The strength to support our members and communities, today and tomorrow

Annual Report & Accounts 2022

Nationwide Building Society

Welcome

to our Annual Report and Accounts 2022

As a building society, Nationwide is a mutual organisation. We're owned by and run for our members and we are founded on the belief that we can achieve more together than we can alone. In the last year, with all the economic uncertainty around the impact of Covid-19 and the rising cost of living, the Society has focused on reinforcing its financial position as well as helping members with their financial needs.

This means Nationwide remains financially strong to continue to support our members and communities, whatever happens. Now and in the future.

Strategic report

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

How have we helped to build society, nationwide?	3
Our mutual difference is our business model	4
A letter from your Society's Chairman	6
A letter from your Society's Chief Executive	8
Strength to support our members, today and tomorrow	11
How we're building society, nationwide	13
Engaging with our stakeholders	26
Committed to doing the right thing	34
Climate-related financial disclosures	40
Risk overview	48
Financial review	53

Governance

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

Chairman's introduction to the Corporate Governance report	63
Your Board	65
Governance at Nationwide	70
Statement of compliance with the UK Corporate Governance Code 2018	70
Audit Committee report	86
Board Risk Committee report	92
Board IT and Resilience Committee report	95
Nomination and Governance Committee report	99
Report of the directors on remuneration	103
Directors' report	130

Risk report

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

Introduction	134
Managing risk	134
Principal risks and uncertainties	138
Credit risk	139
Liquidity and funding risk	178
Capital risk	190
Market risk	197
Pension risk	206
Business risk	208
Operational and conduct risk	209
Model risk	215

Financial statements

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

Independent auditor's report	218
Income statements	232
Statements of comprehensive income	233
Balance sheets	234
Statements of movements in members' interests and equity	235
Cash flow statements	237
Notes to the financial statements	238

Other information

Including our annual business statement

Annual business statement	318
Underlying profit	321
Forward-looking statements	321
Glossary	321

Strategic report

How have we helped to build society, nationwide?	3
Our mutual difference is our business model	4
A letter from your Society's Chairman	6
A letter from your Society's Chief Executive	8
Strength to support our members, today and tomorrow	11
How we're building society, nationwide	13
Engaging with our stakeholders	26
Committed to doing the right thing	34
Climate-related financial disclosures	40
Risk overview	48
Viability statement	51
Financial review	53

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

Joe Garner
19 May 2022

Our culture and values

Our culture reflects our shared set of values, beliefs and behaviours which are centred around the acronym PRIDE and consider our members at the heart of our decision making.
See page 20 for further information.

pride

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

Financial review page 53
Includes information on financial performance and the main trends and factors which have impacted our financial results.

Risk overview page 48
Includes our approach to managing risks and our assessment of our top and emerging risks.

Key performance indicators page 11
Used to assess our performance based on what matters most to our members.

Strategy page 13
Shares our progress against our five strategic cornerstones.

Our stakeholders page 26
Listening and engaging regularly with our stakeholders is fundamental to the way we do business.

Committed to doing the right thing

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

Our climate change disclosures are on pages 40 to 47

Our Mutual Good Commitments and Environmental, Social and Governance (ESG) disclosures are on pages 36 to 38

Our non-financial information statement is on page 39

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

How have we helped to build society, nationwide?

No. 1 for customer satisfaction
among our peer group for the 10th year running[1]

The UK's most trusted financial brand[2]

One of Glassdoor's top 20 UK companies
for work-life balance[3]

16.3 million members
2021: 16.3 million

Helped 1 in 7 first time buyers
into a home of their own
2021: 1 in 7

Our Member Prize Draw awarded over 56,000 member prizes
totalling £7 million

£1,604 million
underlying profit
2021: £790 million

£1,597 million
statutory profit
2021: £823 million

£325 million
member financial benefit, from better incentives and pricing than the market average
2021: £265 million

5.4% leverage ratio
demonstrating our financial strength
2021: 5.4%

Convened four cross-industry action groups to tackle UK housing challenges[4]

Committed £7.1 million to charitable causes
2021: £7.4 million

Committed to a carbon net-zero future

1 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.
2 Nationwide Brand Guidance Study compiled by Kantar, based on customer and non-customer responses for the 12 months ending March 2022. Financial brands included Nationwide, Barclays, The Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, TSB, Santander, Monzo and Starling Bank.
3 Glassdoor research, analysing over 600,000 reviews by full-time UK-based employees between 1 January 2021 and 28 September 2021.
4 For more information, see Building a national treasure, page 22 and our Future of Home report, published on 26 July 2021 (www.nationwidemediacentre.co.uk/future-of-society/future-of-home).

Our mutual difference is our business model

We're a building society, not a bank. That means we are owned by, and run for, our members: people who have their mortgages, savings or current accounts with us.

Our purpose

Building society, nationwide

We were founded with a strong underlying social purpose, to help people save and buy homes of their own.

And we are guided by this same social purpose today, which we express as building society, nationwide.

Our strategy

Our strategy is directly aligned with our purpose and is centred around five cornerstones. These focus on providing outstanding service and long-term value to our members, remaining a financially strong and secure Society, supporting our colleagues and enabling them to be at their best to serve our members, and being better for wider society too.

You can read more about how we have performed against our cornerstones on page 13.

Our shared cultural values are at the heart of how we deliver our strategy, guiding our decisions, behaviours and how we work together. You can read more about our values on page 20.

Our business model

As a building society, we're focused on retail financial services. We have over 16 million members and we exist to support them with their financial goals, wherever they are in their life, whether that's:

- owning a home – we are the UK's second largest mortgage provider
- saving for the future – we look after almost £1 in every £10 saved in the UK
- managing their everyday finances – one in ten of the UK's current accounts are with us[1]

Around 75% of our funding comes from our members, and over 95% of our lending is secured on residential property[2].

We also support landlords and those who rely on the private rented sector for their long-term housing needs through our buy to let business, The Mortgage Works. This also diversifies our income, and helps us give value back to our members, through better mortgage and savings rates and service.

[1] CACI's Current Account and Savings Database, Stock (February 2022).
[2] The Building Societies Act requires at least 75% of our lending to be secured on residential property and at least 50% of our funding to be from members. For more detail, please see page 318.

Our mutual difference is our business model (continued)

Our stakeholders

- Members
- Colleagues
- Buy to let customers
- Investors
- Communities
- Suppliers
- Regulators and policy makers

Our members are our primary stakeholders, but we also have other important stakeholders who we engage with and consider in our decision making.

We are committed to maintaining good communications and building positive relationships with all our stakeholders. More information on our engagement with stakeholders can be found on page 26.

What makes us different

As a member-owned mutual, we think about profit in a different way from our banking peers as we do not have to pursue profit to pay shareholders dividends. Instead, we balance our need to retain sufficient profit to maintain our financial strength and remain a safe and secure place for our members' money:

Giving better value and service to our members

Investing so that our service and product propositions continue to meet the needs and expectations of our existing and future members

Supporting good causes – we commit at least 1% of our pre-tax profits each year to charitable activities, as voted for by our members in 2007

A letter from Kevin Parry your Society's Chairman

Dear fellow member,

It is my privilege to write to you for the first time as Chairman of our Society. I have spent six years as a non-executive director of Nationwide Building Society. This, together with my work as Chairman of the UK's largest mutual insurer, Royal London, means that I know from experience that mutuals make a unique contribution to UK financial services. They exist and work for their members' interests. Mutuals are guided by a social purpose, as well as commercial needs. I believe they embrace values that help drive higher standards across the whole industry.

During the pandemic, we saw the real human value of being a member of Nationwide: we focused on supporting our members, colleagues and communities through the last two very challenging years. Importantly, we also protected our financial strength. This means we can choose how we use our resources for our members' benefit now and in the future.

As we learn to live with Covid, a devastating human crisis continues in Ukraine. Later in this report, our CEO talks about the ways we are helping to support people in Ukraine. Here, the conflict is contributing to the rising cost of food and energy. We know this will make it hard for some members to meet loan repayments due to Nationwide. We ask them to get in touch with us as soon as they are aware of forthcoming repayment difficulties so that we can do our best to support them.

Highlights of 2021-22

Over the financial year, the Society continued to support members, meet their financial needs, and help them achieve their financial goals. Our colleagues continued to serve our members with genuine care. Following a slight dip during lockdown, our service lead strengthened as the majority of our branches returned to normal opening hours.

We look after our members' money, so being financially resilient is a bedrock of the Society. That is why your Board and management have focused on maintaining Nationwide's financial strength. The Society achieved a very strong financial performance and all our profit is retained for the benefit of our members. Our capital base remains robust and in absolute terms has increased through the year, while changes in industry-wide regulation have resulted in a lower reported Common Equity Tier 1 (CET1) ratio.

As a mutual, we are committed to fulfilling our social, as well as our commercial, purpose. We have protected the high street services many members value. We have committed to working towards a net-zero future by 2050. We are also working with government and industry to find affordable ways to cut carbon emissions from housing, which is critically important given around 16%[1] of UK carbon emissions come from homes. Our five Mutual Good Commitments will help us to build a better society. Through them, we champion better quality homes, financial wellbeing, thriving communities and a more diverse and respectful society. We remain focused on employee wellbeing, inclusion and diversity. You can read about this on page 36.

Board changes

The Board's task is to ensure the Society is run in a way that enables it to deliver long-term value for members. At the same time, we must make sure the Society is built to last, with strong financial foundations.

The Board functions best when it is made up of both established and new directors. On this, there are some changes to report. In 2021, David Roberts and Joe Garner asked the Board to start looking for their successors after eight and six very successful

[1] Department for Business, Energy & Industrial Strategy, 2020 UK Greenhouse Gas Emissions, Final Figures (February 2022).

years as Chair and CEO respectively. Under their leadership, we grew the Society, its membership and its financial strength. In the last six years, we have added 1.5 million more members, £6 billion more capital and also rewarded members with £3.1 billion in member financial benefit, all while remaining first for customer satisfaction for a decade among our peer group[2]. On behalf of the Board and all our members, I would like to thank David and Joe for their dedicated leadership and help in effecting an orderly transition.

I was appointed Chairman of the Society after an independent selection process. Following another rigorous selection process, in June 2022 we welcome Debbie Crosbie as our next CEO. Debbie is a highly experienced financial services executive. As leadership and governance are key to the Society's success, we are pleased to have managed an orderly change of leadership.

Tim Tookey, who has chaired Board Risk Committee, steps down from the Board at this year's AGM. Tim has made an outstanding contribution, leading the Committee through unprecedented risks in the past seven years. The Board thanks Tim for his dedication, experience and insights. We were pleased to welcome Alan Keir, who will succeed Tim (subject to regulatory approval), and Gillian Riley to the Board.

Our Board benefits from the diverse perspectives of its directors. We meet or exceed benchmarks for gender and ethnic diversity. We are also committed to promoting an inclusive and diverse workforce across the Society.

Priorities for the year ahead

There are many challenges ahead. Alongside the suffering in Ukraine, there is likely to be long-lasting and significant economic fallout. Increased energy costs and higher food prices will affect everyone in the UK. On top of this, we are still working through the impact of the pandemic on how we live and work. People and organisations are reconsidering their priorities, with social purpose, climate change and new ways of working becoming more important than ever.

Our Society faces these challenges from a position of strength. Our new CEO, Debbie Crosbie, will help take the Society forward, following a strategic refresh to shape our future for this changing world. We will continue to meet our members' needs, empower our colleagues, and build our communities for years to come.

Our Society has robust finances, a thriving membership, engaged colleagues and a clear purpose. I would like to thank our colleagues and members for their continued support for Nationwide during these difficult times. Their support allows us to deliver on our mutual promise: building society, nationwide.

Kevin Parry

Kevin Parry
Chairman

[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 1 on page 3.

A letter from Joe Garner your Society's Chief Executive

Dear fellow member,

When I was appointed as CEO over six years ago, my main aim was to build on the long track record of the Society's success. And, hopefully, to leave Nationwide in even better health than I found it. While this is for you to judge, I'd like to call out our colleagues' extraordinary contribution, and our members' loyalty during this time of global upheaval.

We've come up against the challenges of a global pandemic. We've faced the disruption of Brexit. And we are now witnessing the desperately tragic events in Ukraine. Our mutual values and our purpose, building society, nationwide, have guided us through this. We've grown our membership. We've protected our financial strength. And we've invested in our colleagues and communities. Last year, we delivered another year of leading service and good value. We helped more people into homes. We committed to net-zero emissions. And we promoted respect in our communities. All underpinned and enabled by our financial strength.

The financial strength of the Society stands us in good stead for whatever the future holds. It gives my successor, Debbie Crosbie, the flexibility to respond to the changing world. In the immediate future, our concerns are for the devastating human and economic consequences of war in Ukraine. We've focused on offering practical support. We've waived fees for international payments. We've facilitated donations to the relief fund and in total, donations by our members, colleagues and a donation of £250,000 from Nationwide have raised over £1,000,000 for the appeal. We're also very much aware of the impact rising energy prices and inflation will have on our members' household finances and are working on ways to support them.

Helping our members to thrive, and building a thriving membership

Nationwide exists to help members buy homes of their own, save for their future and manage their money well. These are the foundations of financial security and wellbeing.

Our overall mortgage lending to homebuyers and landlords grew substantially. Our market share of lending also remained stable, reflecting the good value we were able to offer. We helped over 87,000 people buy their first home, representing one in seven across the UK, thanks to our 95% loan to value mortgages and allowing homebuyers to borrow higher multiples of their salary. There was also strong demand from landlords for buy to let mortgages, in our subsidiary, The Mortgage Works.

We saw strong deposit growth and maintained our market share, reflecting both good value propositions and higher lockdown savings. We have continued to offer above-average interest rates. However, as savings rates depend partly on the interest we earn from mortgages, strong competition in the mortgage market has impacted rates. The introduction of our new current account switching incentive drove an increase in current account switches to the Society, growing our market share to a new record high[3].

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

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 continued to encourage and reward member loyalty, through special rates on some accounts and our first Member Prize Draw. A growing number of members, 3.62 million[5], now choose us for two or more products.

Members benefit from being a part of a mutual in many ways. As well as providing leading service, we aim to provide better pricing and incentives than the market average; we call this our member financial benefit. This benefit rose as increases in bank base rate enabled us to provide more value to our savings members, in addition to the strong ISA products we offered in 2021. However, member financial benefit remains below target, reflecting historically low interest rates and strong mortgage market competition.

Increasing our service lead as we respond to members' needs and aspire to be legendary

We are proud to have been number one for service among our peer group for 10 years running. We rebuilt our service lead 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. However, our ranking fell to joint 22nd, below our target of being in the top 5[7].

We continue to invest in developing our digital capabilities to meet members' changing preferences. Well over half our current account members now enjoy the convenience of our banking app with active mobile users up by 11% to 4.2 million. We are also keen to make our branch services sustainable for the future, for example 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 investing heavily in fraud and scam prevention and prevented £97 million of fraud against members last year. Over 300,000 members used our new Scam Checker Service last year, which offers peace of mind when making bank transfers within the UK.

Strong finances provide solid foundations for the future, ensuring we are built to last

Our financial performance for last year was the strongest on record. Profitability was high as we continued to benefit from the decision to stay open for mortgages early in the pandemic and an economy that did better than expected. This meant we saw growth across our core product areas. Our capital ratios remained very strong. Our leverage ratio, a measure of our ability to withstand economic shocks, continues to be comfortably higher than our minimum regulatory threshold.

The pandemic has accelerated the digital transition. We have invested in building greater capacity and resilience into our payments platforms, systems and controls to meet growing demand.

New ways of working, new opportunities for our people

The pandemic has ushered in new ways of working. Although restrictions have lifted, many of our people can still choose where they work. We do need to balance the needs of work, our fellow colleagues and members with our home lives. That is why we are encouraging our people to use office workspaces when it's important to meet face to face.

We work hard to be an attractive place to work. We were pleased to be one of Glassdoor's top 20 employers for work-life balance in 2021. We received Mind's Gold Award for Workplace Wellbeing too.

In line with our Mutual Good Commitments, we are striving to create an inclusive working environment, one where people can be themselves and thrive. Among other things, colleagues have access to mentoring 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.

Contributing to wider society remains central to our purpose

Thanks to our members' vote, we commit at least 1% of our pre-tax profits to social investment. Improving homes and housing is the main focus of our social investment, in line with our founding purpose.

We gave £4 million through our Community Grants programme to local housing charities or projects, chosen by our members. Over four years we've awarded around £18 million in grants.

We're committed to reducing our environmental impact and we're working towards a net-zero future. It's our ambition to lead the greening of homes in the UK. We work with industry and government to deliver the policy, skills and solutions to reduce the impact of homes.

We continue to offer low-cost green mortgages and home improvement loans through our £1 billion green lending fund.

Confidence in facing into an uncertain world

As the pandemic has rolled straight into another global crisis, it's understandable to feel anxious about the future. However, throughout history, Nationwide Building Society's strong mutual values have enabled us to weather the most difficult challenges. This isn't just about financial resilience. It's also about the ability

[4] Current Account Switch Service data from the last three months of 2016 to the last three months of 2021.
[5] The 3.62 million refers to 'committed members', those who 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.
[6] © 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 1 on page 3.
[7] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2022 and January 2021.

to stand by our members and preserve the long-term health of the Society, even in the darkest of times.

Thank you to you – our members – who are the very essence of our Society

Our members are at the heart of everything we do. I would like to thank our members and my colleagues for your continuing support for the Society. As I hand over to Debbie Crosbie, I am confident that Nationwide is in good hands and well positioned to continue to serve our members, and above all, to preserve the integrity of this truly wonderful and unique organisation. I wish you all the very best for the future.

Joe Garner

Joe Garner
Chief Executive

Strength to support our members, today and tomorrow

As a mutual, we measure our performance based on what matters most to our members – providing excellent service, delivering long-term value and maintaining financial strength.

We aim to support our members and serve their needs, giving them value now and in the future, whilst keeping enough profit to preserve our financial stability.

This year, we exceeded our targets for core products customer satisfaction[1], committed members and leverage ratio. However, the low base rate environment and the highly competitive mortgage market limited the financial benefit we could provide for our members, meaning we missed our target of £400 million for member financial benefit by £75 million. Despite increasing our individual score in the UK Customer Satisfaction Index, we also did not achieve our target of finishing in the top five across all sectors, with a ranking of joint 22nd[2].

As well as aiming to provide better value and service for our members, we also aim to be better for society. For more information on this, see Building a national treasure page 22.

Looking ahead to next year, we have revised our targets upwards for product satisfaction and committed members. Our targets for all-sector satisfaction, member financial benefit and leverage ratio remain the same as this year.

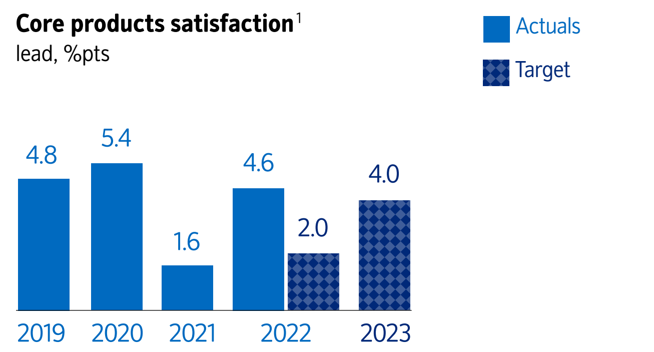
Service

Supporting our members and giving them great service

We aim to be the best for customer satisfaction in our peer group. We have now remained no.1 for customer satisfaction among our peer group for ten years running. Our 4.6%pt lead exceeded our 2%pt target lead[1].

One of our key points of differentiation is our ethic of care, and the service our members experience in our branches. An increase in satisfaction may relate to more members visiting our branches as pandemic-related restrictions were eased over the past year. However, this has been slightly offset by some instances of payment delays during the year, which negatively impacted some of our members.

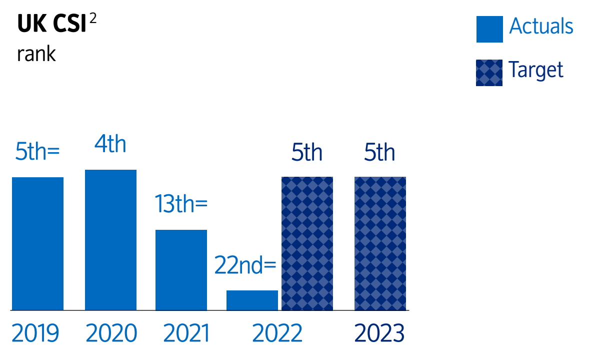
In 2022/23, we will return to targeting a lead of at least 4%pts, instead of 2%pts, in line with our pre-pandemic ambition.



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

Our individual score for customer satisfaction improved compared to the previous year's survey in January 2021, from 82.5 to 83.7 in January 2022. Despite this being 5.3pts ahead of the all-sector average, we ranked joint 22nd in January 2022, below our target. This reflected greater increases in scores for businesses in other sectors, particularly tourism and transport providers.

We will continue to target being among the top five organisations across all sectors for customer satisfaction in 2022/23.



[1] © 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 1 on page 3.
[2] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January in each year. Scores of 83.7 and 82.5 are based on an index out of 100.

Strength to support our members, today and tomorrow (continued)

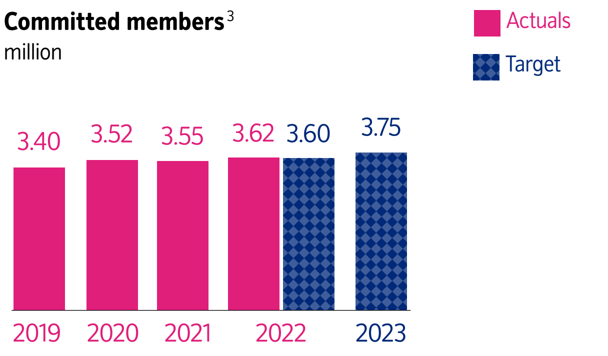
Value

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

We have 3.62 million committed members[3]. Following suppressed growth in 2020/21 as a result of the pandemic, growth returned to more normal levels over 2021/22. Growth was supported by deepening our relationships with members, supported primarily by our current account switching incentive and the strength of our ISA products.

In 2022/23, we plan to grow the number of committed members to 3.75 million.

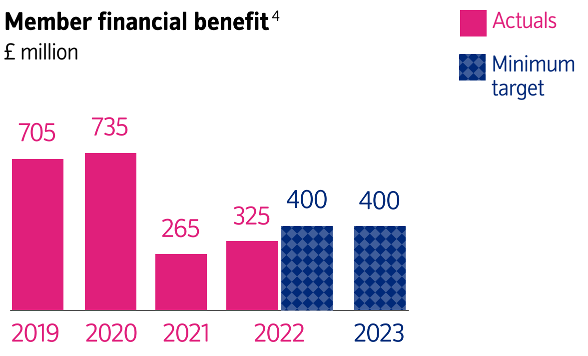
Committed members[3]
million



We aim to provide at least £400 million of member financial benefit each year, through better incentives and pricing than the market average[4].

In 2021/22, we provided £325 million of member financial benefit, £60 million higher than the year before, due to our strong ISA rates in April 2021 and the increases in bank base rate, enabling us to provide more value to our savings members. However, this is below our target and reflects the historically low interest rate environment for much of the past year, combined with a highly competitive mortgage market that limited the benefit for our members.

Member financial benefit[4]
£ million



Strength

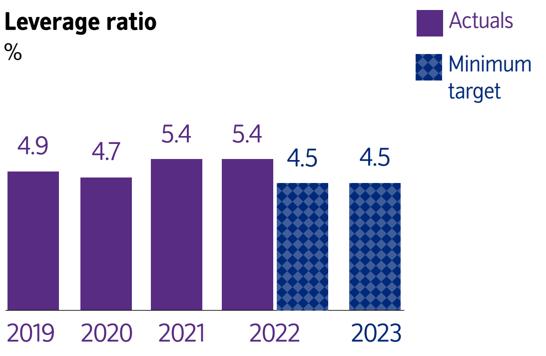
Keeping our members' money safe and secure

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

Our leverage ratio of 5.4% exceeded our 2021/22 target, demonstrating our ability to withstand economic shocks.

In 2022/23, we will continue to target a leverage ratio of at least 4.5%.

Leverage ratio
%



[3] 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. The comparative for 2019/20 committed membership has been restated to reflect improved data quality since originally reported.

[4] For more information on member financial benefit see page 54.

How we're building society, nationwide

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

Our five strategic cornerstones

Building PRIDE
Creating a healthy culture for our people
Page 20

Building a National Treasure
Contributing to our wider community
Page 22

Building Legendary Service
Doing our very best to serve our members
Page 18

Built to Last
Managing the Society for the long term
Page 16

Building Thriving Membership
Growing and serving our membership
Page 14

Our Mutual Good Commitments

Our five Mutual Good Commitments are aligned to our purpose and support our strategy. They demonstrate our mutual difference in areas where we believe we can make the most positive difference to our members, communities and wider society. Our Mutual Good Commitments are:

- **Help to achieve safe and secure homes for all**
- **Lead the greening of UK homes**
- **Support our members' financial wellbeing**
- **Champion thriving communities**
- **Reflect the diversity of our society**

More information can be found on page 36.

How we deliver on our strategy: Our Member Missions

We organise ourselves around our three Member Missions, that help us focus on delivering even better experiences and outcomes for our members.

Homes and dreams

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

Hassle-free money

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

Moments that matter

Creating inclusive, accessible and thoughtful experiences for our members over a lifetime of membership, and being there in the moments that matter the most for our members.

Building thriving membership

Growing and serving our membership

16.3 million members
2021: 16.3 million

Helped 1 in 7 first time buyers
into a home of their own
2021: 1 in 7

Our **Member Prize Draw**
awarded over
56,000 member prizes
totalling £7 million

1 in 10 of the UK's current accounts are with us
2021: 1 in 10[1]

Supporting a private rented sector that works for the mutual good of landlords and tenants, with the launch of
The Landlord Works

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

As a mutual, we are run for our members' benefit. We support 16.3 million (2021: 16.3 million) members and have a committed membership – those who have two or more products with us[2] – of 3.62 million (2021: 3.55 million).

Helping more people to have a place fit to call home

We were founded to help our members into homes of their own and this remains core to our purpose today. With many of our members in rented accommodation, we also seek to build a private rented sector that works for the mutual good of both landlords and tenants.

We grew our share of total gross mortgage lending to 11.8% (2021: 11.1%), despite a highly competitive mortgage market, which also saw greater overall demand. Higher demand was supported by the Government's stamp duty holiday until it was phased out in 2021, and the continued shortage of housing supply in the broader market also increased house prices and contributed to a rise in our lending. Total gross lending grew to £36.5 billion (2021: £29.6 billion) with net lending of £7.1 billion (2021: £1.9 billion).

We remain committed to supporting first time buyers onto the housing ladder and this year helped over 87,000 (2021: 73,000) into their first home - equating to one in seven (2021: one in seven) first time buyers, above our share of the wider market. Importantly, we have worked to address the two main barriers to home ownership for first time buyers, with market-leading propositions that have increased the amount that first time buyers can borrow and reduced the pressures of saving for a deposit, while managing appropriately the risk for borrowers and the Society.

In May 2021, we were the largest mortgage provider to return to 95% loan to value lending without government support, helping those with smaller deposits whilst retaining competitive rates more broadly for members. Meanwhile, our Helping Hand mortgage, launched in April 2021, has enabled first time buyers to borrow more, up to 5.5 times their salary on 5 and 10 year fixed rate mortgages, helping more people to realise their dream of home ownership. Initially this applied to mortgages with a loan to value of up to 90%, but following its success, and in light of the good credit quality of members' applications, Helping Hand mortgages were extended to 95% loan to value in February 2022. We will continue to focus our propositions on solving the challenges faced by first time buyers, extending our support even further.

[2] 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.

We also seek to support good landlord practices and quality rental homes. Our buy to let subsidiary, The Mortgage Works, saw strong demand from landlords over the year. We also launched The Landlord Works[3], our digital one-stop-shop providing education and features to support landlords in better managing their properties and responsibilities. Around 1,500 landlords have now signed up to the platform, which is in line with our Mutual Good Commitment target. For more information on this, see page 36.

Supporting greener homes

As the UK's second largest mortgage lender, we have a key role to play in creating greener, more sustainable homes. For more information on this, see pages 22 and 36. Our range of green initiatives, supported by our green lending fund, aim to help members to improve the energy efficiency of their homes. This includes offering cheaper borrowing to members making green home improvements, and cashback rewards for members who buy greener homes. Take-up has, however, been slow, highlighting the wider challenges in improving the energy efficiency of homes, as personal expenditure is being prioritised on other things and is being limited by the increasing cost of living. We continue to work with government, and the industry,

[3] https://www.thelandlordworks.co.uk/

Strategic report
Governance
Risk report
Financial statements
Other information

Building thriving membership (continued)

to support activity to address these challenges. More information can be found on page 22.

Our new solar panel pilot aims to help homeowners research and move to solar energy, including putting them in touch with trusted suppliers. We are gathering feedback from those taking part, with the aim of informing our future approach to supporting the retrofitting of homes with green solutions.

Encouraging more people to save

We continued to see strong growth in member deposits which increased by £7.7 billion (2021: £10.6 billion) and we maintained our market share of deposit balances at 9.4% (2021: 9.4%), which reflected the competitiveness of our savings products, in particular our Member Exclusive Fixed Rate ISA.

We continued to offer interest rates on deposits that, on average over the year, were above the market average[4]. Alongside this, we have continued to innovate to find new ways to reward our members in the low interest rate environment. For example, our monthly Member Prize Draw, available from September 2021 to August 2022, gave us a new way to give something back to our members. All eligible members are automatically entered into the draw, giving them a chance to be one of over 8,000 winners each month, sharing a £1 million prize draw pot, with a top prize of £100,000[5].

Encouraging good savings habits remains a key focus for us. We launched our Start to Save prize draw account in 2020 with the aim to get the nation saving again. Since then, we have had seven Start to Save prize draws, including four in the past year, with the final one taking place in January 2022. Since its launch, we have had over 13,600 winners, each winning a £100 prize for saving regularly, and the account has helped over 160,000 people save at least £100 for the first time with us. We have also continued to recognise and reward loyalty through the launch of two competitive current account-linked savings products – Flex Regular Saver and Flex Instant Saver.

More members managing their everyday finances with us

This year we introduced a new current account switching incentive, having withdrawn our previous offer last year to focus on supporting our existing members through the pandemic. This offers existing Nationwide members £125, and non-members £100, when they complete a full account switch from a current account held with another provider, using the Current Account Switch Service. As a result, in September 2021, we achieved our highest ever number of current accounts opened through the Current Account Switch Service in a single month.

This year, we opened 604,000 (2021: 492,000) new current accounts, helping grow our current account market share to 10.3% (2021: 10.2%)[6]. This has been accomplished despite fewer people choosing to switch their accounts in the two years since the pandemic began, compared to the two years prior. Furthermore, in the past five years, we have had the most net switchers of any UK bank or building society, highlighting our long-term progress in attracting new members to manage their finances with us[7].

Our strategic priorities for the year ahead

As a mutual, we want to help our members to make more of their money and to create greater long-term value for them. So our focus remains on building deeper, lifelong relationships with them, with our propositions centred around home and family. We will particularly focus on solutions for helping first time buyers into homes and encouraging a regular savings culture.

Alongside supporting our members in saving, buying a home and managing their money, we have an ambition to lead the greening of UK homes, as we work towards a low carbon future. We will continue to look for ways to encourage our members to make green changes or purchase greener homes, such as through new propositions and working with government and across the industry to develop solutions that overcome the barriers to greening homes.

[4] Due to data being unavailable, the market average does not include deposits with National Savings & Investments (NS&I).

[5] England, Scotland and Wales only. Gambling laws in Northern Ireland mean members cannot benefit from prize draws. We therefore provide grants to charities through our Northern Ireland Community Fund.

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

[7] Current Account Switch Service (cumulative data from the last three months of 2016 to the last three months of 2021).

Built to last

Managing the Society for the long term

5.4% leverage ratio
2021: 5.4 %

24.1%[8] Common Equity Tier 1 ratio
2021: 36.4%

£1,604 million
underlying profit
2021: £790 million

£1,597 million
statutory profit
2021: £823 million

£325 million
member financial benefit, from better incentives and pricing than the market average
2021: £265 million

We are owned by our members and they trust us to keep their money and information safe. To do so, we must remain financially strong and built to last. We will always aim to achieve the right balance between making sufficient profit to maintain our financial strength, giving long-term value to our members, and investing in our business so that we can continue to meet our members' needs and expectations both now and into the future.

Remaining financially strong and fit for the future

Our financial performance was very strong, a result of our strength in mortgage performance throughout the year and a better than expected outlook in the wider economic environment. Underlying profit was higher at £1,604 million (2021: £790 million), statutory profit rose to £1,597 million (2021: £823 million) and total underlying income increased to £3,867 million (2021: £3,285 million). This reflects higher income on mortgages taken out earlier in the pandemic when market pricing reflected the uncertainty in the wider economic environment, combined with continued strong demand in the mortgage market. It also reflects a release of credit impairment provisions of £27 million (2021: charge of £190 million), due to an improvement in the wider economic outlook. Growth in savings and current account deposits was driven by a reduced opportunity for members to spend through lockdown periods and was supported by the strength of our products.

We have continued to carefully manage our costs, although an accelerated amortisation charge 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).

The overall strength in our performance is testament to the effectiveness and long-term sustainability of our mutual business model, and is further reflected in our capital position. Our leverage ratio, a measure of our ability to withstand economic shocks, is 5.4% (2021: 5.4%). This remains above both regulatory requirements and our internal minimum target of 4.5%. Nationwide's Common Equity Tier 1 (CET1) ratio has reduced to 24.1% (2021: 36.4%). Our approach to managing our low-risk business has not changed; our capital base has increased, and the decrease in the CET1 ratio reflects changes in industry-wide regulation on the calculation of inputs to capital ratios. Without these changes, the CET1 ratio would have increased by 4.1% to 40.5%. For further information, see page 53.[8]

Using our financial strength for the benefit of our members

As a mutual, we seek to create long-term value for our members through better incentives and pricing than the market average. We call this member financial benefit and this year we delivered £325 million (2020/21: £265 million), supported by our competitively priced savings ISA products at the start of the financial year and the base rate rises during the year that enabled us to provide more value to our savings members.

Whilst this was higher than the previous year, it was below our target to provide at least £400 million of financial benefit to our members each year. Over much of the past year, the continuation of the historically low interest rate environment, combined with a highly competitive mortgage market, limited the financial benefit we could provide for our members. In addition, the continued uncertainty in the economic outlook means it is important for us to retain a sufficient level of capital that will allow us to continue supporting our members into the future.

Member financial benefit is only one of the ways in which we create value for our members. We also create value through other means, such as our Branch Promise and service, and our support for first time buyers and our communities. Even so, we recognise that providing value through competitive rates is important to our members.

[8] The decrease in the Common Equity Tier 1 (CET1) ratio reflects a change in industry-wide regulation. Without this change our CET1 ratio would have increased to 40.5%.

Strategic report
Governance
Risk report
Financial statements
Other information

Built to last (continued)

Investing in technology to keep our systems resilient and secure

In 2021/22, our broader strategic investment of £471 million (2021: £482 million) included further spend on our digital transformation, to deliver the services and platforms that our members will want and need in the future.

We are continuing to modernise our operations and technology, to further strengthen our operational resilience and control processes and ensure our systems remain fit for purpose. This has included building greater capacity and resilience in our payments platform as our membership grows, which in time will enable us to safely, quickly and securely process more payments to meet the needs of our members.

Upgrading systems comes with some risk, and unfortunately we experienced a number of payments delays between December 2021 and February 2022, which were linked to the upgrades we made. We appreciate these outages caused some of our members unnecessary disruption and worry. We proactively contacted members who were most impacted to apologise, via letter and text message, and sent them each a payment to cover any charges or inconvenience incurred. Our investment in strengthening our technology will be important in mitigating the risk of payments issues occurring in future.

This year, we have continued our improvement programme for our processes and controls, aiming to improve our member-facing services. So far, nearly fifty key services, such as opening a new savings account or changing address, have been reviewed for opportunities to improve them to ensure we continue to achieve good member outcomes. Over the next 12 months, we will review more of our processes to ensure they continue to meet our members' needs.

Our strategic priorities for the year ahead

We will continue to protect our financial strength and resilience, to make sure we can be there for our members, colleagues and communities for generations to come.

In an increasingly competitive market, our long-term success will depend on our ability to make further progress in becoming more efficient. We will also keep prioritising investment that provides most value to our members and the Society. This will ensure we can continue to withstand future challenges and keep our members and their money safe.

We will make sure the Financial Conduct Authority's (FCA's) new Consumer Duty builds on our focus on members' needs and is a catalyst for improved support, technology and innovation to further enhance how we enable members to achieve their financial objectives and receive good outcomes. The FCA expects to implement its new rules by 30 April 2023.

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.

Building legendary service

Doing our very best to serve our members

No. 1 for customer satisfaction
among our peer group for the 10th year running[9]

Prevented £97 million of attempted fraud
on card and online transactions
2021: £113 million

Active mobile users grew by **11%** to **4.2 million** members, representing over half of all active current account members

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

[9] © 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 1 on page 3.

We are run for the benefit of our members, so we focus on understanding what they want, developing products and services that answer their needs, and engaging with them in a way that demonstrates our mutual difference.

Delivering the very best service when our members need us most

We believe that delivering leading levels of member satisfaction is a key way of demonstrating our mutual difference. It is also an important factor in helping us grow our membership, so we aim to be a leading brand for customer service, both among our peer group and across all sectors in the UK.

We measure service satisfaction among our peer group through the Financial Research Survey (FRS). One of our key points of differentiation is our ethic of care and the service our members experience in our branches. Last year, in a period of heightened uncertainty dominated by the Covid-19 pandemic, and where pandemic-related restrictions led to fewer members experiencing our leading service in branch, we revised our target lead over our peer group to at least 2% points (from a pre-pandemic target lead of at least 4% points).

We are pleased that, as restrictions have been lifted over the year, our lead over all competitors in our peer group has recovered. We have now been number 1 for customer satisfaction among our peer group for ten years running, and have a lead over our nearest competitor of 4.6% points (2021: 1.6% points)[9].

We also aim to be among the top five organisations for customer satisfaction across all sectors, as measured by the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI). Our customer satisfaction index score improved to 83.7 this year (2021: 82.5)[10], which is 5.3pts ahead of the all-sector average. However, businesses in other sectors saw greater increases in their scores, particularly those in the transport and tourism sectors. As a result, we finished in joint 22nd position in the all-sector UKCSI, below our target of being in the top five.

[10] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2022 and January 2021. Scores of 83.7 and 82.5 are based on an index out of 100.

Setting an exciting new path for the future of legendary service

Over the year, we have adapted the role that our branch colleagues play in serving our members, creating a flexible workforce that can serve more of our members in different ways, not only face-to-face but also by phone and online messaging, enhancing our members' experience when they get in touch with us.

To give our branch colleagues dedicated time to serve our members in other channels too, we have trialled closing 50 of our 625 branches for one to three days each week, which has also meant we have not had to permanently close these branches. Unfortunately, we have had to make the difficult decision to permanently close 22 branches in towns or cities where more than one Nationwide branch served the community. We have taken care to ensure we are still meeting our Branch Promise – to remain in every town or city we are in today, until at least January 2023.

Our video appointments are also proving popular for members and we expect their usage to grow, given the added convenience and flexibility they offer. In enhancing the roles our branches play, we are committing to the high street and our communities, reinforcing our role at the heart of our society.

Ensuring our members have easy access to cash, now and in the future

We remain acutely aware of the challenges faced by those who rely on branches and ATMs for accessing cash, including those in society who may be considered more vulnerable. At a time

Building legendary service (continued)

when many of our competitors are progressing significant branch closure programmes, we are taking a different approach by redefining the roles of our branches and standing by our Branch Promise, and as a result, we now have the third largest branch network across the UK financial services industry. We are working with the banking sector, as part of a Cash Action Group, on a new model for ensuring our members can continue to have easy access to cash, supporting the Government's intentions to form legislation to protect this.

Meeting vulnerable members' needs

Looking after our more vulnerable members goes further than access to cash. We recognise and understand the impact that health, life events, financial resilience and financial capability issues may have on our members' accessibility to services and financial needs. We know that whilst some needs are permanent, others are temporary or transient and could affect any of our members at any time. We therefore have a team dedicated to supporting colleagues to meet those members' needs.

This, together with a network of champions across all areas of the business, ensures we embed vulnerability and accessibility consideration across the whole of the product and service lifecycle, and design our products and services around our members' needs both now and in the future.

Enhancing our digital services

We continue to invest in growing our digital capabilities and expertise in an increasingly digital world. This has been accelerated by the Covid-19 pandemic, and over the past year we have continued to see changes in the ways our members interact with us.

Members who actively used our mobile app grew by 11% to 4.2 million (2021: 3.7 million), representing over half of all our active current account members, and payments and transfers via the banking app increased by 24%. With more members using our app more of the time, it is important that we continue to enhance it to meet their needs. This year, we invested in enhancements, including adding more detail behind transactions, and the ability to change address, add a card to an Apple wallet or watch, and use Apple Business Chat.

It is also important we continue to develop our technology to make sure it is robust and resilient to keep up with our members' payments needs and consistently deliver the service they expect from us. Regrettably, we experienced payments delays this year, which caused disruption and inconvenience for some of our members. Our investment in technology will help us mitigate the risk of further incidents in future. For more information on this, see page 16.

We know everyday banking needs to be simple, but getting used to changes in technology and new ways of managing money does not come naturally to everyone. This year, we ran over 170 Tea and Tech events, helping empower more than 300 members to be digitally in control of their finances.

Protecting our members by checking for scams and preventing fraud

We want to do everything we can to protect our members from fraud. We continue to invest in the security and resilience of our systems. While unfortunately some of our members have fallen victim to fraud, last year our fraud defence systems and specialist fraud team together helped prevent £97 million (2021: £113 million) of attempted fraud on card and online transactions.

Included within this, £3.2 million of potential scams has been prevented by members using our new Scam Checker Service, launched in September 2021 and underpinned by our Scam Protection Promise. This service enables our members to check their payments with us before they make them and talk to us directly if they have any concerns. Our colleagues are trained to spot the signs of financial crime and routinely help members to avoid falling victim to scams. Our Promise means that, if after checks and a scam conversation, the payment does not appear suspicious but later turns out to be a scam, we promise to refund our members every penny.

We have also enhanced our fraud detection system for payments, and improved our scam warnings, to simplify them and to highlight social media scams. In addition, we have been making our members aware of the risks of investing in cryptocurrency. Over the year, we held five virtual events for members on how to recognise and protect themselves from fraud and scams, with over 650 members attending. We are educating more broadly beyond our own membership too, and ran national media campaigns on scams awareness. We are also playing our part to tackle this growing problem by taking an active role in cross-sector working groups, including campaigning for changes on greater data sharing between financial services providers to reduce payments fraud.

Our strategic priorities for the year ahead

We remain committed to building the future of legendary service. We will continue to invest in the human and digital aspects of our service to achieve our vision of being thoughtful, caring and here to help, at home, on the go and on the high street. In doing so, we will make it easier for our members to manage their money wherever they are.

We are here to provide the human touch for when our members want a person to talk to, but we also recognise that for many it is faster and more convenient to manage their money digitally. We will continue our ambitious transformation of our member-facing roles and services, enabling our people to work together across our contact centres, digital servicing and branches, so we can support our members even more effectively.

Building PRIDE

Creating a healthy culture for our people

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

One of **Glassdoor's top 20 UK companies for work-life balance in 2021**[11]

Mind Workplace Wellbeing Gold Award 2021, for embedding mental health into our policies and practices

Highest-ranked UK high street financial services provider in the **Financial Times' 2022 Diversity Leaders list**[12]

Our mutual values and social purpose remain as relevant and important as ever and we are committed to building an inclusive culture where all our colleagues can thrive.

Our culture reflects our shared set of values, beliefs and behaviours, which are centred around the acronym PRIDE. Our PRIDE values guide us so that our members' interests really are at the front and centre of our decision making.

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

pride

Supporting our colleagues' wellbeing

Our colleagues' health and wellbeing remain a key priority for us. We have a range of initiatives that support colleagues in looking after their social, mental, physical, emotional and financial wellbeing, including a dedicated wellbeing site and free access to the Unmind wellbeing app. Our new employee network, Minds Matter, focuses on mental health and emotional wellbeing initiatives and support, and over 250 colleagues across the Society are trained as Healthy Mind Champions, offering a listening ear and guidance to those struggling with their mental health. 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. This year, we signed the Menopause Workplace Pledge, taking action to ensure our workplace is supportive and understanding of anyone affected by menopause.

It is important to us that we understand our colleagues' views, so we can better support them and drive positive changes across the business. Our new feedback platform is helping us to gather, listen to and action colleagues' feedback in a timely and appropriate way. On average, around 37% of colleagues complete our monthly survey on this platform. Wellbeing measures in our survey help us understand how our colleagues are feeling. In April 2022, 85% of colleagues felt their wellbeing was supported at work.

Refreshing our ways of working for our colleagues

Our move towards greater flexibility for our 13,000 traditionally office-based colleagues has enabled them to balance better their work and home lives, helping them be at their best to serve our members and the Society. Our new Hybrid and Homeworking Policy upholds our commitment to flexible ways of working, while ensuring we continue to be led by our work, be connected to our teams and culture, and support the needs of our members. We were pleased to be one of Glassdoor's 20 Highest Ranking UK Companies for Work-Life Balance in 2021[11].

Our office workspaces still have an important role, and we are developing and repurposing our buildings to support collaboration, meetings and larger events. We continue to listen to colleague and member feedback to inform our approach and support inclusivity, our culture and colleague wellbeing.

Building a more inclusive culture

Being inclusive supports our mutual purpose and is central to our success as a Society. It means our colleagues can bring out the best in themselves and in others, no matter what their background, identity or circumstances. Having a diverse workforce with people of different skills and experiences helps us continue to serve our members in new and better ways, supporting their evolving needs and expectations.

[11] Glassdoor research, analysing over 600,000 reviews by full-time UK-based employees between 1 January 2021 and 28 September 2021.

[12] FT-Statista research of over 100,000 employees' perceptions of their employer's inclusiveness or efforts to promote diversity.

Building PRIDE (continued)

We are committed to making long-term, sustainable change. Our new inclusion measures help us monitor how inclusive our culture is. In April 2022, 81% of our colleagues (73% of our ethnically diverse colleagues) felt everyone had an equal opportunity to thrive, regardless of background. Further, 81% of our colleagues (76% of our ethnically diverse colleagues) felt our leaders were taking action to support our inclusion and diversity ambitions. These measures complement our seven diversity measures across gender, ethnicity, disability and sexual orientation, which we aim to meet by 2028 or sooner. They support our Mutual Good Commitment to reflect the diversity of the communities we serve and our progress is reported on page 38. Our inclusion and diversity measures are reported each month to the Board and the leadership team, who are committed to progressing our inclusion and diversity strategy.

We achieved four of our seven measures to meet by 2022, and have made positive progress towards others; however, further focus is needed to increase representation of women in senior roles, to enable us to achieve our ambition by 2028. The number of our leaders disclosing a disability and/or long-term condition more than doubled this year, from 2.2% to 4.9%. There has been a 1.8% point increase in disability declarations overall as colleagues became more comfortable sharing this information with us. Awareness campaigns, such as #WeThe15 to mark the Paralympic Games, and spaces to connect with others run by our Enable network, were key drivers.

We have continued to embed inclusion and diversity into our people processes, including recruitment and talent leadership. We rolled out interview panels with diverse representation and aim to have a diverse range of applicants in our shortlisting for job applications. Our flexible working approach and location agnostic recruitment are also supporting a broader and more diverse talent pool, with applications from ethnically diverse candidates rising from 34% pre-pandemic (in the last six months of 2019) to 40% in the second half of 2021. Our sponsorship programme continues to support the career progression of colleagues from under-represented groups, and our reciprocal mentoring relationships have now matched 100 leaders with colleagues from ethnically diverse backgrounds to share experiences and provide development support.

Our nine Employee Networks are centred around gender, ethnicity, sexual orientation, disability, faith and belief, working carers, working families, veterans and reservists and mental wellbeing. They help to build awareness of different experiences and cultures by celebrating diversity, including Asian Experience Month, Black History Month and Pride Month. They help our colleagues build support networks, escalate issues and drive supportive changes, such as the introduction of gender pronouns on colleague name badges. In 2021, our Working Families Network was awarded the Best Family Network Award by the Working Families charity.

In the 2022 Financial Times' Diversity Leaders list[13], which surveys more than 100,000 employees on their perceptions of organisations' inclusivity and efforts to promote diversity, we were the highest-ranked UK high street financial services provider. We were also awarded Gold Employer standard by Stonewall in recognition of our work on LGBTQ+ inclusion.

We support a number of partnerships as we seek to effect real change – we are a signatory of the Women in Finance Charter, committing to supporting the progression of women into senior roles; the Valuable 500 movement, that supports disability inclusion; and Business in The Community's (BiTC) Race at Work Charter, committing to workplace equality.

Understanding our gender and ethnicity pay gaps

At 5 April 2021 our gender pay gap was 30.0% (2020: 28.3%). This is because we have a higher proportion of women in lower paid roles than we do in senior roles. This year we had a greater number of new roles available in technology. Unfortunately, given the shortage of female candidates in this field, this resulted in a greater proportion of men being hired into these higher paid roles, contributing to an increase in our gender pay gap.

We are one of the few organisations to voluntarily publish our ethnicity pay gap and are lobbying for mandatory reporting across all firms. At 5 April 2021, our ethnicity pay gap was 11.3% (2020: 16.2%), with a higher proportion of ethnically diverse employees in lower paid roles than in senior roles. The decrease in pay gap reflects our successful efforts to recruit more ethnically diverse colleagues, particularly into the new technology roles. As we work hard to progress our inclusion and diversity strategy, we expect this to support a reduction in pay gaps. For more information, see our Gender and Ethnicity Pay Gaps report.

Our strategic priorities for the year ahead

We want to be one of the UK's best places to work. We recognise the increasingly competitive landscape for recruiting and retaining talented employees and we will continue to demonstrate our mutual difference as an employer with a strong ethic of care, that treasures the differences of those around us. Our mutual values, commitment to flexible ways of working and focus on wellbeing initiatives already support this.

We will continue to enable an empowered and agile workforce – developing our leaders and talented colleagues, and growing skills and capabilities across the Society through a new approach to enabling performance, so we can be at our best to serve our members. Inclusion, diversity and wellbeing will remain at the centre of our approach and we will challenge ourselves in progressing our inclusion and diversity ambitions, working to accelerate the pace of change in a meaningful and sustainable way and being bold to do things differently.

[13] FT-Statista research of over 100,000 employees' perceptions of their employer's inclusiveness or efforts to promote diversity.

Building a national treasure
Contributing to our wider community

We commit at least 1% of our pre-tax profits to good causes – in 2021/22 this amounted to £7.1 million
2020/21: £7.4 million[14]

Committed to achieving net-zero by 2050

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

Convened four cross-industry action groups to tackle UK housing challenges

As a mutual organisation, owned by our members and formed with a strong social purpose, our focus is not just on providing better value and service for our members, but on being better for society too. By taking this approach, we can be clear on what we stand for and take a bolder position on the things that are important to our members, demonstrating what makes us different and driving positive change across society.

To help us measure the success of our approach, we track how well we are trusted and recognised as a brand. We are the UK's most trusted financial brand and we are seen to care the most about meeting customer needs rather than maximising profit[15].

Everyone deserves a place fit to call home

Our social investment programme is aligned with our founding purpose. As voted for by our members in 2007, we commit at least 1% of our pre-tax profits each year to good causes, focused on housing. This money is split between our own social investment programme, including funding our long-term partnership with Shelter, the Nationwide Foundation and the internal costs of managing social investment activities. In 2021/22, this funding amounted to £7.1 million (2020/21: £7.4 million)[14]. In the financial year we paid £6.1 million (2020/21: £6.6 million) to charities.

Within our social investment programme, we provide grants to local housing charities and projects. The grants are distributed through our Community Boards under the direction of member and colleague volunteers. Last year, we awarded £4.0 million (2021: £4.0 million) to support 94 (2021: 99) charitable housing projects. Since the Community Boards were founded four years ago, we have awarded a total of £17.7 million across 444 projects.

We have now celebrated 20 years of our partnership with Shelter, a charity whose focus is on helping those in housing need. In 2021/22 our colleagues and members raised over £230,000 to support them, on top of the financial support we provided as a Society, which this year amounted to £277,000. This included funding a number of advisers for their helplines, which has enabled the charity to answer over 7,000 calls from those in housing need, and funding three community engagement workers to provide housing advice in local communities. In response to the Afghan refugee crisis, we worked with Shelter and Manchester City Council to open new current accounts for over 200 Afghan refugees in Manchester, and supported them with education on managing their finances digitally and on how to recognise scams. We are also responding to the humanitarian crisis in Ukraine, encouraging our members and colleagues to donate to the British Red Cross Ukraine Crisis Appeal. We donated £250,000, and when added to our colleagues' and members' donations[16], the total raised amounted to over £1,000,000.

Each year, at least a quarter of our charitable funding is awarded to the Nationwide Foundation, which is an independent charity. It works to increase the availability of decent, affordable homes for people in housing need. For more information on its achievements this year, see page 25.

In addition, we have a Colleague Grants programme, where colleagues can apply for a grant on behalf of a UK registered charity of their choice. This year we increased the total value of grants to £500,000 (2021: £200,000), as we recognised that even more support is needed in local communities following the pandemic; this was donated to 59 charities.

Taking action to find new ways of tackling housing challenges

In July 2021, we published our Future of Home report, working with more than 50 organisations across a range of industries. The report found that the Covid-19 pandemic worsened issues around the affordability, accessibility and sustainability of homes. In response, we have formed four cross-industry action

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

[15] Nationwide Brand Guidance Study compiled by Kantar. For more information, see footnote 2 on page 3.

[16] Donations made by members and colleagues via Nationwide's branches, website or intranet.

Building a national treasure (continued)

groups that aim to find solutions to these challenges, and we hope that, together, we can help drive real, meaningful change.

Our New Homes action group is looking at ways to increase the number of new homes, while our Housing Delivery action group is working on speeding up their delivery. Our Green Homes action group is working with government on policies that help people improve the energy efficiency of their homes, as described below. Our Rental action group is developing a campaign to build trust between tenants, landlords and agents.

We are also working to address the challenges people face when living in poverty, having partnered with the Fair By Design fund to support early stage companies in this mission.

Our net-zero commitment to reduce our environmental impact

Helping to address the impact of climate change aligns with our mutual purpose and we are committed to working towards a net-zero carbon emissions future by 2050 at the latest, having joined the Net-Zero Banking Alliance and Glasgow Financial Alliance for Net-Zero last year.

Our business model means that our strategy does not involve lending to or investing in businesses which have a negative impact on the environment, such as those in the fossil fuels industry. This means we can focus our efforts on greening UK homes, which forms one of our five Mutual Good Commitments. For more information on our progress here, see page 36.

The UK's 29 million[17] homes produce around 16%[18] of the country's total carbon emissions, and our own research indicates that around 90% of UK homes rely on fossil fuels to heat their homes (see page 40). With the carbon emissions of our mortgage portfolio also accounting for over 80% of our total reported emissions, supporting our members in greening their homes is a key way for us to reduce our impact on the environment. We want to equip our members with the awareness, knowledge, confidence and ability to improve the energy efficiency of their homes, and we continue to offer a range of green propositions and initiatives to support this, as presented on pages 14 and 15. Over the year, we published new content on the Greener Homes hub on our website, including useful tips for a greener home and outlining green financing options. We also published new Environmental, Social and Governance pages on our website to describe our approach to being a responsible business.

Given our concentration in UK mortgage lending, we recognise that we will not be able to achieve the reduction in emissions to deliver our net-zero target without broader policy changes, significant cross-industry collaborative effort, and further government support focused on UK housing. We have taken an active role here, convening our cross-industry Green Homes action group formed of 15 leaders from across the housing, construction, financial services and energy sectors, with an aim to influence and drive solutions that remove the main barriers to reducing the emissions of UK homes. Last year, the group wrote to the Government, proposing seven guiding principles to inform a national retrofit strategy for greening homes. We also work and partner with a number of specialist organisations to increase our expertise around the areas where we can make the greatest impact in reducing our carbon footprint. For more information on our guiding principles and our partnerships, see our climate-related financial disclosures on page 40.

We are leading the way with some of our own climate-related operational initiatives, including being carbon neutral (no net release of carbon dioxide into the atmosphere) for all energy use and our internal business operations since 2020. We continue to send zero waste to landfill and since 2018 all our electricity has been supplied from renewable sources.

We are keen to work with our suppliers to help them reduce their emissions too. Our Procurement for Mutual Good programme is supporting a greener, more diverse and more ethical supply chain, and won Best Sustainability Project of the Year in the 2021 CIPS Excellence in Procurement Awards. We have partnered with sustainability ratings provider EcoVadis to monitor our suppliers' environment, labour, human rights, ethics and sustainable procurement activities, and around 100 suppliers are now onboarded (equivalent to around 40% of our procurement spend). We are using the tool to improve our emissions estimates and drive target-setting and tracking, to improve the sustainability performance of our supply chain.

Creating the blueprint for greener housing developments

Our not-for-profit Oakfield housing development in Swindon is creating a community of 239 homes, built to high environmental standards. In the 2021 Housing Design Awards, Oakfield won the Building for a Healthy Life award, for its community-centred design. We hope that our design approach will become a blueprint for other responsible organisations to create sustainable housing in collaboration with communities.

Work onsite has temporarily paused, as our construction partner entered administration. We are now working with a new partner to re-engage the supply chain and expect things to be back up and running in the Summer 2022.

Mutual respect: building a more respectful and inclusive society

We are working towards building a mutually respectful and inclusive society. In the second year of our partnership with The Diana Award, we have now trained more than 5,000 Anti-Bullying Ambassadors in schools across the UK (against a target of 10,000 in 3 years). And, through our partnership with the Football Association, we are aiming to engage with 1 million parents, coaches and young players on the importance of mutual respect.

[17] UK-housing-Fit-for-the-future-CCC-2019.pdf (theccc.org.uk).

[18] Department for Business, Energy & Industrial Strategy, 2020 UK Greenhouse Gas Emissions, Final Figures (February 2022).

Building a national treasure (continued)

We continue to be bold in speaking up against hate and abuse and building mutual respect across communities for generations to come. Our Together Against Hate campaign aimed to address the rise in unacceptable behaviour towards our member-facing colleagues and other public-facing key workers through the pandemic. Working with MPs, trade unions, and other major high street brands, we voiced our support for tougher sentencing guidelines and, as of 1 July 2021, anyone who attacks someone serving the public, whether a Nationwide branch colleague or a bus driver, could now be subject to a tougher sentence.

Our strategic priorities for the year ahead

As the world's largest building society, we will continue to leverage our brand and mutual values to make a positive difference in our communities and society. We want to be recognised as a responsible, sustainable and caring provider of financial services and, to support this, we will continue to be bold on the issues that matter to our members, supporting fairness and equality in all areas of life, for the mutual good of all: from good quality homes, to championing the needs of both landlords and tenants, and from financial and social wellbeing, to the environment. We will do this by focusing on the delivery of our Mutual Good Commitments.

In line with this, over the next year we will particularly focus on taking further action to drive the transition towards a low carbon future. We believe that we can achieve more together than we can alone and so we will continue to collaborate cross-industry and with government to support the changes needed to green homes in transitioning the UK to net-zero. In line with our net-zero ambition, we are also developing intermediate science-based targets for 2030, that are aligned to a net-zero pathway, and a transition plan to progress towards these. For more information, see our climate-related financial disclosures on page 40.

Strategic report
Governance
Risk report
Financial statements
Other information

The Nationwide Foundation

The Nationwide Foundation is an independent charity set up by the Society in 1997. Each year, we pay at least 0.25% of Nationwide's pre-tax profits to the Nationwide Foundation – £1.77 million in 2021/22 – as part of the 1% of pre-tax profits we give to good causes. The Nationwide Foundation's vision is for everyone in the UK to have access to a decent home that they can afford. It supports three programmes to help make this happen.

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

During 2021/22, the Nationwide Foundation supported work to discover new ways of talking to the public about housing issues, so that people gain a better understanding of the importance of affordable and decent homes. In addition, the Nationwide Foundation funded work that provided evidence to inform parliamentarians about the impact of reforming the planning system on the quality of homes.

2 Backing community-led housing – enabling local people to deliver the homes their communities want and need

Community-led housing returns power to communities, so they can create homes in the places people need them, at prices they can genuinely afford. The Nationwide Foundation's support has helped the sector grow. It has also proved that investment in community-led housing delivers value for money and that there is real demand for community-led homes.

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

The Nationwide Foundation strengthens the voices of private renters by funding Citizens Advice to gather experiences from 700 representative English tenants. This revealed that two in five renters were concerned about not being able to pay their rent. As well as tackling affordability, the Nationwide Foundation also funded research into property supply in the least expensive parts of England's private rented sector.

Next steps for the Nationwide Foundation

In 2021, the Nationwide Foundation began phase three of its Decent Affordable Homes strategy, which will run until 2024. This phase will see the Nationwide Foundation continue to generate robust evidence and to use this knowledge so that it influences changes to improve the UK's housing system. It will also see the introduction of collaborative work to reveal how the housing system works, and how it fails, and most importantly, how it can be transformed.

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

Engaging with our stakeholders

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

Our stakeholders

Our members are our primary stakeholders, but we also have a number of other important groups of stakeholders who we engage with and consider in our decision making.

Members
We are owned by, and run for, our members. We are here to support them with their financial goals, and measure our success based on what is important to them.

Buy to let customers, other landlords and renters
We support landlords and those who rely on the private rented sector for their long-term housing needs, and are working towards a private rented sector that works for the mutual good of both landlords and tenants. We do this through our buy to let mortgage business, The Mortgage Works, and our digital one-stop-shop, The Landlord Works, that supports landlords with education and features to help them provide better homes for rent.

Investors
Our wholesale funding investors support us in meeting our funding and capital requirements. Our investors are interested in our financial performance and sustainability practices and use our credit and Environmental, Social and Governance (ESG) ratings to support their understanding. We regularly engage with our investors and also engage with Credit and ESG rating agencies to ensure the Society is rated appropriately.

Suppliers
We work with around 1,100 suppliers who provide us with a range of goods and services, helping us run and improve our business and deliver quality service for our members.

Colleagues
Our colleagues are at the heart of serving our members and delivering our strategy. We want our colleagues to be at their best and to thrive, and are committed to building an inclusive culture, where they feel supported and valued, and can grow their careers.

Communities
Our purpose is *building society, nationwide* – this drives not only our business activities, but also our desire to contribute more broadly to society. That's why we commit at least 1% of our pre-tax profits each year to good causes, focused on housing, and work with community partners and charities to support our local communities.

Regulators and policy makers
Regulators and policy makers oversee our activities and undertake consultations and policy reform. We seek to maintain the highest possible standards of regulatory compliance to protect and enhance the integrity of the UK financial system and ensure fair outcomes for our members. We work with policy makers to engage on the significant issues faced by society, including climate change, good quality housing, fraud and financial literacy.

Section 172(1) statement

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

Engaging with our stakeholders

We are committed to maintaining good communications and building positive relationships with all our stakeholders. Their views are important to us and help to guide our decision making.

Below, we summarise how we have engaged with, and considered, each of our key stakeholder groups during the year, both at a broader Society level as well as at Board level. We also provide some examples of how we responded. In addition, key decisions taken by the Board in the year and its related consideration of relevant stakeholders are set out on pages 32 to 33.

Engaging with our stakeholders is also important when developing our strategy, including with respect to our responsible business activities and initiatives. In 2019, we launched a materiality assessment, a survey that provided us with a deeper understanding of how our stakeholders viewed the importance of different Environmental, Social and Governance (ESG) factors. These responses helped to shape our Mutual Good Commitments (see page 36).

In 2022, we ran a second materiality assessment – this time our survey focused on how our stakeholders perceived us to be progressing against our Mutual Good Commitments, and on whether we were still focused on the areas that matter most to our stakeholders. Overall, the results confirmed we continue to be focused in broadly the right areas, with a need to further develop awareness of our Mutual Good Commitments among our wider stakeholders. We are working to address this by reporting on our progress through this Annual Report and Accounts, our Review of the Year document sent to around 8 million members, and in our engagement with investors and suppliers, including webinars.

Our Mutual Good Commitments already focus on a range of social and environmental aspects where we believe we can make the most positive impact on our members, communities and wider society, and we will continue to consider stakeholders' views on how we integrate emerging themes, such as biodiversity considerations, into our activities.

Members

How we engaged

We are owned by, and run for, our members, and to achieve long-term success, it is important we understand their needs, now and in the future. We engaged with our members in a number of ways and through different channels.

Our Annual General Meeting (AGM) is the main event at which our members can have their say and vote on important issues. As a result of continued Covid-19 restrictions on large gatherings at the time of planning, and as was the case in 2020, member attendance was not possible at our 2021 AGM. Members were encouraged to participate by voting online or by post, with the option to ask live questions as the AGM event was streamed online, and by submitting questions for a specific Member TalkBack session the week before the AGM. The live stream of the 2021 AGM was viewed by 675 people.

We held nine online Member TalkBack events during the year, where members could hear from and engage with Board directors and senior management. Over 360 members attended these events, and we answered over 150 questions. We also held 37 online education events, targeted at specific member segments. These were attended by over 8,000 members and non-members and included events to support first time buyers through the home buying process, over 55s with releasing equity from their homes, and those new to investing with investment education. We also held sessions on recognising fraud and scams. Our digital education sessions gave members new to digital banking the confidence to use digital banking safely, and we held local Tea and Tech sessions in our branches.

Some of the topics raised by members through our engagement events include:

- Board and leadership succession
- Protection from fraud and scams
- Maintaining access to branches
- Benefits of membership
- Member Prize Draw, savings rates and mortgage rates
- Acting responsibly, including our approach to climate change, net-zero commitments and ethical investments

We also engaged with members through our Community Boards, that distribute grants under our social investment programme and are made up of member and colleague volunteers. And we engaged through our Member Connect community, an online forum where members can share their views with us on a range of subjects.

How we responded

Protection from fraud and scams is important to our members. In response to members' concerns around fraud and scams, this year we launched our new Scam Checker Service, underpinned by our Scam Protection Promise, providing peace of mind to members unsure about suspicious payments.

We understand the challenges faced by those who are typically more vulnerable and rely on branches and ATMs for accessing cash. And so we have kept our Branch Promise, to have a branch in every town or city we are in today until at least January 2023.

While we create value for our members in a number of ways, providing value through competitive rates remains important to our members. In a low bank base rate environment, we have continued to provide products at competitive rates, with some offering prize draws too, such as our Member Prize Draw. We also restarted our current account switching incentive.

We also encouraged our members to green their homes with our green borrowing products, content on the Greener Homes hub on our website, and the launch of our solar panel pilot.

More information can be found on pages 14 and 18.

Board engagement

Over the year, we held a number of virtual and physical events that gave our members the opportunity to meet Board directors and senior management. Our members were able to hear from and ask questions of our Board directors at our AGM and through our Member TalkBack events. All of the nine Member TalkBack events held during the year had a non-executive director on the panel.

The 2022 AGM will be a hybrid meeting where members can choose to participate either in person or virtually. Members will be invited to submit live questions, and live voting during the meeting will be enabled. This will be the first time we have hosted the AGM as a hybrid event and builds upon the benefits of the changes to the Society's Memorandum and Rules agreed by members in 2020. We will also host an online Member Talkback the week before the 2022 AGM, as we did in 2021.

Buy to let customers and other landlords

TO LET

How we engaged

We originate buy to let mortgages through our buy to let mortgage business, The Mortgage Works (TMW), using intermediaries and a growing direct channel. In doing so, we want to help build a private rented sector that works for the mutual good of both tenants and landlords.

We contacted our existing landlord customers during the year, reminding them of current and emerging obligations related to the minimum energy efficiency standards for privately rented properties. And we also provided them with information on the Government's consultation on the matter and details of our green lending products. We continue to monitor actively changes in the buy to let sector through research organisations.

How we responded

We recognise the evolving regulatory minimum energy efficiency standards for privately rented properties and so we are supporting landlords in meeting these obligations, by offering discounted rates on borrowing for green improvements on buy to let properties.

Our new digital platform, The Landlord Works, provides education and features to support landlords in understanding their responsibilities and providing better homes for renters. It also supports landlords in understanding tax legislation. So far, around 1,500 landlords have signed up to access its features.

More information can be found on pages 14 and 36.

Board engagement

While the Board has not engaged directly with buy to let customers, it received reports and updates on how TMW implemented its strategy and operated during the year. In addition, the Board reviewed the launch of The Landlord Works.

More information on the Board's engagement with The Landlord Works can be found on page 33.

Colleagues

How we engaged

Our colleagues are essential to serving our members and delivering our strategy, which is why, through our monthly pulse surveys, we invited all colleagues to share their views on how it felt to work at Nationwide, what was working well and any challenges they faced.

We also gathered our colleagues' insights and feedback through other surveys, including the Financial Services Culture Board and the MIND Wellbeing Index, and through engagement with Employee Network Groups and Nationwide Group Staff Union.

Following the launch of our Green Network, we held our first Green Colleague Assembly, enabling colleagues to discuss ideas on sustainability topics.

During the year, the key topics raised by colleagues included:

- Health and wellbeing
- Inclusion and diversity
- Speaking Up
- Connection to our purpose and strategic priorities
- Transforming our frontline operating model
- Resourcing and training
- Green initiatives and sustainability

How we responded

We have made it even easier for our colleagues to share their views, so we can support them in the best way. Our new feedback platform enables us to gather and action feedback in a timely and appropriate way. And we continued to focus on initiatives that support our colleagues' wellbeing. This year, we launched inclusion and wellbeing measures that complement our diversity measures.

We also became more agile in reacting to business needs and providing key insight, for example in progressing our wellbeing strategy and managing changes to Covid-19 restrictions. In line with colleagues' surveyed preferences, we have continued to adopt and commit to flexible ways of working.

More information can be found on page 20.

Board engagement

The Board engaged with colleagues throughout the year to understand what they really valued, and regularly discussed the results of employee engagement surveys. To further promote engagement between the Board and the wider workforce, the Board appoints one director to have specific responsibilities for the Employee Voice in the Boardroom. More information is included on page 76.

During the year, the General Secretary of the Nationwide Group Staff Union (NGSU) attended a Board meeting and a Remuneration Committee meeting to discuss the relationship of the NGSU with Nationwide and the alignment of interests between the NGSU and the Society. The Board also engaged directly with colleagues through colleague-wide communications on key subject matters and topics of interest, where colleagues could comment and provide their views. More information can be found on page 75.

During the year the Board has welcomed several colleagues from across the Society to Board meetings, allowing the opportunity for these colleagues to share their insight on key topics. Colleagues provided their observations, experiences and reflections, which in turn allowed the Board and management to consider the impact of actions taken on colleagues. In addition, representatives from several of the Society's Employee Networks were invited to attend a Board meeting during the year to provide insight for Board members. The representatives shared their experiences and views of the Society and suggestions on how the Board could assist with advancing the objectives of each Network.

Communities

How we engaged

Supporting communities is core to our purpose and, as voted for by our members in 2007, we commit at least 1% of our pre-tax profits each year to good causes, focused on housing. Within our social investment programme, our community grants were distributed through our Community Boards, under the direction of member and colleague volunteers.

We also engaged with and supported our communities through our employee volunteering programme, our partnerships with charities Shelter and St Mungo's and our broader Mutual Respect programme.

When designing and planning the Oakfield development in Swindon, we worked closely with the local community. Work onsite has temporarily paused as our construction partner entered administration. We are now working with a new partner to re-engage the supply chain and the first properties are planned to go on sale later this year. For more information, see page 23.

During the year, our engagement with communities included discussion on the following topics:

- Raising awareness of housing issues and need
- Understanding the challenges local charities are facing through our Community Grant programme and Shelter engagement workers

How we responded

We responded to the humanitarian crisis in Ukraine, encouraging our members and colleagues to donate to the British Red Cross Ukraine Crisis Appeal. We donated £250,000 and, when added to our colleagues' and members' donations, the total raised amounted to over £1,000,000.

We support local communities through our social investment programme, and last year awarded £4 million to 94 housing projects through our Community Grants programme. We also continued to support charities Shelter and St Mungo's, and through our Colleague Grants programme we awarded a total of around £500,000 to 59 charities chosen by our colleagues.

Working with Wiltshire Community Foundation, in March 2022 we launched the Nationwide Poverty Hurts Fund, where we will make £50,000 available in 2022 to support charities in assisting with the cost of living crisis.

In line with our mutual ambition to be better for society, we pledged to be net-zero by 2050 at the latest and have continued to progress our Mutual Good Commitments. As part of our Mutual Respect programme, we continued to partner with The Diana Award Anti-Bullying programme in primary schools across the UK and the Football Association's Respect programme.

More information can be found on page 23.

Board engagement

The Board received updates on the Society's social investment strategy and on Community Board activities. During the year, this included reviewing Nationwide's social investment strategy, the progress of grants funded through the Community Grant programme, and progress updates on Nationwide's partnerships with key charitable organisations.

The Board also received bi-annual updates from Nationwide's Responsible Business Committee on progress made against our Mutual Good Commitments, which included more detailed reporting on Nationwide's commitment to ESG matters through further enhancements in reporting, engagement with key stakeholders and signing up to industry body standards.

Investors

How we engaged

We maintain an active dialogue with investors, who support us in meeting our funding and capital requirements - this includes as part of the due diligence process ahead of wholesale issuances and responding to general queries. Our Investor Relations programme provides current and potential investors with the opportunity to meet senior managers and executive directors of the Society. As well as updating our investors on our latest financial performance, we provided information on areas of interest to investors, such as our ESG activities.

In addition, to support investors' understanding of our performance and risk management, we engaged with Credit and ESG rating agencies to ensure the Society was rated appropriately.

Engaging with our stakeholders (continued)

During the year, our engagement with investors included discussion on the following key topics:

- Progress against our strategic objectives
- Sustainability, in particular the Society's approach to climate change
- Impacts of an uncertain economic and geopolitical outlook
- Asset quality
- Capital strength and impacts of regulatory changes
- Competition within UK financial services

How we responded

We have continued to provide strategic and financial updates to our investors, and last year we held our inaugural ESG investor webinar. The webinar focused on our actions to support the greening of UK homes and our progress so far, and was well received by our investors.

We continued to adapt our Interim and Annual Report disclosures and investor presentations to ensure investors' information needs were met. We also continued to enhance our climate-related financial disclosures in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and to respond to investor demand.

In 2021, in response to investor interest, we participated in the CDP environmental disclosures survey for the first time. We achieved a score of B which signifies that we are 'taking coordinated action on climate issues'.

More information can be found on our Investor Relations website.

Board engagement

On behalf of the Board, the Chief Executive and Chief Financial Officer provided a comprehensive update directly to investors following each external results announcement. The Chief Executive also provided a strategic update at our ESG investor webinar.

Suppliers

How we engaged

Our third-party suppliers help us to run our business, and we engage with them on a regular basis on key topics such as operational performance, contract management, risk and future opportunities.

At our Annual Partner Event, members of our leadership team shared, with third-party suppliers of critical and strategic services, an update on the Society's performance over the last year and priorities for the year ahead.

Throughout the year we updated our suppliers on any material announcements through email or webcast communications, and we shared our risk and compliance expectations on our Supplier Portal internet page. In the year, we worked with charity Unseen to provide anti-slavery training to some of our key third-party suppliers.

During the year, our engagement with suppliers included the following key topics:

- Society Plan, including our strategic priorities, technology strategy and five Mutual Good Commitments
- Operational performance and contract management
- The impacts of new regulation
- Our new supplier engagement platform
- Outcomes of, and actions from, supplier controls testing
- Procurement for Mutual Good programme, including EcoVadis, the Buy Social Corporate Challenge and the Minority Supplier Development Network (MSDUK)
- Climate action
- Inclusion and diversity
- Modern slavery
- Cyber security
- Changes to leadership

How we responded

Our Procurement for Mutual Good programme continued to drive further action for a more diverse, more ethical and greener supply chain. We began new relationships with EcoVadis, to rate our suppliers' sustainability performance, and ethnic minority business network, MSDUK.

Through our Mutual Good Commitments, we are targeting our supply chain to be carbon neutral by 2030, and we have continued to work with Carbon Intelligence to model our supply chain emissions so that we can work with our suppliers to reduce emissions.

More information can be found on pages 23 and 37.

Board engagement

During the year, the Chief Executive gave an update on the Society's performance at our Annual Suppliers Event 2022. In addition, a joint meeting of the Board Risk Committee and Board IT and Resilience Committee considered the Society's management of its key supply chains and the steps the Society was taking to avoid undue risk. The Board Risk Committee, under delegated authority from the Board, approved the Third-Party Risk Policy.

Regulators and policy makers

How we engaged

Regulators and policy makers oversee and influence our activities and we engage with them at all levels of the Society, from our Chief Executive engaging with senior regulators through to branch visits by local MPs. We actively monitored developments in the regulatory landscape and engaged on policy issues, responded to consultations and took part in working groups. We also produced regular and ad-hoc regulatory reporting as required.
We engaged through a combination of one-to-one meetings, roundtable discussions and conferences and events, which were

attended by members of the Board, the Nationwide Leadership Team and subject matter experts.

We monitor issues at a global level, for example we joined the Net-Zero Banking Alliance (NZBA) and Glasgow Financial Alliance for Net-Zero (GFANZ). We also engaged with the devolved Governments in Scotland, Wales and Northern Ireland as well as the UK Government.

During the year, our engagement with regulators and policy makers included discussion on the following key topics:

- Covid-19 support measures
- Verbal and aggressive behaviour towards branch colleagues
- Green homes
- Climate change
- Access to cash
- Authorised Push Payment (APP) fraud
- Reform of the private rented sector
- Support for first time buyers
- The FCA's Consumer Duty
- Cladding
- Central Bank Digital Currencies
- Corporate governance
- Mutuality and changes to the Building Societies Act
- Future regulatory framework for financial services
- Ringfencing of UK banks

How we responded

We regularly engaged with MPs and responded to consultations, information requests and Select Committee inquiries on key issues of interest. Over the year, we have responded to consultations from government departments including HM Treasury, the Department for Business, Energy and Industrial Strategy (BEIS), and the Department for Levelling Up, Housing and Communities (DLUHC). We regularly engage in the policy areas which influence Nationwide's business. We also proactively engaged with regulators and policy makers on Nationwide research, including our Future of Home report.

And we have since convened four cross-industry action groups that are aiming to drive solutions to UK housing challenges.

Our engagement with MPs, trade unions and other major high street brands through our Together Against Hate campaign has supported a successful change in sentencing guidelines for anyone who attacks someone serving the public.

More information can be found on pages 24 and 40.

Board engagement

The Board received regular reports detailing Nationwide's regulatory interaction, the changing regulatory environment and the impacts for Nationwide. In addition, Board members attended regular meetings with representatives from regulatory bodies, and regulators attended Board meetings to present key reports, such as the findings of the Prudential Regulatory Authority's (PRA's) Periodic Summary Meeting and the Financial Conduct Authority's (FCA's) Firm Evaluation Letter.

Board decisions

Members Colleagues Communities Regulators Suppliers Investors Buy to let

At the heart of our mutual purpose is the need to engage, consult with and act in the interests of our stakeholders. The Board is responsible for setting a clear strategy and direction, ensuring the long-term success and sustainability of the Society. When making decisions, it considers the outcome for all relevant stakeholders, as well as the need to maintain a reputation for high standards of business conduct, the need to act fairly, and the consequences of its decisions. The Board and committee terms of references available at nationwide.co.uk state the importance of considering the requirements set out in section 172(1) of the Act. The Board and committee paper template also includes a section for authors to outline how the update or proposal directly or indirectly impacts our key stakeholder groups. The Board reviews this as part of its assessment to determine the relevant stakeholder impacts.

Principal decisions are those decisions taken by the Board, including decisions taken by or delegated to management which the Board has oversight of, that are of strategic importance, material to the operations of the business and are significant to the Society's key stakeholders. This statement describes three examples of principal decisions taken during the year.

"The Board plays a pivotal role in providing strong governance and oversight of the Society. Our goal is not only to fulfil our statutory obligations as a Board but also to ensure the Society is managed in line with our mutual values. Among these values is the strong commitment from the Board to engage directly with our stakeholders, to listen to their views and to consider their interests during Board discussions and decision making".

Kevin Parry
Chairman

Delivering a Future of Legendary Service programme by redefining what great service looks like and how we provide this to members

Stakeholders considered

Decision-making process
As reported last year, in 2021 the Board approved the establishment of a future service operating model to match member demand across all of our channels. One of the key reasons for the initial change was the recognition of the need to meet increasing service expectations on the part of members by delivering against higher digital service benchmarks and we chose to do this in a way unique to Nationwide. This year, the approval of the Future of Legendary Service strategy saw the building of a more flexible, adaptable organisation through a new operating model.

To support the Board in its decision making, it received comprehensive updates from management on the progress of both the human and digital programme workstreams. The Board's support to proceed to next stages was sought at the appropriate intervals. The Board recognised that this would involve a shift towards digital and telephony interactions with members and in some cases reduced use of branches.

Duties under section 172
Providing truly legendary service has been at the heart of Nationwide's culture for many years. We strive to ensure that our member-supporting colleagues display an ethic of care, which has been a defining part of the Society's culture and values and a powerful differentiator in the market.

The Board considered the balance of stakeholder considerations during its decision making and agreed that whilst member impacts would continue to be felt from branch closures and reduced hours, this would be offset by greater telephony and webchat capacity to service member demand. This was discussed in conjunction with regulatory interest in strategies to support vulnerable members when considering branch closures and reduced opening hours. The programme continues to invest in better vulnerable member research and insight on the impact of closures to inform service strategies.

For colleagues, branch closures, investment in training to become multi-skilled, and the need to absorb change following new digital releases were noted as the principal impacts. The Board agreed that continuous investment in colleagues was vital to re-define the role of the branch network to support the vision to be thoughtful, caring and there to help members, both at home and on the high street.

In making the decisions, the Board gave regard to the wider community impact, as well as the reputational risks and media and political interest.

Actions and outcomes
The Board continues to receive updates on the execution of the Future of Legendary Service programme, and as required will continue to approve changes to redefine and adjust elements of the programme's strategy as appropriate. This ensures that this strategy remains fit for purpose in a continuing evolving landscape and allows the Society to adapt to the changing macroeconomic environment.

Board decisions (continued)

Members Colleagues Communities Regulators Suppliers Investors Buy to let

Agreeing the Society's climate change strategies and net-zero commitments

Stakeholders considered

Decision-making process
During the year, the Board and the Board Risk Committee have continued to dedicate time and focus to the climate change agenda. The Board recognises that as the UK's second largest mortgage lender, the Society has a key role to play in creating greener, more sustainable homes and has reviewed a number of initiatives proposed by management that aim to support this commitment. These initiatives have included the launch of a solar panel pilot and explored ways to offer a range of green initiatives to help members to improve the energy efficiency of their homes.

In June 2021, the Board approved the proposal for the Society to become a signatory to the Glasgow Financial Alliance for Net Zero (GFANZ). In making its decision, the Board made it clear to public policy-makers that the science based targets were particularly aggressive for residential mortgages, and that the Society would not be able to reach the targets without broader policy changes. The Board agreed that it was an important opportunity to take an active position to assist with government policy change.

The Audit Committee reviewed all climate-related financial disclosures, that can be found on page 40, in advance of Board consideration and recommended them to the Board for approval. The Board Risk Committee reviewed and approved the Climate Risk Biennial Exploratory Scenario response on behalf of the Board. This was an opportunity to challenge prior to submission to the Bank of England.

Duties under section 172
The Board is aware that climate change presents a risk to the Society, its members and the wider community. In making climate-related decisions the Board has been mindful of and evaluated the likely long-term consequences and the impact on community and environment. It has also considered implications of decisions to ensure that risks from climate change are managed and effectively incorporated into the Society's governance model.

Actions and outcomes
During consideration of regulatory submissions on climate-related disclosures and net zero commitments, the Board considered the macroeconomic environment. This included the more recent political focus on cost of living increases and their impact on households. This has seen the Society offering cheaper borrowing to members making green home improvements, and cashback rewards for members who buy greener homes.

In addition, during 2021 the Board undertook a process to find and appoint a Climate Change and Built Environment Board Adviser, to provide expert advice to the Board, its committees and senior management. The successful candidate was appointed in January 2022 and continues to assist the Board with such matters.

The Board has determined that given the significant likely long-term consequences of climate change decisions, it will not create a Board committee with responsibility for climate-related matters and instead has kept matters of key importance in this area reserved for its own decision.

Supporting the launch of the Landlord Works[1], our digital one-stop-shop providing education and features to support landlords

Stakeholders considered

TO LET

Decision-making process
In June 2021, the Board received an update on the propositional work being undertaken to build a new landlord proposition called 'The Landlord Works'.

The Board confirmed its support for the launch of The Landlord Works in June 2021, recognising its alignment to the Society's Mutual Good Commitment to help achieve safe and secure homes by equipping landlords with tools to improve tenants' lives.

Duties under section 172
In considering the interests of key stakeholder groups, the Board evaluated whether the proposition would meet the needs of The Mortgage Works customers and members who were landlords, which was a member segment not previously served by Nationwide or any other mainstream provider. In this way it therefore offered the opportunity to develop deeper and more committed landlord relationships in an underserved market sector. The Board considered that Nationwide was founded to help members into homes of their own and whilst this remains core to our purpose today, the associated impacts on the wider community and environment were also noted. The Board agreed that The Landlord Works provides a direct benefit to a core stakeholder group. The proposition is linked to the strategic aims of the Society and provides a new innovative approach to serving the landlord market by assisting landlords with meeting their regulatory environment and sustainability obligations.

The proposal set out that third party suppliers would be engaged to support with the proposition, which was seen as an opportunity to create a new streamlined procurement process for operating in this market.

Actions and outcomes
The Landlord Works launched to the market in Autumn 2021 and the Board continues to receive updates on its development and progress from management. Management continues to engage closely with investors and regulators, who are provided with updates on activities.

[1] www.thelandlordworks.co.uk

Committed to doing the right thing

Statement from Joe Garner, Chief Executive

Nationwide Building Society was founded on a social purpose, that we express as 'building society, nationwide' – and we are still guided by that purpose today. Being owned by and run for our members, we act in their interests and strive to do the right thing in a responsible way – for the benefit of our members, colleagues, communities and the environment.

We recognise the importance of the role that we play in developing a more sustainable relationship with our communities and environment. In 2019, we declared our commitment to the UN Global Compact and I am pleased to reaffirm our continued support of the Ten Principles of the United Nations Global Compact, which span the areas of Human Rights, Labour, the Environment and Anti-Corruption.

Joe Garner

UN Global Compact: Communication on Progress

We continue to integrate the principles of the UN Global Compact into our business strategy, culture and daily operations. Further information on how we are progressing can be found on our Responsible Business webpages (https://www.nationwide.co.uk/about/responsible-business/overview) and, where referenced, on the pages within this Annual Report and Accounts.

Human Rights: doing the right thing for our members and the way we do business	
Our Mutual Good Commitments	Page 36
Human Rights statement	
Modern slavery and human trafficking	
Supporting our members	Page 27
Supporting our people	Page 28
Communities and social investment	Page 29
Supporting our suppliers	Page 30
Supporting policies and processes	
Governance	Page 62

Labour (our employees): doing the right thing for our employees	
Our Mutual Good Commitments	Page 36
Our people	Page 20
Our culture	Page 20
Our Code of Conduct	
Inclusion, diversity and wellbeing	Page 20
Reward and gender and ethnicity pay gaps	Page 21
Reimagining work	
Our suppliers	Page 30
Freedom of association	

Anti-corruption: doing the right thing to prevent crime	
Protecting our members from crime	Page 19
Fraud and scams	Page 19
Data privacy	
Economic crime	
Modern slavery and human trafficking	
Code of Conduct	
Speaking up and whistleblowing	
Political involvement	

Environment: doing the right thing for the environment and its impact on our members	
Our Mutual Good Commitments	Page 36
Climate-related financial disclosures	Page 40
Green homes	Pages 23 and 37
Our operations	
Building a greener supply chain	Page 23
Our partnerships	Page 40
Biodiversity	

Committed to doing the right thing (continued)

UN Sustainable Development Goals

As a signatory to the United Nations Principles for Responsible Banking, we are committed to a strategic alignment with the 2015 Paris Climate Agreement and to the UN Sustainable Development Goals (SDGs). Our mutual purpose of *'building society, nationwide'* directly supports these goals, and is most closely aligned to the SDGs listed below.

SDG 1 – No poverty
We take positive action against homelessness, and to enhance financial inclusion and wellbeing, as well as to support and protect our members' money

SDG 5 – Gender equality
We promote gender equality and are working towards equal representation of women in our leadership population by 2028

SDG 10 – Reduced inequalities
We are working to reduce economic inequality and seek to ensure everyone has access to good and secure housing, finances and work opportunities

SDG 11 – Sustainable cities and communities
Our social investment programme enables us to give back to our communities. And our four cross-industry action groups are working on solutions that help to address broader housing challenges related to affordability, accessibility and sustainability

SDG 12 – Responsible consumption and production
We send no waste to landfill, recycle our office equipment and source food locally. In addition, our award-winning Procurement for Mutual Good programme supports a greener, more diverse and more ethical supply chain

SDG 13 – Climate action
We are part of the Net-Zero Banking Alliance, committing to a net-zero future by 2050 at the latest. We are already carbon neutral for all energy use and emissions for our internal operations. And with our green propositions we are helping our members to reduce the carbon footprint of their homes

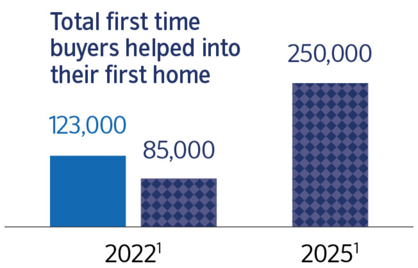
Committed to doing the right thing (continued)

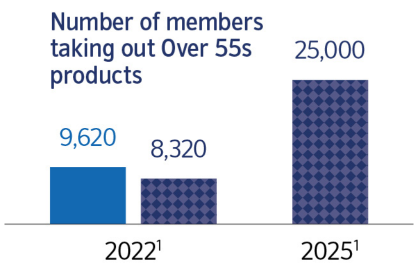
Our Mutual Good Commitments

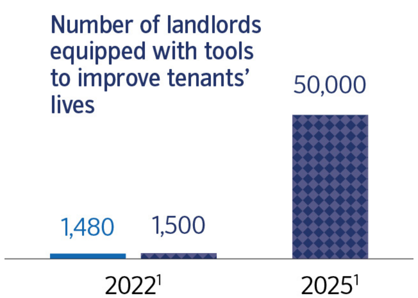
Enabling our members to achieve more together than they can alone, for the mutual good of society

Being a responsible business is part of our mutual heritage and we have been committed to doing business in a way that positively impacts our members, employees and communities for over 135 years. Our mutual difference sets us apart from our peers and we are committed to progressing bold initiatives, represented by five Mutual Good Commitments that we launched in November 2020. These are core to our purpose of *building society, nationwide*. They are embedded within our strategy, overseen by the Nationwide Leadership Team and the Board, and support the UN Sustainable Development Goals.

Our Mutual Good Commitments	Our targets	Progress
Help to achieve safe and secure homes for all SDG 1 – No poverty SDG 10 – Reduced inequalities	By 2025, we will help 250,000 members to buy their first home	Since setting our target in November 2020, we have helped over 123,000 people into their first home, ahead of our cumulative target for 2022. This has been supported by the launch of our market-leading propositions that help address the two main challenges faced by first time buyers, of raising a deposit and being able to borrow enough to afford a property. We will continue to focus our propositions on solving these challenges, extending our support for first time buyers. For more information on how we are supporting first time buyers, see page 14.
	By 2025, we will help 25,000 members use the money built up in their home to live a better retirement	We were the first high street provider to offer a suite of Over 55s products – Equity Release, Retirement Interest Only and Repayment mortgage products, giving our members the flexibility and expert advice to help find the best way of funding their retirement goals. Our Over 55s webinars have been attended by over 6,000 people since they first launched, and have supported awareness and demand for these products. As a result, the number of members taking out Over 55s products is ahead of our cumulative target for 2022.
	By 2025, we will equip 50,000 landlords with tools to improve tenants' lives	In October 2021, we launched The Landlord Works, our digital one-stop-shop for landlords, that provides resources to help them better manage their properties and responsibilities. The cumulative target for 2022 reflects the platform's relative infancy, and measures the number of landlords signing up to The Landlord Works to access its features, as we expect these landlords to be more committed to supporting better landlord practices. We are in line with our target for 2022 and, as the platform matures, our cumulative targets for each year will increase towards our 2025 target of 50,000 sign ups. For more information on The Landlord Works, see page 14.





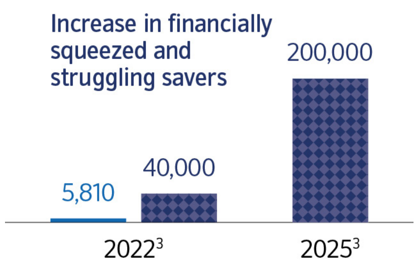


Actual Cumulative Target

[1] Actual totals and targets are cumulative from November 2020 when targets were set, to March 2022 and March 2025 respectively.

Our Mutual Good Commitments (continued)

Our Mutual Good Commitments	Our targets	Progress
Lead the greening of UK homes SDG 11 – Sustainable cities and communities SDG 12 – Responsible consumption and production SDG 13 – Climate action	By 2030, at least 50% of homes in our mortgage book will be rated EPC C or above	At 31 December 2021, 37% of the homes in our mortgage book had an Energy Performance Certificate (EPC) rating of C or above, based on our EPC data. This is modest progress towards our target of at least 50% of homes being rated EPC C or above by 2030. However, our target is ambitious. To achieve it, we will need further government action, for key stakeholders to work together, and for members to do their bit, to collectively create greener homes. We expect some progress from changes in energy efficiency regulations for privately rented properties and from maintaining our share of lending to new builds, which are typically rated EPC B or above. Our green propositions will also support this, although take-up remains low. We continue to explore other innovative propositions for greening UK homes, while seeking a just transition by making sure the most vulnerable in society are not left behind as we move to a net-zero future. For more information, see page 23 and our climate-related financial disclosures on page 40.
	By 2030, our business operations, suppliers and commuting will be carbon neutral	Nationwide has remained carbon neutral for all energy use and emissions for our internal business operations since April 2020. This has been achieved by using renewable electricity and offsetting our gas and diesel use with Carbon Verified Standard offsets. We are working towards a carbon neutral supply chain. We continue to partner with sustainability consultancy firm Carbon Intelligence to estimate the emissions of our supply chain. This will be used to drive target setting and tracking and support a reduction in the emissions associated with our purchased goods and services. For more information, see page 23 and our climate-related financial disclosures on page 40.
Support our members' financial wellbeing SDG 1 – No poverty SDG 10 – Reduced inequalities	By 2025, we will support 200,000 financially squeezed and struggling members to become regular savers	Around 45% of the UK population is classed as financially squeezed and struggling[1]. In November 2020, we had 637,000 members within this cohort saving regularly with us and aimed to increase this by 200,000 by 2025. We have supported our savers with innovative new products such as Start to Save, alongside banking features such as Impulse Saver and Round ups, and our free SavingsWatch service. However, despite these, due to the difficult external environment, this number has risen only slightly, by around 6,000 to 643,000[2]. Our target is ambitious and we recognise that the current environment makes it more difficult for these members to save; we will consider further ways to support our ambition. For information on Start to Save, see page 15.
Champion thriving communities SDG 11 – Sustainable cities and communities	Every town and city which has a branch today will still have one until at least January 2023	We maintain our Branch Promise and are creating a flexible branch workforce to further enhance the service we offer to members. For more information, see page 18.
	We will commit at least 1% of our pre-tax profits to charitable activities every year	As voted for by our members in 2007, at least 1% of our pre-tax profits each year goes to good causes, focused on housing. In 2021/22, this amounted to £7.1 million (2021: £7.4 million). For more information, see page 22.



Actual Cumulative Target

[1] Money and Pensions Service UK Strategy for Financial Wellbeing 2020-2030, Financial Resilience Segmentation.
[2] Our overall 200,000 target is calculated on a net growth basis. In calculating our measure, we first apply the CACI Fresco model's definition for the 'squeezed and struggling' segmentation to our own member database. A financially squeezed or struggling member is assessed as becoming a regular saver if, at any point since the target was first set in November 2020, that member has grown their overall savings balance in at least four months out of any six month period prior to the reporting date. Should savers not meet the defined balance growth criteria in future reporting periods, they are excluded.
[3] Actual totals and targets are cumulative from November 2020 when targets were set, to March 2022 and March 2025 respectively.

Committed to doing the right thing (continued)

Our Mutual Good Commitments (continued)

Our Mutual Good Commitments	Our targets	Progress
Reflect the diversity of our society SDG 5 – Gender equality SDG 10 – Reduced inequalities	By 2028, our people at every level within the organisation will reflect the society that we represent	See below

Our current diversity[1] | Diversity measures to meet by 2022 | Diversity aspiration by 2028

Our Mutual Good Commitments

#	Population	Our current diversity[1]	Diversity measures to meet by 2022	Diversity aspiration by 2028
Gender[3]				
1	Leadership population[4]	34.7% *(2021: 34.5%)*	38.5%	50.0%
Ethnicity[5]				
2	Leadership population[4]	7.1% *(2021: 6.5%)*	7.3%	12.0%
3	All employees	12.3% *(2021: 11.8%)*	12.2%	15.0%
Disability[6]				
4	Leadership population[4]	4.9% *(2021: 2.1%)*	3.0%	8.0%
5	All employees	4.8% *(2021: 2.9%)*	4.2%	12.0%
Sexual orientation[7]				
6	Leadership population[4]	2.1% *(2021: 1.7%)*	2.4%	4.0%
7	All employees	3.6% *(2021: 3.4%)*	3.5%	4.0%

Statutory measures[2]

Population	Number	%
Gender[3]		
Senior managers	37	40.7%
All employees	10,658	60.6%
Ethnicity[5]		
Senior managers		1.1%

Our seven diversity measures, that support our Mutual Good Commitment, span across gender, ethnicity, disability and sexual orientation. We achieved four of our seven measures to meet by 2022, and have made positive progress towards others; however further focus is needed to increase representation of women in senior roles. More information on the initiatives we have in place that have been supporting our progress, as well as further information on our broader inclusion and diversity strategy, can be found on page 20.

1 All data as at 4 April 2022, and based upon headcount not FTE (full-time equivalent value) of employees directly employed by Nationwide Building Society.
2 Statutory measures – We have presented additional measures that are not part of our Mutual Good Commitment targets but are statutory measures based on the Companies Act. Senior manager figures reflect the Companies Act definition of an employee who has responsibility for planning, directing or controlling the activities of an entity or a strategically important part of it, which includes our executive population comprising the Nationwide Leadership Team (NLT) and their direct reports.
3 Gender – The figures reflect female representation in each of the populations.
4 Leadership population – A targeted and broader leadership population used in leadership planning and reporting comprising around 1,000 of our leaders.
5 Ethnicity – Figures reflect Black, Asian, mixed and other. Excluded from the % are white majority and minority.
6 Disability – Figures reflect those identifying as disabled.
7 Sexual Orientation – Figures reflect those identifying as bi-sexual, gay man, gay woman, lesbian and other. Excluded from the % are those identifying as heterosexual.

Non-financial information statement

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

For further information on non-financial and ESG matters, please see our separate reporting on **nationwide.co.uk**:

- Climate-related financial disclosures
- Principles for Responsible Banking report
- Future of Home report
- Responsible business pages

Supporting our colleagues with disabilities

It is the Society's policy to afford access to training, career development and promotion opportunities equally to all colleagues regardless of their ethnicity, faith and belief, gender, marital status, age or physical or mental disability. For colleagues with disabilities and long-term health conditions, the Society supports them with workplace adjustments. Should colleagues become disabled while employed, the Society will, wherever possible, make adjustments to support them in their existing role or re-deploy them to a more suitable alternative role. We have made a Board commitment to disability inclusion and are Valuable500 members. We are ranked Bronze in the Business Disability Forum's Disability Standard benchmarking.
For more information on how we support our colleagues, see page 20.

Reporting Requirement	Section of Annual Report and Accounts	Page	Relevant policies and procedures available on nationwide.co.uk
Our business model	Our mutual difference is our business model How we're building society, nationwide	4 13	
Our KPIs	Strength to support our members, today and tomorrow	11	
Governance	Governance	62	
Our stakeholders	Engaging with our stakeholders	26	**Procurement for Mutual Good**
Social matters	Committed to doing the right thing	34	**Our Mutual Good Commitments**
Our key risks and their management	Risk overview Managing risk	48 134	**Our approach to responsible business**
Our colleagues	Our key policies and statements of intent are set out on page 34, and are in place to ensure consistent governance on our colleagues, environmental matters, human rights and financial crime and anti-corruption. These policies and statements are also available on **nationwide.co.uk**		
Environmental matters			
Human rights			
Financial crime and anti-corruption			

Climate-related Financial Disclosures

Nationwide's full Climate-related Financial Disclosures 2022 can be found at **nationwide.co.uk**

Environmental and climate consciousness are aligned to our purpose of building society, nationwide. This compels us to take meaningful action to help members green their homes (so that they are warmer, more comfortable places to live, and more cost effective to heat in the long term) and to manage better the impacts of a more unpredictable climate.

Nationwide is committed to a net-zero future (to achieve an overall balance between greenhouse gas (GHG) emissions produced and taken out of the atmosphere) and achieving our Mutual Good Commitments. This includes our ambition to lead the greening of UK homes. Our aim is to demonstrate Nationwide's mutual difference in areas where we can make the most positive impact on our members, communities and wider society.

In the 19th century, Nationwide helped people build their homes, in the 20th century, we helped people buy their homes, and in the 21st century, our additional challenge will be to help people green their homes.

Nationwide supports the UK's ambition to be net-zero by 2050.

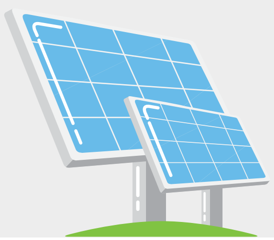
Nationwide's ambition, to lead the greening of UK homes, is central to our net-zero aspiration.

This is supported by our Mutual Good Commitments, that by 2030...

- At least 50% of homes in our mortgage portfolio (owner-occupier and buy to let) will be rated EPC C or better
- Our business operations, suppliers and commuting will be carbon neutral[1]

With around 16%[2] of the UK's carbon emissions coming from the home, and many of the homes being built today not meeting the highest energy efficiency standards, achieving the reduction in emissions to deliver net-zero will require significant cross-industry collaborative effort, led by government.

Nationwide has convened the Green Homes Action Group – a group of 15 companies and leaders from across the housing, construction, financial services, academic, energy and charity sectors with the aim to remove the main barriers to reducing the emissions of UK homes nationwide.



Using the collective voice of Nationwide's Green Homes Action Group, we are campaigning for a more comprehensive national retrofit strategy through seven policy asks...

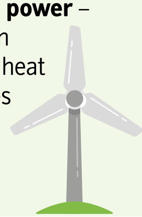
Build green homes for the future now – government and industry to work together to bring the Future Homes Standard implementation forward

Create new jobs in green retrofitting – government and industry to work together to stimulate demand in new, good quality, green jobs

Make it fairly financed – government to provide financial support to people to encourage the uptake in green solutions, including support for those who cannot afford to pay

Make property fit for the future – create a building passport, updated in real-time, to reflect changes and upgrades made to the home

Support green homes with green power – deliver clean energy and heat to UK homes



Regulate green retrofitting – ensure all installers undertaking retrofits are certified and compliant with high standards

A public information campaign that inspires – help people understand what is possible for their home

[1] Carbon neutral is no net release of carbon dioxide into the atmosphere, achieved by removing or eliminating emissions, or through funding equivalent carbon savings through renewable or offsetting projects.
[2] Department for Business, Energy & Industrial Strategy, 2020 UK Greenhouse Gas Emissions, Final Figures (February 2022).

Climate-related disclosures overview

Nationwide's full Climate-related Financial Disclosures 2022 can be found at **nationwide.co.uk**

Since 2019, Nationwide has been making disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Nationwide's Climate-related Financial Disclosures 2022 are published alongside our Preliminary results on nationwide.co.uk, are consistent with the TCFD recommendations[3] and recommended disclosures, and are aligned to the Financial Conduct Authority's Listing Rules (9.8.6R(8)). Publishing as a standalone disclosure enables Nationwide to provide comprehensive reporting of our climate-related disclosures, in a readily identifiable format, for all interested stakeholders.

During 2021, Nationwide continued to progress embedding climate change risk management across the Society to meet the requirements of the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) – Enhancing banks' and insurers' approaches to managing the financial risks from climate change, by further enhancing and embedding its capabilities to monitor and manage climate risk. The summary below articulates the work done to achieve this, to date, and our plans for further embedding and improving climate change risk management capabilities whilst enhancing our understanding of climate change and the impacts it will have on the Society and our members in the future.

The summary across the next four pages aligns to the four categories of the TCFD recommendations; Strategy, Governance, Risk management, and Metrics and targets. Across these categories are 11 sub-category headings which we have used to present our achievements and future activity. Page number references have been provided to indicate where additional detail can be found in Nationwide's full Climate-related Financial Disclosures 2022.

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

Climate-related disclosures overview (continued)

Nationwide's full Climate-related Financial Disclosures 2022 can be found at **nationwide.co.uk**. Page references have been included below.

Strategic report
Governance
Risk report
Financial statements
Other information

Strategy – The actual and potential impacts of climate-related risks and opportunities on Nationwide, its strategy, and financial planning

Climate-related risks and opportunities identified over the short, medium and long term

Disclosures: pages 9, 13, 14, 15

Achievements

- Nationwide's aspiration to support the UK in its transition to net-zero by 2050 and ambition to lead the greening of UK homes recognise a number of risks and opportunities across the short, medium and long term. These have been explored through its approach to climate change scenario analysis and strategic proposition development.
- Nationwide's approach to climate change risk management has been embedded in its business-as-usual activities. In addition, the requirements of SS3/19 have been satisfied.

Future activity

- Further embed climate change considerations into the Society's strategy and proposition development processes, including the identification of additional risks and opportunities.
- Develop a 2030 net-zero aligned transition plan to set out the actions needed to achieve Nationwide's net-zero aspiration.

The impact of climate-related risks and opportunities on Nationwide, its strategy, and financial planning

Disclosures: pages 8, 9, 10, 12

Achievements

- We have made a number of enhancements to Nationwide's strategy and financial planning processes, including considering climate change impacts on financial planning as part of scenario analysis.
- Nationwide continued to explore climate-related opportunities and in 2021 launched a solar panel pilot with MakeMyHouseGreen. This proposition complements Nationwide's green mortgage products to support its members in greening their homes.
- Throughout 2021, Nationwide continued its participation in cross-industry forums to understand new and emerging risks and opportunities across the financial sector, and commissioned research into potential retrofit opportunities and barriers to the greening of UK homes, working with Element Energy.

Future activity

- Leverage the learning from the solar panel pilot to develop further green, including retrofit, propositions.
- Further enhance our climate-related financial disclosures in line with TCFD recommendations and consider the implications of the future UK sustainability disclosure requirements.
- Perform additional assessments on the impact of climate-related factors on UK residential property valuations and affordability and incorporate climate risk factors into our expected credit loss assessment process.
- Continue to convene and participate in cross-industry working groups to drive real change in the greening of UK homes.
- Continue to make government aware of the challenges of greening UK homes to encourage further policy action.

The resilience of Nationwide's strategy, considering different climate-related scenarios, including a 2°C or lower scenario

Disclosures: pages 10, 13, 14, 15

Achievements

- Nationwide further enhanced its scenario analysis capabilities to enable better quantification of the financial risks arising from the physical and transition impacts of climate change. The analysis included assessing climate change scenarios over a 30-year horizon, including both Early and Late action scenarios where the increase in global temperatures are limited to 2°C, and a No additional action scenario in which the increase in global temperatures reached 3.3°C by the end of the scenario timeframe. The Society's scenario analysis indicated a limited threat of climate change to its current business model.
- Climate change was also considered as part of this year's internal capital adequacy assessment process (ICAAP), resulting in a small amount of capital being held to cover climate risk.

Future activity

- Undertake further climate change scenario analysis, using a dynamic balance sheet to understand better opportunities to provide an ongoing view on physical and transition risk exposures.
- Implement learnings from scenario analysis.

Climate-related disclosures overview (continued)

Nationwide's full Climate-related Financial Disclosures 2022 can be found at **nationwide.co.uk**. Page references have been included below.

Governance – Nationwide's governance over climate-related risks and opportunities

The Board's oversight of climate-related risks and opportunities

Disclosures: pages 17, 18, 19

Achievements

- The Board has ultimate accountability for all climate change risk related matters at Nationwide and in early 2022, Nationwide appointed a climate and built environment specialist Board adviser, to provide an external perspective and support its strategy in transitioning to a net-zero economy.
- The Board's engagement on climate change risk management was increased, with a particular focus on the Society's approach to climate change scenario analysis and its participation in the Bank of England's Climate Biennial Exploratory Scenario (CBES).

Future activity

- Continue to evolve and optimise Nationwide's climate change governance model to ensure even greater focus at Board and management level.
- Increase the Board's engagement on the development of net-zero aligned science-based targets and transition plan.

Management's role in assessing and managing climate-related risks and opportunities

Disclosures: pages 17, 18, 19

Achievements

- Ownership for responding to climate change sits with Nationwide's Chief Strategy and Sustainability Officer, whilst Senior Managers Regime accountabilities sit with the CEO.
- As part of the remuneration of Nationwide's most senior leaders, an individual's contribution is considered, including their impact on climate-related activities where relevant. The Nationwide Leadership Team's performance scorecard captures climate-related metrics, which in turn feed into remuneration outcomes.
- Nationwide enhanced its climate change risk governance during its scenario analysis activities, and its participation in the CBES, to ensure appropriate senior management and Board engagement.

Future activity

- Further increase the Board's and management's engagement on strategy and proposition development, risk management and disclosures.

Climate-related disclosures overview (continued)

Nationwide's full Climate-related Financial Disclosures 2022 can be found at **nationwide.co.uk**. Page references have been included below.

Risk management – How Nationwide identifies, assesses and manages climate-related risks

Nationwide's processes for identifying and assessing climate-related risks

Disclosures: pages 23, 24

Achievements

- The impacts of climate change have been assessed against Nationwide's principal risks in line with its Enterprise Risk Management Framework (ERMF) and potential impacts over the short, medium and long term identified.
- Physical risk assessment capabilities have been enhanced, through the Property Risk Hub, and internal capabilities have been developed to assess transition risk across the Society's residential and commercial mortgage and unsecured lending portfolios.

Future activity

- Deliver Nationwide's extended climate change risk implementation plan to further enhance its climate change risk management capabilities, recognising the recommendations of the Basel Committee on Banking Supervision's principles for the effective management and supervision of climate-related financial risks.

Nationwide's processes for managing climate-related risks

Disclosures: page 21

Achievements

- In support of the Society's risk appetite statement, new climate change risk appetite metrics were launched to help monitor and manage climate change risk impacts.

Future activity

- Incorporate climate factors into Nationwide's business as usual financial forecasting activity and transition risk factors into borrower affordability assessments.
- Further expand consideration of climate risk beyond financial implications.

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

Disclosures: pages 10, 21, 22

Achievements

- Climate change is embedded as a cause within Nationwide's existing ERMF.
- A climate change risk standard articulates how climate change risk may arise across the Society's principal risks.
- Climate change risk management has been fully embedded to meet the requirements of SS3/19.

Future activity

- Further broaden understanding of climate change risk through continued development of Nationwide's scenario analysis approach.
- Continue to review lending policy to ensure members are not unduly exposed to physical and transition risk.

Climate-related disclosures overview (continued)

Nationwide's full Climate-related Financial Disclosures 2022 can be found at **nationwide.co.uk**. Page references have been included below.

Metrics and targets – The metrics and targets used to assess and manage relevant climate-related risks and opportunities

The metrics used by Nationwide to assess climate-related risks and opportunities in line with its strategy and risk management process

Disclosures: pages 31, 32, 33, 34

Achievements

- Nationwide has developed a robust set of metrics to assess climate change risks and opportunities. This includes:
  - Physical risk data, such as flood exposure of our mortgage book
  - Transition risk data, such as EPC exposure of our mortgage book
  - Waste and water usage data
  - Data that shows the take-up of our green propositions
- Management information has been developed which is used to support decision making by management and the Board.

Future activity

- Evolve internal climate change management information to track better our climate change ambitions and support management decision making.
- Continue to enhance climate change metrics, ambitions, and targets, in line with changes to strategy, propositions, scenario analysis and climate science.

Nationwide's scope 1, 2 and 3 emissions, and the related risks

Disclosures: pages 26, 27, 28, 29, 30

Achievements

- Nationwide annually discloses scope 1, 2 and 3 emissions to meet the Streamlined Energy Carbon Reporting regulation requirements.
- In 2021, Nationwide broadened its investment scope 3 carbon emissions data to cover commercial real estate (CRE) and registered social landlord (RSL) lending portfolios in addition to mortgages, aligning with the Partnership for Carbon Accounting Financials (PCAF) methodology.
- The Society also calculated its upstream scope 3 emissions for purchased goods and services, capital goods, and transportation and distribution.

Future activity

- Continue to refine and enhance Nationwide's approach to calculating scope 3 emissions reflecting improvements in data availability, coverage and industry understanding.

The targets used by Nationwide to manage climate-related risks and opportunities, and performance against these targets

Disclosures: page 32

Achievements

- Nationwide continued to track progress of its Mutual Good Commitment that by 2030, 50% of the homes in its mortgage portfolio will be EPC C or better, and disclose progress against this target within its Climate-related Financial Disclosures.

Future activity

- To support the Society's membership of the Net-Zero Banking Alliance we will develop a set of intermediate science-based targets, to improve our understanding of the actions needed to achieve our net-zero aspiration.
- Continue to monitor performance against Nationwide's climate-related targets and ambitions, and update disclosures accordingly.

Nationwide's carbon emissions

Nationwide's full Climate-related Financial Disclosures 2022 can be found at **nationwide.co.uk**

Leading the greening of UK homes and supporting the transition to a net-zero economy

Climate change and environmental sustainability are a core part of Nationwide's purpose of building society, nationwide. Our purpose aligns with our ambition to lead the greening of UK homes and supports our aspiration to transition our business to net-zero by 2050 at the latest.

Nationwide exists to meet the needs of its members – it only has very limited corporate lending through small, closed commercial real estate and private finance initiative portfolios, and lending to registered social landlords.

Our business model means that we do not lend to, or invest in, businesses which have a negative impact on society and the environment, such as those in the fossil fuels industry.

We recognise the importance of taking early action to drive the transition towards a low carbon future and the impact climate change could have on members, their homes and wider society. However, we know we cannot do this alone, so we will continue to collaborate cross-industry and with government to support the changes needed to transition the economy to net-zero.

Nationwide's scope 1 and 2 carbon emissions

We are pleased to have remained carbon neutral for scope 1 and 2 emissions since 2020.

Our scope 1 emissions have decreased in comparison to previous years. This is due to our continued efforts to reduce our operational emissions. We offset our scope 1 emissions through verified carbon offset projects, such as community reforestation.

Gross scope 2 emissions continue to reduce as the use of our buildings remains limited and we continue to embrace a new way of working. 100% of our scope 2 energy is powered by renewable sources. This approach, coupled with purchasing carbon offsets for scope 1 emissions, ensures Nationwide remains carbon neutral for its business operations.

A summary of Nationwide's scope 1, 2 and 3 carbon emissions data[4]

Scope 1 and 2 emissions data (note i)	Year to 4 April 2022	Year to 4 April 2021
Scope 1 emissions – Energy and travel (tCO_2e/y)	**3,002**	3,474
Scope 2 emissions – Electricity (tCO_2e/y)	**14,972**	18,069
Total gross scope 1 and 2 emissions (tCO_2e/y) (note ii)	**17,974**	21,543
Absolute carbon outturn (less PPA carbon reduction and green tariff electricity) (note iii)	**3,002**	3,474
Total carbon dioxide in tonnes per full time employee (FTE)	**0.19**	0.21
Total net scope 1 and 2 emissions (tCO_2e/y) (note iv)	**0**	0
Total energy usage – Electricity and gas (MWh) (note v)	**86,417**	96,053
Scope 3 emissions data – mortgages	**Year to 31 Dec 2021**	**Year to 31 Dec 2020**
Absolute carbon emissions on whole book using interpolated EPC data (tCO_2e/y) (note vi)	**6,187,000**	6,250,000
LTV weighted carbon emissions using LTV weighted interpolated EPC data (tCO_2e/y) (note vii)	**2,795,000**	2,750,000
LTV weighted carbon intensity using LTV weighted interpolated EPC data ($kgCO_2e/m^2/y$) (note viii)	**19.03**	18.20
Scope 3 emissions data – commercial real estate	**Year to 31 Dec 2021**	**Year to 31 Dec 2020**
Absolute carbon emissions on whole book using proxy EPC data (tCO_2e/y) (note ix)	**259,000**	Not reported
LTV weighted carbon emissions using LTV weighted proxy EPC data (tCO_2e/y) (note x)	**96,000**	
LTV weighted carbon intensity using LTV weighted proxy EPC data ($kgCO_2e/m^2/y$) (note viii)	**46.39**	
Scope 3 emissions data – registered social landlords	**Year to 31 Dec 2021**	**Year to 31 Dec 2020**
Absolute carbon emissions on whole book using proxy EPC data (tCO_2e/y) (note ix)	**747,000**	Not reported
LTV weighted carbon emissions using LTV weighted proxy EPC data (tCO_2e/y) (note x)	**346,000**	
LTV weighted carbon intensity using LTV weighted proxy EPC data ($kgCO_2e/m^2/y$) (note viii)	**22.36**	
Scope 3 emissions data – upstream – purchased goods and services, capital goods, and transportation and distribution	**Year to 31 Dec 2021**	**Year to 31 Mar 2020**
Total upstream scope 3 carbon dioxide emissions (tCO_2e/y) (note xi)	**230,000**	265,000

[4] Notes for the carbon emissions data table are detailed on the next page.

Nationwide's carbon emissions (continued)

Nationwide's scope 3 carbon emissions – mortgages, commercial real estate and registered social landlords

Nationwide continues to disclose the proportion of emissions from borrowers' mortgaged properties associated with its mortgage lending. To understand better the scope 3 emissions for our lending activities we have developed an approach for disclosing the scope 3 carbon emissions for our commercial real estate (CRE) and registered social landlord (RSL) portfolios.

The scope 3 emissions for mortgages, CRE and RSL have been weighted by loan to value (LTV) in order to calculate the proportion of emissions financed by Nationwide. This is in line with PCAF methodology.

Information on how scope 3 emissions for mortgages, CRE and RSL have been calculated is in our Climate-related Financial Disclosures 2022.

Nationwide's scope 3 carbon emissions – upstream

Through our partnership with Carbon Intelligence, we have estimated Nationwide's scope 3 emissions for its upstream activities across the majority of its supply chain. This includes purchased goods and services, capital goods and upstream transportation and distribution, which account for around 92% of our total upstream emissions.

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

We continue to disclose in line with Streamlined Energy Carbon Reporting regulation requirements.

Scope 1, 2 and 3 emissions assurance

Nationwide appointed Ernst and Young LLP (EY) to provide limited independent assurance over our scope 1, 2 and 3 carbon emission disclosures for the year ended 4 April 2022. This includes scope 1 and 2 emissions for the year ended 4 April 2022 and scope 3 financed (investment and upstream) emissions for the 12-month period ended 31 December 2021. Assurance has not been provided over any prior year carbon emission disclosures. Assured metrics and KPIs are indicated throughout Nationwide's Climate-related Financial Disclosures 2022. The assurance engagement was planned and performed in accordance with the International Standard for Assurance Engagements (ISAE) (UK) 3000 (July 2020), Assurance Engagements Other than Audits or Reviews of Historical Financial Information. A limited assurance report was issued and is available on the Nationwide website[5]. This report includes details of the scope, respective responsibilities, work performed, limitations and conclusion.

We recognise certain limitations in climate data affecting climate metrics and targets, and their usefulness in strategic decision making. For more information on scope 1, 2 and 3 data scores and data limitations, see pages 28, 30 and 35 in Nationwide's Climate-related Financial Disclosures 2022.

[5] EY emissions assurance report 2022.

Notes:

i. When calculating its scope 1 and 2 carbon emissions, DEFRA 2021 conversion factors have been used. For travel, emissions are solely based on vehicle business mileage. Mileage is calculated based on the annual fleet return submissions by Nationwide employees and is therefore dependent on manual processes and individual record-keeping; furthermore, DEFRA emission factors used assume that all vehicles are medium sized passenger vehicles.

ii. Scope 1 covers direct combustion of fuels and company-owned vehicles and scope 2 covers emissions from electricity. All data is based on actual monthly consumption, apart from gas and electricity. For gas and electricity March consumption data is based on estimates.

iii. Purchase Power Agreement (PPA) represents the contribution of a solar power purchase agreement, producing emissions-free energy backed by renewable obligations certificates. Nationwide's 'Green Tariff electricity' comes from 100% zero carbon wind sources that have a renewable energy guarantee of origin (REGO), with assurance for this product provided by Deloitte in accordance with ISAE 3000.

iv. Nationwide's net scope 1 and 2 emissions are neutralised through a Purchase Power Agreement (PPA) for carbon reduction activities and 100% renewable green tariff electricity for its scope 2 emissions, and verified carbon offsets for its scope 1 emissions.

v. Energy usage data amounts presented for the year to 4 April 2022 reflect 90% actual data and 10% estimated data. 4 April 2021 data has been included this year as it is in line with that disclosed in Nationwide's 2021 CDP response. Energy usage data for the year to 4 April 2021 reflects actuals to January 2021 and estimates at March 2021.

vi. Emissions are estimated using data from the EPC Open Data Communities for residential properties where an EPC exists (for 55% of the mortgage portfolio) and by estimating EPC data across the remainder of the portfolio (45%) using interpolation based on housing data. The carbon dioxide emissions account for EPC covered emissions only (space and water heating, and lighting). Indirect emissions from other energy uses by the household have been excluded such as those resulting from the use of domestic appliances. We believe this approach best aligns with those emissions associated with its lending.

vii. LTV adjustments have been applied to the total CO_2 emissions predicted for the book, using the outstanding balance or loan amount and modelled property valuation, static as at 31 December 2020 (or 31 December 2021 for new business). We believe this best reflects the emissions financed by the mortgages.

viii. Carbon intensity is calculated in kilograms of CO_2 per square metre of property floor area.

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

x. For CRE and RSL, LTVs have been used to calculate attribution factors, which are then applied to the total CO_2 emissions predicted at borrower level. Borrower level attribution factors are calculated based on (i) total outstanding loan values as at 31 December 2021 and; (ii) total property values using a property valuation, static as at 31 December 2020 (or, for new business, the latest valuation in 2021 which will be held static going forwards). The approach to calculating attribution factor at borrower, rather than loan, level is aligned with the nature of the lending, and has been confirmed as an appropriate approach by PCAF.

xi. Data for upstream scope 3 emissions have been calculated for the 12 months to 31 December 2021 using publicly disclosed supplier emissions data (from CDP) for around 70% of our spend, with the remainder using average emissions factors from the Quantis data source. Data has also been included for 2020. Whilst not reported in our Climate-related Financial Disclosures last year, the emissions were included within our 2021 CDP response. Spend data on energy usage fees was excluded from the 2020 emissions calculations, but has been included in the 2021 emissions calculations.

Risk overview

Nationwide adopts a prudent approach to risk management, keeping our members' money safe and secure by ensuring that the risks we take in support of our strategy are controlled through a robust risk framework. We operate a relatively simple business model and operate in lower risk segments of the market to serve our members' interests and keep our members' money safe and secure by taking risks we understand and can manage well. This lowers earnings volatility and helps to ensure capital ratios remain above regulatory requirements through the economic cycle. We accept that lower volatility can mean lower returns and we manage the Society within these constraints.

Our risk management framework

Effective risk management is essential to achieve our strategic goals and to the delivery of our purpose of *building society, nationwide*. To ensure risks are managed consistently and rigorously, we operate a Board approved Enterprise Risk Management Framework which defines how risks are managed.

The framework sets out the risk management responsibilities of all colleagues within the industry standard three lines of defence model. This ensures risk is properly managed throughout the Society and that all risks are appropriately identified, assessed, managed, monitored and reported consistently. The Society's independent risk function, which is led by the Chief Risk Officer, provides independent oversight and challenge of the Society's risk management practices, whilst the Internal Audit function provides assurance of the effectiveness of our control environment for the Board.

Through the framework, the Board formally sets its risk appetite, articulating how much risk it is prepared to take in the pursuit of its objectives. A robust suite of policies, standards and other resources translates this appetite into the localised risk management activities and controls which our colleagues operate on a day-to-day basis to protect our members and their money. The Board and management committees receive regular reporting on the Society's risk profile and key risk metrics to support them in monitoring our position relative to risk appetite. Further information on the Enterprise Risk Management Framework and its key components can be found in the Managing risk section of the Risk report on page 134.

We have continued to develop our risk management and control environment, with enhancements to our three lines of defence model, in particular in relation to credit risk and economic crime, and a programme of activity to mature control ownership and deliver more consistent outcomes.

Risks to Nationwide

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

- Principal risks encompass all of the different types of risk to which Nationwide is exposed. These are defined in the Enterprise Risk Management Framework, ensuring the Society understands and manages all of its risks in a comprehensive and consistent way. Further information on these risks can be found on page 138 of the Risk report.
- 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.

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.

Risk overview (continued)

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	Strategic cornerstone impacted
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. *Further information can be found on page 44.*	Built to last
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.	Building a national treasure Built to last
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.	Building legendary service Built to last Building thriving membership

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

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.	Built to last
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.	Building PRIDE
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.	Building legendary service Built to last
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.	Building legendary service Building a national treasure Building thriving membership

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

Viability statement

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

Assessment of viability

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

In addition to taking a 12-month view of whether the Group remains a going concern, the directors have considered the viability of the Group over a three year period. Whilst it will always be difficult to predict the future path of the UK or the wider global economy with any degree of precision, this period strikes the right balance between assessing likely outcomes using the current information we have, whilst accepting a degree of uncertainty over a longer period. A three-year period is within the timeframe of the Group's profitability projections and stress tests which provide a reasonable expectation of continued operations and ability to meet liabilities as they fall due.

Consideration of key risks

The directors of Nationwide have considered for the purposes of viability over the past year the impact on Nationwide's risk profile of the prevailing macroeconomic and geopolitical environment, the changing needs of our members and our work to ensure our processes and systems remain robust. While emerging risks on pages 49 to 50 were not directly modelled, our assessment concluded that the severity and impact of these risks fall within the scenarios used for this analysis. Throughout the year, the Board has considered the risks which are most relevant to Nationwide's strategy, which include:

- Geopolitical and macroeconomic environment – As a UK-focused business, the Group's performance is naturally aligned to the UK's economic conditions. The economic outlook remains uncertain, having been severely impacted by the Covid-19 pandemic despite government intervention, an emerging cost of living crisis, and the conflict in Ukraine. Whilst there remains uncertainty regarding the future profile of interest rates and macroeconomic variables, the Society maintains strong capital and liquidity levels and regularly undertakes robust internal and regulatory stress tests to ensure these are sufficient under a range of severe scenarios.
- Competitive environment and consumer behaviours – The level of competition and brand relevance remains a key consideration. This could be driven by shifting customer behaviours, regulatory changes and continued innovation in the financial services sector, or new participants using price and service advantage to challenge our market share aspirations and profitability.
- Covid-19 pandemic – Over the past year, we have continued to consider risks including those arising from easing of restrictions and the potential for subsequent further outbreaks as well as cessation of government support.
- Financial crime and cyber security – We continuously monitor the external landscape to identify potential cyber and fraud threats whilst operating and maturing our key financial crime and cyber controls to protect our members and services, and to meet our regulatory obligations.
- Operational resilience – Maintaining resilient systems, infrastructure and processes remains critical as changing consumer behaviours influence member needs in accessing our products and services and how they interact with us. We continue to monitor and strengthen our control environment whilst pro-actively monitoring the resilience of our services to reduce disruption to our members.
- Climate change – Risks continue to evolve as government policies mature, including transition towards greater requirements on energy performance certificates (EPC) which is likely to play out across a number of other risks.

Viability statement (continued)

Planning and stress testing activity during 2021/22

During 2021/22, the Group developed financial forecasts and a range of plausible stressed economic scenarios, which reflect the risks which are most material to our financial strength. The scenarios considered include:

- A base case economic scenario, with gradual economic recovery, rising inflation heightened competition and a modestly increasing bank base rate. This scenario has been subject to revision during the year to reflect developments in core markets and changes to government measures designed to limit the negative impact of the pandemic on the UK economy.
- A macroeconomic 'upside' scenario exploring a rapidly rising interest rate environment, rising inflation and a robust recovery in the economy and heightened activity in the mortgage market.
- A 'severe downside' economic scenario considering a severe capital stress scenario with negative bank base rate which assumes reimposition of Covid restrictions, and/or a sharp rise in infections, resulting in significant decline in economic activity.
- The Bank of England's 2021 Solvency Stress Test (SST), which considers a negative bank base rate and a severe path for the current macroeconomic outlook, reflecting a peak to trough in House Price Index similar to that of the stressed scenarios described above, but with a stronger and more accelerated economic recovery.
- Our 2021 reverse stress test (RST) scenario, which explores Nationwide's ability to meet its strategic purpose, maintain scale and brand relevance and support the needs of our members in the context of the base case economic scenario extended over a longer time period, with significant headwinds to the UK economy, a gradual increase in bank base rate and the introduction of a central bank digital currency for use by households and businesses.
- Idiosyncratic scenarios including the impact of a liquidity stress brought about by a ransomware incident, and various operational risk exercises which considered capital required against ransomware, data congruency issues and data centre failures.
- The scenario used in our 2021 Internal Capital Adequacy Assessment process (ICAAP) which assumes a similar macroeconomic scenario as the SST but with greater severity.
- The first Climate Biennial Exploratory Scenario (CBES), providing an assessment of physical and transition risks across three climate change scenarios.

A selection of these scenarios has been used for expected credit loss modelling during 2021/22, and further detail can be found in note 10 to the financial statements.

Conclusion on viability

In addition to the Group's current financial strength, demonstrated through strong capital ratios (CET1 ratio of 24.1% and leverage ratio of 5.4% at 4 April 2022) and liquidity position (12-month average LCR for the year ended 4 April 2022 of 183%), the directors have assessed the impact of the scenarios described above on the Group's key financial metrics over the three-year assessment period.

In our base case economic scenario, key financial performance metrics are projected to remain comfortably above Board Risk Appetite and regulatory buffers. In addition, our recent external and internal stress testing activity demonstrates how the Group can withstand severe economic and competitive stresses, including those linked to heightened inflation and climate change.

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

Financial review

The results below are prepared in accordance with International Financial Reporting Standards (IFRSs). Underlying results are shown on page 54, together with a reconciliation to the statutory results.

"The strength of our finances will allow us 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%)

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.

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)

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 £m	2021 £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 10 to the financial statements.

Provisions for liabilities and charges

We hold provisions for customer redress to cover the costs of remediation and redress in relation to past sales of financial products and ongoing administration, including non-compliance with consumer credit legislation and other regulatory requirements. The customer redress charge 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 27 to the 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 11 to the financial statements.

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%)

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%)[1].

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	2021
	£m	£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 financial statements on page 233. Further information on movements in the pension obligation is included in note 30 to the financial statements.

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

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.

Capital structure (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.

Governance

Chairman's introduction to the Corporate Governance report	63
Your Board	65
Governance at Nationwide	70
Statement of compliance with the UK Corporate Governance Code 2018	70
Audit Committee report	86
Board Risk Committee report	92
Board IT and Resilience Committee report	95
Nomination and Governance Committee report	99
Report of the directors on remuneration	103
Directors' report	130

A letter from your Chairman

For the year ended 4 April 2022

Dear fellow member,

I am pleased to present the Corporate Governance report for the financial year ended 4 April 2022 and my first as Society Chairman.

Nationwide's mutuality means that we are driven by a social purpose to take decisions in the interest of our membership, and this starts with good governance. The Society's Board of directors is responsible for governance and setting a clear strategy. The Board also ensures that, as well as fulfilling our statutory duties, the Society is managed in line with its mutual values.

The Board is committed to maintaining the highest standards in the way Nationwide is directed, governed and managed and we have chosen to adopt the ethos and principles of the UK Corporate Governance Code (the Code) which sets the governance standards for public listed companies, but we do so in line with the Building Societies Association guidance to ensure alignment with good practice and our mutual status. Further information on our governance structure and how we have applied the provisions of the Code is contained within this Governance Report.

Set out below are some of the Board's key governance activities during the year.

Member engagement

As a member-owned Society, members continue to be at the heart of what we do at Nationwide, as we recognise the importance of considering our members in every decision we make. More information is found on page 26.

Our success is based on listening to and meeting the needs of our members and two ways that the Board ensures dialogue with our members are through our AGM and Member TalkBacks. With national restrictions on public gatherings continuing last year, we could not invite members to attend our AGM in person. We encouraged members to watch the event live, vote online and submit questions in advance of the meeting. We received positive feedback from members who would not have normally been able to attend the AGM and we will continue to offer meetings that enable members to participate online as well as in person.

We have continued to adapt our regular Member TalkBack sessions to enable the Board and management to connect directly with members despite the inability to hold large physical meetings. More information is on our website, **nationwide.co.uk**

Board changes

It is important that the Board has the right blend of experience, skills and diversity to provide the appropriate level of oversight and challenge of the business. This year there have been a number of changes to the Board.

Earlier in the year, David Roberts, Nationwide's Chairman since 2015, requested that the Society's Board start the process to select a new Chairman, ensuring an orderly succession and the continuity of Board leadership as the Society began to emerge from the pandemic. After an independent selection process, the Board appointed me as Deputy Chairman and Chairman Elect with effect from 23 September 2021. With effect from 1 February 2022, I assumed the role of Chairman. Further information about this appointment process is set out on page 98. David has made a tremendous contribution during his tenure as Chairman, and on behalf of the Board, I would like to take this opportunity to thank David and wish him well for the future.

On my appointment as Deputy Chairman and Chairman Elect, I led the process to appoint the successor to the Chief Executive, Joe Garner. Our priority during the process was to continue to build on the Society's success and the next phase of its development. The Board was delighted to appoint the Society's first ever female Chief Executive, Debbie Crosbie, and we will welcome Debbie to the Board in June 2022. Debbie brings significant banking experience combined with deep operational and technological knowledge, which are core skills that are needed to run a modern building society. She is a strong advocate of mutuality and supports Nationwide's core purpose and the societal role it plays.

After seven years of service as a non-executive director, Tim Tookey will retire from the Board at our AGM in July 2022. On behalf of the Board, I would like to express our gratitude for Tim's contribution throughout his tenure and wish him the very best for the future. Subject to regulatory approval, Tim will be succeeded in his role of Board Risk Committee Chair by Alan Keir, who we welcomed to the Board as a non-executive director on 1 March 2022.

We also welcomed Gillian Riley to the Board as a non-executive director on 1 April 2022. Biographies of both Alan and Gillian, outlining their experience and skillsets are on pages 66 and 68. Together, they will bring new and relevant perspectives into the boardroom and strengthen our knowledge in retail banking and risk.

In addition, my appointment as Chairman has seen Gunn Waersted move into my previous role as Senior Independent Director. Earlier in the year, Phil Rivett was appointed as Audit Committee Chair, succeeding me in the role. Full details of all changes mentioned are on page 69.

Board performance review

As Chairman, it is my responsibility to lead the Board and promote its effectiveness within a strong and sound governance framework. The effectiveness of the Board is assessed annually, and every three years by an independent external assessment. The Board carried out an independent external Board performance review in 2021, facilitated by Lintstock Limited. Lintstock is a Board advisory firm that provides objective and independent counsel to leading companies internationally. The findings of the review, together with a description of the process that was undertaken, can be found on pages 83 and 84. There you will also find an update on the actions we have taken in response to the 2021 review findings.

Inclusion, diversity and culture

The Board benefits from the diversity of views, backgrounds and experience of its directors and it remains committed to maintaining appropriate diversity to enhance our governance and improve our ability to challenge and support the Society in how it serves its members. The composition of the Board is outlined on page 82 and continues to meet or exceed all gender and ethnic diversity benchmarks set for listed companies.

To support our mutual principles and to ensure members receive legendary service from their Society, the Board is committed to creating an inclusive organisation, which reflects the diversity of the wider communities we serve. The Board has regularly assessed and monitored the development of the Society's culture. Further information about our oversight of the Society's culture can be found on page 71.

Tamara Rajah is the Board's designated director responsible for ensuring that the voice of our diverse colleague base is heard in the Boardroom and that colleagues are considered in decision making. Further information on Tamara's engagement activities can be found on page 76 and our section 172 statement on page 27 outlines how implications for colleagues influenced decision making by the Board and its committees.

Climate change

The Board is conscious of the impact of climate change and is committed to ensuring that the Society scrutinises its carbon footprint and reduces its energy consumption. These topics have been discussed by the Board during the year and our climate disclosures can be found on page 40 and within our Climate-Related Financial Disclosures publication.

Kevin Parry
Society Chairman

Your Board For the year ended 4 April 2022

Kevin Parry OBE ng r

Society Chairman from 1 February 2022. Non-executive director since 23 May 2016, Senior Independent Director from 17 January 2020 to 31 January 2022, Deputy Chairman and Chairman Elect from 23 September 2021 to 31 January 2022 (independent on appointment).

Skills and experience

Kevin Parry is a chartered accountant with a distinguished career in financial services and professional practice, bringing to the Board expertise in audit, regulation, risk management, and finance. As a former Chair of the Homes and Communities Agency, his perspective on housing is a valuable asset to the Society.

Kevin has a wealth of experience across a broad range of organisations; he was formerly Chairman of Intermediate Capital Group plc and Senior Independent Director of Standard Life Aberdeen plc as well as having been the Chief Financial Officer of Schroders plc and the Chief Executive Officer of Management Consulting Group plc.

In addition, he is a former trustee and Chairman of the Royal National Children's Springboard Foundation, a charity providing life transforming opportunities through education to disadvantaged children. Kevin is currently Chair of Royal London Mutual Insurance Society Limited and non-executive director and Chair of the Audit and Risk Committee of Daily Mail and General Trust plc.

Gunn Waersted it ng

Appointed Senior Independent Director on 1 February 2022. Non-executive director since 1 June 2017 (independent).

Skills and experience

Gunn Waersted's distinguished international career has included senior leadership positions in financial services, telecommunications and petrochemicals. Gunn previously served as Group Vice President at Nordea Bank Group and was CEO of Nordea Bank Norway. In addition she has been CEO at SpareBank Group and Vital Forsikring. Gunn was a non-executive director of Statkraft, Statoil. She brings to the Board vast experience of driving large-scale operational change, cultural change and digital transformation programmes to improve customer experience. She is a strong advocate of the need for strong people cultures and creating genuinely diverse organisations.

She is currently Chair of Telenor ASA, Petoro AS and Obton AS and non-executive director of Fidelity International.

Joe Garner

Chief Executive Officer since 5 April 2016

Skills and experience

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

During the year he was a director of UK Finance, a member of the Financial Conduct Authority Practitioner Panel and Patron of British Triathlon.

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

Strategic report
Governance
Risk report
Financial statements
Other information

Your Board (continued)

Mai Fyfield

r a ng

Non-executive director since 2 June 2015 (independent)

Skills and experience

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

She is a champion of diversity and helping women succeed in senior management and Board positions. She currently holds non-executive directorships with Roku Inc, BBC Commercial Limited, ASOS Plc and The Football Association Premier League Limited.

Albert Hitchcock

it ri r

Non-executive director since 2 December 2018 (independent)

Skills and experience

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

He was previously a technology advisor to the Board of the Royal Bank of Scotland plc and has held executive positions as a Group Chief Information Officer at Vodafone plc and Nortel Networks. He was previously Chief Technology and Operations Officer of Pearson plc.

Alan Keir

a ri

Non-executive director since 1 March 2022 (independent)

Skills and experience

Alan Keir is an experienced banker who began his non-executive career when he retired as a Group Managing Director and CEO of EMEA at HSBC in 2016, where he had been leading the operations in 30 countries including the UK home market. He has extensive experience in a full range of banking activity, including retail branches and investment banking. His expertise in the retail and commercial banking sector, and his proven track record of delivering a successful commercial banking strategy whilst redefining the culture and values of a large organisation, will assist the Board in setting and delivering strategic performance. He was previously on the Board of HSBC Bank plc as a non-executive director between 2018 and 2021.

He is Chair of the Sumitomo Mitsui Banking Corporation Bank International plc and chairs its Nomination and Remuneration committees. He is also a non-executive director at Majid Al Futtaim where he is Chair of the Audit and Risk Committee.

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

Your Board (continued)

Debbie Klein

r

Non-executive director since 1 March 2021 (independent)

Skills and experience

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

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

Tamara Rajah MBE

it

Non-executive director since 1 September 2020 (independent)

Skills and experience

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

She is currently Chief Business and Science Officer of Holland and Barrett Limited and holds non-executive directorships with Dot London Domains Limited and London & Partners Ventures Limited.

Chris Rhodes

Executive director since 20 April 2009

Skills and experience

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

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

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

Your Board (continued)

Gillian Riley

it

Non-executive director since 1 April 2022 (independent)

Skills and experience

Gillian Riley is a senior banker with an accomplished track record in consumer and commercial banking at Bank of Nova Scotia, which is Canada's third largest bank. Since 2018, she has been President and CEO of its subsidiary, Tangerine Bank, which Gillian evolved from being a digital deposits bank to an everyday digital bank that's profitable and has a full suite of banking solutions that consistently wins awards for its client satisfaction. She also previously founded The Scotiabank Women Initiative to strengthen equality and support for women entrepreneurs. Gillian is a champion for diversity and community values, contributing in areas such as health, youth issues and gender equality.

She is currently a non-executive director and Chair of Roynat Capital Incorporation. She is also a non-executive director of the St Michael's Hospital and the St Michael's Hospital Foundation in Canada.

Phil Rivett

a ri it ng

Non-executive director since 1 September 2019 (independent)

Skills and experience

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

He is a non-executive director and Audit Committee Chair at Standard Chartered plc.

Tim Tookey

ri a it ng

Non-executive director since 2 June 2015 (independent)

Skills and experience

Tim Tookey is a chartered accountant with over 30 years' experience in finance, across retail and commercial banking, life assurance and pensions, and insurance. As a former Chief Financial Officer, Tim has the background and expertise to analyse and test the Society's financial and risk strategies. Tim's previous appointments include Chief Financial Officer at Quilter Plc where he led the IPO from Old Mutual Wealth Management Ltd, Chair at Alliance Trust Savings Limited, Chief Financial Officer at Friends Life Group Limited and Group Finance Director of Lloyds Banking Group Plc.

He is currently a non-executive director at Royal London Mutual Insurance Society Limited.

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

Society Secretary supporting the Board

Jason Wright

Society Secretary

Skills and experience

Jason Wright joined Nationwide in December 2019, becoming Society Secretary in March 2021, and is responsible for delivering a comprehensive secretariat service to the Board, Board committees and senior management. He is a member of The Chartered Governance Institute with over 25 years' experience working as a governance professional within financial services; prior to joining the Society was Company Secretary at Barclays Bank plc and previously Head of Board Support at Santander UK plc.

Board and Committee composition and attendance at scheduled meetings in 2021/22

Board member	Board	Audit Committee	Board Risk Committee	Board IT and Resilience Committee	Nomination and Governance Committee	Remuneration Committee
Kevin Parry[1]	9/9	4/4	6/7	-	7/7	9/9
Rita Clifton[2]	4/4	4/4	-	-	-	3/3
Mai Fyfield[3]	9/9	5/5	-	2/2	7/7	9/9
Albert Hitchcock[4]	9/9	-	8/8	6/6	-	1/1
Alan Keir[5]	1/1	1/1	1/1	-	-	-
Debbie Klein[6]	9/9	-	-	-	-	5/5
Tamara Rajah[7]	8/9	-	6/6	6/6	-	-
Gillian Riley[8]	0/0	-	-	0/0	-	-
Phil Rivett[9]	9/9	8/8	8/8	5/6	1/1	-
David Roberts[10]	8/8	-	-	-	6/6	7/7
Tim Tookey	9/9	8/8	8/8	6/6	6/7	-
Gunn Waersted[11]	9/9	-	-	6/6	7/7	-

Indicates Chair

[1] Appointed Society Chairman and Chair of the Nomination and Governance Committee with effect from 1 February 2022. Resigned from the Audit Committee with effect from 22 July 2022 and stood down as Senior Independent Director on 31 January 2022.

[2] Resigned from the Board on 22 July 2021.

[3] Resigned from the Board IT & Resilience Committee and joined the Audit Committee on 22 July 2021.

[4] Joined the Remuneration Committee on 1 March 2022.

[5] Joined the Board on 1 March 2022.

[6] Joined the Remuneration Committee on 22 July 2021.

[7] Succeeded Mai Fyfield as designated director responsible for Employee Voice on 22 July 2021 and resigned from the Board Risk Committee on 14 January 2022.

[8] Joined the Board on 1 April 2022 and was not eligible to attend any meetings during the year.

[9] Became Audit Committee Chair on 22 July 2021. Appointed Whistleblowing Champion and joined the Nomination and Governance Committee on 1 February 2022.

[10] Resigned as Society Chair and non-executive director on 31 January 2022.

[11] Appointed Senior Independent Director on 1 February 2022.

Governance at Nationwide

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

UK Corporate Governance Code – statement of compliance

Nationwide is committed to high standards of corporate governance and has continued to adopt the relevant parts of the UK Corporate Governance Code 2018 (the Code), which is available at **www.frc.org.uk**. The Board believes that throughout the year ended 4 April 2022 Nationwide has complied with the principles of the Code in line with the Building Societies Association guidance of July 2018. Details of the principles, including where you can read more about how Nationwide complied with them, are set out below:

Section	Code Principles[1]	Where to read about how Nationwide has complied
1. Board leadership and company purpose	A. An entrepreneurial board with the role to promote the long-term sustainable success of the Society and generate value for members	Pages 2-61 and 71-72
	B. Purpose, values and culture	Pages 2-61 and 71-72
	C. Performance measures, risks and controls framework	Pages 11-12, 92-94 and 138
	D. Stakeholder engagement	Pages 26-33
	E. Workforce policies and practices	Pages 20-21 and 71-72
2. Division of responsibilities	F. Leadership of Board and Board operations	Pages 6, 72, 77, 79 and 99-102
	G. Board composition, Board roles and independence	Pages 77-79 and 82
	H. Directors' responsibilities and time commitment	Pages 69 and 79
	I. Board support, information and advice	Pages 79-80
3. Composition, succession and evaluation	J. Board appointments and succession plans for Board and senior management	Pages 99-102
	K. Board skills, experience and knowledge	Pages 65-68 and 82
	L. Annual Board evaluation	Pages 86-91
4. Audit, risk and internal control	M. Effectiveness of external auditor and internal audit	Pages 86-91
	N. Fair, balanced and understandable assessment of the company's position and prospects	Pages 130-132
	O. Risk Management and Internal Control Framework	Pages 86-94
5. Remuneration	P. Remuneration and Society purpose, strategy and values	Pages 103-129
	Q. Executive and senior management remuneration	Pages 103-129
	R. Authorisation of remuneration outcomes	Pages 103-129

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

Board leadership and Society purpose

The role of the Board

Nationwide's Board ensures that the Society's long-term strategy is implemented within a good quality governance framework to enable it to continue to deliver the benefits of mutuality to its members. More information on the Society's purpose, the business model and how the Society generates and preserves value over the long term can be found on pages 13 to 25.

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

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

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

Culture

The Society's culture remains a key focus of the Board to support the organisation's purpose, and the delivery of its strategic ambitions. To ensure the Board has a strong understanding of the Society's current culture, target state and progress made, the Board receives updates from management. The Society's cultural assessment tool, the Culture Mosaic, which is reviewed by the Board, provides a holistic view of the Society's cultural evolution which in turn helps inform and shape activity to manage, drive and accelerate the pace of culture change. By reviewing qualitative and quantitative information from a range of sources, the Board is able to track progress and ensure that the culture reflects the shared set of values, beliefs and behaviours which are central to the Society's PRIDE values. More information on the Society's PRIDE values can be found on pages 20 to 21.

From its review during the year, the Board concluded that progress has been made against all five desired cultural shifts. In particular, it was observed that positive stances internally and externally against unacceptable behaviours had been made, and the Society had upheld its distinct ethic of care to members and colleagues during the unprecedented times of the last two years. Additionally, improved agility and collaboration in the way Nationwide operates, and progress with the delivery of the legendary service strategic cornerstone was seen to have improved member satisfaction, with 97% of colleagues surveyed believing that Nationwide puts its members at the centre of business decisions.

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

Whistleblowing

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

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

Phil Rivett assumed the role of Whistleblowing Champion from Kevin Parry from 1 February 2022. He is responsible for ensuring and overseeing the integrity, independence and effectiveness of Nationwide's policies and procedures relating to whistleblowing, including those intended to protect whistleblowers from being victimised because they have disclosed reportable concerns.

The Board recognises that having effective and trusted confidential whistleblowing arrangements is key in supporting the Society's open and honest culture. The Board receives an Annual Whistleblowing Report and has reviewed the adequacy and effectiveness of the arrangements in place for the proportionate and independent investigation of concerns raised, including any required follow-up action taken. During 2021, a total of 182 concerns were raised of which 94 were formally investigated as whistleblowing (2020: 206 concerns raised of which 99 were investigated as whistleblowing). The remainder were investigated utilising other internal resources.

Conflicts of interest

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

If any potential conflict arises, the Society's Directors' Conflicts of Interest Policy permits the Board to authorise a conflict, subject to such conditions or limitations as the Board may

Board leadership and Society purpose (continued)

determine appropriate. The Board has considered the current external appointments of all directors which may give rise to a situational conflict and has authorised any potential conflicts where appropriate. Directors are required to notify the Board of any change in circumstances relating to an existing authorisation and to review and confirm their external interests twice a year.

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

Details of other directorships held by Board members can be found in the Annual Business Statement on pages 319 to 320.

The Society's Conflicts of Interest Policy is applicable to all other employees and covers the requirement to appropriately identify and robustly manage all organisational and personal conflicts of interest.

How the Board operates

The Board meets regularly and holds a strategy meeting annually to review strategic options open to the Society in the context of the economic, regulatory and competitive environment. The Board also meets when necessary to discuss important emerging issues that require consideration between scheduled Board meetings. There were ten scheduled Board meetings during the year, including a two-day Strategy Conference. The Board meetings are structured to ensure that the Board covers a range of items through open debate relating to the Society's business model, strategy, culture and performance. Further details can be found on pages 73 to 75.

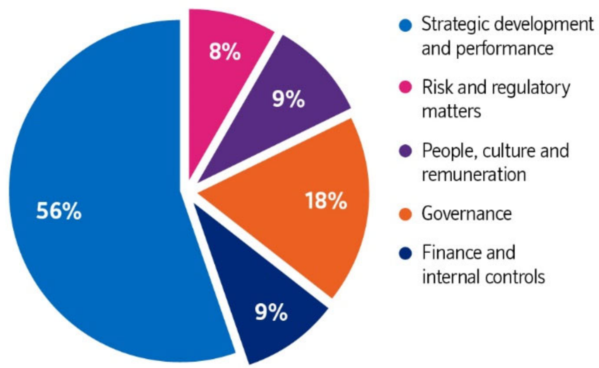
Members of senior management attend meetings as required to present and discuss matters relating to their business and subject matter areas. The Chairman meets with the non-executive directors, without executive directors present, during each Board cycle.

Where directors are unable to attend meetings, they are encouraged to give the Chairman their views in advance on the matters to be discussed. The attendance record for Board members during the period is set out at page 69. Board members were given the opportunity to join informal conference calls, in the months where no meetings were formally scheduled. These calls were led by the executive directors and focused on monthly operational, strategic and financial performance.

Throughout the year, the Board focused its activity on supporting management in the delivery of the Society's strategic aims, reviewing and approving the Society's strategy and financial plans, and considering governance and regulatory matters. The Board regularly received updates on business progress and the issues and challenges faced by management. Board activities are aligned with the Society's strategy, and an in-depth review of the strategy was considered by the Board at its annual Strategy Conference.

Nationwide continues to develop and invest in new products and services which are assessed to be within the Board's risk appetite and the Board monitors existing products and services. In addition to the main items for consideration, the Board received updates at each meeting on the work of its principal committees to keep abreast of significant issues.

How the Board spent its time in the year



Board leadership and Society purpose (continued)

The following pages set out a non-exhaustive list of the key matters that the Board has considered during the year in line with the Society's cornerstones, together with stakeholder implications and principal risks. Further information on how the Board has engaged with our key stakeholder groups is outlined on pages 26 to 33.

Board activity – Strategic development and performance	Strategic Cornerstone	Stakeholder	Principal risk
Discussed regular updates from the CEO on progress against the Society's purpose to build society nationwide, including provision of external insights on key factors affecting the business. As part of this, the Board reviewed key performance metrics to assess progress made in the implementation of the Society's strategy.		Members Colleagues Suppliers Communities Investors	P O E
Debated and considered the opportunities and challenges facing Nationwide due to the changing macroenvironment, heightened by the Covid-19 pandemic, Brexit and the conflict in Ukraine. This included agreeing the propositional, financial, and strategic response.		Members Suppliers Communities Regulators	P E
Discussed and approved recommendations regarding the future strategic growth of Nationwide. This included strategic discussions centred on organisational vision, proposition, brand, responsible business, technology and data transformation, digital and frontline servicing.		Members Colleagues Suppliers Communities	P O E
Received an update on the progress made on the Society's social investment strategy and Community Board activities. Received updates on Nationwide's key charitable partnerships, including meeting with such charities.		Communities Members Colleagues	E
Reviewed the impact of the Society's brand in relation to market conditions and its competitors.		Members Investors Colleagues	E
Board activity – Finance	**Strategic Cornerstone**	**Stakeholder**	**Principal risk**
The Board reviewed the Society's five-year Plan for 2022-27 against a backdrop of continued economic uncertainty, bank base rate increases and market competition. The Board undertook a thorough review ahead of finalising and approving the Society's Financial Plan for 2022-27.		Members Colleagues Regulators Investors	P O E
Regularly assessed financial performance and the capital and liquidity position of the Society via business performance reports from the Chief Financial Officer.		Members Regulators Investors	P E
Reviewed and approved the Society's interim and full year financial results prior to publication. Approved the Society's Annual Report and Accounts prior to publication, with consideration given to business viability and the preparation of the accounts on a going concern basis.		Members Regulators Investors	P E

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

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

Board leadership and Society purpose (continued)

Board activity – Finance	Strategic Cornerstone	Stakeholder	Principal risk
Reviewed the Society's strategic cost and efficiency programme and discussed the cost opportunities over the five-year Financial Plan.	Built to Last	Members Regulators Colleagues Suppliers	P O E

Board activity – Governance	Strategic Cornerstone	Stakeholder	Principal risk
The Board has overseen the Society's response to the Covid-19 pandemic. It received regular reports from management including operational contingency planning updates, as the Society adapted to meet government requirements. These reports and updates covered matters such as the impact on members, colleagues, suppliers and other stakeholders.	Building Thriving Membership, Built to Last, Building Legendary Service, Building Pride, Building a National Treasure	Members Colleagues Regulators Investors Communities Suppliers	P O E
Received and considered regular reports from the General Counsel and Society Secretary, and regulatory updates from the Chief Risk Officer, on emerging changes to legislation and regulation impacting the Society's business.	Built to Last, Building a National Treasure	Regulators Investors Suppliers Colleagues	O E
Reviewed and approved the revised plans for the 2021 AGM in light of the changes required due to the Covid-19 pandemic and approved the Notice of the 2022 AGM and associated documentation.	Building Thriving Membership	Members Regulators Investors	O E
Carried out and received the report of an external review into the effectiveness of the Board and its committees, including developing an action plan designed to remedy areas needing improvement.	Built to Last	Regulators Investors Members	O
Received regular reports on the Society's progress towards resolvability as required under the Bank of England Resolvability Assessment Framework to ensure that capabilities were being developed to protect the Society's business and its members. There was significant engagement from the Board in reviewing, challenging and approving the Resolvability framework, and the Board received specific training on the topic. The final self-assessment document was submitted to the Bank of England in September 2021.	Built to Last, Building a National Treasure	Regulators Investors Members	P O E
Approved the Society's Modern Slavery Statement for 2021.	Built to Last, Building Pride, Building a National Treasure	Regulators Investors Members Suppliers	P O E
Reviewed and received updates on Environmental, Social and Governance (ESG) matters, including continued engagement on progress made.	Built to Last, Building Pride, Building a National Treasure	Investors Members Communities	P O E

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

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

Board leadership and Society purpose (continued)

Board activity - People, culture and remuneration	Strategic Cornerstone	Stakeholder	Principal risk
Reviewed and discussed the people strategy with particular focus on the workplace strategy, as the Society looks to embed a future way of working as restrictions lift and people are able to return to the workplace, and reviewed the Society's remuneration strategy and how this is aligned with achieving the Society's overall strategic aims.		Colleagues Members	O E
Engaged with the wider workforce via the designated non-executive director for Employee Voice and by connecting with the employee networks in the organisation, colleagues attended Board meetings to provide the Board with direct insight on key topics impacting colleagues and members.		Colleagues Members	O
Considered the Society's Gender and Ethnicity Pay Gap reporting for 2021, including Nationwide's approach to closing the gap.		Colleagues Regulators Investors Communities	O
Reviewed the progress made on the development of Nationwide's culture and how colleague sentiment was monitored through various internal engagement surveys and sentiment trackers.		Colleagues	O E
Reviewed the Annual Whistleblowing Report and the Society's whistleblowing arrangements.		Colleagues Regulators	O E
Board activity - Risk and regulatory matters, including external outlook	**Strategic Cornerstone**	**Stakeholder**	**Principal risk**
Assessed the Society's overall risk profile and emerging risk themes, including receiving direct reports from the Chief Risk Officer and Chair of the Board Risk Committee. The Board also approved revisions to the Board Risk Appetite.		Members Regulators	P O E
Assessed the economic and market conditions affecting the Society's business and, as part of this, reviewed in detail and approved the Society's stress testing activity for 2022.		Members Regulators	E

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

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

Strategic report
Governance
Risk report
Financial statements
Other information

Engagement in action – Employee Voice

Employee Voice in the boardroom

In July 2021, I assumed the role as the designated non-executive director with specific responsibilities for the Employee Voice in the boardroom. My role supports Nationwide's employee voice strategy, which is mature and has been established within Nationwide for a number of years thanks to the role that my predecessor Mai Fyfield played in this area. My role supports the wider programme of employee engagement, which ensures that the Board has direct mechanisms for engaging throughout the year to understand what employees really value.

Although the ability to meet colleagues face-to-face has continued to be difficult to achieve due to the ongoing pandemic, engagement has continued via virtual methods when physical methods were not possible. My engagement programme has included meeting colleagues from across the Society, as well as working directly with colleagues who sponsor and chair the Society Networks and those who attended Board meetings during the year to represent the Employee Voice directly. These meetings, alongside insight shared from our wider listening approach, informs conversations and provides qualitative insights to inform decisions made by the Board.

In addition to meeting directly with colleagues, the engagement programme also incorporates meetings with the Nationwide Group Staff Union (NGSU). The Board was pleased to invite the General Secretary of the NGSU to attend a Board meeting and a Remuneration Committee meeting during the year to discuss the relationship of the NGSU with Nationwide and the alignment of interests.

From conducting my engagement programme throughout the year, a number of themes have emerged through direct conversations with colleagues and the Board has discussed these at Board meetings with colleagues in attendance. One particular theme was that colleagues continued to support the Society's response to the Covid-19 pandemic, feeling that the Society was doing everything it could to keep them safe. Colleagues highlighted the importance of having simple tools to make it easier for them to speak up, and it was acknowledged by the Board and management that the large numbers of channels that could be used to report incidents of whistleblowing and speaking up could be misleading and confusing to the wider workforce. As a result, the channels have been reviewed.

Employee engagement activities will continue in 2022, focusing on the cultural outcomes of empowering environments and embracing change.

Tamara Rajah
Non-executive director for Employee Voice in the boardroom

Division of responsibilities

Leadership structure

An overview of the Board composition and its committee structure as at 4 April 2022 is set out below.

Board composition

Chairman

Leads the Board, ensuring it operates effectively in setting the strategic direction of the Society, including shaping the culture in the boardroom;

Sets the tone from the top and epitomises the Society's culture by fostering open and honest debates in the boardroom;

Fosters a culture of open dialogue and mutual respect between executive and non-executive directors, both in and outside of the boardroom, including ensuring that each non-executive director provides valuable contributions;

Together with the other members of the Board, promotes the long-term success of the Society and ensures the accountability to its members;

Provides support and advice to the Chief Executive Officer while respecting executive responsibility.

Senior Independent Director

Provides a sounding board for the Chairman, providing him with support in the delivery of his objectives;

Is available to directors if they have concerns, when contact through other channels (via the Chairman, Chief Executive Officer or other executive directors) has failed to resolve.

Acts as a trusted intermediary for members when necessary;

Leads the annual review of the Chairman's performance by the Board and is responsible, in conjunction with the Nomination and Governance Committee, for the succession process for the Chairman.

Non-executive directors

Collectively set the tone from the top, in relation to culture and governance – holding management to account for embedding and maintaining the Society's culture and values;

Contribute to the development of the strategy and risk appetite, exercising effective oversight over risk management and controls;

Monitor performance and constructively challenge as appropriate using their skills and expertise to engage in honest debate;

Promote the long-term success of the Society for the benefit of members and ensure that the Society meets its obligations as a regulated firm.

Chief Executive Officer

Runs the business day-to-day and is accountable to the Board for the Society's financial and operational performance;

Provides leadership and direction to set and implement the Society's strategy, having regard to the duty to promote the success of the Society in the interests of members, colleagues and Nationwide's public and social responsibilities within the wider community;

Embodies the Society's culture and values and develops policies for the Society's people that drive the right behaviour;

Implements and monitors systems for the apportionment and oversight of responsibilities, controls and best practices within the Society, which maintain its operational efficiency and high standards of business conduct.

Further information on the division of responsibilities between the Chief Executive Officer and Nationwide Leadership Team can be found at page 81.

Executive directors

As members of the Board, collectively with the non-executive directors, set the strategy, risk appetite, culture and values;

Ensure that the Board is kept informed of all significant matters, escalating issues on a timely basis;

Are accountable to the Board for the execution of the strategy and the performance of the business;

Hold specific management responsibilities in the day-to-day running of the business.

Society Secretary supporting the Board

Advises the Board through the Chairman on all governance-related matters;

Provides support to the Board in managing good information flows between the Board and the rest of the Society to ensure that high-quality and timely information is provided to the Board;

Assists the Chairman in ensuring that adequate resources are allocated to developing the directors' knowledge and capabilities in order to enhance Board and Committee effectiveness;

Assists the Chairman in establishing the policies and processes required to enable the Board to function effectively.

Division of responsibilities (continued)

Board

Board committees

Audit Committee

Provides oversight and advice to the Board in respect of financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems.

The Committee challenges management on the Society's work on fraud and economic crime prevention.

Additionally the Committee provides input to the Remuneration Committee to assist that committee in its assessment of possible impacts on remuneration.

Board IT and Resilience Committee

Provides oversight and advice to the Board in respect of IT strategy, IT investment, IT architecture, IT operating model effectiveness, delivery performance and resilience controls, including cyber risk, as well as overseeing the Society's data management strategy.

Board Risk Committee

Provides oversight and advice to the Board in relation to current and potential future risk exposures and risk strategy, including determination of risk appetite.

Additionally, the Committee is responsible for monitoring compliance oversight, the effectiveness of the Enterprise Risk Management Framework (ERMF) and providing input to the Remuneration Committee to assist that committee in its assessment of possible impacts on remuneration.

Nomination and Governance Committee

Assists the Chairman in keeping the composition of the Board under review, leading the appointments process for nominations to the Board and making recommendations to the Board on succession planning and executive level appointments.

The Committee reviews the Board's governance arrangements and makes recommendations to the Board to ensure that the arrangements remain consistent with best practice.

The Committee oversees the implementation of the Society's inclusion and diversity strategy and objectives.

Remuneration Committee

Has responsibility for determining and agreeing with the Board the remuneration strategy and the broad policy for remuneration of directors, senior management and any other individual employees deemed appropriate by the Committee, including those identified as material risk takers for the purposes of the PRA and FCA Remuneration Codes. It determines, within the terms of the agreed policy, the specific remuneration packages for these roles.

The Committee also reviews the ongoing appropriateness and relevance of the remuneration policy and pay practices for the workforce across the Society.

Further information on the role of the Board and its committees can be found on pages 71 and 72 of this report and in the individual committee reports.

Division of responsibilities (continued)

Time commitment

To discharge their responsibilities effectively, non-executive directors must commit sufficient time to their role. The time the Society's non-executive directors are expected to commit to their role at Nationwide is agreed individually, as part of the appointment process, and depends upon their responsibilities. For example, additional time commitment will often be required of the Senior Independent Director and Chairs of the Board committees in order to fulfil their extra responsibilities. The Chairman and non-executive directors are expected to allocate sufficient time to understanding the business, through meetings with management and undergoing training to ensure ongoing development. The Chairman and non-executive directors are also expected to attend meetings with the Society's regulators to foster and maintain an open and transparent working relationship. This time is in addition to that spent preparing for, and attending, Board and Board committee meetings. Time commitments are reviewed annually, or more regularly if needed, as Nationwide recognises the need to take account of changes in best practice. Non-executive directors are expected to commit a minimum of 30 days per year for core activities and membership of Board committees. The Senior Independent Director and Committee Chairs are expected to commit a minimum of 50-60 days per year. The Chairman will, on average, spend a minimum of two days per week on Nationwide business.

This year, the Chairman, Kevin Parry, has individually confirmed with each non-executive director that they have been able to allocate sufficient time to fulfilling their duties. Externally, there has been no increase in Kevin Parry's other significant commitments during the year which would impact the time he has to fulfil the role as Chairman.

During the year and on the recommendation of the Nomination and Governance Committee, the Board gave approval to the following significant additional external appointments taken by non-executive directors of the Society as those appointments were not considered to impair any director's ability to serve as a director of Nationwide:

- Tamara Rajah as Chief Business and Science Officer of Holland and Barrett.
- Mai Fyfield as a non-executive director of the Football Association Premier League Limited.

Director independence

The Nomination and Governance Committee considers the independence of each non-executive director on an annual basis. In reaching its determination of independence, the Committee considers factors such as length of tenure and relationships or circumstances which are likely to affect or appear to affect the director's judgement. On the recommendation of the Committee, all non-executive directors have been assessed by the Board to be independent as to character and judgement and to be free of relationships and other circumstances which could materially affect the exercise of their judgement.

In reviewing the independence of each non-executive director, the Committee examined the cross directorships of Kevin Parry and Tim Tookey who both sit on the Board of The Royal London Mutual Insurance Society Limited (Royal London). The Committee was satisfied that the cross directorships did not impact their independence or their ability to carry out their role as directors of the Society.

Prior to his appointment to the Board, Alan Keir was a member of senior management, and then served as a non-executive director, at HSBC UK. HSBC UK has a relationship with the Society as all incoming and outgoing international and domestic CHAPs payments are routed through HSBC and the Society has in place an agency banking contract with HSBC. The Committee was satisfied that he had no personal engagement with any business of the Society prior to his appointment in March 2022 and his previous business relationship with HSBC did not impact his independence or ability to carry out his role as a non-executive director of the Society.

The Code requires the Chairman to be independent on appointment. Thereafter, the test of independence no longer applies to this role. Kevin Parry's independence was scrutinised during the Chairman selection process and in conclusion he was deemed to be independent upon his appointment to the role of Deputy Chairman and Chairman Elect in 2021 and thereafter on his appointment to role as Chairman.

Following the assessments, all directors eligible for re-election will be recommended to members for re-election at the AGM in July 2022.

Information and advice

The Board has full and timely access to all relevant information to enable it to perform its duties effectively. The Society Secretary ensures appropriate and timely information flows between the Board, its committees and senior management, enabling the Board to exercise its judgement and make fully informed decisions when discharging its duties.

Division of responsibilities (continued)

The Society Secretary supports the Chairman in setting the Board agenda. Board papers are distributed to all directors in advance of Board meetings via a secure electronic system allowing directors to access information in a timely manner. Regular management updates are sent to directors to keep them informed of events between formal board meetings and to ensure that they are advised of the latest issues affecting the Society.

All directors have access to the advice and services of the Society Secretary, who is responsible for advising the Board through the Society Chairman on all governance matters and for ensuring that Board procedures are followed and compliance with applicable rules and regulations is observed. The directors may, if required, take independent professional advice at the Society's expense.

Induction, training and development

Following appointment, directors receive a full and formal bespoke induction to familiarise them with their duties and the Society's business operations, and risk and governance arrangements. Inductions are tailored to each director's individual experience, background and areas of focus and are set alongside their broader individual development plan. The induction programme includes meetings with senior management.

The Chairman, with support from the Society Secretary, has overall responsibility for ensuring that the directors receive suitable training to enable them to carry out their duties. The directors are provided with the opportunity for ongoing training and professional development to ensure they have the necessary knowledge and understanding of the Society's business. Training can be provided through meetings, presentations, and briefings by internal and external advisers.

Directors are encouraged to update their professional skills and knowledge of the business continually, and to identify any additional training requirements that would assist them in carrying out their role. Where individual directors have requested, individual training sessions have been held with subject matter experts, to assist with continuous professional development. The Chairman has conversations with each non-executive director on a regular basis during the year and at the end of the year to review performance and development needs. The Senior Independent Director is responsible for the evaluation of the Chairman's performance and development needs. Executive directors undertake performance and development review and planning activity as part of the Society's annual performance management cycle.

Nationwide Leadership Team

There is a clear division of responsibilities between the Chairman, as leader of the Board, and the Chief Executive Officer, who is responsible for the day-to-day running of the business. To the extent that matters are not reserved to the Board, responsibility is delegated to the Chief Executive Officer, who is assisted by the Nationwide Leadership Team (NLT).

The NLT is responsible for directing and coordinating the executive management of the Society within the strategy, risk appetite, operational plans, policies, objectives, frameworks, budget and authority approved by the Board.

The membership comprises the executive directors (Joe Garner and Chris Rhodes) and the Community and Mission Leaders. This reflects how Nationwide is structured and more information on how Nationwide uses Missions can be found on page 13. Biographies of the executive directors can be found on pages 65 and 67. Biographical details of other NLT members can be found at **nationwide.co.uk**. In addition to NLT members, the Chief Internal Auditor and Society Secretary attend every meeting in full.

Mandy Beech
Member Experience Director, Retail Distribution & Servicing

Sara Bennison
Chief Product and Marketing Officer

Janet Chapman
Mission Leader – Moments that Matter

Mark Chapman
General Counsel

Patrick Eltridge
Chief Operating Officer

Jane Hanson
Chief People Officer

Paul Riseborough
Mission Leader – Hassle Free Money

Rachael Sinclair
Mission Leader – Homes and Dreams

Gavin Smyth
Chief Risk Officer

Claire Tracey
Chief Strategy and Sustainability Officer

Composition, succession, and evaluation

Board composition

The Nomination and Governance Committee is responsible for reviewing Board composition, considering succession plans for both the Board and senior executives, selecting and appointing new directors and considering the results of the Board effectiveness review. More information on the work of this Committee during the year can be found on pages 99 to 102.

In order to maintain a balanced Board, the skills and experience of individual Board members are regularly reviewed. Ensuring the right mix of director competencies is vital for constructive discussion and, ultimately, effective Board decisions. The individual biographies of the directors, which include their relevant skills and experience, can be found on pages 65 to 68.

All directors are subject to conduct rules laid down by regulators and must satisfy requirements relating to their fitness and propriety. In addition, the Chairman, the Senior Independent Director and Chairs of the key Board committees are subject to all aspects of the Senior Managers Regime.

Executive directors' service contracts and the letters of appointment for the Chairman and non-executive directors are available for inspection at the Society's principal office, and will be available at the AGM.

Board tenure

The Society's Memorandum and Rules require that Board directors must be re-elected by the Society's membership every three years.

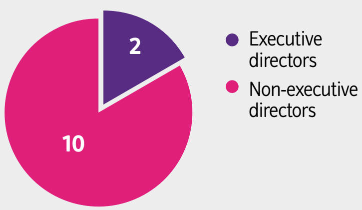
However, in compliance with the UK Corporate Governance Code (the Code), all directors of Nationwide are subject to election or re-election by the members annually. Before re-election, a non-executive director will be subject to a review of that director's continued effectiveness and independence as described above.

Member nominations

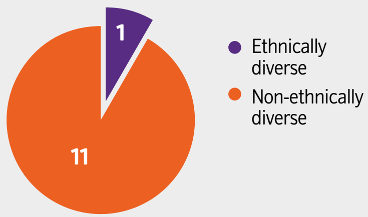
Members of Nationwide have the right to nominate candidates for election to the Board, subject to the Society's Memorandum and Rules and compliance with PRA and FCA requirements. No such nominations had been received by 4 April 2022, this being the deadline for election to the Board at the 2022 AGM.

Board composition as at 4 April 2022

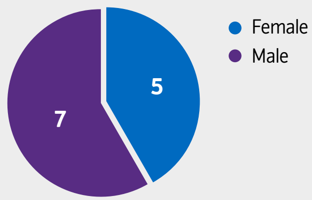
Executive and non-executive directors



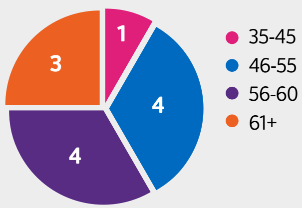
Ethnicity



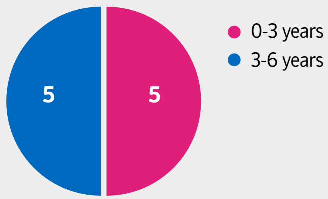
Gender



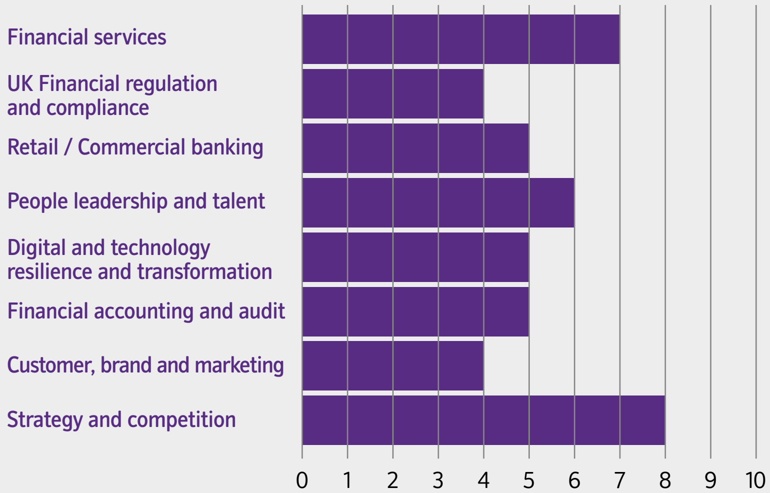
Age of Board members



Non-executive directors' tenure



Non-executive directors' skills and experience – number with considerable experience and knowledge



Note:
- Individual directors may fall into one or more categories.

Composition, succession and evaluation (continued)

Chairman performance

The review of the performance of the outgoing Society Chairman (David Roberts) and his ongoing fitness and propriety was led by the Senior Independent Director, on behalf of the Board, in May 2021. As part of the process, feedback on the Society Chairman's performance was obtained from all the directors. The results were collated and were discussed at a meeting without the Society Chairman present. The review concluded that the Society Chairman continued to perform effectively, remained fit and proper to perform the role and upheld his regulatory responsibilities, and demonstrated commitment to his role. In light of this conclusion, the re-election of David Roberts as Society Chairman was put to members at the 2021 AGM in July 2021, where he was re-elected.

As incoming Society Chairman, Kevin Parry's performance and competencies in his previous roles, as Senior Independent Director and a non-executive director, were considered by the Board as part of the Society Chairman appointment process. Further information on the appointment process can be found on page 98. A further review of the performance of Kevin Parry, in his recently acquired capacity as Society Chairman, was led by the Senior Independent Director on behalf of the Board in May 2022. This included peer feedback from the non-executive and executive directors. Further information will be presented in the Annual Report and Accounts 2023 as part of the 2022 evaluation.

Individual director performance

A review of the performance and contribution of each director was conducted by the Society Chairman to ensure that all directors contributed effectively to the good governance of Nationwide. This is one of the factors considered when deciding whether individual directors will offer themselves for election or re-election at the Society's AGM. The reviews concluded that each director continued to perform effectively and demonstrated commitment to the role. During the year, the Society Chairman met each director individually to discuss their personal performance and establish whether each director continued to contribute effectively to the long-term success of the Society.

Board performance

The Board conducts an annual review of its performance which is a key mechanism for ensuring that it continues to operate effectively and for setting objectives and development areas for the forthcoming year. This annual review is conducted through a formal evaluation and considers the work of individual directors, the Board and its committees.

In 2021, the Board performance review was facilitated externally, with the external evaluation conducted by Lintstock Limited. It provided the Board with the opportunity to assess the effectiveness of the collective Board, as well each Board committee and individual director. The process allowed the Board to receive input from key stakeholders with direct involvement and reporting to the Board, including members of the Nationwide Leadership Team. The outcomes of the review are reported below, highlighting further areas of focus and development that were identified during the process, as well as identifying the strengths that could continue to be optimised.

2021 Board performance review

Stage 1. Agreement of form and scope of the Board evaluation
October – November 2020

In accordance with the UK Corporate Governance Code and the Financial Reporting Council (FRC) Guidance on Board Effectiveness, which requires an externally facilitated review at least every three years, the 2021 Board performance review was externally facilitated. The scope of the evaluation was determined through the Nomination and Governance Committee with approval given by the Board.

The scope of the evaluation covered general areas of effectiveness including: the strengths and capabilities of the Board and each of its principal committees; evaluation of individual Board members; Board composition and succession planning; Boardroom dynamics; and the effectiveness of the Board's relationship with principal executive stakeholders.

Stage 2. Appointment of external facilitator
November 2020

The Society Secretary proposed a shortlist of four prospective facilitators and met with each to discuss their evaluation methodologies and to review the options available to the Society. The written proposals for each of the prospective facilitators was shared and discussed with the Society Chairman and the Senior Independent Director. Following the discussions, in November 2020, the Board approved the appointment of Lintstock Limited as the external facilitator. It was agreed that Lintstock Limited would be engaged for a three-year programme to support the Board performance reviews in 2021 to 2023.

In selecting the external Board evaluator, amongst other things, the skills and competencies of the facilitator were assessed. In line with the recommendations of the FRC Guidance on Board Effectiveness, existing commercial relationships and conflicts of interest were considered to ensure that an evaluator was selected who was able to exercise independent judgement.

Stage 3. Information gathering
February – May 2021

The performance review consisted of questionnaires and one-to-one confidential interviews with all Board members, the General Counsel, the Society Secretary and other relevant key senior stakeholders for each of the Board's principal committees. The questionnaire and interviews covered general areas of effectiveness, as well as focusing on how the Board set itself up for future success in an evolving macroeconomic landscape. Individual committee questionnaires were also completed by the relevant committee members where appropriate.

Composition, succession and evaluation (continued)

Stage 4. Feedback and report findings
May 2021

The key findings were captured in a review document that was submitted and presented to the Board by Lintstock Limited in May 2021. Following Lintstock's presentation, the Board had time to consider and discuss the findings and agreed areas of focus for the Board and Board committees for the forthcoming period. Feedback regarding the effectiveness of each Board committee was discussed at each relevant committee meeting following the May 2021 Board meeting programme to allow the committee chairs to lead the discussions on specific committee outputs. Through these reviews and discussions, actions were agreed for implementation and monitoring.

Stage 5. Findings and action plan
May 2021 – March 2022

Overall, the findings endorsed the belief that the Board and its committees are performing and operating effectively, with directors satisfied with the performance and effectiveness of the Board and its committees.

The Board was encouraged to continue to make progress against the key findings of the review, to continue to challenge management on execution and delivery, and to ensure that time was devoted to Board composition and succession planning. In November 2021 and March 2022, the Nomination and Governance Committee received updates to monitor the progress taken against the key areas of focus and recommendations. A summary of the 2021 Board performance review's key recommendations is presented below along with the actions taken.

Summary of the 2021 Board performance review recommendations

The Board adopted the recommendations from the findings and developed a plan to implement the actions, with oversight delegated to the Nomination and Governance Committee to monitor progress. The progress made on the key recommendations from the 2021 performance review is described below.

Area of focus and recommendation	Action taken
Continue to devote greater focus to longer-term strategic issues by receiving more focused reporting on the Society's plans, including more clarity around delivery milestones.	The Board now receives more frequent updates on strategy execution during the year. Board and Board committee agendas are regularly reviewed and have been restructured to ensure the timely scheduling of strategic items across agendas and training sessions. Additionally, a renewed approach to the 2021 Strategy Conference was undertaken and will continue to evolve for 2022.
Ensuring that there are clear succession plans in place for key non-executive leadership roles, notably the Chairs of the Board committees.	Board composition and succession planning has been a main focus of the Nomination and Governance Committee and Board over the course of the year with the appointment processes for the Society Chairman and CEO. Board composition has been enhanced by the appointment of two new non-executive directors during the year. Non-executive director succession planning will continue to be a main focus for the Nomination and Governance Committee, with consideration to be given to Board and Board committee composition over the next five years.

2022 Board performance review

The UK Corporate Governance Code and the FRC Guidance on Board Effectiveness recommend that the annual performance review of the Board should be externally facilitated every three years. The 2022 performance review was externally supported by Lintstock Limited as part of the three-year Board review programme that began in 2021.

The results of the review were presented to the Board for discussion at its May 2022 meeting and will form the basis of an action plan for completion during 2022. A similar process was followed for Board committees.

Further information on the evaluation process, outcomes and actions identified will be presented in the Annual Report and Accounts 2023.

Audit, risk and internal control

The Board is responsible for determining the nature and extent of the risks the Society is willing to take to achieve its long-term strategic objectives. This is detailed in the Society's Risk Appetite Statement. The Board is responsible for ensuring that management maintains an effective system of risk management and internal control and for assessing its effectiveness.

Nationwide has a robust Enterprise Risk Management Framework in place for identifying, evaluating and managing principal and emerging risks in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', published by the FRC.

The Enterprise Risk Management Framework is supported by a system of internal controls and processes. These systems and processes are designed to manage, not eliminate, the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. On the basis of this year's review, the Board is satisfied that the Society has an adequate risk framework and internal controls in place, the design of which has been and will continue to be improved to ensure it remains fit for purpose and reflects changes to the Society's internal and external risk profiles.

Internal control over financial reporting

The Society's financial reporting process has been designed to provide assurance regarding the reliability of financial reporting and preparation of financial statements, as well as consolidated financial statements, in accordance with International Financial Reporting Standards (IFRS).

Internal controls and risk management systems are in place to provide assurance over the preparation of the financial statements. These include independent testing of the critical financial reporting processes and controls, from data origination to reporting, to an agreed level aligned to the Society's Board Risk Appetite. The result of this assurance work is reported to control owners and the Chief Financial Officer with a summary report presented to the Audit Committee. Financial information submitted for inclusion in the financial statements is attested by individuals with appropriate knowledge and experience.

The Annual Report and Accounts are scrutinised throughout the financial reporting process by relevant senior stakeholders before being submitted to the Audit Committee, who provide challenge, before recommending to the Board for approval. The Audit Committee also discusses control conclusions and recommendations arising from the audit with the external auditor.

Aspects of internal control over financial reporting have also been reviewed by Internal Audit. Based on the various reviews and reports provided to the Audit Committee, it was concluded that the controls over financial reporting are effective.

More information on the Society's risk management and internal control systems can be found on pages 48 to 50 of the Governance Report and on pages 134 to 138 of the Risk Report.

Remuneration

The Board is responsible for determining the Society's remuneration policies and practices, including executive and senior management remuneration. Information on the work of the Board's Remuneration Committee and the Report of the directors on remuneration can be found on pages 103 to 129.

Audit Committee report

Dear fellow member,

I am pleased to present my first report as Audit Committee Chair following my appointment in July 2021. I had spent time as a Committee member and shadowing my predecessor, Kevin Parry, who provided critical insight and support. I would like to thank Kevin for the comprehensive handover and my fellow Committee members who have each provided wise counsel. I would also like to welcome Mai Fyfield who joined the Committee in July 2021 and Alan Keir who joined in March 2022.

A key role of the Committee is to challenge the quality of the Society's financial reporting and to oversee its financial controls. We have scrutinised the Society's financial reporting, to ensure that the financial statements are fairly presented and prepared using appropriate judgements. The Committee also continues to monitor the external environment to ensure that reporting and controls respond to developments and external risks. During the past year this has included: continued review of the level of impairment provisions as a result of economic uncertainty resulting from Covid-19 and the conflict in Ukraine as well as the impact of inflationary pressures; development of climate-related financial disclosures; and the impact of hybrid working on controls operated by the Society.

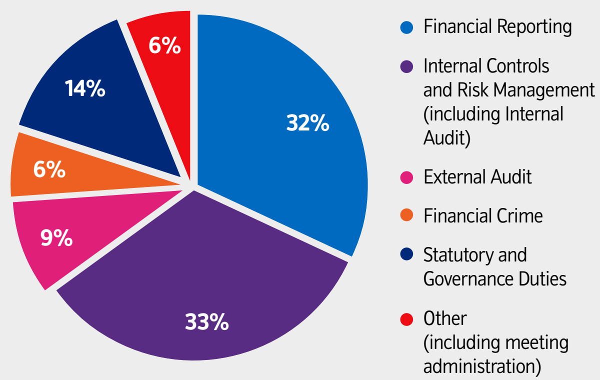
The Committee provided oversight on the work undertaken by the Society's external auditors, Ernst & Young (EY), and considered EY's effectiveness, independence and objectivity. As Audit Committee Chair, I am fully supportive of their re-election by members at our 2022 AGM and direct members to further information on the work of EY that can be found on pages 218 to 231. To ensure that the Society keeps members' money safe, the Committee has continued its important role in challenging management on the maintenance of a robust internal control framework and has kept the Society's procedures relating to fraud and economic crime under close review. We also continue in our important role to oversee the work of Internal Audit to ensure that the Society's controls and processes are being appropriately monitored.

Phil Rivett Chair – Audit Committee

Key activities of the Committee:

- Scrutinised the half and full year results and reviewed the Society's accounting policies and significant judgements and estimates, including in particular impairment provisions and estimates to confirm that they were appropriate to be used in preparing the statements.
- Reviewed the content of the Annual Report and Accounts and the Preliminary Results Announcement and advised the Board on whether, taken as a whole, the documents were understandable.
- Reviewed the going concern basis of preparation of the financial statements and the statement of business viability for recommendation to the Board for approval.
- Monitored the overall effectiveness of the Society's internal control environment, including work to strengthen and enhance controls through the Society's Process and Control Improvement Programme (PCIP).
- Focused on the prompt and effective resolution of issues raised by the Internal Audit function.
- Oversaw the relationship with the Society's external auditor, EY, and the effectiveness of the external audit process.

How the Committee spent its time this year



How the Committee works

The membership of the Committee comprises independent non-executive directors who bring a diverse range of experience in business, finance, auditing, risk and controls, with particular depth of experience in the financial services sector. Mai Fyfield joined the Committee in July 2021 following the retirement of Rita Clifton from the Board and Alan Keir joined in March 2022. The qualifications and experience of each member of the Committee are included in their biographies on pages 65 to 68.

In addition to the members, regular attendees of the Committee include the Society Chairman, Chief Executive Officer, Chief Internal Auditor, Chief Financial Officer, Chief Risk Officer, Director of Financial Reporting and representatives of the Society's external auditors, EY. The Society has recently appointed an external Financial Crime and Anti-Money Laundering adviser, Jonathan Benton, who provides specialist advice on these areas to the Committee. He brings a combination of specialist expertise and government advisory experience, coupled with more recent commercial experience on bribery, anti-money laundering and economic crime.

The Board is satisfied that the Committee possesses recent and relevant financial experience and accounting competence and that the Committee as a whole is appropriately competent in the sector in which the Society operates. The Committee also draws on the expertise of key advisers and control functions, including the internal and external auditors. Subject matter experts are invited to meetings to present on particular topics.

The Committee provides oversight and advice to the Board on the matters listed in its terms of reference (available at **nationwide.co.uk**) and reports to the Board on those matters after each meeting.

The Committee held eight scheduled meetings during the year, and additionally held three joint meetings with the Board Risk Committee to consider matters of common interest.

During the year, the Committee met privately with the Chief Internal Auditor, the Society's external auditors and the Chief Risk Officer, without management present. The Chair of the Committee also had meetings with the PRA, including tripartite meetings with EY.

The effectiveness of the Committee is reviewed annually, along with the Committee's terms of reference and its activities over the previous year to confirm that they are in line with its remit. In 2021, the effectiveness review was carried out externally by Lintstock Limited as part of the overall review of the effectiveness of the Board and its committees. Feedback on the Committee's performance and effectiveness was provided to both the Committee and the Board. The results of the review indicate that Committee members are satisfied with the performance and effectiveness of the Committee. The 2021 effectiveness review, including actions and next steps, is described on pages 83 to 84.

The Committee provides input to the Remuneration Committee to assist that committee in its assessment of possible impacts on variable remuneration. This input is provided in conjunction with the Board Risk Committee.

What the Committee did in the year

Financial reporting and the preparation of financial statements

The Committee scrutinised the Annual Report and Accounts, Preliminary Results Announcement and the half year financial statements and was satisfied that the reporting, including the disclosures in the notes to the accounts, fairly represented the Society's results and business performance. It considered the Annual Report and Accounts against 'fair, balanced and understandable' principles and whether the reporting reflected the Society's strategy. It further considered whether the impacts of the Covid-19 pandemic and the conflict in Ukraine were properly assessed, in particular within impairment provisions, and appropriately recognised and disclosed.

The Committee discussed and challenged management's analyses, the external auditor's work, and conclusions on the main areas of judgement presented in the Annual Report and Accounts. The Committee was satisfied that internal controls over financial reporting systems are in place to provide assurance over the preparation of the Annual Report and Accounts, and that financial information submitted for inclusion in the financial statements is attested by individuals with appropriate knowledge and experience. Key internal controls used to process transactions are subject to regular testing, the results of which are reported to the Committee.

The significant judgements in relation to the preparation of the Annual Report and Accounts for 2021/22 are noted below as areas of focus and were discussed with management and the external auditor during the year.

Going concern and viability statement

The going concern statement is included in the Directors' report on page 131 and the viability statement is included in the Strategic report on page 51.

The Committee reviewed the going concern basis of preparation of the financial statements and the viability statement for recommendation to the Board for approval. It assessed, together with the Board Risk Committee, the levels of capital and availability of funding and liquidity, together with outputs of stress tests and reverse stress tests. The Committee also considered risks from business activities, technology change and economic factors such as the continued impacts of the Covid-19 pandemic and the Ukraine conflict, which may affect the Society's future development, performance, and financial position, together with the implications of principal risks including operational resilience and cyber security. In addition, the Committee considered whether a period longer than three years should be covered in the viability statement, concluding that, as in the prior year, a period of three years was appropriate, particularly when taking into account changes in the economic, technological, and regulatory environment.

Based on its review, the Committee concluded that the application of the going concern basis for the preparation of the financial statements remained appropriate and recommended the approval of the viability statement to the Board.

Accounting policies and judgements

The Committee reviewed the Society's accounting policies and processes and confirmed they were appropriate to be used in the financial statements. Areas of key judgment made in preparation of the financial statements considered by the Committee are set out within this report.

The Committee noted that there were no new accounting standards, or amendments to standards, relevant to Nationwide that had become effective for the reporting period.

Alternative performance measures and disclosure of member financial benefit

The Committee continues to consider that certain non-GAAP measures, such as underlying profit, aid an understanding of the Society's results. The Committee considered the disclosure of and prominence given to underlying profit to be appropriate.

The other performance measure considered carefully by the Committee was the value for member financial benefit presented in Nationwide's financial reporting. This metric estimates the benefit provided to members in the form of differentiated pricing and incentives, representing Nationwide's interest rate differential, lower fees and higher member incentives compared with market averages and is considered a key performance indicator. The Committee was satisfied with the approach to the measurement of member financial benefit and the associated disclosure. Details of member financial benefit are shown on page 54.

Climate change risk and related disclosures

Disclosures are set out on pages 40 to 47 of the Strategic report. The Committee discussed with management the continued development of disclosures regarding climate change risks and impacts. The Committee reviewed the Report on Climate-related Financial Disclosures which is published on the Society's website, and the summary of those disclosures presented in the Annual Report and Accounts, with particular focus on the transparency of disclosure of the challenges in working towards net-zero and the establishment of science-based targets. The Committee also considered management's evaluation of the potential impact of climate change on the financial statements, concurring with management's conclusion that the main area of future risk was impairment provisions on prime and buy to let mortgages, although ongoing monitoring would be required of areas such as property valuation and pension scheme investments, and that there was no material impact at 4 April 2022.

Significant financial reporting issues and accounting judgements considered by the Committee during the year

In compiling a set of financial statements, it is necessary to make estimates and judgements about outcomes that are typically dependent on future events. Significant matters are set out below.

Area of focus	Committee response
Impairment provisions for loan portfolios and related disclosures Information on credit risk and assumptions relating to expected credit losses is included in note 10 to the financial statements	Given the significance of Nationwide's loan portfolios, understanding the Society's exposure to credit risk and ensuring that impairment provisions are appropriate remain key priorities for the Committee. Significant judgements were made during the height of the Covid-19 pandemic, in particular in respect of the economic outlook and the extent to which increased credit risk was apparent given the government support schemes in place. During the year the Committee's focus turned to risks associated with increasing inflation and rising interest rates on affordability, as well as assumptions and judgements relating to continued uncertainty over the economic outlook, particularly in view of the potential repercussions of the Ukrainian conflict. The selection of, and probabilities applied to, a range of economic scenarios for the purpose of modelling expected credit losses continue to have a material impact on loan loss provisions. As the economy recovered from the impacts of the Covid-19 pandemic, the Committee challenged management to demonstrate that provisions appropriately reflected economic conditions of rising interest rates and increasing inflation, while recognising continued uncertainty in respect of the longer-term impact of the pandemic, and the global economic consequences of the invasion of Ukraine. Discussions took into account contemporary economic data and management's forward-looking view of the economy. Following detailed review and discussion, assumptions for base case, upside and downside scenarios, as well as for a severe economic downturn, were agreed. The Committee concurred with management that the scenarios used reflected an appropriate range of assumptions. Following discussion, scenario probability weights were updated to reflect the changing economic outlook such that at the year end the upside scenario weight was 20%, base case scenario 40%, downside scenario 25% and the severe downside scenario 15%.

Significant financial reporting issues and accounting judgements considered by the Committee during the year (continued)

Area of focus	Committee response
Impairment provisions for loan portfolios and related disclosures (continued)	At the year end, the level of estimation uncertainty continued to be heightened by the rapidly changing economic outlook. The Committee challenged management to demonstrate that all relevant risks had been taken into account in the expected credit loss models, and that post model adjustments that rely on expert judgement were recognised where appropriate, including for tail risks which could not be modelled due to an absence of historical data. Particular areas of focus were the increased credit risk associated with affordability pressures on borrowers due to rising interest rates and increased inflation, and the potential for suppressed defaults in the loan portfolios following a period of government support and reduced consumer spending, as well as specific areas of risk such as the valuation of buildings with cladding requiring remediation work. The Committee was satisfied that available evidence, including the use of sensitivity analysis to determine the materiality of changes to assumptions, supported the level of provisioning and it was satisfied that the disclosures and sensitivities set out in the accounts were sufficiently comprehensive to allow readers to understand the level of judgement associated with the provisions at the year end. The Committee considered management's assessment of the impact of climate change which, while currently not judged to be significant to impairment provisions, will require ongoing monitoring. Disclosures in respect of credit risk and provisions were considered carefully to ensure that they were transparent and gave insight into Nationwide's credit risk profile, taking into account evolving industry best practice and the aims of the Prudential Regulation Authority to improve consistency. Overall, the Committee was satisfied with the level of provisioning and related disclosures. The Committee also considered management's development of capabilities in line with the Prudential Regulation Authority's guidance on good practices in impairment provisioning and was satisfied with progress made.
Provisions for customer redress Information on provisions is included in note 27 to the financial statements	The Committee received updates on a number of conduct-related matters during the year and considered whether provisions for customer redress were appropriate. Assumptions used in calculating provisions for customer redress require judgements in relation to the number of cases in scope and value of redress required. In addition, judgement is applied to assessing the likelihood of potential conduct issues crystallising to evaluate whether a provision, or alternatively disclosure of a contingent liability, is required. The Committee reviewed judgements and estimates for a number of conduct-related issues, discussing with management the criteria for recognition of new provisions or provision releases, as well as the estimation of liabilities. The Committee concluded that the provisions held by the Society were appropriate.
Capitalisation, expected useful lives and impairment of intangible assets	Nationwide's significant investment in technology, together with fast-moving technology development and change, increases the importance of a detailed assessment of the useful lives of assets, and the implications of new investment, for the existing technology estate. The Committee scrutinised management's work to review the value of assets held on the balance sheet and expected useful lives attributed to those assets, and any consequent impairments or changes to useful lives. The Committee concurred with management's conclusions that, after impairments and changes to useful lives, carrying values were appropriate and that asset lives were reasonable.
Pension scheme accounting	Nationwide's defined benefit scheme assets and liabilities are material to the financial statements, and the valuation of liabilities involves making a number of assumptions. The Committee scrutinised assumptions made by management in calculating the surplus relating to the scheme, including reviewing benchmarking information to ensure that assumptions were appropriate in comparison with market trends. Pension asset valuations were also considered in light of current market conditions. The Committee was satisfied with the assumptions and judgements made.

Internal controls

Control environment

The Committee continued to monitor the overall effectiveness of the Society's internal control environment, including work to strengthen and enhance controls. The Committee was updated regularly on the status of important work to streamline the approach to control ownership, including updates from the Chief Controls Officer (CCO). During the year the Committee continued to focus on the steps being taken by management to respond on a timely basis to internal audit findings.

Financial controls

The Committee reviewed reporting by management on the effectiveness of the financial control framework, which included progress on strengthening the control environment. The Committee continued to consider the potential impact of the introduction of a UK version of the Sarbanes Oxley control framework, and to monitor the creation of the Audit Reporting and Governance Authority and other changes as a result of the Kingman and Brydon reports and the responses to the Department for Business, Energy and Industry Strategy (BEIS) consultation on restoring trust in audit and corporate governance.

Security, IT controls and operational resilience

The Committee continues to monitor closely ongoing work to strengthen aspects of IT security management, and has received regular updates from the Chief Security and Resilience Officer. Internal Audit completed several related audits during the year, and the Committee discussed with the external auditors their view on controls over privileged access to IT systems and data management. As the pandemic has continued and a hybrid approach to working has moved to being a more permanent model, the Committee has received updates on the effectiveness of the Society's IT controls in this environment and will continue to monitor this as hybrid working becomes embedded.

Economic crime

Economic crime is a broad term that includes bribery and corruption, money laundering, fraud (including fraud scams), theft from customers' accounts and card related thefts and Authorised Push Payment scams. The Committee received reports on each of these areas during the year, including from the Money Laundering Reporting Officer and the Director of Economic Crime. The Economic Crime team has been restructured during the year into separate first- and second-line teams and the Committee has been kept closely informed of those changes and the enhanced operating model.

The Committee discussed steps taken by management to ensure that new sanctions arising from the conflict in Ukraine were complied with following responsive action taken by the Government.

As part of the Committee's wider responsibilities, other matters considered during the year were:

Capital and distributions

The Committee is responsible for advising the Board on the affordability of making distributions to holders of core capital deferred shares (CCDS) and AT1 securities and recommended to the Board that the payments proposed by management during the financial year be approved.

Tax

The Committee reviewed the management of Nationwide's tax affairs and discussed the management of tax risk in business activities. The Committee also reviewed tax-related judgements in the financial statements.

Internal Audit

The Committee works closely with the Chief Internal Auditor who reports directly to the Chair of the Committee. Throughout the year, the Committee continued to monitor the progress of the internal audit function.

The Committee reviewed reports from the Chief Internal Auditor on a quarterly basis, which drew the Committee's attention to the most significant audit work, including issue management, operational resilience, foundational IT and security controls, system resilience and technology strategy. The Committee met jointly with the Board Risk Committee on three occasions during the year to approve assurance plans for Risk and Compliance Oversight and Internal Audit for the year and other matters of common interest.

The Committee continued to focus on the prompt and effective resolution of issues raised by Internal Audit; whilst progress was made during the year, this remains an area of focus, particularly in respect of complex issues which require extended time to resolve.

The Committee reviewed the resourcing of the Internal Audit function each quarter and was satisfied that the resources remained appropriate. The quality of Internal Audit's work was monitored by a quality control function which reported findings directly to the Committee Chair; no major issues were reported.

External Audit

One of the Committee's key responsibilities is overseeing the relationship with the external auditor, and the effectiveness of the audit process. EY has acted as the Society's external audit firm since appointment at the Annual General Meeting in July 2019. Nationwide's policy for auditor rotation and audit tender follows regulatory requirements, and the audit firm will be required to be rotated after no more than 20 years, with an audit tender to be held after no more than 10 years. EY's report can be found on pages 218 to 231.

Audit quality and materiality

The Committee has responsibility for reviewing the quality and effectiveness of the external audit. The Committee approved the scope of the audit plan and materiality level in advance of the annual audit. Materiality is the level at which the auditor considers that a misstatement would compromise the truth or fairness of the financial statements. For 2021/22, overall audit materiality was set at £50 million (2020: £39.5 million).

Senior statutory auditor

The Committee acknowledges the provisions contained in the Code in respect of audit tendering and the UK legislation on mandatory audit rotation and audit tendering. Javier Faiz of EY became Nationwide's senior statutory auditor for the financial year 2019/20 following EY's appointment as Nationwide's external auditor at the Annual General Meeting in July 2019.

Under regulation, Javier Faiz's term as senior statutory auditor should not normally exceed a maximum duration of five years.

Auditor independence

EY has confirmed that it has complied with relevant regulatory and professional requirements and its objectivity is not impaired. The Committee is satisfied that EY remained independent throughout the year.

The Board has an established policy setting out the non-audit services that can be provided by the external auditor. The aim of the policy, which is reviewed annually, is to safeguard the independence and objectivity of the external auditors and comply with the ethical standards of the Financial Reporting Council (FRC).

The policy specifies non-audit services provided by the external auditor that are either permitted or prohibited and requires all non-audit work to be approved by the Committee following a detailed assessment of the nature of the work, availability of alternative suppliers and implications for auditor independence.

Audit and non-audit fees

During the year, the Committee reviewed and approved EY's terms of engagement for the statutory audit and the audit fee. In addition, the Committee approves any fees for non-audit services in accordance with the Society's policy.

In line with the Society's non-audit fees policy, all non-audit work is approved by the Committee where the fee is over £50,000, or by the Committee Chair and the Chief Financial Officer with ratification at the next Audit Committee meeting where the fee is below £50,000. Where aggregate non-audit fees reach 50% of the statutory audit fee in any given year, all non-audit work must be approved by the Audit Committee in advance.

During the year, the Committee considered a number of proposals from management to use the external auditors for non-audit services, ensuring that management had considered alternative suppliers and scrutinising analysis of any potential threats to auditor independence.

A regulatory cap on the annual value of non-audit fees of 70% of the average of three years' audit fee will be mandatory for Nationwide from 2022/23, being the fourth financial year following the change of auditor. The Committee reviewed the cumulative value of non-audit work quarterly with the aim of operating within this framework in advance of the regulatory requirement.

The fees paid to EY for the year ended 4 April 2022 totalled £6.2 million (2021: £5.2 million), of which £1.0 million (2021: £0.6 million) were for non-audit services. Total non-audit services which fall within scope of the regulatory cap represented 10% (2021: 10%) of the statutory audit fee for the current financial year.

During the financial year 2021/22, approval was granted for the external auditors to undertake one significant engagement which related to a review for the Prudential Regulation Authority of the Society's regulatory reporting. The Committee was satisfied that the engagement did not impact EY's independence. The remainder of non-audit services provided by EY related mainly to treasury funding activity.

The value of audit and non-audit fees in respect of the financial year are disclosed in note 8 to the financial statements.

Having reviewed both the quantum of the non-audit fees and the nature of the work carried out, the Committee is satisfied that the non-audit work does not detract from EY's audit independence.

Effectiveness of the external audit

The Committee reviews the effectiveness of the external audit process annually. The Committee received a report on audit effectiveness based on a questionnaire to Committee members and those members of management who interact with the auditors, regarding the EY audit of the 2020/21 financial statements. It showed that the external auditor was performing its duties in an independent and effective manner.

Strategic report
Governance
Risk report
Financial statements
Other information

Board Risk Committee report

Dear fellow member,

I am pleased to present the Board Risk Committee's report for the financial year ended 4 April 2022. During the year, we have continued to give detailed consideration to the current and emergent risks facing the Society, working to ensure that your Society remains resilient and built to last. We have also continued to scrutinise the Society's performance against risk appetite. The Society's risk profile has remained broadly stable during the financial year, and the Committee and management continue to monitor, manage and mitigate risk proactively using the Society's risk management framework to ensure that members continue to receive the level of service and financial stability they expect from Nationwide.

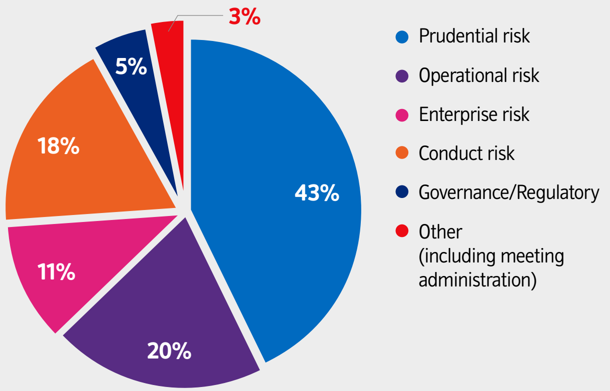
The Committee consistently reviews the Society's top risks and challenges management on the effectiveness of risk assessment, controls and reporting. During the financial year, we have scrutinised the Society's stress testing, financial modelling and recovery and resolution frameworks. We have challenged the Society's preparations for the introduction of the new Consumer Duty and the winding down of Libor. We have also ensured that the Society's frameworks around conduct risk and risk culture are appropriate. We have continued to encourage management to scan the horizon for future risks, including potential impacts of the Ukraine conflict, and we have received regular updates on the Society's climate change planning.

Whilst the Committee retains overall responsibility for providing oversight and advice to the Board on all risk matters, the more specialised oversight of economic crime and fraud is led by the Audit Committee. The Committee works closely with the Board IT and Resilience Committee (BITRC), providing challenge on risks around IT resilience. We will continue to work closely with both the Audit Committee and BITRC to ensure a consistent level of scrutiny on subjects of common interest.

Tim Tookey Chair – Board Risk Committee

We have continued to encourage management to scan the horizon for future risks and we have received regular updates on the Society's climate change planning.

How the Committee spent its time this year



How the Committee works

The Committee comprises at least three independent non-executive directors. The Committee held eight scheduled meetings during the year, and additionally held three joint meetings with the Audit Committee and one joint meeting with the Board IT and Resilience Committee to consider matters of common interest. Details of the number of meetings held, membership, and attendance can be found on page 69. Details of the skills and experience of the Committee members can be found in their biographies on pages 65 to 68.

Regular attendees include the Society Chairman, Chief Executive Officer, Chief Product and Marketing Officer, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Chief Internal Auditor, and representatives of the Society's external auditor, EY. The Society has recently appointed an external risk adviser, Alison Hewitt, who provides specialist risk advice, to the Committee, particularly on conduct risk and the evolution of Consumer Duty requirements. Having held senior compliance and risk roles at HSBC, Lloyds and the FCA, Alison brings a combination of deep technical knowledge in regulated conduct and compliance and commercial awareness, with an understanding of the regulatory environment.

At each meeting, the Chief Executive Officer and the Chief Risk Officer share updates on the Society's current and emerging risk profile. The Committee invites subject matter experts to meetings to present on a variety of topics. Following each meeting, updates are provided to the Board, which are supplemented by regular reports from the Chief Risk Officer.

The Committee oversees the Executive Risk Committee, which is the management committee responsible for ensuring a co-ordinated risk management approach across all the Society's risks. The oversight and challenge of the day to day IT and resilience risk, control and oversight arrangements of the Society is undertaken by the Board IT and Resilience Committee. More detail on the duties and responsibilities of the Committee can be found within its terms of reference on the Society's website: **nationwide.co.uk**

The Committee's effectiveness is reviewed annually, along with its terms of reference and activities over the previous year to confirm these activities are in line with its remit. In 2021, the effectiveness review was carried out externally by Lintstock as part of the overall review of the effectiveness of the Board and its committees. Feedback on the Committee's performance and effectiveness was provided to both the Committee and the Board. The results of the review indicate that Committee members are satisfied with the performance and effectiveness of the Committee. The 2021 effectiveness review, including actions and next steps, is described on pages 83 to 84.

What the Committee did in the year

The principal purpose of the Committee is to provide oversight on behalf of, and advice to, the Board in relation to risk-related matters. It fulfils this role by providing advice, oversight and challenge to enable management to promote, embed and maintain a strong risk awareness culture throughout the Society. More detail on the Society's approach to the management of risk can be found in the Risk Report on pages 134 to 138.

In addition to reviewing the Society's current and emerging risk exposures, the Committee considered issues which may present risks to the Society's strategy as well as issues which may crystalise into future risk events.

The Board considers the appropriateness of the Society's strategic plan in the context of its risk appetite. During the year, the Committee endorsed the Society's Board Risk Appetite to the Board and monitored performance against it, including undertaking appropriate reviews of material risks.

The Committee provides input to the Remuneration Committee to assist that committee in its assessment of possible impacts on variable remuneration. This input is provided in conjunction with the Audit Committee.

An outline of the key topics considered by the Committee during the year is broken down by risk category and set out below.

Prudential risk (includes credit, model, liquidity and funding, market, capital and pension risks)

The Society lends in a responsible, affordable and sustainable way to ensure we safeguard members' interests and maintain financial strength through the credit cycle. The Committee reviewed and challenged the plans to ensure that the Society maintains sufficient capital and liquidity resources to support current business activity and to remain resilient to significant stress.

During the year, the Committee reviewed a number of aspects of prudential risk as required by the Bank of England and the PRA. This included scrutiny of the Society's resolution framework, capital and liquidity adequacy (as reported in the ICAAP and ILAAP respectively), the Pillar 3 risk disclosures, and the recovery plan.

The Committee also: reviewed and approved the 2021 Reverse Stress Test; continued to monitor the Society's preparations for the transition from London Inter Bank Offered Rate (Libor) to Sterling Over Night Index Average (Sonia); and considered the Society's response to the uncertainties presented by the current economic climate and the pandemic, such as, inflation, interest rates and the Society's 95% loan to value mortgage products.

The Committee also considered the impact of Government and regulator policy decisions, such as: the continued impacts of the furlough scheme, payment holidays, the stamp duty exemption for residential properties under £500,000 until 30 June 2021 and subsequent stamp duty changes in place until 30 September 2021.

Strategic report
Governance
Risk report
Financial statements
Other information

Operational and conduct risk

The Society seeks to minimise member and customer disruption, financial loss and reputational damage by providing sustainable services and resilient systems.

During the year, the Committee challenged the following key areas of operational and conduct risk:

- the Society's response to the FCA's Consumer Duty consultation;
- the attributes of a robust risk culture;
- the role of Collections and Recoveries;
- the implementation of Basel Committee on Banking Supervision (BCBS) 239 reporting principles around risk data capabilities; and
- the maintenance of robust controls.

The Committee received the annual Data Protection Officer's report, detailing the adequacy of data protection policies, procedures and governance arrangements to mitigate data protection risks and comply with data protection legislation, including the General Data Protection Regulation. It also discussed the Society's approach to managing the emerging risks relating to data ethics and the ways in which the Society uses members' data.

The Committee works with the Board IT and Resilience Committee on areas of common interest. This year a joint meeting of the Committees was held, collaborating to meet with IT and technology specialists in the business to ensure alignment around risk management and controls.

The Committee continued to champion the Society's approach ensuring that members and customers are treated fairly, before, during and after the sales process by offering products and services which meet their needs and expectations, perform as represented and provide value for money.

To help manage conduct risk, the Society's products and processes are focused on:

- delivering good customer outcomes;
- minimising regulatory non-compliance, and
- minimising the risk of economic crime.

Enterprise risk (includes business risk)

The Committee has challenged the Society's business model to ensure it is sustainable and remains within the constraints of the Building Societies Act 1986. Below are examples of how it has done this:

- The Committee considered and endorsed the Board's risk appetite which establishes the amount and type of risk that the Board is comfortable with the Society taking. This is to ensure that the Society remains sustainable in the long term for the benefit of all members. The Committee regularly reviewed the Society's risk performance against Board Risk Appetite to ensure that appropriate action was being taken.
- It contributed to the Remuneration Committee's consideration of any potential risk adjustments to executive variable remuneration.
- It approved the results of the review of the Society's Enterprise Risk Management Framework – the system of risk management and internal controls which the Society operates within. The review concluded that the Society's system of risk management and internal controls were adequate when assessed against the Board's risk appetite.
- The Committee approved updates to the Society's risk strategy on the management of capital risk, enhancements to controls around management capability; and encouraged a risk culture that considers both risk and reward in decision-making.
- The Committee considered climate change risk reporting and reviewed the Society's Climate Biennial Exploratory Scenarios (CBES) submissions. More information on the Society's climate related disclosures can be found on pages 40 to 47.
- It considered the potential propositional, operational and margin implications of interest rate and inflation rate changes on the Society.

During the year, the Committee received regular updates from the Society's second line oversight functions. The Committee is confident that the Society's division of duties between the first, second and third lines of defence is sufficiently robust to ensure that the Society's operational decisions receive timely and appropriate challenge. The Economic Crime team has been restructured during the year into separate first- and second-line teams and the Committee has been kept closely informed of those changes and the enhanced operating model. The Committee also approved changes to the Executive Risk Committee's Terms of Reference.

Board IT and Resilience Committee report

Dear fellow member,

I am pleased to present the Board IT and Resilience Committee's report for the financial year ended 4 April 2022. In a year overshadowed by uncertainty due to the Covid-19 pandemic, resilient IT systems and hassle-free digital services continue to be of paramount importance to Nationwide's members.

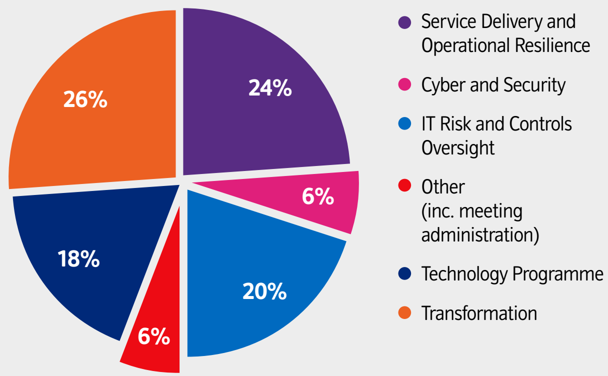
In September 2018, the Society announced plans for additional technology investment to enhance its existing technology programme, and it has invested an extra £2.2 billion to date. That investment is helping the Society deliver increased resilience, stronger security and better member outcomes through improved digital capabilities and better use of data, whilst also driving down ongoing and future costs. During 2021/22, the Society continued to deliver improvements to enhance the quality of the service we can offer, while prioritising the kind of security and resilience our members expect.

The Committee's role is to challenge and shape how operations are run as well as how change is delivered. We also provide oversight of management's strategic prioritisation of technology change. We recognise the need to strike a balance between ensuring operational continuity and security, meeting new regulatory requirements and delivering improvements for members, all in a challenging economic environment. We will continue to scrutinise management's response to both the threats and the opportunities that the Society faces in these areas. We know how fundamentally important resilient digital services are to members and to the Society's future success.

Gunn Waersted Chair – Board IT and Resilience Committee

Investment is helping the Society deliver increased resilience, stronger security and better member outcomes.

How the Committee spent its time this year



How the Committee works

The Committee supports the Board and comprises at least three non-executive directors whose attendance record is set out on page 69. The Committee held six scheduled meetings during the year.

Regular attendees of the Committee include the Society Chairman, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Information Officer, Chief Internal Auditor, and the Society's external advisers Conrad Prince and Oliver Bussmann. Conrad Prince provides the Committee with insight and expertise in relation to cyber security. Oliver Bussman provides the Committee with insight across both technology and financial services organisations, when considering long-term strategic planning and operational areas of interest.

Following each Committee meeting, the Chair of the Committee provides verbal updates to the Board and escalates items to the Board Risk Committee as appropriate. More detail on the duties and responsibilities of the Committee can be found within its terms of reference available at **nationwide.co.uk**

The Committee's effectiveness is reviewed annually, along with its terms of reference and its activities over the previous year to confirm that its activities are in line with its remit. In 2021, the effectiveness review was carried out externally by Lintstock as part of the overall review of the effectiveness of the Board and its committees. Feedback on the performance and effectiveness of the Committee was provided to the Committee and the Board. The results of the review indicate that Committee members are satisfied with the performance and effectiveness of the Committee. The 2021 effectiveness review, including actions and next steps, is described on pages 83 to 84.

What the Committee did in the year

Service delivery and operational resilience

The Committee regularly reviewed the Society's IT service provision throughout the year, considering incidents and root causes, as part of the Chief Operating Officer's Report which is presented at every meeting.

A number of significant changes across a wide range of projects have been delivered successfully this year, including a major mainframe platform upgrade, the migration to a new cloud-based faster payments gateway, and an upgrade of our internal colleague systems which have been moved to a cloud-based solution. However, a number of changes have also required re-planning, as a result of the ongoing impact of the pandemic. The Society's strategic intent in response to the pandemic has remained, focusing on protecting colleagues, delivering core services and serving its members.

Focused on learning from operational disruption, the Committee has received updates on the root causes of the payment outages experienced in December 2021 and January 2022. This includes initial assessments conducted by Risk and Internal Audit, and an independent review by a third party. The Committee will continue to provide appropriate oversight once final assessments have been submitted.

Improving the Society's operational resilience remains a primary focus for all. Following the release of policy statements by the regulators in March 2021 the Society has continued its work to embed its Important Business Services as a key criterion within its strategy.

After the Committee's approval of the Operational Resilience Strategy in May 2019, management has focused on delivering six monthly resilience assessments driving improvements across the Society's Important Business Services. The current strategy is being refreshed and will be tabled in May 2022, running out to 2025.

During 2021, the Committee gave approval to and received a number of updates on the Society's impact tolerances and resulting scenario testing outcomes. These tolerances are the parameters within which the Society should be able to maintain its resilience and therefore prevent intolerable harm to the Society and its members. The Committee will continue to monitor this.

The Committee has reviewed and endorsed the approach to the operational resilience regulatory self-assessment which was required under the FCA and PRA policy statements by 31 March 2022. In line with its accountability, the Committee will continue to monitor developments under the Operational Resilience Framework, as management continue to embed, sophisticate, and mature the Society's approach to its resilience.

The Society's disaster recovery capability remains an area of focus and whilst progress has been made, some disaster recovery testing has been deferred until after the system upgrades in order to minimise member impact. Continued investment and an ongoing programme of work, including testing through 2022 have been agreed.

Technology programme

At the start of this financial year, the Society set out a programme of work to move it to a new, modern technology architecture. The programme includes significant investment in payment systems, disaster recovery, security, cloud computing and banking systems. At the same time, the Society will reduce investment in areas such as process automation.

Strategic report
Governance
Risk report
Financial statements
Other information

Board IT and Resilience Committee report (continued)

Completing this work will reduce some of our most significant technology risks but also, through the deployment of cloud-based solutions and the speed layer, provide increased agility in the hosting of our systems and the provision of real time data to digital channels.

The Committee agreed a plan to ensure that the Society's IT estate remains resilient whilst these initiatives roll out. The key challenges are unpicking the technical complexity within the legacy systems and an evolving regulatory landscape. It is crucial, however, that the Society continues to protect the delivery of these initiatives as they provide the foundations for its overall technology architecture.

Steady progress against delivery of these initiatives has been made during the year and the Committee has continued to monitor progress. Work has accelerated to increase capacity in our legacy electronic payment platforms, including upgrading the card payment platform and delivering the first phase of a new electronic payments platform. The entire programme of work is scheduled to complete in 2024/25. Upon completion of this work the Society will have replaced all legacy payment components.

The Society's work to recruit more colleagues into its technology teams has continued, with dedicated focus and resource in place to build the permanent technology capability needed to deliver our strategy.

PricewaterhouseCoopers LLP (PwC) has continued to provide external independent assurance over the execution of the technology programme to the Committee and Board. PwC, together with the Society's Risk and Internal Audit functions, form part of a combined, multi-faceted and Society-wide assurance approach.

Cyber and security

Throughout the year, the Society has been monitoring the wider cyber threat landscape, particularly the increase in the sophistication and complexity of cyber-attacks aimed at supply chains and in the nature of the threat, together with the emerging crisis in the Ukraine. Nationwide continues to invest to make sure its control posture reflects the latest emerging threats that it and the wider financial sector face. This proactive approach helps keep members' money and data safe, whilst allowing the Society to build and innovate safely, and has been underpinned by several key control improvements over the year.

The Committee has received regular updates from management, including a cyber security maturity update, which highlighted that the Society's overall security position continues to improve. In addition, cyber security is one of the issues the Society has considered in relation to remote working.

The Society continues to collaborate with the wider industry, the UK Government's National Cyber Security Centre and National Crime Agency to share good practice and inform understanding about new and evolving threats.

IT Change

The pandemic impacted how much, and the type of, IT change that could be undertaken, but the volume of IT change has now returned to pre-pandemic levels. The Committee has continued to review management's progress against key transformation delivery objectives, some of which are enabled by change activity. We have received updates on change programmes including:

- Major releases for Open Banking and the mobile banking app which included a number of regulatory deliverables;
- A SAP core banking platform upgrade which was successfully completed using an automated approach which reduced member impact significantly;
- The release of the new externally hosted Nationwide website (**nationwide.co.uk**); and
- The modernisation of legacy platforms.

IT risk and controls oversight

The Committee is routinely provided with the output of independent reviews from the Society's Risk and Internal Audit functions. This activity complements the first line management of risk and control, which continues to improve as processes are enhanced and embedded.

Board principal decision – Appointment of the Society Chairman

Context	The Society Chairman regularly reviews Board composition and succession plans in conjunction with the Nomination and Governance Committee. In March 2021, the incumbent Chairman, David Roberts, and Kevin Parry, in his capacity as Senior Independent Director (SID), met to consider the CEO and Chairman succession plans at a high level, with particular focus on the likely tenure end dates. It was agreed that a specific sub-committee of the Nomination and Governance Committee should be convened to review and enhance the plans to ensure a smooth succession and transition of both roles and if possible to avoid concurrent change to both roles.
Stakeholder considerations and impacts	• **Supporting the long-term success of Nationwide**. It was considered that the Chairman needed to promote the long-term success of the Society and ensure the accountability to its members by setting the strategic direction and shaping the culture from the boardroom. The Board recognised that the chosen candidate would need to refocus the strategy both internally and externally to meet the challenges of a post-Covid world. • **Leading culture**. It was considered that the core accountabilities for the Society Chairman included leading the Board, ensuring it operated effectively in shaping the culture in the boardroom, setting the tone from the top and epitomising the Society's culture by fostering open and honest debates in the boardroom. • **Mutuality**. A deep understanding of members' needs and mutuality would be vital as Nationwide continued to offer financial services to members in a safe and resilient way was deemed necessary. • **Professional experience**. An individual with seasoned experience as a business leader, with retail financial services experience and the ability to lead the organisation through significant change and transformation.
Board and committee involvement	To help manage any conflicts of interest, the Chairman formed a Chairman Succession Committee comprising three independent non-executive directors, with the incumbent Chairman as a non-decision making attendee. The Chairman was not part of the decision-making process. The Senior Independent Director had expressed an interest in the role and was therefore recused from the process. The Chairman Succession Committee undertook the process on behalf of the Nomination and Governance Committee and the Board, with support by the Society Secretary.

Appointment process

Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
It was considered that the Chairman needed to promote the long-term success of the Society and ensure the accountability to its members by setting the strategic direction and shaping the culture from the boardroom. The Board recognised that the chosen candidate would need to lead the Board to refocus the strategy both internally and externally to meet the challenges of a post-Covid world.	Hedley May[1], a specialist third-party recruitment agency was appointed to conduct the recruitment search, and provided a candidate longlist, which was reviewed and discussed by the Chairman Succession Committee. After considering factors such as chairing experience and running boards, conflict of interest, available time and cultural fit, a short list of six candidates was produced. This included five external candidates and the Senior Independent Director, Kevin Parry, who had outlined his intent to apply for the role following soundings from fellow directors.	Hedley May conducted discussions with candidates to assess candidate interest in the role, conflict of interests and availability, and this resulted in three candidates being shortlisted to the Chairman Succession Committee.	Two members of the Chairman Succession Committee held initial, exploratory meetings with the three candidates assessed against a series of questions covering aspects of the role. The feedback was independently corroborated by Hedley May.	The Chairman Succession Committee agreed that Kevin Parry was the preferred candidate for the Chairman position, agreeing that he possessed the skills, experience and qualities to be the next Chairman of Nationwide, and would bring sound leadership to the Board and Nationwide. Regulatory approval was granted for the position and the Board approved the recommendation that he be deemed independent on appointment and take on the role with effect from 1 February 2022. Full biographical details are set out on page 65 and details of the Chairman induction programme are on page 102.

[1] Hedley May were independent on appointment other than in the context of providing search services for previous appointment processes.

Nomination and Governance Committee report

Dear fellow member,

I am pleased to report on the work of the Nomination and Governance Committee (the 'Committee') during the financial year ended 4 April 2022.

The Committee continues to play an important role in ensuring that the Society is led by a Board and senior management with the combination of skills and experience required to deliver sustainable success for the benefit of our members and other stakeholders.

It is essential that the Board is well-balanced in terms of structure, skills, experience, diversity and knowledge to enable the Society to achieve its objectives and long-term strategy. As such we maintain and implement an effective succession plan to ensure that the Board is sufficiently refreshed to serve the Society's membership. My introduction to the Governance Report on page 63 highlights a number of changes to the Board and its committees during the year, all of which have been overseen by this Committee.

With succession planning at the forefront of the Committee agenda during the year, and to further strengthen the composition of the Committee, Gunn Waersted and Phil Rivett were appointed as members in April 2021 and February 2022 respectively. Both Gunn and Phil bring additional skills and diversity of thought to the Committee. Due to the significant work required to manage the selection process for the roles of Society Chairman and CEO, the Committee was supported by a sub-committee to focus on the Chairman succession process. This activity created extra pressure on directors' time and commitments, and I would like to thank my fellow directors for their time and efforts spent in ensuring the smooth operation of both the Society Chairman and CEO appointment processes.

The Committee continues to sponsor the Society's agenda on inclusion and diversity and receives regular updates on the progress being made. We have agreed actions and measures to ensure we monitor our progress against the desired outcomes, and we have received and considered updates on the development of a diverse pipeline for succession at senior management levels.

As part of our remit, we continue to exercise oversight of the Society's governance arrangements on behalf of the Board to ensure they remain in line with best practice. The current governance framework has continued to operate effectively and efficiently during the year.

Kevin Parry Chair – Nomination and Governance Committee

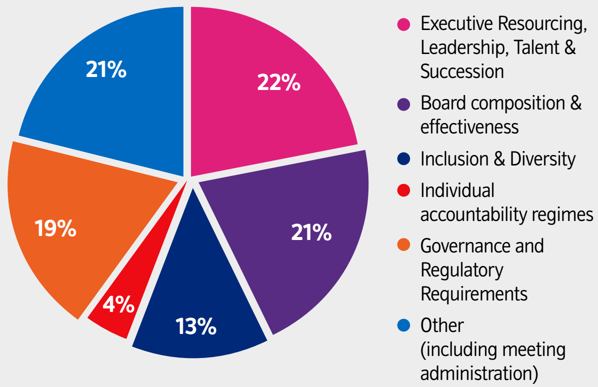
Q. As the new Chair of the Committee and Society Chairman, what do you see as the Committee's main priority?

The work on succession planning and future-proofing the Board is never static. Consideration will continue to be given to planned Board retirements and ensuring that the structure, size and composition of the Board and its committees has the appropriate mix of knowledge, skills, experience and diversity as befits an organisation as important as Nationwide.

Q. What are the key areas of focus for the Committee in 2022/23?

The Committee will continue to focus on Board composition and skills at both Board and executive management level, succession planning, driving inclusion and diversity across the Society and overseeing Board and Committee performance plans and training, including leadership programmes for high-potential candidates. It will also oversee management's work in promoting and progressing inclusion and diversity within the leadership pipeline.

How the Committee spent its time this year



How the Committee works

The Committee is chaired by the Chairman of the Board and the members are independent non-executive directors. Details of the skills and experience of the Committee members can be found in their biographies on pages 65 to 68.

The Committee meets at least twice a year and otherwise as required. The number of meetings held in the year can be found in the table on page 69. The attendance record of Committee members is set out on page 69. In addition to the members, regular attendees of the Committee include: the CEO, Chief People Officer, General Counsel and Society Secretary.

Following each meeting, the Chair of the Committee provides updates to the Board, summarising activities undertaken, and key decisions taken.

The Committee reviewed its activities over the previous 12 months to confirm they were in line with its remit. The Committee also reviewed its terms of reference as part of an annual cycle to ensure they were fit for purpose and continue to reflect all applicable governance codes, guidelines, legislations and best practice. More details on the Committee's duties and responsibilities can be found within its terms of reference on the Society's website: **nationwide.co.uk**

In 2021, the effectiveness review was carried out externally by Lintstock Limited as part of the overall review of the effectiveness of the Board and its committees. Feedback on the performance and effectiveness of the Committee was provided to the Committee and the Board. The results of the review indicate that Committee members are satisfied with the performance and effectiveness of the Committee. The 2021 effectiveness review, including Board actions and next steps that the Committee is monitoring, is described on pages 83 to 84.

What the Committee did in the year

Executive resourcing, leadership, talent, and succession

The Committee received updates on the flow of internal and external appointments, promotions and planned appointments for senior leadership and other key roles. There is a continued focus on recruitment processes to encourage more diverse appointments.

The Committee continued to provide oversight for the implementation of the Society's 'leadership pathways' programme, which is designed to identify opportunities for stretching roles and experiences for leaders. It aims to grow their capability and potential for the future and to strengthen leadership succession.

In overseeing the Society's approach to resourcing the needs of the business, and developing our colleagues, the Committee continued to focus on strengthening the Society's leadership to ensure it has the talent needed for the future. The Committee received updates on the Society's executive succession management, including reviews of emergency succession plans and talent management development plans for longer-term succession. This provided the Committee with a view of the talent pipeline of potential leaders as well their key strengths and development areas. It was noted that whilst the Society's succession pipeline is gender balanced, there is a lack of ethnic diversity. In recognition of this, with the 'leadership pathways' programme, there is particular focus on increasing wider diversity within the senior management population and ensuring succession management facilitates opportunities for diverse colleagues.

As already stated in the Chairman's letter, the Committee oversaw the succession planning for the role of CEO and subsequent appointment. The appointment will increase the gender diversity within both the Board and the Nationwide Leadership Team.

Inclusion and diversity

The Committee continues to oversee the development and implementation of the Society's inclusion and diversity (I&D) strategy and objectives.

The Society's ambition is to build an inclusive culture where everyone can thrive and for the diversity of our Society to reflect the diversity of the communities we serve. Key to success is ensuring I&D is integrated into the Society's purpose and embedded in what we do across all business areas. The Committee received updates on the significant work undertaken to embed I&D and make progress in Nationwide's I&D ambitions including:

- Embedding I&D into core people processes such as recruitment, talent and performance management to drive collective responsibility across the Society;
- Having a bolder internal and external voice on I&D matters important to us;
- Developing inclusion and wellbeing measures based on findings from colleague surveys;
- Improving access to and use of data and insights to provide our leaders with visibility of progress made;
- Educating and improving awareness amongst our colleagues to build an inclusive culture; and
- Ensuring leadership accountability for the delivery of the I&D agenda.

Good progress has been made in the last year; however, the Society's diversity outcomes are not yet where they need to be and I&D will continue to be a critical focus for the Committee.

More information on the Society's I&D strategy, measures and progress made can be found on page 38.

The Board is committed to ensuring that it has a membership which is diverse and reflects the communities that it represents. It aims to achieve this by ensuring representation within the Board of ethnicity, age, gender, disability, sexual orientation, and educational and professional backgrounds.

Existing efforts will be built on and taken into consideration in the development of a diverse pipeline for Board succession. Selecting the best candidate is paramount and all appointments will be based on merit and objective criteria with due regard for the benefits of diversity on the Board. This benefits the effectiveness of the Board by creating a breadth of perspective among the directors.

Our current Board composition is 41.7% female with 8.3% ethnically diverse representation. This year, the Board increased its ambitions to match the Society's gender (50%) and ethnicity (12%) aspirations at senior levels, recognising that short-term challenges may exist due to the size of the Board during periods of change. The Society will also continue to meet the gender and ethnicity targets set by the Hampton-Alexander and Parker Reviews respectively of a minimum of 33% female representation and a minimum of one director from an ethnically diverse background.

The Board's Diversity Statement is set out in the Board Composition and Succession Policy which can be found on the Society's website: **nationwide.co.uk**

The Committee continues to review the development of the pipeline of both ethnically diverse and female senior management within the Society and as a signatory to the Women in Finance Charter, the Society is committed to supporting the progression of women into senior roles.

The Society continues to play an active membership role in the 30% Club and is signed up to the Business in the Community Race at Work Charter, which involves a commitment at Board level to zero tolerance of harassment and bullying, particularly racial.

To increase our focus on disability inclusion, the Society is a member of the Valuable 500 movement, which involves ensuring disability is discussed at Board level and requires signatories to publish a firm pledge for action.

Board composition and effectiveness

As part of its remit, the Committee is required to assist the Society Chairman in keeping the composition of the Board and its committees under regular review, to identify the current and likely future needs of the Board and to lead the appointments process for nominations to the Board. This includes ensuring the Society has the right mix of knowledge, skills and behaviours on the Board for it to be effective in delivering its responsibilities to provide oversight and governance of the Society and to safeguard the interests of its members.

In determining the Board's needs, the Committee considers a range of factors including the diversity of the Board in its widest sense, the strategy, current and future challenges and opportunities facing the Society and the need to balance continuity and knowledge of the Society with progressive changes to the membership of the Board and its committees. The recruitment process for directors is designed to ensure the Board possesses a range of skills and appropriate objectivity. It also involves detailed referencing and other checks to establish the candidate's credentials, including suitability, fitness and propriety. Regulatory approval is also required for certain Board roles.

As outlined earlier in the report, the appointment process for the Society Chairman was supported by the establishment of a Chairman Succession Committee. The appointment process and relevant information can be found on page 98.

Selection process for new non-executive directors during 2021/22

Following a review of the composition of the Board and with the planned departures of key individuals during 2022, the Committee identified a potential gap on the Board and the need for two non-executive directors with a deep understanding and practical experience of retail and commercial banking. As such, the Committee oversaw and recommended to the Board the appointments of Alan Keir and Gillian Riley as independent non-executive directors.

Korn Ferry, an independent executive search firm, was engaged to assist with the search. Korn Ferry was independent other than in the context of providing search services for previous appointment processes. The Committee, supported by the search firm, prepared a candidate specification based on objective criteria, setting out the knowledge, skills, experience and attributes required. From the candidate specification, a longlist of potential candidates was drawn up from which a shortlist was compiled. Following a review of the shortlisted candidates, two preferred candidates emerged for each role. They met with the Chairman and other members of the Committee. Feedback on the candidates was obtained through professional references and these, together with the feedback from the Committee members, were considered alongside the relative characters, skills and experience of the candidates. Following due and careful consideration of each of the candidates and the current needs of the Board, the Committee selected Alan Keir and Gillian Riley as the preferred candidates for the two roles.

Alan's appointment fulfils the need to further strengthen the Board with a non-executive director with skills and experience to succeed Tim Tookey as Board Risk Committee Chair in July 2022 (subject to regulatory approval) given his significant and relevant experience in retail and commercial banking.

With her background and experience, the Committee agreed that Gillian would bring new and relevant perspectives into the boardroom and was of the view that she would bring additional diversity of thought and approach to the Board and her understanding and experience of digital banking transformations, needs and opportunities. This, together with her insights from banking in a different country, would prove invaluable to the Board considering the direction of the Society's strategy and digital transformation agenda.

Board performance review

The UK Code requires the Chairman to lead an annual Board review and that the review should be externally facilitated, as per the provisions of the Code, every three years. In 2021 the external review was conducted by Lintstock Limited. The Committee oversaw the work conducted by Lintstock, which looked at the overall effectiveness of the Board and its committees and provided an objective assessment of the strengths, capabilities, effectiveness and dynamics of the Board. More information on the effectiveness review can be found on pages 83 to 84.

Corporate governance

As part of its remit, the Committee is responsible for the oversight of the Society's governance arrangements on behalf of the Board. During the year the Committee reviewed and approved the Nationwide Governance Manual and the

Delegated Authority Framework. This documents the top down framework in place at Nationwide to facilitate sound decision making and prudent management and was revised to reflect the latest operating model.

In addition, the Committee reviewed the corporate governance disclosures in the 2021 and 2022 Annual Reports.

Individual accountability regimes

The Senior Manager and Certification Regime (SM&CR) was introduced by the regulator to encourage individuals performing certain roles to take greater responsibility for their actions and to stop recurrence of poor behaviours which could result in poor member outcomes. SM&CR allows regulators to act against individuals in cases where significant wrongdoing has occurred or been identified.

The Committee continues to focus on regulatory requirements to ascertain suitability, fitness and propriety of relevant individuals and ensure the SM&CR responsibilities are allocated appropriately through the Society's well-established mapping process. Overall, the Society's processes and controls in relation to the accountability regimes continued to operate effectively.

The Committee was satisfied that all processes and controls relating to the assessment of the Financial Conduct Authority Conduct Rules breaches continue to operate effectively.

Chairman Induction

Kevin Parry – Society Chairman and Non-executive Director

As Deputy Chairman and Chairman Elect, Kevin worked closely with David Roberts, the Society's former Chairman, and Jason Wright, the Society Secretary, to ensure an effective handover of responsibilities prior to his appointment date.

Kevin Parry undertook an induction programme which included amongst other things:

- An **Induction Plan** which contained all key documentation in relation to his role and responsibilities.

Internal Meetings

- A series of regular meetings with the Society Secretary to ensure a smooth transition of prescribed responsibilities to allow effective governance.
- A series of meetings with the outgoing Chairman to discuss key issues and matters relevant to the Society and the role.
- Meetings with all Board directors in December 2021 and January 2022 to discuss key issues and matters.
- Meetings with senior management held in December 2021 covering various aspects of the business including: culture and values, strategic challenges, risk management, regulatory engagement, The Mortgage Works (UK) plc and other subsidiary companies within the Group, and an overview of Nationwide's governance framework and processes including the Society Rules and relevant regulations and legislation.

External meetings

- Meetings with representatives from the Financial Conduct Authority and Prudential Regulation Authority and The Bank of England.
- Meetings with representatives of the Society's key stakeholders.
- He continued, in his role as a director, to meet with the Society's members at virtual talkbacks throughout the year, which he will continue to do this in his role as Chairman.

Strategic report
Governance
Risk report
Financial statements
Other information

Report of the directors on remuneration

For the year ended 4 April 2022

Dear fellow member,

I am pleased to share the Remuneration Committee's report. This report includes details of directors' pay for the year ended 4 April 2022, together with our new forward-looking directors' remuneration policy. We'll be seeking an advisory vote on the policy at the 2022 AGM.

Our policy

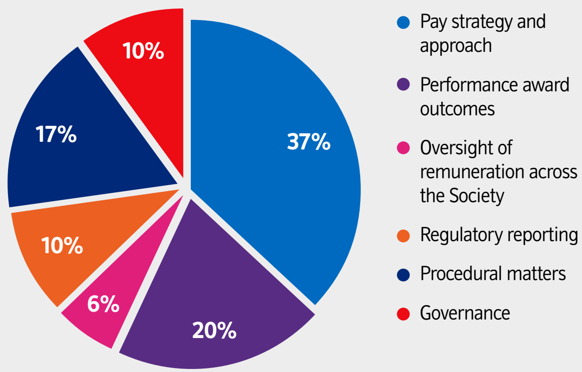
In my letter last year, I highlighted that the Committee intended to carry out a review of executive pay arrangements. Having now completed that review, we believe we should make changes, so we are proposing a revised policy for your approval. As part of the review, the Committee engaged with, and listened to, many stakeholders, including feedback received from members through our TalkBack events, and considered the evolving external environment.

Being a member-owned organisation, our approach to pay should reflect the needs of our members and be consistent with our purpose, strategy and values, whilst also being competitive in the employment market. The Committee believes the new policy reflects this philosophy and these principles, as well as the scale of Nationwide's business, which is systemically important to the UK economy. The new policy has been designed so the Society can attract, retain and motivate talented individuals, and to be used as the basis for recruiting a highly qualified and experienced new Chief Executive Officer (CEO). The new policy makes it easier to structure total pay around achieving results, rather than relying on salary or fixed pay, and assesses the achievement of results against longer-term objectives instead of only annual performance. These changes ensure performance pay is linked to delivering the Society's strategy and to outcomes which are in the long-term interests of the Society and its members.

The key change to the policy is the introduction of a new element to the Directors' Performance Award (DPA), linking more of what we pay our executive directors to performance against longer-term stretching measures. The Committee believes this better reflects what's important to our members and is a better use of members' money.

The Committee's key focus during the year has been developing the new remuneration policy and supporting the Chairman and the Board in the recruitment of a new CEO.

How the Committee spent its time this year



Going forward the DPA will be in two parts:

- The first part continues to reward achievement of stretching Society, team and individual targets for a single financial year. This annual element of the overall DPA, known as the Directors' Annual Performance Award (DAPA), remains consistent with the DPA as set out in the current policy. However, the maximum opportunity will be reduced from 152% of salary in the case of the CEO to 100% of salary.
- The second, and new, part of the DPA is the Directors' Long-term Performance Award (DLPA). This will reward achievement against stretching Society objectives over a three-year period. Performance measures and targets for the DLPA will be set by the Committee considering strategic priorities for the Society such as member outcomes, Society sustainability and transformation. The maximum awards available under the DLPA will be considered by the Committee each year and will be subject to an initial assessment of individual performance and the financial stability of the Society. For 2022/23, we have determined the maximum opportunity available under the DLPA for the executive directors to be 100% of salary.

In order to be able to operate the new policy, the Committee is recommending an increase to the variable pay cap ratio through a special resolution to be included in the 2022 AGM.

In determining the new policy, the Committee has paid close attention to the relationship between pay policies and practices for executive directors and other colleagues. We think it is vital the Committee understands the wider colleague perspective when considering pay decisions; therefore the Committee receives information on our wider workforce pay practices throughout the year.

Performance and pay for 2021/22

Our results for the year show the Society has continued to deliver strong performance against our purpose of building society, nationwide, and our strategic cornerstones. In consideration of DPA outcomes for the year, we remain first amongst our peer group for customer satisfaction[1] and we've grown our committed members. Adjusting for the impact of in-year strategic cost decisions made by the Board after the financial plan was set, we have also met our cost target.

As a Committee, we are therefore pleased to confirm all eligible colleagues will receive performance awards to recognise these achievements. For our senior leaders, including our executive directors, there was also an additional controls measure, introduced to recognise our focus on ensuring the Society remains safe and secure for the long term. Performance against this measure was assessed by the Audit Committee as slightly below target.

These outcomes mean we have awarded payments to our executive directors under the DPA for the year. Details of these payments, including the measures set and factors considered, are set out in this report. The increase in pay outcomes for the executive directors this year is due to the return of our normal approach for 2021/22, following two years in which Covid-19 impacted executive pay decisions. This included no performance pay in 2019/20, a two thirds reduction in performance pay opportunity in 2020/21 and a voluntary reduction in the CEO's salary for 2020/21.

For 2021/22 I confirm we operated in line with the approved policy.

CEO and Society Chairman changes

CEO

Since the announcement in 2021 of Joe Garner's upcoming departure, supporting the Chairman and the Board in the search for a new CEO has been a significant focus for the Remuneration Committee. We are pleased to welcome our new CEO, Debbie Crosbie, who will be joining us on 2 June 2022.

We decided using the existing policy to shape our new CEO's remuneration was not in the longer-term interests of the Society and its members. Therefore, the remuneration package we have offered to the new CEO is in line with the new policy being presented for your approval. The base salary has been set at a higher level than the outgoing CEO taking into account market levels of remuneration, together with the significant banking experience and breadth of deep operational and technological knowledge she brings to the role. The pension allowance will be 16% of salary, aligned to the maximum available to all

[1] © Ipsos 2022, Financial Research Survey (FRS), for the 12 months ending 31 March 2021 and 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 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.

colleagues. The target performance pay opportunity will be 67% for the DAPA and 67% for the DLPA, subject to the initial performance assessment. Less will be awarded if targets are not met and the absolute maximum for each award is 100% of salary. As is normal in these circumstances, we have agreed to compensate Debbie for the loss of her previous performance pay awards that were forfeited on her resignation from TSB. These replacement awards are no more generous than the awards that have been forfeited. Further details are set out in this report.

With Debbie's arrival we shall be saying goodbye to Joe, who, after six years, will be stepping down as CEO on 1 June 2022. Joe will be available to support Debbie and the Board as required during the remainder of his contractual notice period until December 2022. The Committee considered Joe's leaving circumstances to meet the requirements for him to remain eligible for an award under the DPA for 2022/23 for his time in role as CEO, and for performance awards outstanding from previous years.

Society Chairman

David Roberts stepped down from the Board as Society Chairman on 31 January 2022 and was succeeded by Kevin Parry on 1 February 2022. At this time, the Committee agreed to increase the Chairman's fee, recognising it had fallen well behind current market rates, bringing the fee closer to that of our main competitors.

Looking ahead to 2022/23

As the current CEO is stepping down from the Board, his salary and performance pay opportunity will remain unchanged for the remainder of his employment. For the Chief Financial Officer (CFO), the Committee approved a salary increase of 3.5%, in line with salary increases for colleagues. The CFO's performance pay arrangements will be in line with those of the incoming CEO.

For 2022/23 the DPA will be structured in two parts: the DAPA and the DLPA. The DAPA will operate in a similar way to the DPA in recent years, with the same gateways and combination of Society measures.

An assessment of the Society's performance, and the individual performance of the incoming CEO and the CFO, will be made at the end of the 2022/23 year to determine if any awards will be made under the DLPA.

Member voting on remuneration

This year there will be an advisory vote on our Policy Report, a further advisory vote on our Annual Report on Remuneration, and a binding vote on increasing the maximum fixed to variable pay ratio from 2022/23 onwards. The details are set out for your consideration on the following pages.

On behalf of the Remuneration Committee, I recommend that you endorse our Policy Report and Annual Report on Remuneration and vote FOR the three resolutions.

Mai Fyfield Chair – Remuneration Committee

How the Committee works

The Committee is responsible for determining and agreeing with the Board the remuneration strategy, how that strategy is reflected in the remuneration policy, and the specific remuneration packages for the Society Chairman, the executive directors and the Nationwide Leadership Team, as well as any other employees who are deemed to fall within scope of the PRA / FCA Remuneration Codes. This includes approving the design of, and determining the performance targets for, any discretionary performance pay plan operated by the Society for the benefit of these employees. We also approve the outcomes of any performance pay plan and review the year end pay outcomes for all these employees.

The members of the Committee are all non-executive directors of the Society. The composition of the Committee, and the number of meetings attended in the year is set out on page 69. The Committee held nine scheduled meetings during the year.

Regular attendees of the Committee include the Chief Executive, the Chief People Officer, and the Director of People Policy, Reward and Governance. In no case is any person present when their own remuneration is discussed.

Deloitte LLP, independent external consultants, also attend meetings. The Committee retained Deloitte during 2021/22 following a competitive tender process in 2019. It reviews annually all other services provided by Deloitte to ensure they continue to be independent and objective. Deloitte is a founding member of the Remuneration Consultants Group and voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. Deloitte's advisory team has no connection with any individual director of Nationwide. Their fees for advice provided to the Committee during 2021/22 were £250,000 (excluding VAT), typically charged on a time-and-materials basis. Deloitte also provided tax, risk, internal audit and consulting services to the Society during 2021/22.

The Committee is supported by the Board Risk and Audit Committees on risk-related matters, including performance pay plan design, the assessment of specific performance measures, and wider issues relating to risk and controls.

In making executive pay decisions, the Committee takes account of remuneration practices across the Society. In addition to information received on Nationwide's wider workforce pay practices throughout the year, it received an annual update from the general secretary of the Nationwide Group Staff Union (NGSU) and from the Employee Voice non-executive director, Tamara Rajah. More information on Board engagement with colleagues can be found in the Governance report on page 76.

The Committee provides oversight and advice to the Board on the matters listed in its terms of reference (available at **nationwide.co.uk**) and reports to the Board on those matters after each meeting.

The effectiveness of the Committee is reviewed annually, along with the Committee's terms of reference and its activities over the previous year to confirm that they are in line with its remit. In 2021, the effectiveness review was carried out externally by Lintstock as part of the overall review of the effectiveness of the Board and its committees. Feedback on the Committee's performance and effectiveness was provided to both the Committee and the Board. The results of the review indicate that Committee members are satisfied with the performance and effectiveness of the Committee. The 2021 effectiveness review, including actions and next steps, is described on pages 83 to 84.

What the Committee did in the year

One of the main activities of the Committee was to seek input from stakeholders on the revised remuneration policy and over the course of a number of meetings to develop the new policy set out in this report.

Pay strategy and approach

In addition to the policy, the Committee agreed the approach to performance pay for 2021/22. The Committee continued to oversee the design of our approach to enabling performance for the wider workforce. The Committee approved changes to the Society Chairman's fee and the approach to the Nationwide Leadership Team's pay review.

Performance award outcomes

The Committee approved the outcome of the DPA for 2020/21.

Oversight of remuneration across the Society

The Committee received updates on how remuneration is a part of creating a healthy culture in the workplace and which considered how remuneration policies are aligned with the Society's purpose, strategy and values. It also considered the wider workforce and ways in which to provide recognition for colleagues. The Committee considered wider colleague analysis based on levels, gender, ethnicity and internal survey data.

Regulatory reporting

The Committee reviewed and approved the Report of the Directors on Remuneration for 2020/21. It also reviewed and approved all remuneration submissions made to the PRA and FCA over the course of the year.

Procedural matters

Throughout the year, for all employees within the scope of the PRA/FCA Remuneration Codes, the Committee agreed the base pay and variable pay arrangements. It reviewed Deloitte's consultancy agreement and confirmed continued independence.

Governance

The Committee approved the forward agenda for the year ensuring that it was designed to meet the Committee obligations. It considered any matters escalated to it by other Board and Management Committees and reviewed its effectiveness and activities as set out above.

Policy report

The tables on the following pages set out the proposed remuneration policy for our executive directors and non-executive directors. We will seek member approval for the revised policy at the AGM on 14 July 2022 and, if approved, the policy is intended to apply for three years to the AGM in 2025. It is intended that no payments to directors will be made outside of this policy, unless required as a result of regulatory change.

Remuneration policy for executive directors

During 2021/22 the Committee undertook a comprehensive review of executive pay arrangements, which were last reviewed in 2019/20, including consideration of the appropriate balance between salary or fixed pay and pay based on performance, and how we link performance related pay to the achievement of the longer-term objectives of the Society. Our approach to this review reflected our core principle that members' views and how we best serve our members are considered when we design remuneration policies.

Taking account of the above, the key change proposed to the policy for which member approval will be sought at the 2022 AGM is a change to the structure of the Directors' Performance Award (DPA) to reflect achievement of longer-term Society objectives. The DPA will now be in two parts as described below:

- Our existing annual plan, which will become the Directors' Annual Performance Award (DAPA), will be scaled back to a maximum award of 100% of salary for the CEO and other executive directors, reflecting a rebalancing of performance pay opportunity towards longer-term goals.
- A new element known as the Directors' Long-term Performance Award (DLPA) will be introduced which will align remuneration outcomes to the long-term sustainable performance of the Society and delivery of value to our members. Under the DLPA, performance will be measured over a three-year period, and subject to the delivery of stretching conditions aligned to member interests. Awards will be paid in instalments between three and seven years following the date of the initial grant. As with our existing performance pay plan, the Committee will retain the discretion to cancel all, or part, of any DLPA awards in the event of misconduct or if the Society's performance deteriorates significantly. An illustration of how the DLPA will operate is set out below:

Initial value of award under the DLPA determined subject to performance during 2022/23

Final value of the award under the DLPA determined subject to performance over the period 2023/24 – 2025/26

2022/23	2023/24	2024/25	2025/26	June 2026	June 2027	June 2028	June 2029	June 2030
← No payments made →				← Payments made in equal instalments over this period (note i) →				
Initial performance period (note ii)	Three-year performance period			20% (note iii)	20% (note iv)	20% (note iv)	20% (note iv)	20% (note iii)

Notes:

i. Payments are a mixture of cash and payments linked to the change in value of Nationwide's core capital deferred shares (CCDS).
ii. During the initial performance period an assessment of Society and individual performance will be made in order to determine the initial value of the award. The measures to be assessed during the three-year performance period will also be set.
iii. Represents cash element.
iv. Represents CCDS-linked elements which are retained for 12 months and paid in cash the following June.

In order to operate the new policy as intended, the Remuneration Committee is recommending an increase in the ratio of performance pay to fixed pay from the current permitted ratio of 1:1, to 2:1, through a special resolution at the 2022 AGM. The majority of banks and building societies that we compete with to attract and retain talent have already obtained similar approval. Other than as set out above, plus a few minor changes made to improve the operation and effectiveness of the policy, it is proposed that the policy remains as approved in 2020. Approval for the revised remuneration policy will be sought by way of an advisory vote at the AGM on 14 July 2022 and, if approved, it will take effect from that date.

Report of the directors on remuneration (continued)

Remuneration policy for executive directors			
Element	**Operation**	**Opportunity**	**Performance metrics**
Fixed pay			
Base salary Provides base salary that is market competitive and reflects the size and complexity of the role	Base salary is normally reviewed on an annual basis. Any changes are normally effective from 1 April.	There is no maximum. Base salaries are set taking into account market data for similar roles in comparable organisations. Other factors considered include the individual's skills, experience and performance in the role, and the approach being taken on salaries in the wider organisation.	Not applicable
Benefits Provide a market competitive and cost-effective benefits package as part of fixed remuneration	Benefits may include a car allowance, access to drivers when required, healthcare and insurance benefits. Other benefits may be provided to enable recruitment, retention or relocation.	There is no maximum value to the benefits provided. Benefits are reviewed regularly to ensure they remain appropriate to role and location to assist individuals in carrying out their duties effectively. The value of benefits may vary depending on service providers, cost and market conditions.	Not applicable
Pension Provides post-retirement benefits for participants in a cost-efficient manner	Executive directors receive a cash allowance in place of pension.	Cash allowances are set as a percentage of base salary. The maximum cash allowance payable is set at a level aligned with the maximum pension benefit available to the wider employee population, which is currently 16% of base salary.	Not applicable
Variable pay			
Directors' Performance Award (DPA): ***Directors' Annual Performance Award (DAPA) element:*** Rewards achievement of stretching Society, team and individual targets for a single financial year Comprises two elements: (i) an all-employee element (ii) an element in which the most senior leaders participate subject to deferral provisions where applicable	*All-employee element* Awards are normally paid in cash following the end of the financial year based on Society performance achieved in the year. This element operates on the same basis for all employees. *Senior leaders' element* At the end of the one-year performance period an award is made to reflect achievement against performance measures. Alongside awards under the Directors' Long-term Performance Award, the payment and deferral of DAPA awards are determined at the time of award and in compliance with regulatory requirements (which currently require that at least 60% of total variable remuneration in respect of any year is deferred for between three and seven years). A proportion (which may be 100% for target performance) of the DAPA is paid after the end of the performance period. Where performance is above target, the remaining proportion may be deferred in line with regulatory requirements. Awards are normally paid in cash with a minimum of 50%	The targets reflected in the Society's Plan need to be achieved to generate a 'target' award against the Society measures, and considerably exceeded to generate the maximum award. Under the all-employee element, all employees, including our executive directors, receive the same percentage of salary award. The overall maximum opportunity across both elements combined may vary by role. The actual amount awarded in respect of any year is subject to the limit laid down by regulatory standards (note ii). The normal maximum DAPA opportunity for the executive directors (i.e. including both elements of the DAPA) is 100% of base salary. Normally, 67% of base salary is payable for target performance and at the threshold level of performance, 33.5% of the award opportunity will be paid. No portion of the award will be paid where threshold performance is not achieved. The award levels above may be varied in exceptional circumstances.	The performance measures selected for both elements of the DAPA are set on an annual basis by the Committee. These will normally reflect a mix of financial and non-financial measures, relating to the strategic priorities of the Society as well as regulatory obligations and risk performance. Individual performance (including conduct and behaviours) is also assessed.

Remuneration policy for executive directors			
Element	**Operation**	**Opportunity**	**Performance metrics**
	of both the upfront and deferred elements delivered in or linked to the market or fair value of the Society's core capital deferred shares (CCDS), or an alternative instrument that, subject to regulatory requirements, is appropriate for use as variable remuneration, and subject to a twelve-month retention period. Participants will be entitled to the value of CCDS distributions (or equivalent) to the extent permitted by regulations. The Remuneration Committee may reduce, freeze, suspend or cancel payments under the DAPA if it believes that the plan outcomes are not representative of the overall performance of the Society (note i).	*Policy for 2022/23 for the outgoing CEO* J D Garner will be eligible to receive a part-year award under the DAPA in respect of services as CEO during 2022/23. As he will not be eligible to receive any award under the new Directors' Long-term Performance Award, his current maximum opportunity under the DAPA (152% of salary) will be retained for 2022/23 for the portion of the year in which he continues to provide services to the Society.	
Directors' Performance Award (DPA): ***Directors' Long-term Performance Award (DLPA) element:*** To incentivise sustainable long-term performance and alignment with member interests Awards are made annually and only pay out where challenging performance measures are met, normally measured over a three-year period	DLPA awards are discretionary and normally granted subject to the achievement of satisfactory performance over the year prior to being granted (the initial performance period). The first awards under the DLPA will be granted in 2023/24 subject to satisfactory performance over 2022/23. Awards are normally subject to a forward-looking three-year performance period from the start of the financial year in which the grant is made. Payment of the awards will not start until after the end of this three-year performance period and are subject to the achievement of performance conditions. The payment of awards will be spread in compliance with regulatory requirements, which currently apply such that awards will pay out in instalments between three and seven years following the date of the initial grant. Awards are normally paid in cash with a minimum of 50% of any award delivered in or linked to the market or fair value of the Society's core capital deferred shares (CCDS), or an alternative instrument that, subject to regulatory requirements. is appropriate for use as variable remuneration, and subject to a twelve-month retention period. Participants will be entitled to the value of CCDS distributions (or equivalent) to the extent permitted by regulations. The Remuneration Committee may reduce, freeze, suspend or cancel payments under the DLPA if it believes that the plan outcomes are not representative of the overall performance of the Society (note i).	For each applicable performance measure for the three-year performance period, the Committee will determine targets by reference to the Society's Plan that need to be achieved to generate a 'threshold', 'target' and 'maximum' level of award. Performance targets will normally be set annually for each three-year cycle. The Committee will determine the extent of achievement based on actual performance against the targets set and any other relevant factors the Committee considers appropriate to take account of. Maximum awards will only be paid where there has been outstanding performance against stretching targets during the forward-looking performance period. The overall maximum opportunity may vary by role. The actual amount awarded in respect of any year is subject to the limit laid down by regulatory standards (note ii). The normal maximum DLPA opportunity for the executive directors is 100% of base salary. Normally, 67% of base salary is payable for target performance and at the threshold level of performance, 33.5% of the award opportunity will be paid. No portion of the award will be paid where threshold performance is not achieved. The award levels above may be varied in exceptional circumstances.	The Committee will take into consideration performance over the initial performance period prior to the grant when determining whether DLPA grants will be made. The pre-grant conditions will normally include an assessment of both Society and individual performance to ensure that the granting of awards is sustainable according to the financial position of Nationwide and justified on the basis of individual performance, conduct and behaviours. Forward-looking performance will be measured against a long-term scorecard determined by the Committee on an annual basis and set to align with the long-term objectives of the Society. The measures will normally reflect a mix of financial and non-financial measures drawn from the Society's Plan and be subject to the satisfaction of risk performance and regulatory obligations. The measures used will typically comprise: • member outcomes (to include financial goals); • sustainability (to include Environmental, Social and Governance measures); and • transformation (to include delivery of key strategic milestones). The specific performance measures will be disclosed in the remuneration report for the relevant year.

Report of the directors on remuneration (continued)

Notes

i. **Discretion, risk adjustment and malus and clawback:** In determining variable pay awards, the Committee has the ability to apply independent judgement to ensure that the outcome is a fair reflection of the performance of the Society and the individual over the relevant period. In applying this judgement, the Committee has scope to consider any such factors it deems relevant.

The Committee takes into account performance against a broad set of financial and non-financial performance measures and considers performance on a risk-adjusted basis, evaluating progress against defined measures within the context of our risk appetite, including conduct risk. This is a formal process, which also includes input and feedback from the Audit and Board Risk Committees. In this manner, the Committee has discretion to reduce an executive director's variable pay in relation to risk-related matters.

In certain circumstances, the Committee has the discretion to operate malus and clawback provisions under the DAPA and DLPA. Such circumstances may include, but are not limited to: participation in, or responsibility for, conduct that results in significant losses; failure to meet appropriate standards of fitness and propriety; employee misbehaviour or material error; a material downturn in financial performance; a material failure of risk management; as well as other circumstances required by regulatory obligations or deemed appropriate by the Committee. Clawback can be applied for a period of seven years from the date of award. This may be extended to 10 years in the event of ongoing internal or regulatory investigation at the end of the seven-year period.

ii. **Maximum limit on variable pay**: Remuneration awarded to executive directors is subject to an overall maximum limit on the ratio between the variable and fixed components of remuneration for any given year. The default regulatory limit is such that variable remuneration cannot exceed 100% of fixed remuneration; however, this limit may be increased to a maximum of 200% with approval from our members by a vote at the AGM. The Society is seeking approval from members at the 2022 AGM to apply a maximum variable remuneration ratio that does not exceed 200% of fixed pay from 2022/23 onwards. For the purpose of calculating the value of variable pay for this ratio, a discount can be applied of up to 25% of the variable pay element to take account of the payment timescale, provided it is awarded in instruments (for example, the Society's CCDS) that are deferred for at least five years. Details of how the discount factor may be calculated can be found at www.eba.europa.eu

iii. **Regulatory changes or resolution:** In the event that regulatory standards change, the Remuneration Committee has discretion to make such changes to our remuneration policy for our executive directors and non-executive directors as to ensure regulatory compliance, even if a revised policy has not been put to members for an advisory vote. Any such changes would normally be included in the policy report at the next AGM. This includes any changes as may be considered appropriate in the event of resolution to reflect the nature of the roles and responsibilities in this context and to support the resolution process.

iv. **Prior arrangements:** The Committee reserves the right to honour remuneration payments (including payments for loss of office), notwithstanding that they are not in line with the policy set out in this report, where the terms of the payment were agreed in accordance with any previous member-approved policy, before the Society's first member-approved policy came into effect, or at a time when the relevant individual was not a director of Nationwide and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of Nationwide.

v. **Decision-making process:** In determining the new remuneration policy, the Remuneration Committee followed a robust process. The Committee discussed the detail of the policy over a series of meetings in 2021 and early 2022. The Committee considered the strategic priorities of the Society and how we link variable remuneration to the achievement of the Society's longer-term objectives. The Committee also considered our ability to attract, reward and retain the talent we need to remain competitive and best serve our members and evolving market practice. Input was sought from management, while ensuring that conflicts of interests were suitably mitigated. An external perspective was provided by our independent advisors. The Committee also assessed the policy against the principles of clarity, simplicity, risk management, predictability, proportionality and alignment to culture.

Choice of performance measures and targets

The gateway and performance measures for the Society element of both elements of the DAPA, in addition to the performance measures applicable under the DLPA, are set on an annual basis by the Remuneration Committee to reflect the priorities of the Society, providing a clear link with members' interests and our financial and strategic aims, as well as our regulatory obligations.

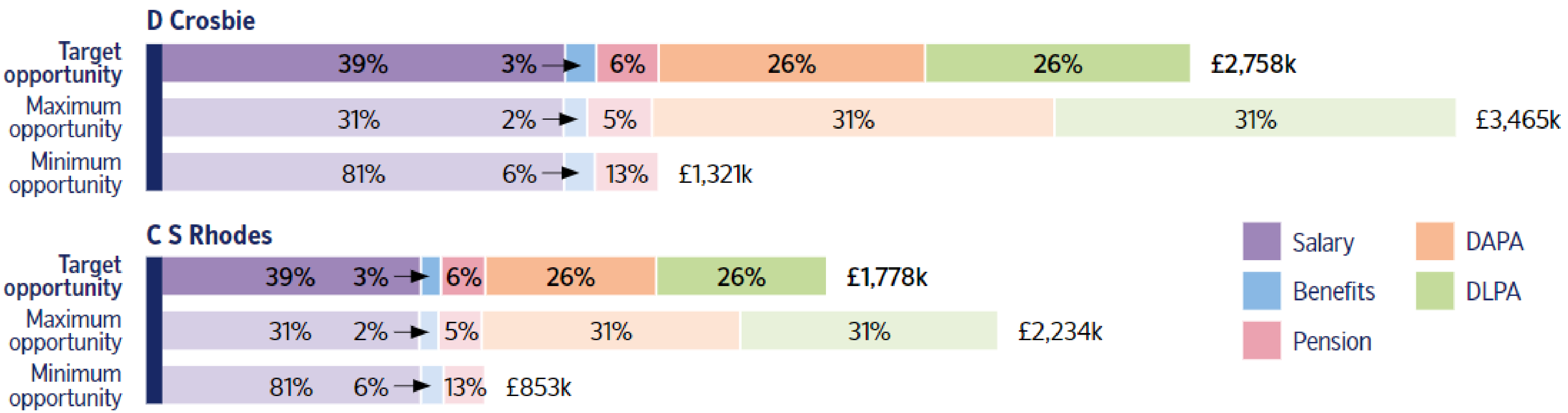
The weighting of performance measures under both the DAPA and DLPA will be reviewed annually, with the Committee having the ability to adjust the weighting from year to year to recognise particular financial, non-financial and strategic priorities. However, no less than 60% of the element of the DAPA in which our executive directors participate will be based on Society performance measures. DLPA awards are discretionary and are normally granted if the Committee considers that there has been satisfactory performance over the year prior to award, and this assessment will generally consider both the financial performance of the Society and individual performance, conduct and behaviours. Forward-looking performance is measured against a long-term scorecard derived from the Society Plan and consisting of Society financial, non-financial and strategic objectives.

The Committee sets performance targets at a level which it considers appropriately stretching in relation to the Society's Plan and overall risk appetite, taking into account a number of wider factors, including our strategic priorities, the economic environment, and market conditions and expectations. Maximum performance will only be achieved for exceptional performance across all measures. The Remuneration Committee has discretion to adjust performance targets to reflect significant one-off items which occur during the performance period.

What our executive directors could earn based on performance

The charts below illustrate the amounts that each of the executive directors would be paid under different performance scenarios including both the DAPA and DLPA. The charts do not represent the amounts available for 2022/23 as the first awards under the DLPA will not be made until 2023/24, reflecting performance during 2022/23, and the first payments will not be made until 2026. However, the plan is included in the charts below so members can clearly see the overall remuneration that may be delivered under the new policy from 2023/24.

Illustration of annual remuneration for executive directors under the new policy



Notes

i. The charts are based on the following scenarios:
   - Target opportunity: fixed pay elements are payable (base salary, pension and benefits) and target variable pay levels under the DAPA and DLPA are payable
   - Maximum opportunity: fixed pay elements are payable and maximum variable pay levels under the DAPA and DLPA are payable
   - Minimum opportunity: only fixed pay elements are payable

ii. D Crosbie will commence her role as Chief Executive on 2 June 2022 and has therefore been included in the charts above.

iii. The value of benefits for C S Rhodes is estimated based on the benefits paid to him in respect of 2021/22, as set out in the single total figure of remuneration table. The value of benefits for D Crosbie is estimated based on the benefits paid as set out in the single total figure of remuneration table, paid in respect of 2021/22 to the current CEO J D Garner. Additional benefits may arise but will always be provided in line with the approved policy.

iv. The charts have been prepared using the annual salaries that will apply during 2022/23 and, therefore, the DAPA and DLPA opportunities have been calculated as percentages of these salaries.

v. The actual amount awarded for any year would be subject to the limits laid down by regulatory standards.

vi. Payments under the DAPA and DLPA are completely dependent on how well the directors run the Society, and no payments under the DLPA will be made until between three and seven years later.

Report of the directors on remuneration (continued)

Remuneration arrangements throughout the Society

The remuneration policy for our executive directors is designed to align with the remuneration philosophy and principles that underpin remuneration for the wider Society. Within this framework, whilst there are differences in reward opportunity under the DAPA depending on level of seniority, everyone is focused on the achievement of the same business goals and objectives. Having consistent goals under this plan helps make sure everyone works together to put our members' needs first. The all-employee element of the DAPA operates with the same performance measures and same opportunity levels (as a percentage of salary) for all employees, including executive directors. The introduction of the DLPA element of the DPA provides the link between remuneration outcomes and the long-term performance of our executive directors in their stewardship of the Society and overseeing the delivery of the Society Plans.

Recruitment policy

On the appointment of a new executive director, the Committee will as far as possible determine the ongoing remuneration package in accordance with the policy described in the policy table above. It would aim not to pay more than necessary to secure the right candidate.

The Committee may also consider whether it is necessary to offer any one-off arrangements on the recruitment of a new executive director to replace previously awarded variable remuneration and any other remuneration arrangements forfeited upon leaving a previous employer. In making any such offer, the Committee will seek to ensure that the replacement arrangements are on materially similar terms to the arrangements being forfeited in terms of value and vesting schedule and take into account the extent to which performance conditions applied to the original awards, whilst taking into consideration all regulatory requirements. Where possible, the replacement arrangements will be structured within the parameters of our existing performance pay plans. If there was not sufficient scope to compensate the individual through our existing performance plans, an individually tailored plan would be put in place. In line with regulatory requirements, the replacement arrangements may continue to be subject to malus and clawback provisions, at the discretion of the individual's previous employer.

Although our intention would be to offer any new director benefits in line with the policy set out in the policy table, if individual circumstances required this, the Committee would consider offering a new recruit such additional benefits as might be required to secure their services. This may include travel allowances or relocation expenses for a limited period following their appointment.

On the appointment of a new non-executive director, fees will be on similar terms to those of the existing non-executive directors and in accordance with the policy table set out in this report.

Service contracts and policy on payments to departing directors

Executive director	J D Garner	C S Rhodes
Service contract effective from	5 April 2016	20 April 2009
Date first appointed to the Board	5 April 2016	20 April 2009

Executive directors' terms and conditions of employment are detailed in their individual contracts which include a notice period of 12 months from the Society to the individual and a notice period of 12 months from the executive director to the Society for any new executive directors, which has increased from nine months. The terms set out in the service contracts for the current executive directors do not provide for any payments that are not in line with this policy. Service contracts include a provision for a termination payment in lieu of notice, which will normally be subject to mitigation, up to a maximum of 12 months' base salary and statutory redundancy in the event of redundancy. Such a payment might also cover benefits and pension allowance.

The Society Chairman and non-executive directors are appointed for fixed terms not exceeding three years, which may be renewed subject to their re-election by members at AGMs. There are no obligations in the non-executive directors' letters of appointment that could give rise to remuneration payments or payments for loss of office. The dates of appointment to the Board for the Society Chairman and non-executive directors are set out in the Governance report.

Leaver provisions for executive directors

If an executive director leaves in eligible leaver circumstances (defined as redundancy, retirement, ill health, death or by mutual consent, e.g. for redundancy/succession planning purposes), they would, subject to approval by the Committee on an individual basis, remain eligible for performance pay awards as described below.

For awards under the DAPA:

- Where an executive director leaves during the performance year in eligible leaver circumstances they may, at the Committee's discretion, receive a pro-rata performance award for the period of time served during the current performance period in accordance with the plan rules. Such awards would be subject to deferral, retention, malus and clawback as normal.
- Where an executive director leaves in certain defined eligible leaver circumstances (retirement, redundancy, ill health or death), they will normally be eligible to continue to receive the deferred portion of any outstanding award in full (subject to any risk or performance adjustment, including by way of malus and/or clawback).
- In other eligible leaver circumstances, the treatment of outstanding deferred payments will normally be subject to time-prorating for months served in continued employment over the first four years of the plan cycle, including the initial performance period.

The treatment for eligible leavers of DPA awards in respect of performance years prior to 2022/23 will be in accordance with the relevant policy.

For awards under the DLPA:

- Where an executive director leaves during the financial year prior to the year in which the grant is made, they would normally be ineligible to receive any DLPA award in respect of that year.
- Where an executive director leaves during the forward-looking DLPA performance period in eligible leaver circumstances, awards will normally be pro-rated for time served during the relevant performance period. The extent to which an award will pay out will normally be subject to the achievement of the applicable performance conditions. Such awards would normally remain subject to the deferral, retention, risk and performance adjustment provisions that would otherwise have applied, including malus and clawback.
- Where an executive director leaves in eligible leaver circumstances following the end of the forward-looking DLPA performance period and during the additional deferral or retention period, they will normally be eligible to continue to receive the deferred and retained portions of any outstanding awards in full (subject to any risk or performance adjustment, including by way of malus and/or clawback).

Under both the DAPA and DLPA, the Remuneration Committee retains the discretion to adjust the proportion of the outstanding or deferred payments that are retained by a leaver based on the facts and circumstances of the departure. Furthermore, following departure, the Remuneration Committee may still also reduce or cancel payments if it believes that the variable pay plan outcomes are not representative of the overall performance of the Society.

Any variable pay awards subject to deferral or retention periods, as well as any 'in-flight' DLPA awards, will continue to be paid at the usual payment date although the Remuneration Committee will have discretion to accelerate any payments to the leaving date in exceptional circumstances.

Individuals who leave in other circumstances (e.g. resignation) and are not determined to be 'eligible leavers' would receive only contractual payments to which they are entitled and would not receive any payment in respect of performance pay plans, unless the Remuneration Committee determines there is a robust case for discretion.

Depending on individual circumstances, the Committee may also make a payment in respect of outplacement costs, legal fees and costs of settling any potential claim where appropriate.

Mitigation

Mitigation means that after leaving Nationwide, should an executive director start employment elsewhere, any outstanding payments in lieu of notice due from Nationwide may be reduced or lapse altogether. The Remuneration Committee's policy is that payments in lieu of notice should be made in monthly instalments and be subject to mitigation (where contractually enforceable), although the Committee has discretion to waive mitigation if this is considered appropriate in individual circumstances. The current executive director contracts, and that of the new CEO, allow for mitigation.

Consideration of employment conditions elsewhere in the Society

The pay and conditions of all employees are taken into account when determining executive remuneration and the Committee appreciates the importance of this relationship. The Committee reviews base salary levels, other elements of fixed remuneration and details of performance pay plans offered to all employees each year and is always mindful of ensuring that the pay policy for senior roles is consistent with the culture and values of the Society as a whole. Our policy is to offer packages which are competitive with the financial services market in which we operate and to reward individuals for delivering value to members. The individual elements of remuneration offered, for example benefits provision, may vary between the different roles, reflecting typical market practice.

Employees who are members of the Society will be able to vote on the Policy Report, the Annual Report on Remuneration and, for those employees who are not impacted by the variable pay ratio, the special resolution to change the variable pay ratio.

Consideration of member views

At recent AGMs we have received a significant majority vote in favour of our remuneration reports. We are also mindful of views expressed by individual members regarding specific aspects of the policy. When taking decisions on remuneration policy, the Remuneration Committee is also always conscious of the need to balance members' views whilst ensuring executives are motivated and rewarded to deliver value for our members.

Remuneration policy for non-executive directors

Remuneration policy for non-executive directors		
Element	Operation	Opportunity
Society Chair and non-executive director fees Provide a market competitive fee level for the role at Nationwide	The Society Chair's fee is normally reviewed and approved by the Remuneration Committee on an annual basis. Non-executive director fees are normally reviewed and approved by the executive directors and the Society Chair on an annual basis. Any changes are typically effective from 1 April. Non-executive directors are paid a basic fee, with an additional supplement paid for additional roles or responsibilities, including in respect of the Senior Independent Director or Employee Voice role, or for serving on or chairing a Board Committee. Additional fees may be payable for additional time commitment in exceptional circumstances. The Society Chair and non-executive directors do not take part in any performance pay plans or in any pension arrangements. Benefits may be provided if considered appropriate including reimbursement of any reasonable expenses (together with any tax thereon where these are deemed to be taxable benefits).	There is no maximum level. Fees are set taking into account practice at other organisations as well as the time commitment for the role at Nationwide.

Annual report on remuneration for 2021/22

Base salary and pension

As disclosed in last year's report, J D Garner and C S Rhodes received an increase in base salary of 2% with effect from 1 April 2021. The base salaries which applied in the year were £934,320 and £667,080 for the CEO and CFO respectively. The pension allowances of our executive directors are 16% of salary, which is the maximum benefit available to the wider employee population.

Directors' Performance Award (DPA) 2021/22

The DPA in 2020/21 has two elements: an all-employee element and an element for our most senior leaders. Performance under both elements of the DPA reward the attainment of challenging strategic and financial measures drawn from the Society's Plan and for 2021/22 this included specific measures linked to three of the five strategic cornerstones, as set out below. These measures ensure that we are focused on delivering benefits to our members. For the element in which the most senior leaders participate, in 2021/22 we added a controls measure to recognise our focus on continuing to ensure the Society remains safe and secure for the long term. The senior element also incorporates an amount based on individual performance and behaviours.

Building thriving membership – Number of committed members

Building legendary service – Customer service satisfaction rating

Built to last – Total costs, and for senior leaders, Controls

+

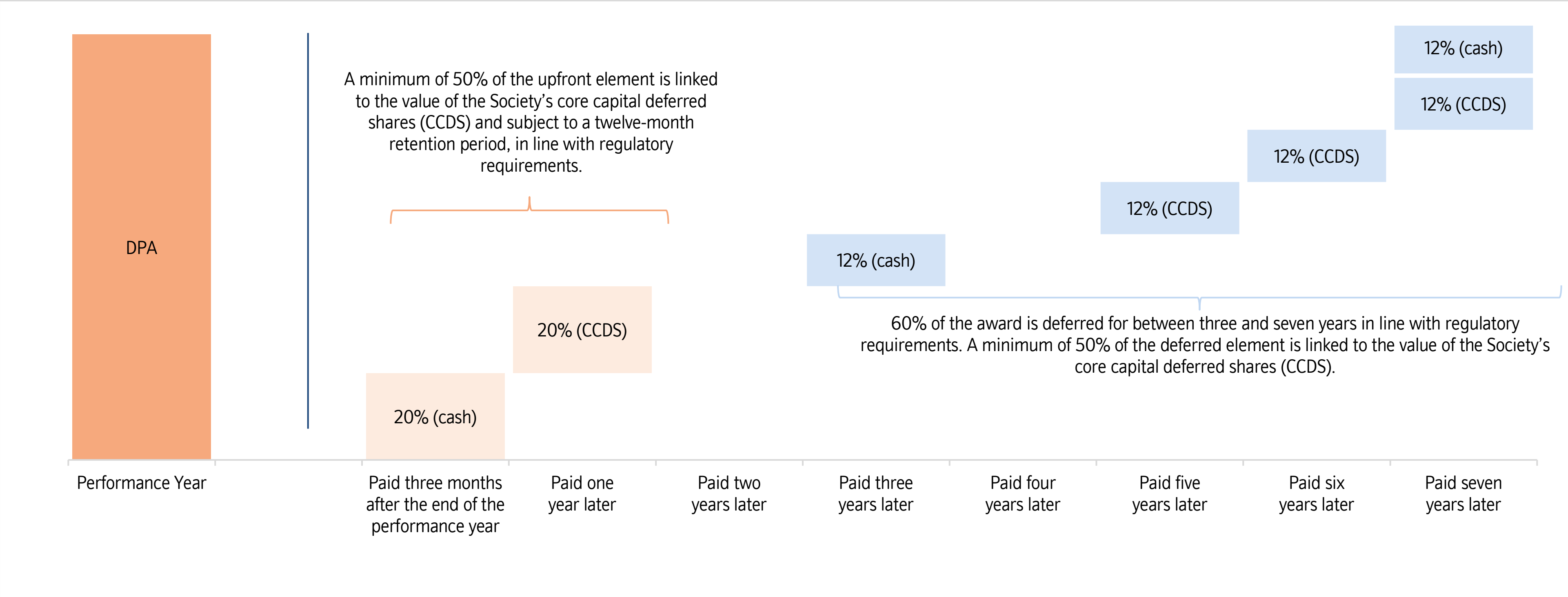
Individual performance

Objectives reflecting each individual's contribution towards the delivery of the Society's Plan as well as individual conduct and behaviours

The maximum potential award level for 2021/22 was 152% of salary for the CEO and 112% of salary for the CFO. For the CEO, 28% of the maximum award was based on individual performance. For the CFO, this was 27% of the maximum award for 2021/22. Payments under the plan are made at the discretion of the Remuneration Committee and delivered in instalments over the next seven years. Payments due over the seven year period remain "at risk" and may be reduced or cancelled if the Committee believes the plan outcomes are not representative of the overall performance of the Society, the individual or by reference to wider circumstances, as appropriate. The Society also has the ability to claw back performance pay awards for up to ten years after they were awarded in certain circumstances.

Annual report on remuneration for 2021/22 (continued)

The illustration below shows how awards under the DPA in respect of 2021/22 will be released to executive directors over the long term:



Outcomes for DPA 2021/22

Three 'gateways' must be passed before any payment is made under the plan. The three gateways are based on measures of profit before tax, leverage ratio and conduct risk. These gateways were passed in 2021/22. In reviewing performance under the DPA during 2021/22, the Committee assessed the Society's performance against the four measures set out below. The Committee must also be satisfied that there are no significant conduct, risk, reputational, financial, operational or other reasons why awards should not be made, taking into account input from the Board Risk and Audit committees.

(Audited)

Cornerstone	Measure	Performance target range: threshold, target and maximum, and performance achieved	Performance pay achieved (% of salary) J D Garner	Performance pay achieved (% of salary) C S Rhodes
Building thriving membership	Number of committed members	Achieved: 3.62m; threshold 3.55m, target 3.60m, maximum 3.85m	19.4%	15.6%
Building legendary service	FRS satisfaction (note i)	Achieved: 1st + 4.6%pts lead; threshold 1st, target 1st + 2%pts lead, maximum 1st + 4%pts lead	28.5%	21.5%
Built to last	Total costs (note ii)	Achieved: £2,180m; threshold £2,210m, target £2,180m, maximum £2,150m	18.4%	14.9%
	Controls (note iii)	Achieved: 94%; threshold 50%, target 100%, maximum 150%	14.8%	11.5%
Individual performance element (see further detail below)			21.0%	25.0%
Total performance pay achieved based on Society and individual performance			102.1%	88.5%
Out of a maximum opportunity (as a % of salary) of			152%	112%

Notes:

i. © Ipsos 2022, Financial Research Survey (FRS), for the 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 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.

ii. During the year, the Board approved changes to the Society's Plan for total costs. The Remuneration Committee subsequently approved these changes to be reflected in the targets for the DPA. The actual total costs outcome of £2,234 million for 2021/22 is above the revised plan target of £2,180 million which took account of incremental expenditure approved by the Board during the year. Adjusting for the impact of this and strategic cost decisions made by the Board, after the setting of the annual plan, we have met our cost target.

iii. For the Controls measure, the Audit Committee considered progress against our Process and Controls Improvement Programme (PCIP), taking into account achievement against specific milestones as well as assurance activity. The Audit Committee recommended an outcome of 94% representing the progress made to date. The Remuneration Committee subsequently approved the outcome of 94% for use in the DPA outcomes.

Outcomes for DPA 2021/22 (continued)

For the element based on individual performance, performance was assessed against both the delivery of the Society's strategic scorecard as well as individual goals, conduct and behaviours. The tables below provide an overview of the individual performance for 2021/22 achieved by each executive director based on their objectives. The performance scorecard contains a number of ESG factors, including improving sustainability and our inclusion and diversity measures.

J D Garner's individual objectives for 2021/22		
Objectives	**Performance**	**Achievement**
Building thriving membership		
Develop a limited number of propositions with a focus on helping members manage their homes and alleviate financial distress. Particular emphasis to be given on ensuring fair outcomes in the context of economic downturn.	• Provided continued support for members in financial difficulty, recognising the need to balance financial and operational resilience and member financial benefit at a time of economic downturn. • Introduced a number of new and innovative propositions to offer value beyond rate including member prize draws and current account switching incentives. • Continued to support the housing market and members by maintaining mortgage supply at a range of loan to values.	✓
Built to last		
Deliver financial and overall performance through another challenging year.	• Strong overall performance against the Society's scorecard, with record financial performance and very strong liquidity. • Product volumes continue to perform well with good income performance from mortgages and savings. • Throughout the year, we have continued to evaluate options to diversify income.	✓
Regulation and Risk	• Progress made on audit actions and enhanced organisational awareness but further improvement is needed. • Maintained good relationships with the regulators.	=
Process and Controls	• Overall, good performance in relation to operational resilience but payments issues impacted the service our members expect. • Progress made on enhancing awareness and improving the Society's controls.	=
Leadership and transition	• Exceptional leadership in navigating the Society through CEO transition.	✓
Building legendary service		
Regain our momentum on service and member satisfaction and deliver the Future of Legendary Service programme.	• The Future of Legendary Service programme continues to progress and supports the Society to adapt to changing member behaviour by protecting human service delivery while enhancing digital activity. • Regained momentum on customer service and member satisfaction, with a significant lead over our peer group[1].	✓

Key to achievement of objectives:

✓ Expectation achieved or exceeded

= Reasonable outcome against expectation

✗ Expectation not met

[1] ©Ipsos 2022, Financial Research Survey (FRS), for the 12 months ending 31 March 2021 and 31 March 2022. For more information, see footnote 1 on page 104.

Outcomes for DPA 2021/22 (continued)

J D Garner's individual objectives for 2021/22 (continued)		
Objectives	**Performance**	**Achievement**
Building PRIDE		
Continue to promote an inclusive and diverse culture and advocate colleague wellbeing. Embed new ways of working; leveraging the member mission operating model and lessons learned throughout the pandemic.	• Strong employee engagement across the organisation and continued focus on colleague wellbeing and morale. • Significantly advanced progress against our Inclusion and Diversity measures and longer-term ambition to reflect the wider societies that we serve. • Continued to embed our Member Mission operating model to provide greater focus on the needs of our members. • Implemented a new Future of Work policy enhancing employee flexibility but more to do in creating a delivery-focused culture.	=
Building a national treasure		
Continue to have a strong external position to create social change, particularly on issues around housing and our green agenda.	• Strong progress on the Society's green agenda, having joined the Net Zero Banking Alliance, pledging to reach net zero by 2050. • The first major financial institution to implement eco-friendly debit cards. • Worked alongside various charities in support of important appeals, most notably Afghanistan and Ukraine. • Launched a 'Sticks and Stones' campaign to protect colleagues from verbal and aggressive behaviour which led to a reform in sentencing guidelines.	✓

Key to achievement of objectives:

✓ Expectation achieved or exceeded = Reasonable outcome against expectation ✗ Expectation not met

C S Rhodes's individual objectives for 2021/22		
Objectives	**Performance**	**Achievement**
Building thriving membership		
Support the Society in achieving a good balance between proposition, profitability and value for members.	• Excellent leadership contribution to the Society's leadership team, including in relation to propositions focused on helping members manage their finances and alleviating financial distress.	✓

Outcomes for DPA 2021/22 (continued)

C S Rhodes's individual objectives for 2021/22		
Objectives	**Performance**	**Achievement**
Built to last		
Deliver financial and overall performance through another challenging and unpredictable year.	• Delivered a record financial performance with costs in line with target, improved capital ratios and very strong liquidity. • Provided strong leadership on the Society's efficiency objective, delivering in year cost targets. • Strong performance in optimising returns from the Society's treasury portfolio and reducing the cost of the liquid asset buffer. • Ensured investors received clear and transparent information on the Society's performance with a strong focus on asset quality and forbearance disclosure. • Strong performance in supporting members with payment holidays and Covid-19 provisioning. • S&P Global have upgraded the Society's credit rating which has been a longer-term focus.	✓
Regulation and Risk	• Good progress made on Audit actions with none overdue. • Provided strong leadership in the development of the Society's planning and stress testing processes, ensuring the Board has the appropriate information to judge the long-term performance of the Society.	✓
Process and Controls	• Progress made on improving the Society's controls with a strong focus on the financial control environment.	✓
Building legendary service		
Support the organisation to deliver legendary services to our members.	• Showed strong and reliable judgement in the delivery of cost and efficiency outcomes while at the same time considering issues of member vulnerability.	✓
Building PRIDE		
Build an inclusive culture where everyone can thrive and a Society which reflects the diversity of the wider communities that we serve.	• Strong leadership on the engagement of colleagues throughout the year. • More to do on supporting and enabling the Society's Inclusion and Diversity ambitions.	=
Building a national treasure		
Protect and enhance the Society's brand and reputation, including managing investor and regulatory relationships.	• Provided strong leadership on the ongoing development of the Society's ESG agenda, ensuring reporting continues to evolve in line with best practice. • Maintained a strong relationship with the Regulators. • Excellent contribution to the progression of the Society's green agenda and wider societal contributions.	✓

Key to achievement of objectives:

✓ Expectation achieved or exceeded = Reasonable outcome against expectation ✕ Expectation not met

Strategic report
Governance
Risk report
Financial statements
Other information

Executive directors' remuneration

Where indicated, the tables in the following sections have been audited. These disclosures are included in compliance with the Building Societies Act 1986 and other mandatory reporting regulations, as well as the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which the Society has voluntarily adopted. The table below shows the total remuneration for each executive director for the years ended 4 April 2022 and 4 April 2021.

In the year ended 4 April 2021, as a consequence of the Covid-19 pandemic, J D Garner requested a 20% reduction in his combined salary and pension allowance.

Single total figure of remuneration for each executive director *(Audited)*

2022	**Fixed remuneration**				**Variable remuneration**		**Total pay package**
Executive directors	**Salary £'000**	**Pension allowance £'000**	**Travel and other taxable benefits (note i) £'000**	**Total £'000**	**Directors' Performance Award (note ii) £'000**	**Total £'000**	**£'000**
J D Garner	**934**	**149**	**77**	**1,160**	**954**	**954**	**2,114**
C S Rhodes	**667**	**107**	**52**	**826**	**590**	**590**	**1,416**
Total	**1,601**	**256**	**129**	**1,986**	**1,544**	**1,544**	**3,530**

2021	Fixed remuneration				Variable remuneration		Total pay package
Executive directors	Salary £'000	Pension allowance £'000	Travel and other taxable benefits (note i) £'000	Total £'000	Directors' Performance Award (note ii) £'000	Total £'000	£'000
J D Garner	783	125	39	947	289	289	1,236
C S Rhodes	654	105	30	789	191	191	980
Total	1,437	230	69	1,736	480	480	2,216

Notes:
i. This value is included as fixed remuneration for the calculation of the variable pay ratio in meeting our regulatory requirements. A full description of the taxable benefits is set out below.
ii. Variable remuneration for the periods shown consists of the awards under the DPA. A substantial proportion of any awards under this plan are subject to deferral with payments spread over the following seven years.

Our executive directors receive a number of benefits and, where appropriate, we pay on their behalf the tax associated with those benefits. In the single figure table above, 'taxable benefits' includes certain essential travel costs met by the Society, including any tax due under HMRC regulations, provided to enable the executive directors to work whilst travelling and undertake their responsibilities most effectively. Other benefits include medical insurance, car allowance and security.

Society Chairman and non-executive directors (continued)

The total fees paid to each non-executive director are shown below. For the year ended 4 April 2021, as a consequence of the Covid-19 pandemic, the Chairman and each non-executive director donated 20% of their post-tax fees to Shelter, a charity. The fees for 2021 below are stated before these donations.

Single total figure of remuneration for non-executive directors *(Audited)*

	2022			2021		
	Society and Group fees £'000	**Travel and other taxable benefits (note i) £'000**	**Total fees and taxable benefits £'000**	Society and Group fees £'000	Travel and other taxable benefits (note i) £'000	Total fees and taxable benefits £'000
K A H Parry (Society Chairman – effective 1 February 2022) (note ii)	**211**	**2**	**213**	143	-	143
D L Roberts (Society Chairman – until 31 January 2022) (note iii)	**344**	**2**	**346**	405	1	406
G Waersted (Senior Independent Director) (note iv)	**106**	**13**	**119**	94	-	94
R A Clifton (note v)	**31**	**1**	**32**	98	-	98
R M Fyfield	**128**	**2**	**130**	130	3	133
A Hitchcock	**96**	**12**	**108**	94	-	94
A M Keir (note vi)	**8**	**-**	**8**	-	-	-
D Klein (note vii)	**80**	**3**	**83**	6	-	6
T Rajah (note viii)	**99**	**-**	**99**	55	-	55
G Riley (note ix)	**-**	**3**	**3**	-	-	-
P G Rivett	**125**	**-**	**125**	109	-	109
T J W Tookey	**136**	**5**	**141**	134	-	134
U K Prashar (note x)	**-**	**-**	**-**	26	-	26
Total	**1,364**	**43**	**1,407**	1,294	4	1,298
Pension payments to past non-executive directors (note xi)			**207**			242

Notes:

i. Taxable benefits for non-executive directors relate to expenses incurred in connection with travel and attendance at Board and committee meetings. Where these expenses are deemed taxable, the Society settles the tax on behalf of the non-executive directors and this is included in the amounts shown.

ii. K A H Parry was appointed Society Chairman effective 1 February 2022. Prior to this date, he was the Senior Independent Director. His fees for the year ended 4 April 2022 reflect the change in responsibility during the year.

iii. D L Roberts stepped down from the Board on 31 January 2022.

iv. G Waersted was appointed Senior Independent Director effective 1 February 2022. Her fees for the year ended 4 April 2022 reflect the change in responsibility during the year.

v. R A Clifton stepped down from the Board on 22 July 2021.

vi. A M Keir joined the Board on 1 March 2022.

vii. D Klein joined the Board on 1 March 2021.

viii. T Rajah joined the Board on 1 September 2020.

ix. G Riley joined the Board on 1 April 2022.

x. U K Prashar stepped down from the Board on 16 July 2020.

xi. The Society stopped granting pension rights to non-executive directors who joined the Board after January 1990.

Additional disclosures

Chief Executive Remuneration for the past ten years

The table below shows details of the Chief Executive's remuneration for the previous ten years.

Financial year	Total remuneration £'000	Annual performance pay earned as % of maximum available %	Medium term performance pay earned as % of maximum available (note i) %
2021/22	**2,114**	**67.2**	**-**
2020/21	1,236	72.3 (note ii)	-
2019/20	1,286	0.0	-
2018/19	2,372	75.1	-
2017/18	2,317	69.5	-
2016/17	3,386 (note iii)	71.9	-
2015/16	3,413 (note iv)	75.8	80.8
2014/15	3,397 (note iv)	74.4	84.5
2013/14	2,571	83.3	74.9
2012/13	2,258	60.6	41.7

Notes:

i. Medium term performance pay ceased at the end of 2015/16.

ii. Performance pay opportunity for 2020/21 was reduced by around two thirds.

iii. J D Garner commenced his role as Chief Executive on 5 April 2016. His total remuneration for 2016/17 included the value of buy-out awards on joining (2017: £1,070,752). These awards do not form part of ongoing remuneration. If this amount is excluded, the figure for 2016/17 would be £2,315,047.

iv. The Chief Executive in 2015/16 and all previous financial years shown in the table above was G J Beale. His total remuneration for 2015/16 and 2014/15 includes awards under the DPA as well as legacy payouts under the directors' previous medium term pay plan as a result of the transition period between plans.

Comparison of annual change in directors' pay with average employee

The following table shows the percentage change in remuneration (base salary, benefits and annual performance pay) of each of the directors for the last two financial years compared with the average for all other employees.

	% change in remuneration between 2020/21 and 2021/22			% change in remuneration between 2019/20 and 2020/21		
	Salary/fees	**Benefits**	**Annual performance pay (note i)**	Salary/fees	Benefits (note ii)	Annual performance pay
Executive directors						
J D Garner (note iii)	19.3%	37.8%	230.1%	(14.5%)	(55.7%)	- (note iv)
C S Rhodes	2.0%	17.8%	208.9%	3.2%	(32.5%)	- (note iv)
Non-executive directors (note v)						
K A H Parry (note vi)	47.6%	-		10.9%	(100%)	
D L Roberts (note vii)	(15.1%)	100.0%		0%	(50%)	
G Waersted	12.8%	-		0%	(100%)	
R A Clifton (note viii)	(68.4%)	-		0%	(100%)	
R M Fyfield	(1.5%)	(33.3%)		9.2%	(25%)	
A Hitchcock	2.1%	-		0%	(100%)	
A M Keir (note ix)	-	-		-	-	
D Klein (note x)	1,233.3%	-		-	-	
T Rajah (note xi)	80.0%	-		-	-	
G Riley (note xii)	-	-		-	-	
P G Rivett (note xiii)	14.7%	-		73%	(100%)	
T J W Tookey	1.5%	-		0%	(100%)	
All employees (note xiv)						
All employees	3.0%	14.1%	143.1%	3.2%	(5.3%)	41.9%

Notes:
i. The increase in annual performance pay between 2020/21 and 2021/22 is reflective of the return to previous levels of opportunity following a reduction to one third of opportunity in 2020/21.
ii. The reduction in benefits between 2019/20 and 2020/21 reflects reduced travel costs in the year as a result of a significant reduction in travel due to the pandemic.
iii. The percentage increase in salary for J D Garner from 2020/21 to 2021/22 reflects the voluntary temporary reduction in base salary for 2020/21 in the context of the Covid-19 pandemic.
iv. The annual performance pay for J D Garner and C S Rhodes for 2019/20 was £nil and therefore no percentage change is shown.
v. The non-executive directors are not eligible to participate in the annual performance pay plan.
vi. K A H Parry was appointed Chairman on 1 February 2022 and remuneration for 2021/22 reflects this change in role.
vii. D L Roberts stepped down from the Board on 31 January 2022 and remuneration for 2021/22 reflects ten months on the Board versus a full year in 2020/21.
viii. R A Clifton stepped down from the Board on 22 July 2021 and remuneration for 2021/22 reflects approximately four months on the Board versus a full year in 2020/21.
ix. A M Keir joined the Board on 1 March 2022 and therefore comparative remuneration data is not available.
x. D Klein joined the Board on 1 March 2021 and therefore comparative remuneration data for 2019/20 is not available. Remuneration for 2021/22 reflects a full year on the Board versus one month in 2020/21.
xi. T Rajah joined the Board on 1 September 2020 and therefore comparative remuneration data for 2019/20 is not available. Remuneration for 2021/22 reflects a full year on the Board versus eight months in 2020/21.
xii. G Riley joined the Board on 1 April 2022 and therefore comparative remuneration data is not available.
xiii. P G Rivett joined the Board on 1 September 2019. Remuneration for 2020/21 reflects a full year on the Board versus seven months in 2019/20.
xiv. Data for all employees has been calculated on a full-time equivalent basis and reflects all employees on 1 March 2020, 1 March 2021 and 1 March 2022.

Relative importance of spend on pay

The chart below shows the cost of remuneration for all employees of Nationwide Building Society, compared with retained earnings.

Remuneration cost for all employees		
	2021/22	2020/21
	£m	£m
All-employee remuneration	**822**	852
Retained earnings	**1,066**	453

Payroll costs represent 36.79% (2021: 38.41%) of total administrative expenses. Nationwide's profit after tax for the year was £1,252 million, of which £186 million was paid as distributions and the remaining £1,066 million is held as retained earnings.

Payments for loss of office

J D Garner will step down from the Board as CEO on 1 June 2022. He will remain an employee of the Society until 12 December 2022, the end of his twelve-month notice period.

In line with our approved remuneration policy, he will be treated as an eligible leaver for the purposes of the DPA and will therefore remain entitled to receive the retained and deferred elements of his unvested awards made in respect of previous years' service in full. Payments will be made on the normal payment dates and will remain subject to risk adjustment, malus and clawback terms in the same way as if J D Garner had remained in employment. The full value of these awards has been disclosed in the single total figure of remuneration for prior years.

He will continue to receive his salary, contractual benefits and pension for the duration of his notice period following his stepping down from the Board. These payments will total £586,791, which includes salary (£491,934), benefits (£16,148) and pension (£78,709). He will also be eligible to receive a part-year award under the DPA in respect of services as CEO during 2022/23. Any such award will be subject to the achievement of performance conditions, and details of any award will be disclosed in next year's remuneration report. He will not be eligible to receive any award under the new DLPA that is being submitted for approval at the 2022 AGM.

J D Garner received a contribution towards legal fees of £8,500 (excluding VAT) in connection with his departure.

Payments to past directors

D L Roberts stepped down from the role of Society Chairman and the Board with effect from 31 January 2022. He continued to provide input on certain strategic matters to the new Society Chairman in the period to 28 February 2022 for which he was paid a fee of £34,500.

Pay gap reporting

The Society is fully committed to promoting a diverse and inclusive workplace. The gender pay gap measures the difference in earnings between women and men across all roles. Our latest report was published in February 2022 and can be found at **nationwide.co.uk**, together with an update of progress on our inclusion and diversity ambition, including our measures announced in 2021, and Women in Finance Charter commitments. We have also again voluntarily published our ethnicity pay gap, comparing the pay of all employees who have identified as black, Asian and minority ethnicity (ethnically diverse), with the pay for white (non-ethnically diverse) employees across Nationwide.

As at 5 April 2021, our mean gender pay gap was 30% (marginally increased on the previous year, partially driven by our increased recruitment across technology roles, where we found that applicants are predominantly male) and our mean ethnicity pay gap was 11% (decreasing from 16% in the previous year, primarily due to an increase in the number of ethnically diverse employees at all levels).

Pay gaps are not the same as equal pay. We carry out regular equal pay audits, checking the pay of people with different characteristics (such as gender and ethnicity) doing the same or similar roles. Our audits continue to show that our pay policies are operating fairly.

Report of the directors on remuneration (continued)

CEO pay ratio reporting

The table below compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles). This reporting will build annually to cover a rolling ten-year period.

The increase in the median pay ratio compared to 2020/21 and 2019/20 is due to the return of our normal remuneration approach following two years in which Covid-19 impacted executive remuneration decisions, including no variable pay in 2019/20, a two-thirds reduction in variable pay opportunity in 2020/21 and a voluntary reduction in the CEO's salary for 2020/21.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021/22	**Option A**	**80:1**	**54:1**	**35:1**
2020/21	Option A	51:1	38:1	24:1
2019/20	Option A	53:1	41:1	26:1
2018/19	Option A	99:1	77:1	48:1

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2021/22 are:

	25th percentile	Median	75th percentile
Total remuneration	£26,433	£39,384	£60,618
Salary	£20,988	£31,370	£48,133

Notes:
i. The calculation is based on Option A as set out in the regulations which is considered to be the most statistically accurate methodology.
ii. Employee data includes full time equivalent total remuneration for all UK employees as at 1 March 2022. For each employee, remuneration was calculated based on all components of pay including base pay, performance pay for 2021/22, core benefits including medical insurance and car allowance, and pension payments.
iii. For 2018/19, 2019/20 and 2020/21, whilst most employees participated in a defined contribution scheme with a fixed maximum employer contribution, there were other pension arrangements in place for some employees, including a defined benefit pension scheme which has been closed to new participants since 2007. Although it would have been possible to recognise a higher value under the defined benefit scheme, in order to ensure accurate year on year comparative data, a fixed value equal to the maximum employer contribution available to the defined contribution scheme members was included for all defined benefit scheme members. For 2021/22 there is only one defined contribution scheme available therefore the actual employer contribution value has been used for all employees.
iv. The Committee has considered the pay data for the three individuals identified for 2021/22 and confirms that the ratios reasonably represent the Society's approach to pay and reward for employees taken as a whole.

Voting at AGM

Resolutions to approve the 2020/21 Report of the directors on remuneration and the current Directors' Remuneration Policy were passed at the 22 July 2021 AGM and 16 July 2020 AGM respectively. In each case votes were cast as follows:

	Report of the directors on remuneration	Remuneration Policy
Votes in favour	505,650 (94.48%)	474,181 (92.8%)
Votes against	29,522 (5.52%)	36,789 (7.2%)
Votes withheld	8,276	7,933

The year ahead

Remuneration arrangements for the incoming CEO

D Crosbie will commence her role as Chief Executive on 2 June 2022. Her base salary has been set at £1,072,250, reflecting the skills and significant banking experience, together with deep operational and technological knowledge she brings to the role. She will receive benefits and a pension allowance in accordance with our policy, as detailed in the table below. Subject to member approval of our revised remuneration policy at the 2022 AGM, she will be eligible to participate in the DAPA for 2022/23 with an award of 67% of salary for target performance and a maximum award of 100% of salary (pro rata for time in role). She will also be eligible to receive a DLPA of up to 100% of salary from 2023/24. The DLPA will be based on stretching performance targets measured over the subsequent three years and subject to long-term deferral and risk adjustment.

To the extent member approval for our proposed approach to executive remuneration for 2022/23 onwards is not obtained at the 2022 AGM, the Committee will seek to determine alternative arrangements for the CEO that are consistent with those on which she was recruited, while operating within the parameters of the remuneration policy that was last approved by members, at the 2020 AGM. This would entail an increased fixed remuneration package and a higher DPA opportunity until such time as a revised remuneration policy is approved by members, for example, at the 2023 AGM.

As is normal in these circumstances, the Committee has agreed to provide compensation to D Crosbie for the forfeiture of variable pay awards from her previous employment, at TSB, prior to joining Nationwide to a value totalling £1,704,844. In line with regulatory requirements, these replacement awards are not more generous in terms or amounts than she would otherwise have received.

The structure of the replacement awards is as follows:

- Deferred awards to replace unvested TSB awards which were forfeited as a result of her joining Nationwide. The awards will be released in instalments over the period from December 2022 to December 2028 to align with the time horizons of the forfeited awards.
- An award to replace the variable pay award forfeited from TSB for the 2021 performance year. The award will be released in instalments over the seven-year period to September 2029.

These awards are subject to continued employment, malus and clawback provisions, and may be subject to repayment if she resigns or is dismissed for gross misconduct within one year of receipt. A significant proportion of the awards is linked to the value of the Society's core capital deferred shares.

Other details

An increase of 3.5% has been applied to C S Rhodes's base salary for 2022/23, in line with the salary increases for colleagues. No increase to base salary will be applied for J D Garner.

If member approval is obtained for the revised policy, the implementation of the policy for 2022/23 is as set out in the below table. This includes a reduction to the previous level of award under our current annual plan, the DAPA, and the introduction of the new DLPA. Opportunity levels for the DAPA and DLPA by percentage will be the same for C S Rhodes as for D Crosbie.

As detailed in the Chair's Letter, in order to facilitate the introduction of the new DLPA and sustain our ability to attract, reward and retain talent of the calibre required to support our future success, we are seeking approval from members to increase the maximum ratio of variable remuneration that may be awarded in respect of any year to 200% of fixed remuneration from 2022/23 onwards at the upcoming AGM.

The Committee will continue to focus on ensuring our remuneration structure supports the right culture and behaviours as well as our values as a mutual.

Targets under the DAPA are commercially sensitive and so will be disclosed, along with performance achieved, in next year's report. Gateway measures will continue to have to be met before any payments are made under the plan. For 2022/23 these gateways will continue to be based on profit before tax, leverage ratio and conduct risk.

The performance measures that will apply to the first awards made under the long-term plan will, subject to member approval of the plan, be disclosed in next year's remuneration report.

Remuneration policy implementation for 2022/23

Element	**Implementation in 2022/23 for executive directors**
Base salary	Base salaries for 2022/23 are as follows: • D Crosbie £1,072,250 (from 2 June 2022) • C S Rhodes £690,428 (3.5% increase) • J D Garner: £934,320 (unchanged from 2021/22, payable for the remainder of his notice period)
Benefits	No change for 2022/23.
Pension	16% of salary - no change for 2022/23.

Directors' Performance Award (DPA):
Directors' Annual Performance Award (DAPA) element:
Comprises two elements:
(i) an all-employee element
(ii) an element in which the most senior leaders participate subject to deferral provisions where applicable
	For awards made in respect of 2022/23, the overall target opportunity for D Crosbie and C S Rhodes will be 67% of salary, with a maximum opportunity of 100% of salary. This maximum opportunity is reduced from 152% for the CEO role and 112% for the CFO under the under previous policy.
	J D Garner will be eligible to receive a part-year award under the DPA in respect of services as CEO during 2022/23, based on his current maximum opportunity. Details of any award will be disclosed in next year's remuneration report.
	
	Performance measures:
	• Gateway measures based on profit before tax, leverage ratio and conduct risk; and
	• Society performance, which accounts for 74% of the award and is subject to minimum performance thresholds, assessed against the following cornerstones:
	  o Building thriving membership:
	    o Number of committed members
	  o Building legendary service
	    o Customer service satisfaction rating
	  o Built to last
	    o Total costs
	    o Controls (for senior leaders only)
	
	• 26% of the award assessed is based on individual contribution, behaviours and conduct.

Directors' Performance Award (DPA): *Directors' Long-term Performance Award (DLPA) element:*	If member approval is obtained for the revised remuneration policy, D Crosbie and C S Rhodes will be eligible to receive an award under the DLPA following 2022/23, subject to the achievement of satisfactory Society and individual performance during the year. It is intended that any awards made will be subject to a subsequent three-year performance period. It is anticipated that the first awards under the plan will be set at a maximum of 100% of salary. Further details of the first DLPA awards will be included in next years' remuneration report.
Society Chair and non-executive director fees	The fees for the Society Chair and non-executive directors will be in line with those set out in the policy table on page 108, taking account of the review that is due in June 2022.

Society Chair and non-executive directors

Fees for 2022/23

On appointment of the new Society Chairman on 1 February 2022, the Society Chair's fee was set at £525,000. The fees for non-executive directors will next be reviewed in June 2022.

Fee Policy (note i)	Annual fees for 2022/23 £'000	Annual fees for 2021/22 £'000
Society Chair	**525**	413
Basic fee for non-executive directors	**70**	70
Senior Independent Director	**30**	30
Chair of the Audit, Board Risk or Remuneration Committee	**35**	35
Member of the Audit, Board Risk or Remuneration Committee	**15**	15
Member of the Nomination and Governance Committee	**6**	6
Chair of the Board IT and Resilience Committee	**25**	25
Member of the Board IT and Resilience Committee	**10**	10
Employee Voice	**11**	11

Notes:
i. Additional fees may be paid for other responsibilities during the year.

Directors' report for the year ended 4 April 2022

Information for the 'Content' items listed in the table below can be found in the section of the Annual Report and Accounts as shown. These items are required to be included in the Directors' report by the Building Societies Act 1986 and are incorporated into the Directors' report by this cross referencing.

Content	Section	Pages
Business objectives and future plans	Strategic report	13 to 25
Nationwide results and key performance indicators	Strategic report – Chief Executive's review including performance updates	8 to 10
Charitable donations	Strategic report – Building a National Treasure	22 to 25
Employee involvement, engagement, development, inclusion and diversity	Strategic report – Building PRIDE	20 to 21
Viability statement	Strategic report	51 to 52
Environment, greenhouse gas emissions (GHG), energy consumption	Strategic report	46 to 47
Directors' remuneration	Governance – Report of the directors on remuneration	103 to 129
Mortgage arrears	Risk report	155 to 156
Risk management	Risk report	134 to 137
Principal risks	Risk report	138
Top and emerging risks	Strategic report – Risk overview	49 to 50
Directors' share options	Annual business statement	318 to 320
CRD IV country-by-country reporting	Published online – **www.nationwide.co.uk/about-us/how-we-are-run/results-and-accounts**	-
Distributions on CCDS instruments	Financial statements – note 31	307
Business relationships	Strategic report – Engaging with our stakeholders	26 to 33
Financial instruments	Financial statements – note 15	281 to 284
Corporate Governance statement	Governance – Statement of compliance with the UK Corporate Governance Code 2018	70

Board of directors

The names of the directors of the Society who were in office at the date of signing the financial statements, along with their biographies, are set out on pages 65 to 68.

The changes in the year and up to the date of signing the financial statements are as follows:

- the resignation of Rita Clifton (non-executive director) on 22 July 2021;
- the resignation of David Roberts (non-executive director and Society Chairman) on 31 January 2022;
- the appointment of Alan Keir (non-executive director) on 1 March 2022; and
- the appointment of Gillian Riley (non-executive director) on 1 April 2022.

None of the directors have any beneficial interest in equity shares in, or debentures of, any connected undertaking of the Society.

The Board has agreed that in accordance with the UK Corporate Governance Code, all the directors will stand for election or re-election on an annual basis.

Political donations

The Society is politically neutral and does not support, or seek to influence public support for, any political party nor make donations, contributions or pay subscriptions to any party. However, the Society will from time to time make payments to third parties to participate in events organised by them at party conferences and which are related to matters of interest to the Society and its members so as to communicate its position and understand that of others. These activities are not intended or considered to be in the nature of party political campaigning, activity or support.

Participation in the unclaimed assets scheme

The Society participates in the Government-backed unclaimed assets scheme, whereby savings accounts that have been inactive for 15 years, and where the account holder cannot be traced, are eligible to be transferred into a central reclaim fund. The central reclaim fund has the responsibility for retaining sufficient monies to meet the costs of future reclaims for any previously transferred dormant account balances, and to transfer any surplus to the Big Lottery Fund for the benefit of good causes which have a social or environmental purpose. On 22 December 2021 Nationwide made a transfer of £5,191,806 to the Reclaim Fund Limited, the administrators of the unclaimed assets scheme. This follows the previous transfer the Society made in August 2020 (£3,644,472). The total contributions from inception to December 2021 are £82,123,095.

Creditor payment policy

The Group's policy is to agree the terms of payment with suppliers at the start of trading, ensure that suppliers are aware of the terms of payment, and pay in accordance with its contractual and other legal obligations. The Group's policy is to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms. The Society's creditor days, calculated based on year end creditor balances and total spend, were 9 days at 4 April 2022 (2021: 7 days).

New activities

There were no new activities in which the Society or any of its subsidiaries engaged during the financial year of a different nature from those in which the Society previously engaged.

Research and development

In the ordinary course of business, the Society regularly develops new products and services.

Directors' responsibilities in respect of the preparation of the Annual Report and Accounts

The following statement, which should be read in conjunction with the Independent auditor's report on pages 218 to 231, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, the directors' emoluments disclosures within the Report of the directors on remuneration, the Annual business statement and the Directors' report.

The Group and Society financial statements included within the Annual Report and Accounts are prepared in accordance with international accounting standards in conformity with the requirements of the Building Societies Act 1986 and with those parts of the Building Societies (Accounts and Related Provisions) Regulations 1988 (as amended) that are applicable. International accounting standards which have been adopted for use within the UK have also been applied in these financial statements. The Group financial statements are also prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

The Group financial statements are prepared in the European single electronic format in accordance with the requirements as set out in Commission Delegated Regulation (EU) 2019/815 with regard to regulatory technical standards on the specification of a single electronic reporting format.

A copy of the Annual Report and Accounts can be found on Nationwide Building Society's website at **nationwide.co.uk** (Results and accounts section). The directors are responsible for the maintenance and integrity of statutory and audited information on the website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Building Societies Act 1986 (the Act)

As required by regulations made under the Act, the directors have prepared an Annual Report and Accounts which gives a true and fair view of the income and expenditure of the Society and the Group for the financial year and of the state of the affairs of the Society and the Group as at the end of the financial year, and which provides details of directors' emoluments in accordance with Part VIII of the Act and regulations made under it. The Act states that the requirements under international accounting standards achieve a fair presentation. In preparing the Annual Report and Accounts, the directors have:

- Selected appropriate accounting policies and applied them consistently;
- Made judgements and estimates that are reasonable;
- Stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepared the financial statements on the going concern basis.

In addition to the Annual Report and Accounts, as required by the Act, the directors have prepared an Annual business statement and a Directors' report, each containing prescribed information relating to the business of the Society and its connected undertakings.

UK Finance Code for Financial Reporting Disclosure

The Group has continued to adopt the UK Finance Code for Financial Reporting Disclosure and its Annual Report and Accounts 2022 has been prepared in compliance with its principles.

Going Concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are set out in the Financial review and the Risk report.

The directors have assessed the Group's ability to continue as a going concern, with reference to current and anticipated market conditions including war in Ukraine, ongoing Covid-19 impacts, and the developing cost of living crisis. The Group's projections, stress testing and scenario analysis show that the Group will be able to operate at adequate levels of both liquidity and capital for the next 12 months.

Furthermore, the Group's capital ratios and its total capital resources are comfortably in excess of Prudential Regulation Authority (PRA) requirements. The directors confirm they are satisfied that the Group has adequate resources to continue in business for a period of not less than at least 12 months from the date of approval of the consolidated financial statements and that it is therefore appropriate to adopt the going concern basis in preparing these accounts.

Fair, balanced and understandable

The directors are satisfied that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for members and other stakeholders to assess the Group's position and performance, business model and strategy. Details of the governance procedures that have been embedded to support this can be found in the Audit Committee report.

Taskforce on Climate-related Financial Disclosures (TCFD)

Established by the Financial Stability Board in 2017, the TCFD recommendations were designed to enable financial firms to produce clear, comprehensive, high-quality disclosures on the impacts of climate change. Further enhancements were made in 2021, through issuance of guidance on climate-related metrics, targets and transition plans. Nationwide publishes its TCFD-aligned Climate-related Financial Disclosures annually, alongside its preliminary results. Nationwide also provides summary information consistent with the TCFD recommendations in the Strategic Report within its Annual Report and Accounts disclosure, aligned to the requirements of the Companies Act.

Enhanced Disclosure Task Force (EDTF)

The EDTF, established by the Financial Stability Board, published its report 'Enhancing the Risk Disclosures of Banks' in October 2012, with an update in November 2015 covering IFRS 9 expected credit losses. The Taskforce on Disclosures about Expected Credit Losses (DECL), jointly established by the Financial Conduct Authority, Financial Reporting Council and the Prudential Regulation Authority, published its phase 2 report recommendations in December 2019. EDTF and DECL recommendations are reflected in either the Annual Report and Accounts or Pillar 3 Disclosures.

Directors' statement pursuant to the disclosure guidance and transparency rules

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the directors have included a fair review of the business and a description of the principal risks and uncertainties facing the Group. The directors confirm that, to the best of each director's knowledge and belief:

- The Chief Executive's review and the Financial review contained in the Strategic report include a fair review of the development and performance of the business and the position of the Group and Society. In addition, the Strategic report contains a description of the principal risks and uncertainties.
- The financial statements, prepared in accordance with 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 of the Group and Society.

Directors' responsibilities in respect of accounting records and internal control

The directors are responsible for ensuring that the Society and its connected undertakings:

- Keep accounting records which disclose with reasonable accuracy the financial position of the Society and the Group and which enable them to ensure that the Annual Report and Accounts comply with the Building Societies Act 1986.
- Take reasonable care to establish, maintain, document and review such systems and controls as are appropriate to the Society.

The directors have general responsibility for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The auditors

A resolution to re-appoint Ernst & Young LLP as external auditor will be proposed at the Annual General Meeting.

Kevin Parry
Society Chairman
19 May 2022

Strategic report
Governance
Risk report
Financial statements
Other information

Risk report

Effective risk management is critical to our purpose of building society, nationwide and ensures that we keep our members' money safe and secure. Nationwide adopts a prudent approach to risk management, taking only those risks which support our strategy and managing those risks rigorously through a consistent and robust methodology.

Introduction	**134**
Managing risk	**134**
Principal risks and uncertainties	**138**
Credit risk	**139**
• Overview	
• Residential mortgages	
• Consumer banking	
• Commercial	
• Treasury assets	
Liquidity and funding risk	**178**
Capital risk	**190**
Market risk	**197**
Pension risk	**206**
Business risk	**208**
Operational and conduct risk	**209**
Model risk	**215**

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.

Managing risk

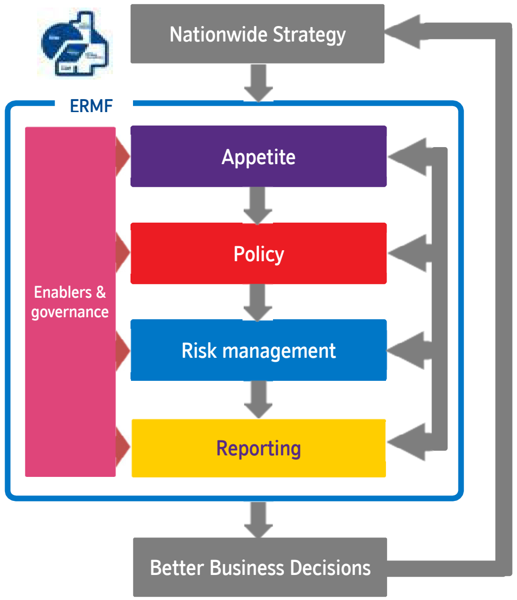
Enterprise Risk Management Framework (ERMF)

The Society operates an Enterprise Risk Management Framework (ERMF) which articulates the Society's approach to risk management. The structure is based on eight principal risk categories, establishing risk appetite, and implementing risk management through the three lines of defence model. The ERMF is underpinned by processes, policies and standards that are specific to individual risk categories and focus on the responsibilities of key executives and risk practitioners. The outputs of the ERMF are governed through the Society's risk committee structure.

The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. Based on this year's review, the Society has an adequate risk framework in place, the design of which has been and will continue to be improved, to ensure it remains fit for purpose and reflects changes to the internal and external risk profile, allowing tailored responses to be developed where further maturity or improvements are considered appropriate. Building on work over the past year, the strengthening of the operational and conduct risk environment, including our economic crime and anti-money laundering controls, will continue to be a focus in 2022/23 and beyond.

Managing risk (continued)

Risk Management at Nationwide is driven by a positive risk culture and consists of five core components: enablers and governance, appetite, policy, risk management and reporting. These ensure effective and consistent risk and control management is delivered across the risk areas. Each core component consists of supporting resources and artefacts utilised in risk management process and controls. The structure of the ERMF is summarised below:



Appetite

Articulates how much risk the Society is prepared to take in the pursuit of its objectives.

Resources and artefacts
- Board risk appetite
- Management risk appetite
- Risk indicators
- Risk management strategies

Policy

Sets out the objectives to be met by relevant critical controls to ensure that specific material risks are managed on a day-to-day basis, in line with risk appetite.

Resources and artefacts
- Risk policies
- Control policies
- Supporting standards

Risk management

Defines the standard processes, tools and systems needed for the practical operation of risk management across the Society.

Resources and artefacts
- Risk and control self-assessments
- Scenario analysis
- Stress testing
- Horizon scanning
- Incident management

Reporting

Ensures the appropriate monitoring, aggregation, and escalation of relevant risk, loss event and control information to the Board, risk committees, and management to enable effective, risk-based decision making and achieve better outcomes.

Resources and artefacts
- Committee reporting
- Risk aggregation

Enablers and governance

Encourages positive behaviours of colleagues, promoting a positive risk culture throughout our committee structure and three lines of defence model. All of this is underpinned by our values, behaviours and ethics, influencing the decisions we make within the Society.

Resources and artefacts
- Risk categorisation model
- Risk and incident impact matrix
- Risk heatmap
- People capability
- Risk culture

Managing risk (continued)

Three lines of defence

The Society adopts a Three lines of defence (3LoD) model in the way it structures its risk management activities. We have tailored this approach to reflect Nationwide's size, complexity, and business model. Though everyone has a role to play in risk management, the overall responsibilities and accountabilities are outlined through this 3LoD model, as follows:

Line of defence	**First line** **Risk and control ownership**	**Second line** **Oversight, support, challenge, and advice**	**Third line** **Assurance**
Responsibilities	Designing and running business operations, owning and operating most controls to manage the Society's risks and meet regulatory requirements.	Overseeing, through support, challenge and the provision of advice, the effectiveness of risk management by the first line.	Providing assurance to the Board on the effectiveness of our control environment.
Accountabilities	• Setting business objectives • Defining management risk appetite • Identifying, owning, and managing risks • Defining, operating, and testing controls • Implementing and maintaining regulatory compliance • Adhering to the Society's minimum standards for risk management and associated policies • Identifying future threats and risks	• Providing expert advice on business initiatives • Advising the Board on setting risk appetite • Reporting aggregate enterprise level risks to the Board • Conducting independent and risk-based assurance • Interpreting material regulatory change • Setting the Society's minimum standards for risk management and associated policies • Identifying future threats and risks	• Performing independent audits of the effectiveness of first line control and second line risk oversight, support, challenge, and advice • Taking a risk-based approach to the programme of audit work • Preparing an annual opinion on the risk management and controls framework across the Society to present to the Audit Committee

Risk committee structure

The Board is responsible for robustly assessing the principal risks facing Nationwide. To achieve this, the Board approves Nationwide's risk appetite and metrics following consideration by the Board Risk Committee (BRC) and receives regular reports and assessments of Nationwide's risk and control processes and recommendations from BRC on matters spanning all risk categories, including the appropriate level of risk appetite. The Board has delegated responsibility to BRC for approval of the ERMF.

The Board Risk Committee, Audit Committee and Board IT and Resilience Committee provide oversight and advice to the Board. The Executive Risk Committee (ERC) chaired by the Chief Risk Officer, ensures a coordinated management approach across all risks and provides regular updates to the Board on areas where the Committee has challenged management and key decisions. All principal risks are covered within the ERC and the committee structure (including the committee's purpose) is represented in the diagram below.

Strategic report
Governance
Risk report
Financial statements
Other information

Managing risk (continued)

Nationwide's Board

Board committees

Audit Committee

Provides oversight and advice to the Board in respect of financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems. In addition, advises the Remuneration Committee of any matters it may wish to consider in determining any risk adjustments to be made to remuneration.

Board Risk Committee (BRC)

Provides oversight and advice to the Board in respect of risk appetite, risk management, risk strategy and risk monitoring. In addition, monitors compliance oversight, the effectiveness of the ERMF and advises the Remuneration Committee of any matters it may wish to consider in determining any risk adjustments to be made to remuneration.

Board IT and Resilience Committee

Provides oversight and advice to the Board in respect of IT strategy, investment, architecture, operating model effectiveness, delivery performance and reports to BRC on all risks and controls matters relating to IT risks and resilience, including cyber risk. Also oversees Nationwide's data management strategy.

Executive Risk Committee (ERC)

Determines and amends Nationwide's attitude to risk and sets thresholds for endorsement by the Board. Exercises responsibility for controlling risk across Nationwide, ensuring controls are adequately designed and operating effectively.

Management committees

Conduct and Operational Risk Committee

Monitors the Society's actual and future operational, regulatory and conduct risk appetite and profile to ensure alignment with strategy, business objectives, risk and corporate culture and values.

Makes recommendations to the ERC on the Society's operational, regulatory and conduct risk appetites and approves management risk appetite metrics.

Escalates items of significant risk or opportunity to the ERC and performs any other duties aligned to the operational, regulatory and conduct risk categories as determined by the Board.

Credit Committee

Determines and amends the Society's attitude to credit risk and sets thresholds for endorsement by the ERC and the BRC.

Manages the credit risk profile of the Society in accordance with the ERMF, board risk appetite, Nationwide's strategy and strategic plan.

Assets and Liabilities Committee

Manages the market, capital, pension, liquidity and funding risk profile of the Society in accordance with the ERMF, board risk appetite, Society strategic plan and financial plan.

Determines the Society's approach to market, capital, pension, liquidity and funding risk and sets thresholds for each risk for endorsement by ERC and approval by Board.

Model Risk Committee

Promotes best practice for the Society's use of models.

Oversees the model risk profile of the Society.

Assesses whether the models are fit for purpose.

Reviews and challenges the use and management of models to manage 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 48.

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	Further risk detail
Credit risk	The risk of loss as a result of a member, customer or counterparty failing to meet their financial obligations.	Credit Committee	Page 139
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	Page 178
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.		Page 190
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.		Page 197
Pension risk	The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit.		Page 206
Business risk	The risk that achievable volumes or margins decline relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, regulatory, competitor or other external events.	Executive Risk Committee	Page 208
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	Page 209
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	Page 215

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. Further details are contained within the applicable principal risk sections.

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

Management of credit risk

At Nationwide, we lend in a responsible, affordable and sustainable way to ensure we safeguard members and the financial strength of the Society throughout the credit cycle. To this end, the Board Risk Committee sets the level of risk appetite it is willing to take in pursuit of the Society's strategy, which is articulated as Board risk appetite statements and underlying principles:

We safeguard the Society's financial performance, strength and reputation

- We will manage asset quality so that losses through an economic cycle will not undermine profitability, financial strength and our standing with internal and external stakeholders.
- We will ensure that no material segment of our lending exposes the Society to excessive loss.
- We will proactively manage credit risk and comply with regulation, ensuring that robust economic sanctions and financial crime checks are in place.

We safeguard our members by lending responsibly

- We will only lend to members, customers or counterparties who demonstrate that they can afford to borrow through an affordability assessment conducted at the point of application for credit.
- We will support members and customers buying mortgageable houses of wide-ranging types and qualities.
- We will work with members, customers and counterparties to recover their financial position should there be a delay, or risk of delay, in meeting their financial obligations.

We operate with a commitment to responsible lending and a focus on championing good conduct and fair outcomes. In this respect, we formulate appropriate credit criteria and policies which are aimed at mitigating risk against individual transactions and ensuring that the Society's credit risk exposure remains within risk appetite. Under a governed delegated mandate structure from the Board Risk Committee, the Credit Committee, individual Material Risk Takers and underwriters holding personal lending mandates make credit decisions, based on a thorough credit risk assessment, to ensure that borrowers are able to meet their obligations.

Credit risk – Overview (continued)

At a portfolio level, we measure and manage the Society's credit risk profile and the performance of our credit portfolios on an ongoing basis. Compliance with Board risk appetite is measured against absolute limits and risk metrics, including impairment provisions, and is reported to the Society's Credit Committee (members of which include the Chief Risk Officer, the Chief Financial Officer and the Chief Credit Officer) monthly, with adverse trends being investigated and corrective action taken to mitigate the risk and bring performance back on track.

Nationwide is committed to helping borrowers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. Accounts in arrears, or where the borrower is in financial difficulty, are managed by specialist teams within Nationwide to ensure an optimal outcome for our members, borrowers and the Society.

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).

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

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

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

Credit risk – Overview (continued)

Governance and oversight of impairment provisions

The models used in the calculation of impairment provisions are governed in accordance with the Society's Model Risk Framework as described in the Model risk section of this report. 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 10 to the financial statements.

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

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

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 10 to the 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
(Audited)	**£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 14 to the 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**				
(Audited)	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3 and POCI**	**Total**	**Provision coverage**
PD Range	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
0.00 to < 0.15%	**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				
(Audited)	Stage 1	Stage 2	Stage 3 and POCI	Total	Stage 1	Stage 2	Stage 3 and POCI	Total	Provision coverage
PD Range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to < 0.15%	156,099	2,573	52	158,724	34	28	-	62	0.04
0.15 to < 0.25%	10,402	1,369	44	11,815	7	13	-	20	0.17
0.25 to < 0.50%	7,334	1,298	29	8,661	9	19	-	28	0.31
0.50 to < 0.75%	2,326	636	22	2,984	3	10	-	13	0.44
0.75 to < 2.50%	2,442	1,085	60	3,587	10	19	-	29	0.82
2.50 to < 10.00%	143	823	70	1,036	3	16	-	19	1.81
10.00 to < 100%	1	2,875	324	3,200	-	71	8	79	2.48
100% (default)	-	-	948	948	-	-	67	67	7.07
Total	178,747	10,659	1,549	190,955	66	176	75	317	0.17

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 (Audited)	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 *(Audited)*	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%	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	
(Audited)	**£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.

Strategic report
Governance
Risk report
Financial statements
Other information

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	
(Audited)	**£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
(Audited)	**£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
(Audited)	**£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.

Strategic report
Governance
Risk report
Financial statements
Other information

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
(Audited)	£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 14 to the 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**
(Audited)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**coverage**
PD range	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
0.00 to <0.15%	**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
(Audited)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	coverage
PD range	£m	£m	£m	£m	£m	£m	£m	£m	%
0.00 to <0.15%	913	3	-	916	9	-	-	9	1.01
0.15 to < 0.25%	361	21	-	382	4	1	-	5	1.30
0.25 to < 0.50%	614	79	-	693	6	6	-	12	1.73
0.50 to < 0.75%	303	84	-	387	4	6	-	10	2.66
0.75 to < 2.50%	682	297	1	980	13	31	-	44	4.53
2.50 to < 10.00%	261	302	3	566	11	54	-	65	11.54
10.00 to < 100%	7	204	12	223	1	110	5	116	51.57
100% (default)	-	-	257	257	-	-	241	241	93.57
Total	3,141	990	273	4,404	48	208	246	502	11.39

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	
(Audited)	**£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
(Audited)	**£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
(Audited)	**£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
(Audited)	**£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
(Audited)	**£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	2021
(Audited)	£m	£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

(Audited)	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.

Managing treasury credit risks

Credit risk within the treasury portfolio arises from the instruments held and transacted by the Treasury function for operational, liquidity and investment purposes. In addition, counterparty credit risk arises from the use of derivatives to reduce exposure to market risks; these are only transacted with highly-rated organisations and are collateralised under market standard documentation. The Treasury Credit Risk function manages all aspects of credit risk in accordance with Nationwide's risk governance frameworks, under the supervision of the Credit Committee.

A monthly review is undertaken of the current and expected performance of treasury assets that determines expected credit loss (ECL) provision requirements. 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	
(Audited)	**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 (Audited)	**£m**	**AAA %**	**AA %**	**A %**	**Other %**	**UK %**	**US %**	**Europe %**	**Japan %**	**Other %**
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 (Audited)	£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 (Audited)	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
(Audited)	£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
(Audited)	**£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.

Strategic report
Governance
Risk report
Financial statements
Other information

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

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

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

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.

Liquidity and funding risk (continued)

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). Further details can be found in the Group's annual Pillar 3 disclosure 2022 at nationwide.co.uk

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) £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	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)**	**Due between one and three months**	**Due between three and six months**	**Due between six and nine months**	**Due between nine and twelve months**	**Due between one and two years**	**Due between two and five years**	**Due after more than five years**	**Total**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Shares	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

Risk report (continued)

Liquidity and funding risk (continued)

Gross contractual cash flows 2021 (Audited)	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 14 to the 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.

Risk report (continued)

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)

Managing liquidity and funding risk

Nationwide's management of liquidity and funding risks aims to ensure that there are sufficient liquid assets at all times, both as to amount and quality, to:

- cover cash flow mismatches and fluctuations in funding
- retain public confidence
- meet financial obligations as they fall due, even during episodes of stress.

This is achieved through the management and stress testing of business cash flows, and through the translation of Board risk appetite into appropriate risk limits. This ensures a prudent funding mix and maturity profile, sufficient levels of high-quality liquid assets, and appropriate encumbrance levels are maintained.

The liquidity and funding risk framework is reviewed by the Board as part of the annual Internal Liquidity Adequacy Assessment Process (ILAAP). ALCO is responsible for managing the balance sheet structure, including the Funding Plan, and its risks. This includes setting and monitoring more granular limits within Board limits. A consolidated cash flow forecast is maintained and reviewed weekly to support ALCO in monitoring key risk metrics.

A Liquidity Contingency Plan (LCP), which is part of the wider recovery plan framework, is maintained which describes early warning triggers for indicating an emerging liquidity or funding stress as well as escalation procedures and a range of actions that could be taken in response to ensure sufficient liquidity is maintained. The LCP is tested annually to ensure it remains robust. Nationwide's Recovery Plan describes potential actions that could be utilised in a more extreme stress.

Liquidity stress testing

To mitigate liquidity and funding risks generated by its business activities, Nationwide aims to maintain a liquid asset buffer of at least 100% of the anticipated outflows seen under internal stress test scenarios and the regulatory-prescribed LCR.

Potential contractual and behavioural stress outflows are assessed across a range of liquidity risk drivers over 30 calendar days, with the key assumptions shown below. An assessment over three months is also performed against which LCP capacity is assessed. Internal stress assumptions are reviewed regularly with changes approved by ALCO and approved annually by the Board as part of the ILAAP.

Liquidity risk driver	Modelling assumptions used
Retail funding	Significant unexpected outflows are experienced with no new deposits received.
Wholesale funding	Following a credit rating downgrade: • zero roll-over of maturing long-term wholesale funding; • zero roll-over of maturing short-term funding received from financial counterparties and partial roll-over from non-financial counterparties; and • no new wholesale funding received.
Off-balance sheet	Contractual outflows occur in relation to secured funding programmes due to credit rating downgrades. Lending commitments continue to be met. Collateral outflows arise due to adverse movements in market rates. Expected inflows from mortgages or retail and commercial loans are recognised.
Intra-day	Liquidity is needed to pre-fund outgoing payments.
Liquid assets	Asset values are reduced in recognition of the stressed conditions assumed.

Liquidity and funding risk (continued)

Under the most severe internal 30 calendar day stress test (a combined market-wide and Nationwide-specific stress scenario), the average liquid asset buffer as a percentage of average stressed net outflows over the 12 months ended 4 April 2022 equated to 159% (2021: 140%).

External credit ratings

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

Credit ratings	Senior preferred	Short-term	Senior non-preferred	Tier 2	Date of last rating action / confirmation	Outlook
Standard & Poor's	A+	A-1	BBB+	BBB	January 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.

Managing capital risk

The Board is responsible for setting risk appetite with respect to capital risk, which is articulated through its risk appetite statements, and it defines minimum levels of capital, including leverage, that it is willing to operate with. These are translated into specific risk metrics, which are monitored by the Board Risk Committee (BRC), the Assets and Liabilities Committee (ALCO) and other internal management reviews.

The capital structure is managed to ensure that Nationwide continues to meet minimum regulatory requirements, as well as meeting the expectations of other key stakeholders. As part of the risk appetite framework, strong capital ratios are targeted relative to both regulatory requirements and major banking peers. Any planned changes to the balance sheet, potential regulatory developments and other factors (such as trading outlook, movements in the fair value through other comprehensive income reserve and defined benefit pension deficit) are all considered.

The capital strategy is to manage capital ratios through retained earnings, supplemented by external capital where appropriate. With general reserves forming the majority of capital resources, profitability is an important factor when considering the ability to meet capital requirements. A return on capital framework is in place, based upon an allocation of overall capital requirements, which forms part of the Society's Board risk appetite metrics as well as forming part of the performance monitoring activity for individual product segments. In recent years, Nationwide's ability to supplement retained earnings through the issuance of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital instruments has been demonstrated.

Capital is held to meet Pillar 1 requirements for credit, operational and market risks. In addition, the PRA requires firms to hold capital to meet Pillar 2A requirements, which form an Individual Capital Requirement (ICR). This is a point in time estimate, set by the PRA on an annual basis based on the submission of the results of the annual Internal Capital Adequacy Assessment Process (ICAAP). This process confirms the amount of capital required to be held to meet risks partly covered by Pillar 1 such as credit concentration and operational risk, and risks not covered by Pillar 1 such as pension and interest rate risk. The combination of Pillar 1 and Pillar 2A requirements form Nationwide's Total Capital Requirement (TCR).

Nationwide's latest Pillar 2A ICR and TCR were received in September 2021. The ICR is £2.8 billion, of which at least £1.6 billion must be met by CET1 capital. Nationwide's ICR was equivalent to 5.4% of risk weighted assets (RWAs) at 4 April 2022 (2021: 8.3% of RWA). This largely reflects the low average risk weight, given that approximately 82% (2021: 80%) of total assets, excluding central bank reserves, are in the form of secured residential mortgages. The Pillar 2A ICR is set to a nominal amount, which led to a reduction in percentage year on year, following an increase in RWAs. The PRA has confirmed it plans to revert the Pillar 2A ICR to a variable amount of RWAs by the end of 2022.

To protect against the risk of consuming Pillar 1 and Pillar 2A requirements (thereby breaching TCR), firms are subject to regulatory capital buffers which are set out in UK Capital Requirements Directive IV (UK CRD IV). The PRA may set an additional firm-specific PRA buffer based upon supervisory judgement informed by the results of the Bank of England's stress testing scenarios. This assessment will consider the impacts on a firm's capital requirements and resources and other factors including leverage, systemic importance and any weaknesses in firms' risk management and governance procedures. The ICAAP also considers appropriate internal capital buffers to ensure that the impact of a severe but plausible stress can be absorbed.

Regular stress tests are undertaken, covering Nationwide and its subsidiaries, to enhance the understanding of potential vulnerabilities and how management actions might be deployed in the event of stressed conditions developing. These stress tests project capital resources and requirements over a multi-year period, during severe but plausible scenarios that cover a range of macro-economic or market-wide stresses, and idiosyncratic scenarios that test particular risks to Nationwide's business model. Stress test results are reported to the Board Risk Committee.

Nationwide aims to be in a position to maintain strong capital and leverage ratios in the event of a severe but plausible economic or idiosyncratic stress. Embedded in the risk appetite framework is an expectation to maintain CET1 and leverage ratios in excess of regulatory minima under stressed conditions.

Capital risk (continued)

Nationwide maintains a recovery plan under UK regulatory rules implementing the European Bank Recovery and Resolution Directive (BRRD). This contains a set of management actions that would be available to support our capital and liquidity position in the event of a breach of one or more of our internal risk appetite metrics. In September 2021, Nationwide submitted its first resolvability self-assessment to the Bank of England. This documented the capabilities that have been developed to achieve the resolvability outcomes as prescribed within the Bank of England Resolvability Assessment Framework. A summary of Nationwide's approach to resolvability will be published on our website in June 2022.

In January 2021 the Bank of England announced the Solvency Stress Test (SST) which the major UK banks and building societies undertook. The purpose was to use the results as a cross-check on the Financial Policy Committee's (FPC's) judgement of how severe the current stress would need to be in order to jeopardise banks' resilience and challenge their ability to absorb losses and continue to lend. In December 2021 the results from the SST were published by the Bank of England. The macroeconomic scenario underlying the SST was a severe path for the economy in 2021–25 on top of the economic shock associated with the Covid-19 pandemic that occurred in 2020. Nationwide's low point CET1 ratio through the scenario was 17.0%, which was in excess of those of our peers, showing we are well capitalised and positioned to meet stressed economic conditions. The leverage ratio low point was 5.0% remaining in excess of the 3.6% regulatory requirement.

The Bank of England intends to revert to the Annual Concurrent Stress Test (ACS) framework for 2022 which was previously cancelled due to Covid-19. The FPC judges that the results of the SST, together with the central outlook and the return to the ACS framework for 2022 are consistent with the Prudential Regulation Committee's (PRC's) decision to transition back to its standard approach to capital-setting and shareholder distributions. However, it was announced on the 24 March 2022 that the Bank of England would delay the launch of the exercise in light of uncertainty in relation to the Russian invasion of Ukraine. The Bank of England intend to announce a revised timeline during Q2 2022.

There are key regulatory changes that came into effect from 1 January 2022 that impact the Internal Ratings Based (IRB) models used to derive minimum capital requirements. These changes form part of the PRA's updates to SS11/13 'IRB approaches' some of which aim to increase consistency of approaches across different firms and reduce volatility on mortgage risk weights across differing economic conditions. IRB model methodologies have different levels of responsiveness to current risk factors. Where the models are point-in-time (PiT) then default rates are highly responsive to changing economic conditions. Where models are fully through-the-cycle (TtC) default rates will be unresponsive to the economic cycle. As identified by the FPC through stress testing, UK firms have a range of models across the PiT to TtC spectrum. The new regulations require firms to develop a hybrid approach to allow more comparability and less RWA volatility in a stress.

Nationwide's mortgage IRB models have been redeveloped in order to meet the revised regulatory requirements although the models are yet to be finalised and approved by the PRA. Until the new models are approved by the PRA, a model adjustment has been made to ensure outcomes consistent with the revised IRB regulations. The impact of this was a £21.8 billion increase in risk weighted assets. In line with other industry participants, we continue to work with the PRA on the precise calibration of the revised IRB models.

Capital risk (continued)

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:

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.

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%.

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.

Capital risk (continued)

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[1] 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[1]. 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.

Further details on the leverage exposure can be found in the Group's annual Pillar 3 Disclosure 2022 at **nationwide.co.uk**

[1] 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		
(Audited)	**2022 £m**	2021 £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. Further detail regarding these adjustments is provided in the annual Pillar 3 disclosures at **nationwide.co.uk**

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

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'.

More detailed analysis of RWAs is included in the Group's annual Pillar 3 Disclosure 2022 at **nationwide.co.uk**

Capital risk (continued)

IRB model risk

The performance and accuracy of IRB models is critical to the calculation of credit risk capital requirements. The effectiveness of the models is achieved through clear allocation and segregation of roles and responsibilities covering model ownership, approval and governance, ongoing model monitoring, review and independent validation. Further information can be found in the 'Use of the IRB Approach to credit risk' section of the Group's annual Pillar 3 Disclosure at **nationwide.co.uk**

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 that affect Nationwide are listed below together with the types of risk reporting measures used:

Market risk exposure	Definition	Reporting measure
Interest rate risk	The impact of market movements in interest rates, which affects interest rate margin realised from lending and borrowing activities. Volatility in short-term interest rates can also impact net income contribution from rate insensitive liabilities.	Value sensitivity / Value at risk / Net interest income sensitivity / Economic value of equity sensitivity
Basis risk	The impact on earnings of relative changes in short-term interest rate benchmarks, for example between bank base rate and Sterling Overnight Index Average (Sonia)	Earnings sensitivity
Swap spread risk	The impact on the market value of treasury investments arising from changes in the spread between bond yields and swap rates	Value at risk
Inflation risk	The impact on the market value of treasury investments arising from changes in the spread between asset prices and swap rates	Value sensitivity
Currency risk	The impact on earnings due to changes in exchange rates	Value sensitivity / Value at risk
Product option risk	The impact from changes to hedging which may be required when customer behaviour deviates from expectations, principally resulting from early repayment of fixed rate loans	Value at risk / Economic value of equity sensitivity
Structural interest rate risk	The impact of market movements in interest rates, which affect the income arising from those balance sheet items that have stable balances, an interest rate that is fixed, are non-interest bearing or insensitive to changes in market rates, and have no defined maturity date. This includes the asymmetric risk which arises in very low or negative interest rate scenarios, mainly due to the different levels at which variable product rates can reach a minimum level.	Duration / Value at risk / Net interest income sensitivity

Nationwide has a capital requirement for each of the above market risks. In addition, stress analysis is used to evaluate the impact of more extreme, but plausible events.

Market risk (continued)

Summary (continued)

The principal market risks, linked to Nationwide's balance sheet assets, liabilities, capital and reserves, are listed in the table below, irrespective of materiality.

Market risk linkage to the balance sheet

	2022 £bn	Market risk						
		Interest rate risk	Basis risk	Swap spread risk	Currency risk	Inflation risk	Product option risk	Structural risk
Assets								
Cash	**30.2**	✓	✓					✓
Loans and advances to banks and similar institutions	**3.1**	✓	✓		✓			✓
Investment securities	**25.5**	✓	✓	✓	✓	✓		
Derivative financial instruments	**4.7**	✓	✓	✓	✓	✓	✓	
Loans and advances to customers	**208.1**	✓	✓		✓		✓	✓
Other assets (note i)	**0.8**	✓	✓		✓			
Total assets	**272.4**							
Liabilities								
Shares (customer deposits)	**178.0**	✓	✓				✓	✓
Deposits from banks and similar institutions	**36.4**	✓	✓		✓			
Other deposits	**5.2**	✓	✓		✓			✓
Debt securities in issue	**25.6**	✓	✓		✓			
Derivative financial instruments	**1.4**	✓	✓	✓	✓	✓	✓	
Subordinated liabilities	**8.3**	✓	✓		✓			
Other liabilities	**1.8**	✓	✓		✓			
Total liabilities	**256.7**							
Total members' interests and equity	**15.7**	✓						✓

Note:
i. Other assets include the difference between the assets and liabilities of the Nationwide Pension Fund (a defined benefit pension scheme). Nationwide's obligations to the Nationwide Pension Fund result in pension risk, which includes exposure to market risk factors such as interest rate risk, inflation risk, and equity risk (share prices). Pension risk is managed separately from the market risk arising from Nationwide's core business. For further details, see the 'Pension risk' section of this report.

Strategic report
Governance
Risk report
Financial statements
Other information

Market risk (continued)

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.

Regulation

On 31 December 2021, GBP Libor was published for the final time and replaced by Sonia. Nationwide's Libor Working Group had previously identified three key areas of focus for transition: mortgages, commercial lending and treasury instruments.

Nationwide does not offer Libor-linked mortgage products; however, a small proportion of the prime residential portfolio consisted of legacy Libor-referencing loans. The Society worked alongside industry bodies and regulators in transitioning these loans to a Sonia/Bank of England based reference rate, with fair and legal treatment of our members and customers at the forefront of these considerations. Similar activity was also completed with commercial loans linked to Libor, with new social housing lending now referencing Sonia.

Treasury activity in terms of balance sheet hedging, bond issuance and asset purchases ceased referencing Libor in 2020. In wholesale liabilities, Nationwide has been a pioneer in adoption of Sonia in its issuances across markets and has successfully converted all Libor bonds by seeking the consent of investors where necessary. For derivatives, the Society has adopted the ISDA fallback protocols and ensured a smooth and successful switchover of all Libor swaps in 2021.

Nationwide no longer has any exposure to GBP Libor, but there are a small number of legacy commercial loans referencing synthetic Libor[2] while their conversion to Sonia is finalised. Nationwide has a number of derivative positions referencing USD Libor, which will continue to be published until 30 June 2023, though these derivative positions largely offset, leaving an immaterial residual exposure. These positions are expected to be transitioned ahead of this date, in line with market protocols.

Please see note 15 to the financial statements for additional information relating to quantitative Libor exposures.

Market risk appetite

Nationwide's market risk exposure arises in the banking book; it does not have a trading book. Most of the exposure to market risk arises from fixed rate mortgages or savings and changes in the market value of the liquidity portfolio. There is a limited amount of currency risk on non-sterling financial assets and liabilities held.

[2] Synthetic Libor is an adopted methodology stipulated by the FCA for calculating a Libor benchmark to assist with the transition to Sonia for 'tough legacy' Libor contracts.

Market risk (continued)

The Board is responsible for setting market risk appetite and the Assets and Liabilities Committee (ALCO) is responsible for managing Nationwide's market risk profile within this defined risk appetite. Market risk is managed within a comprehensive risk framework which includes policies, limit setting and monitoring, stress testing and robust governance controls. This includes setting and monitoring more granular limits within Board limits with relevant market risk metrics reported monthly to ALCO. The analytical techniques to measure market risk are described below with a review of the exposures during the year.

Value and earning sensitivities

Sensitivity analysis is used to assess the change in value of the net exposure to defined parallel and non-parallel shifts in interest rates. For example, a one basis point (0.01%) shift is measured using PV01. This analysis is performed daily by currency. Earning sensitivity metrics are used to measure and quantify exposure to interest rate risks, including basis risk. These techniques assess the impact on earnings when rate shocks are applied to the rates paid on liabilities and to the rates earned on assets.

Nationwide also measures interest rate risk through Net Interest Income (NII) and Economic Value of Equity (EVE) measures, under a range of shock scenarios which include behavioural assumptions for retail products as interest rates change. These measures are assessed based on the standard shocks prescribed, as well as against internally generated shock scenarios.

- NII sensitivities assess the impact to earnings in different interest rate shocks over a one-year period. Sensitivities are calculated based on a static balance sheet, where all assets and liabilities maturing within the year are reinvested in like for like products. The sensitivity also includes the impact arising from off-balance sheet exposures.
- EVE sensitivities measure the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks. Sensitivities are calculated on a run-off balance sheet basis.

Both NII and EVE sensitivities are measured regularly, with risk limits set against the various shocks.

Value at Risk (VaR)

VaR is a technique that estimates the maximum potential losses that could occur from risk positions because of future movements in market rates and prices, over a specified time horizon, to a given level of statistical confidence. VaR is based on historic market behaviour and uses a series of recorded market rates and prices to derive plausible future scenarios. This considers inter-relationships between different markets and rates.

The VaR model incorporates risk factors based on historic interest rate and currency movements. A 10-day horizon and a 99% confidence level is typically used in day to day VaR monitoring. VaR is used to monitor interest rate, swap spread, currency and product option risks and is not used to model income. Exposures against limits are reviewed daily by management. Actual outcomes are monitored on an ongoing basis by management to test the validity of the assumptions and factors used in the VaR calculation. The values reported below are on the same basis as those used internally.

Although VaR is a valuable risk measure, it needs to be viewed in the context of the following limitations which may mean that exposures could be higher than modelled:

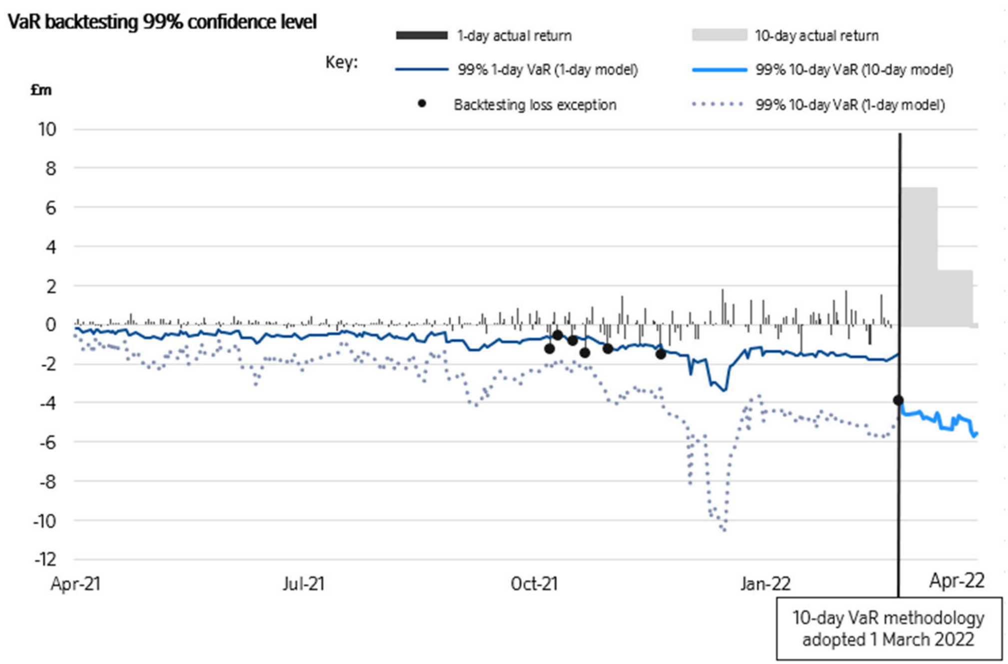
- The use of a 99% confidence level, by definition, does not take account of changes in value that might occur beyond this level of confidence;
- VaR models often under-predict the likelihood of extreme events and over-predict the benefits of offsetting positions in those extreme events;
- The VaR model uses historical data to predict future events. Extreme market moves outside of those used to calibrate the model will deliver exceptions. In periods where volatility is increasing, the model is likely to under-predict market risks and in periods where volatility is decreasing it is likely to over-predict market risks; and
- Historical data may not adequately predict circumstances arising from government interventions and stimulus packages, which increase the difficulty of evaluating risks.

Risk report (continued)

Market risk (continued)

To seek to mitigate these limitations, backtesting of the VaR model is undertaken regularly to ensure that the model is appropriate. This process compares actual performance against the estimated VaR numbers. An exception is created when a loss occurs that is greater than the VaR on any given day. The chart below shows the results of this backtesting. On 1 March 2022, Nationwide moved from using an underlying 1-day VaR model to generate a potential 10-day loss and adopted a 10-day VaR model. The new model uses a 10-year history rather than a 2-year history, which has the benefit of including more stress events and is also less susceptible to future volatility. Backtesting of the model has subsequently moved from 1-day periods to 10-day periods. This does not mean that the level of risk has increased, and an additional line has been added on the graph to demonstrate the level of the VaR on a consistent basis (i.e. scaling the VaR result from 1-day to 10-day).

Interest rates became increasingly volatile towards the end of 2021, and this volatility gave rise to the loss exceptions during that period. The final loss exception in March 2022 occurred following the dramatic fall in rates (approximately 25 basis points) in the day following the exclusion of Russian banks from the SWIFT payment system.



The VaR showed an elevated position during December 2021. This temporary increase in the VaR metric was caused by timing difference as Libor contracts were transitioned to Sonia and does not represent a decision to incur a higher level of market risk during this time.

The model will continue to be subject to an annual review process to ensure it remains appropriate for risk reporting. The types of risks not captured in VaR include:

- Market liquidity risk – this has a limited impact because, whilst Nationwide requires an appropriate level of market liquidity to manage market risk, it does not have a high ongoing dependency on liquidity for market risk purposes as it does not operate a trading book;
- Level 3 asset valuation uncertainty – only a very small portfolio of these assets is held so the impact is limited. Any valuation uncertainty is included within the Prudent Valuation Adjustment reflected in capital resources; and
- Interest rate movements that can impact valuation adjustments, including credit, debit and funding valuation adjustments (CVA/DVA/FVA). These are not captured in the VaR or sensitivity analysis but are negligible.

Market risk (continued)

Stress analysis

To evaluate the potential impact of more extreme but plausible events or movements in a set of financial variables, the standard VaR metric is supported with sensitivity and stress analysis. For example, for interest rate risk exposures, the standard PV01 sensitivity analysis is supplemented by the production of stressed sensitivity measures. A more severe 200 basis point (2.0%) parallel shift in interest rates is calculated in a similar manner to PV01; this sensitivity analysis is known as PV200. PV200 numbers are generated and monitored daily. In addition, stressed VaR is used to estimate the potential loss arising from unfavourable market movements in a stressed environment. It is calculated in the same way as standard VaR, calibrated over a two-year period with a 99% confidence level and on a 10-day basis, but uses market data from a period of significant financial stress.

Interest rate risk

Nationwide's main market risk is interest rate risk. Market movements in interest rates affect the interest rate margin realised from lending and borrowing activities. To reduce the impact of such movements, hedging activities are undertaken by Nationwide's Treasury function. For example, interest rate risks generated by lending to and receiving deposits from customers are offset against each other internally where possible. The remaining net exposure is managed using derivatives, within parameters set by ALCO. In addition to our primary lending and borrowing activities, income volatility arising from certain rate insensitive products (including reserves and CCDS) are structurally hedged. Nationwide's interest rate risk is measured using a combination of value-based assessments and earnings sensitivity assessments.

The table below highlights Nationwide's limited exposure to interest rate risk, shown against a range of value-based assessments. The risk exposure is calculated each day and summarised over the financial year:

Interest rate risk	**2022**			2021		
	Average £m	**High £m**	**Low £m**	Average £m	High £m	Low £m
VaR (99%/10-day) *(audited)*	**3.2**	**10.6**	**0.5**	1.3	4.5	0.4
Sensitivity analysis (PV01) *(audited)*	**0.1**	**0.2**	**(0.0)**	(0.0)	0.1	(0.1)
Stress testing (PV200: all currencies)	**39.5**	**75.4**	**(22.7)**	16.1	40.5	(15.5)

The interest rate sensitivities in the table above do not include retail product behavioural changes, which are captured by other measures.

Market risk (continued)

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		
(Audited)	**2022** **£m**	2021 £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.

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.

Economic Value of Equity (EVE)

Nationwide also measures interest rate risk through EVE sensitivity which identifies the change in value of interest rate sensitive items, both on and off-balance sheet, under a range of interest rate shocks prescribed by the PRA. This measure includes behavioural assumptions using a run-off balance sheet basis. EVE is managed against internal and regulatory risk limits and is monitored by ALCO.

Further details on EVE can be found in the Group's annual Pillar 3 Disclosure 2022 at **nationwide.co.uk**

Strategic report
Governance
Risk report
Financial statements
Other information

Market risk (continued)

Basis risk

Basis risk arises where variable rate assets and liabilities re-price with reference to differing short-term interest rate benchmarks. The primary interest rates that Nationwide is exposed to are the bank base rate and Sonia. If the difference between these interest rates changes over time, this may impact earnings.

Assets and liabilities are offset when their reference rate, or 'basis' type, is matched. Exposure to the net mismatch is mitigated, where required, by transacting basis swaps to ensure Nationwide remains within internally agreed risk limits.

Swap spread risk

A liquidity portfolio is held to manage Nationwide's liquidity risk. These assets are predominantly fixed rate sovereign debt securities. Interest rate swaps are used to hedge the interest rate risk associated with these assets. However, there remains a residual risk associated with the possible movement in the spread between sovereign debt yields and swap rates. This 'swap spread risk' reflects the fact that the market value of the liquidity portfolio assets can change due to movements in bond yields and the swaps due to movements in swap rates. In economic terms, this risk is only realised if a bond is sold and the swap is cancelled ahead of maturity.

Swap spread risk is monitored using a historical VaR metric and the risk is controlled via internal limits linked to capital requirements. Exposures are monitored daily and are reported monthly to ALCO.

Inflation risk

The risk arising from Nationwide's inflation-linked investments are mitigated through the use of inflation swaps and the residual exposure monitored through IE01 metrics, which measure the change in present value of future cashflows from a one basis point parallel shift in inflation swap rates. Inflation risk is captured within our swap spread VaR risk measurement.

Currency risk

Currency exposure is managed through natural offsetting on the balance sheet, with derivatives used to maintain the net exposures within limits. ALCO sets and monitors limits on the net currency exposure. The table below sets out the limited extent of the residual exposure to currency risk:

Currency risk

	2022			2021		
	Average	**High**	**Low**	Average	High	Low
(Audited)	**£m**	**£m**	**£m**	£m	£m	£m
VaR (99%/10-day)	**0.0**	**0.1**	**0.0**	0.0	0.5	0.0

Product option risk

Market risk also arises when customers exercise options contained within fixed rate products which can require changes to hedging. The key product risks are prepayment risk (early redemption or under- or over-payment of fixed rate mortgages), access risk (early withdrawal of fixed rate savings), and take-up risk (higher or lower completions of fixed rate mortgages than expected). These risk exposures are quantified under a range of stress scenarios using models that predict customer behaviour in response to changes in interest rates. The potential impacts are then closely monitored. These stressed risk measures are subject to a set of limits and are reported to ALCO, along with proposed management actions where necessary to bring the exposures within limits. This approach is also used to assess internal capital requirements for product option risks.

Market risk (continued)

Structural interest rate risk

Nationwide has structural hedging programmes in place to stabilise earnings as interest rates change. Structural hedging is transacted to manage the interest rate risk from balance sheet items that have stable balances, an interest rate that is fixed or non-interest bearing and have no defined maturity date. The most material hedging programmes are in place to manage liabilities, including reserves and customer deposits.

Without hedging, the returns earned on these balances are subject to the volatility of short-term interest rates. The structural hedging programme smooths the volatility in net interest margin arising from changes in interest rates. The structural hedges convert the return, through a rolling hedge, into a more stable medium-term return.

Structural hedging is managed to a target duration. A two-and-a-half-year target duration is applied to eligible reserves and customer deposit balances. Nationwide's approach to financial planning assumes that structural hedging will be maintained in line with the target duration, with risk limits in place to mitigate deviation from the target duration.

In addition to the structural hedging programmes, Nationwide also undertakes other balance sheet hedging to mitigate the asymmetric risk which arises in very low or negative interest rate scenarios, mainly due to the different levels at which variable product rates can reach a minimum floor level.

Outlook

Nationwide will continue to have a limited appetite for market risk, which will only be taken if essential to core business activities and provides stability of earnings, minimises costs or enables operational efficiency.

Pension risk

Summary

Pension risk is defined as the risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit. Pension risk could negatively impact Nationwide's capital position and might result in increased cash funding obligations to the pension schemes.

Nationwide has funding obligations to a number of defined benefit pension schemes, the largest of which is the Nationwide Pension Fund (the Fund) which represents over 99% of the Society's pension obligations. The Fund has approximately 29,000 participants (Fund members), the majority of whom are deferred members (former and current employee members, not yet retired). The Fund closed to new entrants in 2007 and closed to future accrual on 31 March 2021. Further detail is set out below and in note 30 to the financial statements.

In accordance with UK legislation, the assets of the Fund are held in a legally separate trust from Nationwide's assets and are administered by a board of trustees (the Trustee) which has fiduciary responsibilities to Fund members.

Nationwide has a responsibility to ensure that Fund members are paid the pension they have been promised. Nationwide has a specialist pension risk management team responsible for regular analysis, insight and monitoring, which help monitor financial risk to the Group from the Fund. This includes risk appetite articulation and regular reporting to governance committees. The team maintains effective engagement with the Trustee in order to manage the long-term impact on Nationwide's capital and financial position. This is supported by Nationwide's representation at the Trustee's Investment and Funding Committee and investment working groups, and the sharing of management information between Nationwide and the Trustee in order to consider specific risk management initiatives.

Pension risk is embedded into Nationwide's Enterprise Risk Management Framework and stress testing processes. Nationwide monitors the potential capital deterioration in the retirement benefit position that might occur in a 1-in-200-year stress test. Nationwide considers all pension regulation and legislation change which may impact Nationwide's obligations to the Fund.

Risk factors

Volatility in investment returns from the assets and the value of the liabilities both affect the Fund's net deficit or surplus position. The key risk factors which impact this position are set out below. These factors can have a positive or negative effect on the position.

Asset performance

The Fund's liabilities are calculated using a discount rate set with reference to high quality bond yields. This creates a risk that the Fund's assets perform worse than those bond yields, resulting in the Fund's net position being volatile or worsening.

The Fund holds a significant proportion of return-seeking assets, including equities and credit investments. Return seeking assets are expected to outperform liabilities in the long-term, but they are riskier and volatile in the short to medium-term. Investments in return-seeking assets are monitored by both the Trustee and Nationwide to ensure they remain appropriate given the Fund's long-term objectives. Further details are set out in note 30 to the financial statements.

Liabilities

There is a risk that the Fund's liabilities increase to a level which is not supported by asset performance, whether through discount rate changes, increases in long-term inflation expectations, or increases in the life expectancy (longevity) of Fund members.

Pension risk (continued)

Actuarial assumptions

There is a risk that a change in the methodology used to derive key actuarial assumptions (for example, the discount rate or longevity assumptions) results in a step change in the assessment of the liabilities and therefore in the net surplus or deficit (potentially impacting Nationwide's capital and/or deficit funding requirements). The ultimate cost of providing pension benefits over the life of the Fund will depend on actual future events, rather than assumptions made.

Changes in the year

In January 2022 the Trustee completed a pensioner buy-in (the purchase of an insurance policy that covers all market risk and longevity risk) for the smaller Cheshire & Derbyshire section of the Fund. The premium of approximately £10 million for this insurance is recognised as a loss in the retirement benefit measurement before tax, within other comprehensive income.

Following the closure of the Fund to future accrual on 31 March 2021, there were no employer contributions made in respect of future benefit accrual during the year. There were also no employer deficit contributions into the Fund for the year ended 4 April 2022 and none are scheduled for the year ending 4 April 2023. The effective date of the Fund's next Triennial Valuation is 31 March 2022. Employer deficit contributions of £1 million were made in respect of the Group's defined benefit scheme in its Nationwide (Isle of Man) Limited subsidiary.

The retirement benefit position on the balance sheet as at 4 April 2022 is a £1,008 million surplus (2021: £172 million surplus) within assets as set out below:

Changes in the present value of net defined benefit asset	**2022 £m**	2021 £m
At 5 April	172	294
Pension (charge)/credit	**(5)**	(83)
Net interest credit	**4**	7
Actuarial remeasurement	**836**	(112)
Employer contributions (including deficit contributions)	**1**	66
At 4 April	**1,008**	172

The movement in the retirement benefit obligation is driven by an increase in asset values and a decrease in pension liabilities. The movement in assets is mainly from return seeking assets. The change in pension liabilities is primarily due to an increase in the discount rate, partially offset by an increase in the long-term inflation assumption.

The actuarial remeasurement quantifies the impact on the net obligation from updating financial assumptions (e.g. discount rate and long-term inflation), demographic assumptions (e.g. longevity), and the return on the Fund's assets being greater than expected. Further details can be found in note 30 to the financial statements.

Outlook

Over the long term, the Trustee intends to reduce further the Fund's risk factors, and Nationwide actively engages with the Trustee to ensure broad alignment on investment objectives and implementation. Potential risk management initiatives include, but are not limited to, adjusting the asset allocation (for example reducing the allocation to equities and increasing the allocation to bonds), longevity hedging and implementing derivative and other hedging strategies.

Business risk

Summary

Nationwide defines business risk as the risk that achievable volumes or margins decline relative to the cost base, affecting the sustainability of the business and its ability to deliver the strategy, due to macro-economic, geopolitical, industry, competitor, regulatory or other external events. We actively manage this risk so that we continue to provide value to, and meet the needs of, our current and future members, with a focus on long-term sustainability rather than short-term benefit. Nationwide ensures that it can generate sustainable profits by focusing on recurrent sources of income that provide value commensurate with risk appetite. The Society monitors this risk as part of ongoing business performance reporting to, and through regular discussion of business model risks by, senior management and the Board.

Nationwide's business model is reliant on generating net interest margin – primarily the difference between the interest rates paid to savers and those received from mortgage holders. In the competitive and low interest rate environment over recent years, this margin has been squeezed. Whilst margin pressure eased following the onset of the pandemic as confidence in the ability of the market to operate fell, the economy has adjusted and we have seen competition within the Society's core markets return. Nationwide continues to consider strategic options and member-focused propositions which mitigate the risk of future margin compression.

Managing business risk

Business risks are identified as part of the Society's strategy and financial planning processes and through regular horizon scanning exercises. These risks inform potential areas of strategy development and are assessed using a range of sensitivities to the Society's Financial Plan. This activity is complemented by ongoing financial forecasting and monitoring as well as a range of stress testing activity to consider tail risks or longer-term risks to the Society. Ongoing strategy development ensures that the strategy and associated plans continue to evolve to address risks to the business model by considering changes in the external environment, including new technology, consumer behaviour, regulation and market conditions/disruption.

These risks are assessed against Board Risk Appetite, which ensures the right balance between distributing value to members, investing in the business, and maintaining financial strength. Business risk is managed and mitigated through a range of measures which include:

- **Financial forecasting** – As part of the financial planning process Nationwide forecasts income and costs over a five-year period with an updated forecast reviewed by management regularly, taking into consideration the key risks and sensitivities.
- **Monitoring of financial and business performance** – The various components of financial performance are monitored monthly against internal forecasts and key indicators across a variety of committees and fora, which consider potential risks and possible mitigating actions. In addition, business areas monitor the demand for products and services to ensure we continue to provide propositions that our members want and need, and which provide value to the Society and our members.
- **Stress testing and sensitivity analysis** – Business risk is regularly stress tested as part of internal management reporting such as via upside and downside scenarios to the Financial Plan, the Internal Capital Adequacy Assessment Process, and reverse stress tests. In addition, the Prudential Regulatory Authority's solvency stress testing scenarios provide a test of the business model and the risks it is exposed to. As an output from these activities the Society identifies potential actions that can be taken if risks crystallise. To effectively manage more extreme events the Society maintains a Recovery Plan, in line with regulatory guidance, that contains a range of indicators which are regularly monitored, and a list of strategic actions that could be taken, if necessary, to protect the Society in the event of severe stress.

Outlook

Business risks are closely linked to the top and emerging risks outlined in the Risk overview (on page 49). Despite economic output recovering somewhat in the wake of Covid-19, sustained pressure on the cost of living, driven in particular by higher energy and food prices, rising interest rates, and by changes to taxes and benefits, is weighing on both consumers' ability to spend and underlying economic growth. The recent elevation in geopolitical tensions exacerbate the pressures noted above and may further increase business risk by affecting the dynamics of our core markets of savings and mortgages as consumers adapt to the uncertainty and pressure on household budgets this creates. However, labour markets remain robust and competition within the mortgage market remains strong, putting pressure on associated income. This dynamic of increased mortgage margin compression was anticipated but nonetheless increases business risk and reinforces the importance of existing strategic priorities which include a continued focus on efficiency.

Operational and conduct risk

Summary

Nationwide defines operational and conduct risk as the risk of impacts resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. Nationwide manages operational and conduct risks through the operation of proportionate controls embedded within processes to identify and prevent failures that could affect members, colleagues or the Society. How the control environment operates is covered in more detail in the Managing risk section on page 134. Over the last year, the Society has continued to focus on the high standards expected by members and regulators in the management of operational and conduct risk across key areas as detailed below.

The Society's operational and conduct risk profile has continued to be impacted by Covid-19 during the year, while our members face increasing financial pressures as the cost of living continues to rise. We expect to see more of our members falling into financial difficulty as a result of these developments, and we remain committed to the fair treatment of customers and to ensuring the right customer outcomes are achieved in all circumstances.

As outlined in the Financial review section on page 53, Nationwide has taken a further charge to cover the costs of remediation and redress in relation to historical conduct-related issues.

We recognise the need for continuous improvement in our understanding of the risks we are exposed to and the associated control environment we rely on to help us mitigate these risks. We have an ongoing programme of work to further our understanding of the most prominent risks and controls within our member facing processes, supported through process mapping techniques. This will assist us in improving member experience and increase the efficiency and effectiveness of our processes and control operation. It is critical to ensure we remain safe and secure and do the right thing for our members, meaning our risk and control culture is part of our broader Society culture. It includes the general awareness and attitude to risk and behaviour of our colleagues across Nationwide. Nationwide continues to invest in its capability to adhere to financial crime regulations. A programme of work is underway to ensure we continue to meet existing and prepare for future financial crime laws and regulation.

The impacts of the war in Ukraine are wide reaching and as highlighted in the top and emerging risk section on page 49 they have affected our operational and conduct risk profile. Our response to sanctions on Russia has required focus due to the increased size and complexity of the sanctions list. In addition, in line with National Cyber Security Centre (NCSC) guidance, a proactive and proportionate package of measures has been progressed to reflect changes to the cyber security profile.

Current Environment

Covid-19

In response to the pandemic, it was necessary to implement new ways of working and adapt operational processes, the associated risks of which have been actively assessed for mitigation. The overall operational and conduct risk profile has remained relatively stable but is subject to ongoing review as the situation evolves and the longer-term impacts of Covid-19 are fully understood. The Society continues to plan for, and respond to, further developments to ensure continuity of service, minimise the impact on the risk profile, keep our colleagues and members safe and comply with UK Government guidance.

The Financial Conduct Authority (FCA) has set out an indicative view of areas firms should be focusing on when they consider remote or hybrid working. Remote or hybrid working should not risk or compromise the firm's ability to follow all rules, regulatory standards and obligations, or lead to a failure to meet them. Our approach to hybrid working addresses the areas highlighted by the FCA.

Cost of living and members in financial difficulty

As our members face increasing financial pressures as the cost of living rises, and as Covid-19 support measures introduced by governments and regulators continue to unwind, there is a risk that more of our members could find themselves in financial difficulty. In this context, failing to ensure the fair treatment of customers in financial difficulty remains a key risk, and Nationwide is committed to ensuring that members receive appropriate and timely support in all cases.

Operational and conduct risk (continued)

Vulnerable customers

Supporting vulnerable customers remains a priority for the Society, and for the FCA which has set out best practice guidance for firms to do more to protect vulnerable consumers, providing greater detail on its expectations of firms at all stages of the product lifecycle. Nationwide's strategic focus is on embedding consideration of the additional needs of vulnerable consumers into our culture, making it the responsibility of all colleagues whose work impacts our member products and services.

IT and operational resilience

Operational resilience remains a key focus for the Society in line with members' expectations, the Society's current and future strategy and the regulatory environment. Members rightly expect services to be available when they want to use them, with the ever-increasing demand for an 'always on' capability. The Society continues to invest in and develop new IT infrastructure as part of a modernisation programme, with improvements to resilience through increased capability and availability of member services. Over the last year, the Society has continued to deliver a significant degree of change to meet member demands and adapt the way the Society operates as a consequence of the pandemic.

The Society continues to test and exercise its incident management response to known threats and its recovery capabilities of infrastructure by running scenarios, live proving and through carrying out dry runs. Resilience of the Society continues to be a significant area of regulatory focus, with financial services providers expected to have a deep understanding of the impacts of service disruptions on their customers and to reduce these impacts over time. This includes identifying, understanding and continually assessing the most Important Business Services (IBS), defining acceptable levels of interruption to these services and ensuring these are not exceeded. Nationwide's catalogue of impact tolerances, which define the maximum tolerable level of disruption to important services, are subject to ongoing validation against regulatory and member expectations. In response to recent regulatory policies, the Society has been mapping the IBS and identifying vulnerabilities as well as carrying out scenario exercises to establish the potential impact of tolerance breaches; associated investment and remediation is being tracked to ensure the Society remains within impact tolerances.

We continue to invest in upgrading our services. We acknowledge system change carries risk and whilst we have made significant effort to mitigate this risk, on occasions we have experienced disruption to services for our members. In performing some very complex upgrades to our payments system, we experienced a series of technical issues which impacted some of our members. We know we still have further work to do in this area to ensure we minimise the potential for any future disruption.

Cyber security

As we manage our IT systems and deliver new technology for the future, the impact that a successful cyber attack could have on our members' ability to manage their finances remains under constant review. Significant effort is put into our cyber risk management capabilities, with ongoing investment in the prevention and detection of attacks, and continued testing of our response should an attack be successful.

As Nationwide continues its adoption of cloud services, we remain focused on understanding the associated risk profile and ensuring that appropriate risk mitigations are in place. We continue to build in security controls when adopting these services, ensuring they are introduced with an acceptable level of risk through the delivery of existing and, where required, new security controls. The large cloud providers continue to invest significant levels of capital to ensure these environments are safe and secure. Security standards are rigorously reviewed when adopting new member services supported by third parties.

Applying lessons learned is critical to managing cyber risk effectively. Testing of our multi-layered approach to protect our information is undertaken on an ongoing basis, including the use of techniques and procedures practiced by individuals and organisations that attempt to conduct malicious activity. This provides the Society with confidence in its controls and allows a better understanding of how to prevent future attacks, ensuring technical controls are constantly improved, resource is repositioned, and funding is allocated appropriately.

We continue to work closely with the NCSC, other government bodies and our peers in financial services and other industries. This enables us to remain informed about both the potential threats and responses, while sharing best practice in combatting cyber crime. This was demonstrated through our response to the recent worldwide vulnerability relating to Log4j, a tool widely used by IT developers. Collaboration with these bodies ensured we maintained an effective security stance whilst mitigating the identified vulnerability.

Operational and conduct risk (continued)

Data

We are committed to protecting member and employee data. To ensure this is achieved we have implemented three key control frameworks which span data privacy, data governance and security, helping us to protect the data we hold now and will hold in the future. Investment in data architecture and technology continues, allowing strategic solutions to be implemented and enabling the Society to store, manage and protect personal data more effectively in an evolving digital environment. Progress continues to be made on data quality and member data processes to improve member experience and reduce the likelihood of a data breach. The 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. This requires an evolving set of skills both to operate and maintain systems and ensure a rigorous focus on member outcomes. The data governance team's uplifted data governance framework and implementation of a new data governance system will enhance trust, understanding and data lineage of the business data underlying the Society's key business decisions.

People

The safety and wellbeing of our colleagues are at the forefront of our people agenda. Adjustments to policies and working arrangements have helped to protect colleagues wherever they are working. Physical measures within our branches and offices comply with the UK Government Covid-19 guidelines to protect people wherever they work. An internally led campaign called 'sticks and stones' has emphasised zero tolerance towards verbal and aggressive behaviour and gained momentum as a sharp rise in incidents has been witnessed, alongside the introduction of initiatives to help maintain the wellbeing of all our colleagues.

Our people are key to the success of the Society and attracting and retaining people with in-demand skills and capabilities continues to be a key area of focus. The risks associated with this are amplified by a highly competitive external labour market, steep wage inflation in numerous roles, and the rise of flexible working across the industry, posing both a risk and an opportunity for the recruitment and retention of talent

External fraud

We continue to work hard in a constantly evolving environment to minimise the impact of fraud and scams on our members as financial crime levels rise in the industry. We are working closely with regulatory bodies and our banking peers to collaboratively drive improvements in prevention, education, and fair outcomes.

Strong Customer Authentication (SCA) was in place to comply with Payment Service regulations from 14 March 2022 in accordance with FCA requirements. This is expected to result in a reduction in online shopping card losses, as retailers shift to SCA compliant transaction authentication methods. There is a risk, however, that some of the reduction in card fraud will migrate to member authorised scams, as fraudsters shift their approach and circumvent strengthened controls. Predicting where fraudsters will increase their efforts is impossible with complete confidence and therefore our approach will be a responsive one, maintaining a high sensitivity to emerging trends.

Scam losses have increased year on year and are the second largest driver of fraud operational losses. This position is in line with industry trends, as fraudsters continue to target members with Authorised Push Payment scams and by obtaining personal information. Our round-the-clock operation reacts quickly to the fraudsters' changing tactics, minimising the impact to members, and we continue to invest in system defences to ensure we maintain our industry-leading loss position.

The Society is signed up to the Lending Standards Board (LSB)'s Contingent Reimbursement Model (CRM) voluntary code and we are fully committed to its principles. We are continually developing our approach to helping members protect themselves from Authorised Push Payment (APP) scams, focusing on improving detection, warnings and intervention where appropriate, as well as dealing sympathetically and consistently with those impacted. We are working openly with the LSB on areas where the industry can improve consumer protection. In September 2021 we launched the Scam Checker Service; this enables members to check the destination account with us prior to sending a payment. For members using this service, if we advised that the destination account was safe to send money to, but the transactions later transpired to have been part of a scam, our members receive a full reimbursement. The Society also offers Confirmation of Payee (CoP) to members setting up a new payment, informing members if the name of the Payee does not match the records held with the receiving Payment Service Provider, providing they are also signed up to CoP.

Operational and conduct risk (continued)

Use of third parties

The Society continues to rely on a network of third parties to provide both core and non-core services covering IT infrastructure, back office, and member-facing services. When outsourcing activities to our partners, we retain responsibility for all services and the associated risks. Significant work has been undertaken to support meeting enhanced regulatory requirements of the Prudential Regulation Authority (PRA) relating to outsourcing and third party risk management (SS2/21). These requirements aim to complement the PRA's requirements on operational resilience, facilitate greater resilience and adoption of the cloud and other new technologies, and implement the European Banking Authority (EBA) 'Guidelines on outsourcing arrangements and relevant sections of the EBA 'Guidelines on ICT and security risk management'.

Nationwide's preparation for implementation included undertaking detailed regulatory assessments for our most material suppliers, helping the Society demonstrate its effective control over third parties, as well as identifying any areas requiring enhancement. These improvements increasingly help the Society to deliver resilience across the supply chain.

The use of cloud-based solutions remains a key strategic enabler and offers the potential to improve aspects of the Society's operational risk profile. Given the increasing reliance on cloud services, alongside the shared responsibility model which underpins such arrangements, it is important we clearly understand and manage the associated risks and delivery aspects.

Consumer Duty

Through its proposed Consumer Duty, the Financial Conduct Authority (FCA) has recently set out proposals for a higher standard of consumer care beyond the current set of principles and rules. These proposals require firms to be more proactive in the delivery of fair outcomes and would lead to a greater level of regulatory scrutiny of firms' approaches to delivering such outcomes. In this context, there is a heightened risk across the financial services industry of regulatory sanctions arising from failures in relation to the fair treatment of customers. Regardless of the outcome of these proposals, Nationwide is committed to ensuring the right customer outcomes are achieved in all circumstances and will continue to provide a safe and secure variety of products and services which meet the needs of members and customers.

The transition away from Libor

We have carefully monitored the operational and conduct risks associated with the move away from Libor and have used scenario analysis techniques to assess the impact on different stakeholder groups. A major milestone was reached at the end of 2021 with the majority of contracts transitioning away from Libor onto risk free rates. We will continue to monitor and report on progress and expect the final conversions away from Libor to take place in 2022. Further information can be found on page 199.

Other key regulatory developments

On 1 January 2022, key regulatory changes relating to Internal Ratings Based (IRB) models came into effect. Nationwide's mortgage IRB models have been fully redeveloped in order to meet the revised regulatory requirements, although the models are yet to be finalised and approved by the PRA. The Bank of England continues to implement outstanding elements of the Basel III framework to align with international standards, and Nationwide has now implemented the associated requirements set out in PS17/21 'Implementation of Basel standards', which took effect on 1 January 2022. We expect further consultation on the implementation of the remaining elements of the Basel III framework in the fourth quarter of 2022, with implementation currently scheduled to begin in 2025 (delayed from 2023). In September 2021, Nationwide submitted its first Resolvability self-assessment as prescribed within the Bank of England's Resolvability Assessment Framework. Further detail on the above developments is provided in the 'Capital risk' section.

In line with Supervisory Statement SS3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the PRA now expects firms to have fully embedded their approaches to managing climate-related financial risks. Detail on Nationwide's delivery of compliance with SS3/19 and ongoing progress on this issue can be found in the 'Climate-related disclosures overview' section.

The PRA and FCA continue to engage financial firms and other stakeholders in a discussion on how to accelerate the pace of meaningful change on diversity and inclusion in the sector. Nationwide is actively involved in this debate, and we await consultation on more detailed proposals.

Operational and conduct risk (continued)

Nationwide will remain engaged in the development of regulatory policy to ensure it is prepared for any resulting changes.

The UK's exit from the European Union and the development of the Future Regulatory Framework

As Nationwide is a UK-domiciled and UK-focused building society, the UK's exit from the European Union has not had material implications for our business model, financial soundness, or ability to continue to provide services to our UK-based members. Nationwide is actively engaged in the ongoing development of the UK's Future Regulatory Framework, which will determine how regulatory rulemaking powers will be distributed following the UK's exit from the European Union, and the mechanisms for improving accountability and scrutiny of those exercising those powers.

Operational and conduct risk experience

The Society monitors and reports on the operational and conduct risk events which have occurred, to understand better those exposures and drive sustainable mitigation to prevent recurrence. For the purposes of this report, events include only those where a financial loss arises from an incident. Internally the Society records events against internally defined risk categories, in addition to reporting them against the categories defined by the Basel Committee on Banking Supervision in Basel II, which allows comparison of risk experience with our main banking competitors.

Operational risk events by Basel risk category, % of total events by value (note i)

	2022	2021 (note ii)
	%	%
Clients, products and business practices	28.7	28.8
External fraud	24.8	15.6
Execution, delivery and process management	46.2	41.7
Internal fraud	-	0.1
Business disruption and system failure	-	0.3
Damage to physical assets	-	-
Employment practices and workplace safety (note iii)	0.3	13.5
Total	100.0	100.0

Operational risk events by Basel risk category, % of total events by number (note i)

	2022	2021 (note ii)
	%	%
Clients, products and business practices	**0.8**	1.2
External fraud	**91.8**	89.5
Execution, delivery and process management	**6.5**	7.5
Internal fraud	**0.1**	0.4
Business disruption and system failure	**-**	0.3
Damage to physical assets	**0.1**	-
Employment practices and workplace safety	**0.7**	1.1
Total	**100.0**	100.0

Notes:

i. Risk events with aggregated gross losses of £5,000 and over (excluding monies recovered); multiple losses relating to the same event are counted once.

ii. Comparatives have been restated to include additional historic data where more information has been received.

iii. Following guidance provided by Operational Riskdata eXchange Association (ORX), costs enabling restoration of operations following the impact of Covid-19 are reportable as operational risk events. This includes the costs of keeping our colleagues and members safe, for example, Personal Protective Equipment (PPE), and of enabling new ways of working, for example, laptops and software licenses to continue to provide the service our members expect. Employment practices and workplace safety was considered the most appropriate category for the Society's spend on Covid-19.

The value of losses against the 'employment practices and workplace safety' category decreased in 2022 due to the reduction in the costs associated with Covid-19 (see note iii). Due to treating these losses as a single event, this is not reflected in the number of instances.

External fraud volumes have increased year on year as have the average losses per fraud case. The increase primarily relates to the increased exposure to Authorised Push Payment scams, as a result of both heightened fraudulent activities and developments within the industry whereby payment providers now bear a greater proportion of the total losses incurred. The increase is most noticeable in the value table above as it is compounded by the accompanying increase in the number of loss events.

Operational and conduct risk (continued)

Outlook

The Society's operational and conduct risk outlook is impacted by the environment it operates in and its strategy. The drivers of operational and conduct risk are expected to remain broadly consistent, with the main themes being:

- the conflict in Ukraine and the resultant implications for the UK and European economy;
- ongoing operational challenges, conduct considerations and long-term impact of Covid-19;
- attracting and retaining people with in-demand skills and capabilities;
- the impact of the rising cost of living on our members;
- the volume and complexity of regulatory developments impacting the financial services industry;
- the scale and pace of change, particularly in a digital environment, partly driven by the Society's technology strategy and impacted by changes to customer behaviour and expectations;
- IT resilience, the continued increase in the sophistication of cyber security threats and external fraud;
- continued reliance on strategic third party partners, including increased adoption of cloud-based solutions; and
- development of our understanding and management of the operational risks associated with climate change.

The Society continues to invest to maintain and develop appropriate controls in all these areas to ensure residual risk exposures are managed within appetite.

Model risk

Summary

Model risk is the risk of an adverse outcome as a direct result of weaknesses or failures in the development, implementation or use of a model. A model is defined as 'a simplification of a business system using assumptions and mathematical concepts to help describe, predict or forecast'. There is an inherent risk associated with models because, by their very nature, they are imperfect and incomplete representations that rely on assumptions and theoretical methodologies and use historic data which may not represent future outcomes.

Nationwide relies on models to support a broad range of business and risk management activities across the Society. Key examples include the use of model outputs in the credit approval process, capital and liquidity assessments, stress testing, loss provisioning, financial planning and pricing strategies. We also use models which apply advanced machine learning techniques to other risk types such as climate change and economic crime. Model errors can arise when models are implemented incorrectly or misused, for instance when applied to uses that they were not designed for, or where there is a failure to update key assumptions when required. Model errors and uncertainty are the primary sources of model risk which, if crystallised, could result in poor lending decisions, holding inappropriate levels of capital, liquidity or provisions or incurring financial loss.

Model risk remains heightened due to the evolving economic environment, the use of model adjustments to ensure appropriate capital levels, and the uncertainty arising from the effects of the Covid-19 pandemic and climate change. This has led to enhanced monitoring, use of model adjustments and development of new models.

Managing model risk

Nationwide manages model risk at an enterprise level through the Model Risk Framework and within a defined risk appetite set by the Board. The framework prescribes Society-wide requirements including roles and responsibilities, governance, independent oversight, risk appetite, monitoring and independent assurance.

The framework is supported by model risk policies and standards covering documentation, development, implementation, validation, change processes and monitoring. This ensures that all models are developed consistently, are of sufficient quality, are adequately maintained and are controlled, to support effective business decisions and meet regulatory requirements.

Responsibility for oversight of model risk is delegated from the Executive Risk Committee to the Model Risk Oversight Committee (MROC). MROC assesses whether models are fit for purpose and monitors model risk exposure on a Society-wide aggregated basis.

Model risk appetite is expressed through assessments of the most material models. This considers the percentage of models that have been independently assessed as meeting internal standards. Issues are escalated to the Executive Risk Committee when necessary, or where a breach of risk appetite has occurred.

The changing economic conditions and the effects of the pandemic on economic activity mean that the historical data on which some models were built and calibrated has become less representative of the environment in which they are being operated.

In common with the rest of the industry, changes required to capital models following new regulations will create a temporary increase in the risk relating to these models during the period of transition. Temporary adjustments are currently used to overlay risk weighted assets, ensuring that our capital requirements reflect the expected outcomes from the revised IRB rules. Further information on capital impacts is detailed in the Capital risk section on page 190. We have also enhanced our model monitoring, focusing on high-risk segments and increased management awareness of model weaknesses and limitations.

Responsibilities under the three lines of defence

Each model is required to have a model owner who is responsible for ensuring that their model complies with the requirements of the framework. Responsibility for approving the use of material models resides with first line risk committees, such as the Asset and Liability Committee and Credit Committee. The role of these committees is to review, approve and monitor all material aspects of the models within their remit.

The second line oversight of model risk is performed by the Model Risk Oversight function which provides independent validation, setting of model standards, reporting of the model risk profile and maintenance of the Society's model inventory. The scope of independent validation includes a review of model inputs, design and outputs. This is further broken down into detailed dimensions

Model risk (continued)

covering areas such as data, methodology, performance, use and documentation. The outcome of the validation is a report which includes a model risk score, key risks, model capabilities, conditions for use, limitations, validation findings and a recommendation as to whether models are fit for purpose.

While all material models are reviewed and re-approved for continued use each year, the validation frequency and level of challenge applied by Model Risk Oversight is tailored to the materiality and complexity of each model. Once validated and correctly implemented, models are subject to regular monitoring. A central model inventory is used to maintain data on models and validation issues raised by Model Risk Oversight are tracked through to resolution. An annual model universe assessment is used ensure the completeness and accuracy of the model inventory.

Nationwide's Internal Audit function, the third line of defence, considers model risk to be an area of focus and the Model Risk Framework is subject to review through a cyclical programme of audits that assess the appropriateness of its design and overall effectiveness, and may assess how specific models used in Nationwide comply with it. The findings of the audit reviews are reported to Audit Committee, senior management and appropriate stakeholders.

Developments in the year

Over the past year Nationwide has enhanced the models used to quantify key risks and continued to make improvements in the management of model risk across several areas including:

- Receiving regulatory approval to use IRB models for the current account portfolio for the purposes of calculating regulatory capital. The new models were implemented in Q4 2021 and will ensure that capital calculated from these models appropriately reflects the risk in this portfolio. Further information on capital impacts are detailed in the Capital risk section, page 190;
- Progressing the development, validation, governance and submission to the PRA of our IRB rating systems to comply with the regulatory IRB roadmap;
- Supporting our participation in the Bank of England's Climate Biennial Exploratory Scenario exercise which tests the resilience of the UK financial system to climate-related physical and transition risks to net zero carbon emissions, we developed and validated a suite of physical and transition risk models, to forecast provisions and risk weighted assets under each path; and
- Enabling better-informed decision making, by evolving the scope of model risk reporting provided to senior management committees to ensure they are aware of model limitations, uncertainty and risks emerging from changes in the external and internal environment.

Outlook

The Society remains subject to significant levels of regulatory change which continues to be a significant factor driving model development, validation and model risk management activity. In common with the rest of the industry, changes required to capital models following new regulations will create a temporary increase in the risk relating to these models during the period of transition. The prolonged use and reliance on model adjustments results in increased governance, complexity and compliance risks.

The effects of the pandemic will continue to have a material impact on our model risk profile. While the pandemic is receding, the sudden change to historical economic data and impact of government measures such as payment deferrals on the relationship between model inputs and the credit risk estimates from models will not be fully understood until full performance data is available. In the meantime, we will remain focused on improving our understanding of model uncertainty, monitoring of high-risk segments, increased use of model adjustments and reporting of model limitations.

High inflation and increasing interest rates introduce risks of changing member behaviours, affordability and some models operating outside of their development data boundaries. This is likely to affect models that were designed and implemented in the pre-pandemic and low interest environment. We will continue to monitor the data and assess how representative it is of current and future risk environments. We have adapted our affordability models, are undertaking scenario analysis covering stressed inflation situations and continue to monitor the external economic environment. We will also continue to broaden our application of advanced analytical capabilities across a range of risk categories and model types.

Financial statements

Independent auditor's report 218

Income statements 232

Statements of comprehensive income 233

Balance sheets 234

Statements of movements in members' interests and equity 235

Cash flow statements 237

Notes to the financial statements 238

Note 1 – Statement of accounting policies
Note 2 – Judgements in applying accounting policies and critical accounting estimates

Performance

Note 3 – Interest receivable and similar income
Note 4 – Interest expense and similar charges
Note 5 – Fee and commission income and expense
Note 6 – Other operating income/expense
Note 7 – Losses/gains from derivatives and hedge accounting
Note 8 – Administrative expenses
Note 9 – Employees
Note 10 – Impairment release/charge and provisions on loans and advances to customers
Note 11 – Taxation

Financial assets and liabilities

Note 12 – Classification and measurement
Note 13 – Investment securities
Note 14 – Loans and advances to customers
Note 15 – Derivative financial instruments
Note 16 – Deposits from banks and similar institutions
Note 17 – Other deposits
Note 18 – Debt securities in issue
Note 19 – Subordinated liabilities
Note 20 – Subscribed capital
Note 21 – Fair value hierarchy of financial assets and liabilities held at fair value
Note 22 – Fair value of financial assets and liabilities held at fair value – Level 3 portfolio
Note 23 – Fair value of financial assets and liabilities measured at amortised cost
Note 24 – Offsetting financial assets and financial liabilities

Other assets and investments

Note 25 – Intangible assets
Note 26 – Property, plant and equipment

Provisions, contingent and other liabilities

Note 27 – Provisions for liabilities and charges
Note 28 – Leasing
Note 29 – Contingent liabilities
Note 30 – Retirement benefit obligations

Capital and equity instruments

Note 31 – Core capital deferred shares (CCDS)
Note 32 – Other equity instruments

Scope of consolidation

Note 33 – Investments in Group undertakings
Note 34 – Structured entities

Other disclosure matters

Note 35 – Related party transactions
Note 36 – Notes to the cash flow statements
Note 37 – Capital management
Note 38 – Registered office

Independent auditor's report
to the members of Nationwide Building Society

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements:

- Give a true and fair view of the state of the Group's and the Society's affairs as at 4 April 2022 and of the Group's and the Society's income and expenditure for the year then ended; and
- Have been properly prepared in accordance with UK adopted International Accounting Standards; and as regards the Group financial statements, International Financial Reporting Standards adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements, included within the Annual Report and Accounts 2022 (the "Annual Report") of Nationwide Building Society, which comprise:

Group	Society
• Consolidated balance sheet as at 4 April 2022; • Consolidated income statement for the year then ended; • Consolidated statement of comprehensive income for year then ended; • Consolidated statement of movements in members' interests and equity for the year then ended; • Consolidated cash flow statement for the year then ended; • Related notes 1 to 38 to the financial statements, including a statement of accounting policies; • Information identified as 'audited' in the Report of the directors on remuneration; and • Information identified as 'audited' in the Risk report.	• Balance sheet as at 4 April 2022; • Income statement for the year then ended; • Statement of comprehensive income for the year then ended; • Statement of movements in members' interests and equity for the year then ended; • Cash flow statement for the year then ended; • Related notes 1 to 38 to the financial statements, including a statement of accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted International Accounting Standards and as regards the Group financial statements, International Financial Reporting Standards adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("FRC's") Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.

Conclusions relating to going concern

The directors have voluntarily complied with the UK Corporate Governance Code (the "Code") and Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority (FCA) and provided a viability and going concern statement, required for companies with a premium listing on the London Stock Exchange.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Society's ability to continue to adopt the going concern basis of accounting included the following:

- We obtained management's going concern assessment for the Group, including forecasts for the going concern period covering 12 months from the date of signing this audit opinion, and compared historical budgeted financial information with actual results to form a view on the reliability of the forecasting process.
- We understood and evaluated the reasonableness of these forecasts, which included using EY financial modelling specialists to help assess the assumptions used to develop forecasted results using relevant peer and sector comparatives, to challenge the trading volume assumptions, and to assess the refinancing risk of wholesale funding maturing in the 12 months from the date of signing our opinion.
- We used economic specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional and HM Treasury consensus forecasts and Bank of England fan charts.
- We reviewed the results of adverse scenarios modelled by management to incorporate unexpected changes to forecasted liquidity and capital positions of the Group, as well as its reverse stress testing exercise, to identify whether they indicated significant issues that might impact the Group's and Society's ability to continue as a going concern.
- We also understood the directors' considerations of climate change, the ongoing Covid-19 pandemic ("Covid-19") and geopolitical tensions, including both financial risks and impacts on operational resilience.
- We read and evaluated the adequacy of the disclosures included in the Annual Report in relation to going concern and considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Society's ability to continue as a going concern for a period up to 19 May 2023, being not less than 12 months from when the financial statements are approved for issue.

In relation to the Group's and Society's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or Society's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Measurement of IFRS 9 expected credit losses • Recoverability of capitalised software costs • Risk of fraud in revenue recognition relating to effective interest rate ("EIR") accounting • Measurement of the net defined benefit pension asset • Customer redress provisioning
Audit scope	• We performed an audit of the complete financial information of two entities within the Nationwide Group and audit procedures on specific balances for a further five entities. • The entities where we performed audit procedures over complete financial information or over specific balances accounted for 100% of the Group's profit before tax measure used to calculate materiality, 99% of revenue, and 100% of total assets.
Materiality	• Overall Society materiality of £50 million represents 5% of profit before tax. • We adopted the Society materiality for the Group audit.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size and risk profile when assessing the level of work to be performed for each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements of the Group, we selected eight entities, which represent the principal business units within the Group. Of the eight entities selected, we performed an audit of the complete financial information of two entities ("full scope entities") which were selected based on their size or risk characteristics. For the remaining six entities ("specific scope entities"), we performed audit procedures on specific accounts within each entity that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. All audit work performed was undertaken by the Group audit team.

Our risk assessment gave consideration to relevant external and internal factors, including Covid-19, climate change, geopolitical and economic risks, regulatory developments, and the strategy of the Society.

Climate change

As part of our risk assessment, we evaluated the Group's assessment of the effects of material climate change risks, which is primarily explained on pages 40 to 47 in the Task Force on Climate-related Financial Disclosures ("TCFD") section in the Strategic Report, which form part of 'Other information.' Our responsibilities with respect to the unaudited 'Other information' in the Annual Report are described on page 228.

As explained in the financial statements under 'Judgements in applying accounting policies and critical accounting estimates' on page 251, while climate risks have been considered in the preparation of the financial statements, management does not consider there to be a material impact from this risk in the short to medium term on any judgements or estimates. Our audit effort in considering climate change was focused on assessing whether the effects of potential climate risks have been appropriately reflected by management in reaching their judgements in relation to the measurement of financial assets and liabilities. We specifically considered management's assessment of the impact on expected credit losses (ECL), which gives consideration to the climate stress testing performed in 2021. We have described details of our procedures and findings related to ECL in the key audit matter below. We also challenged the directors' considerations of climate change in their going concern assessment and associated disclosure.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole and in our opinion thereon, and we do not provide a separate opinion on these matters.

Measurement of IFRS 9 expected credit losses *Group and Society; Refer to the Audit Committee report (page 86); Accounting policies (page 238); and note 10 of the consolidated financial statements (page 261)*	
Key audit matter	**Our response to the key audit matter**
IFRS 9 expected credit losses: £746 million (2021: £852 million) The degree of subjectivity in the assumptions and estimates used by management to measure IFRS 9 ECL is high and remains elevated as a result of significant uncertainty in the macroeconomic environment. The uncertainty related to the impact of Covid-19 and climate change on IFRS 9 ECL was considered in our risk assessment, as the impacts are yet to crystallise into real losses; and new complexities are emerging around the increased cost of living and geopolitical tensions, increasing the subjectivity of the estimate. The risk of material misstatement within measurement and timing of IFRS 9 ECL manifests itself across the following five areas: *Staging:* The qualitative and quantitative criteria applied by management may not completely and accurately identify a significant increase in credit risk or credit impairment on a timely basis; and the impact of Covid-19, climate change and	*Control testing:* We evaluated the design and operating effectiveness of controls across the processes relevant to ECL, including the controls around approval of key judgements and development of the estimate. These controls included: • Review of staging effectiveness, • Model governance controls, including monitoring and model validation, • Controls over the completeness and accuracy of data feeding into ECL provisions, • Governance of statistical models used to develop the MES and their associated probability weights, and • The governance and review of MES, post-model adjustments, and individual provisions. In evaluating the controls, we obtained evidence of the governance process that is followed to review, challenge and approve all key assumptions underpinning the IFRS 9 ECL provisions, and we involved EY risk modelling specialists where needed to assess the effective operation of management's controls. *Overall stand-back assessment:* We performed a stand-back assessment of the ECL provisions and coverage at an overall level and by stage to determine if changes were reasonable and internally consistent by considering the overall credit quality of the Society's portfolios, risk profile, and the impacts of the pandemic, climate change, the cost of living crisis and geopolitical tensions. We performed peer benchmarking where available to assess overall staging and provision coverage levels. We also assessed the adequacy of the disclosures made in the financial statements in comparison to peers, including the appropriateness of the assumptions and sensitivities disclosed. *Staging:* We reviewed the Group's accounting policies and tested how they were applied in allocating a financial asset to stage 1, 2 or 3, to ensure they remained compliant with the requirements of IFRS 9. This included peer benchmarking to assess staging triggers and staging levels. We assessed the appropriateness of the staging criteria and their logical application through the modelled environment, and then independently recalculated staging results for the entire retail portfolio by recreating the staging model code and recreating the results in our own environment. In

Independent auditor's report to the members of Nationwide Building Society (continued)

Strategic report
Governance
Risk report
Financial statements
Other information

Measurement of IFRS 9 expected credit losses *Group and Society; Refer to the Audit Committee report (page 86); Accounting policies (page 238); and note 10 of the consolidated financial statements (page 261)*	
geopolitical tensions on these criteria may not be fully captured. *Modelling:* Models that calculate the ECLs, including probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") models, may not appropriately apply accounting interpretations, modelling assumptions, or data; or may not be appropriately implemented. *Multiple Economic Scenarios ("MES"):* ECLs may be inaccurate because the range of scenarios considered and the probability weightings applied to them are not sufficient or appropriate to capture all relevant factors required, including the expected impacts of inflation, the rising cost of living, Covid-19 and geopolitical tensions; or because the MES may not be incorporated into the estimation of PD, LGD, and EAD appropriately. *In-Model and Post Model Adjustments ("PMAs"):* In model and post-model adjustments could be inappropriate, incomplete, or in the case of in-model adjustments, incorrectly incorporated into the PD, LGD, and EAD models. This risk is elevated with the incorporation of new significant PMAs to reflect future uncertainties. *Individually impaired assets:* Individual impairment may not be identified on a timely basis, or the provisions recognised may be incorrectly measured considering the impact of geopolitical tensions on exit strategies, collateral valuation and time to collect.	performing this work, we also considered the significance of potential impacts on staging (i) as a result of inflation; and (ii) as a result of collectively downgrading exposures to industries and geographic regions at greater risk of climate change impacts. We also tested the staging of the commercial portfolio on a sample basis. *Modelling:* We involved EY model risk specialists to lead the qualitative and quantitative risk assessment of the models, and to perform a combination of model methodology reviews, model implementation testing, model reperformance testing, model assumptions testing and model sensitivity analyses, based on the risk designated to each model. We tested the completeness and accuracy of data fields that drive ECL provisions through a combination of controls and substantive testing. Key controls we tested included reconciliation and validation of data quality scorecards ("DQS"). We substantively tested the accuracy of data underpinning the ECL provisions by testing lineage from the ECL models back to source systems for each critical data item, and a sample of non-critical data items, and testing the completeness and accuracy of loan data lineage from source systems into the ECL models. *MES:* With support of our EY economic specialists, we considered both the appropriateness of the scenario weightings and the underlying macroeconomic variables, with specific focus on the impact of Covid-19 and geopolitical tensions. In addition, we evaluated management's approach in using statistical models to inform their judgement in determining the scenarios and their probability weightings. We carried out comparison to consensus forecasts and other independently derived assumptions. We also engaged our Economists and Modelling teams to assess the reasonableness of the non-linearity in the scenarios and perform sensitivities on the weights and macroeconomic variables to ensure they were reasonable. We also independently tested the appropriate application of the MES data within the models. *In-Model and PMAs:* We involved modelling specialists to assess whether the inventory of adjustments was complete considering the evolution of external factors, and whether each adjustment included was appropriate. In performing the model methodology reviews for a sample of models, we considered whether there were shortcomings that could require further adjustment. We reviewed risk registers and governance meeting materials to identify potential risks not captured in existing models, and we performed a benchmarking exercise between management's model adjustment register and those seen in the market. We also evaluated the application of each adjustment and independently recalculated all material PMA's, the outputs of which we reconciled to the reported balances. *Individually impaired assets:* We assessed the completeness and reasonableness of impairment recorded for individually assessed loans by selecting a sample to recalculate the expected credit loss. As part of this recalculation, we independently estimated the impact on ECLs of applying multiple scenarios that impact collateral values estimated by management.
Key observations communicated to the Audit Committee Based on the work we performed, we were satisfied that IFRS 9 expected credit losses were reasonably stated. • Our stand-back assessment of the overall provision balance, in light of the current economic environment, through peer benchmarking and analysis of key indicators, such as coverage ratios, did not indicate the provision recorded as at year end was unreasonable.	

Measurement of IFRS 9 expected credit losses *Group and Society; Refer to the Audit Committee report (page 86); Accounting policies (page 238); and note 10 of the consolidated financial statements (page 261)*
• Independent model testing showed that IFRS 9 ECL models performed as expected and were aligned to the requirements of the standard, and that the external data, internal data and assumption data feeding into the IFRS 9 ECL models are complete and accurate. • Economic assumptions and probability weightings assigned to the multiple economic scenarios used within the models were concluded to be reasonable. • Staging criteria were appropriate and the results of staging reperformance indicated their application was complete and accurate. • Independent replication of PMA calculations confirmed they had been accurately recorded, and we were satisfied that they were complete and appropriate. • Individual provisions recorded for the stage 3 commercial portfolio were in line with the industry-specific risks highlighted by our EY Real Estate specialists.

Recoverability of capitalised software costs *Group and Society; Refer to the Audit Committee report (page 86); Accounting policies (page 238); and note 25 of the consolidated financial statements (page 296)*	
Key audit matter	**Our response to the key audit matter**
Intangible assets: £913 million (2021: £1,101 million) The Group capitalises significant software and IT costs which are subsequently amortised over their useful economic lives. Management undertakes bi-annual impairment assessments to determine whether the capitalised costs should be written down to lower recoverable amounts. We identified the following risks associated with capitalised software costs: Project costs capitalised for newly created software could be inappropriate if economic benefits to the Group have not been established. Amounts recorded for amortisation rely on judgements made in determining useful economic lives of capitalised software and periodic impairment assessments undertaken by management. There is therefore a risk that management override of controls could result in a material misstatement to amortisation.	We tested the design and operating effectiveness of key controls over the Group's asset capitalisation, impairment, and amortisation processes. We understood changes to the application of the software capitalisation policy and ensured compliance with the requirements of IFRS. We assessed the appropriateness of capitalised costs for a sample of asset additions during the year, including both externally and internally generated costs, and assets in use as well as work in progress, by obtaining evidence to challenge whether the asset will lead to future economic benefit. We assessed the reasonableness of the amortisation charge by testing and validating the underlying calculations and performing substantive analytical review. We reviewed management's assessment of impairments at both the individual project level and the cash generating unit level. For project asset impairments, we understood the rationale for impairment, recalculated impairment charges independently, and challenged the completeness of impairments recorded. We involved EY business valuation modelling specialists to assess the assumptions used by the Society in the forecasts used for their CGU impairment assessment. We considered whether the impacts of future plans were sufficiently reflected in the forecast used, including changes to the technology strategy, likely future use of assets, impact of commitments made by the Society and assessment of the impact of geopolitical tensions.
Key observations communicated to the Audit Committee We are satisfied that the Society's accounting policies and their application for capitalisation of new software assets and determination of related impairments are in compliance with the accounting standards, IAS 38 and IAS 36, and we concluded that newly capitalised assets, impairments and amortisation in the current period are materially appropriate.	

<table>
<tr><th colspan="2">Risk of fraud in revenue recognition relating to effective interest rate ("EIR") accounting
Group and Society; Refer to the Audit Committee report (page 86); Accounting policies (page 238); and note 3 of the consolidated financial statements (page 252)</th></tr>
<tr><td>Key audit matter</td><td>Our response to the key audit matter</td></tr>
<tr><td>EIR adjustment to loans and advances: £85 million (2021: £108 million)
Management judgement is required in initially recognising financial instruments under the EIR method, and assumptions made by management will also impact subsequent amortisation of EIR adjustments. This leads to a heightened risk that management override of controls could result in a material misstatement of the financial statements.

We assessed two elements of the EIR calculation as most critical and requiring increased audit focus:
• The period over which to defer upfront fees and costs, which is determined by reference to analysis of historical customer behaviours; and
• The extent to which early redemption charges ("ERCs") and variable interest expected to be collected in the future should be recognised as revenue/assets now.</td><td>We understood and tested the design and effectiveness of the Group's controls over revenue recognition, including key reconciliations and processes to ensure complete and accurate capture of fees, interest charges, customer payments and balances.

We tested the data extracted from systems to be used in the EIR models, including historical data used to analyse customer behaviours.

We reviewed the appropriateness of the accounting policy and the types of fees and expenses being deferred and amortised. For those fees and expenses that were deferred, we assessed the reasonableness of the period over which they were being amortised by assessing the behavioural loan lives with reference to historical behaviour and challenging the basis on which assumptions have been made as to future customer behaviours, including additional considerations related to the pandemic and the current, and forward-looking, interest rate environment.

We involved EY specialists in reviewing the code used to extract historical data from the mortgage systems, to verify that the data used in the EIR models is complete and accurate.

We benchmarked key assumptions used within the EIR calculation to equivalent assumptions made by peers and performed sensitivity analyses over key assumptions and judgements. We extended our analysis to reflect increased uncertainty and potential irregularities in purchase and switching activity attributable to actual and anticipated base rate rises and the inflationary environment.

We also reviewed the accuracy of the amortisation model, tested its inputs, and recalculated a sample of the amortisation profiles used to amortise the fees and expenses.</td></tr>
<tr><td colspan="2">Key observations communicated to the Audit Committee
We concluded that the fees and costs being deferred are reasonable and complete; the average lives used in the EIR model are reasonable; the extent of ERC fees recognised upfront is reasonable; and the data populating the EIR model is complete and accurate.</td></tr>
</table>

Independent auditor's report to the members of Nationwide Building Society (continued)

<table>
<tr><td colspan="2">Measurement of the net defined benefit pension asset
Group and Society; Refer to the Audit Committee report (page 86); Accounting policies (page 238); and note 30 of the consolidated financial statements (page 302)</td></tr>
<tr><td>Key audit matter</td><td>Our response to the key audit matter</td></tr>
<tr><td>Retirement benefit asset: £1,008 million (2021: £172 million)

The Society has a net defined benefit pension asset which represents the fair value of pension plan assets less the present value of defined benefit obligations after applying the asset ceiling test as required by IFRIC 14.

The net defined benefit pension asset is sensitive to changes in key judgements and estimates. Management uses specialists to inform some of the key judgements and estimates that we consider to be of higher risk and which form part of this key audit matter, including:
• Assumptions - Actuarial assumptions and inputs, including discount rate, inflation, and longevity, which are used to determine the valuation of the defined benefit pension obligation; and
• Valuations - Pricing inputs and calibrations for illiquid or complex valuations of certain investments held by the pension scheme.</td><td>We involved EY actuarial specialists to evaluate the actuarial assumptions used to calculate the defined benefit pension obligation by comparing the assumptions to ranges we independently developed based on market observable indices and the knowledge of our actuarial specialists.

We assessed the impact on the defined benefit pension obligation of changes in financial, demographic and longevity assumptions over the year, including any continued effects of Covid-19 and geopolitical tensions and, whether these assumptions were supported by objective external evidence and rationales.

We tested the reasonableness of the fair valuation of plan assets by independently repricing 100% of the quoted bonds and equities, a sample of the derivative financial instruments and a sample of the properties held by the pension fund. For complex and illiquid investments held, for example, unquoted infrastructure, private equity, and private debt instruments, we involved our valuation specialists to assess the appropriateness of management's valuation methodology. In performing this work, our specialists considered whether there was a material impact on the valuation of illiquid investments which do not have readily determinable market value.

We performed sectoral and geographical analysis to assess the potential impact of climate change risk and geopolitical tensions on the illiquid assets to inform our sampling of the assets during the testing of the valuation of the illiquid assets.

We considered the appropriateness of the Society's recognition of a pension asset in accordance with IFRIC 14. Specifically, we assessed whether the Society was entitled to an unconditional right of refund. We assessed this by reference to the terms of the pension agreement and confirmed that the Society did have such a right.

We assessed the adequacy of the disclosures made in the financial statements, including the appropriateness of the assumptions and sensitivities disclosed.</td></tr>
<tr><td colspan="2">Key observations communicated to the Audit Committee
Based on the procedures performed and the evidence obtained, we found the of key actuarial assumptions used in the valuation of the defined benefit pension obligation to be within a reasonable range and no material differences were identified during our independent valuation of the pension assets. We were also satisfied that the net defined benefit pension asset was recognisable in accordance with the terms of IFRIC 14 after applying the asset ceiling test.</td></tr>
</table>

Independent auditor's report to the members of Nationwide Building Society (continued)

Certain customer redress provisioning *Group and Society; Refer to the Audit Committee report (page 86); Accounting policies (page 238); and note 27 of the consolidated financial statements (page 299)*	
Key audit matter	**Our response to the key audit matter**
Provision for liabilities and charges: £59 million (2021: £38 million) This key audit matter is focused on one redress project for which the degree of uncertainty necessitated a greater degree of audit focus. We considered the risk within the impacted provision to include the reasonableness of assumptions used in estimating the population for the provision, and the appropriateness of the measurement of the redress and associated administration costs, as well as the associated disclosures.	We assessed the completeness and accuracy of the customer accounts identified as eligible for redress under the project. This included testing management's assumptions in arriving at this population. We reconciled the relevant population to that used in management's models to measure the provision and reperformed the underlying calculations supporting the provision in the financial statements. We reviewed a sample of redress payments to ensure they were valid and accurately recorded. We involved EY conduct risk specialists to help assess compliance with relevant financial conduct requirements and to challenge whether all relevant assumptions were being included within management's provisioning model. We tested the key assumptions applied in the model and performed sensitivity analysis to better understand the impact of changes in assumptions on the provision. Where there was a higher degree of uncertainty in management's assumptions, we assessed them collectively as well as individually by comparison to observed or implied ranges. We reviewed the disclosures relating to the populations excluded from the provision, where further testing is required to support a best estimate, to confirm the disclosure appropriately meets the requirements of IAS 37.
Key observations communicated to the Audit Committee Based on the procedures performed and evidence obtained, we found the judgements applied to calculate the provision for customer redress and the associated disclosures to be appropriate.	

Independent auditor's report to the members of Nationwide Building Society (continued)

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Society to be £50 million (2021: £21.9 million), which is 5% of profit before tax (2021: 5% of adjusted profit before tax), and 0.4% (2021: 0.2%) of net assets. We determined materiality for the Group to be £50 million (2021: £39.5 million) which is 3% of the Group's profit before tax (2021: 5% of adjusted profit before tax), and 0.3% (2021: 0.3%) of net assets.

We assessed profit before tax to be an appropriate basis for materiality given the users of the financial statements, including the Society's members and regulators, focus on pre-tax profit in assessing the Society's performance.

Performance materiality

The application of materiality at the individual account or balance level. Performance materiality is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was £25 million for the Group and for the Society (2021: £19.7 million and £10.7 million respectively), in both cases being 50% (2021: 50%) of our planning materiality.

Audit work for underlying entities for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative scale and risk of the entity to the Group as a whole and our assessment of the risk of misstatement at that entity. In the current year, the performance materiality allocated to entities was £25 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2.5 million for the Group and Society, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

Other information comprises the information included in the Annual Report, other than the financial statements as defined above and our auditor's report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosure ("TCFD") recommendations. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- The Annual business statement and the Directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- The information given in the Annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

- Proper accounting records have not been kept by the Society; or
- The Group's or Society's financial statements are not in agreement with the accounting records; or
- We have not received all the information and explanations and access to documents we require for our audit.

Other voluntary reporting matters

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Society's voluntary compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement are materially consistent with the financial statements or our knowledge obtained during the audit:

- The directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 131;
- The directors' statement on fair, balanced and understandable set out on page 132;
- The directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 51;
- The board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 48;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems, set out on page 85; and;
- The section describing the work of the Audit Committee set out on page 87.

Report of the directors on remuneration

The Society voluntarily prepares a Report of the directors on remuneration in accordance with the provisions of the Companies Act 2006. The directors have requested that we audit the part of the Report of the directors on remuneration specified by the Companies Act 2006 to be audited as if the Society were a quoted company.

In our opinion, the part of the Report of the directors on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 131, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management.

<u>Our approach was as follows:</u>

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as UK adopted International Accounting Standards and the Building Societies Act 1986.
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Board Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's Operational Risk Framework and internal control processes.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing, as referred to in the Key audit matters section above.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We made enquiries of management and internal audit and held a fraud-focused discussion with EY forensic specialists and members of the Board to supplement our assessment of how fraud might occur. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Our procedures to address the risks identified also included incorporation of unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management in their significant accounting estimates, and testing year end adjustments and other targeted journal entries.
- The Group operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at **https://www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Independent auditor's report to the members of Nationwide Building Society (continued)

Other matters we are required to address

- We were appointed by the Society at the Annual General Meeting in July 2019 and engaged on 2 August 2019 to audit the financial statements for the year ending 4 April 2020 and subsequent financial periods.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society and we remain independent of the Group and the Society in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Society's members, as a body, in accordance with Section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London, United Kingdom

19 May 2022

Strategic report
Governance
Risk report
Financial statements
Other information

Income statements

For the year ended 4 April 2022					
		Group		**Society**	
		2022	2021	**2022**	2021
	Notes	**£m**	£m	**£m**	£m
Interest receivable and similar income:					
Calculated using the effective interest rate method	3	**4,501**	4,122	**4,101**	3,806
Other	3	**11**	2	**10**	2
Total interest receivable and similar income	3	**4,512**	4,124	**4,111**	3,808
Interest expense and similar charges	4	**(950)**	(978)	**(1,086)**	(1,153)
Net interest income		**3,562**	3,146	**3,025**	2,655
Fee and commission income	5	**475**	379	**471**	375
Fee and commission expense	5	**(218)**	(231)	**(218)**	(231)
Other operating income/(expense)	6	**48**	(9)	**106**	48
(Losses)/gains from derivatives and hedge accounting	7	**(7)**	34	**(6)**	(21)
Total income		**3,860**	3,319	**3,378**	2,826
Administrative expenses	8	**(2,234)**	(2,218)	**(2,231)**	(2,216)
Impairment release/(charge) on loans and advances to customers	10	**27**	(190)	**(80)**	(158)
Provisions for liabilities and charges	27	**(56)**	(88)	**(56)**	(89)
Profit before tax		**1,597**	823	**1,011**	363
Taxation	11	**(345)**	(205)	**(246)**	(121)
Profit after tax		**1,252**	618	**765**	242

The notes on pages 238 to 316 form part of these financial statements.

Statements of comprehensive income

For the year ended 4 April 2022

	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Profit after tax		**1,252**	618	**765**	242
Other comprehensive income/(expense):					
Items that will not be reclassified to the income statement					
Remeasurements of retirement benefit obligations:					
Retirement benefit remeasurement	30	**836**	(112)	**835**	(112)
Taxation	11	**(293)**	40	**(292)**	40
		543	(72)	**543**	(72)
Revaluation of property:					
Revaluation gains/(losses)	26	**7**	(9)	**7**	(9)
Taxation	11	**(2)**	11	**(2)**	11
		5	2	**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	**(8)**	-
Taxation	11	**(2)**	(1)	**2**	-
		8	3	**(6)**	-
		556	(67)	**542**	(70)
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)	**22**	(83)
Amount transferred to income statement		**(42)**	(54)	**10**	2
Taxation	11	**4**	41	**(8)**	24
		(11)	(111)	**24**	(57)
Other hedging reserve:					
Fair value movements taken to members' interests and equity		**8**	(4)	**12**	20
Amount transferred to income statement		**(4)**	(2)	**(3)**	(6)
Taxation	11	**(1)**	2	**(1)**	2
		3	(4)	**8**	16
Fair value through other comprehensive income reserve:					
Fair value movements taken to members' interests and equity		**12**	215	**13**	215
Amount transferred to income statement		**(48)**	(40)	**(48)**	(40)
Taxation	11	**8**	(47)	**8**	(47)
		(28)	128	**(27)**	128
Other comprehensive income/(expense)		**520**	(54)	**547**	17
Total comprehensive income		**1,772**	564	**1,312**	259

The notes on pages 238 to 316 form part of these financial statements.

Balance sheets

At 4 April 2022		Group		Society	
		2022	2021	**2022**	2021
	Notes	**£m**	£m	**£m**	£m
Assets					
Cash		**30,221**	16,693	**30,221**	16,693
Loans and advances to banks and similar institutions		**3,052**	3,660	**3,033**	3,633
Investment securities	13	**25,484**	25,473	**25,439**	25,451
Derivative financial instruments	15	**4,723**	3,809	**4,759**	3,185
Fair value adjustment for portfolio hedged risk		**(2,443)**	946	**(2,443)**	946
Loans and advances to customers	14	**208,066**	201,547	**164,342**	160,366
Investments in Group undertakings	33	**-**	-	**40,326**	38,252
Intangible assets	25	**913**	1,101	**901**	1,089
Property, plant and equipment	26	**880**	1,018	**880**	1,018
Accrued income and prepaid expenses		**252**	213	**433**	864
Deferred tax	11	**59**	72	**47**	62
Current tax assets		**33**	-	**43**	1
Other assets		**106**	210	**83**	187
Retirement benefit asset	30	**1,008**	172	**1,008**	173
Total assets		**272,354**	254,914	**269,072**	251,920
Liabilities					
Shares		**177,967**	170,313	**177,967**	170,313
Deposits from banks and similar institutions	16	**36,425**	27,022	**36,308**	26,453
Other deposits	17	**5,208**	4,522	**5,801**	5,670
Fair value adjustment for portfolio hedged risk		**11**	25	**11**	25
Debt securities in issue	18	**25,629**	27,923	**22,776**	24,470
Derivative financial instruments	15	**1,428**	1,622	**1,742**	2,502
Other liabilities		**668**	933	**3,147**	3,192
Provisions for liabilities and charges	27	**153**	159	**153**	159
Accruals and deferred income		**299**	307	**293**	299
Subordinated liabilities	19	**8,250**	7,575	**8,250**	7,575
Subscribed capital	20	**187**	243	**187**	243
Deferred tax	11	**430**	150	**354**	62
Current tax liabilities		**-**	7	**-**	-
Total liabilities		**256,655**	240,801	**256,989**	240,963
Members' interests and equity					
Core capital deferred shares	31	**1,334**	1,334	**1,334**	1,334
Other equity instruments	32	**1,336**	1,336	**1,336**	1,336
General reserve		**12,753**	11,140	**9,246**	8,122
Revaluation reserve		**46**	44	**46**	44
Cash flow hedge reserve		**184**	195	**28**	4
Other hedging reserve		**(43)**	(46)	**18**	10
Fair value through other comprehensive income reserve		**89**	110	**75**	107
Total members' interests and equity		**15,699**	14,113	**12,083**	10,957
Total members' interests, equity and liabilities		**272,354**	254,914	**269,072**	251,920

The notes on pages 238 to 316 form part of these financial statements.

Approved by the Board of directors on 19 May 2022.

K A H Parry Chairman
J D Garner Chief Executive Officer
C S Rhodes Chief Financial Officer

Group statement of movements in members' interests and equity

For the year ended 4 April 2022	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Other hedging reserve £m	FVOCI reserve £m	Total £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 £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Other hedging reserve £m	FVOCI reserve £m	Total £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

The notes on pages 238 to 316 form part of these financial statements.

Society statement of movement in members' interests and equity

For the year ended 4 April 2022	**Core capital deferred shares £m**	**Other equity instruments £m**	**General reserve £m**	**Revaluation reserve £m**	**Cash flow hedge reserve £m**	**Other hedging reserve £m**	**FVOCI reserve £m**	**Total £m**
At 5 April 2021	1,334	1,336	8,122	44	4	10	107	10,957
Profit for the year	**-**	**-**	**765**	**-**	**-**	**-**	**-**	**765**
Net remeasurements of retirement benefit obligations	**-**	**-**	**543**	**-**	**-**	**-**	**-**	**543**
Net revaluation of property	**-**	**-**	**-**	**5**	**-**	**-**	**-**	**5**
Net movement in cash flow hedge reserve	**-**	**-**	**-**	**-**	**24**	**-**	**-**	**24**
Net movement in other hedging reserve	**-**	**-**	**-**	**-**	**-**	**8**	**-**	**8**
Net movement in FVOCI reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(33)**	**(33)**
Total comprehensive income	**-**	**-**	**1,308**	**5**	**24**	**8**	**(33)**	**1,312**
Reserve transfer	**-**	**-**	**2**	**(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**	**9,246**	**46**	**28**	**18**	**75**	**12,083**

For the year ended 4 April 2021	Core capital deferred shares £m	Other equity instruments £m	General reserve £m	Revaluation reserve £m	Cash flow hedge reserve £m	Other hedging reserve £m	FVOCI reserve £m	Total £m
At 5 April 2020	1,325	593	8,102	48	61	(6)	(12)	10,111
Profit for the year	-	-	242	-	-	-	-	242
Net remeasurements of retirement benefit obligations	-	-	(72)	-	-	-	-	(72)
Net revaluation of property	-	-	-	2	-	-	-	2
Net movement in cash flow hedge reserve	-	-	-	-	(57)	-	-	(57)
Net movement in other hedging reserve	-	-	-	-	-	16	-	16
Net movement in FVOCI reserve	-	-	-	-	-	-	128	128
Total comprehensive income	-	-	170	2	(57)	16	128	259
Reserve transfer	-	-	15	(6)	-	-	(9)	-
Issuance of core capital deferred shares	9	-	-	-	-	-	-	9
Issuance of Additional Tier 1 capital	-	743	-	-	-	-	-	743
Distribution to the holders of core capital deferred shares	-	-	(108)	-	-	-	-	(108)
Distribution to the holders of Additional Tier 1 capital	-	-	(57)	-	-	-	-	(57)
At 4 April 2021	1,334	1,336	8,122	44	4	10	107	10,957

The notes on pages 238 to 316 form part of these financial statements.

Cash flow statements

For the year ended 4 April 2022	Notes	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Cash flows generated from operating activities					
Profit before tax		**1,597**	823	**1,011**	363
Adjustments for:					
Non-cash items included in profit before tax	36	**524**	1,009	**640**	1,037
Changes in operating assets and liabilities	36	**12,029**	9,368	**12,413**	9,739
Taxation		**(378)**	(138)	**(272)**	(74)
Net cash flows generated from operating activities		**13,772**	11,062	**13,792**	11,065
Cash flows used in investing activities					
Purchase of investment securities		**(8,677)**	(14,360)	**(8,668)**	(14,349)
Investment in subsidiary share capital		**-**	-	**(21)**	(22)
Sale and maturity of investment securities		**7,877**	7,173	**7,877**	7,173
Purchase of property, plant and equipment		**(68)**	(96)	**(68)**	(96)
Sale of property, plant and equipment		**20**	23	**20**	23
Purchase of intangible assets		**(210)**	(245)	**(210)**	(245)
Net cash flows used in investing activities		**(1,058)**	(7,505)	**(1,070)**	(7,516)
Cash flows generated from/(used in) financing activities					
Distributions paid to the holders of core capital deferred shares		**(108)**	(108)	**(108)**	(108)
Issuance of core capital deferred shares		**-**	9	**-**	9
Distributions paid to the holders of Additional Tier 1 capital		**(78)**	(57)	**(78)**	(57)
Issuance of Additional Tier 1 capital		**-**	743	**-**	743
Issuance of subordinated liabilities		**773**	-	**773**	-
Redemption of subordinated liabilities		**-**	(661)	**-**	(661)
Interest paid on subordinated liabilities		**(130)**	(166)	**(130)**	(166)
Redemption of subscribed capital		**(38)**	-	**(38)**	-
Interest paid on subscribed capital		**(3)**	(4)	**(3)**	(4)
Repayment of lease liabilities		**(27)**	(27)	**(27)**	(27)
Net cash flows generated from/(used in) financing activities		**389**	(271)	**389**	(271)
Effect of exchange rate changes on cash and cash equivalents		**16**	(55)	**16**	(55)
Net increase in cash and cash equivalents		**13,119**	3,231	**13,127**	3,223
Cash and cash equivalents at start of year		**17,705**	14,474	**17,678**	14,455
Cash and cash equivalents at end of year	36	**30,824**	17,705	**30,805**	17,678

The notes on pages 238 to 316 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

Basis of preparation

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

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

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, branches and non-specialised buildings, financial assets measured at fair value through other comprehensive income (FVOCI), and derivatives and certain other financial assets and liabilities measured at fair value through profit and loss (FVTPL).

A summary of the Group's accounting policies, which have been consistently applied, is set out below. There have been no changes arising from adoption of new and revised IFRSs, as explained below.

Further information about judgements in applying accounting policies and critical accounting estimates is provided in note 2.

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance, its objectives and policies in managing the financial risks to which it is exposed, and its capital, funding and liquidity positions are set out in the Financial review and the Risk report.

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 these consolidated financial statements.

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.

1. Statement of accounting policies (continued)

Future accounting developments

The IASB has issued a number of minor amendments to IFRSs that become effective from 1 January 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.

Basis of consolidation

The assets, liabilities and results of the Society and its undertakings, which include subsidiaries and structured entities, are included in the financial statements on the basis of accounts made up to the reporting date.

The Group consolidates an entity from the date on which the Group: (i) has power over the entity; (ii) is exposed to, or has rights to, variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through the exercise of its power. The assessment of control is based on all facts and circumstances. The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. The Group ceases to consolidate subsidiaries from the date that control ceases.

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control. The Group considers factors such as the purpose and design of the entity, size and exposure to variability of returns and nature of the relationship.

Upon consolidation, all intra-Group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated.

Investments in subsidiary undertakings are stated in the Society accounts at cost less provisions for any impairment in value. The directors consider it appropriate for administrative and commercial reasons that subsidiary undertakings have financial years ending on 31 March. Adjustment is made for individually significant transactions arising between 31 March and the Society's year end.

Securitisation and covered bond transactions

The Group has securitised certain mortgage loans by the transfer of the loans to structured entities controlled by the Group. The securitisation enables a subsequent issuance of debt, either by the Society or the structured entities, to investors who gain the security of the underlying assets as collateral. Those structured entities are fully consolidated into the Group accounts.

The transfers of the mortgage loans to the structured entities are not treated as sales by the Society. The Society continues to recognise the mortgage loans on its own balance sheet after the transfer because it retains their risks and rewards through the receipt of substantially all of the profits or losses of the structured entities. In the accounts of the Society, the proceeds received from the transfer are accounted for as a deemed loan repayable to the structured entities.

For covered bonds, the Society itself and not the structured entity issues the covered bonds and then lends the proceeds to the structured entity on back-to-back terms. The structured entity then uses these proceeds as consideration for the loans transferred from the Society. In the accounts of the Society, neither the loan to the structured entity nor the consideration for the transfer of mortgage loans is recognised separately as an additional asset and liability.

The Group has also entered into self-issuances of debt to be used as collateral for repurchase ('repo') and similar transactions. Investments in self-issued debt and the related obligation, together with the related income, expenditure and cash flows, are not recognised in the Society's or Group's financial statements. This avoids the 'grossing-up' of the financial statements that would otherwise arise.

To manage interest rate risk, the Society enters into derivative transactions with the structured entities, receiving a rate of interest based on the securitised mortgages and paying a rate inherent in the debt issuances. These internal derivatives are treated as part of the deemed loan and not separately fair valued because the relevant mortgage loans are not derecognised. All other derivatives relating to securitisations are treated as explained in the derivatives and hedge accounting policy below.

Interest receivable and interest expense

For instruments measured at amortised cost the effective interest rate (EIR) method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

1. Statement of accounting policies (continued)

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example early redemption penalty charges) and anticipated customer behaviour but does not consider future credit losses. The calculation includes all fees received and paid and costs incurred that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts above or below market rates.

Interest income is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. net of the allowance for expected credit losses (ECLs)). Where loans are credit-impaired on origination, or when purchased from third parties, the carrying amount at initial recognition is net of the lifetime ECL at that date. For these assets the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Interest receivable and similar income/(expense) calculated using the effective interest rate method also includes interest on financial assets classified as fair value through other comprehensive income, and on derivatives in qualifying hedge relationships.

Interest income not calculated using the effective interest rate method, including interest on financial assets classified as fair value through profit or loss and derivatives not in qualifying hedge relationships, is presented as other interest receivable and similar income/(expense).

Fees and commissions

Fees and commission income and expense includes fees other than those that are an integral part of the EIR. Fees and commissions relating to current accounts, mortgages and credit cards are either:

- transaction-based and therefore recognised when the performance obligation related to the transaction is fulfilled, or
- related to the provision of services over a period of time and therefore recognised on a systematic basis over the life of the agreement as services are provided.

The transaction prices and provision of services are defined within the product terms and conditions.

Trail commission relating to investments under administration, general insurance and protection products sold on behalf of third parties may include variable consideration. Where this is the case the trail commission is recognised either on the accruals basis over the period to which the commission relates or, if the uncertainties are more significant, once the uncertainties are resolved.

Fee and commission income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

Segmental reporting

The Nationwide Leadership Team (NLT) is responsible for allocating resources and assessing the performance of the business and is therefore identified as the chief operating decision maker.

The Group has determined that it has one reportable segment as the NLT reviews performance and makes decisions based on the Group as whole. No segmental analysis is required on geographical lines as substantially all of the Group’s activities are in the United Kingdom. As a result, no segmental disclosure is provided.

Leases

At inception, the Group assesses whether a contract is, or contains, a lease. This assessment involves exercising judgment as to whether the contract conveys the right to control the use of an identified asset, and the right to obtain substantially all of the economic benefits from this asset, for a period of time. The leases held by the Group as a lessee consist primarily of property contracts for branches and office buildings.

The Group recognises a right-of-use (RoU) asset and a lease liability at the commencement of the lease, except for short-term leases (defined as leases with a lease term of less than 12 months) and leases of low value assets. Payments for short-term leases and leases of low value assets are generally recognised in the income statement on a straight-line basis.

1. Statement of accounting policies (continued)

The lease liability is initially measured at the present value of the payments over the lease term, with the rate used to discount the payments reflecting the rate implicit in the lease or, if this is not readily determinable, the Group's incremental borrowing rate. The lease term includes the non-cancellable period of the lease, together with an assessment of any extension or termination options which are reasonably certain to be exercised. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured (with a corresponding adjustment to the RoU asset) when there is a change in future lease payments due to a modification of lease terms, changes to an index or rate, or a reassessment of options.

The RoU asset is initially measured based on the value of the corresponding lease liability, plus any initial direct costs and any lease payments made at or before the commencement, less any incentives received. The RoU asset is subsequently measured at cost less depreciation and any accumulated impairment. Assets are depreciated over the shorter of the lease term or the useful life of the underlying asset. The Group applies IAS 36 'Impairment of Assets' to determine whether a RoU asset is impaired, as described in the property, plant and equipment accounting policy. RoU assets are included in the 'Property, plant and equipment' balance sheet line item and the lease liabilities are included in the 'Other liabilities' line item.

All leases of owned properties where the Group is lessor are classified as operating leases, as substantially all risks and rewards of ownership have been retained. When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the RoU asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases and finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return.

Intangible assets

Intangible assets held by the Group consist primarily of externally acquired and internally developed computer software which is held at cost less accumulated amortisation and impairment. In accordance with IAS 38 'Intangible Assets', software development costs are capitalised if it is probable that the asset created will generate future economic benefits and those benefits can be controlled by the Group. Costs incurred to establish technological feasibility or to maintain existing levels of performance are recognised as an expense.

Web development costs are capitalised where the expenditure is incurred on developing an income generating website.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Computer software intangible assets are amortised using the straight-line method over their estimated useful lives which generally range between 3 and 10 years. Amortisation commences when the assets are ready for their intended use. Estimated useful lives are reviewed annually and adjusted, if appropriate, in the light of technological developments, usage and other relevant factors.

Intangible assets, including computer software, are reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount. The estimated recoverable amount is based on value in use calculations where there is no basis for making a reliable estimate of fair value less costs of disposal.

Property, plant and equipment

Freehold and long leasehold properties comprise mainly branches and office buildings.

Branches and non-specialised buildings are stated at revalued amounts, being the fair value, determined by market-based evidence at the date of the valuation, less any subsequent accumulated depreciation and subsequent impairment. Valuations are completed annually as at 4 April, or more frequently if required, by external, independent and qualified surveyors who have recent experience in the location and type of properties. Valuations are performed in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards and are generally performed on a vacant possession basis, using a comparative method of valuation with reference to sales prices and observable market rents for similar properties in similar locations.

Increases in the valuations of branches and non-specialised buildings are credited to other comprehensive income except where they reverse decreases for the same asset previously recognised in the income statement, in which case the increase in the valuation is recognised in the income statement. Decreases in valuations are recognised in the income statement except where they reverse amounts previously credited to other comprehensive income for the same asset, in which case the decrease in valuation is recognised in other comprehensive income.

1. Statement of accounting policies (continued)

The Group holds a small number of investment properties comprising properties held for rental. These properties include both owned properties and leased properties for which the RoU asset is held for rental under an operating sublease. Investment properties are stated at fair value, determined by market-based evidence at the date of the valuation. Valuations of owned properties are completed annually as at 4 April, or more frequently if required, by external, independent and qualified surveyors. The fair value of an investment property which is a RoU asset reflects the expected cash flows to be received under its sublease. Changes in fair value are included in the income statement. Depreciation is not charged on investment properties.

Other property, plant and equipment, including specialised administration buildings, are included at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items, major alterations and refurbishments.

Where applicable, directly attributable borrowing costs incurred in the construction of qualifying assets are capitalised.

Land is not depreciated. The depreciation of other assets commences when the assets are ready for their intended use and is calculated using the straight-line method to allocate their cost or valuation over the following estimated useful lives:

Branches and non-specialised buildings	60 years
Specialised administration buildings	up to 60 years
Plant and machinery	5 to 15 years
Equipment, fixtures, fittings and vehicles	3 to 10 years

Estimated useful lives and residual values are reviewed annually and adjusted, if appropriate, in light of technological developments, usage and other relevant factors.

Assets are reviewed for indicators of impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount is not recoverable the asset is written down immediately to the estimated recoverable amount.

Gains and losses on disposals are included in other operating income/(expense) in the income statement.

Taxation

Current tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Accounting for taxation involves estimation and judgement in relation to situations in which applicable tax regulations are subject to interpretation. Management evaluates where uncertain taxation positions exist and recognises provisions where appropriate to reflect the best estimate of the probable outcome.

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised. The tax effects of tax losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Current and deferred tax are charged or credited in the income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the income statement (for example, in other comprehensive income or directly in equity). In this case, the tax appears in the same statement as the transaction that gave rise to it. An exception to this principle relates to the tax consequences of the Group's distributions on other equity instruments. Although such distributions are recognised directly in equity, the tax consequences are credited to the income statement, where the profit being distributed originally arose.

Notes to the financial statements (continued)

1. Statement of accounting policies (continued)

Employee benefits

(a) Pensions

The Group operates a number of defined benefit and defined contribution pension arrangements.

Defined benefit pension arrangements

A defined benefit plan is one that defines the benefit an employee will receive on retirement, depending on such factors as age, length of service and salary.

The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where a net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan. Refunds of a surplus are not considered to be available if the right to a surplus depends on the occurrence or non-occurrence of one or more uncertain future events not wholly within an entity's control. The rights of third parties, such as trustees, are considered in assessing the extent to which a surplus can be recognised.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows derived from yields of high-quality corporate bonds that have terms to maturity approximating to the terms of the related pension liability.

Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in forward-looking actuarial assumptions. Actuarial remeasurements are recognised in full, in the year they occur, in other comprehensive income.

Past service costs are recognised immediately in the income statement.

Defined contribution pension arrangements

A defined contribution arrangement is one into which the Group and the employee pay fixed contributions, without any further obligation to pay additional contributions. Payments to defined contribution schemes are charged to the income statement as they fall due.

(b) Other post-retirement obligations

The Group provides post-retirement healthcare to a small number of former employees. The Group recognises this obligation and the actuarial remeasurement in a similar manner to the defined benefit pension plans.

(c) Other long-term employee benefits

The cost of bonuses and other long-term employee benefits payable 12 months or more after the end of the year in which they are earned is accrued over the period from the start of the performance year until all relevant criteria have been met.

(d) Short-term employee benefits

The cost of short-term employee benefits, including wages and salaries, social security costs and healthcare for current employees, is recognised in the year of service.

Provisions

A provision is recognised where there is a present obligation as a result of a past event, it is probable that the obligation will be settled, and it can be reliably estimated. This includes management's best estimate of amounts payable for customer redress.

The Group has an obligation to contribute to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet compensation claims from, in particular, retail depositors of failed banks. A provision is recognised, to the extent that it can be reliably estimated, when the levy is legally enforceable, in line with IFRIC 21 'Levies'. The amount provided is based on information received from the FSCS and the Group's historic share of industry protected deposits.

Financial assets

Financial assets comprise cash, loans and advances to banks and similar institutions, investment securities, derivative financial instruments and loans and advances to customers.

1. Statement of accounting policies (continued)

Recognition and derecognition

All financial assets are recognised initially at fair value. Purchases and sales of financial assets are accounted for at trade date. Financial assets acquired through a business combination or portfolio acquisition are recognised at fair value at the acquisition date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all the risks and rewards of ownership have been transferred.

The fair value of a financial instrument on initial recognition is normally the transaction price (plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss). On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. Any difference between the fair value at initial recognition and the transaction price is recognised immediately as a gain or loss in the income statement where the fair value is based on a quoted price in an active market or a valuation using only observable market data. In all other cases, any gain or loss is deferred and recognised over the life of the transaction, or until valuation inputs become observable.

Modification of contractual terms

An instrument that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms (such as renegotiations of commercial loans). Residential mortgages reaching the end of a fixed interest deal period are deemed repricing events, rather than a modification of contractual terms, as the change in interest rate at the end of the fixed rate period was envisaged in the original mortgage contract.

Where an instrument is renegotiated and not derecognised, the change is considered a modification of contractual terms. Where this arises, the gross carrying amount of the loan is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the loan's original effective interest rate. Any gain or loss on recalculation is recognised immediately in the income statement.

Classification and measurement

The classification and subsequent measurement of financial assets is based on an assessment of the Group's business models for managing the assets and their contractual cash flow characteristics. Financial assets are classified into the following three categories:

(a) Amortised cost

Financial assets held to collect contractual cash flows and where contractual terms comprise solely payments of principal and interest (SPPI) are classified as amortised cost. This category of financial assets includes cash, loans and advances to banks and similar institutions, the majority of the Group's residential and commercial mortgage loans, all unsecured lending, and certain investment securities within a 'hold to collect' business model.

Financial assets within this category are recognised on either the receipt of cash or deposit of funds into one of the Group's bank accounts (for cash and loans and advances to banks and similar institutions), when the funds are advanced to borrowers (for residential, commercial and unsecured lending) or on the trade date for purchases of investment securities. After initial recognition, the assets are measured at amortised cost using the effective interest rate method, less provisions for expected credit losses.

(b) Fair value through other comprehensive income

Debt instruments held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and where contractual terms comprise solely payments of principal and interest (SPPI), are classified and measured at FVOCI. This category of financial assets includes most of the Group's investment securities which are held to manage liquidity requirements.

Financial assets within this category are recognised on trade date. The assets are measured at fair value using, in the majority of cases, market prices or, where there is no active market, prices obtained from market participants. In sourcing valuations, the Group makes use of a consensus pricing service, in line with standard industry practice. In cases where market prices or prices from market participants are not available, discounted cash flow models are used.

Interest on FVOCI debt instruments is recognised in interest receivable and similar income in the income statement, using the effective interest rate method. Unrealised gains and losses arising from changes in value are recognised in other comprehensive income. Provisions for expected credit losses and foreign exchange gains or losses are recognised in the income statement. Cumulative gains or losses arising on sale of FVOCI debt instruments are recognised in the income statement within other operating income/(expense), net of any credit or foreign exchange gains or losses already recognised.

1. Statement of accounting policies (continued)

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 ‘Financial Instruments: Presentation’ and are not held for trading. Such classification is determined on an instrument-by instrument basis. Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income unless deemed to represent a recovery of part of the cost of the investment. Equity instruments at FVOCI are not subject to an impairment assessment.

(c) Fair value through profit or loss

All other financial assets are measured at FVTPL. Financial assets within this category primarily include derivative instruments and a small number of residential and commercial loans and investment securities with contractual cash flow characteristics which do not meet the SPPI criteria. The contractual terms for these cash flows include contingent or leverage features, or returns based on movements in underlying collateral values such as house prices.

Fair values are based on observable market data, valuations obtained from third parties or, where these are not available, internal models. Gains or losses arising from changes in the fair value of these instruments and on disposal are recognised in the income statement within other operating income.

Hedge accounting is not applied to assets classified as FVTPL; however, hedging may be applied for economic purposes. Gains or losses arising from changes in the fair value of derivatives economically hedging FVTPL financial assets are also included within other operating income.

Impairment of financial assets

Financial assets within the scope of IFRS 9 expected credit loss (ECL) requirements comprise all financial debt instruments measured at either amortised cost or FVOCI. These include cash, loans and advances to banks and similar institutions, and the majority of investment securities and loans and advances to customers. Also within scope are irrevocable undrawn commitments to lend and intra-group lending (the latter being eliminated on consolidation in the Group accounts).

The ECL represents the present value of expected cash shortfalls following the default of a financial instrument, including any undrawn commitment. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive.

The allowance for ECLs is based on an assessment of the probability of default, exposure at default and loss given default, discounted at the effective interest rate to give a net present value of cash flows. The estimation of ECLs is unbiased and probability weighted, taking into account all reasonable and supportable information, including forward-looking economic assumptions and a range of possible outcomes. ECLs are typically calculated from initial recognition of the financial asset for the maximum contractual period that the Group is exposed to the credit risk. However, for revolving credit loans such as credit cards and overdrafts, the Group’s credit risk is not limited to their contractual period and therefore the expected life of the loan and associated undrawn commitment is calculated based on the behavioural life of the loan.

For financial assets recognised in the balance sheet at amortised cost, the allowance for ECLs is offset against the gross carrying value so that the amount presented in the balance sheet is net of impairment provisions. For financial assets classified as FVOCI, any credit losses recognised are offset against cumulative fair value movements within the other comprehensive income reserve. For separately identifiable irrevocable loan commitments, where the related financial asset has not yet been advanced, the provision is presented in provisions for liabilities and charges in the balance sheet.

Forward-looking economic inputs

ECLs are calculated by reference to information on past events, current conditions and forecasts of future economic conditions. Multiple economic scenarios are incorporated into ECL calculation models. These scenarios are based on external sources where available and appropriate, and internally generated assumptions in all other cases. To capture any non-linear relationship between economic assumptions and credit losses, a minimum of four scenarios is used. This includes a base case scenario together with upside, downside and severe downside scenarios representing alternative plausible views of economic conditions, weighted based on management’s view of their probability.

Credit risk categorisation

For the purpose of calculating ECLs, assets are categorised into three 'stages' as follows:

Stage 1: no significant increase in credit risk since initial recognition

On initial recognition, and for financial assets where there has not been a significant increase in credit risk since the date of advance, provision is made for losses from credit default events expected to occur within the next 12 months. Expected credit losses for these stage 1 assets continue to be recognised on this basis unless there is a significant increase in the credit risk of the asset.

1. Statement of accounting policies (continued)

Stage 2: significant increase in credit risk

Financial assets are categorised as being within stage 2 where an instrument has experienced a significant increase in credit risk since initial recognition. For these assets, provision is made for losses from credit default events expected to occur over the lifetime of the instrument.

Whether a significant increase in credit risk has occurred is ascertained by comparing the probability of default at the reporting date to the probability of default at origination, based on quantitative and qualitative factors. Quantitative considerations take into account changes in the residual lifetime probability of default (PD) of the asset. As a backstop, all assets with an arrears status of more than 30 days past due on contractual payments are considered to be in stage 2.

Qualitative factors that may indicate a significant change in credit risk include concession events where full repayment of principal and interest is envisaged, on a discounted basis.

Further information about the identification of significant increases in credit risk is provided in note 10.

Stage 3: credit impaired (or defaulted) loans

Financial assets are transferred into stage 3 when there is objective evidence that an instrument is credit impaired. Provisions for stage 3 assets are made on the basis of credit default events expected to occur over the lifetime of the instrument. Assets are considered credit impaired when:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay such as signs of financial difficulty, probable bankruptcy, breaches of contract and concession events which have a detrimental impact on the present value of future cash flows; or
- the loan is otherwise considered to be in default.

Interest income on stage 3 credit impaired loans is recognised in the income statement on the loan balance net of the ECL provision. The gross balance sheet value of stage 3 loans reflects the contractual terms of the assets and continues to increase over time with the contractually accrued interest.

Purchased or originated credit impaired (POCI) loans

Where loans are credit-impaired on origination, or when purchased from third parties, lifetime ECLs are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition, and the amount recognised as a loss allowance subsequently is equal to the changes in lifetime ECLs since initial recognition of the asset discounted at the credit impaired EIR. POCI loans are separately disclosed as credit-impaired loans and cannot be transferred out of the POCI designation, even if there is a significant improvement in credit quality.

Transfers between stages

Transfers from stage 1 to 2 occur when there has been a significant increase in credit risk and from stage 2 to 3 when credit impairment is indicated as described above.

Loans in stage 2 or 3 can transfer back to stage 1 or 2 once the criteria for a significant increase in credit risk or impairment are no longer met. For loans subject to concession events such as forbearance, accounts are transferred back to stage 1 or 2 only after being up to date for a period of 12 months.

Write-off

Loans remain on the balance sheet, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally written off after realisation of any proceeds from collateral and upon conclusion of the collections process, including consideration of whether an account has reached a point where continuing attempts to recover are no longer likely to be successful. Where a loan is not recoverable, it is written off against the related provision for loan impairment once all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the value of impairment charges recorded in the income statement.

Financial liabilities

Borrowings, including shares, deposits, debt securities in issue, subordinated liabilities and permanent interest-bearing shares (subscribed capital) are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

Derivative financial liabilities are measured at FVTPL. Borrowings that are designated as hedged items are subject to measurement under the hedge accounting requirements described in the derivatives and hedge accounting policy below.

Strategic report
Governance
Risk report
Financial statements
Other information

1. Statement of accounting policies (continued)

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired. The financial liabilities of dormant shares and deposit accounts are extinguished when balances have been transferred to the Government-backed unclaimed asset scheme under the terms of the Dormant Accounts and Building Society Accounts Act 2008 with no impact on the income statement.

Fair value of assets and liabilities

IFRS 13 'Fair Value Measurement' requires an entity to classify assets and liabilities held at fair value, and those not measured at fair value but for which the fair value is disclosed, according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. The three levels of the fair value hierarchy are defined below:

Level 1 – Valuation using quoted market prices

Assets and liabilities are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price reflects actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 – Valuation technique using observable inputs

Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuations based on observable inputs include derivative financial instruments such as swaps and forward rate agreements which are valued using market standard pricing techniques, and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable. They also include investment securities valued using consensus pricing or other observable market prices.

Level 3 – Valuation technique using significant unobservable inputs

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price. An input is deemed significant if it is shown to contribute more than 10% to the valuation of a financial instrument.

Derivatives and hedge accounting

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risk, and are not used for speculative purposes.

(a) Derivative financial instruments

Derivatives are carried at fair value with movements in fair values recorded in the income statement. Derivative financial instruments are principally valued by discounted cash flow models using yield curves that are based on observable market data or on valuations obtained from third parties. Discounting uses the appropriate risk-free rate for the currency of the cash flow; for example, GBP cash flows are discounted using a Sonia yield curve. GBP Libor is no longer used for discounting following its discontinuation in December 2021.

In the first instance fair values are calculated using mid prices. An adjustment is then made to derivative assets and liabilities to value them on a bid and offer basis respectively. The bid-offer adjustment is calculated on a portfolio basis and reflects the costs that would be incurred if substantially all residual net portfolio market risks were closed out using available hedging instruments or by disposing of or unwinding actual positions. The methodology for determining the bid-offer adjustments involves netting between long and short positions and the grouping of risk by type, in accordance with the hedging strategy. Bid-offer spreads are derived from market sources such as broker data and are reviewed periodically.

In measuring fair value, separate credit valuation and debit valuation adjustments are made for counterparty or own credit risk to the extent not already included in the valuation. Funding valuation adjustments are also made to reflect an estimate of the adjustment a market participant would make to incorporate funding costs and benefits that arise in relation to derivative exposures.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative. Where there is the legal right and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

1. Statement of accounting policies (continued)

Where cash collateral is received, to mitigate the risk inherent in amounts due to the Group, it is included as a liability within deposits from banks and similar institutions. Similarly, where cash collateral is given, to mitigate the risk inherent in amounts due from the Group, it is included as an asset in loans and advances to banks and similar institutions. Where securities collateral is received the securities are not recognised in the accounts as the Group does not obtain the risks and rewards of the securities. Where securities collateral is given, the securities are not derecognised as the Group retains substantially all the risks and rewards of ownership.

(b) Embedded derivatives

Some complex contracts may be hybrid in nature, in that a derivative element is included within a non-derivative host contract, in which case the derivative is termed an embedded derivative. If the host contract is an asset within the scope of IFRS 9 the entire contract has its accounting classification assessed under IFRS 9. If the host contract is a liability or an asset which does not fall within the scope of IFRS 9, the embedded derivative is separated and treated as a standalone derivative instrument if:

- its economic characteristics are not closely related to the host,
- a separate instrument with the same terms would meet the definition of a derivative, and
- the hybrid contract is not already being fair valued through the income statement.

(c) Hedge accounting

The Group has adopted the general hedge accounting requirements of IFRS 9 but continues to apply the scope exception which allows ongoing application of IAS 39 for fair value hedge accounting for a portfolio (macro) hedge of interest rate risk. When transactions meet the criteria specified in IFRS 9, the Group can apply two types of hedge accounting: either hedges of the changes in fair value of the financial asset or liability (fair value hedge accounting) or hedges of the variability in cash flows of the financial asset or liability (cash flow hedge accounting). The Group does not have hedges of net investments.

At inception each hedge relationship is formally documented, including a description of the hedged item (a financial asset or liability which is being economically hedged) and the hedging instrument (a derivative), as well as the methods which will be used to assess the effectiveness of the hedge. Hedges accounted for under IFRS 9 are required to be effective on a prospective basis, in line with risk management strategy. Macro hedges which continue to be accounted for under IAS 39 are required to be highly effective on both a retrospective and a prospective basis.

Fair value and cash flow hedges may have residual hedge ineffectiveness. This is the degree to which the change in fair value of the hedging instrument does not offset the change in fair value of the hedged item. This ineffectiveness is recognised in the income statement and typically arises from:

i) differences in the magnitude or timing of future expected cash flows in the hedged item and hedging instrument;
ii) differences in the market curves used to value the hedged item and hedging instrument;
iii) unexpected adjustments to either the hedged item or hedging instrument, due to early repayments or disposals; or
iv) the ongoing amortisation of any existing balance sheet mismatch between the fair value of the hedged item and hedging instrument.

The Group discontinues hedge accounting when:

i) it is evident from testing that a hedging instrument ceases to meet the hedge effectiveness requirements;
ii) the hedging instrument expires, or is sold, terminated or exercised; or
iii) the hedged item matures, is sold or repaid or, in the case of a forecasted item, is no longer deemed to be highly probable to occur.

For macro hedges which continue to be accounted for under IAS 39, the Group may also decide to cease hedge accounting even though the hedge relationship continues to be highly effective by ceasing to designate the financial instrument as a hedge. For hedges accounted for under IFRS 9, the Group is unable to voluntarily de-designate hedging relationships, unless there has been a change to risk management objectives.

Fair value hedge accounting

Fair value hedge accounting results in the carrying value of the hedged item being adjusted to reflect changes in fair value attributable to the risk being hedged. This creates an offset to the fair value movements of the hedging instrument. Changes in the fair value of the hedged items and hedging instruments are recorded in the income statement, except for changes in the fair value of hedging instruments accounted for under IFRS 9 which are attributable to foreign currency basis spreads. Where foreign currency basis spreads are excluded from hedge designation, this element of fair valuation of the hedging instrument is instead recognised directly within equity within the 'other hedging reserve'.

1. Statement of accounting policies (continued)

For larger and distinctively identifiable assets and liabilities, such as investment securities and debt securities in issue, a single or small number of hedging instruments may be used. This is referred to as a micro fair value hedge. If the hedge is effective, the Group adjusts the carrying value of that specific asset or liability to reflect changes in its fair value due to movements in the designated benchmark rate, such as Sonia. This creates an offset to the fair value movement of the hedging instruments.

For hedged items which are classified as FVOCI, such as investment securities, there is no further need to adjust their carrying value as they are already held at fair value. Instead, hedge accounting results in an amount being removed from the FVOCI reserve and instead reported in the income statement, to create an offset to the change in fair value of the hedging instrument.

For balances within portfolios of homogeneous instruments, such as mortgages, savings and commercial loans, derivatives may be used to hedge risks on a portfolio basis. The Group creates separate portfolio (macro) hedges for assets and liabilities. The Group determines the hedged item by identifying portfolios of similar assets or liabilities and scheduling the expected future cash flows from these items into repricing time buckets, based on expected rather than actual repricing dates. A portion of the total cash flow from each time bucket is then included in the hedged item. The size of this portion is set so that it is expected to create a highly effective fair value offset to the equivalent future cash flows from the hedging instruments. If the hedge is highly effective the Group records an adjustment in the fair value adjustment for portfolio hedged risk category on the balance sheet. Macro hedges are frequently rebalanced to include new business.

In fair value hedge accounting relationships, if the hedging instrument no longer meets the criteria for hedge accounting, the cumulative fair value hedge adjustment is amortised over the period to maturity of the previously designated hedge relationship. If the hedged item is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement.

Cash flow hedge accounting

In a cash flow hedge accounting relationship, the portion of the hedging instrument's fair value movement that is deemed to be an effective hedge is deferred to the cash flow hedge reserve, instead of being immediately recognised in the income statement. The ineffective portion of the derivative fair value movement is recognised immediately in the income statement.

Amounts deferred to the cash flow hedge reserve are subsequently recycled to the income statement. This recycling occurs when the underlying asset or liability being hedged impacts the income statement, for example when interest payments are recognised. In cash flow hedge accounting relationships, if the derivative no longer meets the criteria for hedge accounting, the cumulative gain or loss from the effective portion of the movement in the fair value of the derivative remains in other comprehensive income until the cash flows from the underlying hedged item are recognised in the income statement. If the hedged item is sold or repaid, the cumulative gain or loss in other comprehensive income is immediately recognised in the income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet if, and only if, there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Sale and repurchase agreements (including securities borrowing and lending)

Investment and other securities may be lent or sold subject to a commitment to repurchase them at a pre-determined price (a repo). Such securities are retained on the balance sheet when substantially all the risks and rewards of ownership (typically, the interest rate risk and credit risk on the asset) remain within the Group, and the counterparty liability is included separately on the balance sheet within deposits from banks and similar institutions as appropriate.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a reverse repo) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans within loans and advances to banks and similar institutions, and the securities are not included on the balance sheet.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest rate method.

1. Statement of accounting policies (continued)

Equity instruments

Issued financial instruments are classified as equity instruments where the contractual arrangement with the holder does not result in the Group having a present obligation to deliver cash, another financial asset or a variable number of equity instruments. Where the Group does have a present obligation, the instrument is classified as a financial liability.

The proceeds of the issuance of equity instruments are included in equity. Costs incurred that are incremental and directly attributable to the issuance are deducted from the proceeds (net of applicable tax).

Distributions to holders of equity instruments are recognised when they become irrevocable and are deducted from the general reserve.

Inventories

Inventories relating to property development activities are held at the lower of cost and net realisable value and are included within other assets on the balance sheet. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing and selling.

Foreign currency translation

The consolidated financial statements are presented in sterling, which is the functional currency of the Society. Items included in the financial statements of each of the Group's entities are measured using sterling which is also the functional currency of each entity. Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the balance sheet date. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement as disclosed in note 7.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, included within cash and loans and advances to banks and similar institutions on the balance sheet.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by the outcome of uncertain future events, and present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognised on the balance sheet but are disclosed unless the likelihood of an outflow of economic resources is remote.

IFRS disclosures

The audited sections in the Risk report and the Report of the directors on remuneration form an integral part of these financial statements. These disclosures (where marked as 'audited') are covered by the Independent auditor's report for this Annual Report and Accounts.

2. Judgements in applying accounting policies and critical accounting estimates

The preparation of the Group's financial statements in accordance with IFRS involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 4 April 2022, this evaluation has considered the ongoing impacts of Covid-19. In preparing the 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 10	Note 10
Provisions for customer redress	Note 27	
Retirement benefit obligations (pensions)	Note 30	

3. Interest receivable and similar income

	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
On financial assets measured at amortised cost:				
Residential mortgages	**4,278**	4,246	**3,080**	3,110
Connected undertakings	**-**	-	**805**	833
Other loans	**531**	557	**525**	548
Other liquid assets	**109**	35	**108**	31
Investment securities	**10**	16	**10**	16
On investment securities measured at FVOCI	**134**	137	**134**	137
On financial instruments hedging assets in a qualifying hedge accounting relationship	**(561)**	(869)	**(561)**	(869)
Total interest receivable and similar income calculated using the effective interest rate method	**4,501**	4,122	**4,101**	3,806
Interest on net defined benefit pension surplus (note 30)	**4**	7	**4**	7
Other interest and similar expense (note i)	**7**	(5)	**6**	(5)
Total	**4,512**	4,124	**4,111**	3,808

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

4. Interest expense and similar charges

	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
On shares held by individuals	**456**	527	**456**	527
On subscribed capital	**13**	14	**13**	14
On deposits and other borrowings:				
Subordinated liabilities	**258**	281	**258**	281
Connected undertakings	**-**	-	**18**	25
Other	**99**	56	**99**	56
On debt securities in issue	**449**	539	**427**	505
Net income on financial instruments hedging liabilities	**(325)**	(439)	**(185)**	(255)
Total	**950**	978	**1,086**	1,153

5. Fees and commission income and expense

	2022			2021		
	Income	**Expense**	**Net**	Income	Expense	Net
Group	**£m**	**£m**	**£m**	£m	£m	£m
Current account and savings	**308**	**(171)**	**137**	228	(183)	45
General insurance	**41**	**-**	**41**	46	-	46
Protection and investments	**58**	**-**	**58**	52	-	52
Mortgage	**24**	**(10)**	**14**	18	(8)	10
Credit card	**39**	**(31)**	**8**	30	(34)	(4)
Other fees and commissions	**5**	**(6)**	**(1)**	5	(6)	(1)
Total	**475**	**(218)**	**257**	379	(231)	148

The Society's fee and commission income and expense is as shown above for the Group, except that it excludes £4 million (2021: £4 million) of mortgage income.

6. Other operating income/expense

	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Gains/(losses) on financial assets measured at FVTPL	**9**	-	**8**	(1)
Gains on disposal of FVOCI investment securities	**47**	41	**47**	41
Recharges for services to connected undertakings	**-**	-	**66**	54
Other expense	**(8)**	(50)	**(15)**	(46)
Total	**48**	(9)	**106**	48

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.

In addition, other expense for the Society includes impairments of investments in, and dividends received from, Group undertakings. Further details are included in note 33.

There were no gains or losses on disposal of financial assets measured at amortised cost in the year ended 4 April 2022 (2021: £nil).

Strategic report
Governance
Risk report
Financial statements
Other information

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

Note 1 describes how fair value and cash flow hedge accounting affect the financial statements and the main sources of the residual hedge ineffectiveness remaining in the income statement. Further information on the current derivative portfolio and the allocation to hedge accounting types is included in note 15.

	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
(Losses)/gains from fair value hedge accounting	**(21)**	-	**(9)**	38
Gains/(losses) from cash flow hedge accounting	**2**	(1)	**1**	(1)
Fair value gains/(losses) from other derivatives (note i)	**13**	45	**2**	(46)
Foreign exchange retranslation (note ii)	**(1)**	(10)	**-**	(12)
Total	**(7)**	34	**(6)**	(21)

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. Losses/gains from derivatives and hedge accounting (continued)

Fair value hedge accounting

Interest rate and currency derivatives are used to economically hedge the fair value of fixed rate assets and liabilities. The market risk from fixed rate assets and liabilities may be netted down before deciding to use derivatives. The derivatives used are predominantly interest rate swaps, which convert fixed rate cash flows to a benchmark floating rate such as Sonia, and cross currency swaps which convert foreign currency cash flows to GBP cash flows. In addition, bond forwards are used to reduce swap spread risk within the investment securities portfolio and inflation swaps are used to economically hedge contractual inflation risk within investment securities. The table below provides further information on the Group's fair value hedges:

Fair value hedge accounting 2022 Group			**Change in fair value used for determining hedge ineffectiveness**		**Hedge ineffectiveness recognised in the income statement**	**Carrying amount of the hedged item**	**Of which: accumulated fair value adjustment**
Hedged item balance sheet classification	**Hedging instrument**	**Risk category**	**Hedged item**	**Instrument (note i)**			
			£m	**£m**	**£m**	**£m**	**£m**
Assets:							
Loans and advances to customers (note ii)	Interest rate swaps	Interest rate	**(3,493)**	**3,474**	**(19)**	**96,439**	**(1,894)**
Investment securities	Interest rate swaps, bond forwards	Interest rate	**(226)**	**232**	**6**	**3,924**	**(367)**
Investment securities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	**(773)**	**768**	**(5)**	**14,335**	**(681)**
Investment securities	Interest rate swaps, inflation swaps, cross currency interest rate swaps	Interest rate, inflation and foreign exchange	**(10)**	**12**	**2**	**1,189**	**(20)**
Investment securities	Inflation swaps	Interest rate and inflation	**6**	**(3)**	**3**	**3,238**	**69**
Total assets			**(4,496)**	**4,483**	**(13)**	**119,125**	**(2,893)**
Liabilities:							
Shares (note iii)	Interest rate swaps	Interest rate	**14**	**-**	**14**	**11**	**11**
Debt securities in issue	Interest rate swaps	Interest rate	**92**	**(90)**	**2**	**3,003**	**58**
Debt securities in issue	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	**1,000**	**(1,023)**	**(23)**	**17,395**	**(374)**
Subordinated liabilities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	**386**	**(386)**	**-**	**8,250**	**(81)**
Subscribed capital	Interest rate swaps	Interest rate	**18**	**(19)**	**(1)**	**182**	**15**
Total liabilities			**1,510**	**(1,518)**	**(8)**	**28,841**	**(371)**
Total fair value hedges			**(2,986)**	**2,965**	**(21)**		

7. Losses/gains from derivatives and hedge accounting (continued)

Fair value hedge accounting 2021 Group Hedged item balance sheet classification	Hedging instrument	Risk category	Change in fair value used for determining hedge ineffectiveness Hedged item £m	 Instrument (note i) £m	Hedge ineffectiveness recognised in the income statement £m	Carrying amount of the hedged item £m	Of which: accumulated fair value adjustment £m
Assets:							
Loans and advances to customers (note ii)	Interest rate swaps	Interest rate	(915)	967	52	102,777	1,599
Investment securities	Interest rate swaps, bond forwards	Interest rate	(547)	551	4	4,900	(141)
Investment securities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	(260)	282	22	12,527	92
Investment securities	Interest rate swaps, inflation swaps, cross currency interest rate swaps	Interest rate, inflation and foreign exchange	(10)	10	-	822	(10)
Investment securities	Inflation swaps	Interest rate and inflation	5	(4)	1	4,171	63
Total assets			(1,727)	1,806	79	125,197	1,603
Liabilities:							
Shares (note iii)	Interest rate swaps	Interest rate	4	(6)	(2)	25	25
Debt securities in issue	Interest rate swaps	Interest rate	41	(41)	-	3,272	150
Debt securities in issue	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	339	(390)	(51)	18,824	626
Subordinated liabilities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	330	(355)	(25)	6,010	305
Subscribed capital	Interest rate swaps	Interest rate	10	(11)	(1)	233	33
Total liabilities			724	(803)	(79)	28,364	1,139
Total fair value hedges			(1,003)	1,003	-		

Notes:

i. The Group does not include cross currency basis spreads within its hedge accounting relationships. The change in fair value is instead deferred to an 'other hedging reserve' and so is not included in the change in value of the hedging instrument.

ii. Some of the Group's loans and advances to customers have been included as hedged items in macro fair value hedges of interest rate risk. The accumulated fair value hedge adjustment includes £(2,443) million (2021: £946 million) which is recognised in the separate balance sheet asset 'fair value adjustment for portfolio hedged risk.' The remaining amount relates to the fair value adjustment to commercial loans in a micro fair value hedge accounting relationship and is included in the carrying value of these loans as shown in note 14.

iii. During the year ended 4 April 2021, shares were no longer designated in a fair value hedge accounting relationship. As a result, the carrying amount of the hedged item presented in the table above represents the value of the historic hedge adjustments remaining from previous hedge relationships, which are amortising over the life of the shares.

7. Losses/gains from derivatives and hedge accounting (continued)

Cash flow hedge accounting

The Group's risk management approach may involve creating future cash flow certainty. The Group uses cross currency interest rate swaps to hedge non-sterling investment securities, debt securities in issue and subordinated liabilities. A portion of the interest rate flows within these derivatives has been included as a hedging instrument in cash flow hedges. In addition, inflation swaps are used to hedge RPI-linked debt securities in issue. The table below provides further information on the Group's cash flow hedges:

Cash flow hedge accounting 2022 Group			Change in fair value used for determining hedge ineffectiveness		Changes in instrument fair value reported as		Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation)	
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item	Hedging instrument	Hedge ineffectiveness recognised in the income statement	Net amounts deferred to other comprehensive income (note i)	Continuing hedges	Discontinued hedges
			£m	£m	£m	£m	£m	£m
Assets:								
Investment securities	Cross currency interest rate swaps	Interest rate and foreign exchange	(1)	2	1	1	1	-
Total assets			(1)	2	1	1	1	-
Liabilities:								
Debt securities in issue	Inflation swaps	Interest rate and inflation	(14)	14	-	14	15	-
Debt securities in issue	Cross currency interest rate swaps	Interest rate and foreign exchange	-	1	1	-	(9)	222
Subordinated liabilities	Cross currency interest rate swaps	Interest rate and foreign exchange	(22)	22	-	22	6	18
Total liabilities			(36)	37	1	36	12	240
Total cash flow hedges			(37)	39	2	37	13	240

7. Losses/gains from derivatives and hedge accounting (continued)

Cash flow hedge accounting								
2021			Change in fair value used for determining hedge ineffectiveness		Changes in instrument fair value reported as		Amounts accumulated in the cash flow hedge reserve (excluding deferred taxation)	
Group					Hedge ineffectiveness recognised in the income statement	Net amounts deferred to other comprehensive income (note i)		
Hedged item balance sheet classification	Hedging instrument	Risk category	Hedged item	Hedging instrument			Continuing hedges	Discontinued hedges
			£m	£m	£m	£m	£m	£m
Liabilities:								
Debt securities in issue	Inflation swaps	Interest rate and inflation	(3)	2	(1)	3	1	-
Debt securities in issue	Cross currency interest rate swaps	Interest rate and foreign exchange	20	(20)	-	(20)	(9)	263
Subordinated liabilities	Cross currency interest rate swaps	Interest rate and foreign exchange	71	(71)	-	(71)	(16)	29
Total liabilities			88	(89)	(1)	(88)	(24)	292
Total cash flow hedges			88	(89)	(1)	(88)	(24)	292

Note:

i. The net deferral to other comprehensive income of gains before tax of £37 million (2021: losses of £88 million) is shown within the cash flow hedge reserve section of the statements of comprehensive income. The cash flow hedge reserve also includes amounts previously deferred on instruments which have since been migrated to fair value hedges. Amortisation of these amounts of £52 million (2021: £61 million) is presented within the fair value hedge accounting table within the change in fair value of the hedging instrument.

8. Administrative expenses

		Group		Society	
		2022	2021	**2022**	2021
	Notes	**£m**	£m	**£m**	£m
Employee costs:					
Wages and salaries		**542**	570	**542**	570
Bonuses		**64**	30	**64**	30
Social security costs		**71**	72	**71**	72
Pension costs	30	**145**	180	**145**	180
		822	852	**822**	852
Other administrative expenses:					
Other staff related costs		**32**	54	**32**	54
Property costs		**85**	104	**85**	104
Printing, postage and stationery		**32**	30	**32**	30
IT and communications		**333**	294	**333**	294
Marketing and advertising		**50**	62	**50**	62
Product operating costs		**51**	45	**50**	45
Legal, professional and consultancy		**98**	78	**98**	78
Other operating costs (note i)		**120**	75	**118**	73
		801	742	**798**	740
Bank levy		**16**	27	**16**	27
Depreciation, amortisation and impairment		**595**	597	**595**	597
Total		**2,234**	2,218	**2,231**	2,216

Note:
i. Other operating costs includes fraud-related losses.

The bonus expense within employee costs in the above table includes £7 million (2021: £4 million) of long-term bonuses which will be paid more than one year from the balance sheet date.

Executive directors and certain senior executives are entitled to bonus payments under the Directors' Performance Award (DPA) scheme. Under this scheme, awards are based on current year results but are paid over a period of up to seven years, with part of the awards linked to the value of Nationwide's core capital deferred shares (CCDS). The payment of deferred elements remains subject to further discretion by the Remuneration Committee. These bonuses are recognised in the income statement over the period from the start of the performance year until all relevant criteria have been met.

8. Administrative expenses (continued)

The table below shows actual and expected charges to the income statement in respect of all DPA bonuses for each relevant scheme year:

Income statement charge for long-term bonuses				
	Group and Society			
	Actual 2020/21	**Actual 2021/22 (note i)**	Expected 2022/23 (note ii)	Expected 2023/24 and beyond (note ii)
	£m	**£m**	£m	£m
Directors Performance Award:				
2019/20 and previous years	6.7	**3.0**	0.4	0.4
2020/21	4.7	**2.5**	0.5	0.5
2021/22	-	**10.3**	4.1	3.8
Income statement charge for long-term bonuses	11.4	**15.8**	5.0	4.7

Notes:

i. In the year ended 4 April 2022, £7 million (2021: £6 million) was recognised in the income statement in relation to awards linked to share based payments, being amounts dependent on the performance of the Group's CCDS. This payment is deferred and therefore included in accruals and deferred income on the balance sheet.

ii. The amounts expected are based on past performance and are subject to change as a result of future leavers and CCDS performance.

Directors' emoluments, including details of the bonus scheme, are shown in the Report of the directors on remuneration in accordance with Schedule 10A, paragraphs 1 to 9 of the Building Societies Act 1986.

The remuneration of the external auditors, Ernst & Young LLP (EY), is set out below:

External auditors' remuneration				
	Group		**Society**	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Audit fees for the Group and Society statutory audit	**4.9**	4.3	**4.9**	4.3
Fees payable for other services:				
Audit of Group subsidiaries	**0.3**	0.3	**-**	-
Audit-related assurance services	**0.5**	0.6	**0.5**	0.6
Total audit and audit-related assurance services	**5.7**	5.2	**5.4**	4.9
Other non-audit services	**0.5**	-	**0.5**	-
Total	**6.2**	5.2	**5.9**	4.9

9. Employees

Average number of persons employed during the year	Group		Society	
	2022	2021	**2022**	2021
Full time	**13,416**	14,066	**13,410**	14,060
Part time	**4,270**	4,578	**4,270**	4,578
Total	**17,686**	18,644	**17,680**	18,638

10. 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	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Prime residential	**(19)**	39	**(20)**	38
Buy to let and legacy residential	**(109)**	32	**(1)**	1
Consumer banking	**93**	125	**93**	125
Commercial and other lending	**8**	(6)	**8**	(6)
Total	**(27)**	190	**80**	158

Impairment provisions	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Prime residential	**73**	93	**72**	92
Buy to let and legacy residential	**114**	224	**3**	5
Consumer banking	**529**	502	**529**	502
Commercial and other lending	**30**	33	**30**	33
Total	**746**	852	**634**	632

10. 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.

10. 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 Society'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 Society'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.

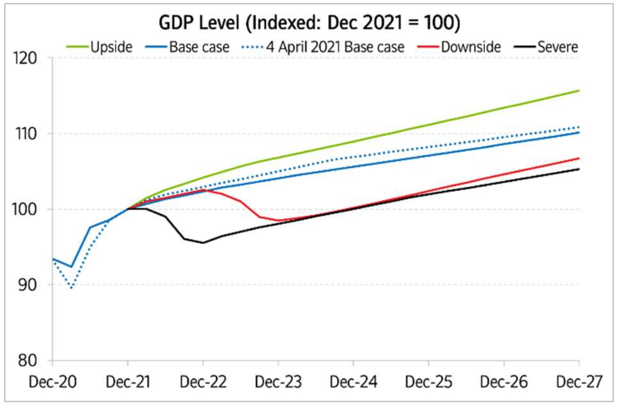
The bank base rate is forecast to increase to 1.25% by Q1 2023 in the base case scenario, reflecting tighter fiscal policy to mitigate inflation. Real incomes decline in each of the economic scenarios due to a rise in living costs, with inflation in the base case scenario expected to reach 7.5% during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

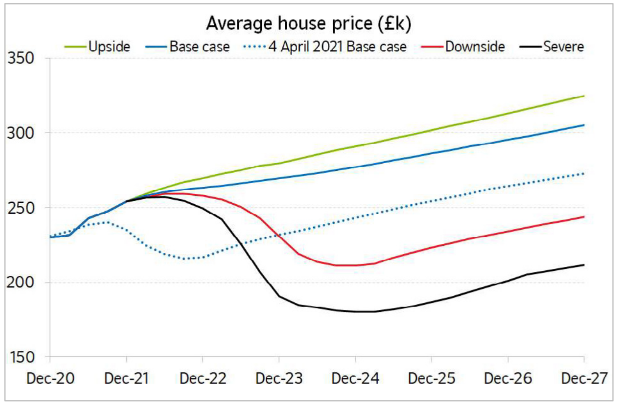
During the year, judgements made in estimating losses in the severe downside scenario have been incorporated into the provision models and an adjustment to model outputs is no longer required, with all risks in the scenario now reflected through modelled probability of default (2021: adjustment to provisions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

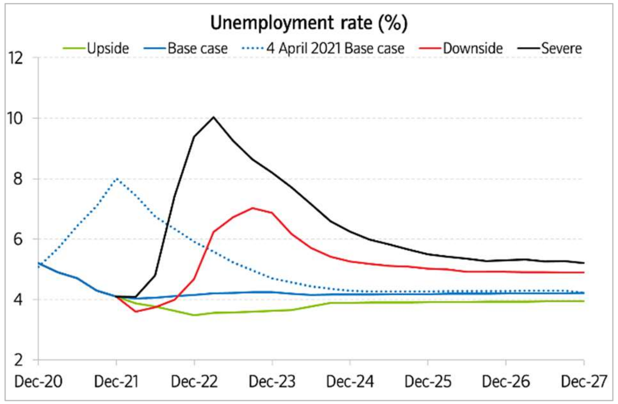
10. Impairment release/charge and provisions on loans and advances to customers (continued)

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)

10. 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.

10. 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						Proportion of balances in stage 2				
	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported provision	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario (note i)	Reported
4 April 2022	**£m**	**£m**	**£m**	**£m**	**£m**	**%**	**%**	**%**	**%**	**%**
Residential mortgages	**134**	**131**	**184**	**465**	**187**	**8.9**	**8.0**	**8.8**	**23.9**	**8.3**
Consumer banking	**476**	**487**	**525**	**740**	**529**	**34.4**	**36.2**	**42.4**	**58.7**	**37.1**
Commercial lending	**29**	**30**	**30**	**31**	**30**	**2.9**	**2.9**	**2.9**	**2.9**	**2.9**
Total	**639**	**648**	**739**	**1,236**	**746**					
4 April 2021	£m	£m	£m	£m	£m	%	%	%	%	%
Residential mortgages	158	212	261	998	317	5.9	5.4	5.9	6.4	5.6
Consumer banking	428	449	458	916	502	20.1	22.1	26.1	31.0	22.5
Commercial lending	29	32	34	38	33	3.5	3.5	3.7	3.9	3.5
Total	615	693	753	1,952	852					

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.

10. 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.

10. 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.

11. Taxation

Tax charge in the income statement	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax	**368**	226	**250**	134
Adjustments in respect of prior years	**(19)**	(6)	**(19)**	(6)
Total current tax	**349**	220	**231**	128
Deferred tax:				
Current year (credit)/charge	**(1)**	(26)	**12**	(13)
Adjustments in respect of prior years	**(4)**	16	**-**	11
Effect of deferred tax provided at different tax rates	**1**	(5)	**3**	(5)
Total deferred taxation	**(4)**	(15)	**15**	(7)
Tax charge	**345**	205	**246**	121

11. Taxation (continued)

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

Reconciliation of tax charge	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Profit before tax:	**1,597**	823	**1,011**	363
Tax calculated at a tax rate of 19%	**303**	156	**192**	69
Adjustments in respect of prior years	**(23)**	10	**(19)**	5
Tax credit on distribution to the holders of Additional Tier 1 capital	**(15)**	(12)	**(15)**	(12)
Banking surcharge	**72**	38	**72**	38
Temporary differences where no deferred tax is recognised	**1**	2	**1**	2
Expenses not deductible for tax purposes/(income not taxable):				
Depreciation on non-qualifying assets	**2**	2	**2**	2
Bank levy	**3**	5	**3**	5
Effect of results of LLP structured entity (note i)	**-**	-	**3**	9
Customer redress	**4**	8	**4**	8
Other	**(3)**	1	**-**	-
Effect of deferred tax provided at different tax rates	**1**	(5)	**3**	(5)
Tax charge	**345**	205	**246**	121

Note:
i. The Society is liable for tax on the results of Nationwide Covered Bonds LLP, the profit or loss of which is reported within that entity.

The tax on items through other comprehensive income is as follows:

Tax charge/(credit) on items through other comprehensive income	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Relating to:				
FVOCI investment securities	**(6)**	48	**(10)**	47
Cash flow hedges	**(4)**	(41)	**8**	(24)
Other hedging	**1**	(2)	**1**	(2)
Unrealised revaluation gains	**2**	(11)	**2**	(11)
Retirement benefit obligations	**293**	(40)	**292**	(40)
Total	**286**	(46)	**293**	(30)

11. Taxation (continued)

Deferred tax

Deferred tax is determined using tax rates that are expected to apply in the period when the deferred tax asset is realised or deferred tax liability is settled based on rates enacted or substantively enacted at the balance sheet date, including the banking surcharge where applicable. It was announced in the Budget on 3 March 2021 that the main rate of corporation tax of 19% would be increased to 25% with effect from 1 April 2023. This legislative change was enacted on 10 June 2021. On 27 October 2021 it was announced in the Budget that the banking surcharge would decrease from 8% to 3%, also from 1 April 2023. This legislative change was enacted on 24 February 2022. The impact of the increase in the main rate of corporation tax to 25% and the decrease in the banking surcharge to 3% on deferred tax balances is a decrease in the Group's net deferred tax liability of £1 million consisting of a decrease of £3 million recognised in the income and expenditure account and an increase of £2 million recognised in other comprehensive income.

The movements on the deferred tax account are as follows:

Movements in deferred taxation	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
At 5 April	(78)	(131)	-	(46)
Deferred tax credit/(charge) in the income statement:				
Fixed assets timing differences	**2**	13	**2**	13
Temporary differences where no deferred tax is recognised	**(1)**	(10)	**(1)**	(9)
Effect of deferred tax provided at different tax rates	**(1)**	2	**(3)**	3
Other items	**4**	10	**(13)**	-
Tax on items through the income statement	**4**	15	**(15)**	7
Deferred tax (charge)/credit in other comprehensive income:				
FVOCI investment securities	**7**	(31)	**7**	(31)
Cash flow hedges	**(6)**	17	**(6)**	17
Other hedging	**(1)**	1	**(1)**	1
Unrealised revaluation losses	**(2)**	9	**1**	9
Retirement benefit obligations	**(159)**	23	**(159)**	23
Effect of deferred tax provided at different tax rates	**(136)**	18	**(134)**	19
Other	**-**	1	**-**	1
Tax on items through other comprehensive income	**(297)**	38	**(292)**	39
At 4 April	**(371)**	(78)	**(307)**	-

The majority of deferred tax assets are anticipated to be recoverable after more than one year. Deferred tax assets have not been recognised in respect of gross temporary differences for the Group of £48 million and Society of £43 million (2021: £52 million and £48 million respectively). These differences relate primarily to revalued properties, for which capital losses realised on disposal can be carried forward indefinitely. Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable gains will be available against which they can be utilised.

Deferred tax assets and liabilities are attributable to the following items:

Deferred tax assets and liabilities	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Deferred tax assets				
Fixed assets timing differences	**36**	32	**36**	32
IFRS 9 transition	**32**	35	**21**	23
Unrealised revaluation losses	**-**	-	**-**	1
Cash flow hedges	**(8)**	-	**(8)**	-
Other hedging	**16**	17	**16**	17
FVOCI investment securities	**(31)**	(40)	**(31)**	(40)
Other items	**14**	28	**13**	29
	59	72	**47**	62
Deferred tax liabilities				
Unrealised revaluation gains	**(5)**	-	**-**	-
Cash flow hedges	**(58)**	(75)	**-**	-
Retirement benefit obligations (note i)	**(354)**	(61)	**(354)**	(61)
Other items	**(13)**	(14)	**-**	(1)
	(430)	(150)	**(354)**	(62)
Net deferred tax liability	**(371)**	(78)	**(307)**	-

Note:
i. Deferred tax on the Society's retirement benefit asset is provided at 35%.

For deferred tax assets recognised on the balance sheet, the Group considers that there will be sufficient future trading profits in excess of profits arising from the reversal of existing taxable temporary differences to utilise the deferred tax assets.

As a result of exemptions on dividends from subsidiaries and on capital gains on disposal there are no significant taxable temporary differences associated with investments in subsidiaries.

12. Classification and measurement

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in this note and notes 21 to 24 are on a consolidated basis. The following table summarises the classification of carrying amounts of the Group's financial assets and liabilities:

Classification of financial assets and liabilities

	2022				2021			
	Amortised cost	**Fair value through other comprehensive income**	**Fair value through profit or loss (note i)**	**Total**	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss (note i)	Total
Group	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial assets								
Cash	**30,221**	**-**	**-**	**30,221**	16,693	-	-	16,693
Loans and advances to banks and similar institutions	**3,052**	**-**	**-**	**3,052**	3,660	-	-	3,660
Investment securities	**118**	**25,349**	**17**	**25,484**	1,243	24,218	12	25,473
Derivative financial instruments	**-**	**-**	**4,723**	**4,723**	-	-	3,809	3,809
Fair value adjustment for portfolio hedged risk	**(2,443)**	**-**	**-**	**(2,443)**	946	-	-	946
Loans and advances to customers	**207,950**	**-**	**116**	**208,066**	201,427	-	120	201,547
Total financial assets	**238,898**	**25,349**	**4,856**	**269,103**	223,969	24,218	3,941	252,128
Other non-financial assets				**3,251**				2,786
Total assets				**272,354**				254,914
Financial liabilities								
Shares	**177,967**	**-**	**-**	**177,967**	170,313	-	-	170,313
Deposits from banks and similar institutions	**36,425**	**-**	**-**	**36,425**	27,022	-	-	27,022
Other deposits	**5,208**	**-**	**-**	**5,208**	4,522	-	-	4,522
Fair value adjustment for portfolio hedged risk	**11**	**-**	**-**	**11**	25	-	-	25
Debt securities in issue	**25,629**	**-**	**-**	**25,629**	27,923	-	-	27,923
Derivative financial instruments	**-**	**-**	**1,428**	**1,428**	-	-	1,622	1,622
Subordinated liabilities	**8,250**	**-**	**-**	**8,250**	7,575	-	-	7,575
Subscribed capital	**187**	**-**	**-**	**187**	243	-	-	243
Lease liabilities	**243**	**-**	**-**	**243**	262	-	-	262
Total financial liabilities	**253,920**	**-**	**1,428**	**255,348**	237,885	-	1,622	239,507
Other non-financial liabilities				**1,307**				1,294
Total liabilities				**256,655**				240,801

Note:
i. As at 4 April 2022 and 4 April 2021 the Group had no assets or liabilities for which it had taken the option to designate at FVTPL.

Further information on the fair value of financial assets and liabilities is included in notes 21 to 23.

Notes to the financial statements (continued)

13. Investment securities

	Group 2022 £m	Group 2021 £m	Society 2022 £m	Society 2021 £m
Government, government guaranteed and supranational investment securities	**20,897**	21,363	**20,897**	21,363
Other debt investment securities	**4,529**	4,083	**4,527**	4,081
Investments in equity shares	**58**	27	**15**	7
Total	**25,484**	25,473	**25,439**	25,451

The Group may use its investment securities as collateral. Investment securities with a fair value of £12,345 million (2021: £8,608 million) have been used as collateral in short-term repurchase and swap agreements. The Group also holds £623 million (2021: £867 million) of investment securities as collateral under reverse repurchase agreements which are not recognised in the table above. Further information on investment securities is included in the Credit risk - Treasury assets section of the Risk report.

14. Loans and advances to customers

	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		
Group	**£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

	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		
Society	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Prime residential mortgages	**154,151**	**(72)**	**-**	**154,079**	**64**	**154,143**	149,444	(93)	-	149,351	68	149,419
Buy to let and legacy residential mortgages	**412**	**(3)**	**-**	**409**	**-**	**409**	477	(4)	-	473	-	473
Consumer banking	**4,638**	**(529)**	**-**	**4,109**	**-**	**4,109**	4,404	(502)	-	3,902	-	3,902
Commercial and other lending	**5,124**	**(30)**	**549**	**5,643**	**38**	**5,681**	5,913	(33)	653	6,533	39	6,572
Total	**164,325**	**(634)**	**549**	**164,240**	**102**	**164,342**	160,238	(632)	653	160,259	107	160,366

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

14. 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 10.

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Group	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 5 April 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**

14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Group	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 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.

14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Society	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2021	152,386	68	6,590	256	1,262	308	160,238	632
Stage transfers:								
Transfers from stage 1 to stage 2	(12,432)	(37)	12,432	37	-	-	-	-
Transfers to stage 3	(156)	(2)	(497)	(91)	653	93	-	-
Transfers from stage 2 to stage 1	9,232	196	(9,232)	(196)	-	-	-	-
Transfers from stage 3	150	2	271	19	(421)	(21)	-	-
Net remeasurement of ECL arising from transfer of stage		(178)		271		5		98
Net movement arising from transfer of stage (note ii)	(3,206)	(19)	2,974	40	232	77	-	98
New assets originated or purchased (note iii)	30,855	45	-	-	-	-	30,855	45
Net impact of further lending and repayments (note iv)	(8,304)	(30)	(216)	(28)	(72)	(21)	(8,592)	(79)
Changes in risk parameters related to credit quality (note v)	-	(28)	-	58	-	23	-	53
Other items impacting income statement (including recoveries)	-	-	-	-	-	(19)	-	(19)
Redemptions (note vi)	(17,246)	(2)	(632)	(9)	(183)	(7)	(18,061)	(18)
Income statement release for the year								80
Decrease due to write-offs	-	-	-	-	(115)	(97)	(115)	(97)
Other provision movements	-	-	-	-	-	19	-	19
At 4 April 2022	154,485	34	8,716	317	1,124	283	164,325	634
Net carrying amount		154,451		8,399		841		163,691

Notes to the financial statements (continued)

14. Loans and advances to customers (continued)

Reconciliation of movements in gross balances and impairment provisions

	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
Society	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2020 (note vi)	158,612	62	3,183	157	1,147	312	162,942	593
Stage transfers:								
Transfers from stage 1 to stage 2	(12,258)	(51)	12,258	51	-	-	-	-
Transfers to stage 3	(296)	-	(639)	(95)	935	95	-	-
Transfers from stage 2 to stage 1	7,896	251	(7,896)	(251)	-	-	-	-
Transfers from stage 3	149	2	340	16	(489)	(18)	-	-
Net remeasurement of ECL arising from transfer of stage		(190)		290		9		109
Net movement arising from transfer of stage (note i)	(4,509)	12	4,063	11	446	86	-	109
New assets originated or purchased (note ii)	25,015	40	-	-	-	-	25,015	40
Net impact of further lending and repayments (note iii)	(9,650)	(51)	(143)	(25)	(50)	(21)	(9,843)	(97)
Changes in risk parameters related to credit quality (note iv)	-	8	-	119	-	62	-	189
Other items impacting income statement (including recoveries)	-	-	-	-	(1)	(9)	(1)	(9)
Redemptions (note v)	(17,082)	(3)	(513)	(6)	(144)	(3)	(17,739)	(12)
Reversal of additional Covid-19 provision (note vi)								(62)
Income statement charge for the year								158
Decrease due to write-offs	-	-	-	-	(136)	(128)	(136)	(128)
Other provision movements	-	-	-	-	-	9	-	9
At 4 April 2021	152,386	68	6,590	256	1,262	308	160,238	632
Net carrying amount		152,318		6,334		954		159,606

Notes:

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

ii. 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.

iii. 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.

iv. 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.

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

vi. At 5 April 2020, an additional provision for credit losses of £62 million was recognised to reflect the estimated impact of the Covid-19 pandemic on ECLs. At 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.

14. Loans and advances to customers (continued)

Maturity analysis

The following table shows the residual maturity of loans and advances to customers, based on their contractual maturity:

Residual maturity of loans and advances to customers	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Repayable:				
On demand	**1,775**	1,608	**1,775**	1,608
In not more than three months	**2,581**	2,540	**2,331**	2,313
In more than three months but not more than one year	**6,534**	6,548	**6,327**	6,318
In more than one year but not more than five years	**32,741**	31,925	**30,718**	30,087
In more than five years	**164,632**	159,125	**123,276**	120,019
	208,263	201,746	**164,427**	160,345
Impairment provision on loans and advances	**(746)**	(852)	**(634)**	(632)
Fair value adjustment for micro hedged risk	**549**	653	**549**	653
Total	**208,066**	201,547	**164,342**	160,366

The maturity analysis is produced on the basis that where a loan is repayable by instalments, each such instalment is treated as a separate repayment. The analysis is based on contractual maturity rather than actual redemption levels experienced, which are likely to be materially different.

Notes to the financial statements (continued)

14. Loans and advances to customers (continued)

Asset backed funding

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

Mortgages pledged to asset backed funding programmes										
	2022					2021				
		Notes in issue					Notes in issue			
	Mortgages pledged (note i)	**Held by third parties (note ii)**	**Held by the Group**		**Total notes in issue**	Mortgages pledged (note i)	Held by third parties (note ii)	Held by the Group		Total notes in issue
			Drawn (note iii)	**Undrawn (note iv)**				Drawn (note iii)	Undrawn (note iv)	
Group	**£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. Further information on debt securities is included in note 18.

iii. Notes in issue, held by the Group and drawn are whole mortgage loan pools securing amounts drawn with the BoE under the TFSME. 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 Society and mortgage loan pools that have been pledged to the BoE but not utilised.

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

14. Loans and advances to customers (continued)

The whole mortgage loan pools are pledged at the BoE Single Collateral Pool. Notes are not issued when pledging the mortgage loan pools at the BoE. Instead, the whole loan pool is pledged to the BoE and drawings are made directly against the eligible collateral, subject to a haircut. At 4 April 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 Group's or Society's balance sheets. Mortgages pledged are not derecognised from the Group or Society balance sheets as the Group has retained substantially all the risks and rewards of ownership. The Group and Society continue to be exposed to the liquidity risk, interest rate risk and credit risk of the mortgages. No gain or loss has been recognised on pledging the mortgages to the programmes.

The following table sets out the carrying value and fair value of the transferred assets and liabilities for the Silverstone Master Trust:

	Carrying value			Fair value		
	Transferred assets	Associated liabilities	Total	Transferred assets	Associated liabilities	Total
	£m	£m	£m	£m	£m	£m
At 4 April 2022	**10,644**	**(5,609)**	**5,035**	**10,441**	**(5,616)**	**4,825**
At 4 April 2021	12,779	(5,370)	7,409	12,828	(5,429)	7,399

The Society holds cash deposited by the Nationwide Covered Bond programme of £0.4 billion (2021: £0.6 billion) and by the Silverstone programme of £0.7 billion (2021: £0.9 billion).

15. Derivative financial instruments

All of the Group's derivative financial instruments are used to manage economic risk, although not all of the derivatives are subject to hedge accounting. Note 7 sets out the link between economic risk management and the hedge accounting applied by the Group. The table below provides an analysis of the notional amount and fair value of derivatives by both hedge accounting type and instrument type. The amount of ineffectiveness recognised for each hedge type is shown in note 7. Contract/notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

Derivatives by instrument and hedge type

	2022						2021					
	Group			**Society**			Group			Society		
	Contract/ notional amount (notes i and ii)	**Fair value Assets**	**Fair value Liabilities**	**Contract/ notional amount**	**Fair value Assets**	**Fair value Liabilities**	Contract/ notional amount (note i)	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Micro fair value hedges:												
Interest rate swaps	**45,009**	**296**	**66**	**46,372**	**403**	**241**	43,885	1,075	7	39,461	867	7
Cross currency interest rate swaps	**41,169**	**1,642**	**644**	**41,658**	**1,601**	**746**	37,834	1,915	696	33,072	1,443	599
Bond forwards	**2,074**	**70**	**-**	**2,074**	**70**	**-**	1,439	53	-	1,439	53	-
Inflation swaps	**4,243**	**11**	**158**	**4,243**	**11**	**158**	4,970	52	41	4,970	52	41
	92,495	**2,019**	**868**	**94,347**	**2,085**	**1,145**	88,128	3,095	744	78,942	2,415	647
Macro fair value hedges:												
Interest rate swaps	**235,130**	**1,264**	**385**	**235,130**	**1,264**	**385**	167,515	118	703	167,515	118	703
	235,130	**1,264**	**385**	**235,130**	**1,264**	**385**	167,515	118	703	167,515	118	703
Cash flow hedges:												
Cross currency interest rate swaps	**28,782**	**15**	**41**	**26,133**	**15**	**32**	28,242	4	59	23,480	4	47
Inflation swaps	**120**	**39**	**-**	**120**	**39**	**-**	280	41	-	280	41	-
	28,902	**54**	**41**	**26,253**	**54**	**32**	28,522	45	59	23,760	45	47
Not subject to hedge accounting:												
Interest rate swaps	**103,820**	**1,123**	**41**	**104,570**	**1,123**	**105**	120,000	376	27	125,139	377	715
Cross currency interest rate swaps	**2,598**	**38**	**58**	**3,004**	**8**	**40**	4,489	136	64	9,453	191	365
Foreign exchange swaps	**7,998**	**15**	**12**	**7,998**	**15**	**12**	4,663	20	12	4,663	20	12
Inflation swaps	**3,222**	**210**	**18**	**3,222**	**210**	**18**	2,705	19	12	2,705	19	12
Other derivatives	**516**	**-**	**5**	**516**	**-**	**5**	1,122	-	1	1,122	-	1
	118,154	**1,386**	**134**	**119,310**	**1,356**	**180**	132,979	551	116	143,082	607	1,105
Total	**474,681**	**4,723**	**1,428**	**475,040**	**4,759**	**1,742**	417,144	3,809	1,622	413,299	3,185	2,502

Notes:

i. Where the same derivative contract has been used in more than one hedge type, for example where one risk component has been included in a fair value hedge and another risk component has been included in a cash flow hedge, the full notional amount has been included in both categories.

ii. The transition away from Libor of interest rate swaps transacted with the London Clearing House resulted in duplicate short-term trades being created in order to manage the complexities associated with maintaining the correct accrued interest amounts. These duplicate trades, with a total notional amount of £613 million, have been excluded from this disclosure.

15. Derivative financial instruments (continued)

The contractual maturity of derivatives used as hedging instruments in micro fair value and cash flow hedges is provided in the table below. As described in note 1, macro fair value hedges are frequently rebalanced to include new business. As a result, these hedges have not been included in the analysis below.

Contractual maturity of hedging instruments (contract/notional amount)								
2022	**Group**				**Society**			
	Less than one year	**Between one and five years**	**More than five years**	**Total**	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Micro fair value hedges								
Interest rate swaps	**4,725**	**19,641**	**20,643**	**45,009**	**3,930**	**19,595**	**22,847**	**46,372**
Cross currency interest rate swaps	**4,800**	**19,756**	**16,613**	**41,169**	**3,343**	**19,624**	**18,691**	**41,658**
Bond forwards	**2,074**	**-**	**-**	**2,074**	**2,074**	**-**	**-**	**2,074**
Inflation swaps	**50**	**215**	**3,978**	**4,243**	**50**	**215**	**3,978**	**4,243**
	11,649	**39,612**	**41,234**	**92,495**	**9,397**	**39,434**	**45,516**	**94,347**
Cash flow hedges								
Cross currency interest rate swaps	**3,818**	**14,117**	**10,847**	**28,782**	**3,086**	**13,080**	**9,967**	**26,133**
Inflation swaps	**-**	**120**	**-**	**120**	**-**	**120**	**-**	**120**
	3,818	**14,237**	**10,847**	**28,902**	**3,086**	**13,200**	**9,967**	**26,253**

Contractual maturity of hedging instruments (contract/notional amount)								
2021	Group				Society			
	Less than one year	Between one and five years	More than five years	Total	Less than one year	Between one and five years	More than five years	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Micro fair value hedges								
Interest rate swaps	3,255	20,368	20,262	43,885	1,553	18,497	19,411	39,461
Cross currency interest rate swaps	3,368	19,369	15,097	37,834	2,022	16,832	14,218	33,072
Bond forwards	1,439	-	-	1,439	1,439	-	-	1,439
Inflation swaps	-	1,692	3,278	4,970	-	1,692	3,278	4,970
	8,062	41,429	38,637	88,128	5,014	37,021	36,907	78,942
Cash flow hedges								
Cross currency interest rate swaps	3,139	15,117	9,986	28,242	1,793	12,580	9,107	23,480
Inflation swaps	160	120	-	280	160	120	-	280
	3,299	15,237	9,986	28,522	1,953	12,700	9,107	23,760

Notes to the financial statements (continued)

15. Derivative financial instruments (continued)

The weighted average rates of hedging instruments which achieve fixed rates are summarised in the table below. Fair value and cash flow hedging instruments which do not achieve a fixed rate have not been included in this analysis.

Average rates achieved 2022	**Group**				**Society**			
	Less than one year	**Between one and five years**	**More than five years**	**Total**	**Less than one year**	**Between one and five years**	**More than five years**	**Total**
Cross currency interest rate swaps								
Average EUR/GBP rate	**1.35**	**1.24**	**1.22**	**1.24**	**1.32**	**1.25**	**1.23**	**1.24**
Average USD/GBP rate	**1.32**	**1.35**	**1.34**	**1.34**	**1.33**	**1.35**	**1.34**	**1.34**
Average JPY/GBP rate	**142.27**	**141.70**	**142.54**	**141.81**	**142.27**	**141.70**	**142.54**	**141.81**
Average NOK/GBP rate	**-**	**11.07**	**10.99**	**11.05**	**-**	**11.07**	**10.99**	**11.05**
Average HKD/GBP rate	**11.89**	**12.02**	**11.60**	**11.85**	**11.89**	**12.02**	**11.60**	**11.85**
Average CHF/GBP rate	**-**	**1.24**	**1.24**	**1.24**	**-**	**1.24**	**1.24**	**1.24**
Average CAD/GBP rate	**-**	**1.76**	**1.73**	**1.73**	**-**	**1.76**	**1.73**	**1.73**
Inflation swaps								
Average fixed interest rate (GBP %)	**-**	**3.79**	**-**	**3.79**	**-**	**3.79**	**-**	**3.79**
Average inflation rate (RPI index)	**-**	**256.30**	**-**	**256.30**	**-**	**256.30**	**-**	**256.30**

Average rates achieved 2021	Group				Society			
	Less than one year	Between one and five years	More than five years	Total	Less than one year	Between one and five years	More than five years	Total
Cross currency interest rate swaps								
Average EUR/GBP rate	1.38	1.19	1.18	1.21	1.26	1.17	1.19	1.19
Average USD/GBP rate	1.30	1.34	1.32	1.33	1.30	1.34	1.32	1.33
Average JPY/GBP rate	134.35	138.15	135.12	137.50	134.35	138.15	135.12	137.50
Average NOK/GBP rate	-	10.06	11.23	11.05	-	10.06	11.23	11.05
Average HKD/GBP rate	-	12.13	11.52	11.85	-	12.13	11.52	11.85
Average CHF/GBP rate	-	1.24	1.24	1.24	-	1.24	1.24	1.24
Average CAD/GBP rate	-	1.71	1.74	1.73	-	1.71	1.74	1.73
Inflation swaps								
Average fixed interest rate (GBP %)	3.37	3.79	-	3.55	3.37	3.79	-	3.55
Average inflation rate (RPI index)	255.90	256.30	-	256.07	255.90	256.30	-	256.07

15. Derivative financial instruments (continued)

A variety of benchmark interest rates are used in global financial markets to calculate interest payments and fair values for derivative contracts. During the year the Group successfully delivered the transition from GBP Libor to alternative reference rates. US Dollar Libor is not expected to cease before 30 June 2023 and the Group continues to work on its planned transition to alternative benchmark rates for those financial contracts currently referencing US dollar Libor.

In respect of the Group's hedge accounting relationships, the interest rate benchmark reform has not adversely impacted Group's current fair value and cash flow hedge accounting structures. Hedge accounting documentation has been amended to reflect the changes required by the reform; these changes to the documentation do not result in the discontinuation of hedge accounting or require the designation of a new hedge relationship.

At 4 April 2022, the Group had the following exposures impacted by interest rate benchmark reform which have yet to transition to the replacement benchmark rate:

Contact/notional amount of financial instruments affected by benchmark reform				
Current benchmark (note i)	**Expected future benchmark**	**Loans and advances to customers**	**Debt securities in issue**	**Derivative financial instruments**
		£m	**£m**	**£m**
GBP Libor (note ii)	Sterling overnight index average (Sonia)	**135**	**-**	**-**
USD Libor	Secured overnight financing rate (Sofr)	**-**	**213**	**26,156**
Other benchmarks	Various	**-**	**-**	**3,029**
Total		**135**	**213**	**29,185**

Notes:
i. The Group expects that Euribor will continue as a benchmark rate for the foreseeable future; Euribor hedging instruments and hedged items have therefore been excluded from the table.
ii. The Group has a limited portfolio of commercial loans which, due to them being part of syndicated lending arrangements, have yet to fully transition from GBP Libor. The exposure is currently to synthetic Libor, which is calculated by applying a fixed spread to Sonia.

16. Deposits from banks and similar institutions

Deposits from banks and similar institutions are repayable from the balance sheet date in the ordinary course of business as follows:

	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Accrued interest	**1**	-	**1**	-
Repayable:				
On demand	**3,647**	2,433	**3,530**	1,864
In not more than three months	**11,066**	8,150	**11,066**	8,150
In more than three months but not more than one year	**11**	9	**11**	9
In more than one year but not more than five years	**21,700**	16,430	**21,700**	16,430
Total	**36,425**	27,022	**36,308**	26,453

For the Group and Society, deposits from banks and similar institutions include £21.7 billion (2021: £16.4 billion) drawn down against the Bank of England's TFSME.

17. Other deposits

Other deposits are repayable from the balance sheet date in the ordinary course of business as follows:

	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Accrued interest	**-**	-	**-**	-
Repayable:				
On demand	**1,835**	2,081	**2,428**	3,229
In not more than three months	**1,372**	794	**1,372**	794
In more than three months but not more than one year	**1,980**	1,627	**1,980**	1,627
In more than one year but not more than five years (note i)	**21**	20	**21**	20
Total	**5,208**	4,522	**5,801**	5,670

Note:
i. Includes £16 million (2021: £14 million) of other financial liabilities relating to contractual indemnity obligations.

Other deposits primarily comprise wholesale and commercial deposits. The Society's other deposits as at 4 April 2022 include £593 million (2021: £1,148 million) of deposits from subsidiary undertakings.

18. Debt securities in issue

	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Certificates of deposit and commercial paper	**4**	81	**4**	81
Medium term notes	**10,044**	9,196	**10,044**	9,196
Covered bonds	**12,946**	15,005	**12,947**	15,009
Asset backed securities	**2,951**	2,865	**-**	-
	25,945	27,147	**22,995**	24,286
Fair value adjustment for micro hedged risk	**(316)**	776	**(219)**	184
Total	**25,629**	27,923	**22,776**	24,470
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**133**	133	**128**	130
Residual maturity repayable:				
In not more than one year	**5,786**	3,807	**4,717**	3,195
In more than one year	**20,026**	23,207	**18,150**	20,961
	25,945	27,147	**22,995**	24,286
Fair value adjustment for micro hedged risk	**(316)**	776	**(219)**	184
Total	**25,629**	27,923	**22,776**	24,470

The total for debt securities in issue in the Group includes £15,833 million (2021: £18,505 million), and in the Society includes £12,947 million (2021: £15,009 million), secured on certain loans and advances to customers. Further information is given in note 14.

19. Subordinated liabilities

	Issuance date	Next call date	Maturity date	Group and Society 2022 £m	Group and Society 2021 £m
Senior non-preferred					
3.766% fixed-to-floating rate notes (US Dollar 1 billion)	8 March 2018	8 March 2023	8 March 2024	**764**	726
1.5% fixed-to-floating rate notes (Euro 1 billion)	8 March 2018	8 March 2025	8 March 2026	**838**	852
4.302% fixed-to-floating rate notes (US Dollar 0.75 billion)	8 March 2018	8 March 2028	8 March 2029	**574**	544
4.363% fixed-to-floating rate notes (US Dollar 1 billion)	1 August 2018	1 August 2023	1 August 2024	**768**	729
3.4675% fixed rate notes (Norwegian Kroner 1 billion)	5 October 2018		5 October 2026	**89**	86
0.805% fixed-to-floating rate notes (Japanese Yen 1 billion)	24 October 2018	24 October 2023	24 October 2024	**6**	7
0.9925% fixed rate reset notes (Japanese Yen 4 billion)	30 October 2018	30 October 2025	30 October 2026	**25**	26
3.875% fixed rate notes (Norwegian Kroner 0.3 billion)	13 November 2018		13 November 2028	**27**	26
3.9% fixed rate notes (Norwegian Kroner 1 billion)	13 November 2018		13 November 2028	**89**	86
1.2775% fixed rate reset notes (Japanese Yen 3 billion)	14 November 2018	14 November 2028	14 November 2029	**19**	20
3.622% fixed-to-floating rate notes (US Dollar 1 billion) (note i)	26 April 2019	26 April 2022	26 April 2023	**774**	735
3.96% fixed-to-floating rate notes (US Dollar 1 billion)	18 July 2019	18 July 2029	18 July 2030	**769**	730
0.85% fixed-to-floating rate notes (Japanese Yen 5 billion)	16 August 2019	16 August 2029	16 August 2030	**31**	33
2.972% fixed-to-floating rate notes (US Dollar 0.75 billion)	16 February 2022	16 February 2027	16 February 2028	**574**	-
Sofr + 1.29% floating rate notes (US Dollar 0.3 billion)	16 February 2022	16 February 2027	16 February 2028	**229**	-
Tier 2 eligible					
4% subordinated notes (US Dollar 1.25 billion)	14 September 2016		14 September 2026	**955**	907
2% subordinated notes (Euro 1 billion)	25 July 2017	25 July 2024	25 July 2029	**849**	863
4.125% subordinated notes (US Dollar 1.25 billion)	18 October 2017	18 October 2027	18 October 2032	**971**	922
				8,351	7,292
Fair value hedge accounting adjustments				**(81)**	305
Unamortised premiums and issue costs				**(20)**	(22)
Total				**8,250**	7,575

Note:
i. The Society has exercised its option to call the notes on 26 April 2022.

Senior non-preferred notes are a class of subordinated liability which rank equally with each other and behind the claims against the Society of all depositors, creditors and investing members other than holders of Tier 2 eligible subordinated notes, permanent interest-bearing shares (PIBS), Additional Tier 1 (AT1) instruments and core capital deferred shares (CCDS). Senior non-preferred notes contribute to meeting the Society's minimum requirement for own funds and eligible liabilities (MREL) and loss absorbing requirements. The Society issued two senior non-preferred notes totalling US Dollar 1,050 million (£776 million sterling equivalent) on 16 February 2022.

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.

The interest rate and foreign exchange risks arising from the issuance of fixed rate and foreign currency subordinated liabilities have been mitigated through the use of derivatives.

Notes to the financial statements (continued)

20. Subscribed capital

	Notes	Next call date	Group and Society 2022 £m	2021 £m
7.25% permanent interest-bearing shares	i		**-**	34
6.25% permanent interest-bearing shares	ii	22 October 2024	**45**	45
5.769% permanent interest-bearing shares	ii	6 February 2026	**84**	84
7.859% permanent interest-bearing shares	ii	13 March 2030	**39**	39
Floating rate (Sonia + 4.2%) permanent interest-bearing shares	iii	30 September 2030	**5**	10
			173	212
Fair value hedge accounting adjustments			**15**	33
Unamortised premiums and issue costs			**(1)**	(2)
Total			**187**	243

Notes:
i. The Society exercised its option to repay in full on 5 December 2021.
ii. Repayable, at the option of the Society, in full on the initial call date or every fifth anniversary thereafter. If not repaid on a call date, then the interest rate is reset at a margin to the yield on the then prevailing five-year benchmark gilt rate.
iii. The floating rate PIBS (previously 6-month Libor + 2.4%) were subject to a partial buy back of outstanding amounts during the year ended 4 April 2022. In addition, on 7 July 2021, a consent solicitation exercise resulted in an update to the interest rate to Sonia + 4.2%, reflecting both the requirement to phase out Libor and the desire of the Society to have an option to repay outstanding PIBS on 30 September 2030 or any interest payment date thereafter.

All PIBS are denominated in sterling and only repayable with the prior consent of the PRA. 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.

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.

The interest rate risk arising from the issuance of fixed rate PIBS has been mitigated through the use of interest rate swaps.

21. Fair value hierarchy of financial assets and liabilities held at fair value

As the majority of the Group's assets and liabilities are held within the Society, the disclosures in notes 21 to 24 are on a consolidated basis. The following tables show the Group's financial assets and liabilities that are held at fair value by fair value hierarchy, balance sheet classification and product type:

	2022				2021			
	Fair values based on				Fair values based on			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Financial assets								
Government, government guaranteed and supranational investment securities	**20,897**	**-**	**-**	**20,897**	21,363	-	-	21,363
Other debt investment securities	**2,630**	**1,776**	**5**	**4,411**	1,748	1,087	5	2,840
Investments in equity shares	**-**	**-**	**58**	**58**	-	-	27	27
Total investment securities (note i)	**23,527**	**1,776**	**63**	**25,366**	23,111	1,087	32	24,230
Interest rate swaps	**-**	**2,683**	**-**	**2,683**	-	1,569	-	1,569
Cross currency interest rate swaps	**-**	**1,695**	**-**	**1,695**	-	2,055	-	2,055
Foreign exchange swaps	**-**	**15**	**-**	**15**	-	20	-	20
Inflation swaps	**-**	**-**	**260**	**260**	-	-	112	112
Bond forwards and futures	**-**	**70**	**-**	**70**	-	53	-	53
Total derivative financial instruments	**-**	**4,463**	**260**	**4,723**	-	3,697	112	3,809
Loans and advances to customers	**-**	**-**	**116**	**116**	-	-	120	120
Total financial assets	**23,527**	**6,239**	**439**	**30,205**	23,111	4,784	264	28,159
Financial liabilities								
Interest rate swaps	**-**	**(492)**	**-**	**(492)**	-	(737)	-	(737)
Cross currency interest rate swaps	**-**	**(743)**	**-**	**(743)**	-	(819)	-	(819)
Foreign exchange swaps	**-**	**(12)**	**-**	**(12)**	-	(12)	-	(12)
Inflation swaps	**-**	**-**	**(176)**	**(176)**	-	-	(52)	(52)
Bond forwards and futures	**-**	**(5)**	**-**	**(5)**	-	(2)	-	(2)
Total derivative financial instruments	**-**	**(1,252)**	**(176)**	**(1,428)**	-	(1,570)	(52)	(1,622)
Total financial liabilities	**-**	**(1,252)**	**(176)**	**(1,428)**	-	(1,570)	(52)	(1,622)

Note:
i. Investment securities exclude £118 million (2021: £1,243 million) of investment securities held at amortised cost.

The Group's Level 1 portfolio comprises government and other highly rated securities for which traded prices are readily available. Asset valuations for Level 2 investment securities are sourced from consensus pricing or other observable market prices. None of the Level 2 investment securities are valued using models. Level 2 derivative assets and liabilities are valued using observable market data for all significant valuation inputs. More detail on the Level 3 portfolio is provided in note 22.

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

Transfers between fair value hierarchies

Instruments move between fair value hierarchies primarily due to increases or decreases in market activity or changes to the significance of unobservable inputs to valuation, and are recognised at the date of the event or change in circumstances which caused the transfer. There were no transfers between the Level 1 and Level 2 portfolios during the year.

22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio

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

Loans and advances to customers

Certain loans and advances to customers are classified as FVTPL. Level 3 assets in this category include a closed portfolio of residential mortgages and a small number of commercial loans.

Investment securities

The Level 3 items in this category primarily include investments made in Fintech companies, of which £46 million (2021: £21 million) are equity investments which have been designated at FVOCI as the investments are being held for long term strategic purposes.

Derivative financial instruments (inflation swaps)

Inflation swaps are used to hedge the Group's investments in index-linked government debt. Adjustments to the inflation curve to reflect seasonality in inflation index publications is required to determine a valuation; however, unlike most derivative valuation inputs, this market data is not available and therefore the input is internally derived rather than observable.

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

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

Movements in Level 3 portfolio	2022				2021			
	Investment securities	**Derivative financial assets**	**Derivative financial liabilities**	**Loans and advances to customers**	Investment securities	Derivative financial assets	Derivative financial liabilities	Loans and advances to customers
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
At 5 April	32	112	(52)	120	18	-	-	128
Gains/(losses) recognised in the income statement, within:								
Net interest income	**-**	**48**	**(148)**	**2**	-	(56)	(17)	3
Gains from derivatives and hedge accounting (note i)	**-**	**116**	**16**	**-**	-	110	81	-
Other operating income/(expense)	**5**	**-**	**(16)**	**3**	-	2	1	(1)
Gains recognised in other comprehensive income, within:								
Fair value through other comprehensive income reserve	**10**	**-**	**-**	**-**	4	-	-	-
Additions	**20**	**-**	**-**	**-**	10	-	-	-
Disposals	**(4)**	**-**	**16**	**-**	-	(2)	(1)	-
Settlements/repayments	**-**	**(16)**	**8**	**(9)**	-	7	-	(10)
Transfers into Level 3 portfolio	**-**	**-**	**-**	**-**	-	51	(116)	-
At 4 April	**63**	**260**	**(176)**	**116**	32	112	(52)	120
Unrealised gains/(losses) recognised in the income statement attributable to assets and liabilities held at the end of the period	**5**	**116**	**16**	**3**	-	110	81	(1)

Note:
i. Includes foreign exchange revaluation gains/losses.

Level 3 portfolio sensitivity analysis of valuations using unobservable inputs

The fair value of financial instruments is, in certain circumstances, measured using valuation techniques based on market prices that are not observable in an active market or significant unobservable market inputs. Reasonable alternative assumptions can be applied for sensitivity analysis, taking account of the nature of valuation techniques used, as well as the availability and reliability of observable proxy and historic data. The following table shows the sensitivity of the Level 3 fair values to reasonable alternative assumptions (as set out in the table of significant unobservable inputs below) and the resultant impact of such changes in fair value on the income statement or members' interests and equity.

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

Sensitivity of Level 3 fair values

	2022					2021		
		Income statement		Other comprehensive income			Income statement	
	Fair value	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Fair value	Favourable changes	Unfavourable changes
	£m	£m	£m	£m	£m	£m	£m	£m
Investment securities	63	6	(4)	4	(4)	32	13	(6)
Derivative financial instruments - assets	260	16	(16)	-	-	112	21	(21)
Derivative financial instruments - liabilities	(176)	59	(59)	-	-	(52)	28	(28)
Loans and advances to customers	116	2	(2)	-	-	120	2	(3)
Total	**263**	**83**	**(81)**	**4**	**(4)**	212	64	(58)

Alternative assumptions are considered for each product and varied according to the quality of the data and variability of the underlying market. The following table discloses the significant unobservable inputs underlying the above alternative assumptions for assets and liabilities recognised at fair value and classified as Level 3, along with the range of values for those significant unobservable inputs. Where sensitivities are described the inverse relationship will also generally apply. Some of the significant unobservable inputs used in fair value measurement are interdependent. Where this is the case, a description of those interrelationships is included below.

Significant unobservable inputs

	2022							2021						
	Total assets	Total liabilities	Valuation technique	Significant unobservable inputs	Range (note i)		Units	Total assets	Total liabilities	Valuation technique	Significant unobservable inputs	Range (note i)		Units
	£m	£m						£m	£m					
Investment securities	63	-	Internal assessment	Various (note ii)	-	-	£	32	-	Discounted cash flows	Discount rate	10.00	15.00	%
											Cash flow projections	95.00	105.00	%
Derivative financial instruments	260	(176)	Discounted cash flows	Seasonality	0.01	0.77	%	112	(52)	Discounted cash flows	Seasonality	0.00	0.81	%
Loans and advances to customers	116	-	Discounted cash flows	Discount rate	1.34	9.75	%	120	-	Discounted cash flows	Discount rate	2.09	9.75	%

Notes:
i. The range represents the values of the highest and lowest levels used in the calculation of favourable and unfavourable changes as presented in the table of sensitivities above.
ii. Given the wide range of investments and variety of inputs to modelled values, which may include inputs such as observed market prices, discount rates or probability weightings of expected outcomes, the Group does not disclose ranges as they are not meaningful without reference to individual underlying investments, which would be impracticable. Changes have been made to the valuation approach during the year to reference recent market transactions where available and to incorporate additional inputs.

Discount rate

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

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

Cash flow projections

Cash flow projections for certain investments held at 4 April 2021 represent a significant unobservable input. Where the fair value of an investment is derived using a discounted cash flow model, the total amount of projected cash flows is estimated according to the overall expectation of performance of the entity to which the investment is made. The lower the cash flow projection, the lower the valuation and vice versa.

Seasonality

An inflation swap curve is built using inflation swap quotes to forecast the UK retail price index and EU and US consumer price indices. This curve is used to calculate future cash flows. While these instruments give a good indication of annual growth in inflation, monthly index fixings throughout the year tend to behave differently and so the inflation swap curve is adjusted for this seasonality accordingly. The higher the seasonality, the greater the adjustment to the inflation swap curve.

23. Fair value of financial assets and liabilities measured at amortised cost

The following table summarises the carrying value and fair value of financial assets and liabilities measured at amortised cost on the Group's balance sheet:

Fair value of financial assets and liabilities (note i)	2022					2021				
	Carrying value	Fair values based on			Total fair value	Carrying value	Fair values based on			Total fair value
		Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets										
Loans and advances to banks and similar institutions	**3,052**	**-**	**3,052**	**-**	**3,052**	3,660	-	3,660	-	3,660
Investment securities	**118**	**-**	**119**	**-**	**119**	1,243	-	1,245	-	1,245
Loans and advances to customers:										
Residential mortgages	**197,869**	**-**	**-**	**195,637**	**195,637**	190,638	-	-	193,645	193,645
Consumer banking	**4,109**	**-**	**-**	**4,014**	**4,014**	3,902	-	-	3,866	3,866
Commercial lending	**5,972**	**-**	**-**	**5,683**	**5,683**	6,887	-	-	6,638	6,638
Total	**211,120**	**-**	**3,171**	**205,334**	**208,505**	206,330	-	4,905	204,149	209,054
Financial liabilities										
Shares	**177,967**	**-**	**177,818**	**-**	**177,818**	170,313	-	170,415	-	170,415
Deposits from banks and similar institutions	**36,425**	**-**	**36,425**	**-**	**36,425**	27,022	-	27,022	-	27,022
Other deposits	**5,208**	**-**	**5,192**	**16**	**5,208**	4,522	-	4,508	14	4,522
Debt securities in issue	**25,629**	**10,872**	**15,278**	**-**	**26,150**	27,923	13,455	15,178	-	28,633
Subordinated liabilities	**8,250**	**-**	**8,347**	**-**	**8,347**	7,575	-	7,833	-	7,833
Subscribed capital	**187**	**-**	**194**	**-**	**194**	243	-	233	-	233
Total	**253,666**	**10,872**	**243,254**	**16**	**254,142**	237,598	13,455	225,189	14	238,658

Note:
i. The tables above exclude cash for which fair value approximates carrying value.

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

The fair values of loans and advances to customers are further analysed, between those credit impaired and those non-credit impaired, as follows:

Fair value of loans and advances to customers	2022						2021					
	Non-credit impaired (stages 1 and 2)		Credit impaired (stage 3 and POCI) (note i)		Total		Non-credit impaired (stages 1 and 2)		Credit impaired (stage 3 and POCI) (note i)		Total	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Residential mortgages	**196,570**	**194,353**	**1,299**	**1,284**	**197,869**	**195,637**	189,164	192,147	1,474	1,498	190,638	193,645
Consumer banking	**4,080**	**3,985**	**29**	**29**	**4,109**	**4,014**	3,875	3,839	27	27	3,902	3,866
Commercial lending	**5,927**	**5,636**	**45**	**47**	**5,972**	**5,683**	6,817	6,564	70	74	6,887	6,638
Total	**206,577**	**203,974**	**1,373**	**1,360**	**207,950**	**205,334**	199,856	202,550	1,571	1,599	201,427	204,149

Note:
i. POCI loans are those which were credit-impaired when purchased or originated.

Loans and advances to banks and similar institutions

The fair value of loans and advances to banks and similar institutions is estimated by discounting expected cash flows at a market discount rate.

Investment securities

The fair value of investment securities is sourced from consensus pricing or other observable market prices.

Loans and advances to customers

The fair value of loans and advances to customers is estimated by discounting expected cash flows at rates that reflect current rates for similar lending. Consistent modelling techniques are used across the different loan books. The estimates take into account expected future cash flows and future lifetime expected losses, based on historic trends and discount rates appropriate to the loans, to reflect a hypothetical exit price value on an asset by asset basis. Variable rate loans are modelled on estimated future cash flows, discounted at current market interest rates. Variable rate retail mortgages are discounted at the currently available market standard variable interest rate (SVR) which, for example, in the case of the Group's residential base mortgage rate (BMR) mortgage book, generates a fair value lower than the amortised cost value as those mortgages are priced below the SVR.

For fixed rate loans, discount rates have been based on the expected funding and capital cost applicable to the book. When calculating fair values on fixed rate loans, no adjustment has been made to reflect interest rate risk management through internal natural hedges or external hedging via derivatives.

Shares, deposits and amounts due to customers

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

Debt securities in issue

The estimated fair values of longer dated liabilities are calculated based on quoted market prices where available or using similar instruments as a proxy for those liabilities that are not of sufficient size or liquidity to have an active market quote. For those notes for which quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Subordinated liabilities and subscribed capital

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

24. Offsetting financial assets and financial liabilities

The Group has financial assets and liabilities for which there is a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or realise the asset and liability simultaneously. In accordance with IAS 32 'Financial Instruments: Presentation,' where the right to set off is not unconditional in all circumstances this does not result in an offset of balance sheet assets and liabilities. The following table shows the impact on financial assets and financial liabilities relating to transactions where:

- there is an enforceable master netting arrangement or similar agreement in place, an unconditional right to offset is in place and there is an intention to settle net ('amounts offset'),
- there is an enforceable master netting arrangement or similar agreement in place, but the offset criteria are otherwise not satisfied ('master netting arrangements'), and
- financial collateral is paid and received ('financial collateral').

Offsetting financial assets and financial liabilities

	2022						2021					
	Gross amounts recognised	**Amounts offset (note i)**	**Net amounts reported on the balance sheet**	**Master netting arrangements**	**Financial collateral (note ii)**	**Net amounts**	Gross amounts recognised	Amounts offset (note i)	Net amounts reported on the balance sheet	Master netting arrangements	Financial collateral (note ii)	Net amounts
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Financial assets												
Derivative financial assets	**10,432**	**(5,709)**	**4,723**	**(1,263)**	**(3,460)**	**-**	5,021	(1,212)	3,809	(1,440)	(2,359)	10
Reverse repurchase agreements	**635**	**(635)**	**-**	**-**	**-**	**-**	883	(477)	406	-	(406)	-
Total financial assets	**11,067**	**(6,344)**	**4,723**	**(1,263)**	**(3,460)**	**-**	5,904	(1,689)	4,215	(1,440)	(2,765)	10
Financial liabilities												
Derivative financial liabilities	**6,903**	**(5,475)**	**1,428**	**(1,263)**	**(14)**	**151**	4,075	(2,453)	1,622	(1,440)	(104)	78
Repurchase agreements	**11,699**	**(635)**	**11,064**	**-**	**(11,034)**	**30**	8,626	(477)	8,149	-	(8,148)	1
Total financial liabilities	**18,602**	**(6,110)**	**12,492**	**(1,263)**	**(11,048)**	**181**	12,701	(2,930)	9,771	(1,440)	(8,252)	79

Notes:

i. Amounts offset for derivative financial assets of £5,709 million (2021: £1,212 million) include cash collateral netted of £569 million (2021: £258 million). Amounts offset for derivative financial liabilities of £5,475 million (2021: £2,453 million) include cash collateral netted of £335 million (2021: £1,499 million).

ii. The balances presented for financial collateral on repurchase agreements and reverse repurchase agreements are less than the financial collateral balances reported in note 13, as the amounts disclosed above are limited to the net amounts reported on the balance sheet after amounts offset as shown in the table.

Master netting arrangements consist of agreements such as an International Swaps and Derivatives Association (ISDA) Master Agreement, global master repurchase agreements and global master securities lending agreements, whereby outstanding transactions with the same counterparty can be offset and settled net, either unconditionally or following a default or other predetermined event.

Financial collateral on derivative financial instruments consists of cash settled, typically daily or weekly, to mitigate the credit risk on the fair value of derivative contracts. Financial collateral on repurchase agreements typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

The net amounts after offsetting presented above show the exposure to counterparty credit risk for derivative contracts after netting benefits and collateral, and are not intended to represent the Group's actual exposure to credit risk. This is due to a variety of credit mitigation strategies which are employed in addition to netting and collateral arrangements.

Notes to the financial statements (continued)

25. Intangible assets

Group 2022	**Computer software Externally acquired £m**	**Computer software Internally developed £m**	**Total computer software £m**	**Goodwill £m**	**Total £m**
Cost					
At 5 April 2021	399	2,344	2,743	12	2,755
Additions	**21**	**193**	**214**	**-**	**214**
Disposals	**(51)**	**(226)**	**(277)**	**-**	**(277)**
At 4 April 2022	**369**	**2,311**	**2,680**	**12**	**2,692**
Accumulated amortisation and impairment					
At 5 April 2021	267	1,387	1,654	-	1,654
Amortisation charge	**47**	**326**	**373**	**-**	**373**
Impairment in the year	**2**	**27**	**29**	**-**	**29**
Disposals	**(51)**	**(226)**	**(277)**	**-**	**(277)**
At 4 April 2022	**265**	**1,514**	**1,779**	**-**	**1,779**
Net book value					
At 4 April 2022	**104**	**797**	**901**	**12**	**913**

Group 2021	Computer software Externally acquired £m	Computer software Internally developed £m	Total computer software £m	Goodwill £m	Total £m
Cost					
At 5 April 2020	405	2,262	2,667	12	2,679
Additions	28	205	233	-	233
Disposals	(34)	(123)	(157)	-	(157)
At 4 April 2021	399	2,344	2,743	12	2,755
Accumulated amortisation and impairment					
At 5 April 2020	241	1,199	1,440	-	1,440
Amortisation charge	58	278	336	-	336
Impairment in the year	2	33	35	-	35
Disposals	(34)	(123)	(157)	-	(157)
At 4 April 2021	267	1,387	1,654	-	1,654
Net book value					
At 4 April 2021	132	957	1,089	12	1,101

25. Intangible assets (continued)

Computer software capitalised during the year primarily relates to the Group's investment in digital services and data capabilities, together with ensuring the resilience and simplification of the technology estate. The total cost at 4 April 2022 includes £116 million (2021: £96 million) of assets in the course of construction which, to the extent that they are not yet ready for use by the business, have no amortisation charged against them. For all other computer software capitalised the estimated useful life of individual assets is predominantly 5 years.

An impairment loss of £29 million (2021: £35 million) was recognised in the year, primarily in respect of the Society's ongoing activity to improve infrastructure and resiliency in the technology estate. In addition, during the year ended 4 April 2022, the useful economic life of certain intangible assets was reduced to reflect management's best estimate of the expected life considering the pace of regulatory development and associated technological obsolescence. This change resulted in an additional amortisation charge of £53 million recognised in the year ended 4 April 2022.

The Society's intangible assets are as shown above for the Group, except that they exclude £12 million (2021: £12 million) of goodwill relating to the acquisition of The Mortgage Works (UK) plc which is only recognised at Group level. Capital expenditure contracted for but not accrued at 4 April 2022 was £25 million (2021: £9 million).

26. Property, plant and equipment

Group 2022	**Branches and non-specialised buildings**	**Specialised administration buildings**	**Investment properties**	**Plant and machinery**	**Equipment, fixtures, fittings and vehicles**	**Right-of-use branches and non-specialised buildings**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cost or valuation							
At 5 April 2021	164	166	18	297	1,091	263	1,999
Additions	**-**	**-**	**-**	**11**	**50**	**4**	**65**
Revaluation	**7**	**-**	**-**	**-**	**-**	**-**	**7**
Disposals	**(15)**	**-**	**-**	**-**	**(178)**	**(1)**	**(194)**
At 4 April 2022	**156**	**166**	**18**	**308**	**963**	**266**	**1,877**
Accumulated depreciation and impairment							
At 5 April 2021	-	82	-	220	618	61	981
Depreciation charge	**-**	**3**	**-**	**21**	**119**	**25**	**168**
Impairment	**-**	**-**	**-**	**3**	**11**	**11**	**25**
Disposals	**-**	**-**	**-**	**-**	**(176)**	**(1)**	**(177)**
At 4 April 2022	**-**	**85**	**-**	**244**	**572**	**96**	**997**
Net book value							
At 4 April 2022	**156**	**81**	**18**	**64**	**391**	**170**	**880**

26. Property, plant and equipment (continued)

Group 2021	Branches and non-specialised buildings £m	Specialised administration buildings £m	Investment properties £m	Plant and machinery £m	Equipment, fixtures, fittings and vehicles £m	Right-of-use branches and non-specialised buildings £m	Total £m
Cost or valuation							
At 5 April 2020	195	176	2	291	1,131	274	2,069
Additions	-	-	-	19	75	18	112
Transfers (note i)	-	-	20	-	-	(28)	(8)
Revaluation	(15)	-	(4)	-	-	-	(19)
Disposals	(16)	(10)	-	(13)	(115)	(1)	(155)
At 4 April 2021	164	166	18	297	1,091	263	1,999
Accumulated depreciation and impairment							
At 5 April 2020	-	89	-	197	580	31	897
Depreciation charge	-	3	-	25	135	26	189
Transfers (note i)	-	-	-	-	-	(8)	(8)
Impairment	-	-	-	11	14	12	37
Disposals	-	(10)	-	(13)	(111)	-	(134)
At 4 April 2021	-	82	-	220	618	61	981
Net book value							
At 4 April 2021	164	84	18	77	473	202	1,018

Note:
i. During the year ended 4 April 2021, there was a transfer of a leased building from right-of-use branches and non-specialised buildings to investment properties, following its permanent vacation and subsequent marketing for sub lease.

Group property, plant and equipment at 4 April 2022 includes £1 million (2021: £2 million) of specialised administration buildings held by subsidiary undertakings.

Property, plant and equipment includes £18 million (2021: £71 million) of assets in the course of construction. Capital expenditure contracted for but not accrued at 4 April 2022 was £6 million (2021: £8 million). As at 4 April 2022, branches and non-specialised buildings includes £8 million (2021: £8 million) of properties which are classified as held for sale.

An impairment loss of £24 million (2021: £37 million) was recognised in the year, due largely to decisions to vacate leased right-of-use administrative buildings and the associated write down of capitalised improvements to these buildings.

Branches and non-specialised buildings are valued annually at the balance sheet date by independent surveyors. The current use of all branches and non-specialised buildings equates to highest and best use, and there have been no changes to the valuation technique during the year.

IFRS 13 requires that all assets held at fair value are classified according to a hierarchy that reflects the significance of observable market inputs in calculating those fair values. Branches and non-specialised buildings valuations are classified within Level 2 of the fair value hierarchy.

Branches and non-specialised buildings revalued annually would have a carrying value under the historic cost model of £67 million (2021: £73 million).

27. Provisions for liabilities and charges

Group	Customer redress £m	Other provisions £m	Total £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.

The Society's provisions for liabilities and charges are the same as shown above for the Group. 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.

27. 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.

28. Leasing

The Group leases various offices, branches and other premises under leasing arrangements. The following tables show the amounts recognised in the income statement and on the balance sheet arising from these leases:

Leasing amounts recognised in the income statement			
		Group	
		2022	2021
	Income statement classification	**£m**	£m
Interest expense	Interest expense and similar charges	**(5)**	(5)
Depreciation and impairment of right-of-use assets	Administrative expenses	**(36)**	(38)
Lease expense in respect of short term and low value leases	Administrative expenses	**(10)**	(9)
Amounts receivable under leases where the Group is a lessor	Other operating income	**3**	2

Leasing amounts recognised at the balance sheet date			
		Group	
		2022	2021
	Balance sheet classification	**£m**	£m
Right-of-use branches and non-specialised admin buildings	Property, plant and equipment	**170**	202
Right-of-use investment property	Property, plant and equipment	**16**	17
Lease liabilities	Other liabilities	**(243)**	(262)

In addition to the above, the Society holds a lease liability and right-of-use asset of £1 million (2021: £2 million) relating to the lease of an investment property owned by one of its subsidiaries which is eliminated on consolidation.

28. Leasing (continued)

Total leasing cash outflows in the year were £37 million (2021: £38 million). No lease commitments (2021: £5 million) were entered into but had not yet commenced at the balance sheet date. Future undiscounted minimum payments under lease liabilities were as follows:

Leasing commitments

	Group and Society 2022 £m	Group and Society 2021 £m
Amounts falling due:		
Within one year	**33**	26
Between one and two years	**31**	32
Between two and three years	**30**	31
Between three and four years	**28**	29
Between four and five years	**25**	28
After five years	**139**	165
Total	**286**	311

At the balance sheet date £9 million (2021: £10 million) of future minimum lease payments were receivable under leases where the Group is a lessor, of which £2 million (2021: £2 million) were receivable under non-cancellable subleases.

29. Contingent liabilities

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

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

30. Retirement benefit obligations

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

The Group also has funding obligations to several defined benefit pension schemes, which are administered by boards of trustees. Pension trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy of fund assets, as well as the day-to-day administration. The Group's largest pension scheme is the Nationwide Pension Fund (the Fund). This is a 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		
	Group	
	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.

30. Retirement benefit obligations (continued)

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

The amounts recognised in the income statement are as follows:

Retirement benefit obligations recognised in the income statement		
	Group	
	2022	2021
	£m	£m
Defined contribution cost	**(140)**	(97)
Defined benefit schemes		
Current service cost	**-**	(72)
Past service cost	**-**	(5)
Administrative expenses	**(5)**	(6)
Included in employee costs (note 8)	**(145)**	(180)
Interest on net defined benefit asset (note 3)	**4**	7
Total	**(141)**	(173)

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

Movements in net defined benefit asset		
	Group	
	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

30. Retirement benefit obligations (continued)

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.

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.

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

Movements in defined benefit obligations	Group	
	2022	2021
	£m	£m
At 5 April	(6,861)	(6,236)
Current service cost	**-**	(72)
Past service cost	**-**	(5)
Interest expense on retirement obligation	**(135)**	(120)
Experience (loss)/gain on plan assumptions	**(59)**	43
Changes in demographic assumptions	**73**	(41)
Changes in financial assumptions	**390**	(581)
Contributions by employees	**-**	(8)
Benefits paid	**189**	159
At 4 April	**(6,403)**	(6,861)

30. Retirement benefit obligations (continued)

Changes in the fair value of plan assets for the pension schemes are as follows:

Movements in plan assets	Group	
	2022	2021
	£m	£m
At 5 April	7,033	6,530
Interest income on assets	**139**	127
Return on assets greater than discount rate	**432**	467
Administrative expenses	**(5)**	(6)
Contributions by employer	**1**	66
Contributions by employees	**-**	8
Benefits paid	**(189)**	(159)
At 4 April	**7,411**	7,033

The major categories of assets held for the pension schemes, stated at fair value, are as follows:

Categories of plan assets	Group	
	2022	2021
	£m	£m
Listed equities (quoted)	**663**	1,055
Government bonds (quoted)	**5,032**	4,816
Corporate bonds and other credit investments (quoted)	**576**	644
Infrastructure (unquoted)	**296**	221
Property (unquoted)	**792**	685
Private equity investments (unquoted)	**689**	484
Private debt investments (unquoted)	**463**	282
Cash and derivatives	**277**	198
Liability relating to repurchase agreement	**(1,555)**	(1,411)
Insurance policies	**148**	-
Other assets and liabilities	**30**	59
Total	**7,411**	7,033

The defined benefit pension schemes do not invest in the Group's own financial instruments or property. Certain investments in private equity, infrastructure and property are not quoted in active markets or valued based on observable inputs.

30. Retirement benefit obligations (continued)

The Fund's liabilities are well hedged by matching assets, primarily government bonds and corporate bonds. In addition, the Fund invests in alternative matching assets such as property ground rents and property leases (included in property above) that are expected to generate inflation-linked income over the long term.

The Fund also holds return-seeking assets which are primarily equities. These are expected to generate a return over and above the Fund's liabilities in the long term but may create risk and volatility in the short to medium term.

During the year the Trustee has continued to manage interest rate and inflation risk in the Fund through the use of certain investments and derivative instruments to reduce volatility from changes to long-term interest rates and inflation expectations. The fund has also begun to de-risk from return seeking assets by reducing holdings of listed equities. The Fund's investments also continue to be supported by the utilisation of repurchase agreements (loans, collateralised against the Fund's government bonds), which total £1,555 million at 4 April 2022 (2021: £1,411 million). In January 2022 the Trustee completed a pensioner buy-in for the smaller Cheshire & Derbyshire section of the Fund, removing the investment and longevity risk to the Fund for these members.

The investments are monitored by both the Trustee and the Group to ensure they remain appropriate given the Fund's long-term objectives.

The principal actuarial assumptions used are as follows:

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.

30. 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.

31. Core capital deferred shares

Group and Society	Number of shares	CCDS	Share premium	Total
		£m	£m	£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 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 financial statements as it will be recognised in the year ending 4 April 2023, by reference to the date at which it was declared.

32. Other equity instruments

				Group and Society	
				2022	2021
	Issuance date	**Next reset date**	**Reset rate**	**£m**	£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 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 statement of movements in members' interests and equity in the financial year ending 4 April 2023.

33. Investments in Group undertakings

Society investments in Group undertakings

	2022			2021		
	Shares £m	**Loans £m**	**Total £m**	Shares £m	Loans £m	Total £m
At 5 April	361	37,891	38,252	339	34,868	35,207
Additions	**21**	**2,527**	**2,548**	22	3,474	3,496
Impairments	**(11)**	**(10)**	**(21)**	-	-	-
Disposals, redemptions and repayments	**-**	**(453)**	**(453)**	-	(451)	(451)
At 4 April	**371**	**39,955**	**40,326**	361	37,891	38,252

The Society received dividends from Group undertakings during the year ended 4 April 2022 totalling £2 million (2021: £nil). Impairments for the year ended 4 April 2022 of £21 million (2021: £nil) relating to the Society's investments in loans and equity of subsidiaries have been recognised within other operating income, reflecting a reduction in the expected recoverable amount of these assets.

Subsidiary undertakings

The interests of the Society in its subsidiary undertakings as at 4 April 2022 are set out below:

Subsidiary name	Notes
Regulated subsidiaries	
Derbyshire Home Loans Limited	i
E-Mex Home Funding Limited	i
The Mortgage Works (UK) plc	i
UCB Home Loans Corporation Limited	i
Other subsidiaries	
Dunfermline BS Nominees Limited	ii
FN1 (formerly First Nationwide)	ii
Home Propositions Limited	ii
Jubilee Mortgages Limited	ii
Monument (Sutton) Limited	ii
Nationwide (Isle of Man) Limited	
Nationwide Syndications Limited	ii
NBS Ventures Limited	ii
NBS Ventures Management Limited	ii
Piper Javelin Holding Company Limited	ii
Piper Javelin No 1 Limited	
The Derbyshire (Premises) Limited	ii

Subsidiary name	Notes
Dormant subsidiaries	
AHN1 Limited (formerly at.home nationwide Limited)	iii
Confederation Mortgage Services Limited	
Exeter Trust Limited	
LBS Mortgages Limited	
NAPS1 Limited (formerly Nationwide Anglia Property Services Limited)	
NFS1 Limited (formerly Nationwide Financial Service Limited)	iii
Nationwide Home Loans Limited	
Nationwide Housing Trust Limited	
Nationwide International Limited	
NLF1 Limited (formerly Nationwide Lease Finance Limited)	
NOK1 Limited (formerly Nationwide Overseas (UK) Limited)	
Nationwide Trust Limited	
NBS CoSec Limited	

Notes:

i. Audited accounts are prepared for regulated entities.

ii. For these companies, the Group has adopted the audit exemption for the year ended 4 April 2022 under Section 479A of the Companies Act 2006. The Society guarantees all outstanding liabilities of the exempted subsidiary undertakings.

iii. Company dissolved 5 April 2022.

33. Investments in Group undertakings (continued)

The Society directly or indirectly holds 100% of the ordinary share capital for each subsidiary undertaking. All of the subsidiary undertakings are limited liability companies, with the exception of FN1 which is an unlimited company.

The registered office for all subsidiary undertakings, other than those listed in the table below, is Nationwide House, Pipers Way, Swindon, SN38 1NW.

Subsidiary name	Registered office
Dunfermline BS Nominees Limited	Caledonia House, Carnegie Avenue, Dunfermline, KY11 8PJ
Nationwide (Isle of Man) Limited	Atlantic House, Circular Road, Douglas, Isle of Man, IM1 1AG

There are no significant restrictions on any of the Society's subsidiaries in paying dividends or repaying loans, subject to their financial and operating performance and availability of distributable reserves.

The Group has no material shares in associates. The Group's interests in equity shares are included in investment securities as set out in note 13.

Subsidiaries by virtue of control

Details of consolidated and unconsolidated structured entities are set out in note 34.

34. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are consolidated when the substance of the relationship indicates control.

Consolidated structured entities

Structured entities are assessed for consolidation in accordance with the accounting policy set out in note 1. The following structured entities are consolidated in the Group's results.

Structured entity name	Nature of business	Registered office
Nationwide Covered Bonds LLP	Mortgage acquisition and guarantor of covered bonds	Nationwide House, Pipers Way, Swindon, SN38 1NW
Silverstone Master Issuer plc	Funding vehicle	Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF
Silverstone Funding (No.1) Limited	Funding vehicle	

Further details on the activities of the above structured entities are included in note 14.

Unconsolidated structured entities

The Group has interests in structured entities which it does not sponsor or control. These largely consist of holdings of mortgage backed securities and covered bonds issued by entities that are sponsored by other unrelated financial institutions. The entities are financed primarily by investments from investors, such as the purchase of issued notes.

34. Structured entities (continued)

The Group's direct interests in unconsolidated structured entities comprise primarily investments in asset backed securities which are reported within investment securities on the balance sheet. The total carrying value of these interests at 4 April 2022 is £4,524 million (2021: £4,078 million). Further details on the credit risk that the Group is exposed to in respect of these asset backed securities can be found in the Credit risk - Treasury assets section of the Risk report.

Management has concluded that the Group has no control or significant influence over these entities and that the carrying value of the interests held in these entities represents the maximum exposure to loss. During the year the Group has not provided any non-contractual financial or other support to these entities and has no current intention of providing any such support. There were no transfers to or from these unconsolidated structured entities during the year.

35. Related party transactions

Subsidiary, parent and ultimate controlling party

The Group is controlled by Nationwide Building Society, the ultimate parent, which is registered in England and Wales. Details of subsidiary undertakings are shown in note 33.

Key management personnel compensation

Members of the Nationwide Leadership Team (including executive directors), together with the non-executive directors of the Society, are considered to be the key management personnel as defined by IAS 24 'Related Party Disclosures'. Total compensation for key management personnel for the year was as follows:

Key management personnel compensation		
	2022	2021
	£'000	£'000
Short term employee benefits	**8,944**	8,084
Other long-term benefits	**1,951**	883
Contractual/other settlements	**587**	253
Share based payments	**2,339**	2,054
Total	**13,821**	11,274

Other long-term benefits include amounts relating to long-term bonus schemes, some of which will be paid in future periods. Further information on these can be found in note 8. Share based payments include amounts that are dependent on the performance of the CCDS. Contractual/other settlements include compensation for loss of office. Further information is included in the Report of the directors on remuneration.

Notes to the financial statements (continued)

35. Related party transactions (continued)

Transactions with related parties

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and the payment and recharge of administrative expenses. The outstanding balances for these related party transactions at the year end, and the associated income and expenses for the year are as follows:

Transactions with related parties	Society subsidiaries		Key management personnel	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Loans payable to the Society				
Loans outstanding at 5 April	37,891	34,868	2.4	0.9
Loans issued during the year	**2,527**	3,474	**0.6**	2.1
Loans impaired during the year	**(10)**	-	**-**	-
Loan repayments during the year	**(453)**	(451)	**(0.7)**	(0.6)
Loans outstanding at 4 April	**39,955**	37,891	**2.3**	2.4
Deposits payable by the Society				
Deposits outstanding at 5 April	1,148	1,785	4.9	5.1
Deposits placed during the year	**-**	1	**10.9**	12.5
Deposit repayments during the year	**(555)**	(638)	**(14.1)**	(12.7)
Deposits outstanding at 4 April	**593**	1,148	**1.7**	4.9
Net interest income				
Interest receivable	**805**	833	**-**	-
Interest expense	**18**	25	**-**	-
Other income and expenses				
Dividends paid to the Society	**2**	-	**-**	-
Fees and expenses paid to the Society	**66**	54	**-**	-
Other balance sheet items				
Accrued income and prepaid expenses due to the Society	**181**	650	**-**	-
Other liabilities payable by the Society	**2,480**	2,259	**-**	-
Right-of-use asset leased from subsidiary	**1**	2	**-**	-
Liability for right-of-use asset leased from subsidiary	**1**	2	**-**	-

In addition, the Society enters into derivative financial instruments with the consolidated structured entities used in its asset backed funding programmes, which are described in note 14. As at 4 April 2022, the Society held intercompany derivative assets of £149 million and intercompany derivative liabilities of £423 million (2021: £55 million and £987 million, respectively) in respect of these instruments. The Society also leases a property to a company in which one of the non-executive directors has an interest. This lease was entered into prior to the appointment of the non-executive to the Society's Board.

Strategic report
Governance
Risk report
Financial statements
Other information

35. Related party transactions (continued)

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group.

A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and directors of the Society or persons connected with directors of the Society. The register will be available for inspection by members at the Annual General Meeting on 14 July 2022 and during normal office hours at the Society's principal office (Nationwide House, Pipers Way, Swindon, SN38 1NW) during the period of 15 days prior to the meeting.

Transactions with Group companies

Transactions with Group companies arise in the normal course of business. Interest on outstanding loans and deposits accrues at a transfer pricing rate agreed between the Society and its subsidiary undertakings. The Society does not charge the net defined benefit cost to the subsidiary undertakings that participate in the Nationwide Pension Fund.

36. Notes to the cash flow statements

Non-cash items included in profit before tax	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Net (decrease)/increase in impairment provisions	**(106)**	66	**2**	39
Net (decrease)/increase in provisions for liabilities and charges	**(6)**	13	**(6)**	13
Amortisation and (gains)/losses on investment securities	**(117)**	113	**(117)**	113
Write down of inventory	**12**	-	**-**	-
Depreciation, amortisation and impairment	**595**	597	**595**	597
Impairment of investment in Group undertakings	**-**	-	**21**	-
Profit on sale of property, plant and equipment	**(3)**	(2)	**(3)**	(2)
(Gain)/loss on the revaluation of property, plant and equipment	**(1)**	10	**(1)**	10
Net charge in respect of retirement benefit obligations	**1**	76	**1**	76
Interest on subordinated liabilities	**138**	166	**138**	166
Interest on subscribed capital	**4**	4	**4**	4
Losses/(gains) from derivatives and hedge accounting	**7**	(34)	**6**	21
Total	**524**	1,009	**640**	1,037

36. Notes to the cash flow statements (continued)

Changes in operating assets and liabilities	Group		Society	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Loans and advances to banks and similar institutions	**148**	315	**148**	315
Net derivative financial instruments	**2,462**	(41)	**1,874**	(1,360)
Loans and advances to customers	**(6,517)**	(723)	**(4,082)**	2,713
Other operating assets	**67**	(135)	**(1,449)**	(2,000)
Shares	**7,654**	10,623	**7,654**	10,621
Deposits from banks and similar institutions, customers and others	**10,026**	5,630	**9,923**	5,843
Debt securities in issue	**(1,561)**	(6,247)	**(1,626)**	(4,996)
Contributions to defined benefit pension scheme	**(1)**	(66)	**-**	(65)
Other operating liabilities	**(249)**	12	**(29)**	(1,332)
Total	**12,029**	9,368	**12,413**	9,739
Cash and cash equivalents				
Cash	**30,221**	16,693	**30,221**	16,693
Loans and advances to banks and similar institutions repayable in 3 months or less	**603**	1,012	**584**	985
Total	**30,824**	17,705	**30,805**	17,678

36. Notes to the cash flow statements (continued)

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 4 April 2022, amounted to £1,860 million (2021: £1,376 million). These balances are included within loans and advances to banks and similar institutions on the balance sheet and are not included in the cash and cash equivalents in the cash flow statement as they are not liquid in nature. The Group also excludes from cash and cash equivalents cash collateral and other deposit balances relating to derivative activities totalling £589 million (2021: £1,220 million).

Movements in liabilities arising from financing activities are set out below:

Movements in liabilities arising from financing activities

	2022				2021			
	Subordinated liabilities	**Subscribed capital**	**Lease liabilities**	**Total**	Subordinated liabilities	Subscribed capital	Lease liabilities	Total
Group and Society	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
At 5 April	7,575	243	262	8,080	9,317	253	265	9,835
Issuances/additions	**773**	**-**	**3**	**776**	-	-	18	18
Redemptions/repayments	**-**	**(38)**	**(27)**	**(65)**	(683)	-	(27)	(710)
Foreign exchange	**281**	**-**	**-**	**281**	(705)	-	-	(705)
Fair value and other movements	**(379)**	**(18)**	**5**	**(392)**	(354)	(10)	6	(358)
At 4 April	**8,250**	**187**	**243**	**8,680**	7,575	243	262	8,080

The Society's liabilities arising from financing activities are materially the same as shown for Group.

Derivative financial instruments used to hedge financing liabilities include interest rate and cross-currency swaps. Interest received and proceeds on redemption of these hedging instruments are included within financing cash flows and for the year ended 4 April 2022 amounted to £129 million and £nil (2021: £156 million and £22 million) respectively. Other changes in the value of these derivatives in the year ended 4 April 2022 included decreases of £10 million (2021: decreases of £1,005 million) due to foreign exchange, fair value and other movements.

37. Capital management

The Group is subject to the regulatory capital requirements applied by its regulator, the Prudential Regulation Authority (PRA). Regulatory capital comprises the Group's general reserve, fair value through other comprehensive income reserve, revaluation reserve, core capital deferred shares, other equity instruments and subordinated debt, subject to various adjustments and transitional arrangements required by the capital rules.

During the year the Group complied with the capital requirements applied by the PRA. Further unaudited details about the Group's capital position can be found in the Capital risk section of the Risk report.

38. Registered office

Nationwide is a building society, incorporated and domiciled in the United Kingdom. The address of its registered office is:

Nationwide Building Society
Nationwide House
Pipers Way
Swindon
United Kingdom
SN38 1NW

Other information

Annual business statement 318

1. Statutory percentages

2. Other percentages

3. Information relating to directors at 4 April 2022

Underlying profit 321

Forward-looking statements 321

Glossary 321

Annual business statement for the year ended 4 April 2022

1. Statutory percentages

Statutory percentages	2022 %	Statutory limit %
Lending limit	**4.91**	25.00
Funding limit	**28.92**	50.00

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997 and the Modification of the Lending Limit and Funding Limit Calculations Order 2004.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property and is calculated as (X-Y)/X where:

X = business assets, being the total assets of the Group plus impairment provisions on loans and advances to customers, less liquid assets, property, plant and equipment, intangible fixed assets and investment properties as shown in the Group balance sheet.

Y = the principal of, and interest accrued on, loans owed to the Group which are fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals and is calculated as (X-Y)/X where:

X = shares and borrowings, being the aggregate of:

i) the principal value of, and interest accrued on, shares in the Society,
ii) the principal of, and interest accrued on, sums deposited with the Society or any subsidiary undertaking of the Society excluding offshore deposits in an EEA subsidiary, and
iii) the principal value of, and interest accrued under, bills of exchange, instruments or agreements creating or acknowledging indebtedness and accepted, made, issued or entered into by the Society or any such undertaking, less any amounts qualifying as own funds.

Y = the principal value of, and interest accrued on, shares in the Society held by individuals otherwise than as bare trustees (or, in Scotland, simple trustees) for bodies corporate or for persons who include bodies corporate.

The statutory limits are as laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other percentages

Other percentages	2022 %	2021 %
As a percentage of shares and borrowings:		
Gross capital	**9.8**	9.5
Free capital	**9.4**	9.0
Liquid assets	**24.0**	19.9
Profit for the financial year as a percentage of mean total assets	**0.47**	0.25
Management expenses as a percentage of mean total assets	**0.85**	0.88

The above percentages have been prepared from the Society's consolidated accounts and in particular:

- 'Shares and borrowings' represent the total of shares, deposits from banks and similar institutions, other deposits and debt securities in issue.
- 'Gross capital' represents the aggregate of general reserve, revaluation reserve, fair value through other comprehensive income reserve, cash flow hedge reserve, other hedging reserve, CCDS, Additional Tier 1 capital, subscribed capital and subordinated liabilities.
- 'Free capital' represents the aggregate of gross capital and provisions for collective impairment losses on loans and advances to customers less property, plant and equipment and intangible assets.
- 'Liquid assets' represent the total of cash, loans and advances to banks and similar institutions and investment securities.
- 'Mean total assets' represent the amount produced by halving the aggregate of total assets at the beginning and end of the financial year.
- 'Management expenses' represent administrative expenses including depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

3. Information relating to directors at 4 April 2022

Name and date of birth	Occupation	Date of appointment	Other directorships
K A H Parry OBE Society Chairman 29 January 1962	Non-executive director	23 May 2016	Daily Mail and General Trust plc K A H Parry Limited Royal London Mutual Insurance Society Limited (Chair)
J D Garner 23 June 1969	Executive director	5 April 2016	UK Finance Limited
R M Fyfield 3 May 1969	Non-executive director	2 June 2015	Roku, Inc BBC Commercial Limited Asos plc The Football Association Premier League Limited
A Hitchcock 16 January 1965	Non-executive director	2 December 2018	
A M Keir 16 October 1958	Non-executive director	1 March 2022	Majid Al Futtaim Holdings Sumitomo Mitsui Banking Corporation Bank International plc (Chair)
D Klein 10 August 1968	Non-executive director	1 March 2021	
T Rajah MBE 24 August 1982	Non-executive director	1 September 2020	Live Better With Limited London & Partners Limited London & Partners Ventures Limited Dot London Domains Limited
C S Rhodes 17 March 1963	Executive director	20 April 2009	AHN1 Limited Derbyshire Home Loans Limited E-Mex Home Funding Limited FN1 Jubilee Mortgages Limited LBS Mortgages Limited Nationwide Housing Trust Limited Nationwide Syndications Limited NBS Ventures Management Limited The Mortgage Works (UK) plc (Chair) UCB Home Loans Corporation Limited Silverstone Securitisation Holdings Limited Arkose Funding Limited

3. Information relating to directors at 4 April 2022 (continued)

Name and date of birth	Occupation	Date of appointment	Other directorships
G Riley 6 December 1967	Non-executive director	1 April 2022	Tangerine Bank Roynat Capital Incorporation (Chair) St Michael's Hospital Foundation
P G Rivett 27 June 1955	Non-executive director	1 September 2019	Standard Chartered plc Standard Chartered Bank
T J W Tookey 17 July 1962	Non-executive director	2 June 2015	Royal London Mutual Insurance Society Limited
G Waersted Senior Independent Director 16 March 1955	Non-executive director	1 June 2017	Telenor ASA (Chair) Obton AS (Chair) Petoro AS (Chair) Lukris Invest AS Fidelity International

Directors' service address
Documents may be served on any of the directors c/o Addleshaw Goddard LLP, One St Peter's Square, Manchester M2 3DE.

Directors' service contracts
Executive directors' terms and conditions of employment are detailed in their individual contracts or service agreements which include a notice period of 12 months from the Society to the individual and a notice period of six months from the individual to the Society. The notice period offered to any new recruit would be in line with this approach.

Directors' share options
A proportion of executive directors' variable pay is linked to the value of the Society's core capital deferred shares (CCDS), details of which have been provided in the Report of the directors on remuneration. For 2021/22, the Directors' Performance Award (DPA) was the only variable pay plan in which directors participated. 20% of awards under the DPA are payable in June 2022 with 20% retained until June 2023. The remaining 60% is deferred, payable between years three and seven following the date of award. 50% of the upfront portion and 60% of the deferred portion is linked to the performance of the Society's core capital deferred shares (CCDS). These CCDS linked elements are payable in cash subject to a 12 month retention period. No directors held securities in Nationwide Building Society during the year.

Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 54. 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.

Glossary

The glossary for Annual Report and Accounts 2022 is available at:
https://www.nationwide.co.uk/about-us/how-we-are-run/results-and-accounts

Nationwide Building Society
Head Office: Nationwide House, Pipers Way, Swindon, Wiltshire SN38 1NW.
nationwide.co.uk

G101 (A) 2022

Building Society