investment securities (note i)	FVOCI	**25,349**	24,218
Investment securities (note i)	FVTPL	**17**	12
Investment securities	Amortised cost	**118**	1,243
Liquidity and investment portfolio		**58,757**	45,826
Derivative instruments (note ii)	FVTPL	**4,723**	3,809
Treasury assets		**63,480**	49,635

Notes:

i. Investment securities at FVOCI include £46 million (2021: £20 million) and investment securities at FVTPL include £17 million (2021: £12 million) which relate to investments not included within the Group's liquidity portfolio. These investments primarily relate to investments made in Fintech companies which are being held for long-term strategic purposes.

ii. Derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. As at 4 April 2022, derivative liabilities were £1,428 million (2021: £1,622 million).

Investment activity remains focused on high quality liquid assets, including assets eligible for central bank operations. Cash held in the treasury portfolio has increased to £30.2 billion (2021: £16.7 billion). The £13.5 billion increase was driven by growth in member deposit and current account balances, higher levels of short-term funding, drawdown of funds from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME), and increased repurchase agreement balances to manage the composition of the liquidity portfolio. Derivatives are used to economically hedge financial risks inherent in core lending and funding activities and are not used for trading or speculative purposes.

Credit risk within the treasury portfolio arises from the instruments held and transacted by the Treasury function for operational, liquidity and investment purposes. In addition, counterparty credit risk arises from the use of derivatives to reduce exposure to market risks; these are only transacted with highly-rated organisations and are collateralised under market standard documentation.

There were no impairment losses for the year ended 4 April 2022 (2021: £nil). For financial assets held at amortised cost or at FVOCI, all exposures within the table below are classified as stage 1, reflecting the strong and stable credit quality of treasury assets.

Impairment provisions on treasury assets

	2022		2021	
	Gross balances **£m**	**Provisions** **£m**	Gross balances £m	Provisions £m
Loans and advances to banks and similar institutions	**3,052**	**-**	3,660	-
Investment securities – FVOCI	**25,349**	**-**	24,218	-
Investment securities – amortised cost	**118**	**-**	1,243	-

Credit risk – Treasury assets (continued)

Liquidity and investment portfolio

The liquidity and investment portfolio of £58,757 million (2021: £45,826 million) comprises liquid assets and other securities as set out below.

Liquidity and investment portfolio by credit rating (note i)										
2022		**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Japan**	**Other**
	£m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Liquid assets:										
Cash and reserves at central banks	**30,221**	**-**	**99**	**1**	**-**	**100**	**-**	**-**	**-**	**-**
Government bonds (note ii)	**19,579**	**30**	**55**	**15**	**-**	**33**	**23**	**22**	**13**	**9**
Supranational bonds	**1,318**	**58**	**42**	**-**	**-**	**-**	**-**	**-**	**-**	**100**
Covered bonds	**2,630**	**99**	**1**	**-**	**-**	**48**	**-**	**19**	**-**	**33**
Residential mortgage backed securities (RMBS)	**584**	**100**	**-**	**-**	**-**	**71**	**-**	**29**	**-**	**-**
Other asset backed securities	**289**	**100**	**-**	**-**	**-**	**89**	**-**	**11**	**-**	**-**
Liquid assets total	**54,621**	**18**	**76**	**6**	**-**	**71**	**8**	**9**	**5**	**7**
Other securities (note iii):										
RMBS FVOCI	**889**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
RMBS amortised cost	**118**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
Other investments (note iv)	**77**	**-**	**18**	**-**	**82**	**82**	**-**	**18**	**-**	**-**
Other securities total	**1,084**	**93**	**1**	**-**	**6**	**99**	**-**	**1**	**-**	**-**
Loans and advances to banks and similar institutions	**3,052**	**-**	**77**	**21**	**2**	**83**	**11**	**5**	**-**	**1**
Total	**58,757**	**19**	**75**	**6**	**-**	**72**	**8**	**9**	**4**	**7**
2021	£m	%	%	%	%	%	%	%	%	%
Liquid assets:										
Cash and reserves at central banks	16,693	-	100	-	-	100	-	-	-	-
Government bonds (note ii)	20,310	28	60	12	-	39	18	26	10	7
Supranational bonds	1,053	75	25	-	-	-	-	-	-	100
Covered bonds	1,748	100	-	-	-	62	-	25	-	13
Residential mortgage backed securities (RMBS)	474	100	-	-	-	72	-	28	-	-
Other asset backed securities	301	100	-	-	-	75	-	25	-	-
Liquid assets total	40,579	22	72	6	-	65	9	14	5	7
Other securities (note iii):										
RMBS FVOCI	291	100	-	-	-	100	-	-	-	-
RMBS amortised cost	1,243	83	14	3	-	100	-	-	-	-
Other investments (note iv)	53	-	38	-	62	62	-	38	-	-
Other securities total	1,587	83	12	3	2	99	-	1	-	-
Loans and advances to banks and similar institutions	3,660	-	65	34	1	89	2	8	-	1
Total	45,826	22	70	8	-	68	8	13	5	6

Notes:

i. Ratings used are obtained from Standard & Poor's (S&P), Moody's or Fitch. For loans and advances to banks and similar institutions, internal ratings are used.

ii. Balances classified as government bonds include government guaranteed, agency and government sponsored bonds.

iii. Includes RMBS (UK buy to let and UK non-conforming) not eligible for the Liquidity Coverage Ratio (LCR).

iv. Includes investment securities held at FVTPL of £17 million (2021: £12 million).

Credit risk – Treasury assets (continued)

Country exposures

This table summarises the exposure (shown at the balance sheet carrying value) to institutions outside the UK.

Country exposures 2022	Government Bonds £m	Mortgage backed securities £m	Covered bonds £m	Supranational bonds £m	Loans and advances to banks and similar institutions £m	Other assets £m	Total £m
Austria	373	-	-	-	-	-	373
Belgium	571	-	-	-	-	-	571
Denmark	115	-	10	-	-	-	125
Finland	535	-	23	-	-	-	558
France	1,533	-	143	-	23	14	1,713
Germany	656	-	57	-	129	33	875
Ireland	130	-	-	-	-	-	130
Netherlands	440	170	-	-	-	-	610
Norway	-	-	150	-	-	-	150
Sweden	-	-	108	-	-	-	108
Total Europe	4,353	170	491	-	152	47	5,213
Australia	-	-	133	-	18	-	151
Canada	1,830	-	656	-	18	-	2,504
Japan	2,501	-	-	-	-	-	2,501
Singapore	-	-	70	-	-	-	70
USA	4,389	-	-	-	326	-	4,715
Supranational entities (note i)	-	-	-	1,318	-	-	1,318
Total	13,073	170	1,350	1,318	514	47	16,472

Credit risk – Treasury assets (continued)

Country exposures (continued)

Country exposures 2021	Government Bonds	Mortgage backed securities	Covered bonds	Supranational bonds	Loans and advances to banks and similar institutions	Other assets	Total
	£m	£m	£m	£m	£m	£m	£m
Austria	545	-	-	-	-	-	545
Belgium	645	-	-	-	-	-	645
Denmark	146	-	11	-	-	-	157
Finland	606	-	24	-	-	-	630
France	1,505	-	108	-	147	20	1,780
Germany	1,069	-	44	-	151	76	1,340
Ireland	154	-	-	-	-	-	154
Netherlands	503	133	-	-	-	-	636
Norway	-	-	108	-	-	-	108
Sweden	-	-	139	-	-	-	139
Total Europe	5,173	133	434	-	298	96	6,134
Australia	-	-	-	-	-	-	-
Canada	1,364	-	236	-	28	-	1,628
Japan	2,116	-	-	-	-	-	2,116
Singapore	-	-	-	-	-	-	-
USA	3,722	-	-	-	80	-	3,802
Supranational entities (note i)	-	-	-	1,053	-	-	1,053
Total	12,375	133	670	1,053	406	96	14,733

Note:
i. Exposures to Supranational entities are made up of bonds issued by highly rated multilateral development banks (MDBs) and international organisations (IOs).

Credit risk – Treasury assets (continued)

Derivative financial instruments

Derivatives are used to manage exposure to market risks, and not for trading or speculative purposes, although the application of accounting rules can create volatility in the income statement in a given financial year. The fair value of derivative assets as at 4 April 2022 was £4.7 billion (2021: £3.8 billion) and the fair value of derivative liabilities was £1.4 billion (2021: £1.6 billion).

Nationwide, as a direct member of a central counterparty (CCP), has central clearing capability which it uses to clear standardised derivatives. Where derivatives are not cleared at a CCP they are transacted under the International Swaps and Derivatives Association (ISDA) Master Agreement. A Credit Support Annex (CSA) is always executed in conjunction with the ISDA Master Agreement. Under the terms of a CSA collateral is passed between parties to mitigate the market-contingent counterparty risk inherent in the outstanding positions. CSAs are two-way agreements where both parties post collateral dependent on the exposure of the derivative. Collateral is paid or received on a regular basis (typically daily) to mitigate the mark to market exposures. Market standard CSA collateral allows GBP, EUR and USD cash, and in some cases extends to high grade sovereign debt securities; both cash and securities can be held as collateral by the Society.

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

Under the terms of CSA netting agreements, outstanding transactions with the same counterparty can be offset and settled on a net basis following a default, or another predetermined event. Under these arrangements, netting benefits of £1.3 billion (2021: £1.4 billion) were available and £3.5 billion (2021: £2.4 billion) of collateral was held.

This table shows the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral.

Derivative credit exposure

	2022				2021			
Counterparty credit quality	**AA**	**A**	**BBB**	**Total**	AA	A	BBB	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Derivative assets as per balance sheet	541	4,177	5	4,723	742	3,052	15	3,809
Netting benefits	(212)	(1,050)	(1)	(1,263)	(249)	(1,187)	(4)	(1,440)
Net current credit exposure	329	3,127	4	3,460	493	1,865	11	2,369
Collateral (cash)	(329)	(3,127)	(4)	(3,460)	(489)	(1,775)	(11)	(2,275)
Collateral (securities)	-	-	-	-	-	(84)	-	(84)
Net derivative credit exposure	-	-	-	-	4	6	-	10

Outlook

The treasury portfolio will continue to be held primarily for liquidity management and to hedge market risks taken in the normal course of business. There are no plans to change this although the portfolio composition will change in response to evolving requirements.

Liquidity and funding risk

Summary

Liquidity risk is the risk that Nationwide is unable to meet its liabilities as they fall due and maintain member and external stakeholder confidence. Funding risk is the risk that Nationwide is unable to maintain diverse funding sources in wholesale and retail markets and manage excessive concentrations of funding types.

Liquidity and funding risks are managed within a comprehensive risk framework which includes policies, strategy, limit setting and monitoring, stress testing and robust governance controls. This framework ensures that Nationwide maintains stable and diverse funding sources and a sufficient holding of high-quality liquid assets such that there is no significant risk that liabilities cannot be met as they fall due.

Nationwide's Liquidity Coverage Ratio (LCR), which ensures that sufficient high-quality liquid assets are held to survive a short-term severe but plausible liquidity stress, averaged 183% over the 12 months ended 4 April 2022 (2021: 159%). Nationwide continues to manage its liquidity against internal risk appetite which is more prudent than regulatory requirements.

The position against the longer-term funding metric, the Net Stable Funding Ratio (NSFR), is also monitored. Nationwide's average NSFR for the four quarters ended 4 April 2022 was 146% (2021: 137%), well in excess of the 100% minimum requirement.

Funding risk

Funding strategy

Nationwide's funding strategy is to remain predominantly retail funded, as set out below.

Funding profile					
Assets (note i)	**2022 £bn**	2021 £bn	**Liabilities**	**2022 £bn**	2021 £bn
Retail mortgages	**197.9**	190.7	Retail funding	**178.0**	170.3
Treasury assets (including liquidity portfolio)	**58.8**	45.8	Wholesale funding	**67.3**	59.5
Commercial lending	**6.0**	6.9	Other liabilities	**3.0**	3.2
Consumer lending	**4.1**	3.9	Capital and reserves (note ii)	**24.1**	21.9
Other assets	**5.6**	7.6			
Total	**272.4**	254.9	**Total**	**272.4**	254.9

Notes:
i. Figures in the above table are stated net of impairment provisions where applicable.
ii. Includes all subordinated liabilities and subscribed capital.

At 4 April 2022, Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 113.6% (2021: 115.3%).

Liquidity and funding risk (continued)

Wholesale funding

The wholesale funding portfolio comprises a range of secured and unsecured instruments to ensure that a stable and diversified funding base is maintained across a range of instruments, currencies, maturities, and investor types. Part of Nationwide's wholesale funding strategy is to remain active in core markets and currencies. A funding risk limit framework also ensures that a prudent funding mix and maturity concentration profile is maintained and limits the level of encumbrance to ensure enough contingent funding capacity is retained in the event of a stress.

Wholesale funding has increased by £7.8 billion to £67.3 billion during the year. The increase is primarily driven by a £5.3 billion increase in holdings from the Term Funding Scheme with additional incentives for SMEs (TFSME), a £3.0 billion increase in repurchase (repo) agreements and a £1.9 billion increase in deposits. This increase was partially offset by a £2.1 billion reduction in covered bonds. The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) at 4 April 2022 was 28.8% (2021: 26.7%).

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

Wholesale funding by currency												
	2022						2021					
	GBP £bn	**EUR £bn**	**USD £bn**	**Other £bn**	**Total £bn**	**% of total**	GBP £bn	EUR £bn	USD £bn	Other £bn	Total £bn	% of total
Repos	**4.2**	**2.9**	**4.0**	**-**	**11.1**	**16**	4.2	0.8	2.9	0.2	8.1	14
Deposits	**8.8**	**0.1**	**-**	**-**	**8.9**	**13**	6.4	0.6	-	-	7.0	12
Certificates of deposit	**-**	**-**	**-**	**-**	**-**	**-**	0.1	-	-	-	0.1	-
Covered bonds	**5.4**	**6.4**	**0.7**	**0.4**	**12.9**	**19**	5.4	8.5	0.7	0.4	15.0	25
Medium term notes	**1.8**	**3.8**	**3.8**	**0.6**	**10.0**	**15**	2.0	3.2	3.4	0.6	9.2	15
Securitisations	**2.6**	**-**	**0.4**	**-**	**3.0**	**4**	2.0	0.5	0.4	-	2.9	5
Term Funding Scheme with additional incentives for SMEs (TFSME)	**21.7**	**-**	**-**	**-**	**21.7**	**33**	16.4	-	-	-	16.4	28
Other	**-**	**(0.2)**	**(0.1)**	**-**	**(0.3)**	**-**	0.2	0.5	0.1	-	0.8	1
Total	**44.5**	**13.0**	**8.8**	**1.0**	**67.3**	**100**	36.7	14.1	7.5	1.2	59.5	100

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

Liquidity and funding risk (continued)

Wholesale funding – residual maturity 2022	**Not more than one month £bn**	**Over one month but not more than three months £bn**	**Over three months but not more than six months £bn**	**Over six months but not more than one year £bn**	**Subtotal less than one year £bn**	**Over one year but not more than two years £bn**	**Over two years £bn**	**Total £bn**
Repos	**11.1**	**-**	**-**	**-**	**11.1**	**-**	**-**	**11.1**
Deposits	**5.8**	**1.1**	**2.0**	**-**	**8.9**	**-**	**-**	**8.9**
Certificates of deposit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Covered bonds	**-**	**-**	**1.0**	**1.7**	**2.7**	**2.3**	**7.9**	**12.9**
Medium term notes	**0.2**	**0.6**	**-**	**1.3**	**2.1**	**1.9**	**6.0**	**10.0**
Securitisations	**0.4**	**-**	**0.2**	**0.5**	**1.1**	**1.3**	**0.6**	**3.0**
TFSME	**-**	**-**	**-**	**-**	**-**	**-**	**21.7**	**21.7**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**
Total	**17.5**	**1.7**	**3.2**	**3.5**	**25.9**	**5.5**	**35.9**	**67.3**
Of which secured	**11.5**	**-**	**1.2**	**2.2**	**14.9**	**3.6**	**30.1**	**48.6**
Of which unsecured	**6.0**	**1.7**	**2.0**	**1.3**	**11.0**	**1.9**	**5.8**	**18.7**
% of total	**26.0**	**2.5**	**4.8**	**5.2**	**38.5**	**8.2**	**53.3**	**100.0**

Wholesale funding – residual maturity 2021	Not more than one month £bn	Over one month but not more than three months £bn	Over three months but not more than six months £bn	Over six months but not more than one year £bn	Subtotal less than one year £bn	Over one year but not more than two years £bn	Over two years £bn	Total £bn
Repos	7.9	0.2	-	-	8.1	-	-	8.1
Deposits	4.6	0.7	1.6	0.1	7.0	-	-	7.0
Certificates of deposit	0.1	-	-	-	0.1	-	-	0.1
Covered bonds	-	-	-	2.5	2.5	2.6	9.9	15.0
Medium term notes	0.2	-	0.6	-	0.8	2.0	6.4	9.2
Securitisations	0.5	-	-	0.1	0.6	1.1	1.2	2.9
TFSME	-	-	-	-	-	-	16.4	16.4
Other	-	-	-	0.1	0.1	0.1	0.6	0.8
Total	13.3	0.9	2.2	2.8	19.2	5.8	34.5	59.5
Of which secured	8.4	0.2	-	2.7	11.3	3.8	28.0	43.1
Of which unsecured	4.9	0.7	2.2	0.1	7.9	2.0	6.5	16.4
% of total	22.4	1.5	3.7	4.7	32.3	9.7	58.0	100.0

At 4 April 2022, cash, government bonds and supranational bonds included in the liquid asset buffer represented 153% of wholesale funding maturing in less than one year, assuming no rollovers (2021: 157%).

Liquidity and funding risk (continued)

Liquidity risk

Liquidity strategy

The Society's risk appetite, as set by the Board, defines the size and mix of the liquid asset buffer, and is translated into a set of liquidity risk limits. Sufficient liquid assets, both in terms of amount and quality, are held to meet daily cash flow needs as well as simulated stressed requirements driven by the Society's risk appetite and regulatory assessments. This includes prudent management of the currency mix of liquid assets to ensure there is no undue reliance on currencies not consistent with the profile of stressed outflows.

Liquid assets are held and managed centrally by the Treasury function. A high-quality liquidity portfolio is maintained, predominantly comprising reserves held at central banks and highly-rated debt securities issued by a restricted range of governments, central banks and supranationals.

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

Nationwide continues to work towards its investment target for Environmental, Social and Governance (ESG) assets. Nationwide's criteria for ESG assets are currently restricted to bonds issued by multilateral development banks and green issuances from selected government issuers. This includes annual investment targets with the aim of holding £1.5 billion of ESG assets by 4 April 2023. Nationwide has met its 2022 target of £1.0 billion. ESG investment criteria are subject to ongoing review.

Liquid assets

The table below sets out the sterling equivalent fair value of the liquidity portfolio, by issuing currency. It includes off-balance sheet liquidity, such as securities received through reverse repo agreements, and excludes securities encumbered through repo agreements and for other purposes.

Liquid assets	**2022**						2021					
	GBP	**EUR**	**USD**	**JPY**	**Other (note i)**	**Total**	GBP	EUR	USD	JPY	Other (note i)	Total
	£bn	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	£bn	£bn	£bn	£bn	£bn	£bn
Cash and reserves at central banks	**30.0**	**0.2**	**-**	**-**	**-**	**30.2**	16.7	-	-	-	-	16.7
Government bonds (note ii)	**2.2**	**2.0**	**0.9**	**2.0**	**0.9**	**8.0**	4.2	4.5	1.2	2.1	0.7	12.7
Supranational bonds	**0.1**	**0.8**	**0.4**	**-**	**-**	**1.3**	-	0.5	0.4	-	-	0.9
Covered bonds	**0.9**	**1.6**	**0.1**	**-**	**-**	**2.6**	0.5	1.1	0.1	-	-	1.7
Residential mortgage backed securities (RMBS) (note iii)	**0.1**	**0.1**	**-**	**-**	**-**	**0.2**	0.8	0.1	-	-	-	0.9
Asset-backed securities and other securities	**0.2**	**-**	**-**	**-**	**-**	**0.2**	0.3	0.1	-	-	-	0.4
Total	**33.5**	**4.7**	**1.4**	**2.0**	**0.9**	**42.5**	22.5	6.3	1.7	2.1	0.7	33.3

Notes:
i. Other currencies primarily consist of Canadian dollars.
ii. Balances classified as government bonds include government guaranteed and agency bonds.
iii. Balances include all RMBS held by the Society which can be monetised through sale or repo.

The table above primarily comprises LCR eligible high-quality liquid assets which averaged £52.8 billion for the 12 months ended 4 April 2022 (2021: £40.0 billion).

Liquidity and funding risk (continued)

Residual maturity of financial assets and liabilities

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

Residual maturity (note i)									
2022	**Due less than one month (note ii)**	**Due between one and three months**	**Due between three and six months**	**Due between six and nine months**	**Due between nine and twelve months**	**Due between one and two years**	**Due between two and five years**	**Due after more than five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets									
Cash	**30,221**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30,221**
Loans and advances to banks and similar institutions	**2,031**	**-**	**-**	**-**	**-**	**-**	**-**	**1,021**	**3,052**
Investment securities	**61**	**17**	**68**	**50**	**279**	**784**	**7,419**	**16,806**	**25,484**
Derivative financial instruments	**90**	**119**	**5**	**118**	**43**	**255**	**2,609**	**1,484**	**4,723**
Fair value adjustment for portfolio hedged risk	**4**	**8**	**(134)**	**(108)**	**(93)**	**(824)**	**(1,140)**	**(156)**	**(2,443)**
Loans and advances to customers	**2,808**	**1,532**	**2,183**	**2,188**	**2,140**	**8,489**	**24,163**	**164,563**	**208,066**
Total financial assets	**35,215**	**1,676**	**2,122**	**2,248**	**2,369**	**8,704**	**33,051**	**183,718**	**269,103**
Financial liabilities									
Shares	**157,455**	**2,395**	**7,238**	**1,725**	**1,880**	**5,272**	**1,015**	**987**	**177,967**
Deposits from banks and similar institutions	**14,712**	**2**	**-**	**11**	**-**	**-**	**21,700**	**-**	**36,425**
Of which repo	***11,064***	***-***	***-***	***-***	***-***	***-***	***-***	***-***	***11,064***
Of which TFSME	***-***	***1***	***-***	***-***	***-***	***-***	***21,700***	***-***	***21,701***
Other deposits	**2,111**	**1,096**	**1,923**	**29**	**28**	**17**	**4**	**-**	**5,208**
Fair value adjustment for portfolio hedged risk	**1**	**3**	**2**	**-**	**1**	**3**	**1**	**-**	**11**
Secured funding – ABS and covered bonds	**387**	**26**	**1,247**	**1,079**	**1,061**	**3,607**	**3,225**	**5,201**	**15,833**
Senior unsecured funding	**239**	**555**	**21**	**40**	**1,262**	**1,885**	**4,257**	**1,537**	**9,796**
Derivative financial instruments	**52**	**5**	**23**	**1**	**15**	**35**	**367**	**930**	**1,428**
Subordinated liabilities	**792**	**-**	**31**	**3**	**-**	**765**	**2,637**	**4,022**	**8,250**
Subscribed capital (note iii)	**1**	**-**	**1**	**-**	**-**	**-**	**-**	**185**	**187**
Total financial liabilities	**175,750**	**4,082**	**10,486**	**2,888**	**4,247**	**11,584**	**33,206**	**12,862**	**255,105**
Off-balance sheet commitments (note iv)	**15,258**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,258**
Net liquidity difference	**(155,793)**	**(2,406)**	**(8,364)**	**(640)**	**(1,878)**	**(2,880)**	**(155)**	**170,856**	**(1,260)**
Cumulative liquidity difference	**(155,793)**	**(158,199)**	**(166,563)**	**(167,203)**	**(169,081)**	**(171,961)**	**(172,116)**	**(1,260)**	**-**

Liquidity and funding risk (continued)

Residual maturity (note i) 2021	Due less than one month (note ii) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Financial assets									
Cash	16,693	-	-	-	-	-	-	-	16,693
Loans and advances to banks and similar institutions	2,815	-	-	-	-	-	-	845	3,660
Investment securities	39	136	197	47	137	938	8,101	15,878	25,473
Derivative financial instruments	119	26	39	62	475	331	1,183	1,574	3,809
Fair value adjustment for portfolio hedged risk	4	23	62	59	83	295	322	98	946
Loans and advances to customers	2,616	1,515	2,188	2,204	2,128	8,462	23,359	159,075	201,547
Total financial assets	22,286	1,700	2,486	2,372	2,823	10,026	32,965	177,470	252,128
Financial liabilities									
Shares	149,985	1,976	2,501	2,085	2,312	6,864	3,495	1,095	170,313
Deposits from banks and similar institutions	10,417	166	-	9	-	-	16,430	-	27,022
Of which repo	*7,984*	*165*	-	-	-	-	-	-	*8,149*
Of which TFSME	-	-	-	-	-	-	*16,430*	-	*16,430*
Other deposits	2,234	642	1,568	34	24	15	5	-	4,522
Fair value adjustment for portfolio hedged risk	1	6	3	-	1	9	5	-	25
Secured funding – ABS and covered bonds	467	23	29	892	1,780	3,715	5,816	5,783	18,505
Senior unsecured funding	202	48	561	-	5	2,053	5,072	1,477	9,418
Derivative financial instruments	50	3	16	10	10	144	443	946	1,622
Subordinated liabilities	29	-	29	3	-	-	3,114	4,400	7,575
Subscribed capital (note iii)	1	1	1	-	-	-	-	240	243
Total financial liabilities	163,386	2,865	4,708	3,033	4,132	12,800	34,380	13,941	239,245
Off-balance sheet commitments (note iv)	13,259	-	-	-	-	-	-	-	13,259
Net liquidity difference	(154,359)	(1,165)	(2,222)	(661)	(1,309)	(2,774)	(1,415)	163,529	(376)
Cumulative liquidity difference	(154,359)	(155,524)	(157,746)	(158,407)	(159,716)	(162,490)	(163,905)	(376)	

Notes:

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

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

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

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

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

Liquidity and funding risk (continued)

Financial liabilities – gross undiscounted contractual cash flows

The tables below provide an analysis of gross contractual cash flows. The totals differ from the analysis of residual maturity as they include estimated future interest payments, calculated using balances outstanding at the balance sheet date, contractual maturities, and appropriate forward-looking interest rates.

Amounts are allocated to the relevant maturity band based on the timing of individual contractual cash flows.

Gross contractual cash flows 2022	**Due less than one month (note i) £m**	**Due between one and three months £m**	**Due between three and six months £m**	**Due between six and nine months £m**	**Due between nine and twelve months £m**	**Due between one and two years £m**	**Due between two and five years £m**	**Due after more than five years £m**	**Total £m**
Shares	157,455	2,422	7,261	1,744	1,897	5,320	1,086	987	178,172
Deposits from banks and similar institutions	14,712	43	41	52	41	163	21,804	-	36,856
Other deposits	2,111	1,099	1,923	29	28	17	4	-	5,211
Secured funding – ABS and covered bonds	388	35	1,284	1,118	1,156	3,845	3,626	5,765	17,217
Senior unsecured funding	240	559	48	49	1,328	2,078	4,665	1,652	10,619
Subordinated liabilities	796	1	104	29	101	990	3,235	4,570	9,826
Subscribed capital (note ii)	1	-	4	1	4	11	33	192	246
Total non-derivative financial liabilities	175,703	4,159	10,665	3,022	4,555	12,424	34,453	13,166	258,147
Derivative financial liabilities:									
Gross settled derivative outflows	(4,828)	(49)	(377)	(97)	(1,685)	(1,690)	(6,410)	(8,823)	(23,959)
Gross settled derivative inflows	4,795	30	316	54	1,634	1,552	6,057	8,640	23,078
Gross settled derivatives – net flows	(33)	(19)	(61)	(43)	(51)	(138)	(353)	(183)	(881)
Net settled derivative liabilities	(23)	(70)	(139)	(219)	(225)	(1,497)	(2,634)	(1,728)	(6,535)
Total derivative financial liabilities	(56)	(89)	(200)	(262)	(276)	(1,635)	(2,987)	(1,911)	(7,416)
Total financial liabilities	175,647	4,070	10,465	2,760	4,279	10,789	31,466	11,255	250,731
Off-balance sheet commitments (note iii)	15,258	-	-	-	-	-	-	-	15,258
Total financial liabilities including off-balance sheet commitments	190,905	4,070	10,465	2,760	4,279	10,789	31,466	11,255	265,989

Liquidity and funding risk (continued)

Gross contractual cash flows 2021	Due less than one month (note i) £m	Due between one and three months £m	Due between three and six months £m	Due between six and nine months £m	Due between nine and twelve months £m	Due between one and two years £m	Due between two and five years £m	Due after more than five years £m	Total £m
Shares	149,985	2,017	2,540	2,122	2,346	6,966	3,631	1,095	170,702
Deposits from banks and similar institutions	10,417	170	4	13	4	16	16,455	-	27,079
Other deposits	2,234	643	1,568	34	24	15	5	-	4,523
Secured funding – ABS and covered bonds	469	32	51	918	1,860	3,883	6,119	5,899	19,231
Senior unsecured funding	203	51	588	3	64	2,172	5,298	1,528	9,907
Subordinated liabilities	32	-	91	39	86	248	3,606	4,765	8,867
Subscribed capital (note ii)	1	1	4	3	4	13	43	247	316
Total non-derivative financial liabilities	163,341	2,914	4,846	3,132	4,388	13,313	35,157	13,534	240,625
Derivative financial liabilities:									
Gross settled derivative outflows	(2,803)	(337)	(416)	(199)	(571)	(3,584)	(8,449)	(6,752)	(23,111)
Gross settled derivative inflows	2,798	333	385	178	553	3,371	8,136	6,461	22,215
Gross settled derivatives – net flows	(5)	(4)	(31)	(21)	(18)	(213)	(313)	(291)	(896)
Net settled derivative liabilities	(104)	(175)	(183)	(189)	(222)	(583)	(1,037)	(798)	(3,291)
Total derivative financial liabilities	(109)	(179)	(214)	(210)	(240)	(796)	(1,350)	(1,089)	(4,187)
Total financial liabilities	163,232	2,735	4,632	2,922	4,148	12,517	33,807	12,445	236,438
Off-balance sheet commitments (note iii)	13,259	-	-	-	-	-	-	-	13,259
Total financial liabilities including off-balance sheet commitments	176,491	2,735	4,632	2,922	4,148	12,517	33,807	12,445	249,697

Notes:
i. Due less than one month includes amounts repayable on demand.
ii. The principal amount for undated subscribed capital is included within the due more than five years column.
iii. Off-balance sheet commitments include amounts payable on demand for undrawn loan commitments, customer overpayments on residential mortgages where the borrower is able to draw down the amount overpaid and commitments to acquire financial assets.

Asset encumbrance

Encumbrance arises where assets are pledged as collateral against secured funding and other collateralised obligations and therefore cannot be used for other purposes. The majority of asset encumbrance arises from the use of prime mortgage pools to collateralise the Covered Bond and securitisation programmes (further information is included in note 10 to the consolidated financial statements) and from participation in the Bank of England's TFSME.

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

Liquidity and funding risk (continued)

An analysis of Nationwide's encumbered and unencumbered on-balance sheet assets is set out below. This disclosure is not intended to identify assets that would be available in the event of a resolution or bankruptcy.

Asset encumbrance										
2022	**Assets encumbered as a result of transactions with counterparties other than central banks**				**Other assets (comprising assets encumbered at the central bank and unencumbered assets)**					**Total**
						Assets not positioned at the central bank				
	As a result of covered bonds	**As a result of securitisations**	**Other**	**Total**	**Assets positioned at the central bank (i.e. prepositioned plus encumbered)**	**Readily available for encumbrance**	**Other assets that are capable of being encumbered**	**Cannot be encumbered**	**Total**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash	**412**	**708**	**-**	**1,120**	**-**	**28,726**	**-**	**375**	**29,101**	**30,221**
Loans and advances to banks and similar institutions	**-**	**-**	**513**	**513**	**1,860**	**-**	**-**	**679**	**2,539**	**3,052**
Investment securities (note i)	**-**	**-**	**12,345**	**12,345**	**-**	**11,698**	**-**	**1,441**	**13,139**	**25,484**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,723**	**4,723**	**4,723**
Loans and advances to customers	**20,190**	**10,644**	**-**	**30,834**	**72,187**	**51,333**	**53,712**	**-**	**177,232**	**208,066**
Non-financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,251**	**3,251**	**3,251**
Fair value adjustment for portfolio hedged risk	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,443)**	**(2,443)**	**(2,443)**
Total	**20,602**	**11,352**	**12,858**	**44,812**	**74,047**	**91,757**	**53,712**	**8,026**	**227,542**	**272,354**
2021	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Cash	628	921	-	1,549	-	14,963	-	181	15,144	16,693
Loans and advances to banks and similar institutions	-	-	1,218	1,218	1,376	-	-	1,066	2,442	3,660
Investment securities	-	-	8,621	8,621	-	15,676	-	1,176	16,852	25,473
Derivative financial instruments	-	-	-	-	-	-	-	3,809	3,809	3,809
Loans and advances to customers	23,611	12,779	-	36,390	69,321	43,970	51,866	-	165,157	201,547
Non-financial assets	-	-	-	-	-	-	-	2,786	2,786	2,786
Fair value adjustment for portfolio hedged risk	-	-	-	-	-	-	-	946	946	946
Total	24,239	13,700	9,839	47,778	70,697	74,609	51,866	9,964	207,136	254,914

Note:
i. Encumbered investment securities primarily relate to repo transactions and collateral pledged for derivatives.

Liquidity and funding risk (continued)

External credit ratings

The Group's long-term and short-term credit ratings are shown in the table below. The long-term rating for both Standard & Poor's (S&P) and Moody's is the senior preferred rating. The long-term rating for Fitch is the senior non-preferred rating.

Credit ratings	Senior preferred	Short-term	Senior non-preferred	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	**A+**	**A-1**	**BBB+**	**BBB**	**January 22**	**Stable**
Moody's	**A1**	**P-1**	**Baa1**	**Baa2**	**February 22**	**Stable**
Fitch	**A+**	**F1**	**A**	**BBB+**	**January 22**	**Stable**

In October 2021, S&P upgraded Nationwide's long term issuer credit rating and senior preferred rating to A+ and changed the outlook to stable; all other ratings were unchanged. This followed a change to a positive outlook in June 2021. S&P stated that the upgrade was due to Nationwide's performance in the last 12 months in reducing costs, writing profitable new business, and maintaining strong asset quality. All ratings were affirmed in January 2022.

In July 2021, Moody's upgraded Nationwide's senior non-preferred debt rating to Baa1 from Baa2 following the introduction of Moody's revised Advanced Loss Given Failure framework and affirmed all other ratings. All ratings were affirmed in February 2022.

In July 2021, Fitch revised the outlook on Nationwide to stable from negative and affirmed all ratings. The revision of the outlook primarily reflected the revision of Fitch's outlook on the UK's AA- rating to stable. Fitch affirmed the ratings in January 2022.

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

Collateral sensitivity	Cumulative adjustment for a one notch downgrade	Cumulative adjustment for a two notch downgrade
	£bn	**£bn**
2022	**-**	**1.7**
2021	0.8	2.3

Following the S&P credit ratings upgrade in October 2021, it would now require a two notch credit rating downgrade before additional collateral postings would be required.

The contractually required cash outflow would not necessarily match the actual cash outflow as a result of management actions that could be taken to reduce the impact of the downgrades.

Outlook

Nationwide continues to hold a diversified high-quality liquid asset buffer which will evolve in line with Nationwide's liquidity requirements. Nationwide's funding plans include the refinancing of TFSME in 2024-2025 through a continued presence in wholesale funding markets.

Capital risk

This section was titled Solvency risk in Nationwide's Annual Report and Accounts 2021. The risk has been renamed Capital risk within Nationwide's Enterprise Risk Management Framework (ERMF) to align with wider financial services sector terminology.

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

Capital position

The capital disclosures included in this report are in line with UK Capital Requirements Directive V (UK CRD V) and on an end point basis with IFRS 9 transitional arrangements applied. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

Capital ratios and requirements		
	2022	2021
Capital ratios	**%**	%
CET1 ratio	**24.1**	36.4
Total Tier 1 ratio	**26.6**	40.5
Total regulatory capital ratio	**31.8**	49.1
Leverage ratio (note i)	**5.4**	5.4
Capital requirements	**£m**	£m
Risk weighted assets (RWAs)	**51,823**	32,970
Leverage exposure (note i)	**255,407**	248,402

Note:

ii. The PRA simplified the leverage framework by applying a single Leverage Exposure Measure (LEM), which excludes central bank claims, from 1 January 2022. This metric is used by the PRA for the purposes of supervising the capital adequacy of financial institutions in the UK. The simplification of the leverage framework has resulted in the removal of the CRR leverage ratio disclosure, which included central bank claims. The 'UK' prefix that was included in 2021 to distinguish between the two ratios is no longer required and we now only refer to the leverage ratio.

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio at 24.1% (2021: 36.4%), above Nationwide's CET1 capital requirement of 11.0%. The CET1 capital requirement includes a 7.5% minimum Pillar 1 and Pillar 2 requirement and the UK CRD V combined buffer requirements of 3.5% of RWAs.

The CET1 ratio reduction is a result of an increase in RWAs of £18.9 billion, partially offset by an increase in CET1 capital of £0.5 billion.

The £21.8 billion impact of the RWA changes from the IRB model adjustment was partially offset by a reduction in mortgage RWAs of £0.5 billion, driven by improving asset quality. In addition, a new overdraft IRB model was approved by the PRA, independent of the IRB model regulatory changes, leading to a £1.5 billion reduction in RWAs. Commercial RWAs also reduced by £0.4 billion following a reduction in total loan portfolio size. RWAs were further reduced by £0.5 billion following a regulatory change to the treatment of deductible intangible assets. These assets are now deducted from CET1 resources, reducing resources by £0.5 billion.

The RWA increase was expected and the CET1 ratio annual movement aligns to the one third reduction outlined in the Annual Report and Accounts 2021. Excluding the impact of key changes to IRB model RWAs and the treatment of deductible intangible assets, the CET1 ratio would have increased by 4.1% to 40.5%.

Capital risk (continued)

The CET1 capital increase was driven by £1.1 billion profit after tax, net of distributions, partially offset by a £0.4 billion movement in deductible intangible assets, which includes the impact of the regulation change, and a £0.2 billion movement in other CET1 regulatory adjustments including IFRS 9 transitional arrangements.

On 12 February 2021, the PRA published CP5/21 'Implementation of Basel standards'. The purpose of the proposed rules was to implement the remaining Basel international standards. The consultation paper included a revised standardised approach to counterparty credit risk (SA-CCR) and the revised Basel framework for exposures to central counterparties (CCPs) amongst other changes. On 22 July 2021, the PRA published PS17/21 confirming the changes set out in CP5/21, which took effect on 1 January 2022. The changes did not materially impact capital requirements.

UK CRD V requires firms to calculate a leverage ratio, which is non-risked based, to supplement risk-based capital requirements. Nationwide's leverage ratio is 5.4% (2021: 5.4%), with Tier 1 capital increasing by £0.5 billion as a result of the CET1 capital movements outlined above. Partially offsetting the impact of this was an increase in leverage exposure of £7.0 billion, primarily as a result of net retail lending in the period. Excluding the impact of the intangible asset regulation change the leverage ratio would have increased to 5.6%.

The leverage ratio remains in excess of Nationwide's leverage capital requirement of 3.6%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.35%. The buffer requirement reflects a 0% countercyclical leverage ratio buffer announced on 11 March 2020 as part of the Bank of England's response to the impacts of Covid-19, although this is expected to increase in 2022[9] to 0.4%.

On 8 October 2021, as part of its policy statement PS21/21, the PRA confirmed its intention to simplify the leverage framework by applying a single Leverage Exposure Measure (LEM) for all purposes from 1 January 2022. This measure is aligned to the previous UK leverage exposure definition, which excludes central bank claims.

Leverage requirements continue to be Nationwide's binding Tier 1 capital constraint, as they are in excess of risk-based and regulatory buffer requirements, despite the significant increase in RWAs following IRB model adjustments. Leverage requirements are expected to remain in excess of risk-based requirements following Basel III reforms on risk-based capital requirements in 2025. This expectation, however, is still subject to PRA IRB mortgage model approval and the forthcoming PRA consultation on the Basel III reforms. The expected impact of the reforms on Nationwide's leverage ratio is negligible. The risk of excessive leverage is managed through regular monitoring and reporting of the leverage ratio, which forms part of risk appetite.

[9] See the 'Outlook – regulatory developments' section below for further detail

Capital risk (continued)

The table below shows how the components of members interest and equity contribute to total regulatory capital and does not include non-qualifying instruments.

Total regulatory capital		
	2022	2021
	£m	£m
General reserve	**12,753**	11,140
Core capital deferred shares (CCDS)	**1,334**	1,334
Revaluation reserve	**46**	44
Fair value through other comprehensive income (FVOCI) reserve	**89**	110
Cash flow hedge and other hedging reserves	**142**	149
Regulatory adjustments and deductions:		
FVOCI reserve temporary relief (note i)	**(21)**	(41)
Cash flow hedge and other hedging reserves (note ii)	**(142)**	(149)
Foreseeable distributions (note iii)	**(71)**	(71)
Prudent valuation adjustment (note iv)	**(80)**	(39)
Own credit and debit valuation adjustments (note v)	**(12)**	(3)
Intangible assets (note vi)	**(884)**	(525)
Goodwill (note vi)	**(12)**	(12)
Defined-benefit pension fund asset (note vi)	**(654)**	(112)
Excess of regulatory expected losses over impairment provisions (note vii)	**(48)**	(1)
IFRS 9 transitional arrangements (note viii)	**31**	183
Total regulatory adjustments and deductions	**(1,893)**	(770)
CET1 capital	**12,471**	12,007
Other equity instruments (Additional Tier 1)	**1,336**	1,336
Total Tier 1 capital	**13,807**	13,343
Dated subordinated debt (note ix)	**2,643**	2,833
Excess of impairment provisions over regulatory expected losses (note vii)	**37**	144
IFRS 9 transitional arrangements (note viii)	**(21)**	(144)
Tier 2 capital	**2,659**	2,833
Total regulatory capital	**16,466**	16,176

Notes:

i. Includes a temporary adjustment to mitigate the impact of volatility in central government debt on capital ratios, in line with the Covid-19 banking package.

ii. In accordance with CRR article 33, institutions shall not include the fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value.

iii. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under UK CRD V.

iv. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.

v. Own credit and debit valuation adjustments are applied to remove balance sheet gains or losses of fair valued liabilities and derivatives that result from changes in own credit standing and risk, as per UK CRD V rules.

vi. Intangible, goodwill and defined-benefit pension fund assets are deducted from capital resources after netting associated deferred tax liabilities.

vii. Where capital expected loss exceeds accounting provisions, the excess balance is removed from CET1 capital, gross of tax. In contrast, where provisions exceed capital expected loss, the excess amount is added to Tier 2 capital, gross of tax. This calculation is not performed for equity exposures, in line with Article 159 of CRR. The expected loss amounts for equity exposures are deducted from CET1 capital, gross of tax.

viii. The transitional adjustments to capital resources apply scaled relief due to the impact of the introduction of IFRS 9 and increases in expected credit losses due to the Covid-19 pandemic.

ix. Subordinated debt includes fair value adjustments related to changes in market interest rates, adjustments for unamortised premiums and discounts that are included in the consolidated balance sheet, and any amortisation of the capital value of Tier 2 instruments required by regulatory rules for instruments with fewer than five years to maturity.

Capital risk (continued)

As part of the Bank Recovery and Resolution Directive, the Bank of England, in its capacity as the UK resolution authority, has published its policy for setting the minimum requirement for own funds and eligible liabilities (MREL) and provided firms with interim and end-state MREL. From 1 January 2022, Nationwide's end-state requirement is to hold twice the minimum capital requirements (6.5% of leverage exposure), plus the applicable capital requirement buffers, which amount to 0.35% of leverage exposure.

At 4 April 2022, total MREL resources were 8.4% (2021: 8.5%) of leverage exposure, in excess of the 2022 loss-absorbing requirement of 6.85% described above.

Risk weighted assets

The table below shows the breakdown of risk weighted assets (RWAs) by risk type and business activity. Market risk has been set to zero as permitted by the UK CRR, as the exposure is below the threshold of 2% of own funds.

Risk weighted assets						
	2022			2021		
	Credit Risk (note i)	**Operational Risk (note ii)**	**Total Risk Weighted Assets**	Credit Risk (note i)	Operational Risk (note ii)	Total Risk Weighted Assets
	£m	**£m**	**£m**	£m	£m	£m
Retail mortgages	**34,935**	**3,054**	**37,989**	14,523	2,966	17,489
Retail unsecured lending	**4,694**	**1,045**	**5,739**	5,503	965	6,468
Commercial loans	**2,272**	**98**	**2,370**	2,671	116	2,787
Treasury	**1,865**	**409**	**2,274**	1,588	327	1,915
Counterparty credit risk (note iii)	**1,052**	**-**	**1,052**	1,491	-	1,491
Other (note iv)	**1,798**	**601**	**2,399**	2,365	455	2,820
Total	**46,616**	**5,207**	**51,823**	28,141	4,829	32,970

Notes:
i. This column includes credit risk exposures, securitisations, counterparty credit risk exposures and exposures below the thresholds for deduction that are subject to a 250% risk weight.
ii. RWAs have been allocated according to the business lines within the standardised approach to operational risk, as per article 317 of CRR.
iii. Counterparty credit risk relates to derivative financial instruments, securities financing transactions (repurchase agreements) and exposures to central counterparties.
iv. Other relates to equity, fixed, intangible software and other assets.

RWAs increased by £18.9 billion primarily due to a £21.3 billion retail mortgages and unsecured lending increase largely driven by IRB model changes linked to the updated IRB model regulations. This was partially offset by a £1.5 billion reduction due to the PRA's approval of a new overdraft unsecured IRB model. In addition, treasury and commercial loan RWAs reduced by £0.5 billion partly due to a reduction in commercial loan portfolio size but also from improving risk characteristics across underlying regulatory exposure classes. Finally, 'other' RWAs reduced by £0.4 billion, with intangible software assets no longer risk weighted due to the regulation changes laid out in PS17/21 'Implementation of Basel standards'.

Capital risk (continued)

Outlook – regulatory developments

Key areas of regulatory change are set out below. Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any resulting change.

The Basel Committee published their final reforms to the Basel III framework in December 2017, now denoted by the PRA as Basel 3.1. The amendments include changes to the standardised approaches for credit and operational risks and the introduction of a new RWA output floor; there is no change in the underlying capital resources held or the risk profile of assets. The implementation of the rules is now expected to be from 2025 (delayed from 2023) for European firms supervised by the European Banking Authority and for UK firms (following the Bank of England's update on 21 March 2022). A lengthy revised transitional period is expected to run between 2025 and 2030; the changes may lead to an increase in Nationwide's RWAs relative to the current position, mainly due to the application of standardised floors for mortgages. Based on the original rules the total estimated impact on the reported CET1 ratio will be a reduction of approximately one quarter relative to the position at 4 April 2022. However, final impacts are uncertain as they are subject to future balance sheet size and mix, and because of possible divergence by the Bank of England from the original rules. The Bank of England has confirmed its intention to consult on the implementation of the Basel 3.1 rules in the fourth quarter of 2022. The consultation will include the proposal to implement these changes from January 2025, providing enough time to firms to implement the final policies.

On 13 December 2021 the FPC confirmed that it felt that domestic risks to UK financial stability have returned to around their pre-Covid levels. The FPC confirmed its intention to increase the UK countercyclical capital buffer (CCyB) rate to 1% from 13 December 2022, with a potential increase to 2% in the second half of 2023. This would lead to an increase in Nationwide's risk-based capital requirements. Our leverage requirements would also increase as the countercyclical leverage ratio buffer is calculated as approximately 35% of the risk-based CCyB rate. Capital surpluses are expected to remain above Board risk appetite. On 24 March 2022, the FPC announced that given the current economic uncertainty following Russia's invasion of Ukraine, it will continue to monitor the situation closely and stand ready to vary the UK CCyB rate in either direction.

Market risk

Summary

Market risk is the risk that the net value of, or net income arising from, assets and liabilities is impacted as a result of changes in market prices or rates, specifically interest rates, currency rates or equity prices. Nationwide has limited appetite for market risk and does not have a trading book. Market risk is closely monitored and managed to ensure the level of risk remains within appetite. Market risks are not taken unless they are essential to core business activities and they provide stability of earnings, minimise costs or enable operational efficiency.

The principal market risks linked to Nationwide's balance sheet assets and liabilities include interest rate risk, basis risk, swap spread risk, currency risk and product option risk.

Global market conditions

The past year has seen rising inflation driven by supply constraints and rising commodity prices, coupled with pent up demand following the ending of Covid-19 enforced restrictions. This worldwide trend is reflected within the UK, where the Consumer Prices Index including owner occupiers' housing costs (CPIH) has risen sharply to 6.2% in the 12 months to March 2022 (12 months to March 2021: 1.0%). In response, the Bank of England (BoE) Monetary Policy Committee voted to raise bank base rate on three consecutive occasions since December 2021, resulting in this increasing from 0.1% to 0.75% in the space of three months. While Nationwide has some inflation exposure (to UK, EU and US inflation indices) from investment securities, inflation risk is managed within tight limits and the financial impact from recent increases in inflation globally has therefore been limited.

Swap rates have risen sharply over the course of the year, reflecting recent and anticipated increases in the bank base rate. The Sonia 2-year swap rates have risen from 0.11% to 1.99%, whilst the 5-year swap rate has increased from 0.44% to 1.85%. The lower swap rates for long-dated tenors, reflect market expectations of dampening demand and that inflation (CPI) will return to its 2% target within the medium term.

Nationwide has no direct exposure to Ukraine and therefore any market risk impact due to the war in Ukraine is limited to the impact of volatility in financial markets more widely, given the ongoing uncertainty and current geopolitical outlook.

Net Interest Income sensitivity (NII)

Earnings sensitivity assessments measure the risk that income is adversely affected by changes in interest rates. The sensitivity of earnings to changes in interest rates is measured monthly using a forecasting model and potential interest rate scenarios.

The table below sets out the sensitivity of pre-tax future earnings over a one-year period to instantaneous parallel rises and falls in interest rates.

Potential favourable/(adverse) impact on annual earnings		
	2022	2021
	£m	£m
+50 basis points shift	**10**	(note i)
+25 basis points shift	**5**	8
-25 basis points shift	**(76)**	(100)

Note:
i. The +50 basis point shift was not reported at 4 April 2021.

The reduced sensitivity to a -25 basis point shift in 2022 compared to 2021 is primarily due to an increase in customer rates on managed rate savings products.

Market risk (continued)

The following key judgements should be noted in respect of the table above:

- The interest rate sensitivities are illustrative only and are based on a static balance sheet; all assets and liabilities maturing within the year are assumed to reinvest in like for like products;
- The model assumes that changes in interest rates are fully passed through to managed rate products, unless a 0% floor is reached;
- The shifts are applied to the prevailing interest rates at the reporting date;
- The reported sensitivities will vary over time due to several factors, such as the timing of maturing assets and liabilities, product pricing, market conditions, and strategic changes to the balance sheet mix, and should not therefore be considered a guide to future performance;
- The sensitivity analysis includes all financial assets and liabilities held;
- The sensitivities do not take account of any management actions; and
- The values above are reported on a pre-tax basis.

Consolidated financial statements

Contents

Consolidated income statement

For the year ended 4 April 2022			
		2022	2021
	Notes	**£m**	£m
Interest receivable and similar income:			
Calculated using the effective interest rate method	3	**4,501**	4,122
Other	3	**11**	2
Total interest receivable and similar income	3	**4,512**	4,124
Interest expense and similar charges	4	**(950)**	(978)
Net interest income		**3,562**	3,146
Fee and commission income		**475**	379
Fee and commission expense		**(218)**	(231)
Other operating income/(expense)	5	**48**	(9)
(Losses)/gains from derivatives and hedge accounting	6	**(7)**	34
Total income		**3,860**	3,319
Administrative expenses	7	**(2,234)**	(2,218)
Impairment release/(charge) on loans and advances to customers	8	**27**	(190)
Provisions for liabilities and charges	12	**(56)**	(88)
Profit before tax		**1,597**	823
Taxation	9	**(345)**	(205)
Profit after tax		**1,252**	618

Consolidated statement of comprehensive income

For the year ended 4 April 2022		
	2022	2021
	£m	£m
Profit after tax	**1,252**	618
Other comprehensive income/(expense):		
Items that will not be reclassified to the income statement		
Remeasurements of retirement benefit obligations:		
Retirement benefit remeasurement	**836**	(112)
Taxation	**(293)**	40
	543	(72)
Revaluation of property:		
Revaluation gains/(losses)	**7**	(9)
Taxation	**(2)**	11
	5	2
Movements in fair value of equity shares held at fair value through other comprehensive income:		
Fair value movements taken to members' interests and equity	**10**	4
Taxation	**(2)**	(1)
	8	3
	556	(67)
Items that may subsequently be reclassified to the income statement		
Cash flow hedge reserve:		
Fair value movements taken to members’ interests and equity	**27**	(98)
Amount transferred to income statement	**(42)**	(54)
Taxation	**4**	41
	(11)	(111)
Other hedging reserve:		
Fair value movements taken to members’ interests and equity	**8**	(4)
Amount transferred to income statement	**(4)**	(2)
Taxation	**(1)**	2
	3	(4)
Fair value through other comprehensive income reserve:		
Fair value movements taken to members’ interests and equity	**12**	215
Amount transferred to income statement	**(48)**	(40)
Taxation	**8**	(47)
	(28)	128
Other comprehensive income/(expense)	**520**	(54)
Total comprehensive income	**1,772**	564

Consolidated balance sheet

At 4 April 2022			
	Notes	**2022** **£m**	2021 £m
Assets			
Cash		**30,221**	16,693
Loans and advances to banks and similar institutions		**3,052**	3,660
Investment securities		**25,484**	25,473
Derivative financial instruments		**4,723**	3,809
Fair value adjustment for portfolio hedged risk		**(2,443)**	946
Loans and advances to customers	10	**208,066**	201,547
Intangible assets		**913**	1,101
Property, plant and equipment		**880**	1,018
Accrued income and prepaid expenses		**252**	213
Deferred tax		**59**	72
Current tax assets		**33**	-
Other assets		**106**	210
Retirement benefit asset	14	**1,008**	172
Total assets		**272,354**	254,914
Liabilities			
Shares		**177,967**	170,313
Deposits from banks and similar institutions		**36,425**	27,022
Other deposits		**5,208**	4,522
Fair value adjustment for portfolio hedged risk		**11**	25
Debt securities in issue		**25,629**	27,923
Derivative financial instruments		**1,428**	1,622
Other liabilities		**668**	933
Provisions for liabilities and charges	12	**153**	159
Accruals and deferred income		**299**	307
Subordinated liabilities	11	**8,250**	7,575
Subscribed capital	11	**187**	243
Deferred tax		**430**	150
Current tax liabilities		**-**	7
Total liabilities		**256,655**	240,801
Members' interests and equity			
Core capital deferred shares	15	**1,334**	1,334
Other equity instruments	16	**1,336**	1,336
General reserve		**12,753**	11,140
Revaluation reserve		**46**	44
Cash flow hedge reserve		**184**	195
Other hedging reserve		**(43)**	(46)
Fair value through other comprehensive income reserve		**89**	110
Total members' interests and equity		**15,699**	14,113
Total members' interests, equity and liabilities		**272,354**	254,914

Consolidated statement of movements in members' interests and equity

For the year ended 4 April 2022	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2021	1,334	1,336	11,140	44	195	(46)	110	14,113
Profit for the year	-	-	1,252	-	-	-	-	1,252
Net remeasurements of retirement benefit obligations	-	-	543	-	-	-	-	543
Net revaluation of property	-	-	-	5	-	-	-	5
Net movement in cash flow hedge reserve	-	-	-	-	(11)	-	-	(11)
Net movement in other hedging reserve	-	-	-	-	-	3	-	3
Net movement in FVOCI reserve	-	-	-	-	-	-	(20)	(20)
Total comprehensive income	-	-	1,795	5	(11)	3	(20)	1,772
Reserve transfer	-	-	4	(3)	-	-	(1)	-
Distribution to the holders of core capital deferred shares	-	-	(108)	-	-	-	-	(108)
Distribution to the holders of Additional Tier 1 capital	-	-	(78)	-	-	-	-	(78)
At 4 April 2022	**1,334**	**1,336**	**12,753**	**46**	**184**	**(43)**	**89**	**15,699**

For the year ended 4 April 2021	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020	1,325	593	10,749	48	306	(42)	(17)	12,962
Profit for the year	-	-	618	-	-	-	-	618
Net remeasurements of retirement benefit obligations	-	-	(72)	-	-	-	-	(72)
Net revaluation of property	-	-	-	2	-	-	-	2
Net movement in cash flow hedge reserve	-	-	-	-	(111)	-	-	(111)
Net movement in other hedging reserve	-	-	-	-	-	(4)	-	(4)
Net movement in FVOCI reserve	-	-	-	-	-	-	131	131
Total comprehensive income	-	-	546	2	(111)	(4)	131	564
Reserve transfer	-	-	10	(6)	-	-	(4)	-
Issuance of core capital deferred shares	9	-	-	-	-	-	-	9
Issuance of Additional Tier 1 capital	-	743	-	-	-	-	-	743
Distribution to the holders of core capital deferred shares	-	-	(108)	-	-	-	-	(108)
Distribution to the holders of Additional Tier 1 capital	-	-	(57)	-	-	-	-	(57)
At 4 April 2021	1,334	1,336	11,140	44	195	(46)	110	14,113

Notes to the consolidated financial statements

1. Reporting period

These results have been prepared as at 4 April 2022 and show the financial performance for the year from, and including, 5 April 2021 to this date.

2. Basis of preparation

These consolidated financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended) that are applicable. International accounting standards which have been adopted for use within the UK have also been applied in these consolidated financial statements.

These consolidated financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

The accounting policies adopted for use in the preparation of this Preliminary Results Announcement and which will be used in preparing the Annual Report and Accounts for the year ended 4 April 2022 were included in the 'Annual Report and Accounts 2021' document except as detailed below. Copies of these documents are available at **nationwide.co.uk**

Adoption of new and revised IFRSs

The International Accounting Standards Board (IASB) issued 'Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16' effective for annual reporting periods beginning on or after 1 April 2021. The adoption of this amendment had no significant impact on the Group.

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs that become effective from 1 January 2022 or subsequent years, some of which have not yet been endorsed for use in the UK. These amendments are not expected to have a significant impact for the Group.

IFRS 17 'Insurance Contracts' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. IFRS 17 is effective for accounting periods beginning on or after 1 January 2023 and has not yet been endorsed for use by the UK. The requirements of IFRS 17 are currently being assessed; however, it is not expected that the new standard will have a significant impact for the Group.

Judgements in applying accounting policies and critical accounting estimates

The preparation of the Group's consolidated financial statements in accordance with IFRS involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 4 April 2022, this evaluation has considered the ongoing impacts of Covid-19. In preparing the consolidated financial statements, management has also considered the impact of climate-related risks on its financial position and performance. While the effects of climate change represent a source of uncertainty, the Group does not consider there to be a material impact on its judgements and estimates from physical and transition risks of climate change in the short to medium term.

The key areas involving a higher degree of judgement or areas involving significant sources of estimation uncertainty made by management in applying the Group's accounting policies are disclosed in the following notes.

	Estimates	Judgements
Impairment release/charge and provisions on loans and advances to customers	Note 8	Note 8
Provisions for customer redress	Note 12	
Retirement benefit obligations (pensions)	Note 14	

Going concern

The directors have assessed the Group's ability to continue as a going concern, with reference to current and anticipated market conditions including the ongoing impacts of Covid-19. The directors confirm they are satisfied that the Group has adequate resources to continue in business for a period of not less than 12 months and that it is therefore appropriate to adopt the going concern basis in preparing this preliminary financial information.

3. Interest receivable and similar income

	2022 £m	2021 £m
On financial assets measured at amortised cost:		
Residential mortgages	**4,278**	4,246
Other loans	**531**	557
Other liquid assets	**109**	35
Investment securities	**10**	16
On investment securities measured at FVOCI	**134**	137
On financial instruments hedging assets in a qualifying hedge accounting relationship	**(561)**	(869)
Total interest receivable and similar income calculated using the effective interest rate method	**4,501**	4,122
Interest on net defined benefit pension surplus (note 14)	**4**	7
Other interest and similar expense (note i)	**7**	(5)
Total	**4,512**	4,124

Note:
i. Includes interest on financial instruments hedging assets that are not in a qualifying hedge accounting relationship.

4. Interest expense and similar charges

	2022 £m	2021 £m
On shares held by individuals	**456**	527
On subscribed capital	**13**	14
On deposits and other borrowings:		
Subordinated liabilities	**258**	281
Other	**99**	56
On debt securities in issue	**449**	539
Net income on financial instruments hedging liabilities	**(325)**	(439)
Total	**950**	978

5. Other operating income/expense

	2022 £m	2021 £m
Gains on financial assets measured at FVTPL	**9**	-
Gains on disposal of FVOCI investment securities	**47**	41
Other expense	**(8)**	(50)
Total	**48**	(9)

Other expense for the Group primarily includes write downs of inventory, gains and losses relating to previous investment disposals and other property-related amounts. For the year ended 4 April 2021, other expense included losses of £37 million realised from the repurchase of £2.1 billion of covered bonds issued under the Nationwide Covered Bond programme. There were no gains or losses on disposal of financial assets measured at amortised cost in the year ended 4 April 2022 (2021: £nil).

6. Losses/gains from derivatives and hedge accounting

As a part of its risk management strategy, the Group uses derivatives to economically hedge financial assets and liabilities. Hedge accounting is employed by the Group to minimise the accounting volatility associated with the change in fair value of derivative financial instruments. This volatility does not reflect the economic reality of the Group's hedging strategy. The Group only uses derivatives for the hedging of risks; however, income statement volatility can still arise due to hedge accounting ineffectiveness or because hedge accounting is either not applied or is not currently achievable. The overall impact of derivatives will remain volatile from period to period as new derivative transactions replace those which mature to ensure that interest rate and other market risks are continually managed.

	2022 £m	2021 £m
Losses from fair value hedge accounting	**(21)**	-
Gains/(losses) from cash flow hedge accounting	**2**	(1)
Fair value gains from other derivatives (note i)	**13**	45
Foreign exchange retranslation (note ii)	**(1)**	(10)
Total	**(7)**	34

Notes:

i. This category includes derivatives used for economic hedging purposes, but which are not currently in a hedge accounting relationship, as well as valuation adjustments which are applied at a portfolio level and so are not allocated to individual hedge accounting relationships.

ii. Gains or losses arise from the retranslation of foreign currency monetary items not subject to effective hedge accounting.

Losses from fair value hedge accounting include losses of £5 million (2021: gains of £50 million) from macro hedges, due to hedge ineffectiveness and the amortisation of existing balance sheet amounts, and losses of £16 million (2021: £50 million) relating to micro hedges which arise due to a combination of hedge ineffectiveness, disposals and restructuring, and the amortisation of existing balance sheet amounts. Fair value gains from other derivatives include gains of £33 million (2021: £2 million) from derivatives that are economically hedging investment securities but where hedge accounting is not possible, and losses of £15 million (2021: gains of £49 million) caused by a widening of bid-offer spreads.

7. Administrative expenses

	2022 £m	2021 £m
Employee costs:		
Wages and salaries	**542**	570
Bonuses	**64**	30
Social security costs	**71**	72
Pension costs	**145**	180
	822	852
Other administrative expenses	**801**	742
Bank levy	**16**	27
Depreciation, amortisation and impairment	**595**	597
Total	**2,234**	2,218

8. Impairment release/charge and provisions on loans and advances to customers

The following tables set out the impairment release/charge for the year and the closing provision balances which are deducted from the relevant asset values in the balance sheet:

Impairment (release)/charge	2022 £m	2021 £m
Prime residential	**(19)**	39
Buy to let and legacy residential	**(109)**	32
Consumer banking	**93**	125
Commercial and other lending	**8**	(6)
Total	**(27)**	190

Impairment provisions	2022 £m	2021 £m
Prime residential	**73**	93
Buy to let and legacy residential	**114**	224
Consumer banking	**529**	502
Commercial and other lending	**30**	33
Total	**746**	852

8. Impairment release/charge and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements

Impairment is measured as the impact of credit risk on the present value of management's estimate of future cash flows. In determining the required level of impairment provisions, outputs from statistical models are used, and judgements incorporated to determine the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD) for each loan. Provisions represent a probability weighted average of these calculations under multiple economic scenarios. Model outputs are adjusted with further judgements to reflect model limitations, or where insufficient data exists to fully reflect credit risks in the models.

The most significant areas of judgement are:

- the approach to identifying significant increases in credit risk
- the approach to identifying credit impaired loans.

The most significant areas of estimation uncertainty are:

- the use of forward-looking economic information using multiple economic scenarios
- the additional judgements made in adjustments to modelled expected credit losses (ECL) – these currently include the impact of Covid-19, increased affordability risks due to reductions in household disposable income, and property valuation risk arising from fire safety issues.

The Group has considered the potential impact of climate change on impairment provisions beyond their impact on economic assumptions and has concluded that an adjustment to modelled provisions is not currently appropriate.

Identifying significant increases in credit risk (stage 2)

Loans are allocated to stage 1 or stage 2 according to whether there has been a significant increase in credit risk. Judgement has been used to select both quantitative and qualitative criteria which are used to determine whether a significant increase in credit risk has taken place. These criteria are detailed within the Credit risk section of the Risk report. The primary quantitative indicators are the outputs of internal credit risk assessments. While different approaches are used within each portfolio, the intention is to combine current and historical data relating to the exposure with forward-looking economic information to determine the probability of default (PD) at each reporting date. For retail loans, the main indicators of a significant increase in credit risk are either of the following:

- the residual lifetime PD exceeds a benchmark determined by reference to the maximum credit risk that would have been accepted at origination
- the residual lifetime PD is at least 75bps more than, and at least double, the original lifetime PD.

These complementary criteria have been reviewed through detailed back-testing, using management performance indicators and actual default experience, and found to be effective in capturing events which would constitute a significant increase in credit risk.

Identifying credit impaired loans (stage 3)

The identification of credit impaired loans is an important judgement within the IFRS 9 staging approach. A loan is credit impaired either if it has an arrears status of more than 90 days past due, or is considered to be in default, or it is considered unlikely that the borrower will repay the outstanding balance in full, without recourse to actions such as realising security.

8. Impairment release/charge and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Use of forward-looking economic information

Management exercises judgement in estimating future economic conditions which are incorporated into provisions through modelling of multiple scenarios. The economic scenarios are reviewed and updated on a quarterly basis. The provision recognised is the probability-weighted sum of the provisions calculated under a range of economic scenarios. The scenarios and associated probability weights are derived using external data and statistical methodologies, together with management judgement. The Group continues to model four economic scenarios, which together encompass an appropriate range of potential economic outcomes, including the potential impacts of climate change. The base case scenario is aligned to the Group's financial planning process. The upside and downside scenarios are reasonably likely favourable and adverse alternatives to the base case, and the severe downside scenario is aligned with the Group's internal stress testing. The impact of applying multiple economic scenarios (MES) is to increase provisions by £98 million (2021: £159 million), compared with provisions based on the base case economic scenario.

Probability weightings for each scenario are reviewed quarterly and updated to reflect economic conditions as they evolve. The changes in scenario weightings during the period primarily reflect the improvement in economic outlook during 2021. The downside scenario weighting reduced (and upside scenario weighting increased) in the first half of the year as Covid-19 related risks reduced, but this trend partially reversed at the year end to reflect increased risks associated with rising inflation and increased levels of economic uncertainty as a result of Russia's invasion of Ukraine. The probability weightings applied to the scenarios are shown in the table below:

Scenario probability weighting (%)	Upside scenario	Base case scenario (note i)	Downside scenario	Severe downside scenario
4 April 2022	**20**	**40**	**25**	**15**
30 September 2021	30	40	20	10
4 April 2021	10	40	40	10

Note:

i. The base case scenario was previously referred to as the central scenario.

In the base case scenario at 4 April 2022, GDP recovers in line with the assumptions used in the base case scenario at 4 April 2021. The end of the government support schemes was previously expected to result in an increase in the unemployment rate; however, the resilience of the labour market to date has resulted in the forecast peak unemployment rate reducing to 4.2% (4 April 2021: 8.0%) in this scenario. For the same reason, a reduction to the peak unemployment rate has been made in each of the economic scenarios. House price growth in all scenarios has been driven by increased demand since the start of the pandemic, a limited supply of properties and also by policy support, including the stamp duty holiday. Base case scenario house price growth is more favourable than assumed at 4 April 2021 with reductions in house prices no longer expected, albeit with growth below long-term rates due to affordability pressures in the short term. The downside scenario assumes that house prices fall from autumn 2022, driven by deterioration in labour market conditions.

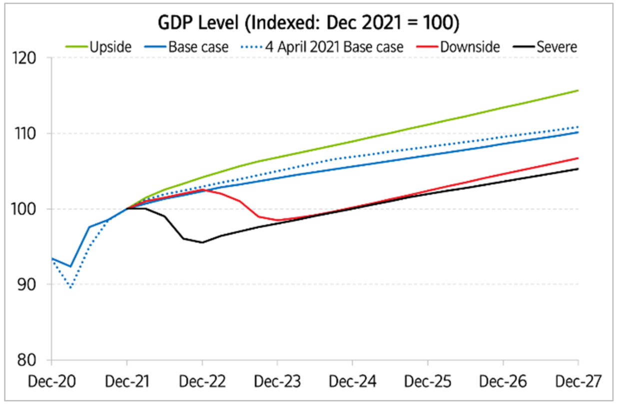
The bank base rate is forecast to increase to 1.25% by Q1 2023 in the base case scenario, reflecting tighter fiscal policy to mitigate inflation. Real incomes decline in each of the economic scenarios due to a rise in living costs, with inflation in the base case scenario expected to reach 7.5% during 2022; this increases to 10% in the downside scenario. The severe downside scenario reflects a severe long-lasting impact on the UK economy.

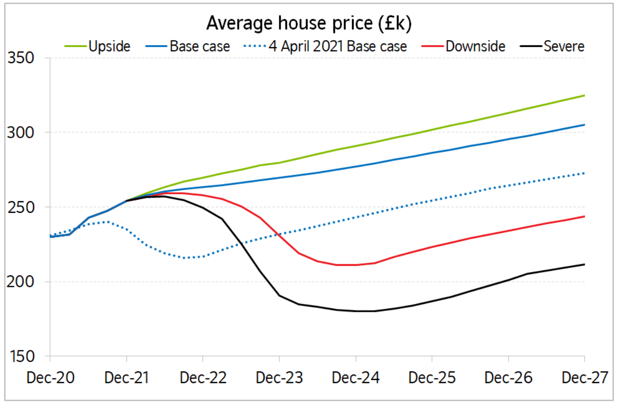
During the year, judgements made in estimating losses in the severe downside scenario have been incorporated into the provision models and an adjustment to model outputs is no longer required, with all risks in the scenario now reflected through modelled probability of default (2021: adjustment to provisions of £102 million).

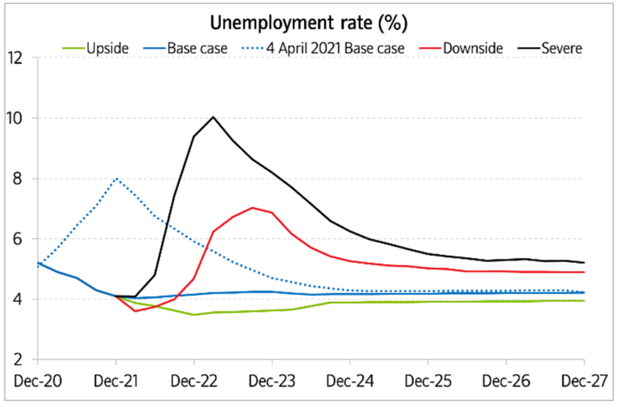
8. Impairment release/charge and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The graphs below show the historical and forecasted GDP level, average house price and unemployment rate for the Group's current economic scenarios, as well as the previous base case economic scenario.







The tables below provide a summary of the values of the key UK economic variables used within the economic scenarios over the first five years of the scenario.

Economic variables	Rate/annual growth rate at December 2021-2026						5-year average (note i)	Dec-21 to peak (notes ii and iii)	Dec-21 to trough (notes ii and iii)
	Actual	Forecast							
	2021	2022	2023	2024	2025	2026			
4 April 2022	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	8.3	4.2	2.5	2.0	2.0	2.0	2.5	13.4	1.5
Base case scenario	8.3	2.3	1.7	1.5	1.4	1.4	1.7	8.6	0.7
Downside scenario	8.3	2.5	(3.9)	1.7	2.2	2.2	0.9	4.6	(1.5)
Severe downside scenario	8.3	(4.5)	2.6	2.0	1.9	1.6	0.7	3.6	(4.5)
HPI growth									
Upside scenario	10.6	6.1	3.7	4.0	3.8	3.8	4.3	23.2	2.0
Base case scenario	10.6	3.5	2.4	2.8	3.2	3.2	3.1	16.2	1.5
Downside scenario	10.6	1.5	(10.6)	(8.4)	5.6	5.0	(1.6)	2.0	(16.9)
Severe downside scenario	10.6	(1.8)	(23.6)	(5.5)	3.7	7.7	(4.6)	1.2	(29.2)
Unemployment									
Upside scenario	4.1	3.5	3.6	3.9	3.9	3.9	3.8	3.9	3.5
Base case scenario	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.0
Downside scenario	4.1	4.7	6.9	5.3	5.0	4.9	5.3	7.0	3.6
Severe downside scenario	4.1	9.4	8.2	6.2	5.5	5.3	6.7	10.0	4.1
Consumer price inflation									
Upside scenario	5.4	5.0	1.6	1.9	2.0	2.0	2.9	7.5	1.3
Base case scenario	5.4	5.0	1.8	1.7	2.0	2.0	2.9	7.5	1.6
Downside scenario	5.4	10.0	1.0	0.3	0.3	1.2	3.1	10.0	0.3
Severe downside scenario	5.4	3.0	(0.2)	0.0	0.0	0.1	1.2	7.0	(0.4)

8. Impairment release/charge and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Economic variables									
	Rate/annual growth rate at December 2020-2025						5-year average (note i)	Dec-20 to peak (notes ii and iii)	Dec-20 to trough (notes ii and iii)
	Actual (note iv)	Forecast							
	2020	2021	2022	2023	2024	2025			
4 April 2021	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	(7.8)	10.6	2.6	2.0	2.0	1.6	3.7	20.0	(3.2)
Base case scenario	(7.8)	7.2	2.9	2.0	1.8	1.2	3.0	16.0	(4.0)
Downside scenario	(7.8)	2.0	4.6	2.8	2.0	1.6	2.6	13.6	(6.2)
Severe downside scenario	(7.8)	(3.2)	3.9	2.0	2.0	1.6	1.2	6.3	(8.5)
HPI growth									
Upside scenario	7.0	7.5	3.0	3.9	3.5	3.5	4.3	23.4	2.0
Base case scenario	7.0	1.9	(7.8)	6.9	4.9	4.7	2.0	10.2	(6.6)
Downside scenario	7.0	(2.2)	(14.7)	8.0	4.7	3.5	(0.5)	1.9	(16.9)
Severe downside scenario	7.0	(5.9)	(22.8)	(3.5)	8.8	7.2	(4.0)	0.8	(29.9)
Unemployment									
Upside scenario	5.1	5.3	4.3	3.9	3.9	3.9	4.4	5.7	3.9
Base case scenario	5.1	8.0	5.9	4.7	4.3	4.3	5.4	8.0	4.3
Downside scenario	5.1	9.5	7.4	5.8	5.1	5.0	6.5	9.5	5.0
Severe downside scenario	5.1	12.0	10.0	8.6	7.0	5.7	8.5	12.0	5.7
Consumer price inflation (CPI)									
Upside scenario	0.5	0.6	1.3	1.5	1.8	2.1	1.4	2.1	0.5
Base case scenario	0.5	0.6	1.0	1.3	1.5	1.5	1.1	1.5	0.5
Downside scenario	0.2	0.6	0.7	1.0	1.2	1.2	0.9	1.2	0.3
Severe downside scenario	0.2	0.6	(0.2)	(0.4)	0.0	0.0	(0.0)	0.6	(0.4)

Notes:

i. The average rate for GDP and HPI is based on the cumulative annual growth rate over the forecast period. Average unemployment and CPI is calculated using a simple average using quarterly points.
ii. GDP growth and HPI are shown as the largest cumulative growth/fall from 31 December over the forecast period.
iii. The unemployment rate and CPI is shown as the highest/lowest rate over the forecast period from 31 December.
iv. The 2020 actual data as presented in the Annual Report and Accounts 2021 has been updated to reflect the most recent published economic data.

8. Impairment release/charge and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

To give an indication of the sensitivity of ECLs to different economic scenarios, the table below shows the ECL if 100% weighting is applied to each scenario:

Sensitivity analysis impact of multiple economic scenarios	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported provision
4 April 2022	**£m**	**£m**	**£m**	**£m**	**£m**
Residential mortgages	**134**	**131**	**184**	**465**	**187**
Consumer banking	**476**	**487**	**525**	**740**	**529**
Commercial lending	**29**	**30**	**30**	**31**	**30**
Total	**639**	**648**	**739**	**1,236**	**746**
4 April 2021	£m	£m	£m	£m	£m
Residential mortgages	158	212	261	998	317
Consumer banking	428	449	458	916	502
Commercial lending	29	32	34	38	33
Total	615	693	753	1,952	852

Proportion of balances in stage 2	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario (note i)	Reported
4 April 2022	**%**	**%**	**%**	**%**	**%**
Residential mortgages	**8.9**	**8.0**	**8.8**	**23.9**	**8.3**
Consumer banking	**34.4**	**36.2**	**42.4**	**58.7**	**37.1**
Commercial lending	**2.9**	**2.9**	**2.9**	**2.9**	**2.9**
4 April 2021	%	%	%	%	%
Residential mortgages	5.9	5.4	5.9	6.4	5.6
Consumer banking	20.1	22.1	26.1	31.0	22.5
Commercial lending	3.5	3.5	3.7	3.9	3.5

Note:

i. The 2021 severe scenario stage 2 proportion reflects only the modelled output and not the additional ECL added on through judgement. During the year these judgements have been incorporated into the provision models.

The expected losses in the severe downside scenario have reduced over the period, primarily reflecting improvements in the economic assumptions in this scenario, particularly the house price increases over the past year and the projections for future unemployment rates.

The ECL for each scenario multiplied by the scenario probability will not reconcile to the overall provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the overall provision calculation; this is based on a weighted average PD which takes into account the economic scenarios. A probability weighted 12-month or lifetime ECL (which takes into account the economic scenarios) is then calculated based on the stage allocation.

The table below shows the sensitivity at 4 April 2022 to some of the key assumptions used within the ECL calculation:

Sensitivity to key forward-looking information assumptions	Increase in provision
2022	**£m**
Single-factor sensitivity to key economic variables (note i)	
10% decrease in house prices (HPI) at 4 April 2022 and throughout the forecast period (note ii)	**12**
1% increase in unemployment at 4 April 2022 and throughout the forecast period (note iii)	**12**
Sensitivity to changes in scenario probability weightings	
10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%)	**10**
5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%)	**25**

Notes:

i. As these are single-factor sensitivities, they should not be extrapolated due to the likely non-linear effects.

ii. Base case scenario impact on LGD.

iii. Base case scenario impact on PD.

8. Impairment release/charge and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

The table below shows the adjustments made to modelled provisions in relation to the significant areas of estimation uncertainty for the retail portfolios (residential mortgages and consumer banking), with further details provided on the following pages. There are no significant areas of estimation uncertainty for the commercial portfolio.

Significant adjustments to modelled ECL	4 April 2022			4 April 2021		
	Residential Mortgages	Consumer Banking	Total	Residential Mortgages	Consumer Banking	Total
	£m	£m	£m	£m	£m	£m
Impact of affordability pressures on future credit performance	11	98	109	-	-	-
Impact on expected credit losses of Covid-19:						
Temporary improvement in credit performance	2	48	50	21	36	57
Payment deferrals/relationship between GDP and expected defaults	-	-	-	36	63	99
Property valuation risk arising from fire safety issues	25	-	25	23	-	23
Level of future recoveries for retail lending	-	-	-	33	22	55

Impact of affordability pressures on future credit performance

Household disposable income is forecast to decrease in each of the four economic scenarios as a result of inflationary increases in the cost of living, combined with higher interest rates and National Insurance contributions. This is expected to increase the risk that borrowers will not be able to meet their contractual repayments, resulting in an increase in default rates. The data used in developing the provisioning models did not include a period of high inflation, and therefore, management's judgement is that an adjustment to modelled provisions is required to fully reflect this risk.

This adjustment assumes an increase in the relationship between reduced disposable monthly income and default rates, particularly for borrowers with estimated negative disposable income. The impact of both reduced disposable monthly income and the relationship it has with default rates is to increase the PD at a borrower level, and this has increased provisions by £109 million (residential mortgages £11 million and consumer banking £98 million). When combined with other adjustments, this also results in approximately £4.6 billion of residential mortgages and £700 million of consumer banking balances moving from stage 1 to stage 2. A 1% increase in the inflation assumption applied in calculating this adjustment would increase consumer banking provisions by £13 million.

Impact on expected credit losses of Covid-19 (including government furlough and other support initiatives)

Temporary improvement in credit performance

Since the start of the Covid-19 pandemic arrears balances have reduced across all products, resulting in a reduction in modelled provisions. As at 4 April 2021, management judged this to be a temporary position due to the availability of government support and payment deferral schemes, and an adjustment was made to recognise the underlying risk, leading to provisions of £57 million being held (residential mortgages £21 million and consumer banking £36 million).

During the year, a new methodology has been developed which models the extent to which the improvement in observed borrower credit quality since the start of the pandemic is judged to be temporary. This new adjustment replaces the earlier provisions, resulting in an adjustment to provisions of £50 million at 4 April 2022, of which £2 million relates to residential mortgages and £48 million relates to consumer banking.

8. Impairment release/charge and provisions on loans and advances to customers (continued)

Critical accounting estimates and judgements (continued)

Payment deferrals/relationship between GDP and expected defaults

At 4 April 2021, two further adjustments were made to reflect the impact of Covid-19 which are no longer judged to be required. Firstly, a proportion of loans which were granted payment deferrals were judged to carry an increased risk. This adjustment increased provisions by £74 million, of which £36 million related to residential mortgages and £38 million related to consumer banking. Since there is now at least twelve months credit performance data for these borrowers following the end of the payment deferrals, the adjustment is no longer required. Secondly, an adjustment was made to smooth the impacts of the fluctuations in GDP on model outputs, in order to maintain provision levels consistent with a more comprehensive consideration of economic conditions. This adjustment increased the provisions on consumer banking portfolios by £25 million. Following the relative stabilisation of GDP this adjustment is no longer required.

Property valuation risk arising from fire safety issues

An adjustment is made to reflect the property valuation risk associated with flats subject to fire safety issues such as unsuitable cladding. Due to limited data available to identify affected properties individually, it is assumed that a proportion of the flats securing loans in the residential mortgage portfolios is affected, in line with UK market exposure estimates. Assumptions relating to property values have been applied based upon the height of the affected buildings. The provision adjustment is £25 million (4 April 2021: £23 million), of which £8 million relates to buildings with six or more storeys.

Level of future recoveries for retail lending

At 4 April 2021, estimation uncertainty was disclosed for the level of recoveries expected on residential mortgages (£33 million) and consumer banking (£22 million). These judgements have now been incorporated into the governed credit risk models and therefore are not included in the list of adjustments to modelled provisions at the reporting date. The judgements and their impact were materially unchanged over the year.

9. Taxation

Tax charge in the income statement	**2022** **£m**	2021 £m
Current tax:		
UK corporation tax	**368**	226
Adjustments in respect of prior years	**(19)**	(6)
Total current tax	**349**	220
Deferred tax:		
Current year credit	**(1)**	(26)
Adjustments in respect of prior years	**(4)**	16
Effect of deferred tax provided at different tax rates	**1**	(5)
Total deferred taxation	**(4)**	(15)
Tax charge	**345**	205

9. Taxation (continued)

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

Reconciliation of tax charge	2022	2021
	£m	£m
Profit before tax:	**1,597**	823
Tax calculated at a tax rate of 19%	**303**	156
Adjustments in respect of prior years	**(23)**	10
Tax credit on distribution to the holders of Additional Tier 1 capital	**(15)**	(12)
Banking surcharge	**72**	38
Temporary differences where no deferred tax is recognised	**1**	2
Expenses not deductible for tax purposes/(income not taxable):		
Depreciation on non-qualifying assets	**2**	2
Bank levy	**3**	5
Customer redress	**4**	8
Other	**(3)**	1
Effect of deferred tax provided at different tax rates	**1**	(5)
Tax charge	**345**	205

10. Loans and advances to customers

	2022						2021					
	Loans held at amortised cost				**Loans held at FVTPL**	**Total**	Loans held at amortised cost				Loans held at FVTPL	Total
	Gross	**Provisions**	**Other (note i)**	**Total**			Gross	Provisions	Other (note i)	Total		
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Prime residential mortgages	**154,363**	**(73)**	**-**	**154,290**	**64**	**154,354**	149,706	(93)	-	149,613	68	149,681
Buy to let and legacy residential mortgages	**43,693**	**(114)**	**-**	**43,579**	**-**	**43,579**	41,249	(224)	-	41,025	-	41,025
Consumer banking	**4,638**	**(529)**	**-**	**4,109**	**-**	**4,109**	4,404	(502)	-	3,902	-	3,902
Commercial and other lending	**5,453**	**(30)**	**549**	**5,972**	**52**	**6,024**	6,267	(33)	653	6,887	52	6,939
Total	**208,147**	**(746)**	**549**	**207,950**	**116**	**208,066**	201,626	(852)	653	201,427	120	201,547

Note:
i. 'Other' represents a fair value adjustment for micro hedged risk for commercial loans that were previously hedged on an individual basis.

10. Loans and advances to customers (continued)

The tables below summarise the movements in, and stage allocations of, gross loans and advances to customers held at amortised cost, including the impact of ECL impairment provisions and excluding the fair value adjustment for micro hedged risk. The lines within the tables are an aggregation of monthly movements over the year. Residential mortgages represent the majority of the Group's loans and advances to customers. Additional tables summarising the movements for the Group's residential mortgages and consumer banking are presented in the Credit risk section of the Risk report.

The reasons for key movements shown in the table below are as follows:

- The movement in gross balances is principally a result of £37,853 million of new lending, offset by a reduction of £31,219 million from repayments and redemptions. The majority of these movements relate to residential mortgages.
- Of the £100 million of write-offs, £83 million relates to consumer banking, £5 million to residential mortgages and £12 million to commercial and other lending.
- Impairment provisions decreased by £106 million in the period to £746 million. Further detail on the impairment provision release or charge by portfolio is shown in note 8.

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				**Credit impaired (note i)**			
	Subject to 12-month ECL		**Subject to lifetime ECL**		**Subject to lifetime ECL**		**Total**	
	Stage 1		**Stage 2**		**Stage 3 and POCI**			
	Gross balances	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**	**Gross balances**	**Provisions**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 5 April 2021	187,839	116	11,868	388	1,919	348	201,626	852
Stage transfers:								
Transfers from stage 1 to stage 2	**(26,307)**	**(70)**	**26,307**	**70**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(271)**	**(2)**	**(766)**	**(104)**	**1,037**	**106**	**-**	**-**
Transfers from stage 2 to stage 1	**18,108**	**287**	**(18,108)**	**(287)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**283**	**4**	**440**	**30**	**(723)**	**(34)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(250)**		**316**		**2**		**68**
Net movement arising from transfer of stage (note ii)	**(8,187)**	**(31)**	**7,873**	**25**	**314**	**74**	**-**	**68**
New assets originated or purchased (note iii)	**37,853**	**47**	**-**	**-**	**-**	**-**	**37,853**	**47**
Net impact of further lending and repayments (note iv)	**(8,832)**	**(32)**	**(257)**	**(29)**	**(89)**	**(21)**	**(9,178)**	**(82)**
Changes in risk parameters in relation to credit quality (note v)	**-**	**(47)**	**-**	**14**	**-**	**30**	**-**	**(3)**
Other items impacting income statement (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(21)**	**-**	**(21)**
Redemptions (note vi)	**(20,543)**	**(5)**	**(1,158)**	**(18)**	**(327)**	**(13)**	**(22,028)**	**(36)**
Income statement release for the year								**(27)**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(126)**	**(100)**	**(126)**	**(100)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**21**	**-**	**21**
At 4 April 2022	**188,130**	**48**	**18,326**	**380**	**1,691**	**318**	**208,147**	**746**
Net carrying amount		**188,082**		**17,946**		**1,373**		**207,401**

10. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions								
	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020 (note vii)	188,403	75	10,690	269	1,802	341	200,895	786
Stage transfers:								
Transfers from stage 1 to stage 2	(19,556)	(61)	19,556	61	-	-	-	-
Transfers to stage 3	(419)	-	(972)	(126)	1,391	126	-	-
Transfers from stage 2 to stage 1	16,910	320	(16,910)	(320)	-	-	-	-
Transfers from stage 3	257	2	560	25	(817)	(27)	-	-
Net remeasurement of ECL arising from transfer of stage		(244)		360		(9)		107
Net movement arising from transfer of stage (note ii)	(2,808)	17	2,234	-	574	90	-	107
New assets originated or purchased (note iii)	32,014	45	-	-	-	-	32,014	45
Net impact of further lending and repayments (note iv)	(10,100)	(52)	(162)	(26)	(58)	(21)	(10,320)	(99)
Changes in risk parameters in related to credit quality (note v)	-	37	-	157	-	78	-	272
Other items impacting income statement (including recoveries)	-	-	-	-	-	(12)	-	(12)
Redemptions (note vi)	(19,670)	(6)	(894)	(12)	(252)	(4)	(20,816)	(22)
Reversal of additional Covid-19 provision (note vii)								(101)
Income statement charge for the year								190
Decrease due to write-offs	-	-	-	-	(147)	(136)	(147)	(136)
Other provision movements	-	-	-	-	-	12	-	12
At 4 April 2021	187,839	116	11,868	388	1,919	348	201,626	852
Net carrying amount		187,723		11,480		1,571		200,774

Notes:

i. Group gross balances of credit impaired loans include £135 million (2021: £148 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL impairment provisions of £5 million (2021: £5 million).

ii. The remeasurement of provisions arising from a change in stage is reported within the stage to which the assets are transferred.

iii. If a new asset is generated in the month, the value included is the closing gross balance and provision for the month. All new business written is included in Stage 1.

iv. This comprises further lending and capital repayments where the asset is not derecognised. The value for gross balances is calculated as the closing gross balance for the month less the opening gross balance for the month. The value for provisions is calculated as the change in exposure at default (EAD) multiplied by opening provision coverage for the month.

v. This comprises changes in risk parameters, and changes to modelling inputs and methodology. The provision movement for the change in risk parameters is calculated for assets that do not move stage in the month.

vi. For any asset that is derecognised in the month, the value disclosed is the provision at the start of that month.

vii. At 5 April 2020, an additional provision for credit losses of £101 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 5 April 2020, this additional provision was not allocated to underlying loans nor was it attributed to stages. The provision was allocated to underlying loans and is reflected in the movements within the table and the 4 April 2021 position.

10. Loans and advances to customers (continued)

Asset backed funding

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for the Bank of England's (BoE) Term Funding Scheme with additional incentives for SMEs (TFSME) and other short-term liquidity facilities. The programmes have enabled the Group to obtain secured funding. Mortgages pledged and the carrying values of the notes in issue are as follows:

Mortgages pledged to asset backed funding programmes										
	2022					2021				
		Notes in issue					Notes in issue			
	Mortgages pledged (note i)	Held by third parties (note ii)	Held by the Group Drawn (note iii)	Held by the Group Undrawn (note iv)	Total notes in issue	Mortgages pledged (note i)	Held by third parties (note ii)	Held by the Group Drawn (note iii)	Held by the Group Undrawn (note iv)	Total notes in issue
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Covered bond programme	20,189	12,879	-	-	12,879	23,611	15,640	-	-	15,640
Securitisation programme	10,644	2,954	-	2,655	5,609	12,779	2,865	-	2,505	5,370
Whole mortgage loan pools	29,511	-	21,701	-	21,701	21,479	-	16,430	-	16,430
Total	60,344	15,833	21,701	2,655	40,189	57,869	18,505	16,430	2,505	37,440

Notes:

i. Mortgages pledged include £9.7 billion (2021: £13.9 billion) in the covered bond and securitisation programmes that are in excess of the amount contractually required to support notes in issue.

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

iii. Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn with the BoE under the TFSME. At 4 April 2022 the Group had outstanding TFSME drawings of £21.7 billion (2021: TFSME £16.4 billion).

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

Mortgages pledged under the Nationwide Covered Bond programme provide security for issues of covered bonds made by the Group. During the year ended 4 April 2022, £0.4 billion (sterling equivalent) of notes were issued, and £2.4 billion (sterling equivalent) of notes matured.

The securitisation programme notes are issued by Silverstone Master Issuer plc, which is fully consolidated into the accounts of the Group. The issuance proceeds are used to purchase, for the benefit of note holders, a share of the beneficial interest in the mortgages pledged by the Group. The remaining beneficial interest in the pledged mortgages of £4.8 billion (2021: £7.2 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2022, £0.7 billion (sterling equivalent) of notes were issued, and £0.6 billion (sterling equivalent) of notes matured.

The whole mortgage loan pools are pledged at the BoE Single Collateral Pool. Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. At 4 April 2022, £29.5 billion (2021: £21.5 billion) of pledged collateral supported £21.7 billion of TFSME drawdowns (2021: TFSME £16.4 billion).

In accordance with accounting standards, notes in issue and held by the Group are not recognised in the consolidated balance sheet. Mortgages pledged are not derecognised from the consolidated balance sheet as the Group has retained substantially all the risks and rewards of ownership. The Group continues to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

11. Subordinated liabilities and subscribed capital

	2022 £m	2021 £m
Subordinated liabilities		
Senior non-preferred notes and Tier 2 eligible subordinated notes	**8,351**	7,292
Fair value hedge accounting adjustments	**(81)**	305
Unamortised premiums and issue costs	**(20)**	(22)
Total	**8,250**	7,575
Subscribed capital		
Permanent interest-bearing shares	**173**	212
Fair value hedge accounting adjustments	**15**	33
Unamortised premiums and discounts	**(1)**	(2)
Total	**187**	243

All of the Society's subordinated liabilities and permanent interest-bearing shares (PIBS) are unsecured. The Society may, with the prior consent of the Prudential Regulation Authority (PRA), repay the PIBS and redeem the Tier 2 eligible subordinated notes early. The redemption of senior non-preferred notes does not require regulatory consent. PIBS no longer meet the Capital Requirements Directive IV (CRD IV) definition of capital and have been phased out of the calculation of capital resources at 1 January 2022 under the transitional rules.

Senior non-preferred notes are a class of subordinated liability which rank equally with each other and behind the claims against the Society of all depositors, creditors and investing members other than holders of Tier 2 eligible subordinated notes, PIBS, Additional Tier 1 (AT1) instruments and core capital deferred shares (CCDS). Senior non-preferred notes contribute to meeting the Society's minimum requirement for own funds and eligible liabilities (MREL) and loss absorbing requirements. The Tier 2 eligible subordinated notes rank equally with each other and ahead of claims against the Society of holders of PIBS, AT1 instruments and CCDS.

PIBS rank equally with each other. They are deferred shares of the Society and rank behind the claims against the Society of all noteholders, depositors, creditors and investing members of the Society, other than the holders of AT1 and CCDS instruments.

12. Provisions for liabilities and charges

	Customer redress	Other provisions	Total
	£m	£m	£m
At 5 April 2021	124	35	159
Provisions utilised	**(69)**	**(25)**	**(94)**
Charge for the year	**89**	**30**	**119**
Release for the year	**(17)**	**(14)**	**(31)**
Net income statement charge (note i)	**72**	**16**	**88**
At 4 April 2022	**127**	**26**	**153**

Note:

i. The net income statement charge relating to customer redress is included in provisions for liabilities and charges, with the exception of £16 million which is included in administrative expenses. The net income statement charge relating to other provisions is included in administrative expenses, with the exception of £3 million which is included in fee and commission expense.

Whilst there is uncertainty as to the timing of the utilisation of provisions, the Group expects the majority to have been utilised within the next 12 months and that all existing provisions will be utilised in full by 4 April 2026.

Customer redress

During the course of its business, the Group receives complaints from customers in relation to past sales or ongoing administration. The Group is also subject to enquiries from and discussions with its regulators and governmental and other public bodies, including the Financial Ombudsman Service (FOS), on a range of matters. Consideration of customer redress matters may result in a provision, a contingent liability or both, depending upon relevant facts and circumstances. No provision is made where it is concluded that it is not probable that a quantifiable payment will be made; this will include circumstances where the facts are unclear or further time is required to reasonably quantify the expected payment.

At 4 April 2022, the Group holds provisions of £127 million (2021: £124 million) in respect of the potential costs of remediation and redress in relation to issues with historical quality control procedures, past sales and administration of customer accounts, and other regulatory matters.

Provisions for customer redress relating to historical quality control procedures and past administration of customer accounts have been based on detailed reviews completed to date into specific areas of concern and represent the Group's best estimate of the liabilities. As further work is undertaken on these areas, it is possible that the ultimate liabilities may be higher or lower than the amounts provided at 4 April 2022.

Other provisions

Other provisions primarily include amounts for a number of property-related provisions, severance costs and expected credit losses on irrevocable personal loan and mortgage lending commitments.

12. Provisions for liabilities and charges (continued)

Critical accounting estimates and judgements

There is significant estimation uncertainty in determining the probability, timing and amount of any cash outflows associated with customer redress provisions.

Provisions are recognised for matters relating to customer redress where an outflow is probable and can be estimated reliably. Amounts provided are based on management's best estimate of the number of customers impacted and anticipated remediation. As any new matters emerge, an estimate is made of the outcome, although in some cases uncertainties remain as to the eventual costs given the inherent difficulties in determining the number of impacted customers and the amount of any redress applicable.

Sources of significant estimation uncertainty in provisions for customer redress relate specifically to matters in respect of administration of customer accounts and quality control procedures. The key assumption to which the matters are sensitive is the total number of customers expected to receive redress and impacts the provisions as follows:

- if the number of customers expected to receive redress changed by 10%, the provision relating to the administration of customer accounts would change by £2 million
- if the number of customers expected to receive redress changed by 10%, the provision relating to quality control procedures would change by £4 million.

Provisions will be adjusted in future periods as further information becomes available.

13. Contingent liabilities

During the ordinary course of business, the Group may be subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions. Any such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability.

The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote. The Group also does not disclose an estimate of the potential financial impact or effect on the Group of contingent liabilities where it is not currently practicable to do so. The Group does not expect the ultimate resolution of any current complaints, threatened or actual legal proceedings, regulatory or other matters to have a material adverse impact on its financial position.

14. Retirement benefit obligations

The Group operates two defined contribution pension schemes in the UK – the Nationwide Group Personal Pension Plan (GPP) and the Nationwide Temporary Workers Pension Scheme. New employees are automatically enrolled into one of these schemes. Outside of the UK, there is a defined contribution pension scheme for a small number of employees in the Isle of Man.

The Group also has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day-to-day administration. The Group's largest pension scheme is the Nationwide Pension Fund (the Fund). This is a defined benefit pension scheme, with both final salary and career average revalued earnings (CARE) sections. The Fund was closed to new entrants in 2007 and since that date employees have been able to join the GPP. The Fund was closed to future accrual on 31 March 2021. In line with UK pensions legislation, a formal actuarial valuation ('Triennial Valuation') of the assets and liabilities of the Fund is carried out at least every three years by independent actuaries.

In November 2020, Nationwide and the Trustee of the Fund entered into an arrangement whereby Nationwide has agreed to provide £1.7 billion of collateral (a contingent asset) in the form of self-issued Silverstone notes to provide additional security to the Fund. The Fund would have access to these notes in the case of certain events such as insolvency of Nationwide.

Further information on the Group's obligations to defined benefit pension schemes is set out below.

Defined benefit pension schemes

Retirement benefit obligations on the balance sheet		
	2022	2021
	£m	£m
Fair value of fund assets	**7,411**	7,033
Present value of funded obligations	**(6,396)**	(6,853)
Present value of unfunded obligations	**(7)**	(8)
Surplus at 4 April	**1,008**	172

Most members of the Fund can draw their pension when they reach the Fund's retirement age of 65. The methodologies for calculating the level of pension benefits accrued before 1 April 2011 varied; however, most were based on 1/54th of final salary for each year of service. Pension benefits accrued after 1 April 2011 until 31 March 2021 were usually based on 1/60th of average earnings, revalued to the age of retirement, for each year of service (also called CARE). From 1 April 2021, members moved from active to deferred status, with future indexation of deferred pensions before retirement measured by reference to the Consumer Price Index (CPI). On the death of a Fund member, benefits may be payable in the form of a spouse/dependant's pension, lump sum (paid within five years of a Fund member beginning to take their pension), or refund of Fund member contributions.

14. Retirement benefit obligations (continued)

Approximately 68% of the Fund's pension obligations have been accrued in relation to deferred Fund members (current and former employees not yet drawing their pension) and 32% for current pensioners and dependants. The average duration of the Fund's pension obligation is approximately 21 years, reflecting the split of the obligation between deferred members (24 years) and current pensioners (14 years).

The Group's retirement benefit obligations include a surplus of less than £1 million (2021: £1 million deficit) within assets recognised in a subsidiary company, Nationwide (Isle of Man) Limited. This obligation relates to a defined benefit scheme providing benefits based on both final salary and CARE, which was closed to new entrants in 2009. The Group's retirement benefit obligations also include £7 million (2021: £8 million) in respect of unfunded legacy defined benefit arrangements.

Changes in the present value of the net defined benefit asset, including unfunded obligations, are as follows:

Movements in net defined benefit asset		
	2022	2021
	£m	£m
Surplus at 5 April	172	294
Current service cost	**-**	(72)
Past service cost	**-**	(5)
Interest on net defined benefit asset	**4**	7
Return on assets greater than discount rate	**432**	467
Contributions by employer	**1**	66
Administrative expenses	**(5)**	(6)
Actuarial gains/(losses) on defined benefit obligations	**404**	(579)
Surplus at 4 April	**1,008**	172

Following the closure of the Fund to future accrual, in the year ended 4 April 2022 there have been no current service costs (2021: £72 million), past service costs (2021: £5 million) or employer contributions made in respect of future benefit accrual (2021: £65 million).

There have also been no employer deficit contributions required into the Fund in the year ended 4 April 2022 (2021: £nil). Additionally, no employer deficit contributions are scheduled in the year ending 4 April 2023 or in future years under the terms of the current Deficit Recovery Plan. Employer deficit contributions of £1 million (2021: £1 million) were made in respect of the Group's defined benefit scheme in its Nationwide (Isle of Man) Limited subsidiary.

The interest on the net defined benefit asset represents the interest accruing on the liabilities over the year, offset by the interest income on assets. A net interest credit of £4 million was recognised in the year ended 4 April 2022 (2021: £7 million).

The £432 million gain (2021: £467 million) relating to the return on assets greater than the discount rate is driven by increases in value of the Fund's return seeking assets.

14. Retirement benefit obligations (continued)

The £404 million actuarial gain (2021: £579 million actuarial loss) on defined benefit obligations is due to:

- A £390 million gain (2021: £581 million loss) from changes in financial assumptions, driven by a 0.55% increase in the discount rate (which decreases the value of liabilities), partially offset by a 0.35% increase in assumed Retail Price Index (RPI) inflation and 0.40% increase in assumed Consumer Price Index (CPI) inflation (which increase the value of the liabilities).
- A £73 million gain (2021: £41 million loss) arising from the impacts of updates to demographic assumptions and applying the latest industry standard actuarial model for projecting future longevity improvements.
- An experience loss of £59 million (2021: £43 million gain) primarily reflecting the difference between estimates of long-term inflation compared to actual inflation.

The principal actuarial assumptions used are as follows:

Financial assumptions		
	2022	2021
	%	%
Discount rate	**2.55**	2.00
Future pension increases (maximum 5%)	**3.25**	3.00
Retail price index (RPI) inflation	**3.45**	3.10
Consumer price index (CPI) inflation	**2.80**	2.40

Life expectancy assumptions		
	2022	2021
	years	years
Age 60 at 4 April 2022:		
Males	**27.4**	27.6
Females	**29.2**	29.4
Age 60 at 4 April 2042:		
Males	**28.5**	29.0
Females	**30.2**	30.7

The assumptions for mortality rates are based on standard mortality tables which allow for future improvements in life expectancy and are adjusted to represent the Fund's membership. The assumptions made are illustrated in the table above, showing how long the Group would expect the average Fund member to live for after the age of 60, based on reaching that age at 4 April 2022 or in 20 years' time at 4 April 2042.

14. Retirement benefit obligations (continued)

Critical accounting estimates and judgements

The key assumptions used to calculate the defined benefit obligation which represent significant sources of estimation uncertainty are the discount rate, inflation assumptions and mortality assumptions. If different assumptions were used, this could have a material effect on the reported surplus. The sensitivity of the results to these assumptions is shown below:

Change in key assumptions at 4 April 2022	Increase/(decrease) in defined benefit obligation £m
0.1% increase in discount rate	(126)
0.1% increase in inflation assumption	115
1 year increase in life expectancy at age 60 in respect of all members	210

The above sensitivities apply to individual assumptions in isolation. The 0.1% sensitivity to the inflation assumption includes a corresponding 0.1% increase in the future pension increase assumptions.

15. Core capital deferred shares

	Number of shares	CCDS £m	Share premium £m	Total £m
At 4 April 2022	**10,555,500**	**11**	**1,323**	**1,334**
At 4 April 2021	10,555,500	11	1,323	1,334

Core capital deferred shares (CCDS) are a form of Common Equity Tier 1 (CET1) capital which have been developed to enable the Group to raise capital from the capital markets. CCDS are perpetual instruments. They rank equally to each other and are junior to claims against the Society of all depositors, creditors and investing members. Each holder of CCDS has one vote, regardless of the number of CCDS held.

In the event of a winding up or dissolution of the Society and if a surplus was available, the amount that the investor would receive for each CCDS held is limited to the average principal amount in issue, which is currently £126.39 per share.

There is a cap on the distributions that can be paid to holders of CCDS in any financial year. The cap is currently set at £17.91 per share and is adjusted annually in line with CPI. A final distribution of £54 million (£5.125 per share) for the financial year ended 4 April 2021 was paid on 21 June 2021 and an interim distribution of £54 million (£5.125 per share) in respect of the period to 30 September 2021 was paid on 20 December 2021. These distributions have been recognised in the consolidated statement of movements in members' interests and equity.

Since the balance sheet date, the directors have declared a distribution of £5.125 per share in respect of the period to 4 April 2022, amounting in aggregate to £54 million. This has not been reflected in these consolidated financial statements as it will be recognised in the year ending 4 April 2023, by reference to the date at which it was declared.

16. Other equity instruments

	Issuance date	Next reset date	Reset rate	2022 £m	2021 £m
5.875% Additional Tier 1	17 September 2019	20 June 2025	Benchmark gilts + 5.39%	**600**	600
5.75% Additional Tier 1	10 June 2020	20 December 2027	Benchmark gilts + 5.625%	**750**	750
				1,350	1,350
Issuance costs				**(14)**	(14)
Total				**1,336**	1,336

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

The AT1 instruments pay a fully discretionary, non-cumulative fixed rate of interest. Coupons are paid semi-annually in June and December. AT1 instruments have no maturity date but are repayable at the option of the Society from the first reset date, and on every fifth reset date anniversary thereafter. If they are not repaid the interest rate resets.

If the fully loaded CET1 ratio for the Society, on either a consolidated or unconsolidated basis, falls below 7% the AT1 instruments convert to CCDS instruments at the rate of one CCDS share for every £100 of AT1 holding.

Interest payments totalling £78 million were made in the year ended 4 April 2022 (2021: £57 million), representing the maximum non-cumulative fixed coupon amounts. These payments have been recognised in the consolidated statement of movements in member's interest and equity. A coupon payment of £39 million is expected to be paid on 20 June 2022 and will be recognised in the consolidated statement of movements in members' interests and equity in the financial year ending 4 April 2023.

Responsibility statement

The directors confirm that the consolidated financial statements, prepared in accordance with international accounting standards which have been adopted for use within the UK, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the Disclosure Guidance and Transparency Rules (DTR 4.1.12). The Chief Executive's review and the Financial review together include a fair review of the development and performance of the business of the Group, and taken together with the primary financial statements, supporting notes and the Risk report provide a description of the principal risks and uncertainties faced.

A full list of the board of directors will be disclosed in the Annual Report and Accounts 2022.

Signed on behalf of the Board by

Chris Rhodes
Chief Financial Officer

19 May 2022

Other information

The financial information set out in this announcement which was approved by the Board on 19 May 2022 does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The Annual Report and Accounts 2021 have been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Annual Report and Accounts 2022 will be published on the website of Nationwide Building Society, **nationwide.co.uk** The report of the auditor on those accounts is unqualified and did not draw attention to any matters by way of emphasis. The Annual Report and Accounts 2022 will be lodged with the Financial Conduct Authority and the Prudential Regulation Authority following publication.

A copy of this Preliminary report is placed on the website of Nationwide Building Society, **nationwide.co.uk** from 20 May 2022. The directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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