Nationwide
Building Society

Annual Report and
Accounts 2023

Banking – but *fairer*, more *rewarding*, and for the good of *society*

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

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Committed to doing the right thing

Being a responsible business is part of our mutual heritage and we remain committed to doing business in a way that positively impacts our customers, employees and communities.

Our climate change disclosures are on pages 53 to 64

Our Mutual Good Commitments and Environmental, Social and Governance (ESG) disclosures are on pages 46 to 51

Our non-financial and sustainability information statement is on page 52

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**

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

Deborah A Crosbie

Debbie Crosbie
18 May 2023

What your *Society* has achieved this year

No. 1
for customer satisfaction

among our peer group
for the 11th year running[1]

£100 million invested
in cost of living support and supermarket shopping cashback[2]

£9.6 million
committed to charitable activities

2022: £7.1 million

Committed to a net-zero carbon future

by setting science-based targets

1 in 5 current account switchers came to us[3]

2022: 1 in 5

Continued to look after almost
£1 in every £10
saved in the UK[4]

Helped 1 in 7
first time buyers

into a home of their own

2022: 1 in 7

Branch Promise

to remain in every town or city
we are in today until at least 2024

£1,055 million

member financial benefit,
from better pricing and incentives
than the market average

2022: £325 million

£2,233 million

underlying profit

2022: £1,604 million

£2,229 million

statutory profit

2022: £1,597 million

6.0%

leverage ratio

2022: 5.4%

1. Lead at March 2023: 3.8%pts, March 2022: 4.6%pts. © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to 12 months ending 31 March 2023. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 51,000 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 3.3% of the main current account market as of April 2022 – 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. Includes money invested in our 5% cashback offer on debit card expenditure in supermarkets and convenience stores from February until April 2023 (up to £10 per month), cost of living payments for colleagues, our cost of living customer helpline and our financial health checks in branches.
3. Pay.UK monthly CASS data. 12 months to March 2023: 19.2%; 12 months to March 2022: 18.3%.
4. Market share of household deposit balances, based on Bank of England data, as at 31 March 2023: 9.6% (2022: 9.4%).

Our *difference* is our mutual ownership model

We are a building society, not a bank. That means we are owned by our members – our customers who have their current account, mortgage or savings with us.

Our Purpose

Banking – but *fairer*, more *rewarding*, and for the good of *society*.

As a modern mutual, we make a positive difference for our members and customers, our communities and society as a whole.

Our Business Model

Nationwide holds a unique position in UK financial services. As the largest building society, we can deliver the valuable banking products and services and mutual good to our customers that others cannot.

As a building society, we are owned by our members – our customers who have their current account, mortgage or savings with us.

We aim to return additional value to our members as owners, through our Nationwide Fairer Share products and payments.

We deliver our valuable banking products and services to all of our customers by helping them with:

- managing everyday finances – one in ten[1] of the UK's current accounts are with us and one in five current account switchers came to us last year[2]
- 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

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 diversifies our income, and helps us give value back to our customers, through better product pricing and service.

In total, around 75% of our funding comes from our customers, and over 95% of our lending is secured on residential property[3].

Our Strategy

We have four strategic drivers. We focus our time and money on them, so that we can fulfil our purpose:

- **More rewarding relationships**
- **Simply brilliant service**
- **Beacon for mutual good**
- **Continuous improvement**

For more information on:

- Our Blueprint for a modern mutual, see page 26
- Delivery against our strategic drivers, see pages 15 to 22
- Our Nationwide Fairer Share Payment and Nationwide Fairer Share Bond, see The Nationwide Fairer Share, nationwide.co.uk/fairershare-payment

1. CACI's Current Account and Savings Database, Stock (February 2023).
2. Pay.UK monthly CASS data. 12 months to March 2023: 19.2%; 12 months to March 2022: 18.3%.
3. The Building Societies Act requires that at least 75% of our lending is secured on residential property and at least 50% of our funding comes from customers. For more detail, please see page 319.

Our Stakeholders

- Retail members and customers
- Buy to let customers
- Colleagues
- Mortgage intermediaries
- Investors and rating agencies
- Communities
- Suppliers
- Regulators and policy makers

As a mutual, our members – customers who have their current account, mortgage or savings with us – are our owners and are our primary stakeholders. We also have other important stakeholders who we engage with and consider in our decision making.

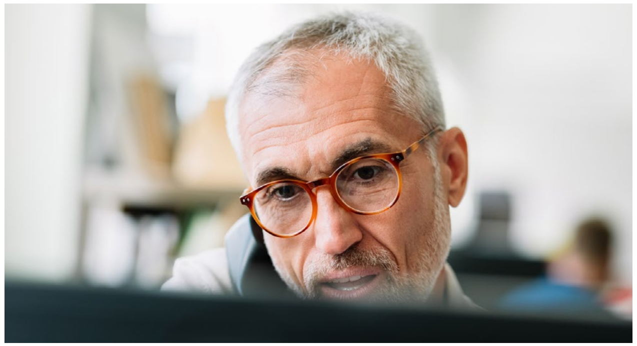
We are committed to maintaining effective communications and building positive relationships with all our stakeholders. More information on our engagement with stakeholders can be found on page 29.

What Makes Us Different - Our Ownership Model

As a mutual, we are owned by our members, which means we think about profit in a different way from our banking peers. We do not have to pursue profit to pay shareholders dividends. Instead, we balance our need to retain sufficient profit to remain financially strong, with rewarding members and our commitment to share our success through:

Delivering value in banking and rewarding loyalty.

Providing brilliant and trusted service.



Product and service propositions that meet the needs and expectations of existing and future customers.

Committing at least 1% of our pre-tax profits[4] each year to charitable activities.

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

Chairman's Letter

A letter from *Kevin Parry*

your Society's Chairman

Dear fellow *member*

I am pleased to write to you following my first full year of service as your Chairman.

When I wrote to you last year, we were all continuing to adapt to living within a global pandemic and the challenges which that brought us. Last year saw more change and new challenges, yet throughout that Nationwide has continued to focus on its members by continuing to protect its financial strength.

Financially, our pre-tax profit is 40% higher than last year at £2.2 billion. This is after delivering member financial benefit of £1.1 billion, broadly representing the amount by which our members benefit more than they would if they banked with a typical competitor.

In addition, our financial strength has enabled the Board to declare our Nationwide Fairer Share Payment – with eligible members to receive a £100 payment into their current account in June 2023 – and the Nationwide Fairer Share Bond. The Fairer Share Payment will amount to an estimated £340 million in total. More details on eligibility can be found at nationwide.co.uk/fairershare. Only a mutual can reward its members in this way. In the future, the Board intends to declare annual distributions provided they would not be detrimental to the financial strength of the Society.

The cost of living, rising Bank rate and inflation all presented fresh challenges for us and our members amidst uncertainty in the UK economy, changes across government, and extreme volatility from the 'mini-Budget' in September 2022. However, throughout the year Nationwide maintained its strength and continues to be a well-trusted brand on the UK high street[1]. The Nationwide Board has faced these challenges head on and discharged its duties with due care to ensure that Nationwide is set up for long-term success. You can read more about the strategic decisions we have taken, how we engaged with our stakeholders, and how our mutual status is at the heart of our approach in greater detail on pages 29 to 39.

On behalf of the Board, I would like to thank all our colleagues for their hard work and stand out customer service during another challenging year.

The year has seen Nationwide welcome its first female CEO, Debbie Crosbie, who led the team that extended the Branch Promise, delivered strong financial performance and supported our members and colleagues through the cost of living pressures. We have also continued to progress our key agendas on inclusion and diversity and sustainability. Nationwide has publicly committed to net-zero and its intermediate science-based targets, albeit this remains subject to broader public policy in order to achieve the long-term goals. Further detail on all this activity can be found on pages 46 to 64.

The Board engaged with members, customers and colleagues during the year through TalkBack sessions, both in person, online, or a combination of both. This new approach enabled the Board to engage more frequently and with more people than before the pandemic and will be continued.

I am pleased to be able to confirm that two out of four of our most senior Board positions are now held by women, as recognised in the FTSE Women Leaders Review 2023, and that our Board is broadly balanced between men and women. The Board continues to oversee progress against inclusion and diversity targets and hold executive

1. Joint 1st based on a study conducted by an international market research company commissioned by Nationwide Building Society, based on customer and non-customer responses for the 12 months ending March 2023. Financial brands included Nationwide, Barclays, The Co-operative Bank, First Direct, Halifax, HSBC, Lloyds Bank, NatWest, TSB, Santander, Monzo and Starling Bank.

management to account to deliver greater diversity across the workforce.

Within the organisation, we continued to focus on the management of risks and controls and held executive management to account to deliver improvements at pace. Our new CEO is committed to making these improvements and the Board supports her in this entirely.

I have set out in the Governance report the key changes that have been made to the Board this year on page 78, but I would like to extend my thanks to Mai Fyfield and Gunn Waersted for their counsel and service. Both Mai and Gunn will step down at the AGM and we wish them well. In turn, I welcome Tracey Graham as the incoming Senior Independent Director, subject to regulatory approval.

The Board continues to demonstrate its commitment to diversity of thought in its appointments.

As I look to the year ahead, I am confident that Nationwide will remain resilient in the face of continued political and economic uncertainty and that the mutual model will continue to serve our members' interests well. The Board has approved a new strategy and purpose for Nationwide and we look forward to overseeing the delivery of that strategy for the benefit of Nationwide's members, customers, colleagues and the communities that we serve.

Kevin Parry
Chairman

Chief Executive Review

Reflections on 2022/23 from *Debbie Crosbie*

your Society's Chief Executive

My *reflections* on 2022/23

Last year, we started our modern mutual journey.

We are making good progress on our strategy, despite the macroeconomic challenges and market pressures that impacted our costs and the cost of living for our customers. Throughout this, our colleagues kept their focus on helping our customers in the best way possible.

Our financial performance last year was the strongest on record. We also delivered our highest ever level of member financial benefit, through better pricing and incentives than the market average.

As a mutual, we aim to reward our savings customers with the highest savings rates we possibly can, whilst ensuring we remain financially sustainable over the longer term. Our average deposit rates over the year were 65% higher than the market average. Combined with our attractive current account switching incentive during October and November 2022, this increased our market share of deposit balances to 9.6%.

We are here to support our customers today and for the long term, which is why it is important that we maintain our financial strength. Our leverage ratio, which measures our ability to withstand economic shocks, continues to be well above our minimum regulatory threshold.

This strength allowed us to support our customers and colleagues in new ways. We invested £100 million, which included the cost of providing cashback to current account customers on their supermarket shopping when they made purchases using their debit cards between February and April 2023. It also included cost of living payments for our colleagues and support for customers facing cost of living challenges, including practical support in our branches, a dedicated telephone helpline and an online cost of living hub.

And most notably, our financial strength has enabled us to introduce the Nationwide Fairer Share Payment, which rewards our members who have the deepest banking relationships with us, and the Nationwide Fairer Share Bond, with an exclusive interest rate for members. It is a clear and positive way of demonstrating our mutual difference and aligns with our purpose. You can find out more information about it on our website[1].

Simultaneously, we have demonstrated our mutual good in the communities we serve, committing £9.6 million over the year to charitable activities.

1. The Nationwide Fairer Share, nationwide.co.uk/fairershare-payment

Looking ahead to the *future*

We have remained number one for customer satisfaction in our peer group for eleven years running[2], but as our customers' needs evolve, we must innovate, adapt and modernise to stay relevant and distinctive.

We have an exciting journey ahead. We will execute our refreshed strategy and deliver brilliantly for our customers today as well as for those of the future.

We will develop new products and services, invest more in rewarding relationships, make it easier for colleagues to do their jobs well and demonstrate the real difference that mutuals make in our society.

Thank you to our customers, who are at the centre of everything we do. I look forward to another exciting year and to delivering our new purpose: *Banking – but fairer, more rewarding, and for the good of society.*

Deborah A Crosbie

Debbie Crosbie
Chief Executive

For more information on:

- Our Blueprint for a modern mutual, see page 26
- Our financial review, see page 69

2. © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2023. For more information, see footnote 1 on page 5.

More *rewarding* relationships

1 in 10[3] of the UK's current accounts are with us and, at the 2023 Moneyfacts Consumer Awards, we won the Current Account Switching Provider of the Year award
2022: 1 in 10[3]

Helped over 15,000 save for the first time with us through our Start to Save Issue 2 account

Provided customers with 5% cashback, up to £10 each month, on supermarket and convenience store purchases using their debit cards between February and April 2023

1 in 7 first time buyers into a home of their own
2022: 1 in 7

Deposit growth: £9.1 billion
2022: £7.7 billion

Gross lending: £33.6 billion
2022: £36.5 billion

Deeper, broader, more lifelong banking relationships that provide the best value.

We aim to provide our customers with the best value in UK banking. Our mutual model is intrinsically more rewarding than our banking peers, as we deliver value to our customers, rather than paying dividends to shareholders. We want to extend this beyond monetary value and to create lifelong relationships.

The customers with the deepest relationships with us are our committed members: those with two or more of our products[4]. At 4 April 2023, we had 3.68 million committed members. For more information, see page 24.

Helping people into homes

We were founded to help people into homes of their own, and this remains important to our strategy today. Our share of total gross mortgage lending was 10.8% (2022: 11.8%), reflecting lower gross lending of £33.6 billion (2022: £36.5 billion). Strong demand in the first half of the year was offset by a softer market in the second half, when higher Bank rate and inflation affected customers' affordability assessments, and increased their caution around borrowing at higher rates.

3. CACI's Current Account and Savings Database, Stock (February 2023 and February 2022).
4. Committed members had 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 continued to price competitively and enhanced our online Mortgage Manager service, making it easier for our existing customers to switch product or extend their mortgage term to reduce their mortgage payments. Our existing mortgage customers have access to rates that are at least as good as those for new customers remortgaging to us, and we have the highest retention of mortgage customers in our peer group[5].

We helped over 72,000 first time buyers into a home of their own (2022: 87,000), equating to one in seven (2022: one in seven) of all first time buyers, above our share of the wider market. Our Helping Hand mortgage has successfully supported affordability, enabling first time buyers to borrow more (up to 5.5 times their salary) on 5 and 10-year fixed rate mortgages. It also extends to 95% loan to value, reducing the pressure on first time buyers of saving for a larger deposit, and we offer £500 cashback to help with moving costs. We continue to ensure we lend responsibly, with robust underwriting checks, but without relying on the Government's 95% mortgage guarantee scheme. In recognition of the support we have provided, we were awarded the Best First Time Buyer Mortgage Provider at the Moneyfacts Awards 2022.

The buy to let market was smaller overall, as higher interest rates in the second half of the year also impacted landlords' affordability and profitability, limiting their ability to expand portfolios or raise capital. The gross lending market share of our buy to let subsidiary, The Mortgage Works (TMW), decreased, to 11.0% (2022: 14.5%), as our pricing temporarily became less competitive when the Bank rate rose and the market contracted. We became more competitive in the fourth quarter of the financial year and refined our affordability tests for buy to let customers. This enabled us to offer mortgages to more landlords, whilst continuing to lend in a responsible way.

Supporting those who save with us

We believe in encouraging good savings habits, and the financial security this can provide customers in the long term. We saw strong growth in customer deposits over the year. They increased by £9.1 billion (2022: £7.7 billion), despite the cost of living challenges reducing the savings market overall. Our market share of deposit balances grew to 9.6% (2022: 9.4%). This strong growth reflected the competitiveness of our savings products, in particular our Fixed Rate Bonds.

We also increased our variable savings rates over the year, to support and retain existing savers. Our Start to Save Issue 2 account, for those new to saving, helped over 15,000 people save at least £100 for the first time with us in the past year, and over 900 people won £250 in our prize draw.

Encouraging more people to bank with us

Banking is core to our purpose. At the 2023 Moneyfacts Consumer Awards, we were recognised as Current Account Switching Provider of the Year. Overall, we opened 679,000 (2022: 604,000) new current accounts, increasing our current account market share to 10.4% (2022: 10.3%)[6]. This was supported by our market-leading current account switcher incentive during October and November 2022, that offered £200 cashback to those who switched to us[7].

Delivering value back to our customers

As a mutual, we create value for our customers through better pricing and incentives. Over the year, we launched a number of standout savings products that rewarded loyalty and supported our success, including Member Online Bond and Flex Instant Saver. We also continued to provide customers signed up to our free SavingsWatch service with notifications when interest rates changed or when new products were launched.

Our deposits comprise both savings and current accounts. On average, we offered interest rates on deposits that were 65% higher than the market average, largely driven by our savings rates. Our competitive deposit rates contributed over 70% of our total member financial benefit of £1,055 million (2022: £325 million). For more information, see page 71.

To support customers a little further through the cost of living challenges, we ran a current account cashback offer from 9 February to 30 April 2023. Customers earned 5% cashback on their debit card purchases at a wide range of supermarkets and convenience stores, up to £10 each month.

5. eBenchmarkers residential retention at point of maturity, for the top 6 lenders (May to July 2022 maturities, 3 months post-maturity).
6. CACI's Current Account and Savings Database, Stock (February 2023 and February 2022).
7. To earn the £200 cashback, customers must have completed a full switch to us, from a current account held with another provider, using the Current Account Switch Service.

Simply *brilliant* service

Personalised service you can *trust, at every touchpoint.*

No. 1 for customer satisfaction among our peer group for the 11th year running[8]

Extended our Branch Promise to 2024

Extended our operating hours for online chat to provide 24/7 availability, 365 days a year

Handled over 4,000 calls to our cost of living helpline

Provided a six-month overdraft interest holiday for 38,000 potentially struggling customers

Active mobile banking app users grew 9% to 4.6 million
2022: 4.2 million

We are aiming for simply brilliant customer service, with a great mobile banking experience and modern branches with colleagues at their heart, to offer personalised and trusted support.

In 2023, we ranked 1st for customer satisfaction among our peer group for the 11th year running[8]. We also measure our position for satisfaction across all sectors and, in January 2023, we finished in joint 28th position out of 267 organisations, with a score that was 4.9pts ahead of the all-sector average[9]. For more information, see pages 24 and 25.

Supporting our customers through cost of living pressures

As a mutual, supporting our customers through cost of living pressures was a priority. We introduced a number of initiatives to help them. We encouraged our customers to come to us if they had concerns about their current or future financial position. We launched a new cost of living helpline to make it easier for them to speak with us. So far, we have handled over 4,000 calls through our helpline. We have provided information and help to access self-service options on our cost of living webpage, and personalised support through our specialist support team. We also make referrals to support charities, including Citizens Advice, StepChange and PayPlan, in situations where customers have debts across several lenders. We have donated to these charities to support them in their work.

For the 38,000 customers we have identified as being potentially more vulnerable to cost of living pressures, based on their overdraft and credit usage, we applied an automatic six-month overdraft interest holiday. This protected and supported them to reduce borrowing without affecting their credit score. We also reduced the interest rate for those on persistent debt plans. Our Mortgage Manager tool allows borrowers to review their terms and consider payment options, with access to support if they struggle to meet repayments.

Our cost of living webpage also offers information on managing money and budgeting, and provides links to help with existing debt. We held nine Money Matters webcasts that provided practical help with managing money and, since April 2022, we have held Money Lessons in over 400 schools, supporting over 40,000 students and increasing financial inclusion and knowledge.

8. © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2023. For more information, see footnote 1 on page 5.
9. Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2023.

Delivering excellent customer service

We are improving our mobile banking experience and continue to invest in our core digital services. The number of customers who actively used our mobile banking app grew to 4.6 million (2022: 4.2 million), representing 60% of all our active current account customers. Payments and transfers through the banking app increased by 15%. This year, we extended the operating hours of our in-app and online chat, which is now available 24 hours a day, every day of the year. We currently support around 200,000 conversations a month through this channel.

Developing our branch network for the future

Our customers rely on our branches and sometimes prefer to speak to us face to face. We extended our Branch Promise, and will keep a branch in every town or city we are in today, until at least 2024 – another example of the difference that being a mutual makes. This year we also invested £3.9 million in our Bristol, Sheffield and Wembley branches to modernise them and improve customer experience. We now have the second largest single-brand branch network across the UK financial services sector and, at the 2023 Moneyfacts Consumer Awards, we won the Branch Network of the Year award.

We continue to use colleagues in branches to serve more of our customers in different ways, including face to face, by phone and through online messaging. Following a successful trial, as at 4 April 2023, 50 of our 606 branches are now closed for one or two days each week to enable colleagues to support customers in other ways. In some exceptional circumstances that were beyond our control, and in some towns and cities where we had more than one location, we have closed branches. However, this is kept to a minimum and last year only 23 branches were closed.

Protecting our customers in challenging circumstances

We continue to work to protect our customers from fraud. Last year, our fraud defence systems and specialist fraud team helped prevent £115 million (2022: £97 million) of attempted fraud on card and online transactions. In addition to this, since its launch in 2021, our Scam Checker Service has helped prevent a further £6.1 million of potential scams.

Meeting the needs of all our customers, including those in vulnerable circumstances, is important to us. Our specialist teams support our most vulnerable customers, and we partner with gambling, debt, and mental health charities where customers need assistance beyond their banking needs.

Beacon for *mutual good*

Having a meaningful impact on customers, communities and society, by being bigger and doing better.

Committed £9.6 million to charitable activities[10]
2022: £7.1 million

Pledged an additional £1 million to our debt partners and charities

Committed to a net-zero carbon future, setting science-based targets

We have a bold social ambition and strive to have a positive impact in communities beyond our own customer base. The power of mutuality means we can do more together than we could each do alone.

Our Mutual Good Commitments

Our current Mutual Good Commitments seek to impact positively our customers, communities and wider society. Our Mutual Good Commitments are to:

- Help to achieve safe and secure homes for all
- Protect our customers' financial wellbeing
- Support progress towards a greener society
- Champion thriving communities
- Reflect the diversity of our society

For more information on how we have performed against our commitments, see page 46.

Everyone deserves a place fit to call home

As voted for by our members in 2007, we commit at least 1% of our pre-tax profits each year to charitable activities[10], largely focused on housing. This money is split between our own social investment programmes, including funding our long-term partnership with Shelter, the Nationwide Foundation and the internal costs of managing our social investment agenda. In 2022/23, this amounted to £9.6 million (2022: £7.1 million). In addition, we donated a further £1 million to our debt partners and charities to help them support more people through the cost of living pressures.

This year, we continued to focus our charitable giving around:

- Helping people into a home
- Preventing people from losing their home
- Supporting people to thrive in their home environment

Within our social investment programmes, we provide grants to local housing charities and projects across the UK. The grants are distributed through our Community Boards under the direction of customer and colleague volunteers.

As part of our £9.6 million commitment, we awarded £4.3 million (2022: £4.0 million) to support 96 (2022: 94) charitable housing projects through our Community Boards. We have therefore met our five-year target to donate £22 million in community grants, that we set when the Community Boards were founded. Over 540 projects have benefited and 118,000 people in housing need have been supported. In addition, our Colleague Grants programme saw over £580,000 awarded to 71 registered charities.

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

We partner with the national housing charity, Shelter. This year, our colleagues and customers raised £144,000 to support their vital services, on top of the £1.1 million we provided directly. Our donation helps to fund several advisers for their helplines and, last year, directly enabled the charity to answer over 6,400 calls. Over the 22 years of our partnership, our funding has directly enabled the charity to support 143,000 people in housing need.

Each year, at least a quarter of our charitable funding is awarded to the Nationwide Foundation, an independent charity. For more information on its work, see page 40.

We also made it simple for our colleagues and customers to donate to the British Red Cross appeals for Ukraine, Pakistan, and the Turkey-Syria earthquake. In total, they donated over £867,000.

Reducing our environmental impact

We are playing our part to address the impact of climate change and support the UK in its progress towards a net-zero carbon emissions future by 2050. We joined the Net-Zero Banking Alliance and Glasgow Financial Alliance for Net Zero in 2021 and, in 2022, set highly challenging intermediate (by 2030) science-based targets[11] to work towards.

We offer a range of green propositions and initiatives to support our customers to reduce their carbon footprint and make homes more energy efficient. However, we have very limited control over practical measures to reduce emissions from properties owned by our borrowers, and we recognise that we will not be able to achieve the reduction in emissions to deliver our net-zero target without broader government policy changes, significant cross-industry collaboration, further government support for UK housing, and homeowners retrofitting their properties. Our Green Homes action group campaigns for a National Retrofit Strategy to support greening homes.

We are proud of the progress we have made to reduce the emissions of our own operations. Since 2018, all our electricity has been supplied from renewable sources, and we have remained carbon neutral (no net release of carbon dioxide into the atmosphere[12]) for all energy use and our internal operations since 2020. Our intermediate (by 2030) science-based targets also cover our supply chain and we have built climate change considerations into our third-party processes. For more information on our approach and progress, see pages 53 to 64 and our full climate-related financial disclosures[11].

11. Available on our Investor Relations page, nationwide.co.uk/investor-relations
12. We achieved carbon neutrality by a combination of eliminating our emissions and funding equivalent carbon savings through renewable or offsetting projects.

Continuous *improvement*

Being focused, fit and fast, and delivering at pace.

- **Invested £100 million to modernise our payments systems to provide customers with a more stable and resilient service**
- **Reduced our card reader requirements to improve customer experience whilst keeping them safe**
- **Simplified our processes to improve and increase support for customers**
- **Making our workspaces fit for the future and investing in our branches and customer support**

Making our business operations more productive, simplifying our processes and continuously managing risk and improving controls helps us to deliver services safely and efficiently for our customers.

Strong financial performance delivered underlying profit of £2,233 million (2022: £1,604 million) and statutory profit of £2,229 million (2022: £1,597 million).

As a result, our leverage ratio and Common Equity Tier 1 (CET1) ratio, which demonstrate our financial strength by measuring our ability to withstand economic shocks, increased to 6.0% (2022: 5.4%) and 26.5% (2022: 24.1%) respectively. Our leverage ratio is one of our key performance indicators and more information is included on page 25. Our financial strength means we can invest in meeting customers' needs and expectations now, and into the future.

Modernising our technology

We are investing in digital capability and innovation, including improving our IT platforms and simplifying processes.

We have improved our processes for customers opening new savings and current accounts, and we are modernising our payments systems by moving them to a secure, cloud-based platform. This will result in a more resilient service, capable of making a higher volume of payments safely, quickly and securely.

This year we started to remove the requirement for customers to use the card reader to authorise some online and mobile banking transactions, providing more convenience and faster transactions. To help protect customers, we are developing a new verification process for authenticating high-risk transactions biometrically via our mobile banking app, using a 'selfie' photo.

We have also strengthened our fraud detection system for payments and improved scam warnings, making them simpler and highlighting social media scams.

We are exploring the latest developments in artificial intelligence, which could improve our in-app and online chat capabilities, and enable our colleagues to access information more efficiently. We are mindful that any future implementation of this would need to be done ethically and responsibly, in a way that recognises vulnerability, and focuses on good customer outcomes.

Developing our workspaces to make them fit for the future

We are making sure that the size and location of our workplaces reflect the changing ways that our colleagues work, reduce our carbon footprint, and release cost savings that enable us to invest further in our branches and customer support.

We are moving our London office location back to our Threadneedle Street office by Autumn 2023. As well as bringing us closer to key stakeholders, the move follows our reduced workspace requirement in London and will significantly reduce our related costs in future years.

Improving our operating and governance models

We are simplifying organisational structures and strengthening controls. This is reducing complexity, improving decision making and helping us to deliver more value at pace. Some of our non-customer facing structures have been streamlined, which will result in around 370 colleagues leaving the Society. We appreciate the contribution they have made to the Society and wish them well for the future.

Where appropriate, we have redeployed, retrained and upskilled colleagues, particularly within our branches, so they can support customers at every touchpoint. We are also increasing the number of colleagues directly supporting customers, particularly to combat fraud.

We are strengthening performance management, to improve the core capabilities and skills needed to deliver our business strategy and modern mutual purpose.

Our committee structures have also been updated to provide a clearer focus on risks and controls, operational resilience, service availability, managing conduct risks and closer oversight of our most important strategic projects.

We continue to transform and strengthen our risk and control processes, with simpler and clearer Board and management risk metrics, and improvements to material controls and processes, particularly customer facing ones. These changes mean we can respond to customers' needs more quickly and keep our customers safer from economic crime.

We are also improving the quality and use of data across the Society. This includes developing data to identify what matters most to our customers, and how their experiences can be improved. For colleagues, better data will help them to work more effectively and inform decision making. In addition, we plan to improve the data that helps the Society run in a controlled and safe manner, covering technology, change programmes, suppliers, property, and our controls.

How we performed in 2022/23 against our strategic key performance indicators

Our five key performance measures for 2022/23 are set out on the following pages. Following our strategy refresh, we updated our key performance indicators to more effectively support the delivery of our strategic drivers. Our new measures for 2023/24 are set out on pages 26 to 28.

Committed members

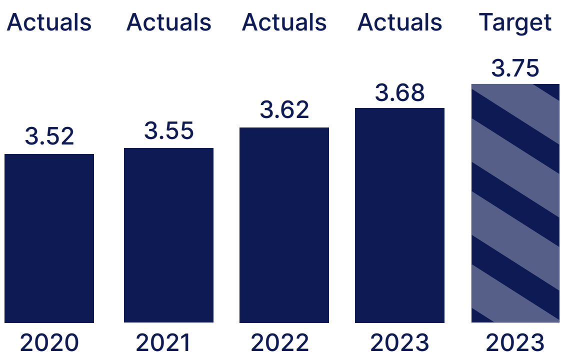
What do we measure?

Our committed members measure reflects the depth of our relationship with our members, through the number of core products that they hold with us[1].

How did we perform against our targets over 2022/23?

We have 3.68 million committed members, below our 3.75 million target for 2022/23. Growth in this measure, over the year, was impacted by the effects of the cost of living pressures on members' ability to save.

Committed members[1]
million



Member financial benefit

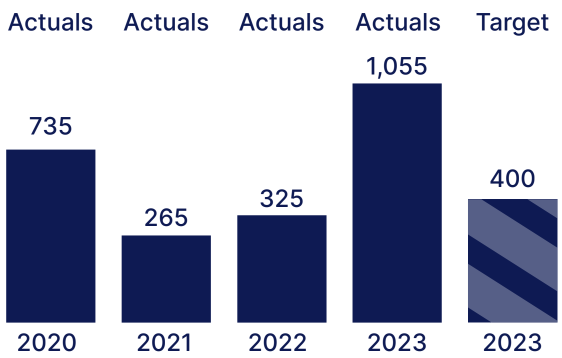
What do we measure?

Member financial benefit measures the additional financial value we provide for members from better pricing and incentives than the market average, across our mortgage, savings and banking products.

How did we perform against our targets over 2022/23?

We provided £1,055 million of member financial benefit, above our target of at least £400 million, and a record for the Society. This was driven primarily by our competitive savings rates, supported by the increases in Bank rate that gave us more opportunities to pass on further value to our savings members.

Member financial benefit
£ million



Core products satisfaction

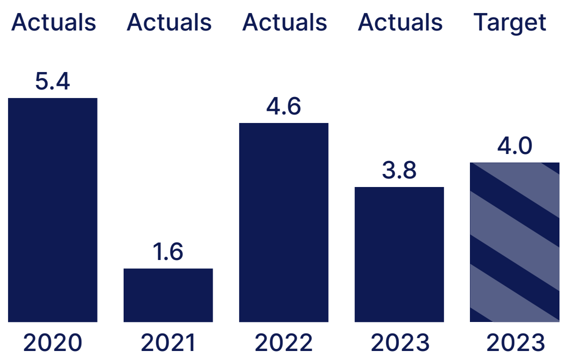
What do we measure?

The Financial Research Survey (FRS) measures customer satisfaction in our peer group for our three core products combined (mortgages, savings and current accounts).

How did we perform against our targets over 2022/23?

We have been no.1 for customer satisfaction among our peer group for 11 years running. Although our score in 2022/23 was as strong as the previous year, our lead of 3.8%pts over our nearest peer group competitor was below our target lead of 4%pts[2].

Core products satisfaction[2]
Lead, %pts



1. A committed member had their main personal current account, or a mortgage of at least £5,000, or at least £1,000 in savings accounts, plus at least one other product, with us.
2. © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to 12 months ending 31 March 2023. For more information, see footnote 1 on page 5.

UK Customer Satisfaction Index

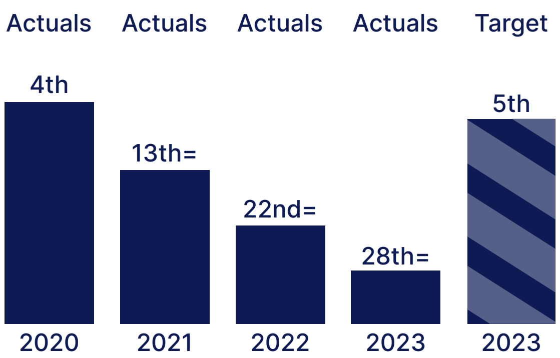
What do we measure?

The UK Customer Satisfaction Index (UKCSI) measures customer satisfaction across all sectors, on a consistent set of measures.

How did we perform against our targets over 2022/23?

In January 2023, we ranked joint 28th across all sectors for customer satisfaction, out of 267 organisations[3]. This was below our target of being among the top five. However, our score of 82.6 was 4.9pts ahead of the all-sector average.

UKCSI[3]
Rank



Leverage ratio

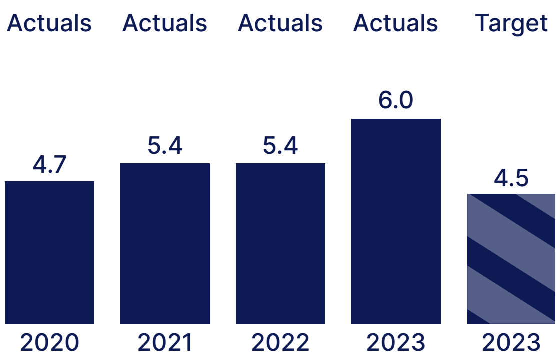
What do we measure?

Our leverage ratio demonstrates our financial strength, and our ability to withstand economic shocks.

How did we perform against our targets over 2022/23?

Our leverage ratio of 6.0% exceeded both regulatory requirements and our own internal target of at least 4.5%

Leverage ratio
%



3. Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January in each year. Our score of 82.6 is based on an index out of 100.

Our *Blueprint* for a modern mutual

In 2022/23, Nationwide approved a new strategy and business purpose. Our new approach is centred around our purpose: *Banking – but fairer, more rewarding, and for the good of society*, and our four strategic drivers.

More *rewarding* relationships

We will create deeper, lifelong relationships with our customers, that provide the best value in banking. We will increase value and reward loyalty for those customers who do more with us, including through targeted and competitive mortgage, savings and current account products. And we will continue to focus on helping first time buyers into homes.

In 2022/23, we helped one in seven (2021/22: one in seven) first time buyers, provided cashback on supermarket shopping[1], and held one in ten (2021/22: one in ten)[2] of the UK's current accounts.

Beacon for *mutual good*

As we go about our business, we will be recognised as a beacon for mutual good. We want to be famous for the meaningful impact we have across customers, communities and society as a whole. We will use our voice to drive positive change and fairer banking practices, and support charitable activities that align with our purpose and ambitions.

In 2022/23, we committed £9.6 million (2021/22: £7.1 million) to charitable activities, plus an additional £1 million to our debt partners and charities, and committed to a net-zero carbon future, setting science-based targets.

Simply *brilliant* service

The value we provide will be beyond rates, with distinctive, personalised service that stands out for ease, accessibility, security and trust, at every touchpoint. We will differentiate our mobile banking experience and combine this with modern branches that offer personal support when customers need it most.

In 2022/23, we were number one for customer satisfaction among our peer group[3], we extended our Branch Promise to 2024 and extended our operating hours for online chat to provide 24/7 availability, 365 days a year.

Continuous *improvement*

We will be focused, fit and fast and simplify our processes and ways of working so that we deliver at pace, for the benefit of our customers, while retaining resilient controls that protect our customers and their money.

In 2022/23, we modernised our payments systems, reduced our card reader requirements, and simplified our processes to improve and increase support for customers.

In 2023/24 we will measure our performance on those things we consider to be core to these strategic drivers, as set out on page 28.

1. For more information, see pages 15 to 16.
2. CACI's Current Account and Savings Database, Stock (February 2023 and February 2022).
3. © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2023. For more information, see footnote 1 on page 5.

Our strategic key performance indicators for 2023/24

We have updated our key performance indicators for 2023/24 to those that most effectively track the progress of our refreshed strategy. They align to our four strategic drivers as follows:

More rewarding relationships – creating deeper, lifelong relationships with our customers that provide the best value in banking

- **Measure: Engaged customers** – where a customer has a main personal current account with us, plus either a savings balance of at least £100 or a mortgage of at least £100.

Simply brilliant service – service that stands out for ease, accessibility, security and trust at every touch point

- **Measure: Customer experience score** – based on the feedback customers provide when they complete our survey after they interact with us, across our branches, telephone and digital channels.

Beacon for mutual good – we want to be famous for the meaningful impact we have across customers, communities and society as a whole

- **Measure: Heard good things about Nationwide** – the proportion of consumers who have heard good things about Nationwide, ranked against peer brands as part of our brand tracking survey.

Continuous improvement – ensuring our financial strength through efficient and effective processes and risk management

- **Measure: Leverage ratio** – which demonstrates our financial strength, as we progress the delivery of our refreshed strategy.

In addition, our current Mutual Good Commitments support our **Beacon for mutual good** strategic driver. More information on them can be found on page 46.

A number of these key performance indicators are also linked to the way we pay our colleagues, including at executive management level. For more information, please see the Report of the directors on remuneration, within the Governance report.

The targets for these measures will be finalised during the first half of the year and will be reported against in the Annual Report and Accounts 2024.

Banking – but *fairer*, more *rewarding*, and for the good of *society*.

Engaging with our *stakeholders*

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.

Our stakeholders

Listening to and engaging regularly with our stakeholders is fundamental to the way we do business, and it ensures we operate in a balanced and responsible way, both in the short and longer term. Their views are important to us and they help to guide our decision making.

In this section, we summarise how we have engaged with, and responded to, feedback from each of our key stakeholder groups during the year, both at a broader Society level and at Board level. In addition, key decisions taken by the Board in the year and its related consideration of relevant stakeholders are set out on pages 36 to 39.

Retail members and customers

As a mutual, we are here to support our customers, including our members (who are our customers with a current account, mortgage or savings with us). It is therefore important we understand their needs, now and in the future. More information on how we have delivered value and excellent service for them can be found on pages 12 to 22.

Our engagement

At our Annual General Meeting (AGM), our members can have their say and vote on important issues. In July 2022, our AGM was held as a hybrid meeting so that members could choose to join in person, at our Head Office in Swindon, or online. For the first time, members were able to vote online during the meeting, and could ask live questions directly to the Board via an online platform. The 2022 AGM was attended by 281 members online and 32 attended in person.

We held three TalkBack events during the year, where customers could hear from, and engage with, Board directors and senior management. Two were held virtually and we also invited customers in Southampton to our first face-to-face TalkBack since the Covid-19 pandemic began.

We also held 30 online education events. These events included education on how to recognise scams, and how to use our internet bank and banking app safely. We provided investment education sessions and ran events to support first time buyers through the home buying process. Together, we engaged with over 5,400 attendees through our TalkBack and education events.

Our branches also ran 78 local Tea and Tech sessions, held face to face and streamed online, to help customers manage their money online, safely and securely.

In addition, we engaged with members through our Member Connect online forum, which provides a platform for members to share their views with us on a range of subjects.

The themes of the topics raised by members and customers at our AGM and TalkBacks, and via Member Connect, included:

- Cost of living pressures
- Protection from fraud and scams
- Benefits of membership (including product rates and offers)
- Maintaining access to branches and access to cash
- Inclusion and diversity
- Executive remuneration
- Acting responsibly, including our approach to climate change and net-zero commitments

We responded to this by:

- Supporting our customers impacted by the cost of living pressures (see page 17)
- Protecting our customers from fraud (see page 18)
- Supporting our vulnerable customers (see page 18)
- Delivering value back to our customers (see page 16)
- Extending our Branch Promise (see page 18)
- Supporting easy access to cash with our 1,200 free ATMs

Board engagement

During the year, we held a number of virtual and in-person events, giving our customers the opportunity to meet Board directors and senior management.

Our members were able to engage with our Board directors at our AGM and Talkbacks. All three of our TalkBack events had a non-executive director present on the panel. Board members also visited branches to hear members' views.

The 2023 AGM will be hosted entirely online for the first time. Members will be invited to participate online, where they can submit live questions, and vote online during the meeting.

The Board reviewed customer service and satisfaction data at all its meetings and was engaged on, and approved, the extension of the Branch Promise.

The Board and the Board Risk Committee reviewed and challenged the approach and activity being undertaken by the Society to ensure it was fully prepared for the implementation of the FCA's Consumer Duty. More information on this can be found on page 39.

Buy to let customers

We support landlords and those who rely on the private rented sector for their long-term housing needs. We do this through our buy to let mortgage business, The Mortgage Works, and we aim to be the most trusted partner for landlords.

Our engagement

We provided education and features through our landlord website to support landlords' understanding of their responsibilities and the provision of better homes for renters. This benefits all types of landlords, including those running their portfolios as a limited company. We actively monitor changes in the buy to let sector through research organisations and develop content accordingly. This includes working with our research provider to gain quarterly feedback from landlords and respond appropriately where possible.

Our engagement with landlords included the following key topics:

- Cost of living pressures and the rise in Bank rate
- Interpreting the implications of the Government's Levelling Up the United Kingdom white paper
- Landlords' relationships with their tenants

We responded to this by:

- Supporting landlords facing higher interest rates by pricing products for existing landlord customers with the same rates as new landlord customers and extending the period for landlords to switch product ahead of their mortgage product maturing from 6 weeks to 13 weeks, enabling them to secure a new rate earlier.
- Sending a monthly email to our landlord subscribers with legislation changes and housing market news affecting landlords and their tenants. We also published blogs on our landlord website covering topics relevant to elements of landlord life. These included changes in smoke and carbon monoxide regulations during 2022, the Government's white paper on a fairer private rented sector, and tips for improving relationships between landlords and tenants.

Board engagement

While the Board has not engaged directly with buy to let customers, it received regular reports on buy to let lending and engagement and discussed the pressures facing landlords and tenants as part of these updates. Our Landlord Strategy was reviewed and noted by the Board during the year.

Colleagues

Our colleagues are at the heart of serving our customers and delivering our strategy. We are committed to building a supportive and inclusive environment for our colleagues. We want to help them to be at their best and to thrive by building a culture where they feel supported and valued, and can grow their careers. On page 32, you can read more about how we support our colleagues.

Our engagement

We invite all colleagues to share their views on working at Nationwide, the challenges they face and what works well, through monthly surveys. On average, 43% of colleagues respond each month, providing important insight for managers to use in their decision making.

We also gathered colleague insights and feedback through other surveys, including the MIND Wellbeing Index, and through engagement with Employee Network Groups and the Nationwide Group Staff Union (NGSU). In addition, we answered questions and sought feedback during webcasts that discussed important and timely topics, such as our refreshed strategy, senior leadership introductions and organisational structure changes.

When we made organisational changes impacting colleagues, we engaged with those impacted and the NGSU.

Key topics raised by colleagues included:

- Cost of living support (for customers and colleagues)
- Changes to our workplaces
- Leadership, strategy and organisational changes
- Pay, bonuses and pensions
- Resourcing, training and developing multi-channel skills (in branches)
- Improving our social mobility
- Products and propositions
- Inclusion, diversity and wellbeing
- Speaking up

We responded to this by:

- Supporting our colleagues impacted by the cost of living pressures
- Launching our social mobility network
- Launching our new Resolution Framework, to support speaking up and helping to resolve grievances by encouraging collaboration and appreciating diverse views. This reduced resolution timeframes by 40% (on a sample taken 3 months post implementation).

More information on our support for our colleagues is set out on the next page.

Board engagement

The Board engaged with colleagues throughout the year as the Society transitioned through leadership changes.

The Chairman led two non-executive director Townhall events, face to face and virtually, where colleagues were able to question and engage with our Board.

To further promote engagement between the Board and colleagues, the Board appoints one director to have specific responsibility for the Employee Voice in the Boardroom. The Board also appoints one director with responsibility for overseeing the integrity and effectiveness of our employee whistleblowing policies and procedures.

The Board received updates on the results of employee engagement surveys and welcomed the General Secretary of the NGSU to a Board meeting during the year to discuss the alignment of interests between the NGSU and the Society.

A focus on our Colleagues

We are committed to building a supportive and inclusive environment for our colleagues. In doing so, we will create a high-performance, purpose-driven culture where they can thrive and develop rewarding careers.

Supporting our colleagues' financial wellbeing

We want to support our colleagues, including their financial wellbeing, through the cost of living pressures. Our cost of living initiatives that we offer to customers are also available to any of our colleagues who are customers. In addition, in August 2022, we made a one-off £1,200 cost of living payment to support over 11,000 of our colleagues earning less than £35,000.

We also introduced a new pay package, effective from 1 April 2023, increasing pay three months earlier than normal. This delivered significant increases in pay for colleagues, particularly for those on lower salaries, with the majority of colleagues receiving a 6.5% increase on existing base pay.

Our Employee Care helpline is available to all Nationwide employees and dependants[1] and provides a free counselling, health and wellbeing, legal information, and debt support service.

Refreshing our hybrid working commitments

In November, we refreshed our commitment to hybrid working. While some elements remain unchanged, for example the requirement to work within the UK and our commitment to flexibility, we also set clearer expectations on coming together in person to maintain relationships, support our culture and to collaborate.

We have developed initiatives and guidelines to support colleagues and leaders working in a hybrid environment, including networking events to encourage new joiners and colleagues to meet across our office locations, as well as role-specific guidance.

Building our inclusive culture

We are working to build an inclusive culture and we want our Society to reflect the diversity of the communities we serve. We need a diverse range of backgrounds, skills and experiences to help us continue to serve our customers in the best way and offer the services and products that are most relevant to them.

Our inclusion measures help us monitor how inclusive our culture is. In April 2023, 84% (2022: 81%) of our colleagues, including 79% (2022: 73%) of our ethnically diverse colleagues, felt everyone had an equal opportunity to thrive, regardless of background. Our diversity measures, which underpin our Mutual Good Commitment to reflect the diversity of wider society, are reported each month to the Board and the leadership team.

In 2022, we partnered with Progress Together, a membership body centred on progression, retention and socio-economic diversity in financial services. With their support and input, we began to gather voluntary socio-economic data from our colleagues in January 2023. This will enable us to benchmark our socio-economic diversity against our peers and inform our future inclusion, diversity, and wellbeing priorities.

Our new social mobility employee network became our eleventh employee network. The others are: gender; ethnicity; sexual orientation; disability; faith and belief; working carers; working families; veterans and reservists; mental wellbeing; and sustainability. Our networks celebrate diversity, such as with an Asian Experience Month, Black History Month and Pride Month, and help colleagues build support networks and drive supportive changes. For example, they introduced trained workplace menopause coaches and built special educational needs (SEN) inclusion into our volunteering work on Money Lessons in schools.

In 2022, our Race Together Network was awarded the Network Group of the year at the Ethnicity Awards. Minds Matter, our mental wellbeing network, was shortlisted for Best New Mental Health Initiative in the InsideOut Awards 2023 and our Proud network was shortlisted for British LGBT Network Group of the year in the British LGBT Awards.

In the 2023 Financial Times' Diversity Leaders list, 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 for the second year running[2]. We were also awarded Gold Employer standard by Stonewall for our work on LGBTQ+ inclusion.

Understanding our gender and ethnicity pay gaps

At 5 April 2022, our gender pay gap was 30.0% (2021: 30.0%). This means we have a higher proportion of women in lower paid roles than in senior roles. Although we increased the proportion of women in senior roles, the proportion of women in entry-level and less senior roles also increased, and so our gender pay gap was unchanged.

We are one of the few organisations to voluntarily publish our ethnicity pay gap. At 5 April 2022, our ethnicity pay gap was 7.4% (2021: 11.3%), with more ethnically diverse employees in lower paid roles than in senior roles. The reduction in pay gap was supported by an increase in the proportion of ethnically diverse colleagues in mid-level roles.

Pay gaps are different to equal pay. Equal pay looks at how colleagues are paid for doing the same or similar work. We regularly monitor pay to ensure our pay policies are not biased. For more information, see our Gender and Ethnicity Pay Gaps report on our website[3].

1. Includes immediate family or a partner and dependents who are aged 16 years or older and living in the same household, including students living at university.
2. The Financial Times-Statista ranking of Europe's Diversity Leaders 2023, based on independent surveys of more than 100,000 employees across Europe on their perceptions of their organisations' diversity and inclusion practices.
3. Pay gaps at Nationwide, nationwide.co.uk/about-us/inclusion-and-diversity/pay-gaps

Mortgage intermediaries

We have around 28,000 mortgage intermediaries who place business with us, accounting for over 80% of all the mortgages we provide.

Our engagement

We regularly canvass our mortgage brokers on their views on our products and service. This includes through the use of third-party firms to obtain feedback on applications submitted and perceptions of us as a mortgage provider.

We also gathered feedback through six-monthly and ad hoc workshops where brokers provided feedback on their experiences directly to the colleagues responsible for formulating products and policy.

Our engagement with mortgage intermediaries included discussion on the following topics:

- Improving service
- Digital integration
- Consumer Duty principles
- Supporting first time buyers

We responded to this by:

- Enhancing our digital application process to speed up the mortgage application submission process for intermediaries.
- Continuing to engage with various trade bodies and having representatives in important forums such as the Intermediary Mortgage Lenders Association (IMLA). This ensures Nationwide can influence how the mortgage industry develops.
- Maintaining a constant presence in the mortgage market during the uncertain economic times of 2022, when other lenders withdrew, providing consistency for both our intermediaries and our borrowers.

Board engagement

The Board has been updated on intermediary engagement during the year, receiving updates on broker recommendation scores.

Investors and rating agencies

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.

Our engagement

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

To support investors' understanding of our performance and risk management, we engaged with credit and ESG rating agencies to ensure the Society is rated appropriately. This led to an upgrade in the Society's ESG ratings with Sustainalytics and MSCI.

Key areas of interest for our investor base included:

- Strategic objectives and leadership changes
- Impacts of an uncertain economic and geopolitical outlook
- Housing market outlook and implications for the mortgage market
- The outlook for asset quality in a rising interest rate environment
- Capital strength and expected wholesale funding requirements
- Competition within the UK financial services sector
- Sustainability, in particular the Society's approach to climate change

We responded to this by:

- Continuing to provide timely strategic and financial updates to our investors. As the economic environment evolved we adapted our disclosures to meet investors' information needs and areas of interest.
- Continuing to enhance our climate-related financial disclosures as investor demand increased. In December 2022, in keeping with our commitments following our sign-up to the Net-Zero Banking Alliance (NZBA), we published our intermediate (by 2030) science-based targets, supported by comprehensive disclosures detailing how we will progress towards these.

Board engagement

On behalf of the Board, the Chief Executive and Chief Financial Officer provided a comprehensive update directly to investors following each of our external results announcements. The Chief Financial Officer also led an investor roundtable, as well as a series of meetings with our largest investors in the weeks following our results announcements, to answer their questions.

Communities

As a mutual organisation, our focus is not just on providing better value and service for our customers, but on being better for society too. That is why we commit at least 1% of our pre-tax profits[5] to good causes. Last year, these largely focused on housing and our work with community partners and charities to support our local communities.

Our engagement

Our Community Grants programme enables charities across the UK to apply for grants that support people and communities in housing need. We held 11 Community Boards, where community grants were distributed under the direction of member and colleague volunteers.

We also engaged with and supported our communities through our employee volunteering programme, and our long-term partnership with charity Shelter.

We worked closely with the local community in the design and planning of 239 EPC A-rated homes at our Oakfield housing development in Swindon.

Our engagement with communities included the following key topics:

- Awareness of housing issues and emergencies.
- Challenges faced by local charities, particularly as a result of cost of living pressures.
- Progress on our Oakfield housing development, which paused when our previous construction partner went into administration.

We responded to this through:

- Our social investment programme, including our partnership with Shelter (see pages 19 to 20).
- Our support of crisis appeals led by the British Red Cross (see page 20).
- Appointing Lovell as our new construction partner on Oakfield and putting the first homes on sale in December 2022.

Board engagement

The Board received updates on the Society's social investment strategy and on the work of the 11 Community Boards. This included updates on the Community Grants programme and Nationwide's partnership with Shelter. The Board received regular updates on the Oakfield development.

The Board also received four updates on the Society's Responsible Business activities, including progress towards its Mutual Good Commitments. For more information on our progress, see pages 46 to 51.

Suppliers

We work with around 1,100 suppliers who help us run and improve our business and deliver quality service for our customers.

We engage with our suppliers from initial engagement to support a smooth process for and prompt payment of invoices, and we specifically target payment of our smaller suppliers within 10 working days where possible.

Our engagement

We engaged with our third-party suppliers on key topics, including operational performance, contract management, risk and future opportunities, and on Environmental, Social and Governance (ESG) matters. Our business-as-usual engagement covers pre-onboarding due diligence, inclusion in tenders, and supplier controls testing. We also meet with key suppliers once a quarter to review their performance.

We joined the Buy Social Corporate Challenge to engage with a range of innovative suppliers, and engaged with the Minority Supplier Development Network, the UK's leading supplier diversity advocacy organisation.

We update our suppliers on any material announcements through email or webcast communications, and we share our risk and compliance expectations on our Supplier Portal webpage. We also ran a webcast on EcoVadis, attended by around 70 suppliers, where we requested suppliers undertake their sustainability assessment and explained the process and benefits of doing so. We have partnered with EcoVadis since 2021, to provide universal sustainability ratings for us and our suppliers, helping us build a better understanding of our wider impact through our supply chain.

The Society's Chief Procurement Officer presented at events, including the Chartered Institute of Procurement and Supply's Sustainable Procurement Summit in May 2022, on creating a culture for sustainability, and on a panel at the EcoVadis Annual Conference in October 2022, on the role of procurement in progressing sustainability.

Our engagement with suppliers included the following key topics:

- The use of EcoVadis ratings, including a request to upload emissions data to enable us to understand further the ESG credentials and ratings of our supply chain
- Leadership updates, including the appointment of the Society's new Chief Executive Officer and Chief Operating Officer
- An overview of the Society's performance in 2021/22
- Our intermediate (by 2030) science-based targets and expectations of our key suppliers in supporting us to decarbonise (for more information, see our full climate-related financial disclosures[6])
- Operational performance and contract management
- Outcomes of, and actions from, supplier controls testing
- The resilience of our suppliers through major geo-political events, such as the war in Ukraine and Chinese military exercises around Taiwan, and potential power outages

5. The 1% is calculated based on average pre-tax profits over the previous three years.
6. Available on our Investor Relations page, nationwide.co.uk/investor-relations

We responded to this by:

- Our Procurement for Mutual Good programme, which helped our supply chain to become greener, more inclusive and more ethical, by further embedding ESG considerations into our procurement and supplier management processes.
- Monitoring whether our highest carbon-emitting suppliers had set science-based targets and requesting sustainability schedules were incorporated into agreements.
- Continuing to work with Carbon Intelligence to calculate our scope 3 upstream emissions.
- New social enterprise relationships, including Hey Girls period products, Ethstat Ethical Stationery for coffee and NEMI teas which are used within our premises.

Board engagement

The Board Risk Committee received updates on key supplier relationships during the year and considered the Society's management of its key supply chains and the steps being taken to avoid undue risk. The Board Risk Committee, under delegated authority from the Board, approved the Third-Party Risk Policy.

Regulators and policy makers

Regulators and policy makers oversee our activities and undertake consultations and policy reform. We aim for the highest possible standards of regulatory compliance to protect and enhance the integrity of the UK financial system and ensure fair outcomes for our customers.

Our engagement

We engaged effectively with regulators and policy makers throughout the year to influence them on behalf of the Society and its customers. Most notably, we secured reforms to modernise the Building Societies Act which will provide a more up to date regulatory environment for Nationwide to operate within.

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 Executive Committee and subject matter experts. This included our Chairman attending meetings with the Chief Secretary to the Treasury, the Economic Secretary to the Treasury, the Governor of the Bank of England, the Chief Executive of the PRA and the Director General of Financial Services at HM Treasury. Our Chief Executive attended some of these meetings and attended roundtables with the Chancellor of the Exchequer. Our Chief Financial Officer gave evidence to the Treasury Select Committee, and we also hosted a visit by the Leader of the Opposition to Nationwide House.

At a global level, we continued to build links through the Net-Zero Banking Alliance (NZBA) and Glasgow Financial Alliance for Net Zero (GFANZ), contributing to reports on transition planning and public policy frameworks. Nationwide's work on green homes was included as a case study in the GFANZ Recommendations and Guidance on Financial Institution Net-zero Transition Plans.

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

- The Financial Services and Markets Bill
- Modernisation of the Building Societies Act
- Access to cash and banking hubs
- Cladding and mortgage lending
- Cost of living support
- The FCA's Consumer Duty
- Support for mortgage holders
- Authorised Push Payment (APP) fraud
- Economic crime
- Reform of the private rented sector
- First time buyers
- Green homes and climate change
- Transition planning
- Central Bank Digital Currencies
- Social housing
- Ringfencing of UK banks
- Open finance

We responded to this through:

- Answering information requests and Select Committee inquiries on key issues of interest.
- Providing input to consultations from government departments, including HM Treasury, the former Department for Business, Energy and Industrial Strategy (BEIS), and the Department for Levelling Up, Housing and Communities (DLUHC).
- MP branch visits, connecting with policy makers at a local level, engagement with the Shadow Treasury team on the Financial Services and Markets Bill, and joining roundtable discussions with senior Government and Opposition policy makers, including on the cost of living, green homes and mortgage support.

Board engagement

The Board received regular reports detailing Nationwide's regulatory interaction, the changing regulatory environment and the impacts for Nationwide. This included the FCA's Consumer Duty, to be implemented in July 2023.

In addition, Board members attended regular meetings with representatives from regulatory bodies, and regulators attended Board meetings to present key reports.

The Board has been regularly updated on the progress being made to meet Environmental, Social and Governance requirements and meetings held with policymakers and regulators on these subjects.

Board *decisions*

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 Board committee terms of references available at nationwide.co.uk reflect the importance of considering the requirements set out in section 172(1) of the Act. The template for writing Board and Board committee papers must include 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.

Which stakeholders were considered?

- Members and customers
- Colleagues
- Communities
- Suppliers
- Regulators
- Investors
- Mortgage intermediaries
- Buy to let customers

"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

Setting a new strategy

Which stakeholders were considered?

- Members and customers
- Colleagues
- Communities
- Suppliers
- Regulators
- Investors
- Mortgage intermediaries
- Buy to let customers

What was the decision-making process?

Following the appointments of the Chairman and CEO, a strategy refresh was discussed by the Board at its September 2022 meeting before being considered at its Strategy Conference in October 2022. The new strategy built on the Society's reputation for providing great service and long-term member value by setting out the strategic direction for the delivery of operational and service excellence, and the delivery of compelling banking propositions, whilst recognising the Society's mutual heritage and its commitment to making a positive contribution to society.

At the October 2022 Strategy Conference, views on the proposed new strategy were gathered from Board members, senior management and external advisors to ensure that it was an appropriate step forward. The Board scrutinised and challenged the priorities of the new strategy, particularly the proposals to enhance operational and service delivery and member value. The Board also sought to understand how the strategy would be delivered over three horizon timelines.

At its November 2022 meeting the Board reviewed and approved the final version of the strategy and agreed how it would monitor execution delivery.

How did the directors fulfil their duties under section 172 and how were stakeholders considered?

Stakeholder considerations were central to the decision-making process. The new strategy was built around member, colleague and regulator feedback on how the Society's processes and operations could be enhanced to deliver service and operational excellence. The Board was played footage of member and colleague feedback at the Strategy Conference where members spoke of their interactions with the Society, their experiences of service delivery and the role of branches in meeting customer and community needs. The promotion of the long-term success of the Society was also a strong consideration of the Board when evaluating the new strategy to ensure the Society retained credibility with regulators and investors.

What were the actions and outcomes?

Following the feedback provided by the Board, senior management and other stakeholders at the October 2022 Strategy Conference, the new strategy was refined and subsequently presented to the November 2022 Board meeting where it was discussed further, prior to its approval. At this November 2022 meeting the Board discussed how it would monitor strategy execution and delivery and agreed to receive updates via regular reporting from management. These reports would update the Board on the continuing operational and service enhancements being planned and implemented and any challenges encountered.

Horizon 1 of the new strategy "Blueprint for a Modern Mutual" was launched during April 2023, and colleague engagement activities were rooted in the feedback received from members and colleagues and how the renewed focus on enhancing operational service delivery would benefit members and customers.

The Board will continue to check and challenge the execution of the strategy refresh to ensure that it remains on track and meets the needs of members, customers and wider stakeholders.

Agreeing the content of climate-related financial disclosures and science-based targets for publication

Which stakeholders were considered?

Members and customers | Communities | Suppliers | Regulators | Investors

What was the decision-making process?

In June 2021 the Board approved the Society becoming a signatory to the Glasgow Financial Alliance for Net-Zero, a global coalition of leading financial institutions committed to accelerating the decarbonisation of the economy by encouraging companies to adjust their business models and develop credible plans to transition to a low-carbon, climate resilient future. The Society's position is demonstrated through its Mutual Good Commitments and during the year the Board, the Board Risk Committee and the Audit Committee have dedicated and continue to dedicate considerable time and focus to climate change, particularly in scrutinising climate disclosures prior to external publication.

In May 2022, the Audit Committee, under delegated authority from the Board, considered and approved Nationwide's Climate-related Financial Disclosures 2022 ahead of publication alongside the 2021/22 results in May 2022.

As part of the Society's Net-Zero Banking Alliance membership, and to demonstrate the role the Society plays in supporting the UK's net-zero ambition, a set of intermediate (by 2030) science-based targets for the Society's scope 1, 2 and 3 emissions were developed in accordance with the methodologies of the Science-Based Targets Initiative. In September 2022, the Board Risk Committee reviewed and challenged the risks relating to the Science-Based Targets Disclosures which were due to be published by the end of December 2022. In November 2022, both the Audit Committee and Board Risk Committee further considered the Science-Based Targets Disclosure and following scrutiny and challenge by these Board committees the Board approved the publication of the Society's Science-Based Targets Disclosure in December 2022.

In March 2023, the Audit Committee reviewed Nationwide's Climate-related Financial Disclosures 2023 to be published as a standalone document subject to final approval alongside the 2022/23 results in May 2023.

How did the directors fulfil their duties under section 172 and how were stakeholders considered?

The Board is aware that climate change presents a risk to the Society, its members and the wider community. In making climate-related decisions and disclosures the Board has been mindful of and evaluated the likely long-term consequences and the impact on communities and the environment. The Society has made relevant disclosures publicly available so that regulators, investors and suppliers can assess how the Society is managing climate risk. The Board has also considered implications of decisions to ensure that risks from climate change are managed and effectively incorporated into the Society's governance model.

What were the actions and outcomes?

In developing the disclosures and outlining its position for stakeholders, the Board recognised these were subject to key dependencies, for example that the UK and the Society would not be able to reach net-zero carbon emissions by 2050 without broader policy changes. The Society has, therefore, continued to collaborate with other mortgage providers and with government to support the changes needed to transition the economy to net-zero.

The Board continues to monitor progress against climate-related financial disclosures and targets via the regular reports it receives from management.

Approach to implementing the FCA Consumer Duty

Which stakeholders were considered?

Members and customers
Colleagues
Suppliers
Regulators
Investors
Mortgage intermediaries
Buy to let customers

What was the decision-making process?

The FCA confirmed the final details of the new Consumer Duty requirements in July 2022, setting higher and clearer standards of consumer protection across financial services and requiring boards and management to make good outcomes for consumers central to their firm's culture, strategy and business objectives.

The Board recognised that the Consumer Duty requirements aligned strongly with the Society's mutual ethos and values but sought assurance that the Society was making the necessary preparations to meet the specific requirements of the Duty by the first implementation deadline of 31 July 2023. Updates on progress against the implementation deadline were presented regularly to the Board and the Board Risk Committee who provided governance oversight and challenge.

At its meeting in September 2022, the Board Risk Committee reviewed and challenged the proposed Consumer Duty Implementation Plan.

At its October 2022 meeting, the Board approved the Consumer Duty Implementation Plan which was subsequently submitted to the FCA.

How did the directors fulfil their duties under section 172 and how were stakeholders considered?

The Consumer Duty will set higher expectations for the standard of care that financial services firms provide to customers. Although this aligns with the Society's ethic of care, the Board has scrutinised and challenged the approach and activity being undertaken by the Society to ensure it will be fully prepared for the implementation and the ongoing embedding of the Consumer Duty in usual business activity. Management has attended Board meetings to explain, for example, how customer product journeys have been mapped to ensure that consumer outcomes meet the standards required. This has strong links with the new Society strategy focused on enhancing operational and service excellence based on feedback from members, colleagues and regulators. The Board has considered customer vulnerability and how the needs of vulnerable customers will be met under the Consumer Duty. The Board currently receives regular updates on complaints data and how processes are being challenged in response to feedback received, but this complaints data is now additionally being analysed through a Consumer Duty lens. Engagement with the FCA has been ongoing during the Consumer Duty planning and preparation period.

By ensuring that the Society complies with evolving regulatory requirements, the Board is helping to ensure that the Society can continue to attract investors and, ultimately, fulfill its social purpose as a mutual.

What were the actions and outcomes?

The Board and Board Risk Committee have provided governance oversight and challenge of the Society's Consumer Duty preparations. The Board has appointed a Consumer Duty Board Champion to support the Chair and the CEO in raising the matter regularly in all relevant discussions and challenging the Board and senior management on how they are embedding the Consumer Duty and focusing on consumer outcomes.

Specific training sessions on Consumer Duty have been held for the Board, and the Board Risk Committee continues to receive specialist advice on conduct risk and Consumer Duty implications.

Nationwide Foundation

The Nationwide Foundation is an independent charity set up by the Society in 1997. Each year, we donate at least 0.25% of Nationwide's pre-tax profits to the Nationwide Foundation – £2,405,000 in 2022/23 – as part of the 1% of pre-tax profits[1] we commit 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 uses its funding and influence under three programme areas to change the housing system for the better.

1 Nurturing ideas to change the housing system

This programme supports emerging solutions to create truly affordable and decent homes for the people most in need. Its work in 2022/23 included:

- Working with the Joseph Rowntree Foundation and FrameWorks UK to produce a 'How to talk about homes' toolkit. This will help organisations that are campaigning for change, by providing guidance on the best ways to communicate to help the public understand the need for more affordable and decent homes, and to encourage support for solutions.
- Supporting and funding work by the Town and Country Planning Association on potential new legislation to make sure homes are built to benefit the health of the people who live in them. The aim is to pass a new set of 'Healthy Homes' principles into law, such as adequate space and natural light, that will apply to all new-build homes.
- Funding a pioneering project in Bristol that provides homes for people in need, situated on microsites around existing houses with a large amount of surrounding space. The Foundation is working to bring this project to more areas. It is a completely new way of creating decent, affordable homes which has received strong interest from ministers.

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

2 Backing community-led housing

Community-led housing gives communities the power to create decent, affordable homes in the places where they are wanted and needed. The Nationwide Foundation is a major funder in this sector and in 2022/23 it:

- Continued to advocate for the importance of government funding to help the community-led housing sector grow further.
- Supported and funded key organisations across the UK that help community groups to build homes.
- Funded new work to find out about the challenges faced by people from Black and minority ethnic backgrounds in creating community-led housing.

3 Transforming the private rented sector

The Nationwide Foundation campaigns and funds other organisations to reform the private rented sector to better provide decent, affordable homes. In 2022/23, this included:

- Funding research into the impact of tenancy reform in Scotland, especially on the tenants who are most vulnerable to harm, and using the findings to influence further reforms across the UK.
- Funding a programme of work across the UK to support renters to have their voices heard in local and national decision making.
- Using the findings from its research to influence the upcoming Renters' Reform Bill and other legislation to make it as effective as possible for renters, especially those in need.

Next steps for the Nationwide Foundation

During 2023/24, the Nationwide Foundation will remain committed to its Decent Affordable Homes strategy. While continuing to generate robust influence through funded work, it is also increasing its own activity, using the knowledge it has gathered to influence positive change to the UK's housing system.

Nationwide Foundation

Committed to doing the *right thing*

Statement from *Debbie Crosbie,* Chief Executive

We strive to do the right thing in a responsible way for the benefit of our customers, colleagues, communities and the environment.

In 2019, we committed to the UN Global Compact and I am pleased to reaffirm our support for the Ten Principles of the United Nations Global Compact, which includes our commitment to protect and promote Human Rights, Labour Rights, the Environment and Anti-Corruption.

The social, political, economic and environmental challenges facing the world today make it more important than ever that we act to progress activities that support these Ten Principles. Our Mutual Good Commitments help us to hold true to our ethical principles and mutual purpose, with supporting targets that further reinforce the UN Sustainable Development Goals (SDGs).

For more information on:

- our alignment with the UN Sustainable Development Goals, see page 45
- our Mutual Good Commitments, see page 46
- our Principles for Responsible Banking disclosures, see nationwide.co.uk.
- our Climate-related Financial Disclosures 2023, see nationwide.co.uk.
- our intermediate (by 2030) science-based targets, see nationwide.co.uk.

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 broader Responsible Business webpages and where referenced below.

Human Rights: doing the right thing for our customers and the way we do business	
Our Mutual Good Commitments	Page 46
Human Rights statement	nationwide.co.uk
Modern slavery and human trafficking statement	nationwide.co.uk
Supporting our customers	Pages 12 – 22
Supporting our colleagues	Page 32
Communities and social investment	Pages 19 – 20
Supporting our suppliers	Pages 34 – 35
Governance	Page 77

Labour Rights (our colleagues): doing the right thing for our colleagues	
Our Mutual Good Commitments	Page 46
Our Code of Conduct	nationwide.co.uk
Health and safety	nationwide.co.uk
Inclusion, diversity and wellbeing	Pages 32 and 50 – 51
Gender and ethnicity pay gaps	Page 32
Our suppliers	Pages 34 – 35
Freedom of association	nationwide.co.uk
Discrimination	nationwide.co.uk

Environment: doing the right thing for the environment and its impact on our customers	
Our Mutual Good Commitments	Page 46
Climate-related financial disclosures, with information on: • greening our operations • building a greener supply chain • greener homes • our partnerships • biodiversity	nationwide.co.uk
Intermediate Net-Zero Ambitions 2022: Basis of Preparation disclosure	nationwide.co.uk
Responsible investment	nationwide.co.uk

Anti-corruption: doing the right thing to prevent crime	
Our Mutual Good Commitments	Page 46
Fraud and scams	Pages 18 and 48
Data privacy	nationwide.co.uk
Economic crime	nationwide.co.uk
Cyber security	nationwide.co.uk
Modern slavery and human trafficking statement	nationwide.co.uk
Our Code of Conduct	nationwide.co.uk
Speaking up and whistleblowing	nationwide.co.uk
Political involvement	nationwide.co.uk

UN Sustainable development goals

We want to be a beacon for mutual good. Being a responsible business is part of our mutual heritage and we remain committed to doing business in a way that positively impacts our customers, employees and communities.

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 Good Commitments, as set out on the next page, are 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, and support and protect our customers' money.

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

SDG 7 Affordable and clean energy
Since 2018, we have continued to source 100% of our electricity for our own operations from renewable sources.

SDG 8 Decent work and economic growth
We are a real living wage employer, promote positive work practices and take action to enhance the wellbeing, diversity and inclusion of our people.

SDG 10 Reduced inequalities
We are working to reduce economic inequality in our communities 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 helps us give back to our communities. And we work on solutions to create affordable, accessible and sustainable homes.

SDG 12 Responsible consumption and production
We divert as much waste as possible from landfill, recycle our office equipment and source food locally. Our Procurement for Mutual Good programme supports a greener, more inclusive 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 and have published intermediate (by 2030) science-based targets in support. Our green propositions encourage our customers to improve the energy efficiency of their homes.

Our Mutual Good *Commitments*

We are progressing bold initiatives, represented by five Mutual Good Commitments, that demonstrate how our business aligns to, and supports, the UN Sustainable Development Goals (SDGs). These are embedded within our strategy and overseen by the Executive Committee and the Board.

When we refreshed our strategy, we reviewed and, where appropriate, updated the underlying measures that support our broader Mutual Good Commitments. The measures that underpin our Mutual Good Commitments are set out over the following pages.

Help to achieve safe and secure homes for all

Page 47

- SDG 1 No poverty
- SDG 8 Decent work and economic growth
- SDG 10 Reduced inequalities
- SDG 11 Sustainable cities and communities

Protect our customers' financial wellbeing

Page 48

- SDG 1 No poverty

Support progress towards a greener society

Page 49

- SDG 7 Affordable and clean energy
- SDG 11 Sustainable cities and communities
- SDG 12 Responsible consumption and production
- SDG 13 Climate action

Champion thriving communities

Page 50

- SDG 8 Decent work and economic growth
- SDG 11 Sustainable cities and communities

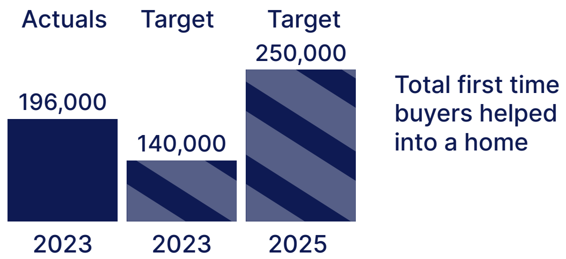
Reflect the diversity of our society

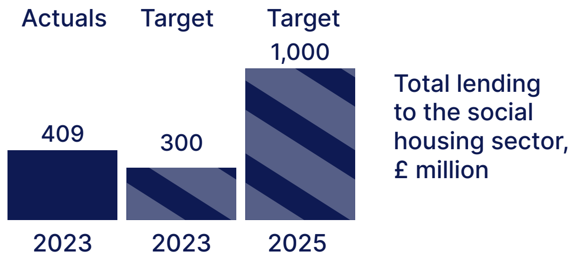
Page 50

- SDG 5 Gender equality
- SDG 8 Decent work and economic growth
- SDG 10 Reduced inequalities

Help to achieve *safe and secure* homes *for all*

Our measures	Our progress
By 2025, we will help 250,000 people to buy their first home[1].	We continue to focus on helping first time buyers into homes. We are working to address the two main challenges that first time buyers face – raising a deposit and being able to borrow enough to afford a property. Since setting our target in November 2020, we have helped 196,000 people into their first home, ahead of our cumulative target for 2023. More information on how we are supporting first time buyers can be found on pages 15 to 16.
We will ensure 100% of our new buy to let lending on rental properties continues to meet the Decent Homes Standard[2,3].	Over a fifth of the 4.4 million households that rent privately in England endure the poor conditions associated with substandard housing[3]. With many of our customers in rented accommodation, we seek to enable a private rented sector that works for the mutual good of both landlords and tenants. We ensure that the buy to let properties we lend on are compliant with, or exceed, the Decent Homes Standard[2,3] recommendations, so that tenants can live in safe and decent homes.
By 2025, we will have provided £1 billion of new lending to support the social housing sector[4].	Our partner charity, Shelter, is calling on the government to build at least 90,000 social homes a year, to ensure everyone has a safe place to call home[5]. Our target demonstrates our support for the social housing sector, benefiting those in more vulnerable housing situations.





1. Set against a baseline of 30 November 2020.
2. We physically inspect the vast majority of the buy to let properties we originate new loans on, to ensure they meet or exceed the Standard. For the remainder, we use data to assess adherence to the Standard.
3. A Decent Homes Standard in the private rented sector: consultation - GOV.UK (www.gov.uk)
4. Set against a baseline of 31 March 2022.
5. Let's build a better future: Call on the government to build social housing | Campaigns - Shelter England.

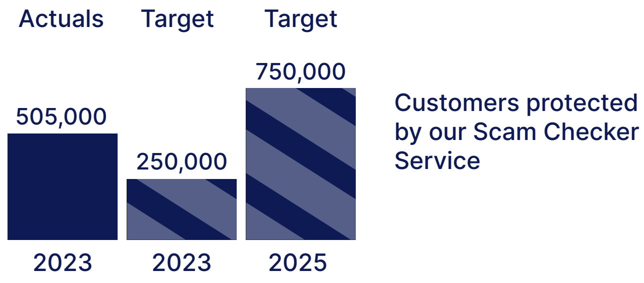
Protect our customers' *financial wellbeing*

Our measures

By 2025, we will protect 750,000 customers with our Scam Checker Service[6].

Our progress

We will continue to strive to protect our customers from fraud. In 2021, we launched our Scam Checker Service, underpinned by our Scam Protection Promise. This enables our customers to check their payments with us, before they make them, if they have concerns. 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 customers every penny. Our target demonstrates our commitment to providing support and reassurance to our customers concerned about potential scams.



6. Set against a baseline of 31 March 2022.

Support progress towards *a greener society*

Our measures

We aim to reduce our scope 1 emissions that we control across our own business operations, in line with our 2030 scope 1 science-based target, and remain carbon neutral for these emissions[7].

We aim to continue to source 100% renewable electricity for our own operations, in line with our 2030 scope 2 science-based target.

We will aim to reduce our scope 3 emissions for our mortgages, other secured lending activity, and our supply chain, by taking steps to reduce those emissions within our control and encouraging our customers, borrowers and suppliers to do the same, in line with our 2030 scope 3 science-based target.

Our progress

In December 2022, Nationwide published its intermediate (by 2030) science-based targets. Our Mutual Good Commitment measures now reflect these. You can find out more about our science-based targets in our Intermediate Net-Zero Ambitions 2022: Basis of Preparation, and our Climate-related Financial Disclosures 2023.

Scope 1 and 2 emissions are also included in our directors' long-term variable pay targets. For more information on this, please see page 124.

We consider it highly unlikely at present, that our measures for scope 3 investments emissions can be achieved under current government policies in connection with the UK's housing stock. Emissions associated with our residential mortgage lending account for the majority (more than 80%) of our total scope 3 emissions and we have very limited control over practical measures to reduce the emissions from properties which are owned by our borrowers.

7. Carbon neutral refers to no net release of carbon dioxide into the atmosphere and is achieved by removing or eliminating emissions, or through funding equivalent carbon savings.

Champion thriving *communities*

Our measures	Our progress
Our Branch Promise: Every town and city which has a branch today will still have one until at least 2024.	Over the year, we extended our Branch Promise once again, providing reassurance to our customers who rely on our branches, or prefer to speak to us face to face. We now have the second largest single-brand branch network across the UK financial services sector and won the Branch Network of the Year award at the 2023 Moneyfacts Consumer Awards. In some exceptional circumstances that were beyond our control, and in some towns and cities where we had more than one location, we have closed branches. However, this is kept to a minimum and last year only 23 branches were closed.
We will commit at least 1% of our pre-tax profits to charitable activities each year[8].	We met our target in 2022/23, committing £9.6 million (2021/22: £7.1 million). More information can be found on page 19.

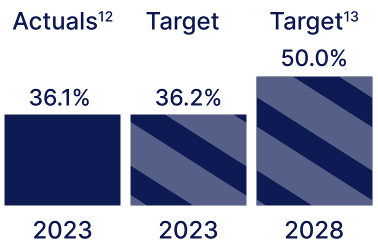
Reflect the *diversity* of our society

Our measures	Our progress
By 2028, our people will reflect the wider society that we represent. This includes seven measures that span across gender, ethnicity, disability and sexual orientation, as set out on the next page.	We achieved four of our seven measures to meet by 2023. These measures are set out on the next page. However, further focus is needed to increase representation of Black, Asian, mixed and other ethnically diverse colleagues in senior roles and across our overall employee population. We are also slightly behind where we planned to be in terms of the proportion of women in our leadership population. We aim to address this, and further the progress we have made across our other measures, through the delivery of our refreshed strategy, which includes activity to improve social mobility. We will improve diverse representation and progression through a holistic and embedded inclusion and diversity approach to talent identification, succession, development and management. This includes ensuring that we have robust data and we put key data into the hands of decision makers to enable evidence-based decision making and consistently inclusive practices to drive sustainable progress. For more information on the work we are doing to progress inclusion, diversity and wellbeing, including our gender and ethnicity pay gaps, see page 32. Diversity measures are also included in our directors' long-term variable pay targets. For more information on this, please see page 124.

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

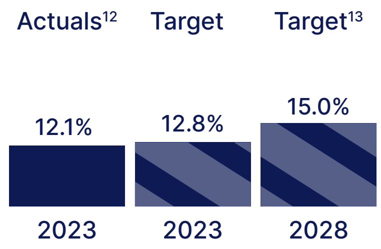
Gender[9]

Leadership population[11]

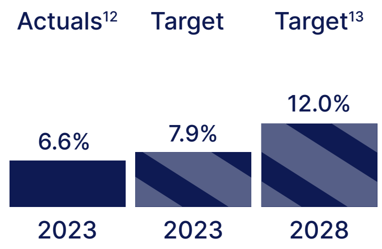


Ethnicity[10]

All employees

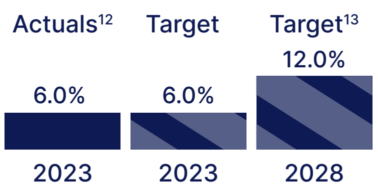


Leadership population[11]

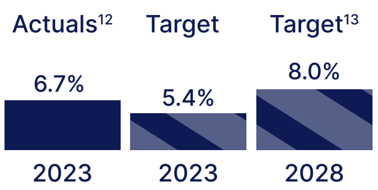


Disability[14]

All employees

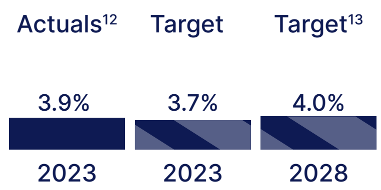


Leadership population[11]

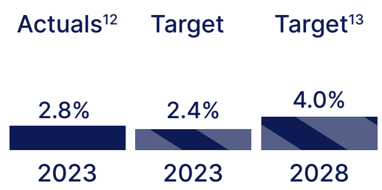


Sexual Orientation[15]

All employees



Leadership population[11]



We also report on other statutory diversity measures[16] separately to our Mutual Good Commitments. These are as below:

	Gender[9]	**Ethnicity[10]**
All employees	60.7% (11,234 females)	12.1%
Senior managers[16]	37.6% (35 females)	4.3%

9. Gender – The figures reflect female representation.
10. Ethnicity – Figures reflect Black, Asian, mixed and other. Excluded from the % are white majority and minority.
11. Leadership population – A targeted and broader leadership population comprising around 1,000 of our leaders.
12. All data as at 4 April 2023, and based upon headcount not FTE (full-time equivalent value) of employees directly employed by Nationwide Building Society.
13. We will review our longer-term measures in light of latest census data.
14. Disability – Figures reflect those identifying as disabled or as having a long-term health condition.
15. Sexual Orientation – Figures reflect those identifying as bi-sexual, gay man, gay woman, lesbian and other. Excluded from the % are those identifying as heterosexual.
16. 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. Figures are based upon headcount and percentage headcount of each population. 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 Executive Committee and their direct reports.

Non-financial & sustainability *information statement*

This 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 sustainability (environmental, social and governance) 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 sustainability matters, please see our separate reporting on nationwide.co.uk:

- Climate-related financial disclosures
- Intermediate Net-Zero Ambitions 2022: Basis of Preparation
- Principles for Responsible Banking report
- Responsible business webpages

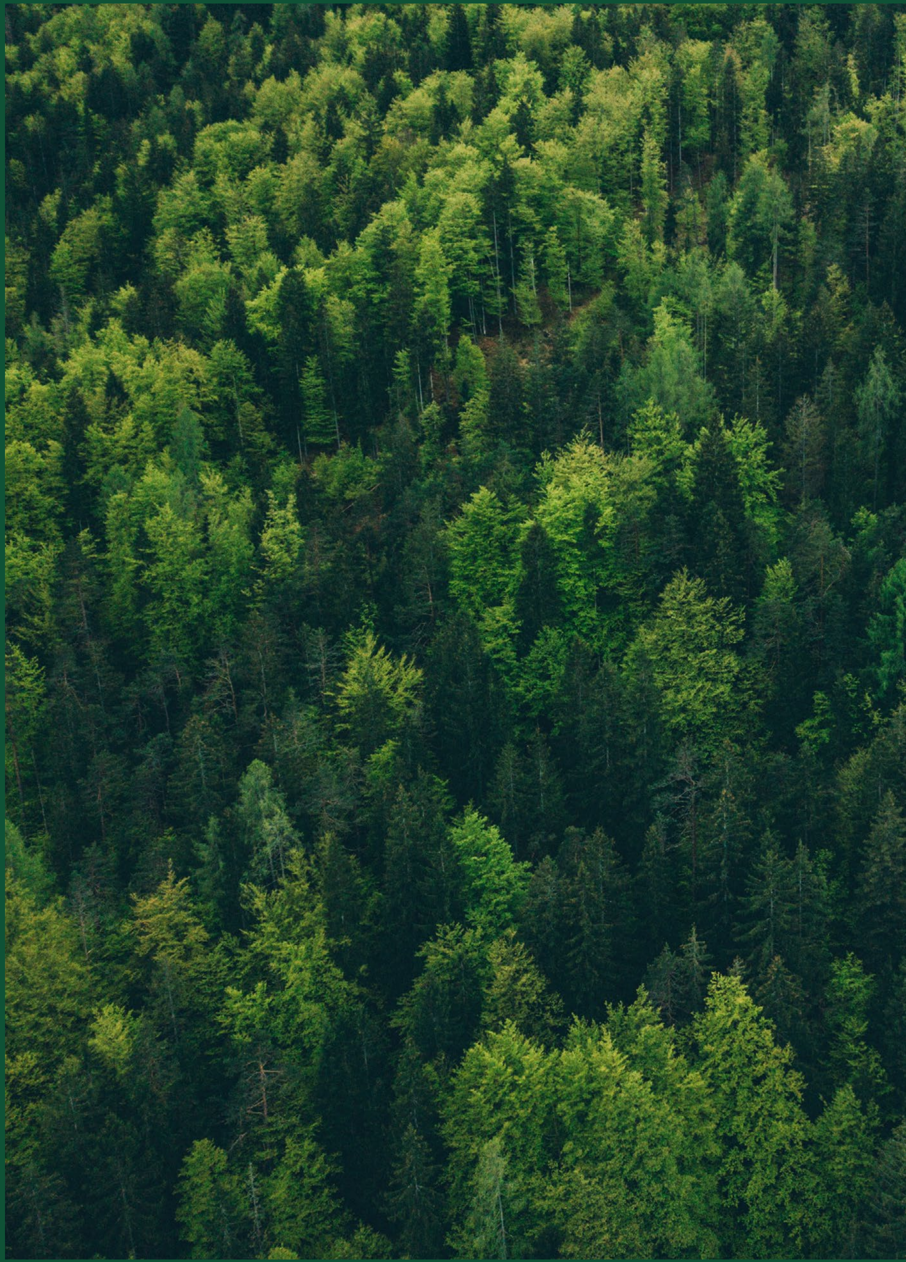
Supporting our colleagues with disabilities

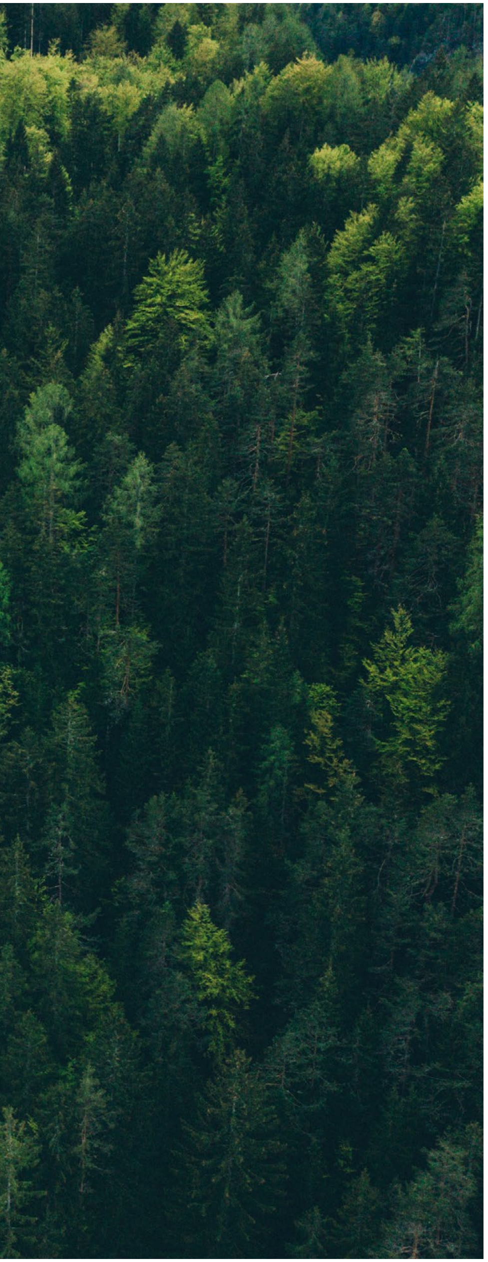
It is the Society's policy to afford access to training, career development and promotion opportunities equally to all colleagues regardless of their ethnicity, faith and belief, gender, marital status, age, physical or mental disability, or socio-economic background. For colleagues with disabilities 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 supporters. We are also members of the Business Disability Forum and PurpleSpace, as well as signatories to the Disability Confident Scheme.

Reporting requirements	Section of Annual Report and Accounts	Page
Business model	Our difference is our mutual ownership model Our Blueprint for a modern mutual	6 26
Key performance indicators	How we performed in 2022/23 against our strategic key performance indicators	23
Governance	Governance	77
Stakeholders	Engaging with our stakeholders	29
Social matters	Committed to doing the right thing	42
Key risks and their management	Risk overview Managing risk	65 139
Colleagues	Our key policies and statements of intent are set out on page 44 and are in place to ensure consistent governance in respect of our colleagues, environmental matters, human rights and economic crime and anti-corruption. These policies and statements are also available on nationwide.co.uk	
Environmental matters		
Human rights		
Economic crime and anti-corruption		

For more information on how we support our colleagues more generally, see page 32.

Climate-related financial disclosures





Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Ambition and overview

Climate change presents a risk to Nationwide and its customers, and so managing the risk from climate change and supporting progress towards a greener society is core to Nationwide being a responsible business.

We continue to focus on further embedding and improving our climate-related risk management capabilities, whilst enhancing our understanding of climate change and the impacts it has on the Society and its customers.

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

Since 2020, Nationwide has produced its disclosures in line with the Task Force on Climate-related Financial Disclosures' (TCFD's) recommendations. Nationwide's Climate-related Financial Disclosures 2023 are published alongside its Preliminary results on nationwide.co.uk as a standalone document. This enables Nationwide to provide comprehensive climate-related disclosures, in an easily accessible format, for all interested stakeholders.

The table on the next page outlines how we have aligned to the four categories of the TCFD's recommendations[1] (Strategy, Governance, Risk management, and Metrics and targets) and recommended disclosures, and aligns with the Financial Conduct Authority's Listing Rules (9.8.6R(8)). Across these categories are 11 sub-category headings which we have used to present our activities for this year, along with ongoing and future activity. Page number references have been provided to indicate where additional detail can be found in Nationwide's full Climate-related Financial Disclosures 2023.

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

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Strategy

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

Disclosures: pages 7-16

The climate-related risks and opportunities Nationwide has identified over the short, medium, and long term

Disclosures: pages 8-13

Activity in 2022/23

- Recognised a number of risks and opportunities across the short, medium and long term to support the UK's ambition to achieve net-zero by 2050, and explored these as part of our climate strategy and green finance proposition development to progress towards a greener society.
- Developed and disclosed our intermediate (by 2030) science-based targets for scope 1, 2, and 3 emissions, aligned to a net-zero pathway. Our disclosure details the potential actions across the short to medium term, and the level of control and challenges faced.

Ongoing and future activity

- Continue to embed climate change considerations into Nationwide's strategy and proposition development processes, including the identification of additional climate-related risks and opportunities.
- Develop a net-zero aligned transition plan to help track against Nationwide's net-zero ambition and intermediate (by 2030) science-based targets over the short to medium term.
- Continue to engage with Environmental, Social, and Governance (ESG) rating agencies to ensure Nationwide's credentials are fully understood and appropriately reflected in our ratings.
- Continue to invite third-party suppliers to join the EcoVadis platform and to disclose their carbon emissions and emissions reduction targets.

The impact of climate-related risks and opportunities on Nationwide's businesses, strategy, and financial planning

Disclosures: pages 9, 10, 14-16

Activity in 2022/23

- Further embedded climate change into our strategic planning and financial planning processes, including defining a framework for the inclusion of the effects of climate change in our expected credit losses.
- Continued to explore climate-related opportunities through 2022, launching the first phase of EPC A rated homes in our Oakfield development and completing our solar panel pilot with MakeMyHouseGreen.
- Continued to participate in cross-industry forums, to understand new and emerging risks and opportunities across the financial sector, including continuing to campaign for a National Retrofit Strategy to support the greening of UK homes as part of our Green Homes Action Group.

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Strategy

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

Disclosures: pages 7-16

The impact of climate-related risks and opportunities on Nationwide's businesses, strategy, and financial planning

Disclosures: pages 9, 10, 14-16

Ongoing and future activity

- Continue to explore further green finance opportunities and propositions to support our customers in the greening of their homes and progress towards our intermediate (by 2030) science-based targets.
- Continue to convene and participate in cross-industry working groups to drive real change, including raising awareness of the challenges of greening UK homes and encouraging further government action that supports greener homes.

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

Disclosures: page 15

Activity in 2022/23

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

Ongoing and future activity

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

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

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

Disclosures: pages 17-22

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

Disclosures: pages 18, 19

Activity in 2022/23

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

Ongoing and future activity

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

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

Disclosures: pages 20-22

Activity in 2022/23

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

Ongoing and future activity

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

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Risk Management

How Nationwide identifies, assesses, and manages climate-related risks

Disclosures: pages 23-26

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

Disclosures: pages 24, 25

Activity in 2022/23

- Assessed the impacts of climate change against Nationwide's principal risks in line with our Enterprise Risk Management Framework (ERMF) and identified potential impacts over the short, medium and long term.
- Enhanced the Society's climate change risk standard, to improve it as a key control of climate-related risk.
- Continued to leverage physical risk assessment capabilities, through the Property Risk Hub[2], and internal capabilities continue to be enhanced to assess transition risk across the Society's residential and commercial mortgage lending portfolios.
- Updated our Housing Finance Credit Standards, which applies to our Registered Social Landlord (RSL) borrowers, to include clear recommendations for borrowers to have an ESG strategy aligned to net-zero. Also encouraged RSL borrowers to improve the Energy Performance Certificate (EPC) composition of their portfolio.

Ongoing and future activity

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

Nationwide's processes for managing climate-related risks

Disclosures: pages 24, 25

Activity in 2022/23

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

Ongoing and future activity

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

2. Nationwide's Property Risk Hub assesses all mortgage applications for several physical risks at the decision in principle stage of a mortgage application.

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Risk Management How Nationwide identifies, assesses, and manages climate-related risks	Disclosures: pages 23-26
How Nationwide's processes for identifying, assessing, and managing climate-related risks are integrated into the Society's overall risk management	Disclosures: page 26

Activity in 2022/23

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

Ongoing and future activity

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

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Metrics and Targets

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

Disclosures: pages 27-43

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

Disclosures: pages 40-43

Activity in 2022/23

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

Ongoing and future activity

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

Nationwide's scope 1, 2, and 3 greenhouse gas (GHG) emissions and targets, and the related risks

Disclosures: pages 28-39

Activity in 2022/23

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

Ongoing and future activity

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

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Metrics and Targets

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

Disclosures: pages 27-43

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

Disclosures: pages 31, 33, 37, 38, 40-43

Activity in 2022/23

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

Ongoing and future activity

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

Nationwide's carbon emissions

Supporting progress towards a greener society

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

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

Nationwide aspires to be a beacon for mutual good, famous for having a meaningful impact across society that extends beyond our own customer base. Helping address the impact of climate change aligns with this, and we aim to support the UK Government's ambition to achieve net-zero by 2050.

Our Mutual Good Commitments support our strategy and the UN Sustainable Development Goals (SDGs). Over the year we have updated the targets underlying our Mutual Good Commitment to support progress towards a greener society, so that they align to our intermediate (by 2030) science-based targets.

Nationwide published its highly challenging intermediate (by 2030) science-based targets[3] in December 2022. This disclosure covers the sectors applicable to our business model, across scope 1, 2, and 3. Achieving our emissions, and emissions intensity, reduction targets will require customer, cross-industry, and government action.

Nationwide's scope 1 and 2 carbon emissions

(See table on page 64)

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

Our scope 1 emissions have continued to decrease in comparison to previous years. This is due to our ongoing efforts to reduce our operational emissions. We will continue to reduce our scope 1 emissions to progress towards our science-based target ambitions.

100% of our scope 2 energy consumption is attributed to renewable sources, through a solar power purchase agreement (PPA), which produces emissions-free energy, and use of green tariff electricity. Our scope 2 emissions are associated with purchased electricity only, as Nationwide does not purchase any steam, heat or cooling. This market-based approach[4], coupled with purchasing carbon offsets for scope 1 emissions, ensures Nationwide remains carbon neutral for its business operations.

We also disclose our absolute (location-based[5]) scope 2 emissions which continue to reduce as we embed new hybrid ways of working. Our hybrid working means colleagues have the flexibility to choose where they work between home and the office, with an expectation that they come together when it is valuable and meaningful to do so, to maintain relationships, support our culture and collaborate.

Further information on Nationwide's scope 1, 2 and 3 carbon emissions can be found in our full Climate-related Financial Disclosures 2023 at nationwide.co.uk

3. Intermediate Net-Zero Ambitions 2022 – Basis of Preparation (nationwide.co.uk).
4. A market-based approach allows flexibility to utilise market-based measures such as renewable energy to achieve net-zero.
5. A location-based approach doesn't factor in market-based measures and considers operational absolute emissions only.

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

Nationwide's scope 3 downstream category 15 (investments) carbon emissions – mortgages, registered social landlords, and commercial real estate

(See table on page 64)

Nationwide continues to disclose the emissions associated with its mortgage, commercial real estate (CRE) and registered social landlord (RSL) portfolios. We have calculated both the absolute and the financed emissions for our mortgage, CRE and RSL portfolios. The absolute emissions have been weighted by loan to value (LTV) in order to calculate the proportion of emissions financed by Nationwide. This is in line with Partnership for Carbon Accounting Financials (PCAF) methodology.

Our absolute scope 3 mortgage emissions have reduced in comparison to last year, due to a reduction in the total number of properties on the book. LTV weighted emissions, and LTV weighted carbon intensity, have increased slightly compared to last year due to an increase in average LTV. Our absolute and LTV weighted emissions, LTV weighted carbon intensity, and total floor area, for the RSL portfolio have reduced compared to last year. This is due to the enhancements made to our EPC model to include postcode matching capability. Our absolute scope 3 CRE emissions, and LTV weighted emissions, have reduced in comparison to last year, due to a decrease in overall lending.

Information on how scope 3 emissions for mortgages, CRE and RSL have been calculated is in our Climate-related Financial Disclosures 2023.

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

(See table on page 64)

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

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

Scope 1, 2, and 3 emissions assurance

We appointed Ernst and Young LLP (EY) to provide limited independent assurance over our scope 1, 2, and 3 carbon emission disclosures for the year ended 4 April 2023. This includes scope 1 and 2 emissions for the year ended 4 April 2023 and scope 3 financed (investment and upstream) emissions for the 12-month period ended 31 December 2022. Assurance was also provided for the year ended 4 April 2022, as disclosed in our Climate-related Financial Disclosures 2022. Assured metrics and KPIs are indicated throughout Nationwide's Climate-related Financial Disclosures 2023. 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 Nationwide's website[6]. This report includes details of the scope, respective responsibilities, work performed, limitations and conclusion.

6. EY emissions assurance report 2023.

Nationwide's full Climate-related Financial Disclosures 2023 can be found at nationwide.co.uk

A summary of Nationwide's scope 1, 2, and 3 carbon emissions data[7]

The key movements in the carbon emissions data table opposite are explained on pages 62 and 63.

Nationwide continues to disclose in line with Streamlined Energy Carbon and Reporting regulation requirements[8].

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 44 and 45 in Nationwide's Climate-related Financial Disclosures 2023.

Scope 1 and 2 emissions data	Year to 4 April 2023	Year to 4 April 2022
Scope 1 – Energy and travel (tCO_2e/y)	2,361	3,002
Scope 2 – Electricity (tCO_2e/y)	12,774	14,972
Total gross scope 1 and 2 emissions (tCO_2e/y)	15,135	17,974
Absolute carbon outturn (less PPA carbon reduction and green tariff electricity) (tCO_2e/y)	2,361	3,002
Total carbon dioxide in tonnes per full time employee (FTE)	0.17	0.19
Total net scope 1 and 2 emissions (tCO_2e/y)	0	0
Total energy usage – Electricity and gas (MWh)	76,781	86,417
Scope 3 emissions data – upstream – purchased goods and services, capital goods, and transportation and distribution	**Year to 31 Dec 2022**	**Year to 31 Dec 2021**
Total upstream scope 3 carbon dioxide emissions (tCO_2e/y)	156,000	230,000
Scope 3 emissions data – mortgages	**Year to 31 Dec 2022**	**Year to 31 Dec 2021**
Absolute carbon emissions on whole book using interpolated EPC data (tCO_2e/y)	6,111,000	6,187,000
LTV weighted carbon emissions using LTV weighted interpolated EPC data (tCO_2e/y)	2,801,000	2,795,000
LTV weighted carbon intensity using LTV weighted interpolated EPC data ($kgCO_2e/m^2/y$)	19.24	19.03
Scope 3 emissions data – registered social landlords	**Year to 31 Dec 2022**	**Year to 31 Dec 2021**
Absolute carbon emissions on whole book using interpolated EPC data (tCO_2e/y)	466,000	747,000
LTV weighted carbon emissions using LTV weighted interpolated EPC data (tCO_2e/y)	222,000	346,000
LTV weighted carbon intensity using LTV weighted interpolated EPC data ($kgCO_2e/m^2/y$)	20.01	22.36
Scope 3 emissions data – commercial real estate	**Year to 31 Dec 2022**	**Year to 31 Dec 2021**
Absolute carbon emissions on whole book using proxy EPC data (tCO_2e/y)	138,000	259,000
LTV weighted carbon emissions using LTV weighted proxy EPC data (tCO_2e/y)	45,000	96,000
LTV weighted carbon intensity using LTV weighted proxy EPC data ($kgCO_2e/m^2/y$)	31.28	46.39

7. Notes for the carbon emissions data table are detailed in Nationwide's Climate-related Financial Disclosures 2023.
8. Detail of the Society's energy efficiency action can be found in the Strategy section in Nationwide's Climate-related Financial Disclosures 2023.

Risk overview

The Board recognises that effective risk management is essential to Nationwide's ongoing strength and the delivery of our strategic objectives. As such, we adopt a prudent approach to risk management, keeping our customers' 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 markets to serve our customers' interests and keep their money safe and secure by taking risks we understand and can manage well.

How risk is managed at Nationwide

Nationwide operates a Board-approved Enterprise Risk Management Framework to ensure risks are managed in a consistent and rigorous way. This framework defines how risks are managed and sets out the risk management responsibilities of all colleagues within an industry standard three lines of defence model. This ensures that all risks are appropriately and consistently identified, assessed, managed, monitored, and reported within the first line of defence. Independent oversight and challenge of the Society's risk management practices are provided by the Society's independent Risk function, led by the Chief Risk Officer, whilst the Internal Audit function provides assurance of the effectiveness of our control environment for the Board.

Through the Enterprise Risk Management 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 and standards translates this appetite into the localised risk management activities and controls that our colleagues operate on a day-to-day basis to protect our customers 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 is shown in the Managing risk section of the Risk report on page 139.

Nationwide continuously reviews the risks to which it is exposed and strengthens the controls it relies on to mitigate these risks. A programme has been completed to develop further the organisation's understanding of the most prominent risks and controls within key customer facing processes, which is driving continued improvements to customer experiences and increasing the efficiency and effectiveness of key processes and controls.

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 143 of the Risk report.
- Top and emerging risks are specific current or future risks which have the potential to impact materially Nationwide's financial results and delivery of its strategic objectives, and often impact across a number of principal risks. 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.

Top and emerging risks

Risk	How we mitigate this risk	Additional information in the following sections
Climate change ➔ The risks relating to climate change, including both physical risks to UK housing stock and property and the transitional risks as the country moves towards zero net emissions, continue to evolve as government policy develops and technologies mature.	• We limit the impact our activities have on climate change by investing in sustainable business practices and adjusting our lending criteria to minimise risk. • 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, and complete robust internal and external stress testing for climate change.	Beacon for mutual good – *Reducing our environmental impact* (page 20)

Risk	How we mitigate this risk	Additional information in the following sections
Cyber* ➔ The threat of cyber-attacks remains heightened with ongoing geopolitical tensions posing a threat to Nationwide, our staff and our customers.	• We continuously monitor the cyber threat level and invest in our cyber defenses to ensure we are able to respond appropriately.	Continuous improvement – *Modernising our technology* (page 21)
Data ➔ Our customers trust us with their data so that we can deliver the services and experience which they need and expect. Given that expectations, data technologies, and industry practices continue to evolve at pace, the risk of inappropriate data management remains elevated.	• We continue to prioritise investment in our data architecture, technology and capabilities to utilise and protect our customers' personal data within a constantly evolving operating environment. • We work proactively with our third-party suppliers to ensure all data they are entrusted with is robustly controlled.	Continuous improvement – *Improving our operating and governance models* (page 22)
Economic crime* ➔ The risk environment remains challenging due to the economic environment and ongoing conflict in Ukraine. These increase the risk of economic crime, through greater sanctions imposed on individuals and institutions relating to the conflict, or risks of customers falling prey to fraud or scams.	• We continue to enhance our economic crime capabilities, with a structured programme underway to improve our operating model and economic crime control environment, including transaction monitoring.	Simply brilliant service – *Protecting our customers in challenging circumstances* (page 18)
Macro-economic environment ➔ The economic environment remains challenging with the UK narrowly avoiding technical recession, increasing living costs and rising interest rates impacting customer finances and the long-term impact of ongoing geopolitical tensions yet to emerge. Recent bank failures in the US and Europe have the potential to cause further economic deterioration or impact consumer confidence, in particular within the banking sector.	• We maintain strong capital and liquidity levels in excess of regulatory minima 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 continue to support customers who may experience financial difficulty. • Nationwide only has exposures to highly rated banking counterparties; these consist primarily of fully collateralised derivatives and covered bonds for liquidity management.	Simply brilliant service – *Supporting our customers through cost of living pressures* (page 17) Credit risk – Treasury assets (page 177)
People risk ➔ With increasing industrial action being seen in the UK, cost of living pressures combined with competition for talent in a number of key areas continue to have the potential to impact recruitment and retention of colleagues with the skills and capabilities required to support the strategy and serve our customers.	• We continuously review and develop our employee proposition to ensure we remain competitive and attract the right talent to deliver for our customers. • We pro-actively engage with the Nationwide Group Staff Union on our remuneration packages and employment policies to ensure our employees are represented and treated fairly.	Engaging with our stakeholders – *Our Colleagues* (pages 31 to 32)
Regulatory change ➚ The regulatory environment continues to evolve with numerous material regulatory developments expected over the next year, including the recently announced 'Edinburgh Reforms', changes to the regulatory capital framework and the implementation of Consumer Duty.	• We have structured initiatives in place to deliver relevant regulatory changes promptly and proportionately. • We maintain continuous engagement with all our regulators to identify and appropriately respond to regulatory requirements.	Engaging with our stakeholders - *Regulators and policy makers* (page 35)
Technology and resilience ➚ Our customers 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 have prioritised strategic investment in our systems and technology capability. • We continue to strengthen our internal control environment to improve resilience, proactively balancing continued service provision with the need to update and develop our systems to meet customers' current and future needs.	Continuous improvement – *Modernising our technology* (page 21)

Key (change in underlying risk to Nationwide in year)
➚ Increased level of risk ➔ Stable level of risk ➘ Decreased level of risk * Not reported as a separate Top and emerging risk in the Annual Report and Accounts 2022.

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 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.

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. This assessment includes consideration of the Top and emerging risks outlined in Risk overview. While there is an increased level of risk associated with regulatory change, and technology and resilience, the impact of these risks to ongoing viability is low. 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.

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 customers and our work to ensure our processes and systems remain robust. While emerging risks on pages 65 to 66 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 conflict in Ukraine and ongoing cost of living pressures. 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.
- Economic crime and cyber security – We continuously monitor the external landscape to identify potential cyber and fraud threats whilst operating and maturing our economic crime and cyber controls to protect our customers 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 proactively monitoring the resilience of our services to reduce disruption to our customers.
- 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.

Planning and stress testing activity during 2022/23

During 2022/23, 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, reflecting weaker economic growth in the short term, a softening of momentum within the housing market and an increasing Bank rate. This scenario has been subject to revision during the year to reflect developments in the macroeconomic outlook, in particular with respect to Bank rate and inflationary expectations.
- A macroeconomic 'downside' sensitivity exploring the impacts of Bank rate falling rapidly back to 1% and greater deterioration in unemployment and house prices relative to the base case scenario.
- An internally generated stress scenario exploring a severe but plausible stress in which an escalation of the conflict in Ukraine causes an economic downturn, with rising unemployment, inflation and substantial falls in house prices.
- The Bank of England's 2022 Annual Cyclical Scenario (ACS), which considered a significant rise in inflation and the associated monetary policy impacts, causing Bank rate to rise. The scenario anticipated a severe path for the current macroeconomic outlook, including a fall in real household income and a severe UK recession.
- Our reverse stress test scenario, which explores the financial impact of Nationwide failing to deliver its strategic goals in a downside economic scenario, causing the loss of brand, propositional and digital relevance and a failure to maintain scale.
- A severe idiosyncratic liquidity stress scenario exploring the impact of a ransomware attack and resultant failure to maintain member confidence, in addition to the temporary loss of access to wholesale funding markets, within the context of a macroeconomic stress.

A selection of these scenarios has been used for expected credit loss modelling during 2022/23, 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 26.5% and leverage ratio of 6.0% at 4 April 2023) and liquidity position (12-month average LCR for the year ended 4 April 2023 of 180%), 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 an escalation of the conflict in Ukraine, heightened inflation and changes to the expected path of Bank rate.

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

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

"The sustained strength of our finances has allowed us to support our members through a highly uncertain period and significant cost of living increases. It has also enabled the Society to launch the Nationwide Fairer Share Payment in June 2023, returning £340 million directly to our eligible members, as well as a Fairer Share Bond.

"We have continued to support our members' borrowing and savings needs during the year, and as a result have delivered growth in our mortgage and deposit balances. We delivered £1,055 million of member financial benefit through better pricing and incentives than the market average during the year. We also provided £57 million of cashback to customers who hold a current account with us and £40 million of additional cost of living support to colleagues.

"Due to the highly uncertain economic outlook, it is important that we maintain our financial strength to continue to support our customers through the challenges ahead."

Financial highlights

- Underlying profit for the year increased to £2,233 million (2022: £1,604 million) and statutory profit increased to £2,229 million (2022: £1,597 million). This reflects income growth, partially offset by higher costs and charges for credit impairments.
- Total income increased by £806 million due to rising interest rates, with net interest margin (NIM) increasing to 1.57% (2022: 1.26%).
- Member financial benefit increased to £1,055 million (2022: £325 million), supported by the strength of our mortgage and savings rates relative to the market average.
- Mortgage balances increased to £201.7 billion (2022: £198.1 billion), resulting in a stock market share of 12.2% (2022: 12.4%). Member deposit balances increased by £9.1 billion to £187.1 billion (2022: £178.0 billion) and our market share of deposits increased to 9.6% (2022: 9.4%).
- Total administrative expenses increased by £89 million to £2,323 million (2022: £2,234 million), reflecting higher inflation, including £40 million relating to cost of living support to colleagues.
- The credit impairment charge of £126 million for the year (2022: release of £27 million) reflects a deterioration in the economic outlook during the year, with expected future increases in arrears due to affordability pressures. However, the credit quality of our lending portfolios remains very strong with low levels of arrears.
- CET1 and leverage ratios increased to 26.5% and 6.0% (2022: 24.1% and 5.4%) respectively.

Underlying profit:
£2,233m
(2022: £1,604m)

Statutory profit:
£2,229m
(2022: £1,597m)

Leverage ratio:
6.0%
(2022: 5.4%)

The results are prepared in accordance with International Financial Reporting Standards (IFRSs) as set out in note 1 to the financial statements. Underlying results are shown below, together with a reconciliation to the statutory results.

Income statement

Underlying and statutory results

	2023	2022
	£m	£m
Net interest income	**4,498**	3,562
Net other income	**175**	305
Total underlying income	**4,673**	3,867
Administrative expenses	**(2,323)**	(2,234)
Impairment (charge)/release	**(126)**	27
Provisions for liabilities and charges	**9**	(56)
Underlying profit before tax (note i)	**2,233**	1,604
Losses from derivatives and hedge accounting (note ii)	**(4)**	(7)
Statutory profit before tax	**2,229**	1,597
Taxation	**(565)**	(345)
Profit after tax	**1,664**	1,252

Net interest margin: 1.57% (2022: 1.26%)
Underlying cost income ratio: 49.7% (2022: 57.8%, note iii)
Statutory cost income ratio: 49.8% (2022: 57.9%, note iii)
Return on assets 0.61% (2022: 0.46%)

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 or refunds from institutional failures (included within provisions for liabilities and charges) are excluded from statutory profit to arrive at underlying profit. There are no FSCS costs or refunds from institutional failures for the financial years ended 4 April 2023 and 4 April 2022.

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 (NIM)

Net interest income increased by £936 million to £4,498 million (2022: £3,562 million) with the net interest margin increasing to 1.57% (2022: 1.26%). Increases in the Bank rate have led to an increase in net interest income, reflecting the timing and the level of pass through of interest rate changes to savings products, partially offset by a decline in mortgage net interest income. Member financial benefit has increased, as Nationwide has passed a greater proportion of interest rate rises to savers than the market average.

Net other income has reduced by £130 million to £175 million (2022: £305 million), with £57 million cashback provided to members with a personal current account as part of the Society's cost of living support. We have also observed higher costs of providing travel insurance to packaged current account holders in 2023.

Member financial benefit

As a building society, we seek to maintain Nationwide's financial strength whilst providing value to our members through pricing, products and service. Through 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.

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 year.

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.
- 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 £20 is included in the member financial benefit measure.
- Member Prize Draw: eligible members were automatically entered into monthly prize draws with a total prize pot of £1 million. The prize draw was launched in September 2021 and ran until August 2022.

For the year ended 4 April 2023, this measure shows we provided our members with a financial benefit of £1,055 million (2022: £325 million). The increase is due to our strong mortgage and savings products which seek to provide good value to members. As interest rates have risen, we have passed through a higher proportion of the increase to savers than the market average. The member financial benefit of £1,055 million does not include the Nationwide Fairer Share Payment to be made in June 2023.

Administrative expenses

Administrative expenses have increased by £89 million to £2,323 million (2022: £2,234 million) largely due to inflation. The costs in the year include £40 million cost of living support to employees. Costs also include incremental investment in financial crime controls of £16 million and in technology resilience, particularly £26 million relating to payment systems. Redundancy and associated costs have increased by £32 million as we create efficiencies within our support functions. These amounts were offset by the non-recurrence of 2022 charges relating to accelerated amortisation of specific intangible assets of £53 million and historical fraud cases of £16 million.

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

Impairment charge/(release) (note i)	2023 £m	2022 £m
Residential lending	**94**	(128)
Consumer banking	**31**	93
Retail lending	**125**	(35)
Commercial	**1**	8
Impairment charge/(release) on loans and advances	**126**	(27)

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

The net impairment charge for the year of £126 million (2022: release of £27 million) includes the impact of higher expected interest rates on mortgage provisions. The prior year impairment release reflected a decrease in provisions during a year where the economic outlook had improved. The underlying arrears performance of our residential mortgage portfolio has improved slightly, with consumer lending arrears marginally deteriorating. An increase in arrears from current levels is expected due to affordability pressures. More information regarding critical accounting judgements, and the forward-looking economic information used in impairment calculations, is included in note 10 to the financial statements.

Provisions for liabilities and charges

Provisions are held to cover the costs of remediation and redress in relation to historical quality control procedures, past sales and administration of customer accounts, and other regulatory matters. The release of £9 million (2022: £56 million charge) is due to updates to judgements and estimates used in determining provisions relating to historical quality control procedures. More information is included in note 27 to the financial statements.

Taxation

The tax charge for the year of £565 million (2022: £345 million) represents an effective tax rate of 25.4% (2022: 21.6%) which is higher than the statutory UK corporation tax rate of 19% (2022: 19%). The effective tax rate is higher primarily due to the banking surcharge of £145 million (2022: £72 million). The effective tax rate in 2022 was also reduced by the impact of £23 million of non-recurring tax adjustments in respect of prior years. Further information is provided in note 11 to the financial statements.

Balance sheet

Total assets have decreased to £271.9 billion at 4 April 2023 (2022: £272.4 billion). This is predominantly due to reduced holdings of cash and liquid assets.

Mortgage lending has been robust, with residential mortgage balances increasing to £201.7 billion (2022: £198.1 billion). Member deposit balances have increased by £9.1 billion to £187.1 billion (2022: £178.0 billion) as a result of increases in savings balances following the launch of competitive new products.

Assets	2023		2022	
	£m	%	£m	%
Cash	25,635		30,221	
Residential mortgages (note i)	201,662	95	198,120	95
Commercial	5,477	3	6,054	3
Consumer banking	4,408	2	4,638	2
	211,547	100	208,812	100
Impairment provisions	(765)		(746)	
Loans and advances to customers	210,782		208,066	
Other financial assets	32,387		30,816	
Other non-financial assets (note iii)	3,089		3,251	
Total assets	271,893		272,354	

Asset quality	%		%	
Residential mortgages (note i):				
Proportion of residential mortgage accounts more than 3 months in arrears	0.32		0.34	
Average indexed loan to value (by value)	55		52	
Consumer banking:				
Proportion of customer balances with amounts past due more than 3 months (excluding charged off balances)	1.21		1.13	

12-month average Liquidity Coverage Ratio (note ii):
180%
(2022: 183%)

Notes:

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

ii. This represents a simple average of the Liquidity Coverage Ratio (LCR) for the last 12 month ends. The LCR ensures that sufficient high-quality liquid assets are held to survive a short-term severe but plausible liquidity stress.

iii. Included within other non-financial assets at 4 April 2023 is £24 million (2022: £18 million) of inventory in relation to the construction of houses at the Oakfield development in Swindon.

Cash

Cash is liquidity held by our Treasury function, with the £4.6 billion decrease predominantly due to a £4.5 billion repayment of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

The average Liquidity Coverage Ratio over the 12 months ended 4 April 2023 was 180% (12 months ended 4 April 2022: 183%). Liquidity continues to be managed against internal risk appetite, which is more prudent than regulatory requirements and, under the most severe internal 30 calendar day stress test, the average liquid asset buffer remains robust.

Nationwide's liquidity and funding risk framework also ensures that a stable and diverse funding base is maintained. Further details are included in the Liquidity and funding risk section of the Risk report.

Residential mortgages

Total gross mortgage lending was lower than in the prior year at £33.6 billion (2022: £36.5 billion) and our market share of gross advances decreased to 10.8% (2022: 11.8%). Net lending in the year was supported by our continued focus on retention through highly competitive products provided to existing members, whilst also continuing to focus on first time buyers. Prime mortgage balances increased to £157.6 billion (2022: £154.4 billion) and buy to let and legacy mortgage balances increased to £44.1 billion (2022: £43.7 billion).

Arrears remain low and have improved slightly during the year, with cases more than three months in arrears representing 0.32% (2022: 0.34%) of the total portfolio. However, an increase in arrears from current levels is expected, due to rising inflation and increasing interest rates negatively impacting household finances. Impairment provision balances have increased to £280 million (2022: £187 million) primarily due to higher interest rate expectations. This has resulted in an increase in the provisions held to reflect mortgage affordability risks, as well as increased expected credit losses in the severe downside economic scenario.

Consumer banking

Consumer banking balances have decreased to £4.4 billion (2022: £4.6 billion). Consumer banking comprises personal loan balances of £2.6 billion (2022: £2.9 billion), credit card balances of £1.5 billion (2022: £1.5 billion) and overdrawn current account balances of £0.3 billion (2022: £0.3 billion).

Arrears performance has deteriorated slightly during the year, with balances more than three months in arrears (excluding charged off accounts) representing 1.21% (2022: 1.13%) of the total portfolio. Provision balances were £469 million (2022: £529 million), primarily due to revised impacts of affordability pressures on future credit performance.

Commercial lending

During the year, commercial lending balances decreased to £5.5 billion (2022: £6.1 billion). The overall portfolio includes registered social landlords with balances of £4.1 billion (2022: £4.3 billion), project finance with balances of £0.5 billion (2022: £0.6 billion) and commercial real estate balances of £0.4 billion (2022: £0.6 billion). Both project finance and commercial real estate books are closed to new lending.

Impairment provision balances decreased to £16 million (2022: £30 million) due to updates to a small number of individual loans.

Other financial assets

Other financial assets of £32.4 billion (2022: £30.8 billion) comprise investment assets held by Nationwide's Treasury function of £27.6 billion (2022: £25.5 billion), loans and advances to banks and similar institutions of £2.9 billion (2022: £3.0 billion), derivatives with positive fair values of £6.9 billion (2022: £4.7 billion) and fair value adjustments for portfolio hedged risk of £(5.0) billion (2022: £(2.4) billion). Derivatives largely comprise interest rate and foreign exchange contracts which economically hedge financial risks inherent in Nationwide's lending and funding activities.

Members' interests, equity and liabilities	2023	2022
	£m	£m
Member deposits	**187,143**	177,967
Debt securities in issue	**27,626**	25,629
Other financial liabilities	**38,701**	51,509
Other liabilities	**1,517**	1,550
Total liabilities	**254,987**	256,655
Members' interests and equity	**16,906**	15,699
Total members' interests, equity and liabilities	**271,893**	272,354

Wholesale funding ratio:
25.0%
(2022: 28.8%)

Member deposits

Member deposit balances grew by £9.1 billion (2022: £7.7 billion) to £187.1 billion (2022: £178.0 billion). Nationwide's market share of deposit balances increased to 9.6% (4 April 2022: 9.4%). This increase is due to growth in savings balances of £11.1 billion (2022: £4.7 billion) supported by competitive fixed rate online bond products. Our market share of accounts increased to 10.4% (2022: 10.3%)[1]. Credit balances on current accounts reduced by £2.0 billion (2022: £3.0 billion growth).

Debt securities in issue and other financial liabilities

Debt securities in issue relate to wholesale funding, excluding subordinated debt which is included within other financial liabilities. Balances increased to £27.6 billion (2022: £25.6 billion) reflecting secured and unsecured wholesale funding issuances. Other financial liabilities decreased to £38.7 billion (2022: £51.5 billion) primarily due to a reduction in funding from sale and repurchase agreements and a repayment of some of our drawings from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). Nationwide's wholesale funding ratio decreased to 25.0% (2022: 28.8%). 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 £16.9 billion (2022: £15.7 billion) largely as a result of retained profits.

Statement of comprehensive income

Statement of comprehensive income (note i)		
	2023	2022
	£m	£m
Profit after tax	**1,664**	1,252
Net remeasurement of pension obligations	**(56)**	543
Net movement in cash flow hedge reserve	**(8)**	(11)
Net movement in other hedging reserve	**(4)**	3
Net movement in fair value through other comprehensive income reserve	**(103)**	(20)
Net movement in revaluation reserve	**1**	5
Total comprehensive income	**1,494**	1,772

Note:
i. Movements are shown net of related taxation. Gross movements are set out in the financial statements on page 235.

[1] CACI's Current Account and Savings Database, Stock (February 2023 and February 2022).

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 11.5% and 4.0% respectively. The CET1 ratio increased to 26.5% (2022: 24.1%) and the leverage ratio increased to 6.0% (2022: 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		
	2023	2022
	£m	£m
Capital resources		
CET1 capital	**13,733**	12,471
Total Tier 1 capital	**15,069**	13,807
Total regulatory capital	**16,908**	16,466
Capital requirements		
Risk weighted assets (RWAs)	**51,731**	51,823
Leverage exposure	**249,299**	255,407
UK CRD V capital ratios	**%**	%
CET1 ratio	**26.5**	24.1
Leverage ratio	**6.0**	5.4

The CET1 ratio increased to 26.5% (2022: 24.1%) as a result of an increase in CET1 capital of £1.3 billion, in conjunction with a reduction in RWAs of £0.1 billion. The CET1 capital resources increase was driven by £1.7 billion profit after tax, partially offset by £0.2 billion of capital distributions, a £0.1 billion CET1 deduction following the repurchase of Core Capital Deferred Shares (CCDS) in February 2023, and a £0.1 billion reduction in the fair value through other comprehensive income reserve. RWAs reduced, with an increase in residential mortgage lending being more than offset by a reduction in off-balance sheet commitments.

The leverage ratio increased to 6.0% (2022: 5.4%), with Tier 1 capital increasing by £1.3 billion as a result of the CET1 capital movements referenced above. In addition, there was a decrease in leverage exposure of £6.1 billion, driven by the same movements as described above for RWAs. Leverage requirements continue to be Nationwide's binding Tier 1 capital constraint, as the combination of minimum and regulatory buffer requirements are in excess of the risk-based equivalent.

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

Governance

A letter from your Chairman

For the year ended 4 April 2023

Dear fellow member,

I am pleased to present the Governance Report for the financial year ended 4 April 2023.

As a mutual, Nationwide is driven by a social purpose to take decisions in the interest of its members. This starts with good governance to ensure that decisions taken continue to support the long-term resilience of the Society and deliver value for present and future members. The Board is responsible for governance, setting a clear strategy, and ensuring 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 chose to adopt the ethos and principles of the UK Corporate Governance Code (the Code) which sets the governance standards for public listed companies. We aim to comply with the Code 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 set out in this report. Set out below are some of the Board's key governance activities during the year.

Member engagement

As a mutual, members continue to be at the heart of what we do at Nationwide, and we continue to listen to members' needs and recognise the importance of considering our members in every decision we make. More information is found on page 29.

We have continued to host Member TalkBacks, enabling members to connect directly with senior managers of the Society and share their views. More information on these sessions can be found on our website at **nationwide.co.uk.** We have also engaged with members through the Member Connect service, giving us up to date feedback and member insights.

The Society's 2022 AGM was particularly successful due to the large number of members able to join and participate online, both by voting and asking questions. As in-person attendance at our AGMs is declining and our online participation is increasing, we will build on the success of 2022, by hosting our 2023 AGM wholly online. All Board members will be available at the AGM to answer your questions and to listen to your feedback.

Inclusion, diversity and culture

To ensure we continue to serve our members and their diverse needs effectively, we remain committed to maintaining a diversity of perspectives, experience and backgrounds within senior management and the Board. The composition of the Board is outlined on page 95; it exceeds the Listing Rules gender diversity requirement and meets the ethnic diversity requirement. We remain committed to our inclusive culture which reflects the diversity of our membership and colleagues and supports our mutual principles. Further information about our oversight of the Society's culture can be found on page 85.

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.

In December 2022 we published our intermediate science-based targets, supported by comprehensive disclosures which can be found on pages 53 to 64 and within our Climate Related Financial Disclosures publication on **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. We welcomed Debbie Crosbie as the Society's Chief Executive in June 2022, and Tracey Graham as a non-executive director in September 2022. Mai Fyfield and Gunn Waersted will retire from the Board at the AGM in July 2023 and, on behalf of the Board, I thank Mai and Gunn for their service and contribution to the Society. Tracey Graham will assume the role of Senior Independent Director, subject to regulatory approval, following Gunn's retirement from the Board. Full details of all changes are on page 83.

The year ahead

The refreshed Society Strategy was determined by the Board at its Strategy Conference in October 2022 and the Board looks forward to working with management and colleagues on its effective implementation. To ensure it remains fit for the future, the Society continues to strengthen its processes to deliver control improvements, particularly around member facing processes. More information on this can be found in the section on operational and conduct risk on pages 211 to 216.

Kevin Parry
Society Chairman

Your Board

Kevin Parry OBE

ng

Society Chairman

Date of appointment

Society Chairman – 1 February 2022
Independent non-executive director – 23 May 2016

Skills and experience

Kevin Parry is a chartered accountant and brings to the Board expertise in audit, regulation, risk management, and finance. As a former Chairman of the Homes and Communities Agency, his perspective on housing is a valuable asset to the Society.

He has a wealth of experience across a broad range of organisations. He has served as 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.

Current external appointments

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

Gunn Waersted

ng

Senior Independent Director until July 2023

Date of appointment

Senior Independent Director – 1 February 2022
Independent non-executive director – 1 June 2017

Skills and experience

Gunn Waersted's distinguished international career has included senior leadership positions in financial services, telecommunications and petrochemicals. She previously served as Group Executive Vice President at Nordea Bank Group and Global Head of Wealth Management, and was CEO of Nordea Bank Norway. In addition, she was CEO at SpareBank Group and Vital Forsikring and 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 a strong people culture and creating genuinely diverse organisations.

Current external appointments

Chair of Telenor ASA, Petoro AS and Obton AS (which develops and operates solar PV parks and administers investments in solar energy and properties)

Non-executive director of Fidelity International

Debbie Crosbie

Chief Executive Officer

Date of appointment

2 June 2022

Skills and experience

Debbie Crosbie joined Nationwide as CEO in June 2022. She has over 25 years of experience in financial services leadership. She was previously CEO at TSB where she led its successful turnaround by delivering a strategy to transform customer experience, made the bank more competitive, improved its reputation and increased colleague engagement – delivering the three-year growth strategy a year early. Prior to TSB, she had extensive experience of leading turnaround strategies and, while Acting CEO of Clydesdale Bank, led preparations for its successful demerger and subsequent Initial Public Offering. She has overseen the execution of several major transformation projects.

Current external appointments

Non-executive director of SSE plc (a leading renewable energy generating and distribution business)

Member of the FCA's Practitioner Panel

Director of UK Finance

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

Mai Fyfield

r a

Independent non-executive director

Date of appointment

2 June 2015

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.

Current external appointments

Non-executive director of Roku Inc
Non-executive director of BBC Commercial Limited
Non-executive director of ASOS plc
Non-executive director of The Football Association Premier League Limited

Tracey Graham

r ri ng

Independent non-executive director

Senior Independent Director from July 2023, subject to regulatory approval.

Date of appointment

28 September 2022

Skills and experience

Tracey Graham is an experienced non-executive director having served on several listed companies and mutual boards across a range of sectors, including financial services. She has extensive experience as a remuneration committee chair and as a senior independent director.

She was Chief Executive Officer of Talaris Limited, an international cash management business. Before that she held a number of senior roles in De La Rue plc, HSBC and at AXA Insurance.

Current external appointments

Non-executive director of Close Brothers Group plc
Non-executive and Senior independent director of DiscoverIE plc
Non-executive director of LINK Scheme Limited where she is Chair of the LINK Consumer Council.
Non-executive and Senior independent director of Ibstock plc (She stepped down from this role in April 2023).

Albert Hitchcock

r ri

Independent non-executive director

Date of appointment

2 December 2018

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.

Current external appointments

Non-executive director of Pureprofile Ltd

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

Alan Keir

ri a ng

Independent non-executive director

Date of appointment

1 March 2022

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, assists 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.

Current external appointments

Chair of the Sumitomo Mitsui Banking Corporation Bank International plc

Non-executive director of Majid Al Futtaim

Debbie Klein

r

Independent non-executive director

Date of appointment

1 March 2021

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, leading Sky's challenge to meet its 2030 net zero goals approved by the Science Based Targets Initiative. Her expertise in sustainability and CSR matters assists in 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, and held various leadership roles in her 20 years at the firm. Earlier in her career she worked in Strategy and Insight at Saatchi & Saatchi and Nielsen.

Current external appointments

Group Chief Marketing, Corporate Affairs and People Officer of Sky

Non-executive director of Xyon Health Inc

Tamara Rajah MBE

Independent non-executive director

Date of appointment

1 September 2020

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.

Current external appointments

Chief Business and Science Officer, MD Wellness Futures of Holland and Barrett Limited

Non-executive director of London & Partners Limited

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

Chris Rhodes

Chief Financial Officer

Date of appointment

20 April 2009

Skills and experience

Chris Rhodes was appointed Chief Financial Officer in October 2019, having been a Board member since 2009. 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.

Current external appointments

Director of Silverstone Securitisation Holdings Limited
Director of Arkose Funding Limited

Gillian Riley

r ri

Independent non-executive director

Date of appointment

1 April 2022

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 she evolved from being a digital deposits bank to an everyday digital bank that is profitable and has a full suite of banking solutions which consistently wins awards for its client satisfaction. She also previously founded The Scotiabank Women Initiative to strengthen equality and support for women entrepreneurs. She is a champion for diversity and community values, contributing in areas such as health, youth issues and gender equality.

Current external appointments

Non-executive director and Chair of Roynat Capital Incorporation
Non-executive director of St Michael's Hospital Foundation in Canada.

Phil Rivett

a ri ng

Independent non-executive director

Date of appointment

1 September 2019

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

Current external appointments

Non-executive director of Standard Chartered plc.

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

Society Secretary supporting the Board

Jason Wright

Society Secretary

Date of appointment

17 March 2021

Skills and experience

Jason Wright is responsible for delivering a comprehensive secretariat service to the Board, Board committees and senior management. He advises the Chairman and the Board on governance related matters and helps the Board function effectively by ensuring it has the policies, processes, information, time and resources it needs.

He joined Nationwide in December 2019 to lead the Secretariat function and became Society Secretary in March 2021. He is a qualified chartered company secretary with over 25 years' experience working as a governance professional within financial services. Prior to joining the Society, he was Company Secretary at Barclays Bank plc and previously Head of Board Support at Santander UK plc. He is a Fellow of the Chartered Governance Institute.

Board and Committee composition and attendance at scheduled meetings in 2022/23

Board member	Board	Audit Committee	Board Risk Committee	Remuneration Committee	Nomination and Governance Committee	Board IT and Resilience Committee
Kevin Parry	11/11	-	-	8/8	5/5	-
Mai Fyfield[1]	10/11	6/7	-	8/8	3/3	-
Tracey Graham[2]	7/7	-	2/2	3/3	2/2	-
Albert Hitchcock	11/11	-	7/8	7/8	-	3/3
Alan Keir[3]	11/11	6/7	8/8	-	4/4	-
Debbie Klein	11/11	-	-	8/8	-	-
Tamara Rajah[4]	7/7	-	-	-	-	1/1
Gillian Riley[5]	11/11	-	1/1	3/3	-	3/3
Phil Rivett	11/11	7/7	8/8	-	5/5	3/3
Tim Tookey[6]	4/4	3/3	3/3	-	1/1	2/2
Gunn Waersted	10/11	-	-	-	5/5	3/3
Joe Garner[7]	2/2	-	-	-	-	-
Debbie Crosbie[8]	8/9	-	-	-	-	-
Chris Rhodes	11/11	-	-	-	-	-

Indicates Chair

[1] Resigned from Nomination and Governance Committee on 31 December 2022. Stepped down as Chair of Remuneration Committee on 31 December 2022.

[2] Joined the Board on 28 September 2022. Joined Remuneration Committee on 1 November 2022. Appointed Remuneration Committee Chair, member of Nomination & Governance Committee and member of Board Risk Committee on 1 January 2023.

[3] Joined Nomination and Governance Committee on 14 July 2022.

[4] On maternity leave from 19 May 2022 to 14 November 2022.

[5] Joined the Remuneration Committee on 28 September 2022. Joined the Board Risk Committee on 1 March 2023.

[6] Resigned from the Society on 14 July 2022.

[7] Stepped down from the Board on 1 June 2022.

[8] Joined the Society on 2 June 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 2023 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 3-76 and 85-86
	B. Purpose, values and culture	Pages 3-76 and 85-86
	C. Performance measures, risks and controls framework	Pages 23-25, 107-109 and 143
	D. Stakeholder engagement	Pages 29-35
	E. Workforce policies and practices	Pages 32 and 85-86
2. Division of responsibilities	F. Leadership of Board and Board operations	Pages 10-11, 86, 91-93 and 110-113
	G. Board composition, Board roles and independence	Pages 91-93 and 95-96
	H. Directors' responsibilities and time commitment	Pages 83, 86 and 92
	I. Board support, information and advice	Pages 92-93
3. Composition, succession and evaluation	J. Board appointments and succession plans for Board and senior management	Pages 110-113
	K. Board skills, experience and knowledge	Pages 79-93 and 95
	L. Annual Board evaluation	Page 97
4. Audit, risk and internal control	M. Effectiveness of external auditor and internal audit	Pages 100-106
	N. Fair, balanced and understandable assessment of the company's position and prospects	Page 137
	O. Risk Management and Internal Control Framework	Pages 100-106
5. Remuneration	P. Remuneration and Society purpose, strategy and values	Pages 114-134
	Q. Executive and senior management remuneration	Pages 114-134
	R. Authorisation of remuneration outcomes	Pages 114-134

[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 4 to 8.

The Board is responsible for ensuring that the Society is sustainable and delivers long-term value for its members. 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, customers, 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 Society's purpose and 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. Over the last 12 months, culture has been assessed and monitored through internal surveys and external reviews, supported by the Financial Services Culture Board (FSCB) and Ipsos Karin & Box. Looking ahead, the Society is strengthening its relationship with Ipsos Karin & Box to replace FSCB's external benchmarking, and to align the culture assessment approach with the refreshed strategy through measurement of critical behaviours.

The reviews throughout the year have shown colleagues continue to be deeply connected to the Society's purpose and values, recognising its strong ethic of care and mutuality.

The Board has an appointed non-executive director with specific responsibilities for the Employee Voice in the boardroom. This role is currently held by Tamara Rajah.

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 is the Whistleblowers' Champion and 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 2022, a total of 214 concerns were raised of which 103 were formally investigated as whistleblowing (2021: 182 concerns raised of which 94 were investigated as whistleblowing). The remainder were investigated utilising other internal resources.

Board leadership and Society purpose (continued)

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

In addition, at the start of every Board or Board committee meeting the Chair asks whether there are any conflicts (in addition to those already recorded) to be declared. In a situation where a potential conflict arises, 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 320 to 321.

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

How the Board operates

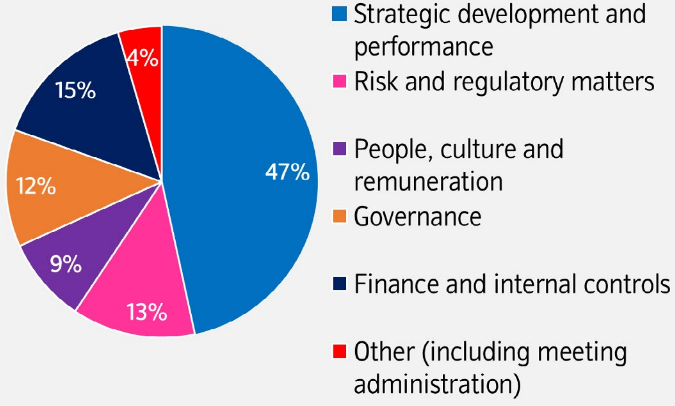
The Board meets regularly and holds a strategy meeting annually to review strategic options open to the Society in the context of the economic, regulatory and competitive environment. The Board also meets when necessary to discuss important emerging issues that require consideration between scheduled Board meetings. There were 11 scheduled Board meetings during the year, in addition to 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 87 to 89.

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 83. 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 strategic drivers, together with stakeholders impacted and principal risks. Further information on how the Board has engaged with key stakeholder groups is outlined on pages 29 to 39.

Board activity – Strategic development and performance	Strategic Driver	Stakeholder	Principal risk
Discussed regular updates from the CEO on progress against the Society's strategy, including provision of external insights on key factors affecting the business. As part of this, the Board reviewed regular data to assess progress made in the implementation of the Society's strategy.	R S M C	Members and customers Colleagues Suppliers Communities Regulators Investors	P O E
Debated and considered the opportunities and challenges facing Nationwide due to the changing macroenvironment, including cost of living challenges and the conflict in Ukraine. This included agreeing the propositional, financial, and strategic response.	C	Members and customers Suppliers Communities Regulators	P E
Discussed and approved recommendations regarding the future strategic growth of Nationwide. This included strategic discussions centred on organisational vision, customer outcomes, proposition, strategic investment spend, sustainability, responsible business, brand, and delivering operational and service excellence.	R S M C	Members and customers Colleagues Suppliers Communities Regulators Intermediaries	P O E
Received updates on the progress made on the Society's social investment strategy and Community Board activities, and Nationwide's key charitable partnerships, including the Nationwide Foundation.	R M	Members and customers Communities Colleagues	E
Reviewed the impact of the Society's brand in relation to market conditions and its competitors.	C	Members and customers Investors Colleagues Intermediaries	E
Board activity – Finance	**Strategic Driver**	**Stakeholder**	**Principal risk**
The Board reviewed the Society's five-year Plan for 2023-28 against a backdrop of continued economic uncertainty, bank rate increases, market competition and cost of living challenges. The Board undertook a thorough review ahead of finalising and approving the Society's Financial Plan for 2023-28.	C	Members and customers 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.	C	Members and customers Regulators Investors	P E
Reviewed and approved the Society's interim and full year financial results and Annual Report and Accounts prior to publication, with consideration given to business viability and the preparation of the accounts on a going concern basis.	C	Members and customers Regulators Investors	P E

Key: R More rewarding relationships S Simply brilliant service M Beacon for mutual good C Continuous improvement
P Prudential risks (including credit, model, liquidity and funding, market, capital and pension risk) O Operational and conduct risks E Enterprise risk (including business risk)

Board leadership and Society purpose (continued)

Board activity – Finance	Strategic Driver	Stakeholder	Principal risk
Reviewed the Society's cost performance and outlook and discussed the opportunities to reduce costs over the five-year Financial Plan.	C	Members and customers Regulators Colleagues Suppliers	P O E

Board activity – Governance	Strategic Driver	Stakeholder	Principal risk
Received and considered regular reports from the General Counsel, Society Secretary, and Chief Risk Officer on emerging changes to legislation and regulation impacting the Society's business.	C	Regulators Investors Suppliers Colleagues	O E
Reviewed and approved the revised plans for the 2022 AGM and approved the Notice of the 2023 AGM and associated documentation.	R C	Members and customers Regulators Investors	O E
Carried out and received the report of a review into the effectiveness of the Board and its committees, including developing an action plan designed to remedy areas needing improvement.	C	Regulators Investors Members and customers	O
Approved the Bank of England's Resolvability Assessment Framework prior to its publication on 10 June 2022.	C	Regulators Investors Members and customers	P O E
Approved the Society's Modern Slavery Statement for 2022.	M	Regulators Investors Members and customers Suppliers	P O E
Received and reviewed updates on Environmental, Social and Governance (ESG) matters, including Nationwide's commitment to Net Zero and approved the Society's intermediate science-based targets prior to publication.	M C	Investors Members and customers Communities	P O E

Key: R More rewarding relationships S Simply brilliant service M Beacon for mutual good C Continuous improvement

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

Board leadership and Society purpose (continued)

Board activity - People, culture and remuneration	Strategic Driver	Stakeholder	Principal risk
Reviewed and discussed the people strategy and reviewed the Society's remuneration strategy and how this is aligned with achieving the Society's overall strategic aims.	R	Colleagues Members and customers	O E
Engaged with the wider workforce via the designated non-executive director for Employee Voice and received updates from management on topics which provided insight on key matters impacting colleagues and customers. Through Townhall events hosted by the Chairman, colleagues from the across the Society were able to ask questions directly of the non-executive directors.	R M	Colleagues Members and customers	O
Considered the Society's Gender and Ethnicity Pay Gap reporting for 2022, including Nationwide's approach to closing the gap.	M C	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.	R C	Colleagues	O E
Reviewed the Annual Whistleblowing Report and the Society's whistleblowing arrangements.	M C	Colleagues Regulators	O E
Board activity - Risk and regulatory matters, including external outlook	**Strategic Driver**	**Stakeholder**	**Principal risk**
Assessed the Society's overall risk profile and emerging risk themes, including consideration of correspondence between Nationwide and its regulators and related action, receiving direct reports from the Chief Risk Officer and Chair of the Board Risk Committee, and approved revisions to the Board Risk Appetite metrics including triggers and limits.	C	Members and customers 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 2023.	C	Members and customers Regulators	E
Received regular updates on the Society's preparation for the implementation of the Financial Conduct Authority's Consumer Duty requirements, approved the Implementation Plan, and received regular updates on complaints insights and mitigation. Appointed Alan Keir as the Board's Champion for Consumer Duty.	R S M C	Members and customers Colleagues Regulators	O E

Key: R More rewarding relationships S Simply brilliant service M Beacon for mutual good C Continuous improvement

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

Tracey Graham joined the Board in September 2022 and shares her insights

Tracey Graham will be seeking election as a non-executive director at our AGM in July 2023 and will become the Senior Independent Director, subject to regulatory approval, following Gunn Waersted's retirement from the Board.

What are your first impressions of Nationwide?

So overwhelmingly positive! Nationwide is a pre-eminent trusted brand and is owned by and run for the benefit of members. This mutual status ensures it has a strategic focus on its members and other customers. Every single Nationwide colleague that I have met is focused on delivering market leading customer service. People are rightly proud to work for Nationwide, with its unique heritage and ability to be a force for mutual good and making a positive contribution to wider society.

What do you bring to Nationwide, its Board and its members?

I have first-hand experience of serving on a mutual board, having served nine years (the maximum term) on the board of the UK's largest mutual insurance company, standing down just before I joined Nationwide. I also have broad financial services experience having undertaken senior banking and insurance executive roles and have experience of listed company and mutual boards, across a range of sectors, including financial and business sectors which is very relevant to Nationwide. I am a former CEO, and bring commercial, operational and customer services experience. I also have extensive experience as a Remuneration Committee Chair in listed and regulated companies and have served on all types of board committees, this experience being incredibly valuable as I chair Nationwide's Remuneration Committee. I have also been a member of Nationwide for more than 20 years, so have personally valued its commitment to customer service and to the mutual model.

What do you think are Nationwide's main challenges and opportunities?

I have already referred to Nationwide's pre-eminent respected and trusted brand, meaning Nationwide operates from a position of significant strength. The Society has a strong capital position, and leading market position, with a committed membership. These foundations mean we build from a position of strength. Of course, there will be opportunities and challenges ahead with potential new market entrants, technological enhancements and developments, or disruption to traditional business models. However, Nationwide's relentless commitment to operational excellence and customer service are the foundations for its future success.

Division of responsibilities

Leadership structure

An overview of the Board composition and its committee structure as at 4 April 2023 is set out below:

<table>
<tr><td colspan="6">The Nationwide Board
Ensures that the Society delivers long-term value for its members and customers by setting its strategy through which value is created for the mutual benefit of members, colleagues, suppliers, the environment and the wider community. The Board holds management to account for how the strategy is implemented and ensures effective governance, controls and risk management.</td></tr>
<tr><td colspan="6">Roles and responsibilities within the Board</td></tr>
<tr><td colspan="4">Non-executive</td><td colspan="2">Executive</td></tr>
<tr><td>Chairman
Leads the Board to ensure it operates effectively in setting the strategic direction of the Society, including shaping the culture in the boardroom.

Epitomises the Society's culture by fostering open and honest debates in the boardroom and ensures valuable contribution from all non-executive directors.</td><td colspan="2">Senior Independent Director
Supports the Chairman in his role and with the delivery of his objectives, and acts as his sounding board.

Available to the Board directors as an intermediary.</td><td>Non-executive directors
Use their skills, experience and knowledge to hold management to account – by constructively challenging the Society's performance, culture and controls.</td><td>Chief Executive Officer (CEO)
Runs the Society day-to-day under delegated authority from the Board 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.
Embodies the Society's culture and values and develops policies to drive colleague 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 standard of business conduct.</td><td>Executive directors
As members of the Board, collectively with the non-executive directors, set the Society's strategy, risk appetite, values and culture. 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.</td></tr>
<tr><td colspan="6">Society Secretary
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.</td></tr>
<tr><td colspan="6">The Board delegates certain matters to its principal committees</td></tr>
<tr><td colspan="2">Audit Committee
Oversees financial reporting, financial crime, internal and external audit, and the adequacy and effectiveness of internal controls and risk management systems.

See the report on page 100.</td><td colspan="2">Board Risk Committee
Oversees current and potential future risk exposures, considers future risk strategy and determines risk appetite.

See the report on page 107.</td><td>Nomination and Governance Committee
Reviews the Board's governance arrangements and succession planning. Oversees the implementation of the Society's Inclusion and Diversity Strategy.

See the report on page 110.</td><td>Remuneration Committee
Oversees the remuneration strategy and policy of directors, senior management, Material Risk Takers and all colleagues.

See the report on page 114.</td></tr>
<tr><td colspan="6">Executive Committee
Supports the CEO in the day-to-day management of the Society.
See their details on page 94.</td></tr>
</table>

Time commitment

To discharge their responsibilities effectively, non-executive directors must commit sufficient time to their role. The time the 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 Committee Chairs to fulfil their extra responsibilities. The Chairman and non-executive directors are expected to allocate sufficient time to understand 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 2 days per week on Nationwide business. The Chairman has confirmed with each non-executive director that they have been able to allocate sufficient time to fulfilling their duties this year.

Externally, there has been no increase in the Chairman's other significant commitments during the year which would impact his time commitment to fulfil his duties.

During the year, and on the recommendation of the Nomination and Governance Committee, the Board approved the additional external appointment of Albert Hitchcock as a non-executive director of Pureprofile Limited as the appointment was not considered to impair his ability to serve as a director of Nationwide.

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.

Prior to his appointment to the Board, Alan Keir was a member of senior management and then served as a non-executive director of HSBC UK. The Society has an agency banking contract with HSBC and all incoming and outgoing international and domestic CHAPs payments are routed through HSBC. The Committee continues to be satisfied that his previous business relationship with HSBC does not impact his independence or ability to carry out his role as a non-executive director of the Society.

All eligible directors (save for Mai Fyfield and Gunn Waersted who will be retiring from the Board) will be recommended to members for election or re-election at the AGM in July 2023.

Information and advice

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

The Society Secretary supports the 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.

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 reviews as part of the Society's annual performance management cycle.

Executive Committee

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 management of the Society. To the extent that matters are not reserved to the Board, responsibility is delegated to the Chief Executive Officer, who is assisted by the Executive Committee.

The Executive Committee 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 Chief Executive Officer, Chief Financial Officer and the leaders of business functions. Biographies of the executive directors can be found on pages 79 and 82, and details of other Executive Committee members can be found at **nationwide.co.uk**. In addition to Executive Committee members, the Chief Internal Auditor and Society Secretary attend every meeting in full.


Mandy Beech
Director of Retail Services


Mark Chapman
General Counsel


Catherine Kehoe
Chief Customer, Brand and Engagement Officer


Lynn McManus
Chief People Officer


Stephen Noakes
Director of Retail


Tom Riley
Director of Retail Products


Rachael Sinclair
Director of Mortgages and Financial Wellbeing


Gavin Smyth
Chief Risk Officer


Suresh Viswanathan
Chief Operating 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 can be found on pages 110 to 113.

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 79 to 82.

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 Committee Chairs 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.

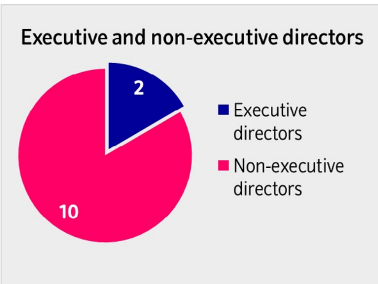
Board tenure

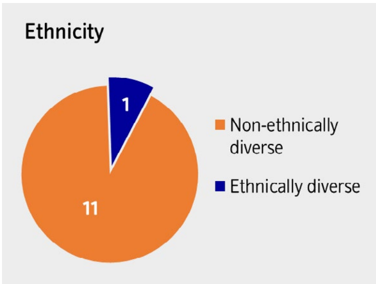
The Society's Memorandum and Rules require that Board directors must be re-elected by the Society's membership every three years. However, in compliance with the UK Corporate Governance Code (the Code), all directors of Nationwide are subject to election or re-election by the members annually. Before re-election, a non-executive director will be subject to a review of that director's continued effectiveness and independence.

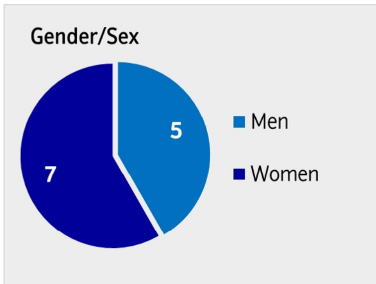
Member nominations

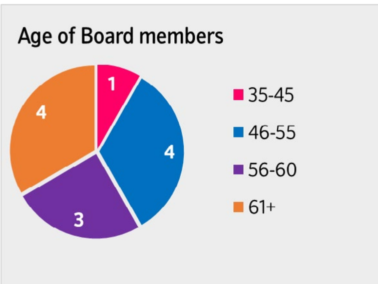
Members of Nationwide have the right to nominate candidates for election to the Board, subject to the Society's Memorandum and Rules and compliance with PRA and FCA requirements. No such nominations had been received by 4 April 2023, this being the deadline for election to the Board at the 2023 AGM.

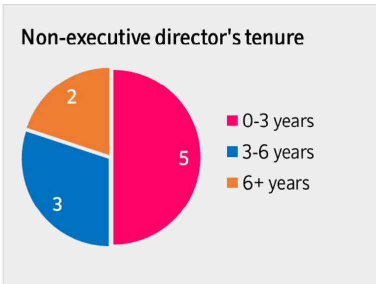
Board composition as at 4 April 2023











Composition, succession, and evaluation (continued)

The information below is provided in compliance with new reporting requirements under the Listing Rules, which apply to accounting periods starting on or after 1 April 2022. These requirements, require the Society to disclose in its Annual Report certain diversity metrics relating to the composition of its Board and executive management, as well as its performance against three diversity targets that have been set by the FCA.

The information below is provided as at 4 April 2023 and confirms that the Society has met all of the following targets on board diversity: (1) at least 40% of its board of directors are women; (2) at least one of its most senior positions on the Board is held by a woman; and (3) at least one individual on the Board is from a minority ethnic background. In the case of the first and second targets, these have been exceeded, with women representing 58% of the Society's Board and both the roles of Chief Executive and the Senior Independent Director (SID) being held by women. Information on gender/sex and ethnicity is collected from executive management at the application stage of their recruitment. Information on gender/sex is collected from Board members at the onboarding stage of their recruitment. Information on Board members' ethnicity is collected post appointment by the Society Secretary.

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** and provides guidance on the identification and selection of suitable candidates for appointment to the Board and its committees. The Board is committed to ensuring that it comprises a membership which is diverse and reflects the Nationwide members that it represents. It aims to achieve this by ensuring representation within the Board of race, age, gender, disability and sexuality in addition to appropriate socio-economic educational and professional backgrounds. Selecting the best candidate is paramount and all appointments are 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 diversity of thought and breadth of perspective among our directors. The Nomination and Governance Committee Report on pages 110 to 113 sets out the selection process for new non-executive directors appointed during the year and states how the Board plans to maintain its effectiveness by ensuring that it has a diverse membership going forward.

Gender/sex representation as at 4 April 2023	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management (note i)	Percentage of executive management (note i)
Men	5	42	2	7	58
Women	7	58	2	5	42
Not specified / prefer not to say	-	-	-	-	-

Ethnicity representation as at 4 April 2023	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management (note i)	Percentage of executive management (note i)
White British or other White (including minority-white groups)	11	92	4	11	92
Mixed/Multiple Ethnic Groups	-	-	-	-	-
Asian/Asian British	1	8	-	1	8
Black/African/Caribbean/Black British	-	-	-	-	-
Other ethnic group, including Arab	-	-	-	-	-
Not specified/prefer not to say	-	-	-	-	-

Note:
i. Executive management is defined as the Executive Committee, including the CEO, the CFO and the Society Secretary.

Composition, succession, and evaluation (continued)

Chairman performance

The Society Chairman's performance review was led by the Senior Independent Director on behalf of the Board in May 2022. This review included peer feedback from the non-executive and executive directors. The review concluded that the Society Chairman continued to perform effectively, remained fit and proper to perform the role, upheld his regulatory responsibilities, and demonstrated commitment to his role. In light of this conclusion, the election of Kevin Parry as Society Chairman was put to members at the 2022 AGM in July 2022, where he was elected.

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.

2022 Board performance review

The UK Corporate Governance Code and the Financial Reporting Council (FRC) Guidance on Board Effectiveness require boards undergo an externally facilitated review at least every three years. Lintstock Limited was engaged by the Society for a three-year programme to support the Board performance reviews in 2021 to 2023, the process for which is outlined below.

The scope of the 2022 Board evaluation was determined at the November 2021 Nomination and Governance Committee with approval given by the Board. The scope was determined following review of the 2021 effectiveness responses and agreeing which areas required focus. It 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.

The 2022 Board performance review provided the Board with the opportunity to assess the effectiveness of the collective Board, as well as each Board committee. The process allowed the Board to receive input from key stakeholders with direct involvement and reporting to the Board, including members of the Executive Committee.

The review consisted of questionnaires sent to 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 covered general areas of effectiveness, as well as considering the Board's decision-making processes and stakeholder oversight. Individual committee questionnaires were also completed by the relevant committee members and other key stakeholders where appropriate.

The key findings were captured in a review document that was submitted and presented to the Board by Lintstock Limited in May 2022.

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. 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 will continue to make progress against the key findings of the review, challenge management on execution and delivery, and ensure that time is devoted to Board composition and succession planning.

In November 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 2022 Board performance review's key recommendations is presented below along with the actions taken.

Composition, succession, and evaluation (continued)

Summary of the 2022 Board performance review recommendations

The Board adopted the recommendations from the findings and developed a plan to implement the actions. The monitoring of progress was delegated to the Nomination and Governance Committee, and an update on action taken is described below.

Area of focus and recommendation	Action taken
The Board should maintain focus on the Society's strategy, including its long-term strategy, and ensure its effective execution	The Board's strategic focus has continued to evolve since the recommendations from the 2021 Board performance review. Following the October 2022 Strategy Conference, the Board receives updates on the progress of the Society's strategy and its execution at every meeting.
The Board should enhance focus on Inclusion and Diversity throughout the organisation.	The Board receives regular updates on Inclusion and Diversity activity. Board members have engaged with the various employee networks, including the new Social Mobility network, to encourage greater diversity and inclusion across the organisation to help it meet the needs of members and customers and enable colleagues to reach their full potential.
The Board should consider its oversight of Environmental, Social and Governance (ESG) matters.	The Board now receives four specific Responsible Business updates per year, as well as considering aspects of ESG in all its decisions.

2023 Board performance review

The 2023 performance review is being 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 2023 meeting and will form the basis of an action plan for completion during 2023. A similar process will be followed for Board committees.

Further information on the evaluation process, outcomes and actions identified will be presented in the Annual Report and Accounts 2024.

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 (ERMF) 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 ERMF 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 ERMF is appropriate, whilst recognising that some internal controls could be matured.

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, which 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 65 to 66 of the Governance report and on pages 139 to 143 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 114 to 134.

Audit Committee report

Dear fellow member,

I am pleased to report on the work of the Audit Committee during the financial year ended 4 April 2023.

Throughout another busy year, the Committee has continued to play a key role on behalf of the Board to challenge and monitor the integrity of the Society's financial reporting and to oversee its financial controls. The Committee has scrutinised the Society's half and full year results and has reviewed the significant financial reporting judgements made therein, as well as the accounting policies adopted. In addition, the Committee reviewed and provided challenge to the Society's climate-related disclosures and ensured that the Society challenged itself appropriately in respect of its science-based emissions targets.

The Committee oversees and reviews the Society's internal financial controls and internal controls systems. Such controls are designed to ensure that the Society mitigates its risks and keeps its customers' money safe. The Committee oversees and challenges the work undertaken by Internal Audit to ensure that the Society's controls and processes have appropriate oversight, with particular focus having been given to the prompt and effective resolution of issues raised by Internal Audit.

The Committee continues to monitor external factors to ensure that the Society's reporting and controls take into consideration, and appropriately respond to, emerging developments and external risks. During the year, this has included consideration of the proposed reforms to the UK's corporate governance and audit regimes, commonly referred to as 'UK SOX', and the impact of the higher cost of living on our members' personal and household budgets.

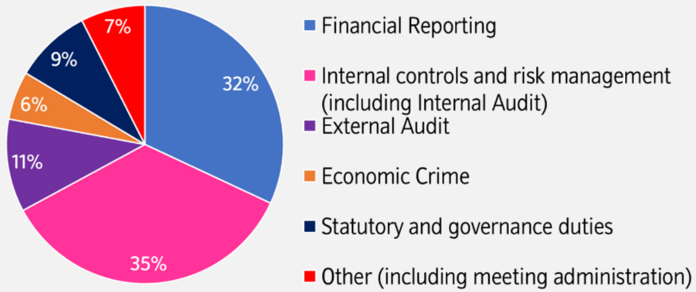
During the year, the Committee has overseen the work undertaken by the Society's external auditors, Ernst & Young (EY), which included reviewing EY's effectiveness, independence and objectivity. This review took into consideration all relevant UK professional and regulatory requirements. As Chair of the Audit Committee, I support the re-election of EY by members at our AGM in July 2023 and direct members to further information on the work of EY that can be found on pages 220 to 233.

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 the judgements and estimates within impairment provisions, to confirm that they were appropriate to be used in preparing the financial 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 fair, balanced and 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.
- Oversaw the work of Internal Audit, ensuring the effective resolution of any issues raised.
- Oversaw the relationship with the Society's external auditor, EY, and the effectiveness of the external audit process.

How the Committee spent its time in the year



How the Committee works

The membership of the Committee comprises at least three independent non-executive directors who bring a diverse range of experience in business, finance, auditing, risk and controls, with particular depth of experience in the financial services sector. The qualifications and experience of each member of the Committee are included in their biographies on pages 79 to 82.

In addition to Committee members, regular attendees of Committee meetings included the Society Chairman, Chief Executive Officer, Chief Internal Auditor, Chief Financial Officer, Chief Risk Officer and representatives of the Society's external auditors, EY.

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 seven scheduled meetings during the year, and additionally held two joint meetings with the Board Risk Committee to consider matters of common interest. The attendance record of Committee members is set out on page 83.

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. Additionally, a private meeting was held with the Head of Economic Crime. The Chair of the Committee also attended meetings with the PRA, including a tripartite meeting 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.

The purpose of this review is to confirm that the terms of reference align with the Committee's remit and purpose, and continue to reflect all applicable governance codes, guidelines, legislation and best practice. In 2022, the effectiveness review was undertaken by the Society's Secretariat function with the assistance of Lintstock Limited, as part of the three-year Board and committee effectiveness review process agreed in 2021. 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 2022 effectiveness review, including actions and next steps, is described on pages 97 to 98.

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 Interim Results 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 these documents against 'fair, balanced and understandable' principles and whether the reporting reflected the Society's strategy. It further considered whether the impacts of the increases to the cost of living, the conflict in Ukraine and recent banking events 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 2022/23 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 137 and the viability statement is included in the Strategic report on pages 67 to 68.

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 rising interest rates, inflation 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 judgement 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, effective for the reporting period which had a significant impact for the Group.

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 was considered a key performance indicator during the year. 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 71.

Climate change risk and related disclosures

Disclosures are set out on pages 53 to 64 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 **nationwide.co.uk** and the summary of those disclosures presented in the Annual Report and Accounts. A particular focus during the year was on the transparency of disclosure of the challenges in working towards net-zero and ensuring that the Society challenged itself appropriately with regard to the establishment of its science-based emissions 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 2023.

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 year, in particular in respect of the continuing uncertainty in the economic outlook and the impacts of increasing inflation and rising interest rates on affordability. 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. The Committee challenged management to demonstrate that provisions appropriately reflected economic conditions, taking into account increases in interest rates and inflation, and the outlook for unemployment and house prices, as well as the ongoing uncertainty in relation to the global economic consequences of the conflict in 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 10%, base case scenario 45%, downside scenario 30% 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 continued level of uncertainty in the 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 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. A key area of focus was the increased credit risk associated with affordability pressures on borrowers generally due to rising interest rates and increased inflation. This included reviewing management's assessment of the impacts of the payment shock that would be experienced by residential mortgage borrowers whose fixed rates would expire in the near term. The methodology used assessed the impact of increased interest rates and inflation on members' disposable monthly income. In addition, the Committee considered the potential for ongoing temporary improvement in credit performance in the loan portfolios following the period of government support and reduced consumer spending, and 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 concluded that it is not yet possible to estimate the credit risk impacts of climate change to the standards required to justify an impairment provision under IFRS 9. This position will continue to be monitored and management will consider how best to develop the Society's climate risk provisioning capabilities, including a process to determine and govern its own climate change scenario assumptions. 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 PRA 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 PRA's guidance on good practices in impairment provisioning and was satisfied with progress made.
Provisions for liabilities and charges Information is included in notes 27 and 29 to the financial statements	The Committee received updates on a number of matters during the year and considered whether provisions established were appropriate. This included in relation to conduct issues which may require redress, as well as legal and other regulatory matters. Judgement is required in assessing the likelihood that these matters result in a liability, to evaluate whether a provision, or alternatively disclosure of a contingent liability, is required. For customer redress provisions, judgement is required in relation to the number of cases in scope, the associated cost of processing cases for review and the value of redress required. The level of customer redress provisions and the related judgements reduced over the year. The Committee reviewed judgements and estimates for a number of matters, 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, and contingent liability disclosures made, 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 considered 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 pension scheme assets and liabilities are material to the financial statements, and the valuation of liabilities involves making a number of assumptions. During the year, 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, particularly the increased market volatility experienced during the year. The Committee was satisfied with the assumptions and judgements made.

Control environment

The Committee continued to monitor the overall effectiveness of the Society's internal control environment. This included oversight of the work undertaken by management to strengthen and enhance controls through the Society's Process and Control Improvement Programme. 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 focused on strengthening the control environment. A key area of focus for the Committee during the year continued to be the changes proposed by the UK government consultation on restoring trust in audit and corporate governance, published in 2021. These changes, which are expected to apply from the 2024/25 financial year, will include the introduction of enhanced internal control requirements through amendments to the Code (commonly referred to as 'UK SOX'), as well as requirements for an Audit and Assurance Policy and a Resilience and Fraud Statement.

Security, IT controls and operational resilience

The Committee is responsible for oversight of the Society's IT controls. During the year, it received updates from EY regarding the testing undertaken of those controls. In addition, the Committee continued to monitor closely ongoing work to strengthen aspects of IT security management. 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.

Economic crime

Economic crime is a broad term that includes bribery and corruption, money laundering, fraud (including fraud scams), theft from customers' accounts, card-related thefts and Authorised Push Payment scams.

The Committee received reports on each of these areas during the year from the Head of Economic Crime.

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. Internal Audit's strategic themes for the year took a holistic view of the Society, rather than focus on a particular area of the business. This year's strategic themes included: regulatory compliance; remediation and conduct; cyber and security; operational resilience and technology controls; fraud and financial crime; strategy and change; cloud and material outsourcing; data and automation; credit risk and capital; people; climate change and sustainability.

The Committee met jointly with the Board Risk Committee on two occasions during the year to make recommendations to the Remuneration Committee relating to risk adjustments on performance pay plans and other matters of common interest, such as Internal Audit and Risk Oversight Plans.

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 220 to 233.

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 2022/23, overall audit materiality was set at £50 million (2021/22: £50 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.

The annual value of Nationwide's non-audit fees is subject to a regulatory cap. This cap is the amount equal to 70% of the average of the audit fees paid by Nationwide in the preceding three financial years. During the year, the Committee reviewed the cumulative value of non-audit work quarterly to ensure that Nationwide was compliant with this regulatory requirement.

The fees paid to EY in total for the year ended 4 April 2023 were £7.1 million (2022: £6.2 million), of which £1.7 million (2022: £1.2 million) were for non-audit services. Non-audit services which fall within scope of the 70% regulatory cap represented 15% (2022: 14%) of the average statutory audit fee for the previous three years.

During the financial year 2022/23, approval was granted for the external auditors to undertake one significant engagement which related to the verification of Nationwide's scope 1, 2 and 3 CO_2 emissions. The Committee was satisfied that the engagement did not impact EY's independence. In addition, EY completed an engagement, which commenced in 2021/22, relating to a review of the Society's regulatory reporting for the PRA. 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 2021/22 financial statements. It showed that the external auditor was performing its duties in an independent and effective manner.

Board Risk Committee report

Dear fellow member,

I am pleased to present this report for the financial year ended 4 April 2023, my first as Board Risk Committee Chair following my appointment in July 2022. Prior to my appointment, I spent time as a Committee member and shadowing my predecessor, Tim Tookey, who provided me with his critical insight and support.

During the year, we have continued to give detailed consideration to the current and emergent risks facing Nationwide, and also taken the opportunity to simplify how we manage risks, enabling us to 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.

In readiness for the implementation of the FCA's Consumer Duty, which supports the delivery of good customer outcomes, the Board appointed me as its Consumer Duty Champion. As part of discharging that role I have ensured that the implementation planning and reporting is being reviewed regularly by the Committee.

The Committee retains overall responsibility for providing oversight and advice to the Board on all risk matters and has established its monitoring of economic crime and fraud related risks, which were previously overseen by the Audit Committee. During the year, the Committee has strengthened oversight and enhanced investment to further improve the Society's economic crime and fraud controls.

The Committee continued its critical review of the Society's financial stress testing, modelling and its recovery and resolution frameworks, and has supported the Board's examination of climate change and the related risks. An area of particular focus for the Committee during the year has been to continue its close monitoring of the Society's credit risks, particularly in the context of the current macroeconomic environment. We will continue to work closely with the Audit Committee on subjects of common interest.

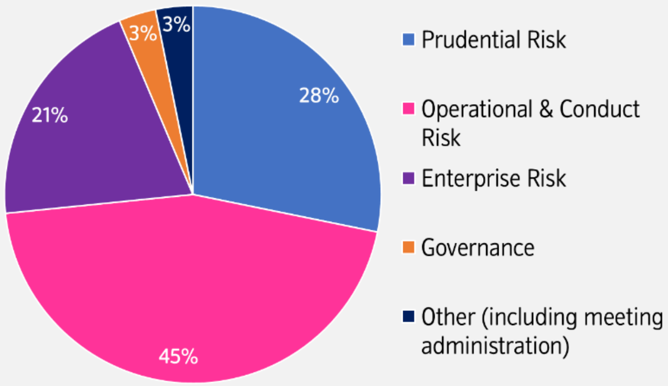
The Committee is also responsible for IT resilience and related technology risks which were previously overseen by the Board IT and Resilience Committee. This approach has been taken to ensure consistency of challenge and scrutiny. As a result of this change, the Committee ensured that sufficient meeting time was given to enable consistent review and monitoring of material operational and conduct risks. This year, the Committee has focused on mitigating technology risks associated with steps being taken by the Society to upgrade a number of its major IT systems.

The year ahead will continue to focus on the implementation of the Consumer Duty and how the Committee will then review and oversee the delivery of good customer outcomes. In addition, the ever changing macro economic environment and its impact on the Society, its members and other key stakeholders and how that influences the risk landscape, will determine the Committee's focus.

Alan Keir Chair – Board Risk Committee

"The FCA's Consumer Duty is an important piece of regulation that supports our values as an organisation to deliver good customer outcomes."

How the Committee spent its time this year



How the Committee works

The Committee comprises at least three independent non-executive directors. Alan Keir assumed the role of Committee Chair in July 2022, following Tim Tookey's retirement from the Board. Details of the skills and experience of the Committee members can be found in their biographies on pages 79 to 82.

Regular attendees include the Society Chairman, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, and representatives of the Society's external auditor, EY. The Committee continues to receive specialist advice from Alison Hewitt on conduct risk. Other specialist advisors are invited to attend Committee meetings as and when required.

At each meeting, the Chief Risk Officer shares 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 now overseen by the Board Risk Committee. This had previously been delegated to the Board IT and Resilience Committee, which has since been disbanded. 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 held eight scheduled meetings during the year, and additionally held two joint meetings with the Audit Committee. The attendance record of Committee members is set out on page 83.

The Committee's effectiveness is reviewed annually, along with its terms of reference and activities over the previous year to confirm that these activities align with its remit and purpose, and continue to reflect all applicable governance codes, guidelines, legislation and best practice. In 2022, the effectiveness review was undertaken by Secretariat with the assistance of Lintstock Limited, as part of the three-year Board and committee effectiveness review process agreed in 2021. 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 2022 effectiveness review, including actions and next steps, is described on pages 97 to 98.

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 139 to 142.

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 crystallise 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, in conjunction with the Audit Committee, input to the Remuneration Committee to assist in its assessment of possible impacts on variable remuneration.

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, the recovery plan and the 2023 Reverse Stress Test results.

The Committee monitored the impact of the current macroeconomic and political environment including the November 2022 Budget, cost of living challenges, the ongoing conflict in Ukraine, rising inflation and interest rates.

The Committee approved updates to the Society's risk strategy on the management of capital risk and enhancements to controls around management capability.

Operational and conduct risk

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

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

- the Society's response and readiness for the FCA's Consumer Duty;
- the improvements to financial crime operations;
- the annual Money Laundering Reporting Officer's report;
- 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 customers' data, including consent and marketing requirements in the context of the FCA's Consumer Duty.

In line with the transition of responsibilities, the Committee received a detailed analysis of IT and resilience related risks and controls from the newly appointed Chief Operating Officer, as well as being appraised of external and internal fraud and cyber risks.

The Committee continued to champion the Society's approach to customer service; ensuring that 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.

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 its 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 encouraged a risk culture that considers both risk and reward in decision-making. The Committee reviewed the risk culture in the context of the newly set strategy.
- The Committee received quarterly updates on progress made in managing the Society's climate-related risks, considered climate change risk reporting and reviewed the feedback received from the PRA on the Society's performance in the 2021-22 Climate Biennial Exploratory Scenarios (CBES) submissions. The Committee reviewed and challenged the associated risks with climate disclosures, including the publication of Nationwide's Science Based Targets. More information on the Society's climate related disclosures can be found on pages 53 to 64.
- 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 was restructured during the 2021/22 financial 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.

Nomination and Governance Committee Report

"This is the first year in which the Society is required to disclose its performance against three diversity targets set by the FCA relating to the composition of its Board and executive management. I am pleased to report that all three targets have been met, two of which have been exceeded."

Dear fellow member,

I am pleased to report on the work of the Nomination and Governance Committee during the financial year ended 4 April 2023.

The Committee continues to play a critical role in promoting the long-term sustainable success of the Society for the benefit of its members and other stakeholders by ensuring that the Society is led by a Board and executive management that possess the appropriate combination of skills and experience.

Ensuring that the Board is well balanced in terms of its structure, skills, knowledge, experience and diversity, forms a key part in enabling the Society to achieve its objectives and successfully pursue its long-term strategy. The Committee maintains and implements an effective succession plan to ensure that the Board continues to serve the best interests of the Society's members, both now and in the future, recognising that our members' needs and priorities are ever-changing. Alan Keir was appointed as a member of the Committee in July 2022, whilst Mai Fyfield stepped down as a Committee member following Tracey Graham's appointment as a member in January 2023. My introduction to the Governance Report on page 78 outlines the changes to Board and its committee composition made during the year, all of which have been overseen by this Committee.

This is the first year in which the Society is required to disclose certain diversity data relating to both its Board and executive management and report on its performance against three diversity targets set by the FCA in its Annual Report and Accounts. This information can be found on page 96. The Society's agenda on inclusion and diversity remains an area of particular focus for the Committee, with the addition of new inclusion and wellbeing measures. Management presented regular updates on the progress made against the Society's agreed inclusion, diversity and wellbeing measures to the Committee throughout the year. An area of increasing focus for the Committee is the work being undertaken across the Society in respect of social mobility, which aims to ensure that all of our people have the opportunity to reach their full potential, regardless of their background or upbringing. During the year, each of the Society's directors participated in a Society-wide socio-economic background data-gathering exercise, in support of this workstream.

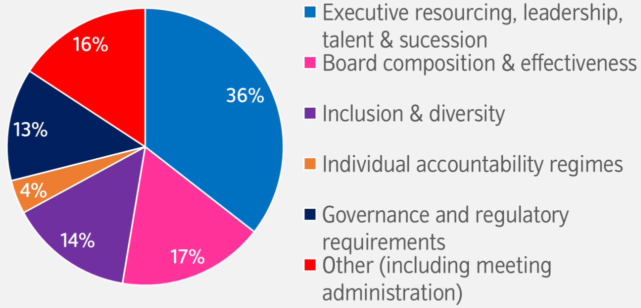
As part of its remit, the Committee provides oversight of the Society's governance framework on behalf of the Board to ensure that it remains effective and aligned with best practice. The Committee is satisfied that the current governance framework has continued to operate effectively and efficiently throughout the year.

Kevin Parry Chairman – Nomination and Governance Committee

Looking forward to 2023/24

The Committee will continue to focus on Board and senior management composition and skills, succession planning, driving inclusion and diversity across the Society and overseeing Board and Committee performance plans and training, including leadership programmes for high-potential individuals. 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 Society Chairman and the members are four independent non-executive directors. Alan Keir was appointed as a member of the Committee in July 2022, whilst Mai Fyfield stepped down as a Committee member following Tracey Graham's appointment as a member in January 2023. Details of the skills and experience of the Committee members can be found in their biographies on pages 79 to 82.

In addition to the members, regular attendees of the Committee include: the CEO, Director of People & Culture, General Counsel, Society Secretary and Baroness Usha Prashar, adviser to the Board.

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 meets at least twice a year and otherwise as required. During the year, the Committee held five scheduled meetings. The attendance record of Committee members is set out on page 83.

The effectiveness of the Committee is reviewed annually, along with the Committee's terms of reference and its activities over the previous year.

The purpose of this review is to confirm that the terms of reference align with the Committee's remit and purpose, and continue to reflect all applicable governance codes, guidelines, legislation and best practice. In 2022, the effectiveness review was undertaken by the Society's Secretariat with the assistance of Lintstock Limited, as part of the three-year Board and committee effectiveness review process agreed in 2021. Feedback on the performance and effectiveness of the Committee 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 2022 effectiveness review, including Board actions and next steps that the Committee is monitoring, is described on pages 97 to 98.

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 to senior roles.

In overseeing the Society's approach to resourcing the needs of the business, and developing our colleagues, the Committee has continued to focus on strengthening the Society's leadership to ensure it has the talent needed for the future.

The Committee received biannual 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 longer-term succession planning requires early focus to address capability requirements and diverse representation. In addition, the Committee considered succession and capability planning within the Risk Community during the year.

Inclusion, diversity & wellbeing

The Committee oversees the development and implementation of the Society's inclusion, diversity and wellbeing (ID&W) strategy and objectives. In June 2022, the Society's agreed diversity measures were updated to include inclusion and wellbeing measures for the 2022/23 financial year. 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.

Throughout the year, the Committee received updates on the significant work undertaken to embed ID&W throughout the organisation and make progress in achieving the Society's ID&W ambitions. This included:

- Undertaking an independent review of progress in ID&W matters and a supporting benchmarking exercise to identify areas of key focus;
- Introducing new inclusion and wellbeing measures which aim to reduce the gap in experience between the majority and under-represented groups within the Society;
- Upskilling our people managers and leaders to develop high-performing and diverse teams who have the ability to challenge 'group think' in order to achieve Nationwide's strategic objectives; and
- Ensuring leadership accountability for the delivery of the ID&W agenda.

Good progress has been made in the last year; however, the Society's diversity outcomes are not yet where we want them to be and ID&W will remain a critical focus for the Committee. More information on the Society's ID&W strategy, measures and progress made can be found on pages 50 to 51.

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 there is diversity of ethnicity, age, gender, disability and sexual orientation, as well as socio-economic, educational and professional backgrounds, within the Board's membership.

Existing efforts will be built on and considered in the development of a diverse pipeline for Board succession. Selecting the best candidate is paramount and all appointments are 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 diversity of thought and breadth of perspective among our directors.

This is the first year in which the Society is required to disclose certain diversity data relating to both its Board and executive management within the Annual Report and Accounts, including performance against three diversity targets that have been set by the FCA. This information, as well as detail relating to the approach taken in the collation of this diversity data, can be found on page 96.

The Board's gender and ethnicity targets in respect of individuals at senior levels within the Society have been set to go beyond those prescribed by the FCA through alignment with the Society's gender (50%) and ethnicity (12%) targets. Whilst recognising that short-term challenges may exist owing to the size of the Board during periods of change, these targets seek to strengthen the Board's commitment to ensuring diversity at senior levels within the Society.

As part of this commitment, the Committee continues to review the development of the pipeline of both ethnically diverse and female executive 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. In addition, the Society is a signatory of the Race at Work Charter, which involves a Board-level commitment 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, a global collective of 500 chief executive officers and their companies which uses the power of business to ensure that disability is discussed at Board level and make business more inclusive of those living with a disability. Signatories are required to put disability inclusion on their leadership agenda and to publish a firm pledge for action.

To support the work being undertaken across the Society in respect of social mobility, the Society has become a partner of the Progress Together Partnership, which aims to promote socio-economic diversity at senior levels by enabling all people working within the UK financial services sector to achieve their full potential, regardless of their background or upbringing. During the year, each of the Society's directors participated in a Society-wide socio-economic background data-gathering exercise, in support of this workstream.

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**

Board composition and effectiveness

As part of its remit, the Committee is required to assist the Society Chairman in subjecting the composition of the Board and its committees to regular review. The purpose of these reviews is 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 that 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 Society's 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 that the Board possesses a diverse 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 required for certain Board roles.

Selection process for new non-executive directors during 2022/23

Following a review of the composition of the Board and the planned retirement of Mai Fyfield at the 2023 AGM, the Committee identified a potential gap on the Board and the need for an independent non-executive director with a deep understanding and practical experience of remuneration practices. As such, the Committee oversaw and recommended to the Board the appointment of Tracey Graham as independent non-executive director and Chair of the Remuneration Committee.

The Committee engaged Korn Ferry, an independent executive search firm, to assist with the search. Korn Ferry was independent other than in the context of having provided search services for previous appointment processes. The Committee, supported by Korn Ferry, 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 interview with three shortlisted candidates, conducted by the Society Chairman and Society Secretary, two preferred candidates emerged for the role. A panel of three independent non-executive directors was convened, which included the Senior Independent Director, to conduct second-round interviews. Following due and careful consideration, and taking into account the current needs of the Board, Tracey Graham, on a unanimous decision, succeeded as the sole preferred candidate for the role.

The Committee agreed that Tracey's appointment fulfils the need to further strengthen the Board with a non-executive director with skills and experience and succeeded Mai Fyfield as Remuneration Committee Chair in January 2023.

Board performance review

The Code requires the Chairman to lead an annual Board review. In 2022 the review was conducted by the Society's Secretariat with the assistance of Lintstock Limited, as part of the three-year Board and committee effectiveness review process, agreed in 2021. The Committee oversaw the work undertaken by Secretariat and Lintstock Limited, 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 97 to 98.

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. The Committee reviewed and approved the Nationwide Governance Manual and reviewed the corporate governance disclosures in the 2022 and 2023 Annual Report and Accounts.

Individual accountability regimes

The Senior Manager and Certification Regime (SM&CR) was introduced by the Society's regulators to encourage senior managers working within the financial services industry to take greater responsibility for their actions. SM&CR aims to stop recurrence of poor behaviours which could result in poor member outcomes. In addition, it enables regulators to take action against individuals in cases where significant wrongdoing has been identified.

The Committee continues to focus on regulatory requirements to ascertain suitability, fitness and propriety of relevant individuals and to ensure that SM&CR responsibilities are allocated appropriately through the Society's well-established mapping process.

Overall, the Society's processes and controls in relation to both the accountability regimes and the assessment of the Financial Conduct Authority Conduct Rules breaches continue to operate effectively.

Report of the directors on remuneration

For the year ended 4 April 2023

"Our remuneration strategy aligns the Society's performance and reward approach to the delivery of our Blueprint for a modern mutual"

Dear fellow member,

I am pleased to share the Remuneration Committee's report, and my first as Chair of the Committee. I would like to place on record my sincere thanks to my predecessor, Mai Fyfield, for her service to the Committee and for her support in ensuring a smooth handover. I would also like to thank my fellow Committee members for their support and contribution to the work of the Committee throughout the year. This report includes details of directors' pay for the year ended 4 April 2023 and how the Society intends to implement the directors' remuneration policy for 2023/24.

Over the last year, since the appointment of Debbie Crosbie as our first female Chief Executive Officer (CEO), Nationwide has delivered strong financial performance and continued support for our customers, demonstrating resilience in a challenging environment. We emerged from the impact of the Covid-19 pandemic to face unprecedented cost of living pressures affecting both customers and colleagues alike. Since joining the Board, I have been impressed by our colleagues' professionalism and commitment to deliver for customers, and I am pleased the Society has been able to support colleagues during this period.

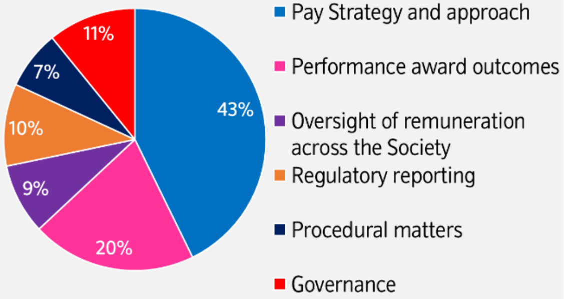
The Committee has ensured pay outcomes for 2022/23 are commensurate with the strength of the Society's performance and the contribution of our colleagues during the year, and has aligned our remuneration framework with our new strategy and purpose. The Committee undertook a detailed review of the performance measures that will apply to our variable pay arrangements in 2023/24, and refreshed our reward proposition for the wider workforce to ensure that it will support the delivery of our new strategy and enable the Society to differentiate reward outcomes based on colleague performance and behaviours.

Our directors' remuneration policy received strong support at the 2022 AGM (with 93.5% of votes 'FOR'), and I would like to thank members for their ongoing support. For 2022/23, I can confirm that we operated in line with the approved remuneration policy, a summary of which is set out in this report.

Supporting our wider workforce

Our colleagues are integral to the Society as we strive to deliver the best customer outcomes and serve members' interests, and we find ourselves competing in an increasingly competitive labour market with a shortage of skilled talent. The Committee is conscious of the impact inflationary pressures have had in creating financial challenges for many of our customers and colleagues, and we were therefore supportive of the decisions and actions the Society's leaders took during this difficult period. This included making a £1,200 cost of living payment during the year to our lower earning employees and the base pay package agreed with the Nationwide Group Staff Union (NGSU) for 2023/24. Under this package, over 99% of our colleagues, excluding those in most senior roles, received a 6.5% salary increase effective three months earlier than normal, and also received a £500 one-off payment. The Society also introduced a skills and competency pay framework for some front-line roles, which rewards colleagues for deepening and broadening their skills to better support customers. Overall, the total average value delivered by the package for 2023/24 was around 11% of salary.

How the Committee spent its time in the year



The Society moved quickly to agree payment decisions to ensure colleagues had certainty, and to support those who needed it most. The Committee remains acutely aware of inflationary challenges and will continue to keep a watchful eye on the external environment to ensure that pay for our colleagues remains appropriate.

More detail on the types of financial and non-financial support the Society provided during the year can be found on page 32.

Our variable pay arrangements

During the year, the Committee considered the design of the Society's variable pay framework to ensure it remains fit for purpose. The following sets out key changes that are being made to ensure that the Society's variable pay arrangements (i) support the new strategy and purpose; (ii) enable the Society to recognise exceptional colleague performance and customer service; and (iii) are aligned with market practice:

- The variable pay plan operated among all eligible colleagues has been reviewed. Going forward colleagues will be rewarded only where they demonstrate both meaningful delivery and strong behaviours. This will be informed by two separate performance ratings, which the Committee believes will support greater differentiation and a high-performance culture.
- We have also simplified the structure of the annual incentive, the Directors' Annual Performance Award, such that the all-employee element and the element for the most senior leaders have been consolidated into a single plan for 2023/24 onwards: the Annual Performance Pay (APP) plan. Whilst the structure of the awards has been consolidated, a proportion of APP awards (up to 70%) for the most senior population will continue to be based on the same Society performance measures as wider colleagues, ensuring clear alignment and focus across the Society in delivering for our customers.
- We have renamed the Directors' Long-term Performance Award as the Long-Term Performance Pay (LTPP) plan. Further details on the performance measures for the first LTPP awards to be made are set out on page 124.
- During the year, the Committee reviewed the approach to the use of the Society's core capital deferred shares (CCDS) for remuneration purposes. As has been the case for a number of years, a portion of variable pay awards for employees who are deemed to fall within scope of regulatory requirements is converted into a notional number of CCDS units and linked to the value of CCDS over the applicable deferral period, in accordance with the regulations.
- Whilst notional CCDS units will continue to be used going forward, two modifications are being made to ensure that awards made to these individuals provide appropriate alignment to the credit quality of Nationwide and to align with market practice, namely adjusting the CCDS price used to remove the impact of long-term interest rates and adjusting the number of notional CCDS units awarded to reflect the absence of CCDS distributions over the deferral period.

Performance and pay outcomes for 2022/23

Our results for the year show the Society has delivered strong financial performance, our strongest on record, while continuing to provide brilliant customer service and maintain a thriving membership.

For 2022/23, APP outcomes for all eligible colleagues were determined by reference to the same Society measures, with an additional controls measure for senior leaders. For our senior leaders, variable pay also reflects their individual contribution, measuring not just what they have delivered through their individual objectives but also how they have delivered them.

In considering the APP Society measure outcomes for the year, the Committee considered the Society's robust performance against prevailing market and economic headwinds. We remain first amongst our peer group for customer satisfaction[1], and we have grown the number of committed members. We have also focused on controlling costs in a high-inflation environment.

We are enormously proud of, and grateful to, our colleagues for how they have delivered for members during a challenging year. The outcome against the APP Society measure scorecard, adjusted as appropriate to reflect decisions taken in the year (covered later in the report on pages 120 to 123), resulted in a target pay-out. Reflecting the strong financial performance delivered in the year, and colleagues' contribution to this, the Committee agreed with management's recommendation to reward our colleagues over and above the scorecard outcome. The Committee therefore approved an additional amount, worth 1.5% of salary, to be delivered to all colleagues participating in the all-employee plan, such that the overall outcome was slightly above the target level.

The Committee also determined the APP outcomes for the executive directors, taking account of Society performance and each individual's contribution. The Committee agreed a target outcome for the Society measures under the plan for the CEO and Chief Financial Officer (CFO). Details of the measures, individual performance assessments and the overall APP awards delivered to our executive directors are set out later in this report.

[1] © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2022 and 12 months ending 31 March 2023. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 51,000 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 3.3% of the main current account market as of April 2022 – Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB.

The Committee approved the first awards to be granted under the LTPP plan to be made to the CEO and CFO. The LTPP will reward sustainable long-term performance linked to strategic objectives and alignment with member interests over a three-year period to April 2026. Given that these are the first awards to be made under the plan, the Committee carefully considered the appropriate measures, including reviewing market practice and obtaining external independent input. To ensure awards will incentivise and reward management for the delivery of sustainable long-term performance, aligned with our new strategy and purpose, the Committee agreed that the LTPP scorecard would be weighted such that 40% is based on financial goals, 20% on risk and compliance, 20% on Environmental, Social and Governance (ESG) goals, with the remaining 20% based on delivering against transformation objectives linked to the Society's strategic drivers. Further details on the measures are set out on page 124.

Taking account of Society and individual performance during 2022/23, the Committee agreed to grant the executive directors LTPP awards of 100% of base salary, which remain subject to a three-year performance period.

Looking ahead to 2023/24

In the context of the base pay package agreed for the wider workforce, the Committee approved base salary increases of 6% for the executive directors, effective from 1 April 2023, lower than the average award received by the wider workforce.

As noted above, 2023/24 APP awards for all eligible employees, including executive directors, will be based on the same Society gateways and performance measures, to ensure everyone works together to deliver our new strategy and purpose. Details of these measures are set out on page 118. The maximum APP award for the executive directors continues to be set at 100% of salary.

An assessment of the Society's performance, and the individual performance of the executive directors, will be made by the Committee at the end of the year to determine whether further awards will be made under the LTPP plan in respect of 2023/24, with the maximum award being 100% of salary.

During 2022/23, the Committee acknowledged the Consultation Paper published by the Bank of England setting out joint proposals from the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) to remove the variable to fixed pay cap regulations. The Committee will await the final policy position and keep the potential impact for Nationwide under review.

Member voting on remuneration

This year there will be an advisory vote on our Annual Report on Remuneration, and the details are set out for your consideration on the following pages.

I hope you find the information in the report clear; if you have any questions please contact me via the Society secretary.

On behalf of the Remuneration Committee, I would like to thank members for their continued support and encourage you to vote in favour of the resolution to approve our Annual Report on Remuneration.

Tracey Graham Chair – Remuneration Committee

How the Committee works

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 are set out on page 83. The Committee held six scheduled meetings and two ad-hoc meetings during the year.

Regular attendees of the Committee include the Society Chairman, Chief Executive Officer, Chief People Officer and the Director of Performance & Reward. On an annual basis the Committee also invites the Chief Risk Officer and Chief Internal Auditor to attend. 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 2022/23 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 2022/23 were £190,050 (excluding VAT), typically charged on a time-and-materials basis. Deloitte also provided tax, risk, internal audit and consulting services to the Society during 2022/23.

The Chair of the Committee attended meetings with the PRA and FCA.

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. Further details can be found in the reports of those committees on pages 100 to 109.

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 these activities align with its remit and purpose, and continue to reflect all applicable governance codes, guidelines, legislation and best practice. In 2022, the effectiveness review was undertaken by Secretariat with the assistance of Lintstock Limited, as part of the three-year Board and committee effectiveness review process, which was agreed in 2021. Feedback on the Committee's performance and effectiveness was provided to both the Committee and the Board. The results of the review indicate that the Committee's members are satisfied with the performance and effectiveness of the Committee. The 2022 effectiveness review, including actions and next steps is described on pages 97 to 98.

What the Committee did in the year

Pay strategy and approach

The Committee reviewed and approved the approach to variable pay for 2023/24, to ensure it supports the new strategy and purpose and enables the Society to recognise exceptional colleague performance and customer service. The Committee also reviewed the approach to the use of the Society's CCDS for remuneration purposes and approved the approach to performance measures for the first LTPP awards to be made to the executive directors, details of which are set out on page 124.

Performance award outcomes

The Committee approved the outcome of the annual incentive arrangement for 2021/22.

The Committee reviewed its approach to risk adjustment, strengthening the robust process for making decisions to reduce variable pay where individuals are accountable for risk events. The Committee made decisions on risk adjustment in April 2023, including for variable payments due in June 2023.

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 considered how remuneration policies are aligned with the Society's purpose, strategy and values.

The Committee considered wider colleague analysis, including pay decisions by diversity characteristic and the outputs of internal survey data on pay and benefits. In making executive pay decisions, the Committee took account of remuneration practices across the Society. In addition to information received on Nationwide's wider workforce pay practices throughout the year, the Board received an annual update from the general secretary of the NGSU in November 2022 and from the Employee Voice non-executive director, Tamara Rajah, in March 2023. More information on Board engagement with colleagues can be found on pages 31 to 32.

What the Committee did in the year (continued)

Regulatory reporting

The Committee reviewed and approved the Report of the Directors on Remuneration for 2021/22. It also reviewed and approved all remuneration submissions made to the PRA and FCA over the course of the year.

Procedural matters

The Committee agreed the base pay and variable pay arrangements for all employees in scope of the PRA and FCA Remuneration Codes.

The Committee is responsible for determining and agreeing with the Board the remuneration strategy, how that strategy is reflected in the remuneration policy, and approved pay reviews for the Society Chairman, executive directors, and the Executive Committee (ExCo) for 2023/24, taking into consideration pay review decisions for the wider workforce.

Alignment between wider workforce and executive directors' remuneration

Our reward framework is designed to attract, motivate and retain colleagues who are inspired to do their best for our customers every day, and to reward all colleagues fairly across the Society. The framework for executive directors is aligned with the wider workforce except for the LTPP plan. This difference ensures our executive directors have a significant proportion of their remuneration linked to the Society's longer-term priorities and provides a clear link with members' interests and the achievement of our financial and strategic aims, including our sustainability commitments.

All colleagues			**Our most senior population**
Base salary and pension	Benefits	Annual Performance Pay plan	Long-Term Performance Pay plan
Salaries are set to reflect the work colleagues do and the contribution they make, informed by external market benchmarking and the salary of colleagues doing similar roles. We are a principal partner of the Living Wage Foundation. If our employees contribute 4% of base salary to their pension, we will contribute 13% and match any additional contributions up to a maximum employer contribution of 16%. Executive directors' contributions are aligned to the wider workforce.	We offer a range of contractual benefits specific to role and all colleagues have access to My Reward, our flexible benefits and discounts scheme, to meet personal needs at varying stages of life. Subject to eligibility, benefits include 25 to 30 days holiday, health care, death in service cover, an electric vehicle scheme, parental and other leave, and retirement planning.	All of our colleagues who meet individual conduct requirements are eligible to participate in the APP plan, with consistent performance measures for all participants, ensuring clear alignment and focus across the Society in delivering against our strategic drivers and for our customers. Awards are generally paid in cash. However, for more senior colleagues, awards are paid in a mixture of cash and CCDS, subject to relevant deferral criteria.	Our most senior population, including executive directors, are invited to participate in the LTPP plan. It supports the delivery of sustainable member value and the performance measures are aligned to the Society's longer-term priorities and the achievement of our financial and strategic aims, including our sustainability commitments. LTPP awards are deferred over the long-term and will only be paid subject to sustained satisfactory Society and individual performance.

Annual report on remuneration for 2022/23

This section provides information on how the directors' remuneration policy, as approved by members at the 2022 AGM, was implemented during 2022/23. A summary of the policy can be found on pages 132 to 134.

Base salary and pension

The effective base salary for C S Rhodes in the year was £690,428. D Crosbie was appointed on a salary of £1,072,250 from her commencement as CEO in June 2022. The pension allowances of our executive directors are 16% of salary, which is the maximum benefit available to the wider employee population.

Annual Performance Pay (APP) for 2022/23

APP for 2022/23 had two elements: an all-employee element and an element for our most senior leaders, including executive directors. Both elements of APP were aligned with the attainment of challenging strategic and financial measures drawn from the Society's Plan for 2022/23, as set out below. These measures ensured focus on delivering benefits to our members, and for 2022/23 the element in which senior leaders participated included an additional controls measure. The senior element also incorporates an amount based on individual performance and behaviours.

Society performance

Number of committed members
Customer service satisfaction rating
Total costs
Controls (senior leaders only)

+

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 APP award level for 2022/23 was 100% of base salary for both the CEO and CFO, with 26.4% of the overall award based on individual performance. An illustration of the pay-out schedule of the executive directors' APP awards can be found on page 125. The Society has the ability to claw back APP awards for up to ten years after they were awarded in certain circumstances.

Outcomes for APP 2022/23

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 2022/23. In determining executive directors’ APP outcomes for 2022/23, 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. D Crosbie’s APP award reflects performance since her appointment in June 2022. Details on awards made to the former CEO, J D Garner are set out on page 126.

(Audited) **Measure**	**Performance target range: threshold, target and maximum, and performance achieved**	**Performance pay achieved / Maximum achievable (% of salary paid in 2022/23)**	
		D Crosbie	**C S Rhodes**
Number of committed members (note i)	Outcome for 2022/23: on target 3.62m – 3.75m – 3.85m	13.0% / 19.4%	13.0% / 19.4%
FRS satisfaction (notes i and ii)	Outcome for 2022/23: on target 1st – 1st + 4%pts – 1st + 6%pts	13.0% / 19.4%	13.0% / 19.4%
Total costs (note iii)	Outcome for 2022/23: on target £2,112m – £2,082m – £2,052m	13.0% / 19.4%	13.0% / 19.4%
Controls (note iv)	Outcome for 2022/23: on target 50% – 100% – 150%	10.3% / 15.4%	10.3% / 15.4%
Individual performance element (see further detail below)		26.4% / 26.4%	26.0% / 26.4%
Remuneration Committee discretionary overlay that applied for the all-employee element and risk assessment The Committee carefully considered the outcomes for the executive directors to ensure they were a fair reflection of performance. As set out in the Committee Chair’s letter, reflecting the strong financial performance of the Society delivered in the year, an additional amount was approved under the all-employee element of the plan for the wider workforce. This value was also delivered to the executive directors as participants in the all-employee plan. The Committee also took into account a broad range of factors and, where deemed appropriate, applied a downwards adjustment to take into account risk factors arising during the year. The aggregate impact of the Committee’s decisions for each individual is shown.		1.5%	(3.5%)
Total performance pay achieved based on Society and individual performance		77.2%	71.8%
Out of a maximum opportunity (as a % of salary paid in 2022/23) of		100%	100%

Notes:

i. As referenced in the Committee Chair’s letter (see pages 114 to 116), whilst the actual committed members and FRS satisfaction outcomes for 2022/23 of 3.68m and 1st +3.8%pts respectively were lower than the original plan targets for the year, for the purposes of determining APP outcomes for all eligible employees, including executive directors, the Remuneration Committee agreed target outcomes for these elements. This adjusted outcome took into account strategic decisions taken during 2022/23 and the strength of the Society’s overall performance for the year.

ii. © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2023. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 51,000 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 3.3% of the main current account market as of April 2022 – Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB.

iii. The Committee agreed that the actual total costs outcome for 2022/23 of £2,323m should be adjusted for the purposes of determining APP outcomes. The Committee considered the impact of the inflationary environment and decisions approved by the Board during the year that impacted the Society’s costs position, including actions to support colleagues such as cost of living payments, a higher than planned annual pay review award and one-off £500 payment in April 2023. The outcome for this element for the wider workforce, including executive directors, was therefore agreed at target.

iv. 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 Chairs of the Audit Committee and Remuneration Committee applied a downwards adjustment to the recommended outcome of 105% for this measure, representing the progress made to date. The Remuneration Committee subsequently approved the adjusted outcome of 100% for use in APP outcomes.

Outcomes for APP 2022/23 (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 2022/23 achieved by the CEO and CFO based on their objectives. The performance scorecard contains a number of Environmental Social and Governance (ESG) factors, including improving sustainability and our inclusion and diversity measures.

D Crosbie's individual objectives for 2022/23		
Objectives		**Performance**
Deliver financial and operational performance	• Deliver the longer-term financial plan and 2022/23 performance scorecard; trading in line with plan and ensuring robust cost management and the safe transition of the cost base to a sustainable level. • Develop arrangements for effective and efficient operational resilience and operational excellence.	• Record underlying profit for the Society and a record leverage ratio. Continued investment in members and colleagues whilst managing cost growth and high inflation. • Robust trading performance in a highly competitive mortgage market, strong deposit net receipts and increase in market share and growth in new current account openings. • Step change in operational resilience and excellence following appointment of new Chief Operational Officer, including reform of change management process, strategic investment governance, Disaster Recovery testing, End of Service Life remediation.
Strategy	• Work with the Board and ExCo to ensure that the Society has an ambitious and deliverable strategy that identifies and realises key opportunities for growth, builds a distinctive proposition for the Society overall, and delivers value for members. • Develop the Society's purpose and a cultural transformation aligned to the organisation's mutual model and ambitions.	• Strategy refreshed and agreed at Board Strategy Conference in October 2022. • Milestone delivery plans agreed over three horizon periods with progress updates presented periodically to the Board. • New purpose and Blueprint for a modern mutual developed and agreed in February/March 2023, for roll out to all employees from April 2023 onwards. • New culture dashboard in development to track progress in 2023/24, along with improvements in performance management and talent/manager development.
Robust risk and control	• Adhere to applicable regulatory requirements, frameworks and models and ensure that the Society remains within risk appetite and keeps pace with regulator expectations. • Ensure that the overall risk and control framework is efficient and effective and underpinned by robust processes and clear accountabilities.	• The Society's financial and credit position remains strong with all key financial risk metrics within trigger. However, the Board Risk Appetite profile remains elevated for operational and conduct risk. • New programme management discipline introduced, with monthly Board and regulator updates.
Inspiring team and leadership performance	• Organise the ExCo so that it is high-performing, has the right balance of experience, and potential with members that role model strong leadership behaviours and culture, and is fit for strategy execution. • Ensure that the Society's organisational structure is simple and effective and that all SMCR accountabilities are appropriately assigned.	• ExCo reorganised during 2022/23, including recruitment of five new members. • Organisational structure changed to transition from 'Mission' structure to clearer functions, accountabilities and leadership. • Consequential SMCR accountabilities adjusted and assigned appropriately.
Effective Board engagement	• Ensure that there is good engagement between ExCo and Board and that the Society's overall governance arrangements are effective.	• Shorter, clearer Board papers and agendas with more focused and relevant management information. • Board governance strengthened by moving IT risk to Board Risk Committee from standalone committee. • Executive governance improved through focus on streamlined decision making, reduction in risk forums following review, and more robust ExCo meeting arrangements.
Thriving membership	• Deliver increasing value for members with leading service and products in personal financial services that meet member needs, and all Consumer Duty requirements.	• Member financial benefit highest since the methodology was introduced in 2016/17. • First in FRS for core product satisfaction amongst our peer group with a lead of 3.8%pts[2] (slightly below target of a 4%pts lead). • The Society ranks 1st for both customer brand consideration and customer trust (although not statistically significant on all measures).

[2] © Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2023. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 51,000 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 3.3% of the main current account market as of April 2022 – Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB.

Outcomes for APP 2022/23 (continued)

D Crosbie's individual objectives for 2022/23 (continued)		
Objectives		**Performance**
Improving inclusion, diversity and wellbeing	• Ensure overall plans are developed and delivered to improve inclusion across the Society and progress towards its agreed diversity targets.	• Gender; women in senior roles improved, although marginally behind target. • Progress towards LGBTQ+, and disability targets improved over the year and are at or above target for all employees and for senior employees. • The percentage of ethnically diverse employees dropped over the year and is below target for both all employees and senior employees. • Women in five out of twelve ExCo roles.
Impactful stakeholder engagement	• Develop and execute a programme to ensure strong and productive relationships with regulators, governments, the media and other key stakeholders and identify and realise opportunities to raise the profile of the Society and the mutual model with key audiences.	• Regular programme of engagement with all regulators, His Majesty's Treasury, Financial Ombudsman Service and Lending Standards Board. • Member of UK Finance Major and Ringfenced Banks Strategic Advisory Committee and member of FCA Practitioner Panel.

C S Rhodes's individual objectives for 2022/23		
Objectives		**Performance**
Financial Performance	• Partner with functions across the Society to deliver a sustainable financial plan and 2022/23 performance scorecard, ensuring a good balance between proposition profitability and value for members	• Record underlying profit for the Society and a strong leverage ratio. Continued investment in members and colleagues whilst managing cost growth and high inflation. • Robust trading performance in a highly competitive mortgage market, strong deposit net receipts and an increase in market share and growth in new current account openings.
Cost and Efficiency	• Drive the reduction in the Society cost base in year and ensure plans are in place for future years. • Deliver Finance function cost efficiency through simplification and automation and by stopping low value activities.	• Total operating costs increased, although remaining broadly flat since 2019/20. Increases attributable to higher inflation, incremental spend on cost of living support for colleagues, higher depreciation, restructuring costs and property impairments. • Delivered cost savings in Finance.
Capital and Liquidity	• Identify opportunities to generate low-cost funding that improves the Society's financial strength. • Ensure appropriate stress testing and that the Society holds adequate capital for severe but plausible stresses and that this informs capital efficient pricing, asset mix and issuance.	• Careful and considered capital and liquidity planning through market turbulence and volatile interest and swap rates. • Strong balance sheet, with Tier 1 capital resources increasing and a strong leverage ratio.
Control environment	• Adhere to applicable regulatory requirements, frameworks and models and ensure that the Finance function, and Society overall, keeps pace with the risk environment and regulator expectations. • Enhance processes and controls, following up on audit issues and driving organisational momentum through the process and control improvement programme.	• The Society's financial and credit position remains strong with all key financial risk metrics within trigger. However, the Board Risk Appetite profile remains elevated for operational and conduct risk. • Led and concluded programme for mapping and strengthening most important member facing controls.

Outcomes for APP 2022/23 (continued)

C S Rhodes's individual objectives for 2022/23 (continued)		
Objectives		**Performance**
Strategy	• Work with the Board, CEO and ExCo to ensure that the Society's strategy delivers sustainable performance and increasing value for members, while emphasising the Society's distinctive position in UK financial services. • Develop the Society's purpose and a cultural transformation aligned to the organisation's mutual model and ambitions.	• Strategy refreshed and agreed at Board Strategy Conference in October 2022. • Milestone delivery plans agreed over three horizon periods with progress updates presented periodically to the Board. • New purpose and Blueprint for a modern mutual developed and agreed in February/March 2023, for roll out to all employees from April 2023 onwards.
Team and Leadership Performance	• Implement our hybrid way of working and so teams can perform at their best. • Develop colleague and leadership capability in Finance to enable high performance and realise potential. • Fulfil all SMCR accountabilities.	• Ways of working continue to adapt with close monitoring and careful management of attendance at work locations to maximise team efficiency. • Finance leadership and capability maximised through restructure. • All SMCR accountabilities met, including a number of interim responsibilities assumed by CFO to cover ExCo vacancies.
Inclusion, diversity and wellbeing	• Develop and implement Finance action plan to deliver progress towards meeting the Society's agreed inclusion, diversity and wellbeing targets.	• Gender; women in senior roles improved, although marginally behind target. • Progress towards LGBTQ+, and disability targets improved over the year and are at or above target for all employees and for senior employees. • The percentage of ethnically diverse employees dropped over the year and is below target for both all employees and senior employees.
Stakeholder Engagement	• Maintain and enhance our external reputation and wide investor base through high quality external reporting, regulatory compliance and trusted investor relations.	• Regular meetings with investors, including formal presentations at half year and full year. • Programme of engagement with regulators and stakeholders, including oral evidence session with UK Parliament Treasury Select Committee.

Long-Term Performance Pay (LTPP) awards in respect of 2022/23

The first LTPP awards will be granted in June 2023.

LTPP awards are discretionary and are granted subject to a pre-grant performance assessment over the year prior to grant based on:

- **Individual conduct and performance** – must be satisfactory including an assessment of individual behaviours and conduct during the year;
- **Leverage ratio and statutory profit before tax** – both gateways must be assessed and passed in respect of the period prior to grant.

After taking into account performance over 2022/23, the Committee agreed to grant D Crosbie and C S Rhodes LTPP awards of 100% of base salary. This included an assessment of both Society and individual performance. The Committee is satisfied that the granting of awards is sustainable according to the financial position of the Society and justified on the basis of individual performance, conduct and behaviours. J D Garner was not eligible to receive an award under the LTPP plan as he departed during the year.

Over the course of 2022/23, the Committee has been focused on the selection and development of appropriate forward-looking performance measures for the LTPP awards. The Committee is satisfied that the chosen performance measures are aligned to the Society's longer-term priorities and provide a clear link with members' interests and the achievement of our financial and strategic aims, including our sustainability commitments. At the end of the three-year performance period the Committee will also satisfy itself that there are no significant conduct, risk, reputational, financial, operational or other reasons why the awards should not be released, taking into account input from the Board Risk and Audit committees.

The 2022/23 LTPP awards will be subject to a three-year performance period commencing 5 April 2023. During this period, performance will be assessed based on a scorecard comprising the elements below. Targets are deemed by the Committee to be commercially sensitive and will be disclosed, along with performance achieved, in the Annual Report and Accounts 2026.

2023/24 – 2025/26 LTPP scorecard				**How the scorecard aligns to our strategic drivers**			
		Rationale for inclusion within the scorecard	**Weighting**	*More rewarding relationships*	*Simply brilliant service*	*Continuous improvement*	*Beacon for mutual good*
Customer outcomes (financial goals)	Return on equity employed (note i)	Ensuring the Society's continued financial security for the benefit of its customers via efficient profit generation and sustainable balance sheet management over the long term	20%			√	
	Profit before tax		20%			√	
Sustainability	FRS satisfaction	Rewarding 'best-in-class' customer service	10%		√		
	Environmental, Social and Governance (ESG) objectives	Providing alignment with the Society's Scope 1 and 2 emissions and diversity targets	10%				√
	Risk and compliance	Ensuring continued focus on the strength of the Society's control environment	20%			√	
Transformation	'Basket' of measures aligned with strategic objectives	Providing alignment with the Society's long-term strategic priorities	20%	√	√	√	√

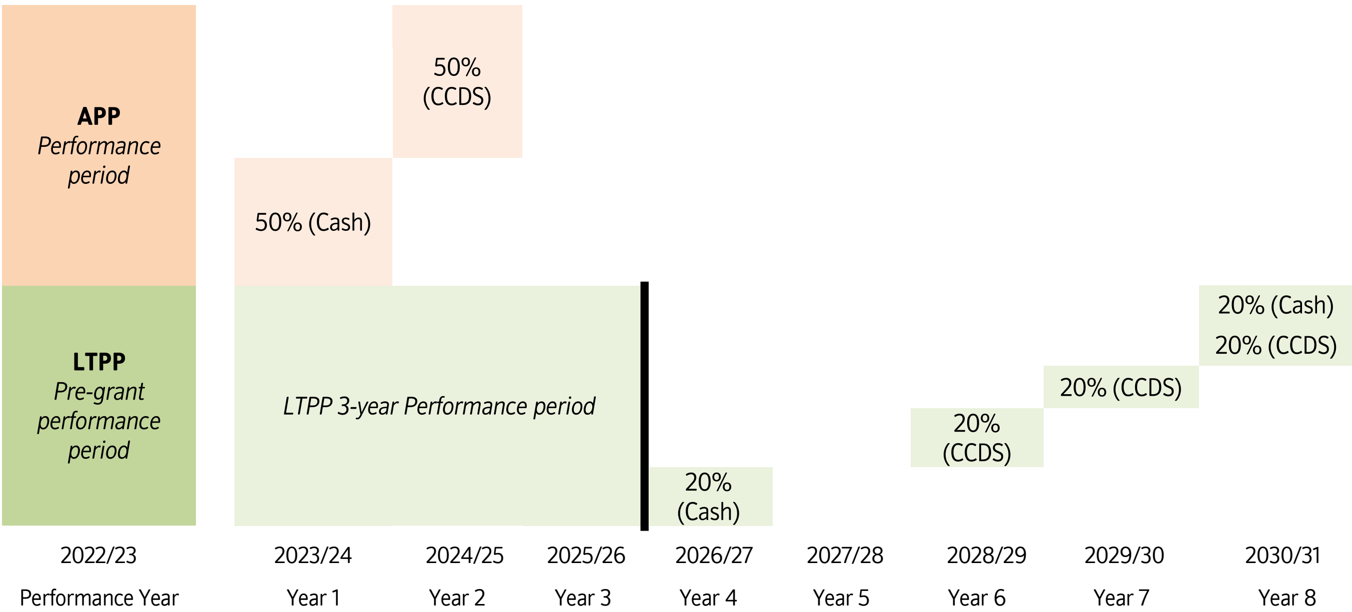
Note:
i. Return on equity employed is defined as the return (profit after tax) as a percentage of the minimum amount of capital required to stay above Board Risk Appetite throughout a Bank of England defined stress test.

How awards will be released to executive directors

The illustration below shows how APP and LTPP awards will typically be released to executive directors over the long term. Under the directors' remuneration policy, across both elements a minimum of 60% will be deferred for between three and seven years. To the extent the minimum level of deferral is not met via the LTPP award, a proportion of the APP award will be deferred.

For awards in respect of 2022/23, the LTPP will be used to satisfy the minimum deferral requirements for D Crosbie. For C S Rhodes a small proportion of his APP award will also be deferred for between three and seven years.

In line with the directors' remuneration policy, subject to the achievement of the forward-looking performance measures, 60% of any award will be delivered in or linked to the market or fair value of the Society's CCDS, with the balance paid in cash. The CCDS element will be subject to a twelve-month retention period. As set out in the Chair's letter (see pages 114 to 116), following a review of the Society's approach to the use of CCDS for remuneration purposes, two modifications are being made to ensure that awards provide appropriate alignment to the credit quality of Nationwide and to align with market practice, namely adjusting the CCDS price used to remove the impact of long-term interest rates and adjusting the number of notional CCDS units awarded to reflect the absence of CCDS distributions over the deferral period.



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 2023 and 4 April 2022.

Single total figure of remuneration for each executive director *(Audited)*

2023	**Fixed remuneration**				**Variable remuneration**		**Total pay package excluding replacement awards £'000**	**Replacement awards £'000**	**Total pay package including replacement awards £'000**
Executive directors	**Salary £'000**	**Pension allowance £'000**	**Travel and other taxable benefits (note i) £'000**	**Total £'000**	**Annual Performance Pay (note ii) £'000**	**Total £'000**			
D Crosbie (note iii)	**889**	**142**	**32**	**1,063**	**687**	**687**	**1,750**	**1,705**	**3,455**
C S Rhodes	**690**	**110**	**81**	**881**	**496**	**496**	**1,377**	**-**	**1,377**
J D Garner (note iv)	**159**	**25**	**14**	**198**	**103**	**103**	**301**	**-**	**301**
Total	**1,738**	**277**	**127**	**2,142**	**1,286**	**1,286**	**3,428**	**1,705**	**5,133**

2022	Fixed remuneration				Variable remuneration		Total pay package excluding replacement awards £'000	Replacement awards £'000	Total pay package including replacement awards £'000
Executive directors	Salary £'000	Pension allowance £'000	Travel and other taxable benefits (note i) £'000	Total £'000	Annual Performance Pay (note ii) £'000	Total £'000			
J D Garner	934	149	77	1,160	954	954	2,114	-	2,114
C S Rhodes	667	107	52	826	590	590	1,416	-	1,416
Total	1,601	256	129	1,986	1,544	1,544	3,530	-	3,530

Notes:

i. Travel and other taxable benefits are 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. Amounts shown consist of the awards under the APP plan; LTPP awards are subject to the achievement of performance conditions over the next three years and, to the extent the performance measures are met, details will be included in the relevant directors' remuneration report.

iii. D Crosbie succeeded J D Garner as CEO on 2 June 2022. As announced in the Annual Report and Accounts 2022, the Committee agreed to compensate D Crosbie for the forfeiture of variable pay awards from her previous employment at TSB. In line with regulatory requirements, these replacement awards are not more generous in terms or amounts than she would otherwise have received.

iv. J D Garner stepped down as CEO and from the Board on 1 June 2022; details of his remuneration reflect the period of time he served on the Board. Further details can be found on page 130.

In the single figure table above, 'taxable benefits' includes certain essential travel costs for directors, in connection with the performance of their duties, including any tax due under HMRC regulations. Other benefits include medical insurance, car allowance and security.

Society Chairman and non-executive directors

The total fees paid to each non-executive director are shown below.

Single total figure of remuneration for non-executive directors *(Audited)*						
	2023			2022		
	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) (note ii)	**525**	**6**	**531**	211	2	213
G Waersted (Senior Independent Director) (note iii)	**131**	**9**	**140**	106	13	119
R A Clifton (note iv)	**-**	**-**	**-**	31	1	32
R M Fyfield (note v)	**138**	**2**	**140**	128	2	130
T Graham (note vi)	**72**	**4**	**76**	-	-	-
A Hitchcock	**122**	**9**	**131**	96	12	108
A M Keir (note vii)	**144**	**10**	**154**	8	-	8
D Klein	**100**	**2**	**102**	80	3	83
T Rajah	**94**	**-**	**94**	99	-	99
G Riley (note viii)	**95**	**10**	**105**	-	3	3
P G Rivett	**155**	**1**	**156**	125	-	125
D L Roberts (note ix)	**-**	**-**	**-**	344	2	346
T J W Tookey (note x)	**39**	**2**	**41**	136	5	141
Total	**1,615**	**55**	**1,670**	1,364	43	1,407
Pension payments to past non-executive directors (note xi)			**231**			207

Notes:

i. Taxable benefits for non-executive directors relate to expenses incurred for travel in connection with their duties 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. Where a non-executive director is not UK domiciled their reimbursed cost of travel into and out of the UK is not a taxable benefit.
ii. K A H Parry was appointed Society Chairman effective 1 February 2022. Prior to this date, he was the Senior Independent Director.
iii. G Waersted was appointed Senior Independent Director effective 1 February 2022.
iv. R A Clifton stepped down from the Board on 22 July 2021.
v. R M Fyfield stepped down as Chair of the Remuneration Committee on 31 December 2022 but continued to be a member of the Board and the Committee.
vi. T Graham joined the Board on 28 September 2022 and was appointed Chair of the Remuneration Committee on 1 January 2023.
vii. A M Keir joined the Board on 1 March 2022.
viii. G Riley joined the Board on 1 April 2022.
ix. D L Roberts stepped down from the Board on 31 January 2022.
x. T J W Tookey stepped down from the Board on 14 July 2022.
xi. The Society stopped granting pension rights to non-executive directors who joined the Board after January 1990.

Additional disclosures

CEO Remuneration for the past ten years

The table below shows details of the CEO'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) %
2022/23 – D Crosbie	**3,455 (note ii)**	**77.2**	**-**
2022/23 – J D Garner	**301 (note iii)**	**42.6**	**-**
2021/22	2,114	67.2	-
2020/21	1,236	72.3 (note iv)	-
2019/20	1,286	0.0	-
2018/19	2,372	75.1	-
2017/18	2,317	69.5	-
2016/17	3,386 (note v)	71.9	-
2015/16	3,413 (note vi)	75.8	80.8
2014/15	3,397	74.4	84.5
2013/14	2,571	83.3	74.9

Notes:
i. Medium term performance pay ceased at the end of 2015/16.
ii. D Crosbie commenced her role as CEO on 2 June 2022. Her total remuneration for 2022/23 includes the value of replacement awards on joining (£1,704,844). These awards do not form part of ongoing remuneration. If this amount is excluded, the figure shown for 2022/23 would be £1,750,608.
iii. J D Garner stepped down as CEO and from the Board on 1 June 2022.
iv. Performance pay opportunity for 2020/21 was reduced by around two thirds.
v. J D Garner commenced his role as CEO on 5 April 2016. His total remuneration for 2016/17 included the value of replacement awards on joining (£1,070,752). These awards did not form part of ongoing remuneration. If this amount is excluded, the figure shown for 2016/17 would be £2,315,047.
vi. The CEO in 2015/16 and all earlier financial years shown in the table above was G J Beale. His total remuneration for 2015/16 and 2014/15 includes annual performance pay awards 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 three financial years compared with the average for all other employees. Certain numbers below reflect part-year versus full-year comparisons, see footnotes.

	% change in remuneration between 2021/22 and 2022/23			% change in remuneration between 2020/21 and 2021/22			% change in remuneration between 2019/20 and 2020/21		
	Salary/fees	**Benefits**	**Annual performance pay**	Salary/fees	Benefits	Annual performance pay (note i)	Salary/fees	Benefits (note ii)	Annual performance pay
Executive directors									
D Crosbie (note iii)	-	-	-	-	-	-	-	-	-
C S Rhodes	**3.4%**	**20.1%**	**(15.9%)**	2.0%	17.8%	208.9%	3.2%	(32.5%)	- (note v)
J D Garner (note iv)	**(83.0%)**	**(82.7%)**	**(82.9%)**	19.3%	37.8%	230.1%	(14.5%)	(55.7%)	- (note v)
Non-executive directors (note vi)									
K A H Parry (note vii)	**148.8%**	**200.0%**		47.6%	-		10.9%	(100.0%)	
G Waersted	**23.6%**	**(30.8%)**		12.8%	-		0%	(100.0%)	
A Hitchcock	**27.1%**	**(25.0%)**		2.1%	-		0%	(100.0%)	
A M Keir (note viii)	**1,700.0%**	**-**		-	-		-	-	
D Klein (note ix)	**25.0%**	**(33.3%)**		1,233.3%	-		-	-	
G Riley (note x)	**-**	**233.3%**		-	-		-	-	
P G Rivett (note xi)	**24.0%**	**-**		14.7%	-		73.0%	(100.0%)	
R M Fyfield (xii)	**7.8%**	**0.0%**		(1.5%)	(33.3%)		9.2%	(25.0%)	
T Graham (note xiii)	**-**	**-**		-	-		-	-	
T J W Tookey (note xiv)	**(71.3%)**	**(60.0%)**		1.5%	-		0.0%	(100.0%)	
T Rajah (note xv)	**(5.1%)**	**-**		80.0%	-		-	-	
All employees (note xvi)									
All employees	**3.2%**	**(0.7%)**	**2.9%**	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. D Crosbie joined the Board on 2 June 2022.
iv. 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 pandemic.
v. The annual performance pay for J D Garner and C S Rhodes for 2019/20 was £nil and therefore no percentage change is shown.
vi. The non-executive directors are not eligible to participate in the annual performance pay plan.
vii. K A H Parry was appointed Chairman on 1 February 2022.
viii. A M Keir joined the Board on 1 March 2022.
ix. D Klein joined the Board on 1 March 2021.
x. G Riley joined the Board on 1 April 2022.
xi. P G Rivett joined the Board on 1 September 2019.
xii. R M Fyfield stepped down as Chair of the Remuneration Committee on 31 December 2022 but remained a member of the Board and the Committee.
xiii. T Graham joined the Board on 28 September 2022 and was appointed Chair of the Remuneration Committee on 1 January 2023.
xiv. T J W Tookey stepped down from the Board on 14 July 2022.
xv. T Rajah joined the Board on 1 September 2020.
xvi. Data for all employees has been calculated on a full-time equivalent basis and reflects all employees on 1 March 2020, 1 March 2021, 1 March 2022 and 1 March 2023.

Relative importance of spend on pay

The chart below shows the cost of remuneration for all employees of the Society, compared with retained earnings.

Remuneration cost for all employees		
	2022/23	2021/22
	£m	£m
All-employee remuneration	**918**	822
Retained earnings	**1,478**	1,066

Payroll costs represent 39.52% (2022: 36.79%) of total administrative expenses. Nationwide's profit after tax for the year was £1,664 million, of which £186 million was paid as distributions and the remaining £1,478 million is held as retained earnings.

Payments for loss of office / Payments to past directors

J D Garner stepped down from the Board as CEO on 1 June 2022. As set out in the 2022 Annual Report on Remuneration, he remained an employee of the Society until 12 December 2022, the end of his twelve-month notice period. For this period, he received total payments of £588,120, which included salary (£491,934), benefits (£17,477) and pension (£78,709).

In addition, as set out in last year's report, J D Garner was eligible to receive a part-year APP award in respect of services as CEO during 2022/23. His APP award was based on the same Society performance measures as the other executive directors, as set out on page 120, as well as individual performance.

For the proportion of the award based on the Society's performance (70% of the award), recognising the length of J D Garner's tenure during the year, and therefore contribution to the Society's performance over this period, the Committee approved an outcome of 54.1% of salary (paid to 1 June 2022) for the Society element. The Committee did not approve the application of discretion in relation to the total costs measure for J D Garner.

For the proportion of the award based on individual performance (30% of the award), the Committee considered J D Garner's performance against individual objectives for the portion of the year served, including his contribution to ensuring an orderly handover. Taking this into account, the Committee approved an outcome of 14% of salary (paid to 1 June 2022) for the individual performance element.

In determining J D Garner's APP outcome for the year, the Committee also applied a downwards risk adjustment of 5% to the value of the combined Society and individual elements of the award to take into account a range of risk factors including pace of execution.

Taking all of the above elements together, the Committee approved an overall APP award of 64.7% of salary (paid to 1 June 2022) for J D Garner.

J D Garner was not eligible to receive an award under the LTPP for 2022/23 as he departed during the year.

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 March 2023 and can be found at **nationwide.co.uk**, together with an update of progress on our inclusion and diversity ambition, and Women in Finance Charter commitments. We have also 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 of 5 April 2022, our mean gender pay gap was 30% (remaining the same as the previous year) and our mean ethnicity pay gap was 7.4% (decreasing from 11% in the previous year, primarily due to an increase in the number of ethnically diverse employees recruited into technology).

While we have imbalances in the distribution of women and ethnically diverse colleagues, we will have pay gaps. We're proud that colleagues choose to stay with the Society for a long time, so we know that making changes to our workforce mix and pay gaps will take time. This is why it's imperative to continue focusing on our diversity and inclusion measures and priorities to create the changes we want to see in the long term. Our LTPP scorecard for 2022/23 awards is directly linked to these measures. Some of the other actions we have taken include: introducing an interactive diversity and inclusion dashboard to enable leaders to understand progress and opportunities and also to create targeted interventions to identify and develop diverse talent, such as proactive succession planning, external talent mapping and talent acceleration programme.

Pay gaps are not the same as equal pay. We carry out regular equal pay audits, checking the pay of people with different characteristics (such as gender and ethnicity) doing the same or similar roles. Our audits continue to show that our pay policies are operating fairly.

CEO pay ratio reporting

The table below compares the total remuneration of the CEO 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.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022/23	**Option A**	**71:1**	**56:1**	**35:1**
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 CEO pay ratio for 2022/23 above excludes the one-off replacement awards granted to D Crosbie. If these awards were included, the median CEO pay ratio would be 102:1.

The total remuneration and salary values for the 25th, median and 75th percentile employees for 2022/23 are:

	25th percentile	Median	75th percentile
Total remuneration	£29,064	£36,653	£58,639
Salary	£22,232	£28,840	£46,225

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 2023. For each employee, remuneration was calculated based on all components of pay including base pay, performance pay for 2022/23, 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. From 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 2022/23 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 2021/22 Report of the directors on remuneration and the current directors' remuneration policy were passed at the 2022 AGM. In each case votes were cast as follows:

	Report of the directors on remuneration	Remuneration policy
Votes in favour	491,513 (94.23%)	487,138 (93.53%)
Votes against	30,089 (5.77%)	33,707 (6.47%)
Votes withheld	8,097	8,851

Summary remuneration policy and implementation for 2023/24

The table below sets out a summary of our remuneration policy for executive and non-executive directors, as approved by members at the 2022 AGM, as well as its proposed implementation in 2023/24. The full text of the policy can be found in our Annual Report and Accounts 2022 on the Society's website at **nationwide.co.uk**

Summary remuneration policy for executive directors		
Element	**Operation and opportunity**	**Implementation for 2023/24**
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.	As set out in the Chair's letter, the Committee determined base salaries for 2023/24 as follows: • D Crosbie £1,136,585 • C S Rhodes £731,854
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.	No change for 2023/24.
Pension Provides post-retirement benefits for participants in a cost-efficient manner	Executive directors receive a cash allowance in place of pension. 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.	No change for 2023/24.
Variable pay		
Annual Performance Pay (APP) plan *(previously Directors' Annual Performance Award (DAPA))* Rewards achievement of stretching Society, team and individual targets for a single financial year	*Operation* Following detailed consideration by the Committee over the course of the year, the APP plan (previously the DAPA) has been simplified such that there is only one element of the award from 2023/24 onwards (i.e., the all-employee element and the senior leader element have been consolidated into a single award). To ensure continued alignment across the Society, the award for all eligible colleagues will continue to be based on the same Society performance measures as our senior leaders. These measures will make up 70% of the award for executive directors. Alongside awards under the LTPP plan, the payment and deferral of APP 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 APP 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% of both the upfront and deferred elements delivered in or linked to the market or fair value of the Society's CCDS, or an appropriate alternative instrument, 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.	For awards made in respect of 2023/24, the target opportunity for D Crosbie and C S Rhodes will be 67% of base salary, with a maximum opportunity of 100% of base salary. *Performance measures:* Awards made in respect of 2023/24 align to our new strategic drivers and will be subject to four equally weighted performance measures, as follows: • **More rewarding relationships:** Number of engaged customers • **Simply brilliant service:** Customer Experience Score • **Continuous improvement:** Total costs • **Beacon for mutual good:** Heard good things about Nationwide The above measures will account for 70% of the awards for our executive directors, with 30% of the award based on individual performance (including conduct and behaviours). Gateway measures based on profit before tax, leverage ratio and conduct risk will also apply. Targets under the APP plan are commercially sensitive and so will be disclosed, along with performance achieved, in next year's report.

Summary remuneration policy for executive directors		
Element	**Operation and opportunity**	**Implementation for 2023/24**
	Opportunity The normal maximum APP 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.	
Long-Term Performance Pay (LTPP) plan *(previously Directors' Long-term Performance Award (DLPA))* 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	*Operation* LTPP (previously 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). 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 is 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 CCDS, or an appropriate alternative instrument, 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. *Opportunity* The normal maximum LTPP 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.	Subject to the achievement of satisfactory Society and individual performance over the 2023/24 year, it is intended that LTPP awards will be made at a maximum of 100% of salary. *Performance measures:* 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 strategic objectives of the Society. The measures for the 2022/23 LTPP awards (for the performance period 2023/24 to 2025/26) can be found on page 124. Targets for the 2022/23 LTPP awards are commercially sensitive and so will be disclosed, along with performance achieved, in the Annual Report and Accounts 2026. Details of the performance measures for the 2023/24 LTPP (for the performance period 2024/25 to 2026/27) will be included in next year's remuneration report.

Summary remuneration policy for non-executive directors

Element

Society Chair and non-executive director fees

Provide a market competitive fee level for the role at Nationwide

Operation

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).

Implementation

Implementation for 2022/23

As signalled in last year's report of the directors on remuneration, non-executive director fees were expected to be reviewed in June 2022, outside of the usual timing of the annual review cycle. A review was undertaken in October 2022 and the fees were adjusted with effect from 1 November 2022. The review ensured alignment with market practice among comparable organisations and reflected the required time commitment for each role.

Implementation for 2023/24

The annual review of non-executive director fees for 2023/24 has been undertaken and fees adjusted with effect from 1 April 2023. The review was in line with the salary increase awarded to the Chairman and executive directors, to ensure that fees continued to align with the market, and also took account of inflationary pressures and the expected workload for the non-executive directors.

	Fees effective 1 April 2023 £'000	Fees effective 1 November 2022 £'000	Fees effective 1 April 2022 £'000
Society Chairman	**565.0**	525.0	525.0
Basic fee for non-executive directors	**90.0**	85.0	70.0
Senior Independent Director	**37.0**	35.0	30.0
Chair of the Audit, Board Risk or Remuneration Committee	**60.5**	57.0	35.0
Member of the Audit, Board Risk or Remuneration Committee	**28.8**	27.0	15.0
Member of the Nomination and Governance Committee	**12.8**	12.0	6.0
Chair of the Board IT and Resilience Committee	**-**	-	25.0
Member of the Board IT and Resilience Committee	**-**	-	10.0
Employee Voice	**13.3**	12.5	11.0

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 APP and LTPP plans. 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.

Directors' report for the year ended 4 April 2023

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	26-28
Key performance indicators	Strategic report	23-25
Chief Executive's review including performance updates	Strategic report	12-22
Employee involvement, engagement, development, inclusion and diversity	Strategic report	31-32 and 50-51
Viability statement	Strategic report	67-68
Environment, greenhouse gas emissions (GHG), energy consumption	Strategic report	62-64
Directors' remuneration	Governance – Report of the directors on remuneration	114-134
Mortgage arrears	Risk report	160-161
Risk management	Risk report	139-142
Principal risks	Risk report	143
Top and emerging risks	Strategic report – Risk overview	65-66
Directors' share options	Annual business statement	321
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	309
Business relationships	Strategic report – Engaging with our stakeholders	29-35
Financial instruments	Financial statements – note 15	283-286
Corporate Governance statement	Governance – Statement of compliance with the UK Corporate Governance Code 2018	84

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 79 to 82.

The changes in the year and up to the date of signing the financial statements are as follows:

- the appointment of Debbie Crosbie (executive director) on 2 June 2022;
- the appointment of Tracey Graham (non-executive director) on 28 September 2022;
- the retirement from the Board of Joe Garner (executive director) on 1 June 2022; and
- the retirement from the Board of Tim Tookey (non-executive director) on 14 July 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.

Charitable donations

The Society paid £9.3 million (2022: £6.1 million) in charitable donations in the year ended 4 April 2023. This includes payments as part of our commitment of 1% of profits to charitable causes[1], as well as additional payments made to debt charities.

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

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 18 November 2022 the Society made a transfer of £2,885,728 to the Reclaim Fund Limited, the administrators of the unclaimed assets scheme. This follows the previous transfer the Society made in December 2021 (£5,191,806). The total contributions from inception to November 2022 are £85,008,823.

Creditor payment policy

The Group's policy is to agree the terms of payment with suppliers at the start of trading, ensure that suppliers are aware of the terms of payment, and pay in accordance with its contractual and other legal obligations. The Group's policy is to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms. The Society's creditor days, calculated based on year end creditor balances and total spend, were 7 days at 4 April 2023 (2022: 9 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 220 to 233, 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 2023 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 the ongoing war in Ukraine and increases in the cost of living. 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 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 third report in September 2022. 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
18 May 2023

Risk report

Risk report

Introduction

Effective risk management is critical to delivering our new purpose: *Banking - but fairer, more rewarding, and for the good of society*, and ensures that we keep our customers' 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.

All business activities involve some degree of risk. Nationwide's risk management processes ensure the risks that arise from its activities are appropriately managed 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, or increase the potential for customer harm;
- robust decision making, ensuring the right risks are taken, in a way that is considered and supports the strategy, maintaining a reputation for high standards of business conduct;
- ensuring the risks taken are understood, controlled, and managed appropriately; and
- maintaining an appropriate balance between delivering customer value and remaining a prudent and responsible lender.

Managing risk

Enterprise Risk Management Framework (ERMF)

The Enterprise Risk Management Framework (ERMF) sets out the approach to risk management. The framework 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.

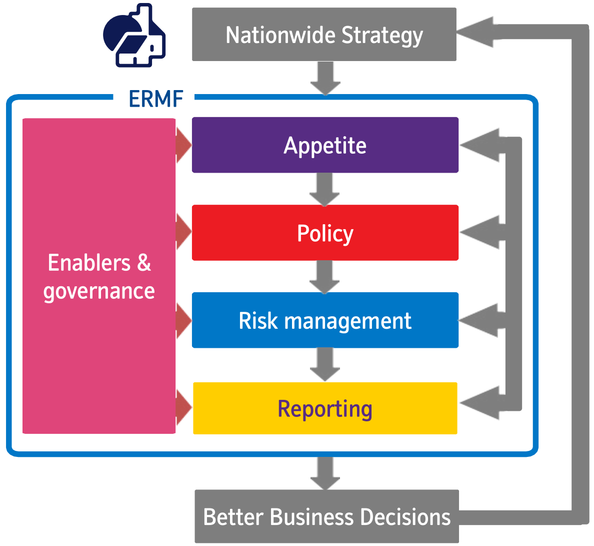
The Board monitors the Society's risk management and internal control systems and carries out an annual review of their effectiveness. Based on this year's review, the Society has an adequate risk framework in place and a broadly effective control environment. Their design has been and will continue to be enhanced, to ensure they remain 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. To ensure the ERMF remains fit for purpose, the strengthening of the operational and conduct risk and control environment, including our economic crime and anti-money laundering controls, will continue to be a focus in 2023/24 and beyond.

A programme has been completed to develop further the organisation's understanding of the most prominent risks and controls within key customer-facing processes. In addition, there is an ongoing programme of work to support the management of economic crime obligations. Taken together, this work has enabled Nationwide to refine and develop its approach to the identification and management of risk, and to build understanding of how learnings can be applied more broadly across other key processes.

Activity to support the new FCA Consumer Duty has seen Nationwide introduce a Good Outcomes Guide as part of the ERMF. A new requirement has also been included in the ERMF for all principal risk categories to evidence how good outcomes are delivered, and how foreseeable harm to customers is prevented when assessing risk. A programme of work is ongoing to ensure full preparedness for the Consumer Duty prior to when it becomes effective in July 2023.

Risk Management at Nationwide is underpinned by a positive risk culture. Strong risk management enables the Society to achieve its strategic ambitions in a resilient, sustainable, and efficient way, make better business decisions, achieve better outcomes, and prevent foreseeable harm to customers.

The ERMF 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 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
- Board risk appetite
- Management risk appetite
- Risk indicators
- Control indicators

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
- 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
- Risk and control self-assessment
- 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
- 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
- Risk categorisation model
- Risk and incident impact matrix
- Risk heatmap
- People capability
- Risk culture

Three lines of defence

Risk management activities are structured along a three lines of defence (3LoD) model. This approach has been tailored to reflect the Society's size, complexity, and business model and led to the creation of the Chief Controls Office (CCO) in 2020. The introduction of the CCO has enhanced Nationwide's risk management structure through centralised training, delivery of Society-wide control testing and coordination of risk management programmes.

Though everyone has a role to play in risk management, the overall responsibilities and accountabilities are outlined through this 3LoD model, as follows:

First line: Risk and control ownership

Responsibilities
Designing and running business operations, owning and operating most controls to manage the Society's risks and meet regulatory requirements.

Accountabilities
- Setting business objectives
- Defining risk appetite
- Identifying, owning and managing risks
- Implementing and maintaining regulatory compliance
- Adhering to the Society's minimum standards for risk management and associated policies

First line: Chief Controls Office

Responsibilities
Providing centralised risk management support to allow business leaders to discharge their risk and control accountabilities.

Accountabilities
- Control governance and reporting
- Coordination of regulatory requests
- Planning and delivery of control testing

Second line: Oversight, support and challenge

Responsibilities
Overseeing, through support, challenge and the provision of advice, the effectiveness of risk management by the first line.

Accountabilities
- Providing expert advice on business initiatives
- Providing advice on the setting of 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

Third line: Assurance

Responsibilities
Providing assurance to the Board on the effectiveness of our control environment.

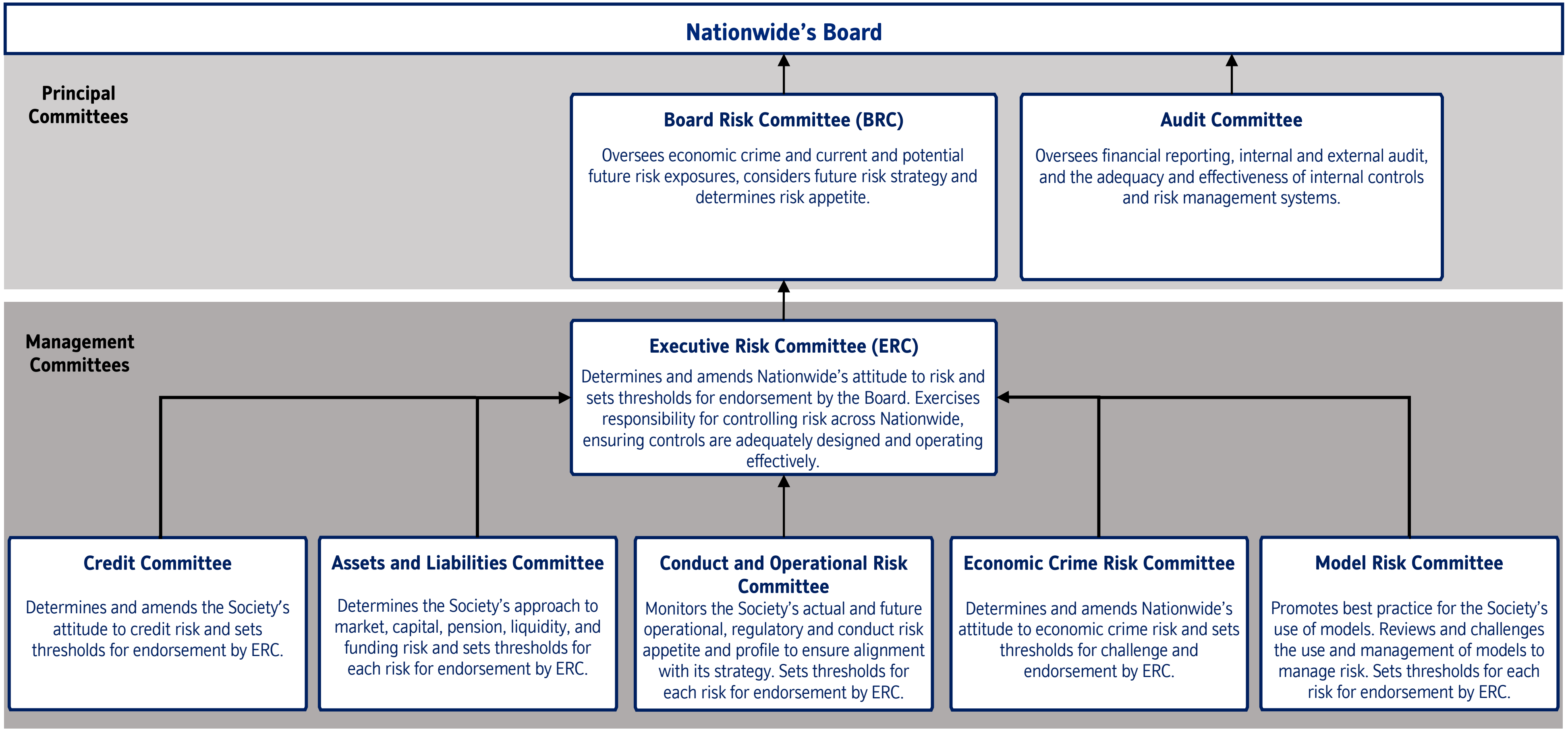
Accountabilities
- Performing independent audits of the effectiveness of first line risk management and second line oversight, support and challenge
- Taking a risk-based approach to the programme of audit work
- Preparing an annual opinion on the risk management and controls framework across the Society 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 BRC and Audit Committee provide oversight and advice to the Board. It is important the correct committees review the relevant risk management information in a thorough and timely manner. Key matters such as risk appetite breaches and associated actions are reported to the relevant management committee and appropriate matters are escalated to the Executive Risk Committee (ERC) chaired by the Chief Risk Officer. The ERC 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.

During the year the Economic Crime Risk Committee has been implemented as part of the management committee structure to ensure the ongoing effectiveness of Nationwide's economic crime risk management. A review of the Group's committee structure has resulted in the principal Board IT and Resilience Committee being retired, with risk-related matters it previously considered being transferred to the BRC. The committee structure is detailed below:



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 65.

Principal Risk	Definition	Risk Committee	Further Detail
Credit risk	The risk of loss as a result of a customer or counterparty failing to meet their financial obligations.	Credit Committee	Page 144
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 182
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, customers, the Board and regulators.		Page 194
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 200
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 208
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 210
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 Economic Crime Risk Committee	Page 211
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 216

Credit risk – Overview

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

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

Nationwide manages credit risk for the following portfolios:

Portfolio	Definition
Residential mortgages	Loans secured on residential property
Consumer banking	Unsecured lending comprising current account overdrafts, personal loans and credit cards
Commercial lending	Loans to registered social landlords, project finance loans made under the Private Finance Initiative and commercial real estate lending
Treasury	Treasury liquidity, derivatives and discretionary investment portfolios

Management of credit risk

Nationwide lend in a responsible, affordable and sustainable way to ensure safeguarding of 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:

Safeguarding our customers and counterparties by lending responsibly

- Only lending to customers or counterparties who demonstrate that they can afford to borrow.
- Supporting customers buying mortgageable properties of wide-ranging types and qualities.
- Working with customers and counterparties to recover their financial position should there be a delay, or risk of delay, in meeting their financial obligations.

Safeguarding the Society's financial performance, strength and reputation

- Managing asset quality so that losses through an economic cycle will not undermine profitability, financial strength and our standing with external stakeholders.
- Ensuring that no material segment of our lending exposes the Society to excessive loss.
- Proactively managing credit risk and complying with regulation.

Nationwide operates with a commitment to responsible lending and a focus on championing good conduct and fair outcomes. In this respect, the Society formulates appropriate credit criteria and policies which are aimed at mitigating risk from 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 customers are able to meet their obligations.

Credit risk is managed within the risk appetite set by the Board. Performance against this appetite is measured across a range of metrics, each with an absolute limit, and this is reported to Credit Committee on a monthly basis. Corrective action is taken when metrics move towards or beyond these limits to ensure performance remains or returns to within appetite within an appropriate timescale.

Nationwide is committed to helping customers who may anticipate or find themselves experiencing a period of financial difficulty, offering a range of forbearance options tailored to their individual circumstances. Accounts in arrears, or where the borrower is in financial difficulty, are managed by specialist teams within Nationwide or referred to debt charities to ensure an optimal outcome for our customers and the Society.

Forbearance

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

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

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

Impairment provisions

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

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

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

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

Governance and oversight of impairment provisions

The models used in the calculation of impairment provisions are governed in accordance with the Society's Model Risk Framework 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 proposed by our Chief Economist. Details of these economic assumptions and material adjustments are included in note 10 to the financial statements.

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

Performance overview

The UK economy has experienced a period of uncertainty, with rising energy prices driving an increase in the cost of living and contributing to a high inflationary environment throughout the year. Additionally, increases to the Bank rate have increased the cost of borrowing and put further pressure on household affordability. Provisions have increased to £765 million (2022: £746 million) which includes a modelled adjustment totalling £177 million (2022: £159 million) to reflect an increase to the probability of default to account for the combined risks of rising inflation, increasing interest rates and credit indicators which are judged to be temporary, such as reduced levels of arrears.

Despite this, observed credit quality and performance have remained broadly stable. Performance has benefited from the impact of government energy support schemes, with residential mortgages and consumer banking arrears remaining at a low level relative to recent years. Help and support continues to be provided for members who are struggling as a result of increases in their cost of living, with concessions granted based on consideration of their individual circumstances.

The combined pressure of high inflation and rising interest rates has also led to a reduction in housing market activity, with a reduction in house prices of 3.1% in the year to March 2023.

Outlook

Continued pressure on personal finances is expected, with the level of government energy support reducing and inflation forecasted to return to the Bank of England 2% target in the medium rather than short term. The Group's base case economic scenario assumes that house prices will fall by 4.5% during 2023.

Maximum exposure to credit risk

Nationwide's maximum exposure to credit risk at 4 April 2023 was £279 billion (2022: £284 billion).

Credit risk largely arises from loans and advances to customers, which account for 79% (2022: 78%) of Nationwide's total credit risk exposure. Within this, the exposure relates primarily to residential mortgages, which account for 95% (2022: 95%) 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						
2023	**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	201,615	(280)	201,335	8,952	210,287	75
Consumer banking	4,408	(469)	3,939	28	3,967	2
Commercial and other lending	4,994	(16)	4,978	1,353	6,331	2
Fair value adjustment for micro hedged risk (note ii)	430	-	430	-	430	-
	211,447	(765)	210,682	10,333	221,015	79
FVTPL loans and advances to customers:						
Residential mortgages (note iii)	47	-	47	-	47	-
Commercial	53	-	53	-	53	-
	100	-	100	-	100	-
Other items:						
Cash	25,635	-	25,635	-	25,635	9
Loans and advances to banks and similar institutions	2,860	-	2,860	-	2,860	1
Investment securities – FVOCI	27,562	-	27,562	-	27,562	10
Investment securities – Amortised cost	40	-	40	-	40	-
Investment securities – FVTPL	13	-	13	-	13	-
Derivative financial instruments	6,923	-	6,923	-	6,923	3
Fair value adjustment for portfolio hedged risk (note ii)	(5,011)	-	(5,011)	-	(5,011)	(2)
	58,022	-	58,022	-	58,022	21
Total	269,569	(765)	268,804	10,333	279,137	100

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

Notes:

i. In addition to the amounts shown above, Nationwide has revocable commitments of £10,444 million (2022: £10,622 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 £0.2 million (2022: £0.4 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 intermediary channels and the branch network. Since 2008 buy to let mortgages have only been originated under The Mortgage Works (UK) plc (TMW) brand. Legacy mortgages are smaller portfolios in run-off.

Arrears rates on the residential mortgage portfolios remain low. However, higher inflation and rising interest rates are placing greater pressure on household finances, increasing the potential for future arrears.

There have been signs of a slowdown in activity in the housing market over the year with a reduction in house prices driving an increase in the average LTV of the residential portfolios to 55% (2022: 52%). Further information is included on page 157.

Residential mortgage gross balances				
	2023		2022	
(Audited)	**£m**	**%**	£m	%
Prime	**157,511**	**78**	154,363	78
Buy to let and legacy:				
Buy to let (note i)	**42,704**	**21**	42,014	21
Legacy (note ii)	**1,400**	**1**	1,679	1
	44,104	**22**	43,693	22
Amortised cost loans and advances to customers	**201,615**	**100**	198,056	100
FVTPL loans and advances to customers	**47**		64	
Total residential mortgages	**201,662**		198,120	

Notes:
i. Buy to let mortgages include £41,805 million (2022: £40,879 million) originated under the TMW brand, with other brands now closed to new originations.
ii. Legacy includes self-certified, near prime and sub-prime lending, all of which were discontinued in 2009.

Impairment charge for the year

Impairment charge/(release) and write-offs for the year		
	2023	2022
(Audited)	**£m**	£m
Prime	**11**	(19)
Buy to let and legacy	**83**	(109)
Total impairment charge/(release)	**94**	(128)
	%	%
Impairment charge/(release) as a % of average gross balance	**0.05**	(0.07)
	£m	£m
Gross write-offs	**5**	5

Balance sheet provisions have increased to £280 million (2022: £187 million). This includes a modelled adjustment totalling £77 million (2022: £13 million) to reflect an increase to the probability of default to account for the combined risks of rising inflation, increasing interest rates and credit indicators which are judged to be temporary, such as reduced levels of arrears. The impairment charge for the year reflects the increase in this adjustment, primarily due to expectations that higher mortgage interest rates will reduce borrower affordability. Further information is included in note 10 to the financial statements. The impairment charge also reflects the impact of increased expected credit losses in the severe downside economic scenario, also as a result of higher interest rate assumptions. The prior year impairment release reflected a decrease in provisions during a year where the economic outlook had improved.

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								
2023	**Stage 1**	**Stage 2 total**	**Stage 2 Up to date**	**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	**138,670**	**18,200**	**17,134**	**811**	**255**	**641**	**-**	**157,511**
Buy to let and legacy	**26,211**	**17,345**	**16,875**	**294**	**176**	**425**	**123**	**44,104**
Total	**164,881**	**35,545**	**34,009**	**1,105**	**431**	**1,066**	**123**	**201,615**
Provisions								
Prime	**10**	**48**	**39**	**5**	**4**	**26**	**-**	**84**
Buy to let and legacy	**13**	**143**	**127**	**8**	**8**	**41**	**(1)**	**196**
Total	**23**	**191**	**166**	**13**	**12**	**67**	**(1)**	**280**
Provisions as a % of total balance	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Prime	**0.01**	**0.26**	**0.23**	**0.60**	**1.51**	**4.04**	**-**	**0.05**
Buy to let and legacy	**0.05**	**0.83**	**0.75**	**2.85**	**4.70**	**9.76**	**-**	**0.44**
Total	**0.01**	**0.54**	**0.49**	**1.20**	**2.81**	**6.30**	**-**	**0.14**

Residential mortgages staging analysis								
2022	Stage 1	Stage 2 total	Stage 2 Up to date	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	-	0.61	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

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 on transition to IFRS 9 of £5 million (2022: £5 million).

Total residential mortgage provisions have increased to £280 million (2022: £187 million), with £82 million of this increase relating to buy to let and legacy mortgages. This provision increase is largely the result of a deterioration in the economic outlook and increases to the provisions held for affordability risks in relation to rising inflation and higher interest rates.

Stage 2 loans total £35.5 billion (2022: £16.4 billion), which includes £16.6 billion (2022: £4.6 billion) of loans where the PD has been uplifted to recognise the increased risk of default in a period of economic uncertainty. The total stage 2 increase is largely due to increasing affordability risks because of higher mortgage interest rates, in addition to the implementation of models which are more responsive to the risks in the economic scenarios.

Credit performance continues to be strong. Stage 3 loans in the residential mortgage portfolio equate to 0.5% (2022: 0.6%) of the total residential mortgage exposure. Of the total £1,066 million (2022: £1,224 million) stage 3 loans, £562 million (2022: £552 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; £179 million (2022: £346 million) of the stage 3 balances in forbearance are in this probation period.

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

Reconciliation of movements in gross residential mortgage balances and impairment provisions

	Non-credit impaired				Credit impaired (note i)			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3 and POCI			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2022	180,248	22	16,449	105	1,359	60	198,056	187
Stage transfers:								
Transfers from stage 1 to stage 2	**(64,316)**	**(15)**	**64,316**	**15**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(190)**	**-**	**(714)**	**(30)**	**904**	**30**	**-**	**-**
Transfers from stage 2 to stage 1	**41,971**	**169**	**(41,971)**	**(169)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**267**	**2**	**449**	**15**	**(716)**	**(17)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(162)**		**239**		**(5)**		**72**
Net movement arising from transfer of stage	**(22,268)**	**(6)**	**22,080**	**70**	**188**	**8**	**-**	**72**
New assets originated or purchased	**33,067**	**3**	**-**	**-**	**-**	**-**	**33,067**	**3**
Net impact of further lending and repayments	**(8,858)**	**(2)**	**(660)**	**(3)**	**(38)**	**-**	**(9,556)**	**(5)**
Changes in risk parameters in relation to credit quality	**-**	**9**	**-**	**35**	**-**	**20**	**-**	**64**
Other items impacting income statement charge/(release) (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**
Redemptions	**(17,308)**	**(3)**	**(2,324)**	**(16)**	**(295)**	**(17)**	**(19,927)**	**(36)**
Income statement charge for the year								**94**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(25)**	**(5)**	**(25)**	**(5)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**4**
4 April 2023	**164,881**	**23**	**35,545**	**191**	**1,189**	**66**	**201,615**	**280**
Net carrying amount		**164,858**		**35,354**		**1,123**		**201,335**

Note:
i. Gross balances of credit impaired loans include £123 million (2022: £135 million) of POCI loans, which are presented net of lifetime ECL on transition to IFRS 9 of £5 million (2022: £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.

Reason for residential mortgages being reported in stage 2 (note i)									
2023	**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)	**255**	**4**	**1.51**	**176**	**8**	**4.70**	**431**	**12**	**2.81**
Increase in PD since origination (less than 30 DPD)	**17,769**	**44**	**0.25**	**15,952**	**105**	**0.66**	**33,721**	**149**	**0.44**
Qualitative criteria:									
Forbearance (less than 30 DPD)	**137**	**-**	**0.17**	**5**	**-**	**0.21**	**142**	**-**	**0.02**
Interest only – significant risk of inability to refinance at maturity (less than 30 DPD)	**-**	**-**		**1,203**	**30**	**2.46**	**1,203**	**30**	**2.46**
Other qualitative criteria	**39**	**-**	**0.02**	**9**	**-**	**1.12**	**48**	**-**	**0.23**
Total stage 2 gross balances	**18,200**	**48**	**0.26**	**17,345**	**143**	**0.83**	**35,545**	**191**	**0.54**

Reason for residential mortgages being reported 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

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.

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.

At 4 April 2023, stage 2 balances were £35,545 million (2022: £16,449 million). Of these, only 1% (2022: 2%) 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 £16.6 billion (2022: £4.6 billion) of loans where the modelled PD has been uplifted to recognise the increased risk of default in a period of economic uncertainty, including the impact of higher interest rates on borrower affordability. The impact of this uplift in PD 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% (2022: <0.1%) of total stage 2 balances.

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									
2023	**Gross balances (note i)**				**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%	**126,387**	**5,620**	**48**	**132,055**	**4**	**19**	**-**	**23**	**0.02**
0.15 to < 0.25%	**20,845**	**5,133**	**17**	**25,995**	**9**	**19**	**-**	**28**	**0.11**
0.25 to < 0.50%	**12,556**	**6,566**	**29**	**19,151**	**5**	**26**	**-**	**31**	**0.16**
0.50 to < 0.75%	**3,020**	**3,981**	**19**	**7,020**	**1**	**16**	**-**	**17**	**0.24**
0.75 to < 2.50%	**1,937**	**8,180**	**62**	**10,179**	**2**	**39**	**-**	**41**	**0.40**
2.50 to < 10.00%	**120**	**3,663**	**77**	**3,860**	**1**	**31**	**1**	**33**	**0.86**
10.00 to < 100%	**16**	**2,402**	**141**	**2,559**	**1**	**41**	**4**	**46**	**1.76**
100% (default)	**-**	**-**	**796**	**796**	**-**	**-**	**61**	**61**	**7.61**
Total	**164,881**	**35,545**	**1,189**	**201,615**	**23**	**191**	**66**	**280**	**0.14**

Loan balance and provisions by PD									
2022	Gross balances (note i)				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

Note:
i. Includes POCI loans of £123 million (2022: £135 million).

At 4 April 2023, 96% (2022: 97%) of the portfolio had a PD of less than 2.5%, reflecting the high quality of the residential mortgage portfolios.

Distribution of new business by borrower type (by value)

Distribution of new business by borrower type (by value) (note i)	2023 %	2022 %
Prime:		
First time buyers	**29**	29
Home movers	**29**	30
Remortgages	**24**	20
Other	**1**	1
Total prime	**83**	80
Buy to let:		
Buy to let new purchases	**7**	8
Buy to let remortgages	**10**	12
Total buy to let	**17**	20
Total new business	**100**	100

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

The proportion of prime new lending from remortgages has increased to 24% (2022: 20%), reflecting a slower house purchase market alongside some remortgage activity likely to have been brought forward due to the expected future path of interest rates. Buy to let lending reduced as a proportion of all new business to 17% (2022: 20%) as the volume of both house purchases and remortgages in the buy to let market reduced due to rising interest rates.

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)	2023 %	2022 %
0% to 60%	**28**	27
60% to 75%	**35**	35
75% to 80%	**9**	11
80% to 85%	**13**	14
85% to 90%	**12**	11
90% to 95%	**3**	2
Over 95%	**-**	-
Total	**100**	100

Average LTV of new business (by value) (note i)	2023 %	2022 %
Prime	**70**	71
Buy to let	**66**	67
Group	**69**	70

Average LTV of loan stock (by value) (note ii)	2023 %	2022 %
Prime	**54**	51
Buy to let and legacy	**56**	54
Group	**55**	52

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.

House prices, measured through the Nationwide House Price Index, have reduced over the past 12 months by 3.1% (2022: increase of 14.3%). This has caused Group average stock LTV to increase to 55% (2022: 52%).

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 2023 *(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%	25,295	14,722	11,214	9,433	7,969	3,944	2,512	1,074	76,163	0.03
50% to 60%	11,743	7,396	6,162	4,572	3,882	2,127	1,338	421	37,641	0.08
60% to 70%	12,937	7,878	6,956	5,108	4,142	2,478	1,299	504	41,302	0.13
70% to 80%	11,411	4,977	4,601	3,406	2,239	1,875	791	345	29,645	0.21
80% to 90%	3,704	2,072	2,132	1,368	952	766	418	206	11,618	0.18
90% to 100%	866	718	817	551	351	330	175	86	3,894	0.26
	65,956	37,763	31,882	24,438	19,535	11,520	6,533	2,636	200,263	0.10
Not fully collateralised										
Over 100% LTV	7	23	21	20	21	36	5	30	163	6.90
Collateral value	6	22	20	20	20	32	5	28	153	
Negative equity	1	1	1	-	1	4	-	2	10	
Total stage 1 and 2 loans	65,963	37,786	31,903	24,458	19,556	11,556	6,538	2,666	200,426	0.11
Stage 3 and POCI loans										
Fully collateralised										
LTV ratio:										
Up to 50%	225	99	77	59	50	24	18	11	563	1.95
50% to 60%	82	51	48	29	25	12	11	3	261	3.30
60% to 70%	48	36	46	18	15	12	7	5	187	5.47
70% to 80%	29	18	29	12	4	11	3	4	110	11.53
80% to 90%	9	3	12	2	1	5	1	3	36	22.39
90% to 100%	3	1	5	-	1	1	-	3	14	31.00
	396	208	217	120	96	65	40	29	1,171	4.67
Not fully collateralised										
Over 100% LTV	1	1	5	1	-	2	-	8	18	71.68
Collateral value	1	1	3	1	-	2	-	7	15	
Negative equity	-	-	2	-	-	-	-	1	3	
Total stage 3 and POCI loans	397	209	222	121	96	67	40	37	1,189	5.53
Total residential mortgages	66,360	37,995	32,125	24,579	19,652	11,623	6,578	2,703	201,615	0.14
Total geographical concentrations	33%	19%	16%	12%	10%	6%	3%	1%	100%	

Residential mortgage gross balances by LTV and region

2022	Greater London	Central England	Northern England	South East England	South West England	Scotland	Wales	Northern Ireland	Total	Provision Coverage
(Audited)	£m	£m	£m	£m	£m	£m	£m	£m	£m	%
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%	

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 broadly stable at 29% and 46% (2022: 30% and 46%) respectively.

In addition to balances held at amortised cost shown in the table above, £47 million (2022: £64 million) of residential mortgages are held at FVTPL. These have an average LTV of 35% (2022: 33%). The largest geographical concentration within the FVTPL balances is also in Greater London, at 61% (2022: 57%) 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)		
	2023	2022
	%	%
Prime	**0.29**	0.30
Buy to let and legacy	**0.44**	0.50
Total	**0.32**	0.34
UK Finance (UKF) industry average (note ii)	**0.71**	0.77

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 UKF data shown for 2023 is as at December 2022 and the 2022 data is as at March 2022.

Number of properties in possession as % of total book				
	2023		2022	
	Number of properties	**%**	Number of properties	%
Prime	**117**	**0.01**	53	0.00
Buy to let and legacy	**129**	**0.04**	106	0.03
Total	**246**	**0.02**	159	0.01
UKF industry average (note ii)		**0.02**		0.01

The proportion of cases more than 3 months in arrears has decreased during the year to 0.32% (2022: 0.34%). Arrears levels are expected to increase as a result of the rising cost of living, including higher mortgage payments, but to remain low relative to the industry average.

The number of properties in possession has increased to 246 (2022: 159) as activity that was temporarily suspended during the pandemic has recommenced. The possession of a borrower's property is only undertaken where all reasonable attempts to resolve the situation have been unsuccessful.

Residential mortgages by payment status

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

Residential mortgages gross balances by payment status	2023				2022			
	Prime	Buy to let and legacy	Total		Prime	Buy to let and legacy	Total	
(Audited)	£m	£m	£m	%	£m	£m	£m	%
Not past due	155,849	43,270	199,119	98.7	152,932	43,000	195,932	98.9
Past due 0 to 1 month	1,044	376	1,420	0.7	920	305	1,225	0.6
Past due 1 to 3 months	310	213	523	0.3	240	127	367	0.2
Past due 3 to 6 months	155	108	263	0.1	122	78	200	0.1
Past due 6 to 12 months	111	65	176	0.1	99	74	173	0.1
Past due over 12 months	76	50	126	0.1	109	95	204	0.1
Possessions	13	22	35	-	5	14	19	-
Total residential mortgages	157,558	44,104	201,662	100	154,427	43,693	198,120	100

The balance of cases past due by more than 3 months has remained broadly stable at £600 million (2022: £596 million).

As at 4 April 2023, the mortgage portfolios include 1,329 (2022: 1,924) mortgage accounts, including those in possession, where payments were more than 12 months in arrears. The total principal outstanding in these cases was £147 million (2022: £215 million), and the total value of arrears was £26 million (2022: £30 million).

Interest only mortgages

At 4 April 2023, interest only balances of £6,812 million (2022: £7,824 million) account for 4% (2022: 5%) of prime residential mortgages. Nationwide re-entered the prime market for interest only lending under a newly established credit policy in April 2020; however, 85% of current interest only mortgage balances relate to historical accounts 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, with regular engagement with borrowers to ensure the loan is redeemed or to agree a strategy for repayment.

Of the buy to let and legacy portfolio, £40,126 million (2022: £39,591 million) relates to interest only balances, representing 91% (2022: 91%) 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 consider LTV and affordability assessments. The impact of recognising this risk is to increase provisions by £45 million (2022: £46 million).

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
2023	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**
Prime	**69**	**209**	**261**	**1,023**	**5,250**	**6,812**	**4.3**
Buy to let and legacy	**190**	**195**	**269**	**1,729**	**37,743**	**40,126**	**91.0**
Total	**259**	**404**	**530**	**2,752**	**42,993**	**46,938**	**23.3**
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

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.

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)						
	2023			2022		
	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)	**101**	**149**	**250**	113	141	254
Interest only concessions	**503**	**25**	**528**	639	32	671
Capitalisation	**85**	**22**	**107**	88	30	118
Capitalisation – notification of death of borrower	**75**	**105**	**180**	81	93	174
Term extensions (within term)	**41**	**18**	**59**	32	16	48
Permanent interest only conversions	**1**	**29**	**30**	2	32	34
Total forbearance	**806**	**348**	**1,154**	955	344	1,299
Of which stage 2	**289**	**74**	**363**	204	73	277
Of which stage 3	**383**	**253**	**636**	565	240	805
	%	**%**	**%**	%	%	%
Total forbearance as a % of total gross balances	**0.5**	**0.8**	**0.6**	0.6	0.8	0.7
	£m	**£m**	**£m**	£m	£m	£m
Impairment provisions on forborne loans	**11**	**20**	**31**	12	18	30

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.

The average LTV for forborne accounts is 47% (2022: 46%). In addition to the amortised cost balances above, £4 million of FVTPL balances (2022: £4 million) are also 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. Over the year, total balances across these portfolios have reduced to £4,408 million (2022: £4,638 million) driven by reduced new business and a continued pay down of the existing book on personal loans.

Arrears levels have increased slightly during the year but remain low. High levels of inflation and rising interest rates will put pressure on household budgets, stretching affordability for some borrowers. As a result, arrears levels are expected to increase over the short to medium term.

Consumer banking gross balances				
	2023		2022	
(Audited)	**£m**	**%**	£m	%
Overdrawn current accounts	**310**	**7**	286	6
Personal loans	**2,574**	**58**	2,864	62
Credit cards	**1,524**	**35**	1,488	32
Total consumer banking	**4,408**	**100**	4,638	100

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

Impairment charge/(release) and write-offs for the year		
	2023	2022
(Audited)	**£m**	£m
Overdrawn current accounts	**9**	23
Personal loans	**28**	4
Credit cards	**(6)**	66
Total impairment charge	**31**	93
	%	%
Impairment charge as a % of average gross balance	**0.68**	2.04
	£m	£m
Gross write-offs	**97**	83

The lower impairment charge for the year ended 4 April 2023 reflects a release of provisions, which reduced to £469 million (2022: £529 million). Provisions include a modelled uplift to the probability of default to reflect economic uncertainty. This adjustment increases provisions by £100 million (2022: £146 million), and reduced over the year due to a refinement to the estimated impact of affordability risks.

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

	2023				2022			
	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	**160**	**91**	**59**	**310**	121	131	34	286
Personal loans	**1,378**	**1,063**	**133**	**2,574**	1,735	989	140	2,864
Credit cards	**845**	**591**	**88**	**1,524**	790	600	98	1,488
Total	**2,383**	**1,745**	**280**	**4,408**	2,646	1,720	272	4,638
Provisions								
Overdrawn current accounts	**5**	**21**	**38**	**64**	4	36	31	71
Personal loans	**9**	**54**	**117**	**180**	11	60	124	195
Credit cards	**11**	**136**	**78**	**225**	10	165	88	263
Total	**25**	**211**	**233**	**469**	25	261	243	529
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Overdrawn current accounts	**3.10**	**22.90**	**64.80**	**20.57**	3.34	27.33	90.86	24.63
Personal loans	**0.67**	**5.09**	**87.66**	**7.00**	0.62	6.09	88.50	6.80
Credit cards	**1.25**	**22.96**	**88.85**	**14.73**	1.33	27.51	89.78	17.69
Total	**1.04**	**12.07**	**83.25**	**10.63**	0.95	15.18	89.25	11.40

Balance sheet provisions of £469 million (2022: £529 million) include a modelled adjustment of £100 million (2022: £146 million) to reflect an increase to the probability of default to account for the combined risks of rising inflation, increasing interest rates and credit indicators which are judged to be temporary, such as reduced levels of arrears. This has resulted in £585 million (2022: £700 million) of balances being moved to stage 2. Further information is included in note 10.

Credit performance continues to be strong, with the proportion of total balances in stage 3 increasing slightly to 6.4% (2022: 5.9%). £25 million of overdrawn current account balances are included in stage 3 due to these borrowers being granted a six-month 0% interest concession to support them with increased costs of living. 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 6.9% (2022: 7.6%) of gross balances.

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

Reconciliation of movements in gross consumer banking balances and impairment provisions								
	Non-credit impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Stage 1		Stage 2		Stage 3			
	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions	Gross balances	Provisions
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 5 April 2022	2,646	25	1,720	261	272	243	4,638	529
Stage transfers:								
Transfers from stage 1 to stage 2	**(2,871)**	**(38)**	**2,871**	**38**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(12)**	**(1)**	**(151)**	**(92)**	**163**	**93**	**-**	**-**
Transfers from stage 2 to stage 1	**2,347**	**206**	**(2,347)**	**(206)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**3**	**2**	**32**	**15**	**(35)**	**(17)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(174)**		**209**		**4**		**39**
Net movement arising from transfer of stage	**(533)**	**(5)**	**405**	**(36)**	**128**	**80**	**-**	**39**
New assets originated or purchased	**1,344**	**33**	**-**	**-**	**-**	**-**	**1,344**	**33**
Net impact of further lending and repayments	**(739)**	**(23)**	**(161)**	**(35)**	**(20)**	**(15)**	**(920)**	**(73)**
Changes in risk parameters in relation to credit quality	**-**	**(4)**	**-**	**29**	**-**	**23**	**-**	**48**
Other items impacting income statement charge/(release) (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(6)**	**-**	**(6)**
Redemptions	**(335)**	**(1)**	**(219)**	**(8)**	**(3)**	**(1)**	**(557)**	**(10)**
Income statement charge for the year								**31**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(97)**	**(97)**	**(97)**	**(97)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**6**
4 April 2023	**2,383**	**25**	**1,745**	**211**	**280**	**233**	**4,408**	**469**
Net carrying amount		**2,358**		**1,534**		**47**		**3,939**

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.

Reason for consumer banking balances being reported in stage 2

2023	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)	2	2	98	11	6	52	4	4	84	17	12	65
Increase in PD since origination (less than 30 DPD)	81	18	22	1,049	48	5	576	130	23	1,706	196	12
Qualitative criteria:												
Forbearance (less than 30 DPD) (note ii)	-	-	17	1	-	10	-	-	19	1	-	13
Other qualitative criteria (less than 30 DPD)	8	1	10	2	-	4	11	2	18	21	3	13
Total stage 2 gross balances	91	21	23	1,063	54	5	591	136	23	1,745	211	12

Reason for consumer banking balances being reported 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

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 represent loans which have experienced a significant increase in credit risk since origination. The significant increase is determined through both quantitative and qualitative indicators. Of the £1,745 million (2022: £1,720 million) stage 2 balances, only 1% (2022: 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 £585 million (2022: £700 million) of loans where the modelled PD has been uplifted to recognise the increased risk of default in a high inflation and interest rate environment. The impact of this uplift in PD has resulted in these loans breaching existing quantitative PD thresholds.

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 quality

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

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

Consumer banking gross balances and provisions by PD

2023	**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%	**644**	**7**	**-**	**651**	**2**	**-**	**-**	**2**	**0.30**
0.15 to < 0.25%	**338**	**26**	**-**	**364**	**1**	**1**	**-**	**2**	**0.48**
0.25 to < 0.50%	**397**	**136**	**-**	**533**	**2**	**2**	**-**	**4**	**0.77**
0.50 to < 0.75%	**225**	**157**	**-**	**382**	**1**	**3**	**-**	**4**	**1.13**
0.75 to < 2.50%	**482**	**554**	**3**	**1,039**	**6**	**21**	**-**	**27**	**2.60**
2.50 to < 10.00%	**270**	**552**	**13**	**835**	**10**	**69**	**2**	**81**	**9.70**
10.00 to < 100%	**27**	**313**	**9**	**349**	**3**	**115**	**4**	**122**	**34.79**
100% (default)	**-**	**-**	**255**	**255**	**-**	**-**	**227**	**227**	**89.38**
Total	**2,383**	**1,745**	**280**	**4,408**	**25**	**211**	**233**	**469**	**10.63**

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

The credit quality of the consumer banking portfolio has remained strong. 86% (2022: 87%) of the portfolio has a PD of less than 10%.

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

	2023					2022				
	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	**265**	**2,386**	**1,423**	**4,074**	**92.4**	240	2,681	1,377	4,298	92.7
Past due 0 to 1 month	**8**	**49**	**14**	**71**	**1.6**	11	35	14	60	1.3
Past due 1 to 3 months	**4**	**15**	**8**	**27**	**0.6**	4	11	8	23	0.5
Past due 3 to 6 months	**5**	**11**	**6**	**22**	**0.5**	4	16	6	26	0.6
Past due 6 to 12 months	**4**	**11**	**1**	**16**	**0.4**	3	8	1	12	0.2
Past due over 12 months	**2**	**11**	**-**	**13**	**0.3**	3	9	-	12	0.2
Charged off (note i)	**22**	**91**	**72**	**185**	**4.2**	21	104	82	207	4.5
Total	**310**	**2,574**	**1,524**	**4,408**	**100.0**	286	2,864	1,488	4,638	100.0

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.

Of total balances excluding charged off balances, £149 million (2022: £133 million) are subject to arrears, representing 3.5% (2022: 3.0%) of these balances. Arrears levels are expected to increase further due to the affordability pressures which borrowers may face, due to high inflation and increasing interest rates.

Forbearance

Nationwide is committed to supporting customers facing financial difficulty 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.

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.

During the year, total balances subject to forbearance have increased to £79 million (2022: £60 million). This increase is largely the result of £25 million (2022: £nil) of overdrawn current accounts being granted a six-month 0% interest rate concession to support borrowers with increased costs of living. This has been included in the interest suppressed payment concession line in the table below.

Gross balances subject to forbearance (note i)

	2023				2022			
	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**	4	-	1	5
Interest suppressed payment concession	**28**	**33**	**9**	**70**	4	36	11	51
Balance re-aged/re-written	**-**	**2**	**2**	**4**	-	2	2	4
Total forbearance (note ii)	**32**	**35**	**12**	**79**	8	38	14	60
Of which stage 2	**3**	**3**	**3**	**9**	3	6	4	13
Of which stage 3	**29**	**31**	**9**	**69**	5	30	10	45
	%	**%**	**%**	**%**	%	%	%	%
Total forbearance as a % of total gross balances	**10.3**	**1.4**	**0.8**	**1.8**	2.8	1.3	0.9	1.3
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Impairment provisions on forborne loans	**12**	**28**	**8**	**48**	6	28	9	43

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.

Credit risk – Commercial

Summary

The commercial portfolio comprises loans which have been provided to meet the funding requirements of registered social landlords, project finance initiatives and commercial real estate investors. The project finance and commercial real estate portfolios are closed to new business and are in run-off. Total balances have therefore continued to reduce. Overall credit quality has remained stable.

Commercial gross balances		
	2023	2022
(Audited)	**£m**	£m
Registered social landlords (note i)	**4,131**	4,329
Project finance (note ii)	**537**	611
Commercial real estate (CRE)	**326**	513
Commercial balances at amortised cost	**4,994**	5,453
Fair value adjustment for micro hedged risk (note iii)	**430**	549
Commercial balances – FVTPL (note iv)	**53**	52
Total	**5,477**	6,054

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.
iv. FVTPL includes CRE balances of £51 million (2022: £50 million) and registered social landlord balances of £2 million (2022: £2 million).

Impairment charge and write-offs for the year		
	2023	2022
(Audited)	**£m**	£m
Total impairment charge	**1**	8
Gross write-offs	**15**	12

Commercial provision charges and write-offs remain low and primarily reflect updates to a small number of individually assessed exposures.

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

Commercial product and staging analysis	2023				2022			
	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	**4,061**	**70**	**-**	**4,131**	4,292	37	-	4,329
Project finance	**459**	**78**	**-**	**537**	552	54	5	611
CRE	**274**	**19**	**33**	**326**	393	65	55	513
Total	**4,794**	**167**	**33**	**4,994**	5,237	156	60	5,453
Provisions								
Registered social landlords	**1**	**-**	**-**	**1**	1	-	-	1
Project finance	**-**	**8**	**-**	**8**	-	13	2	15
CRE	**1**	**-**	**6**	**7**	-	1	13	14
Total	**2**	**8**	**6**	**16**	1	14	15	30
Provisions as a % of total balance	**%**	**%**	**%**	**%**	%	%	%	%
Registered social landlords	**0.01**	**0.26**	**-**	**0.02**	0.01	0.16	-	0.01
Project finance	**0.02**	**10.65**	**-**	**1.57**	0.02	23.40	46.69	2.46
CRE	**0.19**	**1.31**	**18.94**	**2.13**	0.15	1.22	23.41	2.80
Total	**0.02**	**5.26**	**18.94**	**0.32**	0.02	8.62	25.35	0.55

Over the year, the performance of the commercial portfolio has remained stable, with 96% (2022: 96%) of balances in stage 1. Of the £167 million (2022: £156 million) stage 2 loans, which represent 3.3% (2022: 2.9%) of total balances, £nil (2022: £7 million) were in arrears by 30 days or more.

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 (PFI). The stage 2 balance reflects a small number of borrowers affected by issues relating to underlying assets.

Repayment of loans has resulted in the reduction in stage 2 CRE loan balances. Write-offs and a reduction in asset values for remaining impaired loans has resulted in an overall decrease to CRE stage 3 provisions to £6 million (2022: £13 million).

Credit quality

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

The CRE portfolio continues to be spread across the retail, office, residential investment, industrial and leisure sectors. Where a CRE loan is secured on assets crossing different sectors, the sector allocation is based upon the value of the underlying assets in each sector. For the CRE portfolio the largest exposure is to the residential sector, which represents 39% (2022: 40%) of total CRE balances, with a weighted average LTV of 35% (2022: 34%). Exposure to office assets has reduced to 21% (2022: 23%) of total CRE balances, with a weighted average LTV of 64% (2022: 58%).

The LTV distribution of CRE balances has remained stable with 91% (2022: 91%) of the portfolio having an LTV of 75% or less, and 47% (2022: 61%) of the portfolio having an LTV of 50% or less.

CRE balances with arrears have reduced to £18 million (2022: £44 million). Of these, £10 million (2022: £24 million) have arrears greater than 3 months and relate to loans that are in recovery or are being actively managed.

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	**2023**					2022				
	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	**171**	**-**	**-**	**171**	**0.0**	258	5	-	263	0.0
Good	**97**	**1**	**-**	**98**	**0.3**	107	18	-	125	0.2
Satisfactory	**6**	**2**	**-**	**8**	**2.8**	26	16	-	42	0.8
Weak	**-**	**16**	**1**	**17**	**1.5**	2	26	1	29	2.6
Impaired	**-**	**-**	**32**	**32**	**19.1**	-	-	54	54	23.7
Total	**274**	**19**	**33**	**326**	**2.1**	393	65	55	513	2.8

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 85% (2022: 84%) of the portfolio balances rated as strong, good or satisfactory.

Risk grades for the project finance portfolio use the same slotting approach as for CRE lending, with 85% (2022: 90%) of the exposure rated strong or good.

The registered social landlord portfolio is risk rated using an internal PD rating model, with the major drivers being financial strength, evaluations of the borrower's oversight and management, and their type and size. The distribution of exposures is weighted towards the stronger risk ratings and against a backdrop of zero defaults in the portfolio, the credit quality remains high, with an average 12-month PD of 0.04% (2022: 0.03%) across the portfolio.

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)	2023 £m	2022 £m
Modifications:		
Payment concession	**79**	125
Extension at maturity	**16**	37
Breach of covenant	**21**	14
Security amendment	**-**	2
Refinance	**-**	7
Total	**116**	185
Total impairment provision on forborne loans	**14**	27

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

Total forborne balances (excluding FVTPL) have reduced to £116 million (2022: £185 million), comprising CRE of £50 million (2022: £116 million) and project finance of £66 million (2022: £69 million), following a reduction in CRE balances through redemption or write off.

In addition, there are £36 million (2022: £36 million) of FVTPL commercial lending balances which are forborne that relate to 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 2023 treasury assets represented 23.2% (2022: 23.3%) of total assets. There are no exposures to emerging markets, hedge funds or credit default swaps. The classification of treasury asset balances is set out below.

Treasury asset balances

(Audited)	Classification	2023 £m	2022 £m
Cash	Amortised cost	**25,635**	30,221
Loans and advances to banks and similar institutions	Amortised cost	**2,860**	3,052
Investment securities (note i)	FVOCI	**27,562**	25,349
Investment securities (note i)	FVTPL	**13**	17
Investment securities	Amortised cost	**40**	118
Liquidity and investment portfolio		**56,110**	58,757
Derivative instruments (note ii)	FVTPL	**6,923**	4,723
Treasury assets		**63,033**	63,480

Notes:
i. Investment securities at FVOCI include £44 million (2022: £46 million) and investment securities at FVTPL include £13 million (2022: £17 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 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 2023, derivative liabilities were £1,524 million (2022: £1,428 million).

Cash held in the treasury portfolio has decreased to £25.6 billion (2022: £30.2 billion) and reflects the early repayment of £4.5 billion of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). Investment activity remains focused on high quality liquid assets, including assets eligible for central bank operations. Fixed rate investment securities are fully swapped to floating rate receipts for the duration of the holding. The increase in investment securities in the year of £2.2 billion is largely attributable to increased holdings of government and supranational bonds. The £40 million of investment securities classified as amortised cost are residential mortgage backed securities (RMBS), which are expected to have paid down fully by December 2024. 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 2023 (2022: £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

	2023		2022	
	Gross balances	Provisions	Gross balances	Provisions
(Audited)	£m	£m	£m	£m
Loans and advances to banks and similar institutions	**2,860**	**-**	3,052	-
Investment securities – FVOCI	**27,562**	**-**	25,349	-
Investment securities – amortised cost	**40**	**-**	118	-

Liquidity and investment portfolio

The liquidity and investment portfolio of £56,110 million (2022: £58,757 million) comprises liquid assets and other securities as set out below.

Liquidity and investment portfolio by credit rating (note i)										
2023		**AAA**	**AA**	**A**	**Other**	**UK**	**US**	**Europe**	**Japan**	**Other**
(Audited)	**£m**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Liquid assets:										
Cash and reserves at central banks	**25,635**	**-**	**99**	**1**	**-**	**99**	**-**	**1**	**-**	**-**
Government bonds (note ii)	**20,130**	**31**	**54**	**15**	**-**	**37**	**24**	**14**	**12**	**13**
Supranational bonds	**2,838**	**46**	**54**	**-**	**-**	**-**	**-**	**-**	**-**	**100**
Covered bonds	**2,843**	**100**	**-**	**-**	**-**	**46**	**-**	**16**	**-**	**38**
Residential mortgage backed securities (RMBS)	**618**	**100**	**-**	**-**	**-**	**69**	**-**	**31**	**-**	**-**
Other asset backed securities	**197**	**100**	**-**	**-**	**-**	**94**	**-**	**6**	**-**	**-**
Liquid assets total	**52,261**	**22**	**72**	**6**	**-**	**67**	**9**	**7**	**5**	**12**
Other securities (note iii):										
RMBS FVOCI	**885**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
RMBS amortised cost	**40**	**100**	**-**	**-**	**-**	**100**	**-**	**-**	**-**	**-**
Other investments (note iv)	**64**	**-**	**11**	**-**	**89**	**89**	**-**	**11**	**-**	**-**
Other securities total	**989**	**93**	**1**	**-**	**6**	**99**	**-**	**1**	**-**	**-**
Loans and advances to banks and similar institutions	**2,860**	**-**	**85**	**14**	**1**	**82**	**13**	**5**	**-**	**-**
Total	**56,110**	**22**	**71**	**7**	**-**	**68**	**9**	**7**	**4**	**12**
2022 *(Audited)*	£m	%	%	%	%	%	%	%	%	%
Liquid assets:										
Cash and reserves at central banks	30,221	-	99	1	-	100	-	-	-	-
Government bonds (note ii)	19,579	30	55	15	-	33	23	22	13	9
Supranational bonds	1,318	58	42	-	-	-	-	-	-	100
Covered bonds	2,630	99	1	-	-	48	-	19	-	33
Residential mortgage backed securities (RMBS)	584	100	-	-	-	71	-	29	-	-
Other asset backed securities	289	100	-	-	-	89	-	11	-	-
Liquid assets total	54,621	18	76	6	-	71	8	9	5	7
Other securities (note iii):										
RMBS FVOCI	889	100	-	-	-	100	-	-	-	-
RMBS amortised cost	118	100	-	-	-	100	-	-	-	-
Other investments (note iv)	77	-	18	-	82	82	-	18	-	-
Other securities total	1,084	93	1	-	6	99	-	1	-	-
Loans and advances to banks and similar institutions	3,052	-	77	21	2	83	11	5	-	1
Total	58,757	19	75	6	-	72	8	9	4	7

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 £13 million (2022: £17 million).

Country exposures

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

Country exposures (note i)							
2023	Government Bonds (note ii)	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	418	-	-	-	-	-	418
Belgium	360	-	-	-	-	-	360
Denmark	105	-	9	-	-	-	114
Finland	355	-	23	-	-	-	378
France	939	-	139	-	60	7	1,145
Germany	274	-	57	-	72	12	415
Ireland	-	-	-	-	-	-	-
Netherlands	306	191	-	-	-	-	497
Norway	-	-	128	-	-	-	128
Sweden	11	-	107	-	-	-	118
Total Europe	**2,768**	**191**	**463**	**-**	**132**	**19**	**3,573**
Australia	43	-	153	-	-	-	196
Canada	2,506	-	852	-	6	-	3,364
Japan	2,383	-	-	-	-	-	2,383
Singapore	-	-	76	-	-	-	76
USA	4,959	-	-	-	384	-	5,343
Supranational entities (note iii)	-	-	-	2,838	-	-	2,838
Total	**12,659**	**191**	**1,544**	**2,838**	**522**	**19**	**17,773**

Country exposures (continued)

Country exposures (note i) 2022 *(Audited)*	Government Bonds (note ii) £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 iii)	-	-	-	1,318	-	-	1,318
Total	13,073	170	1,350	1,318	514	47	16,472

Notes:
i. Nationwide has no exposure to credit risk arising from Russian or Ukrainian assets as it does not invest in liquid assets or other securities issued by Russian or Ukrainian entities.
ii. Balances classified as government bonds include government guaranteed, agency and government sponsored bonds.
iii. Exposures to Supranational entities are made up of bonds issued by highly rated multilateral development banks (MDBs) and international organisations (IOs).

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 2023 was £6.9 billion (2022: £4.7 billion) and the fair value of derivative liabilities was £1.5 billion (2022: £1.4 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 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 (2022: £1.3 billion) were available and £5.6 billion (2022: £3.5 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								
	2023				2022			
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	**636**	**6,287**	**-**	**6,923**	541	4,177	5	4,723
Netting benefits	**(182)**	**(1,104)**	**-**	**(1,286)**	(212)	(1,050)	(1)	(1,263)
Net current credit exposure	**454**	**5,183**	**-**	**5,637**	329	3,127	4	3,460
Collateral (cash)	**(451)**	**(5,183)**	**-**	**(5,634)**	(329)	(3,127)	(4)	(3,460)
Net derivative credit exposure	**3**	**-**	**-**	**3**	-	-	-	-

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.

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 180% over the 12 months ended 4 April 2023 (2022: 183%). Nationwide continues to manage its liquidity against internal risk appetite which is more prudent than regulatory requirements, and under the most severe internal 30 calendar day stress test, the average ratio of the liquid asset buffer to stressed net outflows over the 12 months ended 4 April 2023 equated to 155% (2022: 159%).

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 2023 was 147% (2022: 146%), 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)	**2023 £bn**	2022 £bn	**Members' interests, equity and liabilities**	**2023 £bn**	2022 £bn
Retail mortgages	**201.4**	197.9	Retail funding	**187.1**	178.0
Treasury assets (including liquidity portfolio)	**56.1**	58.8	Wholesale funding	**57.9**	67.3
Commercial lending	**5.5**	6.0	Other liabilities	**3.1**	3.0
Consumer lending	**3.9**	4.1	Capital and reserves (note ii)	**23.8**	24.1
Other assets	**5.0**	5.6			
Total	**271.9**	272.4	**Total**	**271.9**	272.4

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 2023, Nationwide's loan to deposit ratio, which represents loans and advances to customers divided by the total of shares and other deposits, was 109.6% (2022: 113.6%). Included within shares and other deposits, which are reported in the retail and wholesale funding categories above, is £29 billion of deposits (4 April 2022: £26 billion) that exceed the £85,000 per customer Financial Services Compensation Scheme (FSCS) limit.

Wholesale funding

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

Wholesale funding has decreased by £9.4 billion to £57.9 billion during the year. The decrease is primarily due to a reduction in balances relating to repurchase (repo) agreements and a £4.5 billion reduction in holdings from the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME), which is partially offset by a £2.1 billion net increase in secured and unsecured funding issuances during the period. The wholesale funding ratio (on-balance sheet wholesale funding as a proportion of total funding liabilities) at 4 April 2023 was 25.0% (2022: 28.8%).

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

Wholesale funding by currency

	2023						2022					
	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	**1.4**	**0.1**	**0.6**	**-**	**2.1**	**4**	4.2	2.9	4.0	-	11.1	16
Deposits	**11.0**	**-**	**-**	**-**	**11.0**	**19**	8.8	0.1	-	-	8.9	13
Certificates of deposit	**1.0**	**-**	**-**	**-**	**1.0**	**2**	-	-	-	-	-	-
Covered bonds	**6.0**	**7.2**	**-**	**1.2**	**14.4**	**25**	5.4	6.4	0.7	0.4	12.9	19
Medium term notes	**1.1**	**4.8**	**3.9**	**1.3**	**11.1**	**19**	1.8	3.8	3.8	0.6	10.0	15
Securitisations	**2.3**	**-**	**0.2**	**-**	**2.5**	**4**	2.6	-	0.4	-	3.0	4
Term Funding Scheme with additional incentives for SMEs (TFSME)	**17.2**	**-**	**-**	**-**	**17.2**	**29**	21.7	-	-	-	21.7	33
Other (note i)	**-**	**(1.1)**	**(0.2)**	**(0.1)**	**(1.4)**	**(2)**	-	(0.2)	(0.1)	-	(0.3)	-
Total	**40.0**	**11.0**	**4.5**	**2.4**	**57.9**	**100**	44.5	13.0	8.8	1.0	67.3	100

Note:

i. Other consists of fair value adjustments to debt securities in issue for micro hedged risks.

The table below sets out Nationwide's residual maturity of wholesale funding, on a contractual maturity basis.

Wholesale funding – residual maturity

2023	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	2.1	-	-	-	2.1	-	-	2.1
Deposits	7.6	1.6	1.4	0.3	10.9	0.1	-	11.0
Certificates of deposit	1.0	-	-	-	1.0	-	-	1.0
Covered bonds	0.8	0.1	-	1.6	2.5	1.1	10.8	14.4
Medium term notes	0.7	-	-	1.4	2.1	0.8	8.2	11.1
Securitisations	0.7	-	0.2	0.2	1.1	0.3	1.1	2.5
TFSME	-	-	-	-	-	11.9	5.3	17.2
Other (note i)	-	-	-	-	-	(0.1)	(1.3)	(1.4)
Total	12.9	1.7	1.6	3.5	19.7	14.1	24.1	57.9
Of which secured	3.6	0.1	0.2	1.8	5.7	13.3	16.4	35.4
Of which unsecured	9.3	1.6	1.4	1.7	14.0	0.8	7.7	22.5
% of total	22.3	2.9	2.8	6.0	34.0	24.4	41.6	100

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 (note i)	-	-	-	-	-	-	(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

Note:
i. Other consists of fair value adjustments to debt securities in issue for micro hedged risks.

At 4 April 2023, cash, government bonds and supranational bonds included in the liquid asset buffer represented 229% (2022: 153%) of wholesale funding maturing in less than one year, assuming no rollovers.

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 has met its most recent investment target of holding £1.5 billion of Environmental, Social and Governance (ESG) assets and will maintain a minimum holding of £1.5 billion for 2023/24. The investment criteria for ESG assets remains restricted to bonds issued by multilateral development banks and green issuances from selected governments.

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	2023						2022					
	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	25.5	-	0.1	-	-	25.6	30.0	0.2	-	-	-	30.2
Government bonds (note ii)	5.9	3.2	5.3	1.3	1.1	16.8	2.2	2.0	0.9	2.0	0.9	8.0
Supranational bonds	0.1	2.2	0.5	-	-	2.8	0.1	0.8	0.4	-	-	1.3
Covered bonds	1.1	1.6	0.1	-	-	2.8	0.9	1.6	0.1	-	-	2.6
Residential mortgage backed securities (RMBS) (note iii)	1.3	0.2	-	-	-	1.5	0.1	0.1	-	-	-	0.2
Asset-backed securities and other securities	0.2	-	-	-	-	0.2	0.2	-	-	-	-	0.2
Total	34.1	7.2	6.0	1.3	1.1	49.7	33.5	4.7	1.4	2.0	0.9	42.5

Notes:
i. Other currencies primarily consist of Canadian dollars.
ii. Balances classified as government bonds include government guaranteed, agency and government sponsored 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 £53.3 billion for the 12 months ended 4 April 2023 (2022: £52.8 billion). Further details can be found in the Group's annual Pillar 3 disclosure 2023 at **nationwide.co.uk**

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)									
2023	**Due less than one month (note ii)**	**Due between one and three months**	**Due between three and six months**	**Due between six and nine months**	**Due between nine and twelve months**	**Due between one and two years**	**Due between two and five years**	**Due after more than five years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Financial assets									
Cash	25,635	-	-	-	-	-	-	-	25,635
Loans and advances to banks and similar institutions	1,887	-	-	-	-	-	-	973	2,860
Investment securities	81	151	41	68	402	772	8,880	17,220	27,615
Derivative financial instruments	77	1	59	44	243	450	3,904	2,145	6,923
Fair value adjustment for portfolio hedged risk	(16)	(31)	(297)	(26)	(314)	(1,118)	(2,829)	(380)	(5,011)
Loans and advances to customers	2,784	1,371	2,127	2,053	2,076	7,957	23,489	168,925	210,782
Total financial assets	**30,448**	**1,492**	**1,930**	**2,139**	**2,407**	**8,061**	**33,444**	**188,883**	**268,804**
Financial liabilities									
Shares	149,642	2,153	6,955	8,292	6,473	10,116	2,581	931	187,143
Deposits from banks and similar institutions	7,882	13	1	-	-	11,890	5,270	-	25,056
Of which repo	2,075	-	-	-	-	-	-	-	2,075
Of which TFSME	-	6	-	-	-	11,890	5,270	-	17,166
Other deposits	1,806	1,559	1,374	224	103	116	9	-	5,191
Fair value adjustment for portfolio hedged risk	-	1	1	-	-	-	-	-	2
Secured funding – ABS and covered bonds	1,501	41	264	233	1,592	1,328	5,930	5,142	16,031
Senior unsecured funding	1,685	12	53	200	1,126	805	5,757	1,957	11,595
Derivative financial instruments	56	-	2	1	24	134	405	902	1,524
Subordinated liabilities	8	2	31	14	-	795	3,225	2,680	6,755
Subscribed capital (note iii)	1	-	1	-	-	-	-	171	173
Total financial liabilities	**162,581**	**3,781**	**8,682**	**8,964**	**9,318**	**25,184**	**23,177**	**11,783**	**253,470**
Off-balance sheet commitments (note iv)	10,333	-	-	-	-	-	-	-	10,333
Net liquidity difference	**(142,466)**	**(2,289)**	**(6,752)**	**(6,825)**	**(6,911)**	**(17,123)**	**10,267**	**177,100**	**5,001**
Cumulative liquidity difference	**(142,466)**	**(144,755)**	**(151,507)**	**(158,332)**	**(165,243)**	**(182,366)**	**(172,099)**	**5,001**	**-**

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)	-

Notes:

i. The analysis excludes certain financial assets and liabilities relating to accruals, trade receivables, trade payables and settlement balances which are generally short-term in nature and lease liabilities. Further information on lease liabilities is shown in note 28 to the financial statements.

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.

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 2023	**Due less than one month (note i)**	**Due between one and three months**	**Due between three and six months**	**Due between six and nine months**	**Due between nine and twelve months**	**Due between one and two years**	**Due between two and five years**	**Due after more than five years**	**Total**
(Audited)	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Shares	149,642	2,430	7,194	8,468	6,587	10,335	2,749	931	188,336
Deposits from banks and similar institutions	7,882	195	183	182	182	12,437	5,280	-	26,341
Other deposits	1,806	1,573	1,380	226	104	117	9	-	5,215
Secured funding – ABS and covered bonds	1,516	56	346	322	1,777	1,741	6,748	6,568	19,074
Senior unsecured funding	1,688	17	109	210	1,252	1,064	6,496	2,261	13,097
Subordinated liabilities	9	-	94	59	90	1,040	3,957	3,072	8,321
Subscribed capital (note ii)	1	-	4	1	4	11	35	181	237
Total non-derivative financial liabilities	**162,544**	**4,271**	**9,310**	**9,468**	**9,996**	**26,745**	**25,274**	**13,013**	**260,621**
Derivative financial liabilities:									
Gross settled derivative outflows	(1,477)	(106)	(267)	(232)	(404)	(3,634)	(8,336)	(10,934)	(25,390)
Gross settled derivative inflows	1,439	89	244	205	381	3,555	8,154	10,422	24,489
Gross settled derivatives – net flows	(38)	(17)	(23)	(27)	(23)	(79)	(182)	(512)	(901)
Net settled derivative liabilities	(237)	(370)	(917)	(918)	(932)	(3,039)	(4,207)	(3,842)	(14,462)
Total derivative financial liabilities	**(275)**	**(387)**	**(940)**	**(945)**	**(955)**	**(3,118)**	**(4,389)**	**(4,354)**	**(15,363)**
Total financial liabilities	**162,269**	**3,884**	**8,370**	**8,523**	**9,041**	**23,627**	**20,885**	**8,659**	**245,258**
Off-balance sheet commitments (note iii)	10,333	-	-	-	-	-	-	-	10,333
Total financial liabilities including off-balance sheet commitments	**172,602**	**3,884**	**8,370**	**8,523**	**9,041**	**23,627**	**20,885**	**8,659**	**255,591**

Gross contractual cash flows 2022 (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	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

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.

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										
2023	**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 (note ii)**	**Other assets that are capable of being encumbered**	**Cannot be encumbered**	**Total**	
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash	**522**	**637**	**-**	**1,159**	**-**	**23,972**	**-**	**504**	**24,476**	**25,635**
Loans and advances to banks and similar institutions	**-**	**-**	**589**	**589**	**1,944**	**-**	**-**	**327**	**2,271**	**2,860**
Investment securities (note i)	**-**	**-**	**4,508**	**4,508**	**-**	**23,050**	**-**	**57**	**23,107**	**27,615**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,923**	**6,923**	**6,923**
Loans and advances to customers	**20,254**	**8,705**	**-**	**28,959**	**66,591**	**61,924**	**53,308**	**-**	**181,823**	**210,782**
Non-financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,089**	**3,089**	**3,089**
Fair value adjustment for portfolio hedged risk	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(5,011)**	**(5,011)**	**(5,011)**
Total	**20,776**	**9,342**	**5,097**	**35,215**	**68,535**	**108,946**	**53,308**	**5,889**	**236,678**	**271,893**
2022	£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

Notes:
i. Encumbered investment securities primarily relate to repo transactions and collateral pledged for derivatives.
ii. Included within loans and advances to customers are newly originated prime mortgages which require a period of time to elapse before they are eligible to use in existing secured funding programmes or at the central bank.

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; and
- 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.

Under the most severe internal 30 calendar day stress test (a combined market-wide and Nationwide-specific stress scenario), the average ratio of the liquid asset buffer to stressed net outflows over the 12 months ended 4 April 2023 equated to 155% (2022: 159%).

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 2023	Stable
Moody's	A1	P-1	A3	Baa1	March 2023	Stable
Fitch	A+	F1	A	BBB+	January 2023	Stable

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
2023	**-**	**0.6**
2022	-	1.7

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 through a continued presence in wholesale funding markets.

Capital risk

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, customers, the Board and regulators. Capital is held to protect customers, 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 the minimum regulatory requirements and the expectations of other key stakeholders continue to be met. 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 its 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), Additional Tier 1 (AT1) and Tier 2 capital instruments has been demonstrated. Over the past year, in line with Nationwide's capital management practises, opportunities have been taken to reduce excess capital resources through liabilities and equity management exercises, including a Tier 2 buyback of £0.7 billion in June 2022 and a CCDS buyback of £0.1 billion in February 2023.

Capital is held to meet Pillar 1 requirements for credit, counterparty credit and operational 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 February 2023. The ICR is £2.3 billion, of which at least £1.3 billion must be met by CET1 capital. Nationwide's ICR was equivalent to 4.5% of risk weighted assets (RWAs) at 4 April 2023 (2022: 5.4% of RWA). This largely reflects the low average risk weight, given that approximately 82% (2022: 82%) of total assets, excluding central bank reserves, are in the form of secured residential mortgages. The Pillar 2A ICR is set to a percentage of RWAs, having previously been set to a nominal amount during the year ended 4 April 2022 in response to the economic impacts of the Covid-19 pandemic.

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 V (UK CRD V). 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 considers the impacts on a firm's capital requirements and resources and other factors including leverage, systemic importance and any weaknesses in firms' risk management and governance procedures. The ICAAP also considers appropriate internal capital buffers to ensure that the impact of a severe but plausible stress can be absorbed.

Regular stress tests are undertaken, covering Nationwide and its subsidiaries, to enhance the understanding of potential vulnerabilities and how management actions might be deployed in the event of stressed conditions developing. These stress tests project capital resources and requirements over a multi-year period, during severe but plausible scenarios that cover a range of macro-economic or market-wide stresses, and idiosyncratic scenarios that test particular risks to Nationwide's business model. Stress test results are reported to the Board Risk Committee.

Nationwide aims to be in a position to maintain strong capital and leverage ratios in the event of a severe but plausible economic or idiosyncratic stress. Embedded in the risk appetite framework is an expectation to maintain CET1 and leverage ratios in excess of regulatory minima under stressed conditions.

Nationwide 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 Nationwide's capital and liquidity position in the event of a breach of one or more of the Group's 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 is available within the Resolvability Assessment Framework public disclosure 2022 at **nationwide.co.uk.** The next self-assessment submission will be made in October 2023 with public disclosures to follow in June 2024.

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 at that time.

The Bank of England returned to the Annual Cyclical Scenario (ACS) Stress Test framework in September 2022. This followed two years of Covid-19 pandemic crisis-related stress testing and its decision to postpone the test in March 2022 due to the conflict in Ukraine. The 2022 ACS tested the resilience of the UK banking system to deep simultaneous recessions in the UK and global economies, large falls in asset prices and higher global interest rates, and a separate stress of misconduct costs. The results are due to be published by the Bank of England in the summer of 2023.

There were 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 formed 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. 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 approved, a model adjustment continues to be made in line with the prior year to ensure outcomes are consistent with the revised IRB regulations. The impact of the model adjustment is a £21.4 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 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		
	2023	2022
Capital ratios	**%**	%
CET1 ratio	**26.5**	24.1
Total Tier 1 ratio	**29.1**	26.6
Total regulatory capital ratio	**32.7**	31.8
Leverage ratio	**6.0**	5.4
Capital requirements	**£m**	£m
Risk weighted assets (RWAs)	**51,731**	51,823
Leverage exposure	**249,299**	255,407

Risk-based capital ratios remain in excess of regulatory requirements with the CET1 ratio at 26.5% (2022: 24.1%), above Nationwide's CET1 capital requirement of 11.5%. The CET1 capital requirement includes a 7.0% minimum Pillar 1 and Pillar 2 requirement and the UK CRD V combined buffer requirements of 4.5% of RWAs.

The CET1 ratio increased to 26.5% (2022: 24.1%) as a result of an increase in CET1 capital of £1.3 billion, in conjunction with a reduction in RWAs of £0.1 billion. The CET1 capital resources increase was driven by £1.7 billion profit after tax, partially offset by £0.2 billion of capital distributions, a £0.1 billion CET1 deduction following the repurchase of CCDS in February 2023, and a £0.1 billion reduction in the fair value through other comprehensive income reserve. RWAs reduced, with an increase in residential mortgage lending being more than offset by a reduction in off-balance sheet commitments.

UK CRD V requires firms to calculate a leverage ratio, which is non-risk based, to supplement risk-based capital requirements. Nationwide's leverage ratio is 6.0% (2022: 5.4%), with Tier 1 capital increasing by £1.3 billion as a result of the CET1 capital movements outlined above. In addition, there was a decrease in leverage exposure of £6.1 billion driven by the same movements as described above for RWAs.

The leverage ratio remains in excess of Nationwide's leverage capital requirement of 4.0%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 0.75%. The buffer requirements include a 0.4% UK countercyclical leverage ratio buffer in-force from 13 December 2022, which will increase to 0.7% in July 2023.

Leverage requirements continue to be Nationwide's binding Tier 1 capital constraint, as the combination of minimum and regulatory buffer requirements are in excess of the risk-based equivalent. 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 2023 at **nationwide.co.uk**

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

Total regulatory capital		
	2023	2022
(Audited)	**£m**	£m
General reserve	**14,184**	12,753
Core capital deferred shares (CCDS) (note i)	**1,334**	1,334
Revaluation reserve	**38**	46
Fair value through other comprehensive income (FVOCI) reserve	**(14)**	89
Cash flow hedge and other hedging reserves	**129**	142
Regulatory adjustments and deductions:		
FVOCI reserve temporary relief (note ii)	**-**	(21)
Cash flow hedge and other hedging reserves (note iii)	**(129)**	(142)
Direct holdings of CET1 instruments (note i)	**(101)**	-
Foreseeable distributions (note iv)	**(67)**	(71)
Prudent valuation adjustment (note v)	**(119)**	(80)
Own credit and debit valuation adjustments (note vi)	**(27)**	(12)
Intangible assets (note vii)	**(839)**	(884)
Goodwill (note vii)	**(12)**	(12)
Defined-benefit pension fund asset (note vii)	**(614)**	(654)
Excess of regulatory expected losses over impairment provisions (note viii)	**(45)**	(48)
IFRS 9 transitional arrangements (note ix)	**15**	31
Insufficient coverage for non-performing exposures (note x)	**-**	-
Total regulatory adjustments and deductions	**(1,938)**	(1,893)
CET1 capital	**13,733**	12,471
Other equity instruments (Additional Tier 1)	**1,336**	1,336
Total Tier 1 capital	**15,069**	13,807
Dated subordinated debt (note xi)	**1,835**	2,643
Excess of impairment provisions over regulatory expected losses (note viii)	**14**	37
IFRS 9 transitional arrangements (note ix)	**(10)**	(21)
Tier 2 capital	**1,839**	2,659
Total regulatory capital	**16,908**	16,466

Notes:
i. The CCDS amount does not include the £101 million deduction for the Group's repurchase exercise completed in February 2023. This is presented separately as a regulatory adjustment in line with UK CRR article 42. Further information is included in note 31 to the financial statements.
ii. A temporary adjustment to mitigate the impact of volatility in central government debt on capital ratios, in line with the Covid-19 banking package. This temporary relief was no longer applicable from 1 January 2023.
iii. In accordance with UK CRR article 33, institutions do not include the fair value reserves related to gains or losses on cash flow and other hedges of financial instruments that are not valued at fair value.
iv. Foreseeable distributions in respect of CCDS and AT1 securities are deducted from CET1 capital under UK CRD V rules.
v. A prudent valuation adjustment (PVA) is applied in respect of fair valued instruments as required under regulatory capital rules.
vi. 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.
vii. Intangible, goodwill and defined benefit pension fund assets are deducted from capital resources after netting associated deferred tax liabilities.
viii. 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 UK CRR. The expected loss amounts for equity exposures are deducted from CET1 capital, gross of tax.

Notes (continued):

ix. The IFRS 9 transitional adjustments to capital resources apply scaled relief until 4 April 2023 due to the impact of the introduction of IFRS 9; the period for these adjustments was extended by the PRA for a further two years due to anticipated increases in expected credit losses as a result of the Covid-19 pandemic. Further detail is provided in the Group's annual Pillar 3 disclosure 2023 at **nationwide.co.uk**

x. Where relevant provisions do not sufficiently cover non-performing exposures, the shortfall is deducted from CET1 capital, in line with Article 47c of the UK CRR.

xi. Subordinated debt includes fair value adjustments relating 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.

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). From 1 January 2023, Nationwide's requirement is to hold twice the minimum capital requirements (6.5% of leverage exposure), plus the applicable capital requirement buffers, which amount to 0.7% of leverage exposure. This equals a total loss-absorbing requirement of 7.2%.

At 4 April 2023, total MREL resources were 8.8% (2022: 8.4%) of leverage exposure, in excess of the loss-absorbing requirement of 7.2% 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	2023			2022		
	Credit risk (note i) £m	Operational risk (note ii) £m	Total risk weighted assets £m	Credit risk (note i) £m	Operational risk (note ii) £m	Total risk weighted assets £m
Retail mortgages	**34,609**	**2,991**	**37,600**	34,935	3,054	37,989
Retail unsecured lending	**5,145**	**1,114**	**6,259**	4,694	1,045	5,739
Commercial loans	**1,883**	**60**	**1,943**	2,272	98	2,370
Treasury	**1,559**	**290**	**1,849**	1,865	409	2,274
Counterparty credit risk (note iii)	**989**	**-**	**989**	1,052	-	1,052
Other (note iv)	**1,715**	**1,376**	**3,091**	1,798	601	2,399
Total	**45,900**	**5,831**	**51,731**	46,616	5,207	51,823

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 UK CRR.

iii. Counterparty credit risk relates to derivative financial instruments, securities financing transactions (repurchase agreements) and exposures to central counterparties.

iv. Other relates to equity, fixed, intangible software and other assets.

RWAs reduced by £0.1 billion, partially due to a £0.3 billion decrease in retail mortgage credit risk RWAs. This was driven by a reduction in off-balance sheet commitments linked to a decrease in applications, which more than offset the impact of an increase in net mortgage lending. Commercial loan credit risk RWAs also reduced, primarily due to a decrease in the size of the commercial loan portfolio. Retail unsecured lending credit risk RWAs increased due to a six-month 0% interest rate concession provided to a number of overdrawn current accounts, to support borrowers through cost of living pressures. Operational risk RWAs increased due to rising average income in the previous three financial years.

In line with the prior year, a model adjustment continues to be included within RWAs to ensure outcomes are consistent with the revised IRB regulations in force from 1 January 2022. The impact of this is a £21.4 billion (2022: £21.8 billion) increase in risk weighted assets, predominantly in relation to retail mortgages. In line with other industry participants, Nationwide continues to engage with the PRA regarding approval and implementation timings.

More detailed analysis of RWAs is included in the Group's annual Pillar 3 Disclosure 2023 at **nationwide.co.uk**

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 its 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, including the introduction of an RWA standardised output floor to restrict the use of internal models. On 30 November 2022, the Bank of England issued CP16/22 'Implementation of the Basel 3.1 standards'. The consultation paper, although materially similar to the original Basel reforms, includes interpretations and some divergences.

The reforms may lead to an increase in Nationwide's RWAs relative to the current position, mainly due to the application of the standardised RWA output floor. The expected implementation date is 1 January 2025, with a phased introduction of the standardised RWA output floor until fully implemented by 2030. Based on Nationwide's latest interpretation of the draft rules, there will not be a material day-one impact on Nationwide's CET1 ratio.

Nationwide's CET1 ratio would reduce to a low-to-mid 20% range compared to the 26.5% reported at 4 April 2023, if the 2030 fully implemented standardised RWA output floor was overlaid. However, final impacts are uncertain as they are subject to future balance sheet size and mix and the rules are currently at the consultation stage.

On 13 December 2022 the FPC confirmed its intention to increase the UK countercyclical capital buffer (CCyB) rate to 2% from 5 July 2023. This will lead to an increase in Nationwide's risk-based capital requirements. Nationwide's leverage requirements will also increase as the countercyclical leverage ratio buffer is calculated as approximately 35% of the risk-based CCyB rate. Capital surpluses will reduce as a result of these changes; however, they will remain comfortably above Board risk appetite based on current forecasts.

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 or currency rates. 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 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 inflation swap rates and published inflation indices.	Value sensitivity
Currency risk	The impact on earnings and market value of treasury positions 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.

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

	2023 £bn	Market risk						
		Interest rate risk	Basis risk	Swap spread risk	Currency risk	Inflation risk	Product option risk	Structural risk
Assets								
Cash	**25.6**	✓	✓					✓
Loans and advances to banks and similar institutions	**2.9**	✓	✓		✓			✓
Investment securities	**27.6**	✓	✓	✓	✓	✓		
Derivative financial instruments	**6.9**	✓	✓	✓	✓	✓	✓	
Loans and advances to customers	**210.8**	✓	✓		✓		✓	✓
Other assets (note i)	**(1.9)**	✓	✓		✓			
Total assets	**271.9**							
Liabilities								
Shares (customer deposits)	**187.1**	✓	✓				✓	✓
Deposits from banks and similar institutions	**25.1**	✓	✓		✓			
Other deposits	**5.2**	✓	✓		✓			✓
Debt securities in issue	**27.6**	✓	✓		✓			
Derivative financial instruments	**1.5**	✓	✓	✓	✓	✓	✓	
Subordinated liabilities	**6.8**	✓	✓		✓			
Other liabilities	**1.7**	✓	✓		✓			
Total liabilities	**255.0**							
Total members' interests and equity	**16.9**	✓						✓

Note:

i. Other assets include the fair value adjustment for portfolio hedged risk of £(5,011) million (2022: £(2,443) million). Other assets also include the net defined benefit asset of the Nationwide Pension Fund, being the surplus of plan assets in excess of plan obligations. The Nationwide Pension Fund is subject to pension risk, which includes exposure to market risk factors such as interest rate risk, inflation risk, and equity risk (from changes to share prices). Pension risk is managed separately from the market risk arising from Nationwide's core business. Further details are included in the Pension risk section of this report.

Global market conditions

Over the past year there has been heightened market volatility, fuelled by the war in Ukraine, lockdown in China, UK political instability and rising inflation. The Consumer Prices Index, on an annualised basis, rose from 9.0% in April 2022 to 11.1% by October, before reducing slightly to 10.1% at the end of March 2023. The increase in inflation has been driven by rising energy costs as an indirect impact of the war in Ukraine and supply side constraints in the first half of the year. The Bank of England has responded by increasing the Bank rate on eight separate occasions from 0.75% to 4.25% over the course of this year. Despite this, there is evidence that inflation is becoming entrenched within the economy, with average pay increasing by 6.6%, on an annualised basis, in March 2023. Nationwide has some inflation exposure (to UK, EU and US inflation indices) from investment securities; however, inflation risk is managed within tight limits and the financial impact from recent increases in inflation globally has therefore been limited. Since the year end, the Bank rate has increased further to 4.5%.

Whilst the trend of higher inflation and interest rates was a world-wide phenomenon over the past year, volatility within the UK has been exacerbated by political instability. Fiscal policy announcements on 23 September 2022 triggered a lack of confidence in the UK economic outlook, causing the Sterling – US dollar exchange rate to fall to 1.04 and 10-year UK gilt yields to spike at 4.8%. Following the subsequent reversal of these policies and improved political stability, Sterling increased to 1.25 against the US dollar and UK gilt yields stabilised by the end of the year.

The failure of Silicon Valley Bank, Signature Bank and Credit Suisse during March 2023, and First Republic Bank in April 2023, raised concerns regarding the financial stability of the global banking sector. The immediate risk of widespread contagion across the banking sector has been contained by central banks; however, the longer-term outlook remains uncertain.

Whilst economic conditions within the UK have an impact on the Group, market risk is managed prudently. This is demonstrated by the Society's very low level of exposure to interest rate risk as outlined below.

Regulation

USD Libor will be published for the final time on 30 June 2023 and Nationwide is in the process of transitioning a small number of legacy derivative positions referencing USD Libor to risk-free rates ahead of this date. These derivative positions largely offset, leaving an immaterial residual exposure for the Society.

The small number of legacy commercial loans referencing synthetic Libor[1] at the start of the year have all now transitioned over to Sonia.

Market risk appetite, measurement and management

Nationwide's market risk exposure arises in the banking book; it does not have a trading book. Most of the exposure to market risk arises from fixed rate mortgages or savings and changes in the market value of the liquidity portfolio. There is a limited amount of currency risk on non-Sterling financial assets and liabilities held.

The Board is responsible for setting market risk appetite and 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 used to measure market risk, and details of exposures during the year, are outlined below.

[1] 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.

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 using a ten-year historical data series. A two-week horizon and a 99% confidence level is 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.

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.

The Society validates the VaR model on a monthly basis by back-testing the calculated VaR against a hypothetical profit and loss, which reflects the profit and loss that would have been realised if positions were held constant over a two-week period. An exception is recognised where a loss over a ten working-day period exceeds the VaR calculated by the model. The number of exceptions over a 12 month period is used to assess the performance of the VaR model, which in turn helps to decide whether it requires recalibration.

In addition, the model is 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;
- 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.

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 with a 99% confidence level and on a two-week basis, but uses market data from a two-year 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	**2023**			2022		
	Average	**High**	**Low**	Average	High	Low
	£m	**£m**	**£m**	£m	£m	£m
VaR (99%/10-day) *(audited)*	**0.6**	**1.4**	**0.1**	3.2	10.6	0.5
Sensitivity analysis (PV01) *(audited)*	**0.0**	**0.1**	**0.0**	0.1	0.2	(0.0)

The interest rate sensitivities in the table above do not include retail product behavioural changes, which are captured by other measures.

During December 2021 Nationwide's GBP Libor contracts were transitioned to Sonia ahead of Libor cessation on 1 January 2022. The interest rate VaR metric during this period was heightened because offsetting contracts were not always transitioned at the same time, leaving a temporary but significant Sonia Libor basis risk in the position.

Net Interest Income sensitivity (NII)

The sensitivities presented below measure the extent to which Nationwide's pre-tax earnings are exposed to changes in interest rates over a one-year period based on instantaneous parallel rises and falls in interest rates, with the shifts applied to the prevailing interest rates at the reporting date.

The sensitivities are prepared based on a static balance sheet, with all assets and liabilities maturing within the year replaced with like-for-like products, and changes in interest rates being fully passed through to variable rate retail products, unless a 0% floor is reached when rates fall. No management actions are included in the sensitivities.

The purpose of these sensitivities is to assess Nationwide's exposure to interest rate risk and therefore the sensitivities should not be considered as a guide to future earnings performance, with actual future earnings influenced by the extent to which changes in interest rates are passed through to product pricing, the timing of maturing assets and liabilities and changes to the balance sheet mix. In practice, earnings changes from actual interest rate movements will differ from those shown below because interest rate changes may not be passed through in full to those assets and liabilities that do not have a contractual link to Bank rate.

Potential (adverse)/favourable impact on annual pre-tax future earnings		
(Audited)	**2023**	2022
	£m	£m
+100 basis points shift	**(30)**	(note i)
+25 basis points shift	**(6)**	5
-25 basis points shift	**(5)**	(76)
-100 basis points shift	**(32)**	(note i)

Note:
i. +/-100 basis point shifts were not reported at 4 April 2022 but have been presented at 4 April 2023 to better reflect the prevailing interest rate environment.

The low levels of NII sensitivity reflect Nationwide's prudent management of interest rate risk. The sensitivities also reflect that changes in rates are fully passed through in these scenarios, and product margins are held static. The impact of take-up risk in the mortgage pipeline is included within the sensitivities, which contributes to the small negative sensitivities in the +25 and +100 basis point shifts.

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 for 2023 at **nationwide.co.uk**

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 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. The assets in this portfolio 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

	2023			2022		
	Average	**High**	**Low**	Average	High	Low
(Audited)	**£m**	**£m**	**£m**	£m	£m	£m
VaR (99%/10-day)	**0.1**	**0.7**	**0.0**	0.0	0.1	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.

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 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 from 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 proportion of return-seeking assets, including private equity, infrastructure, property 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.

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

As the Fund is closed to future accrual, 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 2023 and none are scheduled for the year ending 4 April 2024.

During the year, Nationwide and the Trustee agreed to a new Schedule of Contributions following the finalisation of the Fund's 31 March 2022 Triennial Valuation. As the Triennial Valuation indicated a funding surplus, a recovery plan requiring employer deficit contributions was not needed. The effective date of the Fund's next Triennial Valuation is 31 March 2025. 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 2023 is a £946 million (2022: £1,008 million) surplus within assets as set out below:

Changes in the present value of net defined benefit asset		
	2023	2022
	£m	£m
At 5 April	1,008	172
Pension charge	**(4)**	(5)
Net interest credit	**26**	4
Actuarial remeasurement	**(85)**	836
Employer contributions (including deficit contributions)	**1**	1
At 4 April	**946**	1,008

The movement in the retirement benefit obligation is driven by a decrease in asset values, which was partially offset by a decrease in pension liabilities. The significant increase in interest rates over the period has had a broadly neutral impact, with a reduction in liabilities, due to higher discount rates, being broadly offset by the changes in the value of scheme assets. Actual inflation over the year being higher than expected increased pension liabilities; this was partially offset by updates to the demographic assumptions.

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 or less 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 (reducing the allocation to return-seeking assets and increasing the allocation to liability matching assets), 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. This risk is actively managed to ensure the Society provides value to, and can meet the needs of, 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. This risk is monitored 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. During 2022 and continuing into 2023, high inflation has led to a monetary policy response by the Bank of England, with Bank rate rising from 0.1% to 4.5% in May 2023. Whilst ongoing competition from incumbent banks and digitally-focused new entrants remained strong, rising interest rates have enabled the Society to ease some pressure on margin. However, a rise in the cost of living has influenced consumer behaviour and inflationary growth continues to impact on the cost of operating the Society. To mitigate the impact on the Society's financial performance there is an ongoing focus on operational excellence which promotes enhanced efficiency and productivity. Furthermore, continual reviews of member propositions maintain the Society's competitive position in the core mortgage and savings markets in which it operates.

Managing business risk

Business risks are identified as part of the Society's strategy and financial planning processes and through regular horizon scanning exercises. This activity highlights potential areas of strategic development and areas requiring further assessment through a range of sensitivities to the Society's Financial Plan. Ongoing monitoring ensures the strategy and associated execution plans continue to evolve to address business model risks by considering changes in the external environment, including technology innovation, consumer behaviour, regulation, and market conditions.

These risks are assessed against Board Risk Appetite to ensure the right balance between distributing value through propositions, 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, income and costs are forecast over a five-year period with an updated forecast reviewed regularly by management, 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 customers want and need, and which provide value to the Society.
- **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 Annual Concurrent Stress testing scenarios provide a test of the business model and the risks it is exposed to. As an output from these activities, potential actions are identified that can be taken if risks crystallise. To effectively manage more extreme events a Recovery Plan is maintained, 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 pages 65 to 66). The Bank of England expects economic output to be broadly flat in the first half of 2023 and rise modestly thereafter. Nonetheless, sustained pressure from an increased cost of living continues to impact both customers and the Society's business risk, as consumers adapt to macro-economic factors influencing the UK economy. Ongoing elevated geopolitical tensions create additional uncertainty and may exacerbate business risk. Business risk will be impacted by competition within the mortgage and savings markets, which is expected to remain strong. To mitigate the business risk associated with these uncertain macro-economic and market conditions it is important the Society delivers its key strategic priorities.

Operational and conduct risk

Summary

Operational and conduct risk is defined as the risk of impacts resulting from inadequate or failed internal processes, conduct and compliance management, people and systems, or from external events. These are managed through proportionate controls designed to identify and prevent failures that could affect customers, colleagues or the Society. How the control environment operates is covered in more detail in the Managing risk section on pages 139 to 142.

Nationwide recognises the need for continuous improvement in the understanding of the operational and conduct risks it is exposed to and the associated control environment it relies on to mitigate these risks. A programme has been completed to further develop the organisation's understanding of the most prominent risks and controls within key customer-facing processes. In addition, there is an ongoing programme of work to support the management of economic crime obligations. Taken together, this work has enabled Nationwide to refine and develop its approach to the identification and management of risk, and to build understanding of how learnings can be applied more broadly across other key processes. It will also help to improve customer experiences and increase the efficiency and effectiveness of the processes and controls operated, and improve ongoing regulatory compliance. It is critical Nationwide remains safe and secure and does the right thing for its customers, with a risk and control culture embedded within the broader Society culture.

Over the last year, there has been continued focus on achieving the high standards expected by customers and regulators in the management of operational and conduct risk across the key areas detailed below.

Information and technology management

Operational resilience remains key to the Society's strategy and the regulatory environment. Customers, understandably, expect services to be available when they want to use them, with a demand for an 'always on' capability. Focus remains on keeping services resilient and available through ongoing investment in IT infrastructure. Investment has been prioritised in upgrading legacy infrastructure, so services are delivered using the latest technology and also in retaining the necessary ongoing support from specialist third party IT suppliers. A significant volume of critical infrastructure upgrades have been completed in the year to meet customer needs and adapt to the increased demand for online services.

Resilience remains a significant area of regulatory focus, with financial services providers expected to have a thorough 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 Important Business Services (IBS), defining acceptable levels of disruption 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 customer expectations. The Society continues to test and exercise its incident management and disaster recovery responses to known threats by running scenarios, live incident simulations and structured recovery walkthroughs. In response to recent regulatory policies, the detailed mapping of the IBS to identify vulnerabilities continues to develop.

System change carries risk and whilst significant effort has been made to mitigate this risk, including improving the stability of critical payment infrastructure, on occasions customers have experienced disruption to services. There is further work to do in this area to ensure the potential for any future disruption is minimised.

Data

Nationwide is committed to protecting the personal data under its control. To ensure this is achieved, three key control frameworks have been implemented which span data privacy, governance and security. 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 data processes to improve customer experience and reduce the likelihood of a data breach.

The rapid growth of digitisation and 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, including in relation to emerging developments in artificial intelligence. This requires an evolving set of skills both to operate and maintain systems and ensure a rigorous focus on customer outcomes and vulnerability. The data governance framework, and the implementation of a new data governance system in the latter half of 2022 have improved confidence in, and understanding of, the business data underpinning key business decisions.

Cyber security

As IT systems are managed and new technology is delivered for the future, the impact a successful cyber-attack could have on a customer's ability to manage their finances remains a critical area of focus. Significant effort is put into cyber risk management capabilities, with ongoing investment in the avoidance, detection and prevention of attacks and continued testing of responses should an attack be successful.

Cloud services continue to be adopted and we continue to invest in the associated technologies and working practices to ensure these new services are secure. When adopting these services, Nationwide ensures they are introduced with an acceptable level of risk through the operation of existing, and where required, new security controls. To manage the wider supply chain risk, third parties are required to follow a risk assessment process with proportionate security measures put in place which are monitored on an ongoing basis.

Applying lessons learned is critical to managing cyber risk effectively. Testing Nationwide's multi-layered approach to the protection of 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 developed, resource is repositioned, and funding is allocated appropriately.

Nationwide continues to work closely with the National Cyber Security Centre, other government bodies and peers in financial services and other industries. This enables Nationwide to remain informed about both the potential threats and responses, while sharing best practice in combatting cyber-crime. Continued collaboration with these bodies ensures an effective security stance against current threats, as well as emergent threats in a dynamic cyber landscape, is maintained.

Supply chain

Nationwide continues to use a network of third parties to provide both core and non-core services, such as IT infrastructure and support, and customer-facing services. When outsourcing activities to third parties, Nationwide retains responsibility for all services and the associated risks.

Regulatory expectations continue to evolve in relation to third party risk management. The requirements of Supervisory Statement SS2/21, which came in force on 31 March 2022, continue to be embedded. This includes proportionate risk management according to the criticality of the third party service and having controls to support the resilience of the Society, such as increased focus on exit management, regular ongoing performance monitoring and robust contractual provisions.

The Bank of England has published a discussion paper to gather industry views on the potential ways to manage the systemic risks posed by critical third parties. This recognises the increasing reliance within financial services on certain third parties, and how this impacts the supervisory authorities' objectives of protecting the UK's financial stability, market integrity and consumer protection. Further communication around next steps is expected in 2023.

Colleagues / employment practices

Our people are fundamental to the success of Nationwide, and attracting and retaining people with in-demand skills and capabilities continues to be a key area of focus. A highly competitive external labour market, upward pressure on pay in light of significant increases in inflation, and the rise of flexible working across the industry, present both opportunities and risks to the attraction and retention of diverse talent. Focus remains on improving diversity across all levels of the workforce, ensuring it is a place where colleagues know they can be themselves and thrive at work.

The cost of living pressures impact not only customers, but also colleagues. The organisation is committed to supporting them with a wide range of resources put in place to help with financial and emotional wellbeing, which has included making a cost of living payment to eligible colleagues in 2022. The situation continues to be monitored closely to ensure colleagues remain supported through these challenging times.

The COVID-19 pandemic has changed the way of working, with many colleagues working from home over the last three years. As hybrid working becomes the norm across many businesses, there is still an important role for office workspace as a means of enabling people to come together to share ideas and solutions. The evolving ways of working continue to have an impact on a number of the Society's top people risks, such as employee sentiment, managing performance and productivity. These remain key considerations as the Society continues to develop its hybrid working approach.

Nationwide's refreshed strategy will continue to target increasing the skills and capabilities of the workforce, creating a more efficient organisation and enabling the Society to meet the changing needs of its customers, whilst ensuring all aspects of diversity remain front of mind. As we develop the organisation for the future, we will manage the impacts of change carefully, and our wellbeing and inclusion strategy will ensure focus on supporting colleagues through transformation and organisational change.

Economic crime

Nationwide, as a UK-wide financial services firm, is exposed to economic crime risks across all its business lines. Criminal activity to which Nationwide is exposed includes money laundering, terrorist financing, bribery and corruption, sanctions and tax evasion, and fraud, both external and internal. The Society may be adversely affected if its customers, employees or third parties engage in criminal activity, or if the Society's products or services are used to facilitate economic crime. Furthermore, the Society may incur significant remediation costs to rectify issues, reimburse losses incurred by customers, and address regulatory censure and penalties. Management's consideration of such matters and any associated contingent liabilities or provisions is discussed further in notes 27 and 29 to the financial statements. The Society takes its obligations and responsibilities to reduce the risk of it being used to further economic crime seriously. Accordingly, it operates a framework of controls, which is supported by a suite of policies, control standards and procedures.

The management of economic crime remains a key area of focus, with a combination of evolving legal and regulatory requirements, and changing criminal methods shaping the nature of the threats it faces. The Economic Crime Risk Committee, chaired by the Director of Retail Products, is the core governance committee for economic crime. It oversees economic crime risk management, operational performance, and transformation matters, including decision making, and escalates matters to the Executive Risk Committee and Board Risk Committee, as appropriate.

Cost of living and customers in financial difficulty

The increased cost of living and more volatile interest rate environment pose challenges for the management of conduct risk as more customers are expected to face financial difficulty. In this context, Nationwide remains committed to ensuring good customer outcomes and to meeting the expectations of regulators in relation to the fair treatment of customers. In addition to ensuring that colleagues are made available to effectively support any customers experiencing financial difficulty, Nationwide has taken a series of steps to support those customers who may be facing cost of living challenges, including a freephone support helpline, cost of living training for front line advisors and financial health checks for customers. Supporting vulnerable customers remains a priority for the Society. Nationwide's strategic focus is on embedding consideration of the additional needs of vulnerable consumers into its culture, making it the responsibility of all colleagues whose work impacts its customers.

Good customer outcomes and the Consumer Duty

Nationwide is committed to ensuring the right customer outcomes are achieved in all circumstances. The Society will continue to provide safe, secure and fair value products and services which meet the needs of customers, will continue to provide clear communications which enable customers to make the right decisions at the right time, and will continue to provide effective support to allow customers to realise the benefits of their products.

The Financial Conduct Authority (FCA) has finalised its Consumer Duty which, when implemented in July 2023, will require a higher standard of consumer care beyond the current set of principles and rules. Firms must be more proactive in the delivery of fair outcomes, and there will be 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. A programme of work is ongoing across the Society to ensure full preparedness for the Consumer Duty prior to when it becomes effective.

Other key regulatory developments

There continues to be a high volume of complex regulatory change impacting the financial services industry, and Nationwide will respond to these changes while actively engaging with its regulators.

In December 2022 the Government published its 'Edinburgh Reforms', a package of measures designed to update a wide range of financial services regulation. Where appropriate, Nationwide is engaging with these proposals. Nationwide is also actively engaged in the wider 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.

As expected, the PRA has published a consultation paper on the implementation of the remaining elements of the Basel III framework, with implementation currently scheduled to begin in 2025 (delayed from 2023). Further detail on the expected impact for Nationwide 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 is now actively supervising firms' approaches to managing climate-related financial risks. Detail on Nationwide's progress in embedding climate-related risk to meet SS3/19 requirements can be found in the 'Climate-related Financial Disclosures overview' section and in the standalone 'Climate-related Financial Disclosures 2023'.

Operational and conduct risk experience

Operational and conduct risk events which have occurred are monitored and reported on to better understand those exposures and drive sustainable mitigation to prevent recurrence. For the purposes of this report, events include only those where a financial loss arises from an incident. Events are recorded 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 peers.

Operational risk events by Basel risk category, % of total events by value (note i)

	2023	2022 (note ii)
	%	%
Clients, products and business practices	**4.5**	28.9
External fraud	**41.7**	24.8
Execution, delivery and process management	**53.6**	45.9
Internal fraud	**0.1**	-
Business disruption and system failure	**-**	-
Damage to physical assets	**-**	-
Employment practices and workplace safety	**0.1**	0.4
Total	**100.0**	100.0

Operational risk events by Basel risk category, % of total events by number (note i)

	2023	2022 (note ii)
	%	%
Clients, products and business practices	**0.3**	1.1
External fraud	**95.1**	90.9
Execution, delivery and process management	**4.1**	7.0
Internal fraud	**0.2**	0.1
Business disruption and system failure	**-**	-
Damage to physical assets	**0.1**	0.1
Employment practices and workplace safety	**0.2**	0.8
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.

Operational losses arising from external fraud risk events continue to increase year-on-year, with a rise in both the percentage of events by value and volume when compared against 2022. The increased volume of events has been driven by Authorised Push Payment scams. The increase in value is the result of payment providers now bearing a greater proportion of the total losses incurred, and additional provisions set aside relating to fraud-related remediation projects. The Society continues to monitor and respond, including working closely with regulatory bodies and the Society's banking peers, to collaboratively drive improvements in fraud prevention, education and reporting of fair outcomes.

The value of losses against the 'Clients, products and business practices' category decreased in 2023, primarily driven by a reduction of PPI-related losses.

Whilst the volume of losses against the 'Execution, delivery and process management' category have decreased this year, the total value of these losses has increased. These losses are largely attributed to key remediation projects.

Outlook

Nationwide'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 impact of the rising cost of living on customers;
- the continuing evolution of economic crime, through fraud, scams and other criminal activity;
- the challenging labour market impacting the ability to attract and retain people with in-demand skills and capabilities;
- the delivery of organisational change;
- the volume and complexity of regulatory developments impacting the financial services industry;
- IT resilience and the continued increase in the sophistication of cyber security threats and external fraud;
- the change activity from de-risking and simplification of Nationwide's IT infrastructure;
- continued reliance on strategic third party partners, including increased adoption of cloud-based solutions; and
- the 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.

Models are relied on 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. Models which apply advanced machine learning techniques to other risk types such as climate change and economic crime are also used. 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 a financial loss.

Model risk remains heightened due to inflationary and cost of living pressures, interest rate rises and market volatility experienced during 2022/23. These factors have adversely impacted the performance of some models and placed greater reliance on the use of model adjustments to capture the risks and uncertainty arising from the effects of the economic environment.

Managing model risk

Model risk is managed 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 models are of sufficient quality 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 change in economic conditions experienced during 2022/23 means that historical data on which some models were built and calibrated has become less representative of the prevailing environment, increasing the need for model adjustments. As the economic uncertainty continues, model adjustments will remain a key area of focus within the Group's model risk management process. An enhanced framework for model adjustments has been implemented to ensure they are robustly governed, applied and monitored, with a particular focus on segments and exposures that are more susceptible to interest rates and inflation.

Work is underway to deliver new capital models that comply with the IRB Roadmap regulations which came into effect on 1 January 2022. Delivery of these new models is in line with the PRA timetable. Temporary adjustments are currently made to risk weighted assets, ensuring the Group's capital requirements reflect the expected outcomes of the revised IRB rules. Further information on capital impacts is detailed in the Capital risk section on page 194.

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, verification, 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 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 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 to 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

In June 2022, the Prudential Regulation Authority (PRA) published a consultation paper, 'Model Risk Management Principles for banks'. The proposals contain five principles and expectations which the PRA considers key to establishing an effective model risk management framework. Work is underway to respond effectively to the resulting Supervisory Statement which is expected to be published in 2023 with an implementation date of 12 months later.

In November 2022, the PRA published a consultation paper 'Implementation of the Basel 3.1 standards' setting out proposed rule changes and expectations for implementation of the relevant Basel III standards. The changes are designed to improve the measurement of risk in capital models, standardise approaches and reduce excessive variability in the calculation of risk weights. The key amendments include revisions to the standardised approaches for credit and operational risks and a risk weight output floor for Pillar 1 RWAs. The Society conducted a detailed review of the proposed regulation and engaged with UK Finance to provide an industry level response. Further information on capital impacts are detailed in the Capital risk section on page 194.

Over the past year models used to quantify key risks have been enhanced and improvements in the management of model risk continue to be made, including:

- Continuing the evolution of the scope of model risk reporting and education provided to the Board and senior management, thereby supporting better-informed decision making and ensuring that management remain aware of developments in model risk, model limitations, uncertainty and risks emerging from changes in the external and internal environment; and
- Progressing the development, validation and governance of capital models to comply with the regulatory IRB roadmap.

Outlook

Significant levels of regulatory change continue to be a key factor driving model development, validation and 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. Development of the retail capital models to meet new IRB Roadmap regulatory requirements continues as we engage with the PRA regarding approval and implementation timings.

The model risk management principles proposed by the PRA in their June 2022 consultation paper are expected to create a significant step change in the Society's scope of model risk management activity going forward. Arrangements are underway to implement the final proposals when published in a Supervisory Statement.

Economic uncertainty in the form of high inflation and higher interest rates introduces risks of changing member behaviours and some models operating outside of their development data boundaries. This is likely to affect models that were designed and implemented in a low inflation and low interest environment. In response to this, Nationwide continues to monitor the external situation, considering how representative it is of current and future risk environments; it has also adapted affordability models and is undertaking stressed inflationary scenario analysis.

Financial statements

Independent auditor's report to the members of Nationwide Building Society

Report on the audit of the financial statements

Opinion

In our opinion:

- the Group financial statements and the Society's financial statements (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 2023 and of the Group's and the Society's income and expenditure for the year then ended;
- the financial statements 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
- the financial statements 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 2023 (the ''Annual Report'') of Nationwide Building Society (the "Society") and its subsidiaries (the "Group") for the year ended 4 April 2023, which comprise:

Group	Society
• Consolidated balance sheet as at 4 April 2023 • Consolidated income statement for the year then ended • Consolidated statement of comprehensive income for the 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 39 to the financial statements, including a summary of significant 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 2023 • 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 39 to the financial statements, including a summary of significant 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. 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 the 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 approval of the financial statements by the Board, and compared historical budgeted financial information with actual results to form a view of 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 reasonableness of the Bank rate assumptions and resultant impact on net interest margin, operating costs, customer deposit growth and to assess the refinancing risk of wholesale funding maturing in the 12 months from the date of approval of the financial statements by the Board.
- 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 or Society's ability to continue as a going concern.
- We also understood the directors' considerations of the current uncertain geopolitical and economic outlook and climate change, 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 over the twelve months from the date the financial statements are approved for issue.

In relation to the Group 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

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 six 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, 100% of revenue, and 98% of total assets.
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 • IT general controls
Materiality	• Overall Group and Society materiality was set at £50 million, which represents 2.2% and 2.0% of profit before tax

An overview of the scope of our audit

<u>Tailoring the scope</u>

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, we selected eight entities, which represent the principal entities 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 geopolitical and economic risks, climate change, regulatory developments, and the strategy of the Society.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Group and Society. Management of the Group and Society has determined that the most significant future impacts from climate change on their operations will be from physical and transition risks. These are explained on pages 53 to 64 in the Climate related Financial Disclosures section in the Strategic Report, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

Note 2 'Judgements in applying accounting policies and critical accounting estimates' on page 253 discloses how climate risks have been considered in the preparation of the financial statements. For the year ended 4 April 2023, management has considered the impact of climate-related risks on its financial position and performance. While the effects of climate change represent a source of uncertainty, management 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.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk (physical and transition), their climate commitments, the effects of material climate risks disclosed on pages 53 to 64, and the significant judgements and estimates disclosed in note 2 and whether these have been appropriately reflected in the financial statements, following the requirements of UK adopted International Accounting Standards. As part of this evaluation, we performed our own risk assessment, supported by our EY climate change specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit and assess 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 2022. 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 100); Accounting policies (page 240); and note 10 of the consolidated financial statements (page 263)

Key audit matter	Our response to the key audit matter
IFRS 9 expected credit losses: £765 million (2022: £746 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 in the macro-economic environment resulting from the increased cost of living, geopolitical tensions and climate change increase 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. *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.	*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, their risk profile, and the impacts of the cost of living pressures, geopolitical tensions and climate change. 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. We also performed sensitivity analysis to consider the significance of potential impacts on staging (i) as a result of cohorts of borrowers coming to the end of their fixed term contracts, thereby moving to higher interest rates; 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 to ensure the completeness and accuracy of loans classified in respective stages.

<table>
<tr><td colspan="2">Measurement of IFRS 9 expected credit losses
Group and Society: Refer to the Audit Committee report (page 100); Accounting policies (page 240); and note 10 of the consolidated financial statements (page 263)</td></tr>
<tr><td>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 the rising cost of living, geopolitical tensions and climate change; 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 macro-economic 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.</td>
<td>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 impacts of the cost of living pressures, geopolitical tensions and climate change. 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, governance meeting materials and performed independent cohort analysis to ensure the completeness of management adjustments. Additionally we have performed a benchmarking exercise by comparing the suite of model adjustments recognised by management to those seen in the industry and concluded that they were complete.

We also evaluated the application of each adjustment and independently recalculated all material PMAs, 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.</td></tr>
<tr><td colspan="2">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
• Independent model testing showed that IFRS 9 ECL models performed as expected with some immaterial differences 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.</td></tr>
</table>

<table>
<tr><th colspan="2">Recoverability of capitalised software costs
Group and Society: Refer to the Audit Committee report (page 100); Accounting policies (page 240); and note 25 of the consolidated financial statements (page 298)</th></tr>
<tr><th>Key audit matter</th><th>Our response to the key audit matter</th></tr>
<tr><td>Intangible assets: £862 million (2022: £913 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 and therefore do not meet the capitalisation criteria, or the amount capitalised is incorrect.
• 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.</td><td>We tested the design and operating effectiveness of key controls over the Group's asset capitalisation, impairment, and amortisation processes.

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. We did this by obtaining evidence to challenge whether the asset will lead to future economic benefit. This included assessment of cloud computing arrangements and software as a service to verify appropriate capitalisation and accounting treatment.

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 (CGU) level. For project asset impairments, we understood the rationale for impairment, recalculated impairment charges independently, and challenged the completeness of impairments recorded.

We corroborated the reasonableness of useful economic lives by performing a stand back analysis to the Group's broader IT strategy, understanding pipeline projects and whether current assets would be replaced and/or become obsolete in the future.

We involved EY business valuation modelling specialists to assess the assumptions used by the Society in the prospective financial information and 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 including climate-related commitments made by the Society, and assessment of the impact of geopolitical tensions and cost of living pressures.</td></tr>
<tr><td colspan="2">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.</td></tr>
</table>

<table>
<tr><td 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 100); Accounting policies (page 240); and note 3 of the consolidated financial statements (page 254)</td></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: £58 million (2022: £85 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 automated revenue recognition, including key reconciliations and processes to ensure complete and accurate capture of fees, interest charges, customer payments and balances, but followed a substantive approach to testing the EIR models and related 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 current, and forward-looking, economic environment, in particular the outlook for future interest rates.

We involved EY specialists in reviewing the functionality of the model, ensuring the consistency of the calculations with the accounting policy. We also 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 changes in Bank rate 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. We concluded that the resulting EIR adjustments made to revenue fall within our independent range of outcomes, and were materially in compliance with the requirements of IFRS 9.</td></tr>
</table>

Measurement of the net defined benefit pension asset *Group and Society: Refer to the Audit Committee report (page 100); Accounting policies (page 240); and note 30 of the consolidated financial statements (page 304)*	
Key audit matter	**Our response to the key audit matter**
Retirement benefit asset: £946 million (2022: £1,008 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.	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 and the continued effects of geopolitical tensions and economic outlook, including market volatility. We then assessed 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 assessed whether the pension scheme has adequate funding and liquidity to cover the mark to market volatility leading to collateral calls from the Liability Driven Investment held by the pension scheme. 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.
Key observations communicated to the Audit Committee Based on the procedures performed and the evidence obtained, we found the 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.	

IT general controls *Group and Society: Refer to the Audit Committee report (page 100)*	
Key audit matter	**Our response to the key audit matter**
The Society is highly dependent on technology due to the significant number of transactions that are processed daily. Given the levels of automation in place our audit focused on ensuring that the Society has appropriate levels of IT general controls. IT general controls are required to ensure that data transfers between applications operate as expected; and that changes are authorised and tested. Access management controls reduce the risk of unauthorised access to applications and data. The Society also has a dependency, in some areas of the audit, on third parties and related business teams managing associated IT controls.	We evaluated the design and operating effectiveness of IT general controls over the applications, operating systems and databases that are relevant to financial reporting. This includes testing change management, segregation of duties and data transfer controls. We tested user access by assessing the controls in place for in-scope applications, in particular testing the user access provisioning, de-provisioning, privileged access and periodic recertification of users' access. Where control deficiencies were identified, we performed IT substantive procedures or alternative audit procedures to mitigate any residual risk. Some of the in-scope systems are outsourced to third party service providers. For these systems, we tested IT general controls through either direct testing or evaluation of the relevant Service Organisation Controls ("SOC") reports (where available). This included assessing the timing of the reporting, the controls tested by the service auditor and whether they address relevant IT risks. We also tested required complementary user entity controls performed by management. Where a SOC report was not available we performed substantive testing to address risks to financial reporting.
Key observations communicated to the Audit Committee We are satisfied that IT controls impacting financial reporting are designed and operating effectively. Improvements were made around user entitlement review execution and change controls. The overall number of control deficiencies identified has reduced in these areas. Where control exceptions were noted, we have either relied on mitigating controls or performed IT substantive procedures to ensure that the control exceptions identified did not impact our approach to the financial statement audit.	

In the prior year, our auditor's report included a key audit matter in relation to certain customer redress provisioning. We did not consider this to be a key audit matter in the current year as the materiality of the specific customer redress provision has decreased significantly. Further, in the current year we have included the new key audit matter in relation to IT general controls due to increased proportion of audit effort required for testing IT general controls as a proportion of total audit effort.

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.

Having considered quantitative and qualitative factors and consultation with those charged with governance:

We determined materiality for the Group to be £50 million (2022: £50 million), which is 2.2% (2022: 5%) of the Group's profit before tax.

We determined materiality for the Society to be £50 million (2022: £50 million), which is 2.0% (2022: 5%) of the Society's profit before tax.

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. It 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 assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2022: 50%) for the Group and for the Society of our planning materiality, namely £37.5 million (2022: £25 million). We have increased the percentage of performance materiality from the prior year based on our experience of misstatements and consistent effectiveness of the control environment.

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 £37.5 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 (2022: £2.5 million) for the Group and Society, which is set at 5% of planning materiality, 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

The 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 contained within the Annual Report, 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 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 137;
- The directors' explanation as to its assessment of the Society's prospects, the period this assessment covers and why the period is appropriate set out on page 67;
- The directors' statement on fair, balanced and understandable set out on page 137;
- The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 65;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 99; and
- The section describing the work of the Audit Committee set out on page 102.

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 136, 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 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 is complying 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.
- 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.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of internal and external legal counsel, executive management and internal audit, and reviewing the key policies, reports on the legal and regulatory frameworks and internal whistleblowing logs. With involvement of the relevant specialists, we also conducted a review of correspondence with and notices from the regulators, including the Financial Conduct Authority ("FCA"), and gaining an understanding of any regulatory investigations being undertaken. We also evaluated the appropriateness of the contingent liability disclosures made in note 29 to the financial statements.
- 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.

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

18 May 2023

Income statements

For the year ended 4 April 2023		Group		Society	
		2023	2022	**2023**	2022 (note i)
	Notes	**£m**	£m	**£m**	£m
Interest receivable and similar income/(expense):					
Calculated using the effective interest rate method	3	**8,776**	4,501	**8,180**	4,101
Other	3	**49**	11	**49**	10
Total interest receivable and similar income	3	**8,825**	4,512	**8,229**	4,111
Interest expense and similar charges	4	**(4,327)**	(950)	**(4,238)**	(1,086)
Net interest income		**4,498**	3,562	**3,991**	3,025
Fee and commission income	5	**432**	475	**427**	471
Fee and commission expense	5	**(311)**	(218)	**(304)**	(218)
Income from investments	33	**-**	-	**652**	2
Other operating income	6	**54**	48	**133**	104
Losses from derivatives and hedge accounting	7	**(4)**	(7)	**(12)**	(6)
Total income		**4,669**	3,860	**4,887**	3,378
Administrative expenses	8	**(2,323)**	(2,234)	**(2,319)**	(2,231)
Impairment (charge)/release on loans and advances to customers	10	**(126)**	27	**(44)**	(80)
Provisions for liabilities and charges	27	**9**	(56)	**9**	(56)
Profit before tax		**2,229**	1,597	**2,533**	1,011
Taxation	11	**(565)**	(345)	**(496)**	(246)
Profit after tax		**1,664**	1,252	**2,037**	765

Note:
i. Society comparatives have been restated to conform to the current year presentation, to present dividends from subsidiaries separately within income from investments.

The notes on pages 240 to 317 form part of these financial statements.

Statements of comprehensive income

For the year ended 4 April 2023					
		Group		Society	
		2023	2022	2023	2022
	Notes	£m	£m	£m	£m
Profit after tax		**1,664**	1,252	**2,037**	765
Other comprehensive (expense)/income:					
Items that will not be reclassified to the income statement					
Retirement benefit obligations:					
Remeasurement of net retirement benefit asset	30	**(85)**	836	**(84)**	835
Taxation	11	**29**	(293)	**29**	(292)
		(56)	543	**(55)**	543
Revaluation reserve:					
Revaluation of property		**2**	7	**2**	7
Taxation	11	**(1)**	(2)	**(1)**	(2)
		1	5	**1**	5
Fair value through other comprehensive income reserve:					
Revaluation (losses)/gains on equity instruments at fair value through other comprehensive income		**(3)**	10	**(1)**	(8)
Taxation	11	**1**	(2)	**-**	2
		(2)	8	**(1)**	(6)
		(57)	556	**(55)**	542
Items that may subsequently be reclassified to the income statement					
Cash flow hedge reserve:					
Hedging net gains arising during the year		**40**	27	**50**	22
Amount transferred to income statement		**(50)**	(42)	**(39)**	10
Taxation	11	**2**	4	**(6)**	(8)
		(8)	(11)	**5**	24
Other hedging reserve:					
Hedging net gains arising during the year		**16**	8	**16**	12
Amount transferred to income statement		**(23)**	(4)	**(23)**	(3)
Taxation	11	**3**	(1)	**3**	(1)
		(4)	3	**(4)**	8
Fair value through other comprehensive income reserve:					
Revaluation (losses)/gains on debt instruments at fair value through other comprehensive income		**(66)**	12	**(66)**	13
Amount transferred to income statement		**(74)**	(48)	**(74)**	(48)
Taxation	11	**39**	8	**39**	8
		(101)	(28)	**(101)**	(27)
Other comprehensive (expense)/income		**(170)**	520	**(155)**	547
Total comprehensive income		**1,494**	1,772	**1,882**	1,312

The notes on pages 240 to 317 form part of these financial statements.

Balance sheets

At 4 April 2023

		Group		Society	
		2023	2022	**2023**	2022
	Notes	**£m**	£m	**£m**	£m
Assets					
Cash		**25,635**	30,221	**25,635**	30,221
Loans and advances to banks and similar institutions		**2,860**	3,052	**2,854**	3,033
Investment securities	13	**27,615**	25,484	**27,570**	25,439
Derivative financial instruments	15	**6,923**	4,723	**7,554**	4,759
Fair value adjustment for portfolio hedged risk		**(5,011)**	(2,443)	**(5,011)**	(2,443)
Loans and advances to customers	14	**210,782**	208,066	**166,696**	164,342
Investments in Group undertakings	33	**-**	-	**41,056**	40,326
Intangible assets	25	**862**	913	**850**	901
Property, plant and equipment	26	**744**	880	**745**	880
Accrued income and prepaid expenses		**302**	252	**637**	433
Deferred tax	11	**119**	59	**108**	47
Current tax assets		**15**	33	**13**	43
Other assets		**101**	106	**76**	83
Retirement benefit asset	30	**946**	1,008	**947**	1,008
Total assets		**271,893**	272,354	**269,730**	269,072
Liabilities					
Shares		**187,143**	177,967	**187,143**	177,967
Deposits from banks and similar institutions	16	**25,056**	36,425	**25,054**	36,308
Other deposits	17	**5,191**	5,208	**5,617**	5,801
Fair value adjustment for portfolio hedged risk		**2**	11	**2**	11
Debt securities in issue	18	**27,626**	25,629	**25,993**	22,776
Derivative financial instruments	15	**1,524**	1,428	**1,718**	1,742
Other liabilities		**695**	668	**2,854**	3,147
Provisions for liabilities and charges	27	**82**	153	**82**	153
Accruals and deferred income		**334**	299	**328**	293
Subordinated liabilities	19	**6,755**	8,250	**6,755**	8,250
Subscribed capital	20	**173**	187	**173**	187
Deferred tax	11	**406**	430	**333**	354
Total liabilities		**254,987**	256,655	**256,052**	256,989
Members' interests and equity					
Core capital deferred shares	31	**1,233**	1,334	**1,233**	1,334
Other equity instruments	32	**1,336**	1,336	**1,336**	1,336
General reserve		**14,184**	12,753	**11,051**	9,246
Revaluation reserve		**38**	46	**38**	46
Cash flow hedge reserve		**176**	184	**33**	28
Other hedging reserve		**(47)**	(43)	**14**	18
Fair value through other comprehensive income reserve		**(14)**	89	**(27)**	75
Total members' interests and equity		**16,906**	15,699	**13,678**	12,083
Total members' interests, equity and liabilities		**271,893**	272,354	**269,730**	269,072

The notes on pages 240 to 317 form part of these financial statements.

Approved by the Board of directors on 18 May 2023.

K A H Parry Chairman
D Crosbie Chief Executive Officer
C S Rhodes Chief Financial Officer

Group statement of movements in members' interests and equity

For the year ended 4 April 2023	**Core capital deferred shares**	**Other equity instruments**	**General reserve**	**Revaluation reserve**	**Cash flow hedge reserve**	**Other hedging reserve**	**FVOCI reserve**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
At 5 April 2022	1,334	1,336	12,753	46	184	(43)	89	15,699
Profit for the year	**-**	**-**	**1,664**	**-**	**-**	**-**	**-**	**1,664**
Net remeasurements of retirement benefit obligations	**-**	**-**	**(56)**	**-**	**-**	**-**	**-**	**(56)**
Net revaluation of property	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Net movement in cash flow hedge reserve	**-**	**-**	**-**	**-**	**(8)**	**-**	**-**	**(8)**
Net movement in other hedging reserve	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**
Net movement in FVOCI reserve	**-**	**-**	**-**	**-**	**-**	**-**	**(103)**	**(103)**
Total comprehensive income	**-**	**-**	**1,608**	**1**	**(8)**	**(4)**	**(103)**	**1,494**
Reserve transfer	**-**	**-**	**9**	**(9)**	**-**	**-**	**-**	**-**
Repurchase of core capital deferred shares	**(101)**	**-**	**-**	**-**	**-**	**-**	**-**	**(101)**
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 2023	**1,233**	**1,336**	**14,184**	**38**	**176**	**(47)**	**(14)**	**16,906**

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

The notes on pages 240 to 317 form part of these financial statements.

Society statement of movement in members' interests and equity

For the year ended 4 April 2023

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2022	1,334	1,336	9,246	46	28	18	75	12,083
Profit for the year	-	-	2,037	-	-	-	-	2,037
Net remeasurements of retirement benefit obligations	-	-	(55)	-	-	-	-	(55)
Net revaluation of property	-	-	-	1	-	-	-	1
Net movement in cash flow hedge reserve	-	-	-	-	5	-	-	5
Net movement in other hedging reserve	-	-	-	-	-	(4)	-	(4)
Net movement in FVOCI reserve	-	-	-	-	-	-	(102)	(102)
Total comprehensive income	-	-	1,982	1	5	(4)	(102)	1,882
Reserve transfer	-	-	9	(9)	-	-	-	-
Repurchase of core capital deferred shares	(101)	-	-	-	-	-	-	(101)
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 2023	**1,233**	**1,336**	**11,051**	**38**	**33**	**14**	**(27)**	**13,678**

For the year ended 4 April 2022

	Core capital deferred shares	Other equity instruments	General reserve	Revaluation reserve	Cash flow hedge reserve	Other hedging reserve	FVOCI reserve	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 5 April 2021	1,334	1,336	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)	1312
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

The notes on pages 240 to 317 form part of these financial statements.

Cash flow statements

For the year ended 4 April 2023					
		Group		Society	
		2023	2022	2023	2022
	Notes	£m	£m	£m	£m
Cash flows (used in)/generated from operating activities					
Profit before tax		**2,229**	1,597	**2,533**	1,011
Adjustments for:					
Non-cash items included in profit before tax	36	**839**	524	**773**	640
Changes in operating assets and liabilities	36	**(2,965)**	12,029	**(3,272)**	12,413
Taxation		**(558)**	(378)	**(485)**	(272)
Net cash flows (used in)/generated from operating activities		**(455)**	13,772	**(451)**	13,792
Cash flows used in investing activities					
Purchase of investment securities		**(14,039)**	(8,677)	**(14,038)**	(8,668)
Investment in subsidiary share capital		**-**	-	**(1)**	(21)
Sale and maturity of investment securities		**12,097**	7,877	**12,096**	7,877
Purchase of property, plant and equipment		**(63)**	(68)	**(63)**	(68)
Sale of property, plant and equipment		**21**	20	**21**	20
Purchase of intangible assets		**(283)**	(210)	**(283)**	(210)
Net cash flows used in investing activities		**(2,267)**	(1,058)	**(2,268)**	(1,070)
Cash flows (used in)/generated from financing activities					
Distributions paid to the holders of core capital deferred shares		**(108)**	(108)	**(108)**	(108)
Repurchase of core capital deferred shares		**(101)**	-	**(101)**	-
Distributions paid to the holders of Additional Tier 1 capital		**(78)**	(78)	**(78)**	(78)
Issuance of subordinated liabilities		**646**	773	**646**	773
Redemption of subordinated liabilities		**(2,197)**	-	**(2,197)**	-
Interest paid on subordinated liabilities		**(260)**	(130)	**(260)**	(130)
Redemption of subscribed capital		**-**	(38)	**-**	(38)
Interest paid on subscribed capital		**(6)**	(3)	**(6)**	(3)
Repayment of lease liabilities		**(33)**	(27)	**(33)**	(27)
Net cash flows (used in)/generated from financing activities		**(2,137)**	389	**(2,137)**	389
Effect of exchange rate changes on cash and cash equivalents		**(10)**	16	**-**	16
Net (decrease)/increase in cash and cash equivalents		**(4,869)**	13,119	**(4,856)**	13,127
Cash and cash equivalents at start of year		**30,824**	17,705	**30,805**	17,678
Cash and cash equivalents at end of year	36	**25,955**	30,824	**25,949**	30,805

The notes on pages 240 to 317 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 impact of climate-related matters. 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 from the date of approval of these consolidated financial statements and that it is therefore appropriate to adopt the going concern basis.

Adoption of new and revised IFRSs

A number of amendments and improvements to accounting standards have been issued by the International Accounting Standards Board (IASB) with an effective date of 1 January 2022. Those relevant to these financial statements include minor amendments to IFRS 9 'Financial Instruments' and the Conceptual Framework. The adoption of these amendments had no significant impact on the Group.

1. Statement of accounting policies (continued)

Future accounting developments

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. The new standard is not expected to have a significant impact for the Group.

The IASB has also issued a number of minor amendments to IFRSs that become effective from 1 January 2023 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.

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, the nature of its relationship with the entity, the size of its holding and its exposure to variability of returns.

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

Fee and commission income and expense comprises fees that are not an integral part of the EIR. Fees and commissions relating to current accounts, savings 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 Executive Committee (ExCo) 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 ExCo 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 judgement 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 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 may 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. 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.

Gains and losses on disposals are included in other operating income in the income statement.

Taxation

Current tax payable on profits 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.

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 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 which reflects the Group's view of the most likely future economic conditions, 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 considering both 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 deemed to be 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.

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:

- Differences in the magnitude or timing of future expected cash flows in the hedged item and hedging instrument;
- Differences in the market curves used to value the hedged item and hedging instrument;
- Unexpected adjustments to either the hedged item or hedging instrument, due to early repayments or disposals; or
- 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:

- It is evident from testing that a hedging instrument ceases to meet the hedge effectiveness requirements;
- The hedging instrument expires, or is sold, terminated or exercised; or
- 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 prospectively 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 or are no longer expected to occur. 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.

Own equity instruments that are reacquired, referred to as treasury shares, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

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 2023, this evaluation has considered the impact of climate-related risks on the Group's 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 charge/release and provisions on loans and advances to customers	Note 10	Note 10
Retirement benefit obligations (pensions)	Note 30	

3. Interest receivable and similar income

	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
On financial assets measured at amortised cost:				
Residential mortgages	**4,904**	4,278	**3,550**	3,080
Connected undertakings	**-**	-	**768**	805
Other loans	**602**	531	**592**	525
Other liquid assets (note i)	**1,002**	109	**1,002**	108
Investment securities	**2**	10	**2**	10
On investment securities measured at FVOCI	**310**	134	**310**	134
Net income/(expense) on financial instruments hedging assets in a qualifying hedge accounting relationship	**1,956**	(561)	**1,956**	(561)
Total interest receivable and similar income calculated using the effective interest rate method	**8,776**	4,501	**8,180**	4,101
Interest on net defined benefit pension surplus (note 30)	**26**	4	**26**	4
Other interest and similar income (note ii)	**23**	7	**23**	6
Total	**8,825**	4,512	**8,229**	4,111

Notes:
i. Includes interest on amounts deposited with the Bank of England (BoE).
ii. Includes interest on financial instruments hedging assets that are not in a qualifying hedge accounting relationship.

4. Interest expense and similar charges

	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
On shares held by individuals	**1,915**	456	**1,915**	456
On subscribed capital	**11**	13	**11**	13
On deposits and other borrowings:				
Subordinated liabilities	**272**	258	**272**	258
Connected undertakings	**-**	-	**81**	18
Other (note i)	**1,070**	99	**1,069**	99
On debt securities in issue	**769**	449	**695**	427
Net expense/(income) on financial instruments hedging liabilities	**290**	(325)	**195**	(185)
Total	**4,327**	950	**4,238**	1,086

Note:
i. Includes interest on amounts drawn down under the BoE's Term Funding Scheme with additional incentives for SMEs (TFSME), as well as interest on other deposits and short-term borrowing.

5. Fees and commission income and expense

	2023			2022		
	Income	**Expense**	**Net**	Income	Expense	Net
Group	**£m**	**£m**	**£m**	£m	£m	£m
Current account and savings	**288**	**(251)**	**37**	308	(171)	137
General insurance	**27**	**-**	**27**	41	-	41
Protection and investments	**44**	**-**	**44**	58	-	58
Mortgage	**21**	**(27)**	**(6)**	24	(10)	14
Credit card	**44**	**(25)**	**19**	39	(31)	8
Other fees and commissions	**8**	**(8)**	**-**	5	(6)	(1)
Total	**432**	**(311)**	**121**	475	(218)	257

The Society's fee and commission income and expense is as shown above for the Group, except that it excludes £2 million of mortgage net expense (2022: £4 million net income).

6. Other operating income

	Group		Society	
	2023	2022	**2023**	2022 (note i)
	£m	£m	**£m**	£m
(Losses)/gains on financial assets measured at FVTPL	**(10)**	9	**(12)**	8
Gains on disposal of FVOCI investment securities	**74**	47	**74**	47
Recharges for services to connected undertakings	**-**	-	**88**	66
Other expense	**(10)**	(8)	**(17)**	(17)
Total	**54**	48	**133**	104

Note:
i. Society comparatives have been restated to conform to the current year presentation, to present dividends from subsidiaries separately as 'Income from investments' in the income statement. This resulted in the reclassification of £2 million out of other operating income for the year ended 4 April 2022.

Other expense for the Society includes impairments of investments. 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 2023 (2022: £nil).

7. Losses from derivatives and hedge accounting

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

Note 1 describes how fair value and cash flow hedge accounting affect the financial statements and the main sources of the residual hedge ineffectiveness remaining in the income statement. Further information on the current derivative portfolio and the allocation to hedge accounting types is included in note 15.

	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Losses from fair value hedge accounting	**(62)**	(21)	**(60)**	(9)
Gains from cash flow hedge accounting	**1**	2	**-**	1
Fair value gains from other derivatives (note i)	**56**	13	**48**	2
Foreign exchange retranslation (note ii)	**1**	(1)	**-**	-
Total	**(4)**	(7)	**(12)**	(6)

Notes:

i. Gains or losses arise from derivatives used for economic hedging purposes but which are not currently in a hedge accounting relationship, valuation adjustments applied at a portfolio level which are not allocated to individual hedge accounting relationships, and fair value gains or losses on derivatives economically hedging fixed rate mortgages not yet on the balance sheet.

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

7. Losses from derivatives and hedge accounting (continued)

Fair value hedge accounting

Interest rate and currency derivatives are used to economically hedge the fair value of fixed rate assets and liabilities. The market risk from fixed rate assets and liabilities may be netted down before deciding to use derivatives. The derivatives used are predominantly interest rate swaps, which convert fixed rate cash flows to a benchmark floating rate such as 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 2023 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	(2,687)	2,630	(57)	86,465	(4,581)
Investment securities	Interest rate swaps, bond forwards	Interest rate	(107)	107	-	2,936	(474)
Investment securities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	(336)	334	(2)	13,188	(1,017)
Investment securities	Interest rate swaps, inflation swaps, cross currency interest rate swaps	Interest rate, inflation and foreign exchange	(221)	222	1	2,935	(241)
Investment securities	Inflation swaps	Interest rate and inflation	(154)	154	-	5,297	(85)
Total assets			(3,505)	3,447	(58)	110,821	(6,398)
Liabilities:							
Shares (note iii)	Interest rate swaps	Interest rate	9	-	9	2	2
Debt securities in issue	Interest rate swaps	Interest rate	56	(54)	2	1,927	2
Debt securities in issue	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	1,060	(1,069)	(9)	18,528	(1,434)
Subordinated liabilities	Interest rate swaps, cross currency interest rate swaps	Interest rate and foreign exchange	200	(204)	(4)	6,755	(281)
Subscribed capital	Interest rate swaps	Interest rate	14	(16)	(2)	168	1
Total liabilities			1,339	(1,343)	(4)	27,380	(1,710)
Total fair value hedges			(2,166)	2,104	(62)		

7. Losses from derivatives and hedge accounting (continued)

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)		

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 £(5,011) million (2022: £(2,443)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. Shares are no longer designated in fair value hedge accounting relationships. 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 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

2023 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)	-	-
Total assets			1	(2)	(1)	(1)	-	-
Liabilities:								
Debt securities in issue	Inflation swaps	Interest rate and inflation	5	(5)	-	(5)	10	-
Debt securities in issue	Cross currency interest rate swaps	Interest rate and foreign exchange	(15)	16	2	14	5	191
Subordinated liabilities	Cross currency interest rate swaps	Interest rate and foreign exchange	(15)	15	-	15	21	16
Total liabilities			(25)	26	2	24	36	207
Total cash flow hedges			(24)	24	1	23	36	207

7. Losses/gains from derivatives and hedge accounting (continued)

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

Note:

i. The net deferral to other comprehensive income of gains before tax of £23 million (2022: £37 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 £33 million (2022: £52 million) is presented within the fair value hedge accounting table within the change in fair value of the hedging instrument.

8. Administrative expenses

	Notes	Group 2023 £m	Group 2022 £m	Society 2023 £m	Society 2022 £m
Employee costs:					
Wages and salaries		**597**	542	**597**	542
Bonuses		**78**	64	**78**	64
Social security costs		**90**	71	**90**	71
Pension costs	30	**153**	145	**153**	145
		918	822	**918**	822
Other administrative expenses:					
Other staff related costs		**47**	32	**47**	32
Property costs		**97**	85	**97**	85
Printing, postage and stationery		**36**	32	**36**	32
IT and communications		**367**	333	**367**	333
Marketing and advertising		**46**	50	**46**	50
Product operating costs		**55**	51	**54**	50
Legal, professional and consultancy		**115**	98	**114**	98
Other operating costs (note i)		**99**	120	**98**	118
		862	801	**859**	798
Bank levy		**20**	16	**20**	16
Depreciation, amortisation and impairment		**523**	595	**522**	595
Total		**2,323**	2,234	**2,319**	2,231

Note:
i. Other operating costs include fraud-related losses.

8. Administrative expenses (continued)

Executive directors and certain senior executives are entitled to bonus payments under the Annual Performance Pay (APP) plan. 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. The table below shows actual and expected charges to the income statement in respect of all APP bonuses for each relevant scheme year:

Income statement charge for long-term bonuses				
	Group and Society			
	Actual 2021/22	**Actual 2022/23 (notes i and ii)**	Expected 2023/24 (note iii)	Expected 2024/25 and beyond (note iii)
	£m	**£m**	£m	£m
Annual Performance Pay:				
2020/21 and previous years	5.5	**(0.3)**	0.1	0.1
2021/22	10.3	**5.2**	0.9	0.5
2022/23	-	**11.7**	3.8	2.8
Income statement charge for long-term bonuses	15.8	**16.6**	4.8	3.4

Notes:
i. Bonus charges for the year ended 4 April 2023 include £7 million (2022: £7 million) of long-term bonuses which will be paid more than one year from the balance sheet date.
ii. In the year ended 4 April 2023, £6 million (2022: £7 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.
iii. The amounts expected are based on past performance and are subject to change as a result of future leavers and CCDS performance.

From the year ending 4 April 2024, directors will also be entitled to bonuses under the Long-Term Performance Pay (LTPP) plan. Directors' emoluments, including details of the bonus schemes, 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 auditor's remuneration				
	Group		Society	
	2023	2022 (note i)	**2023**	2022 (note i)
	£m	£m	**£m**	£m
Audit fees for the Group and Society statutory audit	**5.1**	4.7	**5.1**	4.7
Fees payable for other services:				
Audit of Group subsidiaries	**0.3**	0.3	**-**	-
Audit-related assurance services	**0.9**	0.7	**0.9**	0.7
Total audit and audit-related assurance services	**6.3**	5.7	**6.0**	5.4
Other non-audit services	**0.8**	0.5	**0.8**	0.5
Total	**7.1**	6.2	**6.8**	5.9

Note:
i. Comparatives have been restated to present fees relating to PRA private reporting of £0.2m within audit-related assurance services. Previously, these were presented within audit fees for the Group and Society statutory audit.

9. Employees

Average number of persons employed during the year				
	Group		Society	
	2023	2022	**2023**	2022
Full time	**13,966**	13,416	**13,961**	13,410
Part time	**4,133**	4,270	**4,133**	4,270
Total	**18,099**	17,686	**18,094**	17,680

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

The following tables set out the impairment charges and releases during the year and the closing provision balances which are deducted from the relevant asset values in the balance sheet:

Impairment charge/(release)				
	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Prime residential	**11**	(19)	**12**	(20)
Buy to let and legacy residential	**83**	(109)	**-**	(1)
Consumer banking	**31**	93	**31**	93
Commercial and other lending	**1**	8	**1**	8
Total	**126**	(27)	**44**	80

Impairment provisions				
	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Prime residential	**84**	73	**83**	72
Buy to let and legacy residential	**196**	114	**3**	3
Consumer banking	**469**	529	**469**	529
Commercial and other lending	**16**	30	**16**	30
Total	**765**	746	**571**	634

10. Impairment charge/release 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. Adjustments are made in modelling provisions, applying further judgements to reflect model limitations, or to deal with instances 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; and
- 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; and
- The additional judgements made in modelling expected credit losses (ECL) – these currently include PD uplifts relating to the current economic uncertainty 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. The expected physical risks are likely to be longer term in nature and, therefore, are likely to have a limited impact on the Group's existing lending due to the impact of loan amortisation and redemptions. Future transition policies and the Group's response to these policies is still highly uncertain. Therefore, the Group cannot yet reliably measure the impacts on impairment provisions. The Group will continue to monitor this risk.

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 residential mortgage and consumer banking lending, 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; or
- The residual lifetime PD is at least 75 basis points 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 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 charge/release 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. 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 at 4 April 2023 by £125 million (2022: £98 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 a deterioration in the economic outlook. The base case and downside scenario weightings increased (and upside scenario weighting decreased) to reflect increased risks associated with rising inflation, increases in Bank rate and the ongoing economic consequences of the conflict in Ukraine. The probability weightings applied to the scenarios are shown in the table below.

Scenario probability weighting (%)	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario
4 April 2023	**10**	**45**	**30**	**15**
4 April 2022	20	40	25	15

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

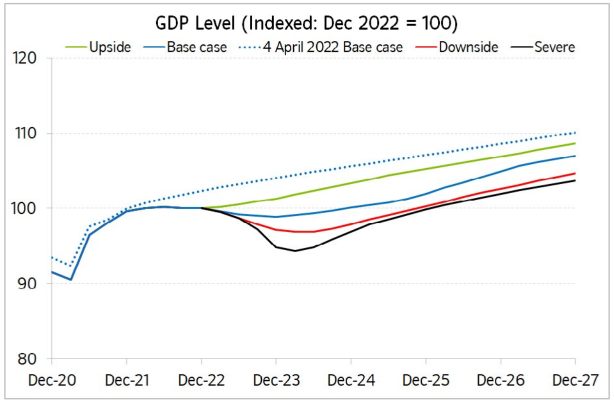
Critical accounting estimates and judgements (continued)

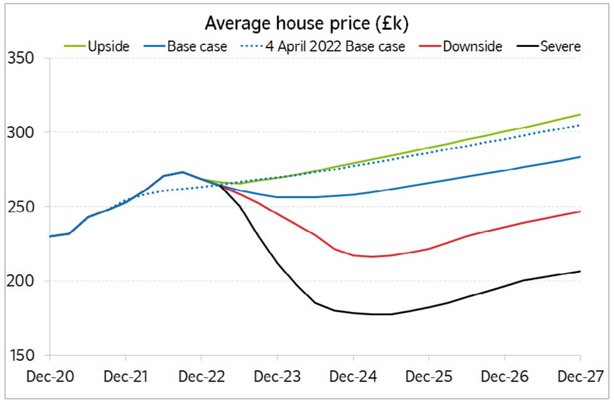
In the base case scenario at 4 April 2023, a modest recession is forecast, with a fall in GDP of 1.1% expected in 2023. This contraction in the economy is expected to result in an increase in the forecast peak unemployment rate to 5.0% (2022: 4.2%) in this scenario. The peak unemployment in the downside scenario of 7.0% is unchanged from 4 April 2022 and reflects a significant economic downturn. The peak unemployment in the severe downside scenario of 10.0% is also unchanged from 4 April 2022, reflecting a severe long-lasting impact on the UK economy.

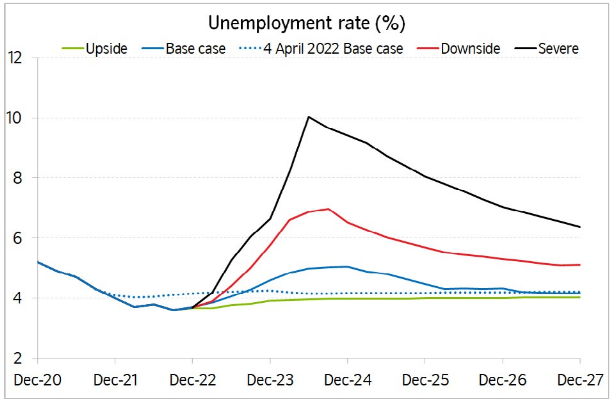
House prices are expected to fall in the short term in the base case scenario. This is the result of ongoing affordability pressures due to increasing borrowing costs and inflation. The downside scenario assumes more significant house price falls during both 2023 and 2024, driven by a deterioration in economic conditions including an increase in unemployment, whilst the severe downside scenario includes a fall in house prices of 34% from December 2022 to the trough. As a result, the weighted average of all scenarios represents a fall in house prices by 12% between December 2022 and December 2024.

The Bank rate is assumed to remain at 4.25% during 2023 in the base case scenario. Inflation in this scenario is expected to reduce during 2023 to 4%; however, the severe downside scenario includes a sustained high level of inflation throughout 2023. In the downside scenario the Bank rate is low from 2024 onwards, reflecting the risk that there is a significant economic downturn, with a reduction in the Bank rate required to stimulate economic demand.

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







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

Critical accounting estimates and judgements (continued)

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 2022-2027						5-year average (note i)	Dec-22 to peak (notes ii and iii)	Dec-22 to trough (notes ii and iii)
	Actual	Forecast							
	2022	2023	2024	2025	2026	2027			
4 April 2023	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	0.4	1.3	2.0	1.8	1.6	1.6	1.7	8.6	0.2
Base case scenario	0.4	(1.1)	1.2	1.8	2.9	2.0	1.4	7.0	(1.1)
Downside scenario	0.4	(2.9)	0.8	2.4	2.3	2.0	0.9	4.7	(3.2)
Severe downside scenario	0.4	(5.2)	2.2	3.0	2.1	1.7	0.7	3.7	(5.7)
HPI growth									
Upside scenario	6.0	0.4	3.7	3.8	3.8	3.8	3.1	16.2	(1.0)
Base case scenario	6.0	(4.5)	0.7	3.0	3.2	3.2	1.1	5.6	(4.5)
Downside scenario	6.0	(8.6)	(11.4)	2.0	6.8	4.3	(1.7)	(1.7)	(19.5)
Severe downside scenario	6.0	(21.0)	(15.8)	2.2	7.7	5.1	(5.1)	(1.7)	(33.8)
Unemployment									
Upside scenario	3.7	3.9	4.0	4.0	4.0	4.0	3.9	4.0	3.7
Base case scenario	3.7	4.6	5.0	4.5	4.3	4.2	4.5	5.0	3.9
Downside scenario	3.7	5.8	6.5	5.7	5.3	5.1	5.6	7.0	3.9
Severe downside scenario	3.7	6.6	9.4	8.0	7.0	6.4	7.5	10.0	4.2
Bank rate									
Upside scenario	3.5	4.0	3.0	3.0	3.0	3.0	3.3	4.3	3.0
Base case scenario	3.5	4.3	3.8	2.8	2.3	2.0	3.1	4.3	2.0
Downside scenario	3.5	5.0	0.5	0.1	0.1	0.5	1.5	5.0	0.1
Severe downside scenario	3.5	7.0	3.0	2.5	2.5	2.5	3.5	7.0	2.5
Consumer price inflation									
Upside scenario	10.5	1.2	1.8	2.0	2.0	2.0	2.3	8.5	1.2
Base case scenario	10.5	4.0	2.0	2.0	2.0	2.0	2.9	9.0	2.0
Downside scenario	10.5	5.0	1.5	0.5	1.5	1.9	3.0	13.0	0.3
Severe downside scenario	10.5	14.0	3.5	2.0	2.0	2.0	5.3	16.0	2.0

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

Critical accounting estimates and judgements (continued)

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 (note iv)	Forecast							
	2021	2022	2023	2024	2025	2026			
4 April 2022	%	%	%	%	%	%	%	%	%
GDP growth									
Upside scenario	8.9	4.2	2.5	2.0	2.0	2.0	2.5	13.4	1.5
Base case scenario	8.9	2.3	1.7	1.5	1.4	1.4	1.7	8.6	0.7
Downside scenario	8.9	2.5	(3.9)	1.7	2.2	2.2	0.9	4.6	(1.5)
Severe downside scenario	8.9	(4.5)	2.6	2.0	1.9	1.6	0.7	3.6	(4.5)
HPI growth									
Upside scenario	10.1	6.1	3.7	4.0	3.8	3.8	4.3	23.2	2.0
Base case scenario	10.1	3.5	2.4	2.8	3.2	3.2	3.1	16.2	1.5
Downside scenario	10.1	1.5	(10.6)	(8.4)	5.6	5.0	(1.6)	2.0	(16.9)
Severe downside scenario	10.1	(1.8)	(23.6)	(5.5)	3.7	7.7	(4.6)	1.2	(29.2)
Unemployment									
Upside scenario	4.0	3.5	3.6	3.9	3.9	3.9	3.8	3.9	3.5
Base case scenario	4.0	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.0
Downside scenario	4.0	4.7	6.9	5.3	5.0	4.9	5.3	7.0	3.6
Severe downside scenario	4.0	9.4	8.2	6.2	5.5	5.3	6.7	10.0	4.1
Bank rate									
Upside scenario	0.3	2.3	2.5	2.5	2.5	2.5	2.3	2.5	0.8
Base case scenario	0.3	1.0	1.3	1.3	1.3	1.3	1.2	1.3	0.8
Downside scenario	0.3	4.0	0.1	0.1	0.8	1.0	1.0	4.0	0.1
Severe downside scenario	0.3	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)	(0.1)	0.8	(0.3)
Consumer price inflation (CPI)									
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)

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 2021 actual data as presented in the Annual Report and Accounts 2022 has been updated to reflect the most recent published economic data.

10. Impairment charge/release 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:

Expected credit losses under 100% weighted scenarios						Proportion of balances in stage 2 under 100% weighted scenarios					
	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported provision	Upside scenario	Base case scenario	Downside scenario	Severe downside scenario	Reported stage 2	Reported stage 3 (note i)
4 April 2023	**£m**	**£m**	**£m**	**£m**	**£m**	**%**	**%**	**%**	**%**	**%**	**%**
Residential mortgages	**160**	**179**	**236**	**789**	**280**	**14.6**	**13.9**	**13.5**	**35.7**	**17.6**	**0.5**
Consumer banking – credit cards	**213**	**212**	**228**	**264**	**225**	**37.8**	**37.8**	**39.0**	**40.2**	**38.8**	**5.8**
Consumer banking – personal loans and overdrafts	**227**	**233**	**247**	**281**	**244**	**34.6**	**37.5**	**41.4**	**46.5**	**40.0**	**6.7**
Commercial lending	**16**	**16**	**16**	**17**	**16**	**3.3**	**3.3**	**3.3**	**3.3**	**3.3**	**0.7**
Total	**616**	**640**	**727**	**1,351**	**765**						
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	0.6
Consumer banking – credit cards	237	240	260	376	263	40.0	40.2	41.4	49.9	40.3	6.6
Consumer banking – personal loans and overdrafts	239	247	265	364	266	31.7	34.4	42.9	62.8	35.6	5.5
Commercial lending	29	30	30	31	30	2.9	2.9	2.9	2.9	2.9	1.1
Total	639	648	739	1,236	746						

Note:
i. The staging of stage 3 assets is not sensitive to economic scenarios. The reported stage 3 proportion is the same as it would be in any of the 100% weighted scenarios.

The ECL in the severe downside scenario has increased over the year reflecting increased losses in the mortgage portfolios. This primarily reflects that the scenario now includes a high Bank rate forecast, with a peak of 7% (2022: peak 0.75%).

The ECL for each scenario multiplied by the scenario probability will not reconcile to the reported provision. Whilst the stage allocation of loans varies in each individual scenario, each loan is allocated to a single stage in the reported 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 2023 to some of the key assumptions used within the ECL calculation:

Sensitivity to key forward-looking information assumptions	
2023	**Increase in provision £m**
Single-factor sensitivity to key economic variables	
10% decrease in house prices (HPI) at 4 April 2023 and throughout the forecast period (note i)	**29**
Sensitivity to changes in scenario probability weightings	
10% increase in the probability of the downside scenario (reducing the upside by a corresponding 10%)	**11**
5% increase in the probability of the severe downside scenario (reducing the downside by a corresponding 5%)	**31**

Note:
i. As this is a single-factor sensitivity, it should not be extrapolated due to the likely non-linear effects. The provision impact is calculated using the base case scenario and only includes the impact of a 10% decrease of house prices on LGD.

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

Critical accounting estimates and judgements (continued)

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

Significant adjustments made in modelling provisions

	2023			2022		
	Residential mortgages	**Consumer banking**	**Total**	Residential mortgages	Consumer banking	Total
	£m	**£m**	**£m**	£m	£m	£m
PD uplift for economic uncertainty	**77**	**100**	**177**	13	146	159
LGD uplift for property valuation risks	**22**	**-**	**22**	25	-	25
Total	**99**	**100**	**199**	38	146	184
Of which:						
Stage 1	**5**	**8**	**13**	8	15	23
Stage 2	**89**	**90**	**179**	26	131	157
Stage 3	**5**	**2**	**7**	4	-	4

PD uplift for economic uncertainty

Household disposable income is forecast to decrease in each of the four economic scenarios, increasing the risk that borrowers will not be able to meet their contractual repayments. At 4 April 2022 the main driver of this reduction was the impact of rising inflation, which particularly affected consumer banking portfolios. Since 4 April 2022 there has also been a significant increase in interest rates, which will again reduce household disposable income but with a greater impact on residential mortgage affordability. In addition, model inputs relating to borrower credit quality are still benefitting from credit indicators which are judged to be temporary, such as reduced levels of arrears.

This adjustment reflects the cumulative effect of increasing the probability of default to reflect management's judgements for all of these risks. At 4 April 2023 this has increased provisions by £177 million (2022: £159 million). The adjustment also results in approximately £16.6 billion (2022: £4.6 billion) of residential mortgages and £585 million (2022: £700 million) of consumer banking balances moving from stage 1 to stage 2. The most significant judgement within this adjustment is the assumed increase in both fixed and variable mortgage rates faced by borrowers over the next two years. A 1% increase in assumed mortgage rates would increase residential mortgage provisions by £32 million.

LGD uplift for property valuation risks

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 £22 million (2022: £25 million). Although initiatives to support remediation of affected properties have made progress over the past year, we continue to hold an adjustment to provisions whilst there is insufficient evidence of a recovery in the value of affected properties.

11. Taxation

Tax charge in the income statement				
	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Current tax:				
UK corporation tax	**565**	368	**495**	250
Adjustments in respect of prior years	**17**	(19)	**18**	(19)
Total current tax	**582**	349	**513**	231
Deferred tax:				
Current year (credit)/charge	**(4)**	(1)	**(3)**	12
Adjustments in respect of prior years	**(13)**	(4)	**(14)**	-
Effect of deferred tax provided at different tax rates	**-**	1	**-**	3
Total deferred taxation	**(17)**	(4)	**(17)**	15
Tax charge	**565**	345	**496**	246

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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Profit before tax:	**2,229**	1,597	**2,533**	1,011
Tax calculated at a tax rate of 19%	**424**	303	**481**	192
Adjustments in respect of prior years	**4**	(23)	**4**	(19)
Tax credit on distribution to the holders of Additional Tier 1 capital	**(15)**	(15)	**(15)**	(15)
Banking surcharge	**145**	72	**145**	72
Temporary differences where no deferred tax is recognised	**1**	1	**1**	1
Expenses not deductible for tax purposes/(income not taxable):				
Depreciation on non-qualifying assets	**2**	2	**2**	2
Bank levy	**4**	3	**4**	3
Effect of results of LLP structured entity (note i)	**-**	-	**(3)**	3
Customer redress	**(2)**	4	**(2)**	4
Dividend income	**-**	-	**(124)**	-
Other	**-**	(3)	**3**	-
Effect of deferred tax provided at different tax rates	**2**	1	**-**	3
Tax charge	**565**	345	**496**	246

Note:
i. The Society is liable for tax on the results of Nationwide Covered Bonds LLP, the profit or loss of which is reported within that entity.

The tax on items through other comprehensive income is as follows:

Tax (credit)/charge on items through other comprehensive income	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Relating to:				
FVOCI investment securities	**(40)**	(6)	**(39)**	(10)
Cash flow hedges	**(2)**	(4)	**6**	8
Other hedging	**(3)**	1	**(3)**	1
Revaluation gains	**1**	2	**1**	2
Retirement benefit obligations	**(29)**	293	**(29)**	292
Total	**(73)**	286	**(64)**	293

11. Taxation (continued)

Deferred tax

It was announced in the Budget on 3 March 2021 that the main rate of corporation tax of 19% would increase to 25% with effect from 1 April 2023. This legislative change was enacted on 10 June 2021. On 27 October 2021 it was announced 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 these changes on deferred tax balances has been recognised in these financial statements.

The movements on the deferred tax account are as follows:

Movements in deferred taxation	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
At 5 April	(371)	(78)	(307)	-
Deferred tax credit/(charge) in the income statement:				
Fixed assets timing differences	**25**	2	**25**	2
Temporary differences where no deferred tax is recognised	**-**	(1)	**-**	(1)
Effect of deferred tax provided at different tax rates	**-**	(1)	**-**	(3)
Other items	**(8)**	4	**(8)**	(13)
Tax on items through the income statement	**17**	4	**17**	(15)
Deferred tax credit/(charge) in other comprehensive income:				
FVOCI investment securities	**27**	7	**27**	7
Cash flow hedges	**(4)**	(6)	**(4)**	(6)
Other hedging	**2**	(1)	**2**	(1)
Unrealised revaluation losses	**1**	(2)	**-**	1
Retirement benefit obligations	**17**	(159)	**16**	(159)
Effect of deferred tax provided at different tax rates	**25**	(136)	**25**	(134)
Other	**(1)**	-	**(1)**	-
Tax on items through other comprehensive income	**67**	(297)	**65**	(292)
At 4 April	**(287)**	(371)	**(225)**	(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 £59 million and Society of £52 million (2022: £48 million and £43 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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Deferred tax assets				
Fixed assets timing differences	**67**	36	**67**	36
IFRS 9 transition	**28**	32	**17**	21
Unrealised revaluation losses	**(1)**	-	**(1)**	-
Cash flow hedges	**(14)**	(8)	**(14)**	(8)
Other hedging	**18**	16	**18**	16
FVOCI investment securities	**8**	(31)	**8**	(31)
Other items	**13**	14	**13**	13
	119	59	**108**	47
Deferred tax liabilities				
Unrealised revaluation gains	**(4)**	(5)	**-**	-
Cash flow hedges	**(49)**	(58)	**-**	-
Retirement benefit obligations (note i)	**(333)**	(354)	**(333)**	(354)
Other items	**(20)**	(13)	**-**	-
	(406)	(430)	**(333)**	(354)
Net deferred tax liability	**(287)**	(371)	**(225)**	(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

	2023				2022			
	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	**25,635**	**-**	**-**	**25,635**	30,221	-	-	30,221
Loans and advances to banks and similar institutions	**2,860**	**-**	**-**	**2,860**	3,052	-	-	3,052
Investment securities	**40**	**27,562**	**13**	**27,615**	118	25,349	17	25,484
Derivative financial instruments	**-**	**-**	**6,923**	**6,923**	-	-	4,723	4,723
Fair value adjustment for portfolio hedged risk	**(5,011)**	**-**	**-**	**(5,011)**	(2,443)	-	-	(2,443)
Loans and advances to customers	**210,682**	**-**	**100**	**210,782**	207,950	-	116	208,066
Total financial assets (note ii)	**234,206**	**27,562**	**7,036**	**268,804**	238,898	25,349	4,856	269,103
Other (note ii)				**3,089**				3,251
Total assets				**271,893**				272,354
Financial liabilities								
Shares	**187,143**	**-**	**-**	**187,143**	177,967	-	-	177,967
Deposits from banks and similar institutions	**25,056**	**-**	**-**	**25,056**	36,425	-	-	36,425
Other deposits	**5,191**	**-**	**-**	**5,191**	5,208	-	-	5,208
Fair value adjustment for portfolio hedged risk	**2**	**-**	**-**	**2**	11	-	-	11
Debt securities in issue	**27,626**	**-**	**-**	**27,626**	25,629	-	-	25,629
Derivative financial instruments	**-**	**-**	**1,524**	**1,524**	-	-	1,428	1,428
Subordinated liabilities	**6,755**	**-**	**-**	**6,755**	8,250	-	-	8,250
Subscribed capital	**173**	**-**	**-**	**173**	187	-	-	187
Lease liabilities	**225**	**-**	**-**	**225**	243	-	-	243
Total financial liabilities (note ii)	**252,171**	**-**	**1,524**	**253,695**	253,920	-	1,428	255,348
Other (note ii)				**1,292**				1,307
Total liabilities				**254,987**				256,655

Notes:
i. As at 4 April 2023 and 4 April 2022 the Group had no assets or liabilities for which it had taken the option to designate at FVTPL.
ii. Total financial assets and financial liabilities exclude certain financial instruments presented within 'Other' relating to accruals, trade receivables, trade payables and settlement balances which are classified at amortised cost.

Further information on the fair value of financial assets and liabilities is included in notes 21 to 23.

13. Investment securities

	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Government, government guaranteed and supranational investment securities	**22,968**	20,897	**22,968**	20,897
Other debt investment securities	**4,592**	4,529	**4,590**	4,527
Investments in equity shares	**55**	58	**12**	15
Total	**27,615**	25,484	**27,570**	25,439

The Group may use its investment securities as collateral to secure deposits received under sale and repurchase agreements or support derivative financial instruments. The Group retains substantially all of the risks and rewards associated with those investment securities and as a result they are retained on the balance sheet. The counterparty receiving that collateral normally has the contractual right to sell or repledge it.

Investment securities with a fair value of £3,100 million (2022: £11,619 million) have been used for sale and repurchase agreements and £1,408 million (2022: £726 million) for derivative financial instruments. The Group also holds £1,002 million (2022: £623 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

	2023						2022					
	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	**157,511**	**(84)**	**-**	**157,427**	**47**	**157,474**	154,363	(73)	-	154,290	64	154,354
Buy to let and legacy residential mortgages	**44,104**	**(196)**	**-**	**43,908**	**-**	**43,908**	43,693	(114)	-	43,579	-	43,579
Consumer banking	**4,408**	**(469)**	**-**	**3,939**	**-**	**3,939**	4,638	(529)	-	4,109	-	4,109
Commercial and other lending	**4,994**	**(16)**	**430**	**5,408**	**53**	**5,461**	5,453	(30)	549	5,972	52	6,024
Total	**211,017**	**(765)**	**430**	**210,682**	**100**	**210,782**	208,147	(746)	549	207,950	116	208,066

	2023						2022					
	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	**157,339**	**(83)**	**-**	**157,256**	**47**	**157,303**	154,151	(72)	-	154,079	64	154,143
Buy to let and legacy residential mortgages	**326**	**(3)**	**-**	**323**	**-**	**323**	412	(3)	-	409	-	409
Consumer banking	**4,408**	**(469)**	**-**	**3,939**	**-**	**3,939**	4,638	(529)	-	4,109	-	4,109
Commercial and other lending	**4,679**	**(16)**	**430**	**5,093**	**38**	**5,131**	5,124	(30)	549	5,643	38	5,681
Total	**166,752**	**(571)**	**430**	**166,611**	**85**	**166,696**	164,325	(634)	549	164,240	102	164,342

Note:
i. 'Other' represents a fair value adjustment for micro hedged risk for commercial loans that were previously hedged on an individual basis. The hedge relationships have been discontinued and the balances are being amortised over the remaining life of the loans.

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 £35,327 million of new lending, offset by a reduction of £32,314 million from repayments and redemptions. The majority of these movements relate to residential mortgages.
- Of the £143 million of write-offs, £97 million relates to consumer banking, £25 million to residential mortgages and £21 million to commercial and other lending.
- Impairment provisions increased by £19 million in the period to £765 million. Further detail on the impairment provision release or charge by portfolio is shown in note 10.
- Gross balance transfers between stages 1 and 2 are principally driven by residential mortgage movements. There has been a net transfer of loans from stage 1 to stage 2, primarily due to an increased PD uplift for economic uncertainty, in addition to the implementation of models which are more responsive to the risks in the economic scenarios. This has also led to an increase in gross movements between stages 1 and 2.

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 2022	188,130	48	18,326	380	1,691	318	208,147	746
Stage transfers:								
Transfers from stage 1 to stage 2	**(67,275)**	**(53)**	**67,275**	**53**	**-**	**-**	**-**	**-**
Transfers to stage 3	**(202)**	**(1)**	**(878)**	**(122)**	**1,080**	**123**	**-**	**-**
Transfers from stage 2 to stage 1	**44,341**	**375**	**(44,341)**	**(375)**	**-**	**-**	**-**	**-**
Transfers from stage 3	**270**	**3**	**484**	**30**	**(754)**	**(33)**	**-**	**-**
Net remeasurement of ECL arising from transfer of stage		**(336)**		**448**		**-**		**112**
Net movement arising from transfer of stage (note ii)	**(22,866)**	**(12)**	**22,540**	**34**	**326**	**90**	**-**	**112**
New assets originated or purchased (note iii)	**35,327**	**37**	**-**	**-**	**-**	**-**	**35,327**	**37**
Net impact of further lending and repayments (note iv)	**(9,851)**	**(25)**	**(826)**	**(38)**	**(65)**	**(18)**	**(10,742)**	**(81)**
Changes in risk parameters in relation to credit quality (note v)	**-**	**6**	**-**	**58**	**-**	**50**	**-**	**114**
Other items impacting income statement (including recoveries)	**-**	**-**	**-**	**-**	**-**	**(10)**	**-**	**(10)**
Redemptions (note vi)	**(18,682)**	**(4)**	**(2,583)**	**(24)**	**(307)**	**(18)**	**(21,572)**	**(46)**
Income statement charge for the year								**126**
Decrease due to write-offs	**-**	**-**	**-**	**-**	**(143)**	**(117)**	**(143)**	**(117)**
Other provision movements	**-**	**-**	**-**	**-**	**-**	**10**	**-**	**10**
At 4 April 2023	**172,058**	**50**	**37,457**	**410**	**1,502**	**305**	**211,017**	**765**
Net carrying amount		**172,008**		**37,047**		**1,197**		**210,252**

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 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

Notes:

i. Group gross balances of credit impaired loans include £123 million (2022: £135 million) of purchased or originated credit impaired (POCI) loans, which are presented net of lifetime ECL on transition to IFRS9 of £5 million (2022: £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.

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 2022	154,485	34	8,716	317	1,124	283	164,325	634
Stage transfers:								
Transfers from stage 1 to stage 2	(36,077)	(45)	36,077	45	-	-	-	-
Transfers to stage 3	(129)	(1)	(549)	(103)	678	104	-	-
Transfers from stage 2 to stage 1	22,411	269	(22,411)	(269)	-	-	-	-
Transfers from stage 3	174	2	342	21	(516)	(23)	-	-
Net remeasurement of ECL arising from transfer of stage	-	(232)	-	295	-	1	-	64
Net movement arising from transfer of stage (note i)	(13,621)	(7)	13,459	(11)	162	82	-	64
New assets originated or purchased (note ii)	29,805	35	-	-	-	-	29,805	35
Net impact of further lending and repayments (note iii)	(9,416)	(24)	(664)	(37)	(45)	(18)	(10,125)	(79)
Changes in risk parameters related to credit quality (note iv)	-	1	-	14	-	38	-	53
Other items impacting income statement (including recoveries)	-	-	-	-	-	(6)	-	(6)
Redemptions (note v)	(15,610)	(2)	(1,355)	(14)	(158)	(7)	(17,123)	(23)
Income statement charge for the year								44
Decrease due to write-offs	-	-	-	-	(129)	(113)	(129)	(113)
Other provision movements	-	-	-	-	-	6	-	6
At 4 April 2023	145,643	37	20,156	269	954	265	166,753	571
Net carrying amount		145,606		19,887		689		166,182

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 i)	(3,206)	(19)	2,974	40	232	77	-	98
New assets originated or purchased (note ii)	30,855	45	-	-	-	-	30,855	45
Net impact of further lending and repayments (note iii)	(8,304)	(30)	(216)	(28)	(72)	(21)	(8,592)	(79)
Changes in risk parameters related to credit quality (note iv)	-	(28)	-	58	-	23	-	53
Other items impacting income statement (including recoveries)	-	-	-	-	-	(19)	-	(19)
Redemptions (note v)	(17,246)	(2)	(632)	(9)	(183)	(7)	(18,061)	(18)
Income statement charge 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:
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.

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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Repayable:				
On demand	**1,835**	1,775	**1,835**	1,775
In not more than three months	**2,337**	2,581	**2,106**	2,331
In more than three months but not more than one year	**6,277**	6,534	**6,101**	6,327
In more than one year but not more than five years	**31,496**	32,741	**29,395**	30,718
In more than five years	**169,172**	164,632	**127,400**	123,276
	211,117	208,263	**166,837**	164,427
Impairment provision on loans and advances	**(765)**	(746)	**(571)**	(634)
Fair value adjustment for micro hedged risk	**430**	549	**430**	549
Total	**210,782**	208,066	**166,696**	164,342

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.

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 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										
	2023					2022				
		Notes in issue					Notes in issue			
			Held by the Group					Held by the Group		
	Mortgages pledged (note i)	**Held by third parties (note ii)**	**Drawn (note iii)**	**Undrawn (note iv)**	**Total notes in issue**	Mortgages pledged (note i)	Held by third parties (note ii)	Drawn (note iii)	Undrawn (note iv)	Total notes in issue
Group	**£m**	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Covered bond programme	**20,253**	**13,496**	**-**	**-**	**13,496**	20,189	12,879	-	-	12,879
Securitisation programme	**8,705**	**2,535**	**-**	**2,632**	**5,167**	10,644	2,954	-	2,655	5,609
Whole mortgage loan pools	**23,045**	**-**	**17,166**	**-**	**17,166**	29,511	-	21,701	-	21,701
Total	**52,003**	**16,031**	**17,166**	**2,632**	**35,829**	60,344	15,833	21,701	2,655	40,189

Notes:
i. Mortgages pledged include £6.6 billion (2022: £9.7 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 2023 the Group had outstanding TFSME drawings of £17.2 billion (2022: £21.7 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 2023, £3.8 billion (sterling equivalent) of notes were issued, and £2.8 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 £3.4 billion (2022: £4.8 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 2023, £0.8 billion (sterling equivalent) of notes were issued, and £1.2 billion (sterling equivalent) of notes matured or were repurchased.

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 2023, £23.0 billion (2022: £29.5 billion) of pledged collateral supported £17.2 billion (2022: £21.7 billion) of TFSME drawdowns.

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 2023	**8,705**	**(5,167)**	**3,538**	**8,323**	**(5,178)**	**3,145**
At 4 April 2022	10,644	(5,609)	5,035	10,441	(5,616)	4,825

The Society holds cash deposited by the Nationwide Covered Bond programme of £0.5 billion (2022: £0.4 billion) and by the Silverstone programme of £0.6 billion (2022: £0.7 billion).

15. Derivative financial instruments

All of the Group's derivative financial instruments are used to manage economic risk, although not all of the derivatives are subject to hedge accounting. Note 7 sets out the link between economic risk management and the hedge accounting applied by the Group. The table below provides an analysis of the notional amount and fair value of derivatives by both hedge accounting type and instrument type. The amount of ineffectiveness recognised for each hedge type is shown in note 7. Contract/notional amount is the amount on which payment flows are derived and does not represent amounts at risk.

Derivatives by instrument and hedge type

	2023						2022					
	Group			**Society**			Group			Society		
	Contract/ notional amount (note i)	**Fair value Assets**	**Fair value Liabilities**	**Contract/ notional amount**	**Fair value Assets**	**Fair value Liabilities**	Contract/ notional amount (notes i and ii)	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	**48,684**	**25**	**511**	**53,271**	**691**	**406**	45,009	296	66	46,372	403	241
Cross currency interest rate swaps	**41,125**	**1,762**	**626**	**45,442**	**1,785**	**982**	41,169	1,642	644	41,658	1,601	746
Bond forwards	**1,645**	**70**	**17**	**1,645**	**70**	**17**	2,074	70	-	2,074	70	-
Inflation swaps	**8,272**	**176**	**30**	**8,272**	**176**	**30**	4,243	11	158	4,243	11	158
	99,726	**2,033**	**1,184**	**108,630**	**2,722**	**1,435**	92,495	2,019	868	94,347	2,085	1,145
Macro fair value hedges:												
Interest rate swaps	**221,801**	**2,333**	**107**	**221,801**	**2,333**	**107**	235,130	1,264	385	235,130	1,264	385
	221,801	**2,333**	**107**	**221,801**	**2,333**	**107**	235,130	1,264	385	235,130	1,264	385
Cash flow hedges:												
Cross currency interest rate swaps	**31,027**	**34**	**23**	**29,111**	**34**	**19**	28,782	15	41	26,133	15	32
Inflation swaps	**120**	**51**	**-**	**120**	**51**	**-**	120	39	-	120	39	-
	31,147	**85**	**23**	**29,231**	**85**	**19**	28,902	54	41	26,253	54	32
Not subject to hedge accounting: (note iii)												
Interest rate swaps	**111,128**	**2,259**	**156**	**111,878**	**2,259**	**162**	103,820	1,123	41	104,570	1,123	105
Cross currency interest rate swaps	**2,318**	**5**	**14**	**2,471**	**(53)**	**(45)**	2,598	38	58	3,004	8	40
Foreign exchange swaps	**1,593**	**13**	**6**	**1,593**	**13**	**6**	7,998	15	12	7,998	15	12
Inflation swaps	**5,633**	**195**	**30**	**5,633**	**195**	**30**	3,222	210	18	3,222	210	18
Other derivatives	**247**	**-**	**4**	**247**	**-**	**4**	516	-	5	516	-	5
	120,919	**2,472**	**210**	**121,822**	**2,414**	**157**	118,154	1,386	134	119,310	1,356	180
Total	**473,593**	**6,923**	**1,524**	**481,484**	**7,554**	**1,718**	474,681	4,723	1,428	475,040	4,759	1,742

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 for 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 at 4 April 2022, have been excluded from this disclosure.

iii. Valuation adjustments are applied at a portfolio level and not allocated to individual hedge accounting relationships and have therefore been included in the not subject to hedge accounting section, which can result in negative amounts presented.

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)								
2023	**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	**3,401**	**23,538**	**21,745**	**48,684**	**2,825**	**25,614**	**24,832**	**53,271**
Cross currency interest rate swaps	**3,009**	**20,543**	**17,573**	**41,125**	**2,449**	**22,708**	**20,285**	**45,442**
Bond forwards	**1,645**	**-**	**-**	**1,645**	**1,645**	**-**	**-**	**1,645**
Inflation swaps	**-**	**2,423**	**5,849**	**8,272**	**-**	**2,423**	**5,849**	**8,272**
	8,055	**46,504**	**45,167**	**99,726**	**6,919**	**50,745**	**50,966**	**108,630**
Cash flow hedges								
Cross currency interest rate swaps	**2,841**	**16,792**	**11,394**	**31,027**	**2,281**	**16,315**	**10,515**	**29,111**
Inflation swaps	**120**	**-**	**-**	**120**	**120**	**-**	**-**	**120**
	2,961	**16,792**	**11,394**	**31,147**	**2,401**	**16,315**	**10,515**	**29,231**

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

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 2023	**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	**1.17**	**1.16**	**1.18**	**1.17**	**1.17**	**1.17**	**1.19**	**1.18**
Average USD/GBP rate	**1.35**	**1.33**	**1.28**	**1.31**	**1.35**	**1.33**	**1.28**	**1.31**
Average JPY/GBP rate	**136.87**	**145.27**	**146.31**	**145.13**	**136.87**	**145.27**	**146.31**	**145.13**
Average NOK/GBP rate	**-**	**11.07**	**11.24**	**11.13**	**-**	**11.07**	**11.24**	**11.13**
Average HKD/GBP rate	**-**	**11.85**	**9.13**	**11.56**	**-**	**11.85**	**9.13**	**11.56**
Average CHF/GBP rate	**-**	**1.16**	**1.17**	**1.17**	**-**	**1.16**	**1.18**	**1.17**
Average CAD/GBP rate	**-**	**1.80**	**1.70**	**1.78**	**-**	**1.80**	**1.70**	**1.78**
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 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

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. US dollar Libor is expected to be discontinued on 30 June 2023 with the alternative benchmark rate being the Secured overnight financing rate (Sofr). The Group is continuing its 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 the 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 have not resulted in the discontinuation of hedge accounting or required the designation of a new hedge relationship.

At 4 April 2023, the Group had the following exposures impacted by interest rate benchmark reform which have yet to transition to the replacement benchmark rate:

Contract/notional amount of financial instruments affected by benchmark reform		
Current benchmark	**Expected future benchmark**	**Derivative financial instruments**
		£m
USD Libor	Secured overnight financing rate (Sofr)	16,464
Canadian Dollar Offered Rate (CDOR)	Canadian overnight repo rate average (CORRA)	2,232
Other benchmarks	Various	1,121
Total		**19,817**

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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Accrued interest	**7**	1	**7**	1
Repayable:				
On demand	**5,806**	3,647	**5,804**	3,530
In not more than three months	**2,082**	11,066	**2,082**	11,066
In more than three months but not more than one year	**1**	11	**1**	11
In more than one year but not more than five years	**17,160**	21,700	**17,160**	21,700
Total	**25,056**	36,425	**25,054**	36,308

For the Group and Society, deposits from banks and similar institutions include £17.2 billion (2022: £21.7 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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Accrued interest	**10**	-	**10**	-
Repayable:				
On demand	**1,135**	1,835	**1,561**	2,428
In not more than three months	**2,221**	1,372	**2,221**	1,372
In more than three months but not more than one year	**1,700**	1,980	**1,700**	1,980
In more than one year but not more than five years (note i)	**125**	21	**125**	21
Total	**5,191**	5,208	**5,617**	5,801

Note:
i. Includes £14 million (2022: £16 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 2023 include £425 million (2022: £593 million) of deposits from subsidiary undertakings.

18. Debt securities in issue

	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Certificates of deposit and commercial paper	**1,011**	4	**1,011**	4
Medium term notes	**11,141**	10,044	**11,141**	10,044
Covered bonds	**14,373**	12,946	**14,373**	12,947
Asset backed securities	**2,534**	2,951	**-**	-
	29,059	25,945	**26,525**	22,995
Fair value adjustment for micro hedged risk	**(1,433)**	(316)	**(532)**	(219)
Total	**27,626**	25,629	**25,993**	22,776
Debt securities in issue are repayable from the balance sheet date in the ordinary course of business as follows:				
Accrued interest	**227**	133	**205**	128
Residual maturity repayable:				
In not more than one year	**6,538**	5,786	**5,390**	4,717
In more than one year	**22,294**	20,026	**20,930**	18,150
	29,059	25,945	**26,525**	22,995
Fair value adjustment for micro hedged risk	**(1,433)**	(316)	**(532)**	(219)
Total	**27,626**	25,629	**25,993**	22,776

The total for debt securities in issue in the Group includes £16,031 million (2022: £15,833 million), and in the Society includes £14,373 million (2022: £12,947 million), secured on certain loans and advances to customers. Further information is given in note 14.

19. Subordinated liabilities

				Group and Society	
				2023	2022
	Issuance date	**Next call date**	**Maturity date**	**£m**	£m
Senior non-preferred					
3.766% fixed-to-floating rate notes (US Dollar 1 billion) (note i)	8 March 2018			**-**	764
1.5% fixed-to-floating rate notes (Euro 1 billion)	8 March 2018	8 March 2025	8 March 2026	**877**	838
4.302% fixed-to-floating rate notes (US Dollar 0.75 billion)	8 March 2018	8 March 2028	8 March 2029	**602**	574
4.363% fixed-to-floating rate notes (US Dollar 1 billion)	1 August 2018	1 August 2023	1 August 2024	**805**	768
3.4675% fixed rate notes (Norwegian Kroner 1 billion)	5 October 2018		5 October 2026	**79**	89
0.805% fixed-to-floating rate notes (Japanese Yen 1 billion)	24 October 2018	24 October 2023	24 October 2024	**6**	6
0.9925% fixed rate reset notes (Japanese Yen 4 billion)	30 October 2018	30 October 2025	30 October 2026	**24**	25
3.875% fixed rate notes (Norwegian Kroner 0.3 billion)	13 November 2018		13 November 2028	**24**	27
3.9% fixed rate notes (Norwegian Kroner 1 billion)	13 November 2018		13 November 2028	**79**	89
1.2775% fixed rate reset notes (Japanese Yen 3 billion)	14 November 2018	14 November 2028	14 November 2029	**18**	19
3.622% fixed-to-floating rate notes (US Dollar 1 billion) (note i)	26 April 2019			**-**	774
3.96% fixed-to-floating rate notes (US Dollar 1 billion)	18 July 2019	18 July 2029	18 July 2030	**806**	769
0.85% fixed-to-floating rate notes (Japanese Yen 5 billion)	16 August 2019	16 August 2029	16 August 2030	**30**	31
2.972% fixed-to-floating rate notes (US Dollar 0.75 billion)	16 February 2022	16 February 2027	16 February 2028	**602**	574
Sofr + 1.29% floating rate notes (US Dollar 0.3 billion)	16 February 2022	16 February 2027	16 February 2028	**242**	229
6.178% fixed-to-floating rate notes (GBP 0.65 billion)	7 December 2022	7 December 2026	7 December 2027	**663**	-
Tier 2 eligible					
4% subordinated notes (US Dollar 1.25 billion) (note ii)	14 September 2016		14 September 2026	**893**	955
2% subordinated notes (Euro 1 billion)	25 July 2017	25 July 2024	25 July 2029	**888**	849
4.125% subordinated notes (US Dollar 1.25 billion) (note ii)	18 October 2017	18 October 2027	18 October 2032	**414**	971
				7,052	8,351
Fair value hedge accounting adjustments				**(281)**	(81)
Unamortised premiums and issue costs				**(16)**	(20)
Total				**6,755**	8,250

Notes:

i. The Society exercised its option to call these notes during the year ended 4 April 2023.

ii. On 9 June 2022, the Society repurchased £701 million of Tier 2 eligible notes.

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

The Tier 2 eligible subordinated notes rank equally with each other and ahead of claims against the Society of holders of PIBS, AT1 instruments and CCDS.

The interest rate and foreign exchange risks arising from the issuance of fixed rate and foreign currency subordinated liabilities have been mitigated through the use of derivatives.

20. Subscribed capital

	Note	Next call date	Group and Society 2023 £m	Group and Society 2022 £m
6.25% permanent interest-bearing shares	i	22 October 2024	**45**	45
5.769% permanent interest-bearing shares	i	6 February 2026	**84**	84
7.859% permanent interest-bearing shares	i	13 March 2030	**39**	39
Floating rate (Sonia + 4.2%) permanent interest-bearing shares		30 September 2030	**5**	5
			173	173
Fair value hedge accounting adjustments			**1**	15
Unamortised premiums and issue costs			**(1)**	(1)
Total			**173**	187

Note:
i. Repayable, at the option of the Society, in full on the initial call date or every fifth anniversary thereafter. If not repaid on a call date, then the interest rate is reset at a margin to the yield on the then prevailing five-year benchmark gilt rate.

All PIBS are denominated in sterling and only repayable with the prior consent of the PRA. PIBS do not form part of capital resources.

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:

	2023				2022			
	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	**22,968**	**-**	**-**	**22,968**	20,897	-	-	20,897
Other debt investment securities	**2,843**	**1,707**	**2**	**4,552**	2,630	1,776	5	4,411
Investments in equity shares	**-**	**3**	**52**	**55**	-	-	58	58
Total investment securities (note i)	**25,811**	**1,710**	**54**	**27,575**	23,527	1,776	63	25,366
Interest rate swaps	**-**	**4,617**	**-**	**4,617**	-	2,683	-	2,683
Cross currency interest rate swaps	**-**	**1,801**	**-**	**1,801**	-	1,695	-	1,695
Foreign exchange swaps	**-**	**13**	**-**	**13**	-	15	-	15
Inflation swaps	**-**	**265**	**157**	**422**	-	-	260	260
Bond forwards and futures	**-**	**70**	**-**	**70**	-	70	-	70
Total derivative financial instruments	**-**	**6,766**	**157**	**6,923**	-	4,463	260	4,723
Loans and advances to customers	**-**	**-**	**100**	**100**	-	-	116	116
Total financial assets	**25,811**	**8,476**	**311**	**34,598**	23,527	6,239	439	30,205
Financial liabilities								
Interest rate swaps	**-**	**(774)**	**-**	**(774)**	-	(492)	-	(492)
Cross currency interest rate swaps	**-**	**(663)**	**-**	**(663)**	-	(743)	-	(743)
Foreign exchange swaps	**-**	**(6)**	**-**	**(6)**	-	(12)	-	(12)
Inflation swaps	**-**	**(52)**	**(8)**	**(60)**	-	-	(176)	(176)
Bond forwards and futures	**-**	**(18)**	**-**	**(18)**	-	(5)	-	(5)
Swaptions	**-**	**-**	**(3)**	**(3)**			-	-
Total derivative financial instruments	**-**	**(1,513)**	**(11)**	**(1,524)**	-	(1,252)	(176)	(1,428)
Total financial liabilities	**-**	**(1,513)**	**(11)**	**(1,524)**	-	(1,252)	(176)	(1,428)

Note:
i. Investment securities exclude £40 million (2022: £118 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 current or prior 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 £44 million (2022: £46 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 and swaptions)

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 are 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. Where the impact of seasonality is significant to the valuation of the swaps, these are classified as Level 3 in the hierarchy.

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	2023				2022			
	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	63	260	(176)	116	32	112	(52)	120
Gains/(losses) recognised in the income statement, within:								
Net interest (expense)/income	**-**	**(113)**	**(16)**	**4**	-	48	(148)	2
Gains from derivatives and hedge accounting (note i)	**-**	**509**	**75**	**-**	-	116	16	-
Other operating (expense)/income	**(3)**	**-**	**(9)**	**(11)**	5	-	(16)	3
(Losses)/gains recognised in other comprehensive income, within:								
Fair value through other comprehensive income reserve	**(3)**	**-**	**-**	**-**	10	-	-	-
Additions	**1**	**-**	**-**	**-**	20	-	-	-
Disposals	**(4)**	**-**	**9**	**-**	(4)	-	16	-
Settlements/repayments	**-**	**(16)**	**4**	**(9)**	-	(16)	8	(9)
Transfers out of Level 3 portfolio (note ii)	**-**	**(483)**	**102**	**-**	-	-	-	-
At 4 April	**54**	**157**	**(11)**	**100**	63	260	(176)	116
Unrealised (losses)/gains recognised in the income statement attributable to assets and liabilities held at the end of the period	**(4)**	**212**	**7**	**(11)**	5	116	16	3

Notes:

i. Includes foreign exchange revaluation gains/(losses).

ii. The proportional impact of seasonality on the value of GBP-denominated inflation swaps reduced during the year, resulting in these instruments being transferred from Level 3 to Level 2 of the fair value hierarchy.

22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

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.

Sensitivity of Level 3 fair values										
	2023					2022				
		Income statement		**Other comprehensive income**		Fair value	Income statement		Other comprehensive income	
	Fair value	**Favourable changes**	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**		Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Investment securities	**54**	**4**	**(3)**	**12**	**(11)**	63	6	(4)	4	(4)
Net derivative financial instruments	**146**	**32**	**(32)**	**-**	**-**	84	75	(75)	-	-
Loans and advances to customers	**100**	**3**	**(2)**	**-**	**-**	116	2	(2)	-	-
Total	**300**	**39**	**(37)**	**12**	**(11)**	263	83	(81)	4	(4)

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														
	2023							2022						
	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	**54**	**-**	**Internal assessment**	**Various (note ii)**	**-**	**-**	**£**	63	-	Internal assessment	Various (note ii)	-	-	£
Derivative financial instruments	**157**	**(11)**	**Discounted cash flows**	**Seasonality**	**0.02**	**0.82**	**%**	260	(176)	Discounted cash flows	Seasonality	0.01	0.77	%
Loans and advances to customers	**100**	**-**	**Discounted cash flows**	**Discount rate**	**3.31**	**9.75**	**%**	116	-	Discounted cash flows	Discount rate	1.34	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 incorporate additional inputs.

22. Fair value of financial assets and liabilities held at fair value – Level 3 portfolio (continued)

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.

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)										
	2023					2022				
	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	**2,860**	**-**	**2,860**	**-**	**2,860**	3,052	-	3,052	-	3,052
Investment securities	**40**	**-**	**40**	**-**	**40**	118	-	119	-	119
Loans and advances to customers:										
Residential mortgages	**201,335**	**-**	**-**	**192,504**	**192,504**	197,869	-	-	195,637	195,637
Consumer banking	**3,939**	**-**	**-**	**3,821**	**3,821**	4,109	-	-	4,014	4,014
Commercial lending	**5,408**	**-**	**-**	**4,863**	**4,863**	5,972	-	-	5,683	5,683
Total	**213,582**	**-**	**2,900**	**201,188**	**204,088**	211,120	-	3,171	205,334	208,505
Financial liabilities										
Shares	**187,143**	**-**	**186,917**	**-**	**186,917**	177,967	-	177,818	-	177,818
Deposits from banks and similar institutions	**25,056**	**-**	**25,056**	**-**	**25,056**	36,425	-	36,425	-	36,425
Other deposits	**5,191**	**-**	**5,176**	**14**	**5,190**	5,208	-	5,192	16	5,208
Debt securities in issue	**27,626**	**11,491**	**16,374**	**-**	**27,865**	25,629	10,872	15,278	-	26,150
Subordinated liabilities	**6,755**	**-**	**6,731**	**-**	**6,731**	8,250	-	8,347	-	8,347
Subscribed capital	**173**	**-**	**171**	**-**	**171**	187	-	194	-	194
Total	**251,944**	**11,491**	**240,425**	**14**	**251,930**	253,666	10,872	243,254	16	254,142

Note:
i. The table above excludes cash and other financial assets and liabilities such as accruals, trade receivables, trade payables and settlement balances which are short-term in nature and 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

	2023						2022					
	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	200,212	191,430	1,123	1,074	201,335	192,504	196,570	194,353	1,299	1,284	197,869	195,637
Consumer banking	3,892	3,774	47	47	3,939	3,821	4,080	3,985	29	29	4,109	4,014
Commercial lending	5,381	4,836	27	27	5,408	4,863	5,927	5,636	45	47	5,972	5,683
Total	209,485	200,040	1,197	1,148	210,682	201,188	206,577	203,974	1,373	1,360	207,950	205,334

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:

- Amounts which have been offset, where there is an enforceable master netting arrangement or similar agreement in place, an unconditional right to offset exists and there is an intention to settle net ('amounts offset'); and
- Amounts which have not been offset, where there is an enforceable master netting arrangement or similar agreement in place, but the offset criteria are otherwise not satisfied ('master netting arrangements') and/or where financial collateral has been paid or received ('financial collateral').

Offsetting financial assets and financial liabilities

	2023						2022					
	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	**19,978**	**(13,055)**	**6,923**	**(1,286)**	**(5,634)**	**3**	10,432	(5,709)	4,723	(1,263)	(3,460)	-
Reverse repurchase agreements	**1,027**	**(1,027)**	**-**	**-**	**-**	**-**	635	(635)	-	-	-	-
Total financial assets	**21,005**	**(14,082)**	**6,923**	**(1,286)**	**(5,634)**	**3**	11,067	(6,344)	4,723	(1,263)	(3,460)	-
Financial liabilities												
Derivative financial liabilities	**13,442**	**(11,918)**	**1,524**	**(1,286)**	**(63)**	**175**	6,903	(5,475)	1,428	(1,263)	(14)	151
Repurchase agreements	**3,102**	**(1,027)**	**2,075**	**-**	**(2,074)**	**1**	11,699	(635)	11,064	-	(11,034)	30
Total financial liabilities	**16,544**	**(12,945)**	**3,599**	**(1,286)**	**(2,137)**	**176**	18,602	(6,110)	12,492	(1,263)	(11,048)	181

Notes:

i. Amounts offset for derivative financial assets of £13,055 million (2022: £5,709 million) include cash collateral netted of £1,753 million (2022: £569 million). Amounts offset for derivative financial liabilities of £11,918 million (2022: £5,475 million) include cash collateral netted of £616 million (2022: £335 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 paid or received, 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.

25. Intangible assets

Group 2023	**Computer software**		**Total computer software**	**Goodwill**	**Total**
	Externally acquired	**Internally developed**			
	£m	**£m**	**£m**	**£m**	**£m**
Cost					
At 5 April 2022	369	2,311	2,680	12	2,692
Additions	**18**	**267**	**285**	**-**	**285**
Disposals	**(31)**	**(152)**	**(183)**	**-**	**(183)**
At 4 April 2023	**356**	**2,426**	**2,782**	**12**	**2,794**
Accumulated amortisation and impairment					
At 5 April 2022	265	1,514	1,779	-	1,779
Amortisation charge	**44**	**264**	**308**	**-**	**308**
Impairment in the year	**-**	**28**	**28**	**-**	**28**
Disposals	**(31)**	**(152)**	**(183)**	**-**	**(183)**
At 4 April 2023	**278**	**1,654**	**1,932**	**-**	**1,932**
Net book value					
At 4 April 2023	**78**	**772**	**850**	**12**	**862**

Group 2022	Computer software		Total computer software	Goodwill	Total
	Externally acquired	Internally developed			
	£m	£m	£m	£m	£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

25. Intangible assets (continued)

Computer software capitalised during the year primarily relates to the Group's investment in digital services, data capabilities and modernisation of the Group's technology estate. The total cost at 4 April 2023 includes £185 million (2022: £116 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 £28 million (2022: £29 million) was recognised in the year, primarily as a result of software becoming obsolete earlier than envisaged due to ongoing investment to ensure the Group's technology estate is fit for the future.

The Society's intangible assets are as shown above for the Group, except that they exclude £12 million (2022: £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 2023 was £10 million (2022: £25 million).

26. Property, plant and equipment

Group **2023**	**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 2022	156	166	18	308	963	266	1,877
Additions	**-**	**-**	**-**	**19**	**43**	**11**	**73**
Transfers (note i)	**-**	**-**	**(13)**	**-**	**-**	**13**	**-**
Revaluation	**1**	**-**	**(3)**	**-**	**-**	**-**	**(2)**
Disposals	**(15)**	**-**	**-**	**(1)**	**(115)**	**(2)**	**(133)**
At 4 April 2023	**142**	**166**	**2**	**326**	**891**	**288**	**1,815**
Accumulated depreciation and impairment							
At 5 April 2022	-	85	-	244	572	96	997
Depreciation charge	**-**	**3**	**-**	**20**	**110**	**25**	**158**
Impairment	**-**	**1**	**-**	**4**	**9**	**15**	**29**
Disposals	**-**	**-**	**-**	**(1)**	**(111)**	**(1)**	**(113)**
At 4 April 2023	**-**	**89**	**-**	**267**	**580**	**135**	**1,071**
Net book value							
At 4 April 2023	**142**	**77**	**2**	**59**	**311**	**153**	**744**

26. Property, plant and equipment (continued)

Group 2022	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 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

Note:
i. During the year, there has been a transfer of investment property to right-of-use branches and non-specialised administration buildings, following the decision to reoccupy the property.

Group property, plant and equipment at 4 April 2023 includes £1 million (2022: £1 million) of specialised administration buildings held by subsidiary undertakings.

Property, plant and equipment includes £14 million (2022: £18 million) of assets in the course of construction. Capital expenditure contracted for but not accrued at 4 April 2023 was £4 million (2022: £6 million). As at 4 April 2023, branches and non-specialised buildings includes £3 million (2022: £8 million) of properties which are classified as held for sale.

An impairment loss of £29 million (2022: £25 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 represents the 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 £58 million (2022: £67 million).

27. Provisions for liabilities and charges

Group	Customer redress	Other provisions	Total
	£m	£m	£m
At 5 April 2022	127	26	153
Provisions utilised	**(74)**	**(21)**	**(95)**
Charge for the year	**21**	**44**	**65**
Release for the year	**(34)**	**(7)**	**(41)**
Net income statement (release)/charge (note i)	**(13)**	**37**	**24**
At 4 April 2023	**40**	**42**	**82**

Note:
i. The net income statement release relating to customer redress is included in provisions for liabilities and charges, with the exception of £3 million release which is included in administrative expenses. The net income statement charge relating to other provisions is included in administrative expenses, with the exception of £1 million which is included in provisions for liabilities and charges.

The Society's provisions for liabilities and charges are the same as shown above for the Group. Whilst there is uncertainty as to the timing of the utilisation of provisions, the Group expects the majority to have been utilised by 4 April 2025.

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 2023, the Group holds provisions of £40 million (2022: £127 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.

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.

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	
		2023	2022
	Income statement classification	**£m**	£m
Interest expense	Interest expense and similar charges	**(6)**	(5)
Depreciation and impairment of right-of-use assets	Administrative expenses	**(40)**	(36)
Lease expense in respect of short term and low value leases	Administrative expenses	**(9)**	(10)
Amounts receivable under leases where the Group is a lessor	Other operating income	**2**	3

Leasing amounts recognised at the balance sheet date

		Group	
		2023	2022
	Balance sheet classification	**£m**	£m
Right-of-use branches and non-specialised admin buildings	Property, plant and equipment	**153**	170
Right-of-use investment property (note i)	Property, plant and equipment	**-**	16
Lease liabilities	Other liabilities	**(225)**	(243)

Note:
i. During the year, there has been a transfer of a right-of-use investment property to right-of-use branches and non-specialised administration buildings, following the decision to reoccupy the property.

In addition to the above, the Society holds a lease liability and right-of-use asset of £1 million (2022: £1 million) relating to the lease of an investment property owned by one of its subsidiaries which is eliminated on consolidation. Total leasing cash outflows in the year were £43 million (2022: £37 million). No lease commitments (2022: £nil) were entered into that had not yet commenced at the balance sheet date.

Future undiscounted minimum payments under lease liabilities were as follows:

Leasing commitments

	Group and Society 2023 £m	Group and Society 2022 £m
Amounts falling due:		
Within one year	**33**	33
Between one and two years	**31**	31
Between two and three years	**29**	30
Between three and four years	**27**	28
Between four and five years	**24**	25
After five years	**119**	139
Total	**263**	286

At the balance sheet date £7 million (2022: £9 million) of future minimum lease payments were receivable under leases where the Group is a lessor, of which £2 million (2022: £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. The Group may also be subject to legal and regulatory reviews, challenges, investigations and enforcement actions which may result in, among other things, actions being taken by governmental and regulatory authorities, increased costs being incurred in relation to remediation of systems and controls, or fines. Any such material cases are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of incurring a liability.

In those instances where it is concluded that it is not yet probable that a quantifiable payment will be made, for example because the facts are unclear or further time is required to fully assess the merits of the case or to reasonably quantify the expected payment, no provision is made.

The Group does not disclose amounts in relation to contingent liabilities associated with such claims where the likelihood of any payment is remote or where, in the case of matters subject to active legal proceedings, such disclosure could be seriously prejudicial to the conduct of the claims.

The FCA has commenced an investigation of the Society's compliance with UK money laundering regulations and the FCA's rules and Principles for Businesses in an enquiry focused on aspects of the Society's anti-money laundering control framework. The Society is co-operating with the investigation, which is at an early stage. The Group has not disclosed an estimate of the potential financial impact arising from this matter as it is not currently practicable to do so.

Apart from the matters disclosed, 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. However, in light of the uncertainties involved in such matters there can be no assurance that the outcome of a particular matter or matters may not ultimately be material to the Group's results.

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. During the year, Nationwide and the Trustee completed the Fund's 31 March 2022 Triennial Valuation, which showed a funding surplus. The main differences between the assumptions used for assessing defined benefit liabilities for purposes of the actuarial funding valuation and those used for accounting under IAS 19 'Employee Benefits' are that the financial and demographic assumptions used for the funding valuation are generally more prudent than those used for the IAS 19 valuation. As the Triennial Valuation indicated a funding surplus, a recovery plan requiring employer deficit contributions was not needed.

In November 2020, Nationwide and the Trustee of the Fund entered into an arrangement whereby Nationwide 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.

On 14 October 2022, the Society provided two uncollateralised loans totalling £400 million to the Fund. This temporary support allowed the Fund to manage its ongoing liquidity requirements during a period of high market volatility. These two loan balances, including accrued interest of £4 million, were fully repaid in November 2022 and January 2023, respectively.

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	
	2023	2022
	£m	£m
Fair value of fund assets	**5,281**	7,411
Present value of funded obligations	**(4,331)**	(6,396)
Present value of unfunded obligations	**(4)**	(7)
Surplus at 4 April	**946**	1,008

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 57% (2022: 68%) of the Fund's pension obligations relate to deferred Fund members (current and former employees not yet drawing their pension) and 43% (2022: 32%) to current pensioners and dependants. The weighted average duration of the Fund's overall pension obligation is approximately 16 years (2022: 21 years), reflecting an average duration of 20 years for deferred members and 12 years for current pensioners.

The Group's retirement benefit obligations include a deficit of £1 million (2022: surplus of less than £1 million) recognised in a subsidiary company, Nationwide (Isle of Man) Limited. This obligation relates to a defined benefit scheme providing benefits based on both final salary and CARE, which was closed to new entrants in 2009. The Group's retirement benefit obligations also include £4 million (2022: £7 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	
	2023	2022
	£m	£m
Defined contribution cost	**(149)**	(140)
Defined benefit schemes - administrative expenses	**(4)**	(5)
Included in employee costs (note 8)	**(153)**	(145)
Interest on net defined benefit asset (note 3)	**26**	4
Total	**(127)**	(141)

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

Movements in net defined benefit asset		
	Group	
	2023	2022
	£m	£m
Surplus at 5 April	1,008	172
Interest on net defined benefit asset	**26**	4
Return on assets (less than)/greater than discount rate	**(2,144)**	432
Contributions by employer	**1**	1
Administrative expenses	**(4)**	(5)
Actuarial gains on defined benefit obligations	**2,059**	404
Surplus at 4 April	**946**	1,008

30. Retirement benefit obligations (continued)

As the Fund is closed to future accrual, there have been no current service costs, past service costs or employer contributions made in respect of future benefit accrual during the year (2022: £nil). Additionally, there have been no employer deficit contributions required into the Fund (2022: £nil) and there are no such contributions scheduled in the year ending 4 April 2024 or future years under the current Schedule of Contributions. Employer deficit contributions of £1 million (2022: £1 million) were made in respect of the Group's defined benefit scheme in its Nationwide (Isle of Man) Limited subsidiary.

The £2,144 million loss (2022: £432 million gain) relating to the return on assets (less than)/greater than the discount rate is driven by decreases in value of the Fund's liability matching assets.

The £2,059 million actuarial gain (2022: £404 million) on defined benefit obligations is due to:

- A £2,175 million gain (2022: £390 million) from changes in financial assumptions, driven by a 2.1% increase in the discount rate (which decreases the value of liabilities), in addition to a 0.3% decrease in assumed Retail Price Index (RPI) inflation and a 0.3% decrease in assumed Consumer Price Index (CPI) inflation (which also decreases the value of the liabilities).
- A £22 million gain (2022: £73 million) arising from the impacts of updates to demographic assumptions and applying the latest industry views for projecting future longevity improvements.
- An experience loss of £138 million (2022: £59 million) 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	
	2023	2022
	£m	£m
At 5 April	(6,403)	(6,861)
Interest expense on retirement obligation	**(161)**	(135)
Experience loss on plan assumptions	**(138)**	(59)
Changes in demographic assumptions	**22**	73
Changes in financial assumptions	**2,175**	390
Benefits paid	**170**	189
At 4 April	**(4,335)**	(6,403)

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	
	2023	2022
	£m	£m
At 5 April	7,411	7,033
Interest income on assets	**187**	139
Return on assets (less than)/greater than discount rate	**(2,144)**	432
Administrative expenses	**(4)**	(5)
Contributions by employer	**1**	1
Benefits paid	**(170)**	(189)
At 4 April	**5,281**	7,411

The major categories of assets held for the pension schemes, stated at fair value, are as follows:

Categories of plan assets	Group	
	2023	2022
	£m	£m
Listed equities (quoted)	**17**	663
Government bonds (quoted)	**3,413**	5,032
Corporate bonds and other credit investments (quoted)	**94**	576
Infrastructure (unquoted)	**222**	296
Property (unquoted)	**712**	792
Private equity investments (unquoted)	**775**	689
Private debt investments (unquoted)	**603**	463
Cash and derivatives	**87**	277
Liability relating to repurchase agreement	**(786)**	(1,555)
Insurance policies	**113**	148
Other assets and liabilities	**31**	30
Total	**5,281**	7,411

The defined benefit pension schemes do not invest in the Group's own financial instruments or property. Certain investments in private equity, private debt, infrastructure and property are not quoted in active markets or valued based on observable inputs. Valuations for these assets are based on the most recent valuation provided by the asset manager and adjusted for any cash movements to the balance sheet date.

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 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 increases in bond yields over the year led the Fund to increase collateral levels, supporting its liability-driven investment positions to ensure it could withstand further increases in yields. The Fund continued to de-risk from return seeking assets by significantly 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 at 4 April 2023 amounted to £786 million (2022: £1,555 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 in relation to members in this section. At 4 April 2023, the value of the insurance asset for the Cheshire & Derbyshire section buy-in was £113 million (2022: £148 million).

The investments are monitored by both the Trustee and the Society to ensure they remain appropriate given the Fund's long-term objectives.

The principal actuarial assumptions used are as follows:

Financial assumptions	**2023** **%**	2022 %
Discount rate	**4.65**	2.55
Future pension increases (maximum 5%)	**3.05**	3.25
Retail price index (RPI) inflation	**3.15**	3.45
Consumer price index (CPI) inflation	**2.50**	2.80

Life expectancy assumptions	**2023** **years**	2022 years
Age 60 at 4 April 2023:		
Males	**27.1**	27.4
Females	**28.7**	29.2
Age 60 at 4 April 2043:		
Males	**28.1**	28.5
Females	**30.0**	30.2

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 2023 or in 20 years' time at 4 April 2043.

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 2023	Increase/(decrease) in defined benefit obligation £m
1.0% decrease in discount rate	**784**
0.1% increase in inflation assumption	**38**
1 year increase in life expectancy at age 60 in respect of all members	**100**

The above sensitivities apply to individual assumptions in isolation. In practice, changes to individual assumptions in isolation are unlikely to occur, and changes in some of the assumptions may be correlated. The inflation assumption sensitivity includes the impact on the rate of increases to pensions, both before and after retirement. Following the large increases in corporate bond yields the discount rate sensitivity has been updated to 1.0% at 4 April 2023 (2022: 0.1%), to better represent potential movements in the discount rate assumption.

31. Core capital deferred shares

Group and Society	Number of shares	CCDS £m	Share premium £m	Treasury share reserve £m	Total £m
At 4 April 2022	10,555,500	11	1,323	-	1,334
CCDS repurchased and retained	(775,608)	-	-	(101)	(101)
At 4 April 2023 (note i)	**9,779,892**	**11**	**1,323**	**(101)**	**1,233**

Note:
i. The total number of shares outstanding at 4 April 2023 is 10,555,500, which includes the 775,608 shares repurchased and retained by the Society.

Core capital deferred shares (CCDS) are a form of Common Equity Tier 1 (CET1) capital which has 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 £19.71 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 2022 was paid on 20 June 2022 and an interim distribution of £54 million (£5.125 per share) in respect of the period to 30 September 2022 was paid on 20 December 2022. These distributions have been recognised in the statement of movements in members' interests and equity.

In the financial year ended 4 April 2023, the Society repurchased 775,608 (7.3%) of £1 CCDS at prices ranging from £130.79 to £130.87 per share. The repurchased CCDS were not cancelled, instead being retained by the Society. The gross cost of the repurchase of £101 million has been presented within the treasury share reserve in the table above.

Since the balance sheet date, the directors have declared a distribution of £5.125 per share in respect of the period to 4 April 2023, amounting in aggregate to £50 million. This has not been reflected in these financial statements as it will be recognised in the year ending 4 April 2024, by reference to the date at which it was declared.

32. Other equity instruments

				Group and Society	
				2023	2022
	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 at the rates shown in the table above.

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 2023 (2022: £78 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 2023 and will be recognised in the statement of movements in members' interests and equity in the year ending 4 April 2024.

33. Investments in Group undertakings

Society investments in Group undertakings	2023			2022		
	Shares £m	**Loans £m**	**Total £m**	Shares £m	Loans £m	Total £m
At 5 April	371	39,955	40,326	361	37,891	38,252
Additions	**1**	**783**	**784**	21	2,527	2,548
Impairments	**(6)**	**(7)**	**(13)**	(11)	(10)	(21)
Disposals, redemptions and repayments	**-**	**(41)**	**(41)**	-	(453)	(453)
At 4 April	**366**	**40,690**	**41,056**	371	39,955	40,326

The Society received dividends from Group undertakings during the year ended 4 April 2023 totalling £652 million (2022: £2 million).

Impairments for the year ended 4 April 2023 of £13 million (2022: £21 million) 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 2023 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	
Confederation Mortgage Services Limited	ii
Dunfermline BS Nominees Limited	ii
Home Propositions Limited	ii
Jubilee Mortgages Limited	ii
Monument (Sutton) Limited	ii
Nationwide (Isle of Man) Limited	
Nationwide Syndications Limited	ii
NBS Ventures Limited	ii
NBS Ventures Management Limited	ii
Piper Javelin Holding Company Limited	ii
Piper Javelin No 1 Limited	
The Derbyshire (Premises) Limited	ii

Subsidiary name
Dormant subsidiaries
Exeter Trust Limited
FN1
LBS Mortgages Limited
NAPS1 Limited
Nationwide Home Loans Limited
Nationwide Housing Trust Limited
Nationwide International Limited
NLF1 Limited
NOK1 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 2023 under Section 479A of the Companies Act 2006. The Society guarantees all outstanding liabilities of the exempted subsidiary undertakings.

33. Investments in Group undertakings (continued)

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 2023 is £4,590 million (2022: £4,524 million). Further details on the credit risk that the Group is exposed to in respect of these assets 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.

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 Executive Committee (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	**2023**	2022
	£'000	£'000
Short term employee benefits	**8,885**	8,944
Other long-term benefits	**2,028**	1,951
Contractual/other settlements	**399**	587
Share based payments	**971**	2,339
Total	**12,283**	13,821

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.

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	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Loans payable to the Society				
Loans outstanding at 5 April	39,955	37,891	2.3	2.4
Loans issued during the year	**783**	2,527	**0.9**	0.6
Loans impaired during the year	**(7)**	(10)	**-**	-
Loan repayments during the year	**(41)**	(453)	**(1.4)**	(0.7)
Loans outstanding at 4 April	**40,690**	39,955	**1.8**	2.3
Deposits payable by the Society				
Deposits outstanding at 5 April	593	1,148	1.7	4.9
Deposits placed during the year	**-**	-	**8.2**	10.9
Deposit repayments during the year	**(168)**	(555)	**(8.2)**	(14.1)
Deposits outstanding at 4 April	**425**	593	**1.7**	1.7
Net interest income				
Interest receivable	**768**	805	**-**	-
Interest expense	**81**	18	**-**	-
Other income and expenses				
Dividends paid to the Society	**652**	2	**-**	-
Fees and expenses paid to the Society	**88**	66	**-**	-
Other balance sheet items				
Accrued income and prepaid expenses due to the Society	**335**	181	**-**	-
Other liabilities payable by the Society	**2,158**	2,480	**-**	-
Right-of-use asset leased from subsidiary	**1**	1	**-**	-
Liability for right-of-use asset leased from subsidiary	**1**	1	**-**	-

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 2023, the Society held intercompany derivative assets of £647 million and intercompany derivative liabilities of £337 million (2022: £149 million and £423 million, respectively) in respect of these instruments.

35. Related party transactions (continued)

Transactions with key management personnel

Transactions with key management personnel are on the same terms and conditions applicable to other employees within the Group.

A register is maintained by the Society containing details of loans, transactions and arrangements made between the Society or its subsidiary undertakings and directors of the Society or persons connected with directors of the Society. The register will be available for inspection by members at the Annual General Meeting on 20 July 2023 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	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Net increase/(decrease) in impairment provisions	**19**	(106)	**(63)**	2
Net decrease in provisions for liabilities and charges	**(71)**	(6)	**(71)**	(6)
Amortisation and losses/(gains) on investment securities	**77**	(117)	**78**	(117)
Write down of inventory	**5**	12	**-**	-
Depreciation, amortisation and impairment	**523**	595	**522**	595
Impairment of investment in Group undertakings	**-**	-	**13**	21
Profit on sale of property, plant and equipment	**(2)**	(3)	**(2)**	(3)
Loss/(gain) on the revaluation of property, plant and equipment	**5**	(1)	**5**	(1)
Net (credit)/charge in respect of retirement benefit obligations	**(22)**	1	**(22)**	1
Interest on subordinated liabilities	**294**	138	**294**	138
Interest on subscribed capital	**7**	4	**7**	4
Losses from derivatives and hedge accounting	**4**	7	**12**	6
Total	**839**	524	**773**	640

36. Notes to the cash flow statements (continued)

Changes in operating assets and liabilities	Group		Society	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
Loans and advances to banks and similar institutions	**(99)**	148	**(99)**	148
Net derivative financial instruments	**1,014**	2,462	**1,509**	1,874
Loans and advances to customers	**(2,854)**	(6,517)	**(2,410)**	(4,082)
Other operating assets	**(107)**	67	**(1,399)**	(1,449)
Shares	**9,176**	7,654	**9,176**	7,654
Deposits from banks and similar institutions, customers and others	**(11,982)**	10,026	**(12,044)**	9,923
Debt securities in issue	**1,804**	(1,561)	**2,231**	(1,626)
Contributions to defined benefit pension scheme	**(1)**	(1)	**-**	-
Other operating liabilities	**84**	(249)	**(236)**	(29)
Total	**(2,965)**	12,029	**(3,272)**	12,413
Cash and cash equivalents				
Cash	**25,635**	30,221	**25,635**	30,221
Loans and advances to banks and similar institutions repayable in 3 months or less	**320**	603	**314**	584
Total	**25,955**	30,824	**25,949**	30,805

The Group is required to maintain balances with the Bank of England and certain other central banks which, at 4 April 2023, amounted to £1,944 million (2022: £1,860 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 £595 million (2022: £589 million).

Movements in liabilities arising from financing activities are set out below:

Movements in liabilities arising from financing activities	2023				2022			
	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	8,250	187	243	8,680	7,575	243	262	8,080
Issuances/additions	**646**	**-**	**11**	**657**	773	-	3	776
Redemptions/repayments	**(2,335)**	**-**	**(34)**	**(2,369)**	-	(38)	(27)	(65)
Foreign exchange	**396**	**-**	**-**	**396**	281	-	-	281
Fair value and other movements	**(202)**	**(14)**	**5**	**(211)**	(379)	(18)	5	(392)
At 4 April	**6,755**	**173**	**225**	**7,153**	8,250	187	243	8,680

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 2023 amounted to £20 million and £138 million (2022: £129 million and £nil) respectively. Other changes in the value of these derivatives in the year ended 4 April 2023 included increases of £152 million (2022: decreases of £10 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

39. Events after the balance sheet date

On 18 May 2023, the Board of directors approved payments to certain eligible members, referred to as the Nationwide Fairer Share Payment, totalling £340 million, to be made in June 2023. This has not been reflected in these financial statements as it will be recognised in the year ending 4 April 2024, by reference to the date at which it was announced.

Other information

Annual business statement for the year ended 4 April 2023

1. Statutory percentages

Statutory percentages	2023 %	Statutory limit %
Lending limit	**4.35**	25.00
Funding limit	**25.39**	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, 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	2023 %	2022 %
As a percentage of shares and borrowings:		
Gross capital	**9.7**	9.8
Free capital	**9.4**	9.4
Liquid assets	**22.9**	24.0
Profit for the financial year as a percentage of mean total assets	**0.61**	0.47
Management expenses as a percentage of mean total assets	**0.85**	0.85

The above percentages have been prepared from the Group'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 2023

Name and date of birth	Occupation	Date of appointment	Other directorships
K A H Parry OBE 29 January 1962	Society Chairman Non-executive director	23 May 2016	Daily Mail and General Trust plc K A H Parry Limited Royal London Mutual Insurance Society Limited (Chairman)
D A Crosbie 30 March 1970	Executive director	2 June 2022	SSE plc
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
T Graham 20 July 1965	Non-executive director	28 September 2022	Close Brothers Group plc Ibstock plc DiscoverIE Group plc LINK Scheme Ltd
A Hitchcock 16 January 1965	Non-executive director	2 December 2018	PureProfile Ltd
A M Keir 16 October 1958	Non-executive director	1 March 2022	Majid Al Futtaim Holdings and Majid Al Futtaim Capital LLC Majid Al Futtaim Trust Sumitomo Mitsui Banking Corporation Bank International plc (Chair)
D Klein 10 August 1968	Non-executive director	1 March 2021	Xyon Health Inc
T Rajah MBE 24 August 1982	Non-executive director	1 September 2020	Live Better With Ltd London & Partners Limited
C S Rhodes 17 March 1963	Executive director	20 April 2009	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 2023 (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
G Waersted 16 March 1955	Senior Independent Director Non-executive director	1 June 2017	Telenor ASA (Chair) Obton AS (Chair) Petoro AS (Chair) Lukris Invest AS Fidelity International (Bermuda)

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 2022/23, the executive directors participated in the Annual Performance Pay (APP) plan and the Long-Term Performance Pay (LTPP) plan. A maximum of 20% of the combined value of the APP and LTPP awards is payable in June 2023 with an equivalent proportion retained until June 2024. A minimum of 60% of the combined value 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 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 70. 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, risks relating to sustainability and climate change, the policies and actions of regulatory authorities and the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. The economic outlook remains unusually uncertain and, 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 2023 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

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