RNS Number : 9560Z
Nationwide Building Society
19 May 2023

# Nationwide Building Society

## Preliminary Results Announcement for the year ended 4 April 2023

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### Underlying profit

Profit before tax shown on a statutory and underlying basis is set out on page 7. 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.

# Review of the year

## Strongest financial results at Nationwide enable the Society to launch the Nationwide Fairer Share Payment, returning £340m directly to eligible members

**Kevin Parry, Chairman, Nationwide Building Society, said:**

"Our financial strength has allowed the Board to declare an inaugural distribution - the Nationwide Fairer Share Payment. Eligible members will receive a £100 payment into their current accounts in June 2023.

"The Board intends to declare annual distributions provided they would not be detrimental to the financial strength of the Society[1]."

**Debbie Crosbie, Chief Executive, Nationwide Building Society, said:**

"We have delivered a strong financial performance by providing banking that is fairer, more rewarding and for the good of society.

"Our strongest financial performance means that we are able to launch the Nationwide Fairer Share Payment, as well as the Nationwide Fairer Share Bond - with a highly competitive interest rate on savings for our existing members. We can do this because we're a building society, not a bank, and our profit is reinvested for our

"Our strategy is to increase value, offer simply brilliant service, be good for society and to become simpler and more efficient. This will ensure Nationwide's future strength and our ability to support customers and wider society today and for the long term."

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

"Strong underlying profits have improved capital, with a leverage ratio of 6.0%. In addition, our strong deposit inflow of £9.1bn increased our market share of deposits to 9.6% and further strengthened our liquidity position.

"The sustained strength of our finances has allowed us to support our members through a highly uncertain period and significant cost of living increases.

"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."

members' benefit.

"Last year we delivered £1,055m of member financial benefit through better pricing and incentives than the market average and were number 1 for customer satisfaction in our peer group for the eleventh year running[2].

**Business and trading highlights**

- Deposit market share grew to 9.6% (2022: 9.4%) with £9.1bn balance growth (2022: £7.7bn), reflecting a competitive savings offering
- Continued growth in current accounts, increasing stock market share to 10.4%[3] (February 2022: 10.3%)
- Total gross mortgage lending reduced by £2.9bn to £33.6bn (2022: £36.5bn), with net lending of £3.3bn (2022: £7.1bn). Market share of balances was 12.2% (2022: 12.4%) in a highly competitive market
- First for customer satisfaction among our peer group for eleven years running, with a current lead of 3.8%pts[2]. Ranked joint 28th (January 2022: joint 22nd)[4] in the all-sector UK Customer Satisfaction Index
- Supported our customers through the launch of Member Online Bond, current account cashback and Flex Instant Saver products, and an enhanced Mortgage Manager tool
- Helped over 72,000 first time buyers into a home of their own (2022: 87,000)
- Committed members continued to grow to 3.68m[5] (2022: 3.62m)
- Continued to commit 1%[6] of pre-tax profits to good causes each year and also provided £1m cost of living support for charities
- Committed to helping the UK achieve net zero, having set and disclosed challenging intermediate (by 2030) science-based targets

**Financial highlights**

- Our balance sheet remains strong, with Tier 1 ca leverage ratio of 6.0% (2022: 5.4%) and CET1 rat
- Underlying profit increased to £2,233m (2022: £ to £2,229m (2022: £1,597m) driven by income gro
- Rising interest rates supported growth in total u £3,867m)
- Net interest margin improved to 1.57% (2022: 1.2
- Credit impairment charges are higher at £126m (2 credit quality of our lending portfolios remains s
- Total costs have increased by 4% to £2,323m (2 inflation
- Member financial benefit has increased to £1,05 supported by our competitive mortgage and sav greater proportion of interest rate rises to savers
- The strength of our finances has enabled the So Share in May 2023. This includes Fairer Share pa returning £340 million directly to our eligible me available to members.

# Chief Executive's review

**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 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 pressures, including practical support in our branches, a dedicated telephone helpline and an online cost of living hub.

And most notably, our financial strength has enable Fairer Share Payment, which rewards our members w relationships with us, and the Nationwide Fairer Sha interest rate on savings. It is a clear and positive wa difference and aligns with our purpose. You can find website[7].

Simultaneously, we have demonstrated our mutual g committing £9.6 million over the year to charitable ac

**Outlook**

The economic outlook remains highly uncertain, with living and higher interest rates for borrowers putting finances and restraining consumer confidence. This activity and lower house prices which are expected t 2023.

A deterioration in the economic outlook during the p in arrears due to affordability pressures, is fully refle within our credit loss provisions. The credit quality o strong with low current levels of arrears.

Overall, our borrowers are relatively well placed to w term, given the significant proportion of borrowing o number of borrowers who spend a high proportion o However, the transition to higher interest payments adjust their expenditure priorities. We will continue t payment difficulties.

Nationwide remains well positioned to use its financ customers through the challenges ahead.

[1] The £340 million payment will be recognised in the income statement in the year ending 4 April 2024. Any future payments through Nationwide Fairer Share will remain discretionary, subject to the Society's ongoing satisfactory financial performance and Board approval. Payments through Nationwide Fairer Share will only be considered after any payment of capital distributions, including those for Core Capital Deferred Shares and Additional Tier 1 instruments.

[2] 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.

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

[4] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2023 and January 2022.

[5] The 3.68 million refers to 'committed members' who have their main personal current account with us or a mortgage of at least £5,000, or at least £1,000 in savings accounts, plus at least one other product.

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

[7] The Nationwide Fairer Share, nationwide.co.uk/fairershare-payment

# Performance summary

| | **2023** | 2022 |
|---|---|---|
| **Financial performance** | **£m** | £m |
| Total underlying income | **4,673** | 3,867 |
| Administrative expenses | **2,323** | 2,234 |
| Underlying profit before tax (note i) | **2,233** | 1,604 |
| Statutory profit before tax | **2,229** | 1,597 |

| **Mortgage lending** | **£bn** | **%** | £bn | % |
|---|---|---|---|---|
| Group residential - gross/*market share* | **33.6** | ***10.8*** | 36.5 | *11.8* |
| Group residential - net/*market share* | **3.3** | ***4.9*** | 7.1 | *9.4* |
| Average loan to value of new residential lending (by value) | | **69** | | 70 |

| **Deposit balances** | **£bn** | **%** | £bn | % |
|---|---|---|---|---|
| Member deposits balance movement/*market share* (note ii) | **9.1** | ***14.6*** | 7.7 | *9.3* |

| **Key ratios** | **%** | % |
|---|---|---|
| Underlying cost income ratio (note iii) | **49.7** | 57.8 |
| Statutory cost income ratio | **49.8** | 57.9 |
| Net interest margin | **1.57** | 1.26 |

| **Other key performance indicators** | **2023** | **2023 Target** |
|---|---|---|
| Committed members (m) (note iv) | **3.68** | **3.75** |
| Member financial benefit (£m) (note v) | **1,055** | **400** |
| Core products satisfaction lead (%pts) | **3.8% pts[8]** | **4% pts** |
| UK Customer Satisfaction Index (rank) | **Joint 28th[9]** | **5th** |

| | **2023** | | 2022 | |
|---|---|---|---|---|
| **Balance sheet** | **£bn** | **%** | £bn | % |
| Total assets | **271.9** | | 272.4 | |
| Loans and advances to customers | **210.8** | | 208.1 | |
| Mortgage balances/*market share* (note vi) | **201.7** | ***12.2*** | 198.1 | *12.4* |
| Member deposits/*market share* (note ii) | **187.1** | ***9.6*** | 178.0 | *9.4* |

| **Asset quality** | **%** | % |
|---|---|---|
| Residential mortgages | | |
| Proportion of residential mortgage accounts 3 months+ in arrears | **0.32** | 0.34 |
| Impairment charge/(release) as a % of average gross balance (note vii) | **0.05** | (0.07) |
| 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 |

| | | |
|---|---|---|
| Impairment charge as a % of average gross balance (note vii) | **0.68** | 2.04 |

| **Key ratios** | **%** | % |
|---|---|---|
| *Capital* | | |
| Common Equity Tier 1 ratio | **26.5** | 24.1 |
| Leverage ratio (note viii) | **6.0** | 5.4 |
| *Other balance sheet ratios* | | |
| Liquidity Coverage Ratio (note ix) | **180** | 183 |
| Wholesale funding ratio (note x) | **25.0** | 28.8 |

Notes:

i. Underlying profit represents management's view of underlying performance. The following items are excluded from statutory profit to arrive at underlying profit:

· FSCS costs or refunds arising from institutional failures, which are included within provisions for liabilities and charges.

· Gains or losses from derivatives and hedge accounting, which are presented separately within total income in the consolidated income statement.

ii. Member deposits include current account credit balances.

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

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

v. For more information on member financial benefit see page 8.

vi. Mortgage balances are presented gross of credit provisions.

vii. In the calculation of 'Impairment charge/(release) as a % of average gross balance', average gross balance is calculated as the average of balances at each month end date.

viii. Our target for 2023 was a leverage ratio of at least 4.5%.

ix. The Liquidity Coverage Ratio represents a simple average of the ratios for the last 12 month ends.

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

[8] ©Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2023. For more information, see footnote 2 on page 4.

[9] Institute of Customer Service UK Customer Satisfaction Index (UKCSI) as at January 2023.

# Financial review

## 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 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

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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.

The results are prepared in accordance with International Financial Reporting Standards (IFRSs) as set out in note 2 to the consolidated financial statements. Underlying results are shown below, together with a reconciliation to the statutory results.

## Income statement

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

| **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 |

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.

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** | 2022 |
| | **£m** | £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 8 to the consolidated 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 12 to the consolidated 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 9 to the consolidated 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 | |

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

| **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 | |

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.

**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

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 |

**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%)[10]. 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 consolidated statement of comprehensive income

1. Movements are shown net of related taxation. Gross movements are set out in the consolidated statement of comprehensive income on page 71.

10 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.

# Risk report

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## Introduction

Effective risk management is critical to delivering our purpose 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.

## Risks to Nationwide

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

- Top and emerging risks are specific current or future risks which have the potential to 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.
- Principal risks encompass all of the different types of risk to which Nationwide is exposed. Further information on these risks can be found on page 17.

## Top and emerging risks

| Risk | How we mitigate this risk |
|---|---|
| **Climate change ➔**<br>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.<br>• We continue to develop our processes to reflect potential changes in macroeconomic conditions and the housing market as we transition to a low carbon economy, and complete robust internal and external stress testing for climate change. |
| **Cyber* ➔**<br>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. |
| **Data ➔**<br>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.<br>• We work proactively with our third-party suppliers to ensure all data they are entrusted with is robustly controlled. |

## Top and emerging risks (continued)

| Risk | How we mitigate this risk |
|---|---|

| Risk | How we mitigate this risk |
|---|---|
| **Economic crime* ➔**<br>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. |
| **Macroeconomic environment ➔**<br>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.<br>• 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.<br>• Nationwide only has exposures to highly rated banking counterparties; these consist primarily of fully collateralised derivatives and covered bonds for liquidity management. |
| **People risk ➔**<br>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.<br>• 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. |
| **Regulatory change ➚**<br>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.<br>• We maintain continuous engagement with all our regulators to identify and appropriately respond to regulatory requirements. |
| **Technology and resilience ➚**<br>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.<br>• 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. |

**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.

## 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.

| Principal Risk | Definition |
|---|---|
| **Credit risk** | The risk of loss as a result of a customer or counterparty failing to meet their financial obligations. |
| **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. |
| **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. |
| **Market risk** | The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes. |
| **Pension risk** | The risk that the value of the pension schemes' assets will be insufficient to meet the estimated liabilities, creating a pension deficit. |
| **Business risk** | The risk that achievable volumes or margins decline relative to the cost base, affecting the sustainability of the business and the ability to deliver the strategy due to macro-economic, geopolitical, industry, regulatory, competitor or other external events. |
| **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. |

| 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. |
|---|---|

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

## 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 co |
| Treasury | Treasury liquidity, derivatives and discretionary investment portfolios |

**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).

## Credit risk - Overview (continued)

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

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

For loans and advances held at amortised cost, the stage distribution and the provision coverage ratios are shown in this report for each individual portfolio. The provision coverage ratio is calculated by dividing the provisions by the gross balances for each main lending portfolio. Loans remain on the balance sheet, net of associated provisions, until they are 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. 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 8 to the consolidated financial statements.

Governance and oversight of economic assumptions, weightings applied to economic scenarios and all key judgements relating to impairment provisions 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.

## Credit risk - Overview (continued)

**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)** |
| | **£m** | **£m** | **£m** | **£m** |
| **Amortised cost loans and advances to customers:** | | | | |
| Residential mortgages | **201,615** | **(280)** | **201,335** | **8,952** |
| Consumer banking | **4,408** | **(469)** | **3,939** | **28** |
| Commercial and other lending | **4,994** | **(16)** | **4,978** | **1,353** |
| Fair value adjustment for micro hedged risk (note ii) | **430** | **-** | **430** | **-** |
| | **211,447** | **(765)** | **210,682** | **10,333** |
| **FVTPL loans and advances to customers:** | | | | |
| Residential mortgages (note iii) | **47** | **-** | **47** | **-** |
| Commercial | **53** | **-** | **53** | **-** |
| | **100** | **-** | **100** | **-** |
| **Other items:** | | | | |
| Cash | **25,635** | **-** | **25,635** | **-** |
| Loans and advances to banks and similar institutions | **2,860** | **-** | **2,860** | **-** |
| Investment securities - FVOCI | **27,562** | **-** | **27,562** | **-** |
| Investment securities - Amortised cost | **40** | **-** | **40** | **-** |
| Investment securities - FVTPL | **13** | **-** | **13** | **-** |
| Derivative financial instruments | **6,923** | **-** | **6,923** | **-** |
| Fair value adjustment for portfolio hedged risk (note ii) | **(5,011)** | **-** | **(5,011)** | **-** |
| | **58,022** | **-** | **58,022** | **-** |
| **Total** | **269,569** | **(765)** | **268,804** | **10,333** |

## Credit risk - Overview (continued)

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

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 30.

| **Residential mortgage gross balances** | | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | **£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.

## Credit risk - Residential mortgages (continued)

**Impairment charge for the year**

| **Impairment charge/(release) and write-offs for the year** | | |
|---|---|---|
| | **2023** | 2022 |
| | **£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 8 to the consolidated 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)** | **Sta** |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | |
| **Gross balances** | | | | | | |
| Prime | **138,670** | **18,200** | **17,134** | **811** | **255** | |
| Buy to let and legacy | **26,211** | **17,345** | **16,875** | **294** | **176** | |
| **Total** | **164,881** | **35,545** | **34,009** | **1,105** | **431** | **1** |
| | | | | | | |
| **Provisions** | | | | | | |
| Prime | **10** | **48** | **39** | **5** | **4** | |
| Buy to let and legacy | **13** | **143** | **127** | **8** | **8** | |
| **Total** | **23** | **191** | **166** | **13** | **12** | |
| | | | | | | |
| **Provisions as a % of total balance** | **%** | **%** | **%** | **%** | **%** | |
| Prime | **0.01** | **0.26** | **0.23** | **0.60** | **1.51** | |
| Buy to let and legacy | **0.05** | **0.83** | **0.75** | **2.85** | **4.70** | |
| **Total** | **0.01** | **0.54** | **0.49** | **1.20** | **2.81** | |

## Credit risk - Residential mortgages (continued)

| 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) | Sta |
| | £m | £m | £m | £m | £m | |
| Gross balances | | | | | | |
| Prime | 146,786 | 6,782 | 6,057 | 535 | 190 | |
| Buy to let and legacy | 33,462 | 9,667 | 9,333 | 229 | 105 | |
| Total | 180,248 | 16,449 | 15,390 | 764 | 295 | 1 |

| Total | 180,248 | 16,449 | 15,390 | 764 | 295 | 1 |
|---|---|---|---|---|---|---|
| | | | | | | |
| Provisions | | | | | | |
| Prime | 6 | 41 | 20 | 12 | 9 | |
| Buy to let and legacy | 16 | 64 | 51 | 6 | 7 | |
| Total | 22 | 105 | 71 | 18 | 16 | |
| | | | | | | |
| Provisions as a % of total balance | % | % | % | % | % | |
| Prime | - | 0.61 | 0.34 | 2.33 | 4.49 | |
| Buy to let and legacy | 0.05 | 0.67 | 0.55 | 2.67 | 6.96 | |
| Total | 0.01 | 0.64 | 0.46 | 2.43 | 5.37 | |

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.

## Credit risk - Residential mortgages (continued)

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

**Reconciliation of movements in gross residential mortgage balances and impairment provisions**

| | **Non-credit impaired** | | | | **Credit impaired (note i** | |
|---|---|---|---|---|---|---|
| | **Subject to 12-month ECL** | | **Subject to lifetime ECL** | | **Subject to lifetime ECl** | |
| | **Stage 1** | | **Stage 2** | | **Stage 3 and POCI** | |
| | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** | **Gross balances** | **Provis** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | |
| At 5 April 2022 | 180,248 | 22 | 16,449 | 105 | 1,359 | |
| | | | | | | |
| **Stage transfers:** | | | | | | |
| Transfers from stage 1 to stage 2 | **(64,316)** | **(15)** | **64,316** | **15** | **-** | |
| Transfers to stage 3 | **(190)** | **-** | **(714)** | **(30)** | **904** | |
| Transfers from stage 2 to stage 1 | **41,971** | **169** | **(41,971)** | **(169)** | **-** | |
| Transfers from stage 3 | **267** | **2** | **449** | **15** | **(716)** | |
| Net remeasurement of ECL arising from transfer of stage | | **(162)** | | **239** | | |
| **Net movement arising from transfer of stage** | **(22,268)** | **(6)** | **22,080** | **70** | **188** | |
| | | | | | | |
| New assets originated or purchased | **33,067** | **3** | **-** | **-** | **-** | |
| Net impact of further lending and repayments | **(8,858)** | **(2)** | **(660)** | **(3)** | **(38)** | |
| Changes in risk parameters in relation to credit quality | **-** | **9** | **-** | **35** | **-** | |
| Other items impacting income statement charge/(release) (including recoveries) | **-** | **-** | **-** | **-** | **-** | |
| Redemptions | **(17,308)** | **(3)** | **(2,324)** | **(16)** | **(295)** | |
| Income statement charge for the year | | | | | | |
| Decrease due to write-offs | **-** | **-** | **-** | **-** | **(25)** | |
| Other provision movements | **-** | **-** | **-** | **-** | **-** | |
| **4 April 2023** | **164,881** | **23** | **35,545** | **191** | **1,189** | |
| **Net carrying amount** | | **164,858** | | **35,354** | | **1** |

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 10 to the consolidated financial statements.

## Credit risk - Residential mortgages (continued)

| **Reason for residential mortgages being reported in stage 2 (note i)** | | | | | | |
|---|---|---|---|---|---|---|
| **2023** | **Prime** | | | **Buy to let and legacy** | | |
| | **Gross balances** | **Provisions** | **Provisions as a % of balance** | **Gross balances** | **Provisions** | **Pr as** |
| | **£m** | **£m** | **%** | **£m** | **£m** | |
| **Quantitative criteria:** | | | | | | |
| Payment status (greater than 30 DPD) | **255** | **4** | **1.51** | **176** | **8** | |
| Increase in PD since origination (less than 30 DPD) | **17,769** | **44** | **0.25** | **15,952** | **105** | |
| | | | | | | |
| **Qualitative criteria:** | | | | | | |
| Forbearance (less than 30 DPD) | **137** | **-** | **0.17** | **5** | **-** | |
| Interest only - significant risk of inability to refinance at maturity (less than 30 DPD) | **-** | **-** | | **1,203** | **30** | |
| Other qualitative criteria | **39** | **-** | **0.02** | **9** | **-** | |
| | | | | | | |
| **Total stage 2 gross balances** | **18,200** | **48** | **0.26** | **17,345** | **143** | |

| Reason for residential mortgages being reported in stage 2 (note i) | | | | | | |
|---|---|---|---|---|---|---|
| 2022 | Prime | | | Buy to let and legacy | | |
| | Gross balances | Provisions | Provisions as a % of balance | Gross balances | Provisions | Pro a |
| | £m | £m | % | £m | £m | |
| Quantitative criteria: | | | | | | |
| Payment status (greater than 30 DPD) | 190 | 9 | 4.49 | 105 | 7 | |
| Increase in PD since origination (less than 30 DPD) | 6,398 | 32 | 0.51 | 7,623 | 27 | |
| | | | | | | |
| Qualitative criteria: | | | | | | |
| Forbearance (less than 30 DPD) | 151 | - | 0.01 | 5 | - | |
| Interest only - significant risk of inability to refinance at maturity (less than 30 DPD) | - | - | | 1,926 | 30 | |
| Other qualitative criteria | 43 | - | 0.40 | 8 | - | |
| | | | | | | |
| Total stage 2 gross balances | 6,782 | 41 | 0.61 | 9,667 | 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.

## Credit risk - Residential mortgages (continued)

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

| **Criteria** | **Detail** |
|---|---|
| Quantitative | The primary quantitative indicators are the outputs of internal credit risk assessments. For residential mortgage exposures, PI use external<br>information such as that from credit reference agencies, as well as internal information such as known instances of arrears or historical data<br>relating to the exposure are combined with forward-looking macroeconomic information to determine the likelihood of default. calculated for each loan.<br><br>The 12-month and lifetime PDs are compared to pre-determined benchmarks at each reporting date to ascertain whether a relat has occurred. The indicators for a significant increase in credit risk are:<br><br>• Absolute measures:<br>- The 12-month PD exceeds the benchmark 12-month PD that is indicative, at the assessment date, of an account be<br>- The residual lifetime PD exceeds the benchmark residual lifetime PD, set at inception, which represents the maximu accepted at that point.<br><br>• Relative measure:<br>- 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 mat<br><br>Also included are forbearance events where full repayment of principal and interest is still anticipated, on a discounted basis. |
| Backstop | In addition to the primary criteria for stage allocation described above, accounts that are more than 30 days past due are also |

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 risk - Residential mortgages (continued)

**Credit quality**

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

| **Loan balance and provisions by PD 2023** | **Gross balances (note i)** | | | | **Provisions** | | |
|---|---|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3 and POCI** | **Total** | **Stage 1** | **Stage 2** | **St and l** |
| **PD Range** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | |
| 0.00 to < 0.15% | **126,387** | **5,620** | **48** | **132,055** | **4** | **19** | |
| 0.15 to < 0.25% | **20,845** | **5,133** | **17** | **25,995** | **9** | **19** | |
| 0.25 to < 0.50% | **12,556** | **6,566** | **29** | **19,151** | **5** | **26** | |
| 0.50 to < 0.75% | **3,020** | **3,981** | **19** | **7,020** | **1** | **16** | |
| 0.75 to < 2.50% | **1,937** | **8,180** | **62** | **10,179** | **2** | **39** | |
| 2.50 to < 10.00% | **120** | **3,663** | **77** | **3,860** | **1** | **31** | |
| 10.00 to < 100% | **16** | **2,402** | **141** | **2,559** | **1** | **41** | |
| 100% (default) | **-** | **-** | **796** | **796** | **-** | **-** | |
| **Total** | **164,881** | **35,545** | **1,189** | **201,615** | **23** | **191** | |

| Loan balance and provisions by PD 2022 | Gross balances (note i) | | | | Provisions | | |
|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 and POCI | Total | Stage 1 | Stage 2 | Sta and P |
| PD Range | £m | £m | £m | £m | £m | £m | |
| 0.00 to < 0.15% | 150,439 | 4,594 | 124 | 155,157 | 11 | 11 | |
| 0.15 to < 0.25% | 13,639 | 1,863 | 35 | 15,537 | 3 | 4 | |
| 0.25 to < 0.50% | 9,507 | 2,381 | 52 | 11,940 | 3 | 9 | |
| 0.50 to < 0.75% | 2,852 | 743 | 31 | 3,626 | 1 | 4 | |
| 0.75 to < 2.50% | 3,637 | 2,292 | 89 | 6,018 | 3 | 16 | |
| 2.50 to < 10.00% | 173 | 2,097 | 108 | 2,378 | 1 | 18 | |
| 10.00 to < 100% | 1 | 2,479 | 125 | 2,605 | - | 43 | |
| 100% (default) | - | - | 795 | 795 | - | - | |
| Total | 180,248 | 16,449 | 1,359 | 198,056 | 22 | 105 | |

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.

## Credit risk - Residential mortgages (continued)

**Distribution of new business by borrower type (by value)**

| **Distribution of new business by borrower type (by value) (note i)** | **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.

## Credit risk - Residential mortgages (continued)

**LTV and credit risk concentration**

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

| LTV distribution of new business (by value) (note i) | | |
|---|---|---|
| | **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%).

## Credit risk - Residential mortgages (continued)

**Residential mortgage balances by LTV and region**

**Geographical concentration by stage**

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

| Residential mortgage gross balances by LTV and region | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **2023** | **Greater** | **Central** | **Northern** | **South East** | **South West** | **Scotland** | **Wales** | **N** |

| | London | England | England | England | England | | |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **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 |
| 50% to 60% | 11,743 | 7,396 | 6,162 | 4,572 | 3,882 | 2,127 | 1,338 |
| 60% to 70% | 12,937 | 7,878 | 6,956 | 5,108 | 4,142 | 2,478 | 1,299 |
| 70% to 80% | 11,411 | 4,977 | 4,601 | 3,406 | 2,239 | 1,875 | 791 |
| 80% to 90% | 3,704 | 2,072 | 2,132 | 1,368 | 952 | 766 | 418 |
| 90% to 100% | 866 | 718 | 817 | 551 | 351 | 330 | 175 |
| | 65,956 | 37,763 | 31,882 | 24,438 | 19,535 | 11,520 | 6,533 |
| Not fully collateralised | | | | | | | |
| Over 100% LTV | 7 | 23 | 21 | 20 | 21 | 36 | 5 |
| *Collateral value* | 6 | 22 | 20 | 20 | 20 | 32 | 5 |
| *Negative equity* | 1 | 1 | 1 | - | 1 | 4 | - |
| **Total stage 1 and 2 loans** | 65,963 | 37,786 | 31,903 | 24,458 | 19,556 | 11,556 | 6,538 |
| **Stage 3 and POCI loans** | | | | | | | |
| Fully collateralised | | | | | | | |
| LTV ratio: | | | | | | | |
| Up to 50% | 225 | 99 | 77 | 59 | 50 | 24 | 18 |
| 50% to 60% | 82 | 51 | 48 | 29 | 25 | 12 | 11 |
| 60% to 70% | 48 | 36 | 46 | 18 | 15 | 12 | 7 |
| 70% to 80% | 29 | 18 | 29 | 12 | 4 | 11 | 3 |
| 80% to 90% | 9 | 3 | 12 | 2 | 1 | 5 | 1 |
| 90% to 100% | 3 | 1 | 5 | - | 1 | 1 | - |
| | 396 | 208 | 217 | 120 | 96 | 65 | 40 |
| Not fully collateralised | | | | | | | |
| Over 100% LTV | 1 | 1 | 5 | 1 | - | 2 | - |
| *Collateral value* | 1 | 1 | 3 | 1 | - | 2 | - |
| *Negative equity* | - | - | 2 | - | - | - | - |
| **Total stage 3 and POCI loans** | 397 | 209 | 222 | 121 | 96 | 67 | 40 |
| **Total residential mortgages** | 66,360 | 37,995 | 32,125 | 24,579 | 19,652 | 11,623 | 6,578 |
| **Total geographical concentrations** | 33% | 19% | 16% | 12% | 10% | 6% | 3% |

## Credit risk - Residential mortgages (continued)

| Residential mortgage gross balances by LTV and region 2022 | Greater London | Central England | Northern England | South East England | South West England | Scotland | Wales |
|---|---|---|---|---|---|---|---|
| | £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 |
| 50% to 60% | 12,499 | 7,740 | 6,631 | 4,887 | 4,074 | 2,417 | 1,430 |
| 60% to 70% | 12,739 | 7,959 | 7,272 | 5,246 | 4,230 | 2,756 | 1,373 |
| 70% to 80% | 10,195 | 4,627 | 3,841 | 2,972 | 2,167 | 1,546 | 634 |
| 80% to 90% | 1,534 | 952 | 1,029 | 546 | 419 | 339 | 200 |
| 90% to 100% | 44 | 54 | 67 | 25 | 24 | 52 | 18 |
| | 65,073 | 36,875 | 30,875 | 24,010 | 19,171 | 11,593 | 6,337 |
| Not fully collateralised | | | | | | | |
| Over 100% LTV | 5 | 3 | 9 | 1 | 3 | 13 | - |
| *Collateral value* | 4 | 2 | 8 | 1 | 2 | 12 | - |
| *Negative equity* | 1 | 1 | 1 | - | 1 | 1 | - |
| Total stage 1 and 2 loans | 65,078 | 36,878 | 30,884 | 24,011 | 19,174 | 11,606 | 6,337 |
| Stage 3 and POCI loans | | | | | | | |
| Fully collateralised | | | | | | | |
| LTV ratio: | | | | | | | |
| Up to 50% | 286 | 118 | 95 | 81 | 54 | 27 | 22 |
| 50% to 60% | 88 | 54 | 55 | 32 | 28 | 19 | 11 |
| 60% to 70% | 49 | 42 | 53 | 23 | 20 | 16 | 8 |
| 70% to 80% | 38 | 15 | 27 | 10 | 6 | 9 | 2 |
| 80% to 90% | 3 | 1 | 10 | 1 | 1 | 4 | - |
| 90% to 100% | - | - | 2 | - | - | 2 | - |
| | 464 | 230 | 242 | 147 | 109 | 77 | 43 |
| Not fully collateralised | | | | | | | |
| Over 100% LTV | 1 | - | 3 | 1 | - | 1 | - |
| *Collateral value* | 1 | - | 2 | 1 | - | 1 | - |
| *Negative equity* | - | - | 1 | - | - | - | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total stage 3 and POCI loans | 465 | 230 | 245 | 148 | 109 | 78 | 43 |
| | | | | | | | |
| Total residential mortgages | 65,543 | 37,108 | 31,129 | 24,159 | 19,283 | 11,684 | 6,380 |
| | | | | | | | |
| Total geographical concentrations | 33% | 19% | 16% | 12% | 10% | 6% | 3% |

## Credit risk - Residential mortgages (continued)

Over the year, the geographical distribution of residential mortgages across the UK has remained stable. The highest concentration for both prime and buy to let portfolios is in Greater London,
with proportions 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 |

| **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 |

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.

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.

## Credit risk - Residential mortgages (continued)

**Residential mortgages by payment status**

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

| **Residential mortgages gross balances by payment status** | **2023** | | | | | |
|---|---|---|---|---|---|---|
| | **Prime** | **Buy to let and legacy** | **Total** | | Prime | Buy to let le[illegible] |
| | **£m** | **£m** | **£m** | **%** | £m | |
| Not past due | **155,849** | **43,270** | **199,119** | **98.7** | 152,932 | 4[illegible] |
| Past due 0 to 1 month | **1,044** | **376** | **1,420** | **0.7** | 920 | |
| Past due 1 to 3 months | **310** | **213** | **523** | **0.3** | 240 | |
| Past due 3 to 6 months | **155** | **108** | **263** | **0.1** | 122 | |
| Past due 6 to 12 months | **111** | **65** | **176** | **0.1** | 99 | |
| Past due over 12 months | **76** | **50** | **126** | **0.1** | 109 | |
| Possessions | **13** | **22** | **35** | **-** | 5 | |
| **Total residential mortgages** | **157,558** | **44,104** | **201,662** | **100** | 154,427 | 4[illegible] |

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 utstanding 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).

## Credit risk - Residential mortgages (continued)

| **Interest only mortgages (gross balance) - term to maturity (note i)** | **Term expired (still open)** | **Due within one year** | **Due after one year and before two years** | **Due after two years and before five years** | **Due after mor than five year** |
|---|---|---|---|---|---|
| **2023** | **£m** | **£m** | **£m** | **£m** | **£[illegible]** |
| Prime | **69** | **209** | **261** | **1,023** | **5,25[illegible]** |
| Buy to let and legacy | **190** | **195** | **269** | **1,729** | **37,74[illegible]** |
| **Total** | **259** | **404** | **530** | **2,752** | **42,99[illegible]** |
| | | | | | |
| 2022 | £m | £m | £m | £m | £[illegible] |
| Prime | 81 | 263 | 307 | 1,167 | 6,00[illegible] |
| Buy to let and legacy | 201 | 256 | 276 | 1,607 | 37,25[illegible] |
| Total | 282 | 519 | 583 | 2,774 | 43,25[illegible] |

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

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

**Forbearance**

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

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

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

***Past term interest only concessions***

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

***Interest only concessions***

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

***Capitalisation***

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

## Credit risk - Residential mortgages (continued)

***Capitalisation - temporary suspension of payments following notification of death of a borrower***

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

***Term extensions (within term)***

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

***Permanent interest only conversions***

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

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

| **Gross balances subject to forbearance (note i)** | | | |
|---|---|---|---|
| | | **2023** | |
| | **Prime** | **Buy to let and legacy** | **Total** |
| | **£m** | **£m** | **£m** |
| Past term interest only (note ii) | **101** | **149** | **250** |
| Interest only concessions | **503** | **25** | **528** |
| Capitalisation | **85** | **22** | **107** |
| Capitalisation - notification of death of borrower | **75** | **105** | **180** |
| Term extensions (within term) | **41** | **18** | **59** |
| Permanent interest only conversions | **1** | **29** | **30** |
| **Total forbearance** | **806** | **348** | **1,154** |
| | | | |
| Of which stage 2 | **289** | **74** | **363** |
| Of which stage 3 | **383** | **253** | **636** |
| | | | |
| | **%** | **%** | **%** |
| **Total forbearance as a % of total gross balances** | **0.5** | **0.8** | **0.6** |
| | | | |
| | **£m** | **£m** | **£m** |
| **Impairment provisions on forborne loans** | **11** | **20** | **31** |

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 | |
| | **£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 |
| | **£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.

## Credit risk - Consumer banking (continued)

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

| **Consumer banking product and staging analysis** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2023 | | | | 2022 | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m |
| **Gross balances** | | | | | | | |
| Overdrawn current accounts | **160** | **91** | **59** | **310** | 121 | 131 | 34 |
| Personal loans | **1,378** | **1,063** | **133** | **2,574** | 1,735 | 989 | 140 |
| Credit cards | **845** | **591** | **88** | **1,524** | 790 | 600 | 98 |
| **Total** | **2,383** | **1,745** | **280** | **4,408** | 2,646 | 1,720 | 272 |
| | | | | | | | |
| **Provisions** | | | | | | | |
| Overdrawn current accounts | **5** | **21** | **38** | **64** | 4 | 36 | 31 |
| Personal loans | **9** | **54** | **117** | **180** | 11 | 60 | 124 |
| Credit cards | **11** | **136** | **78** | **225** | 10 | 165 | 88 |
| **Total** | **25** | **211** | **233** | **469** | 25 | 261 | 243 |
| | | | | | | | |
| **Provisions as a % of total balance** | **%** | **%** | **%** | **%** | % | % | % |
| Overdrawn current accounts | **3.10** | **22.90** | **64.80** | **20.57** | 3.34 | 27.33 | 90.86 |
| Personal loans | **0.67** | **5.09** | **87.66** | **7.00** | 0.62 | 6.09 | 88.50 |
| Credit cards | **1.25** | **22.96** | **88.85** | **14.73** | 1.33 | 27.51 | 89.78 |
| **Total** | **1.04** | **12.07** | **83.25** | **10.63** | 0.95 | 15.18 | 89.25 |

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 8 to the

consolidated financial statements.

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.

## Credit risk - Consumer banking (continued)

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

| **Reconciliation of movements in gross consumer banking balances and impairment provisions** | | | | | | |
|---|---|---|---|---|---|---|
| | **Non-credit impaired** | | | | **Credit impaired** | |
| | **Subject to 12-month ECL** | | **Subject to lifetime ECL** | | **Subject to lifetime EC** | |
| | **Stage 1** | | **Stage 2** | | **Stage 3** | |
| | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** | **Gross balances** | **Provis** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | |
| At 5 April 2022 | 2,646 | 25 | 1,720 | 261 | 272 | |
| | | | | | | |
| **Stage transfers:** | | | | | | |
| Transfers from stage 1 to stage 2 | **(2,871)** | **(38)** | **2,871** | **38** | **-** | |
| Transfers to stage 3 | **(12)** | **(1)** | **(151)** | **(92)** | **163** | |
| Transfers from stage 2 to stage 1 | **2,347** | **206** | **(2,347)** | **(206)** | **-** | |
| Transfers from stage 3 | **3** | **2** | **32** | **15** | **(35)** | |
| Net remeasurement of ECL arising from transfer of stage | | **(174)** | | **209** | | |
| **Net movement arising from transfer of stage** | **(533)** | **(5)** | **405** | **(36)** | **128** | |
| | | | | | | |
| New assets originated or purchased | **1,344** | **33** | **-** | **-** | **-** | |
| Net impact of further lending and repayments | **(739)** | **(23)** | **(161)** | **(35)** | **(20)** | |
| Changes in risk parameters in relation to credit quality | **-** | **(4)** | **-** | **29** | **-** | |
| Other items impacting income statement charge/(release) (including recoveries) | **-** | **-** | **-** | **-** | **-** | |
| Redemptions | **(335)** | **(1)** | **(219)** | **(8)** | **(3)** | |
| Income statement charge for the year | | | | | | |
| Decrease due to write-offs | **-** | **-** | **-** | **-** | **(97)** | |
| Other provision movements | **-** | **-** | **-** | **-** | **-** | |
| **4 April 2023** | **2,383** | **25** | **1,745** | **211** | **280** | |
| **Net carrying amount** | | **2,358** | | **1,534** | | |

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 10 to the consolidated financial statements.

## Credit risk - Consumer banking (continued)

| **Reason for consumer banking balances being reported in stage 2** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2023** | **Overdrawn current accounts** | | | **Personal loans** | | | **Credit cards** | | |
| | **Gross balances** | **Provisions** | **Provisions as a % of balance** | **Gross balances** | **Provisions** | **Provisions as a % of balance** | **Gross balances** | **Provisions** | **P** |
| | **£m** | **£m** | **%** | **£m** | **£m** | **%** | **£m** | **£m** | |
| **Quantitative criteria:** | | | | | | | | | |
| Payment status (greater than 30 DPD) (note i) | **2** | **2** | **98** | **11** | **6** | **52** | **4** | **4** | |
| Increase in PD since origination (less than 30 DPD) | **81** | **18** | **22** | **1,049** | **48** | **5** | **576** | **130** | |
| | | | | | | | | | |
| **Qualitative criteria:** | | | | | | | | | |
| Forbearance (less than 30 DPD) (note ii) | **-** | **-** | **17** | **1** | **-** | **10** | **-** | **-** | |
| Other qualitative criteria (less than 30 DPD) | **8** | **1** | **10** | **2** | **-** | **4** | **11** | **2** | |
| | | | | | | | | | |
| **Total stage 2 gross balances** | **91** | **21** | **23** | **1,063** | **54** | **5** | **591** | **136** | |

| Reason for consumer banking balances being reported in stage 2 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 2022 | Overdrawn current accounts | | | Personal loans | | | Credit cards | | |
| | Gross | Provisions | Provisions as a % of | Gross | Provisions | Provisions as a % of | Gross | Provisions | F |

| | balances | | balance | balances | | balance | balances | |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | % | £m | £m | % | £m | £m |
| Quantitative criteria: | | | | | | | | |
| Payment status (greater than 30 DPD) (note i) | 3 | 2 | 78 | 7 | 5 | 69 | 4 | 4 |
| Increase in PD since origination (less than 30 DPD) | 120 | 33 | 27 | 978 | 55 | 6 | 582 | 159 |
| | | | | | | | | |
| Qualitative criteria: | | | | | | | | |
| Forbearance (less than 30 DPD) (note ii) | - | - | 19 | 1 | - | 11 | - | - |
| Other qualitative criteria (less than 30 DPD) | 8 | 1 | 11 | 3 | - | 3 | 14 | 2 |
| | | | | | | | | |
| Total stage 2 gross balances | 131 | 36 | 27 | 989 | 60 | 6 | 600 | 165 |

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.

## Credit risk - Consumer banking (continued)

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

| Criteria | Detail |
|---|---|
| Quantitative | The primary quantitative indicators are the outputs of internal credit risk assessments. For consumer banking exposures, PDs external information<br>such as that from credit reference agencies, as well as internal information such as known instances of arrears or other financi data relating to the<br>exposure are combined with forward-looking macroeconomic information to determine the likelihood of default. 12-month and loan.<br><br>The 12-month and lifetime PDs are compared to pre-determined benchmarks at each reporting date to ascertain whether a relat has occurred. The<br>indicators for a significant increase in credit risk are:<br><br>• Absolute measures:<br>- The 12-month PD exceeds the benchmark 12-month PD that is indicative, at the assessment date, of an account being in<br>- The residual lifetime PD exceeds the benchmark residual lifetime PD, set at inception, which represents the maximum cre accepted at that point.<br><br>• Relative measure:<br>- 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 borr |
| Backstop | In addition to the primary criteria for stage allocation described above, accounts that are more than 30 days past due are also |

## Credit risk - Consumer banking (continued)

**Credit quality**

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

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

| **Consumer banking gross balances and provisions by PD** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **2023** | **Gross balances** | | | | **Provisions** | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | **Stage 1** | **Stage 2** | **Stage 3** |
| **PD range** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |

| PD range | Stage 1 £m | Stage 2 £m | Stage 3 £m | Total £m | Stage 1 £m | Stage 2 £m | Stage 3 £m |
|---|---|---|---|---|---|---|---|
| 0.00 to <0.15% | **644** | **7** | **-** | **651** | **2** | **-** | **-** |
| 0.15 to < 0.25% | **338** | **26** | **-** | **364** | **1** | **1** | **-** |
| 0.25 to < 0.50% | **397** | **136** | **-** | **533** | **2** | **2** | **-** |
| 0.50 to < 0.75% | **225** | **157** | **-** | **382** | **1** | **3** | **-** |
| 0.75 to < 2.50% | **482** | **554** | **3** | **1,039** | **6** | **21** | **-** |
| 2.50 to < 10.00% | **270** | **552** | **13** | **835** | **10** | **69** | **2** |
| 10.00 to < 100% | **27** | **313** | **9** | **349** | **3** | **115** | **4** |
| 100% (default) | **-** | **-** | **255** | **255** | **-** | **-** | **227** |
| **Total** | **2,383** | **1,745** | **280** | **4,408** | **25** | **211** | **233** |

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

The credit quality of the consumer banking portfolio has remained strong. 86% (2022: 87%) of the portfolio has a PD of less than 10%.

## Credit risk - Consumer banking (continued)

**Consumer banking balances by payment due status**

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

| **Consumer banking gross balances by payment due status** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2023** | | | | | | |
| | **Overdrawn current accounts** | **Personal loans** | **Credit cards** | **Total** | | Overdrawn current accounts | Personal loans |
| | **£m** | **£m** | **£m** | **£m** | **%** | £m | £m |
| Not past due | **265** | **2,386** | **1,423** | **4,074** | **92.4** | 240 | 2,681 |
| Past due 0 to 1 month | **8** | **49** | **14** | **71** | **1.6** | 11 | 35 |
| Past due 1 to 3 months | **4** | **15** | **8** | **27** | **0.6** | 4 | 11 |
| Past due 3 to 6 months | **5** | **11** | **6** | **22** | **0.5** | 4 | 16 |
| Past due 6 to 12 months | **4** | **11** | **1** | **16** | **0.4** | 3 | 8 |
| Past due over 12 months | **2** | **11** | **-** | **13** | **0.3** | 3 | 9 |
| Charged off (note i) | **22** | **91** | **72** | **185** | **4.2** | 21 | 104 |
| **Total** | **310** | **2,574** | **1,524** | **4,408** | **100.0** | 286 | 2,864 |

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.

## Credit risk - Consumer banking (continued)

***Interest suppressed payment arrangement***

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

***Balances re-aged/re-written***

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

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

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** | | | | | |
|---|---|---|---|---|---|---|
| | **Overdrawn current accounts** | **Personal loans** | **Credit cards** | **Total** | Overdrawn current accounts | Pers<br>l |
| | **£m** | **£m** | **£m** | **£m** | £m | |
| Payment concession | **4** | **-** | **1** | **5** | 4 | |
| Interest suppressed payment concession | **28** | **33** | **9** | **70** | 4 | |
| Balance re-aged/re-written | **-** | **2** | **2** | **4** | - | |
| **Total forbearance (note ii)** | **32** | **35** | **12** | **79** | 8 | |
| | | | | | | |
| Of which stage 2 | **3** | **3** | **3** | **9** | 3 | |
| Of which stage 3 | **29** | **31** | **9** | **69** | 5 | |
| | | | | | | |
| | **%** | **%** | **%** | **%** | % | |
| **Total forbearance as a % of total gross balances** | **10.3** | **1.4** | **0.8** | **1.8** | 2.8 | |
| | | | | | | |
| | **£m** | **£m** | **£m** | **£m** | £m | |
| **Impairment provisions on forborne loans** | **12** | **28** | **8** | **48** | 6 | |

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 |
|---|---|---|
| | **£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 |
| | **£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.

## Credit risk - Commercial (continued)

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

| **Commercial product and staging analysis** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2023** | | | | 2022 | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** | Stage 1 | Stage 2 | Stage 3 |
| | **£m** | **£m** | **£m** | **£m** | £m | £m | £m |
| **Gross balances** | | | | | | | |
| Registered social landlords | **4,061** | **70** | **-** | **4,131** | 4,292 | 37 | - |
| Project finance | **459** | **78** | **-** | **537** | 552 | 54 | 5 |
| CRE | **274** | **19** | **33** | **326** | 393 | 65 | 55 |
| **Total** | **4,794** | **167** | **33** | **4,994** | 5,237 | 156 | 60 |
| | | | | | | | |
| **Provisions** | | | | | | | |
| Registered social landlords | **1** | **-** | **-** | **1** | 1 | - | - |
| Project finance | **-** | **8** | **-** | **8** | - | 13 | 2 |
| CRE | **1** | **-** | **6** | **7** | - | 1 | 13 |
| **Total** | **2** | **8** | **6** | **16** | 1 | 14 | 15 |
| | | | | | | | |
| **Provisions as a % of total balance** | **%** | **%** | **%** | **%** | % | % | % |
| Registered social landlords | **0.01** | **0.26** | **-** | **0.02** | 0.01 | 0.16 | - |
| Project finance | **0.02** | **10.65** | **-** | **1.57** | 0.02 | 23.40 | 46.69 |
| CRE | **0.19** | **1.31** | **18.94** | **2.13** | 0.15 | 1.22 | 23.41 |
| **Total** | **0.02** | **5.26** | **18.94** | **0.32** | 0.02 | 8.62 | 25.35 |

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 risk - Commercial (continued)

**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** |

| | Stage 1 | Stage 2 | Stage 3 | Total | Provision coverage | Stage 1 | Stage 2 |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | % | £m | £m |
| Strong | **171** | **-** | **-** | **171** | **0.0** | 258 | 5 |
| Good | **97** | **1** | **-** | **98** | **0.3** | 107 | 18 |
| Satisfactory | **6** | **2** | **-** | **8** | **2.8** | 26 | 16 |
| Weak | **-** | **16** | **1** | **17** | **1.5** | 2 | 26 |
| Impaired | **-** | **-** | **32** | **32** | **19.1** | - | - |
| **Total** | **274** | **19** | **33** | **326** | **2.1** | 393 | 65 |

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.

## Credit risk - Commercial (continued)

**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** | 2022 |
| | **£m** | £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** | | | |
|---|---|---|---|
| | | **2023** | 2022 |
| | **Classification** | **£m** | £m |
| Cash | Amortised cost | **25,635** | 30,221 |

| | | | |
|---|---|---|---|
| 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.

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

There were no impairment losses for the year ended 4 April 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 |
| | **£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 | - |

# Credit risk - Treasury assets (continued)

**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** |
| | **£m** | **%** | **%** | **%** | **%** | **%** | **%** |
| **Liquid assets:** | | | | | | | |
| Cash and reserves at central banks | **25,635** | **-** | **99** | **1** | **-** | **99** | **-** |
| Government bonds (note ii) | **20,130** | **31** | **54** | **15** | **-** | **37** | **24** |
| Supranational bonds | **2,838** | **46** | **54** | **-** | **-** | **-** | **-** |
| Covered bonds | **2,843** | **100** | **-** | **-** | **-** | **46** | **-** |
| Residential mortgage backed securities (RMBS) | **618** | **100** | **-** | **-** | **-** | **69** | **-** |
| Other asset backed securities | **197** | **100** | **-** | **-** | **-** | **94** | **-** |
| **Liquid assets total** | **52,261** | **22** | **72** | **6** | **-** | **67** | **9** |
| **Other securities (note iii):** | | | | | | | |
| RMBS FVOCI | **885** | **100** | **-** | **-** | **-** | **100** | **-** |
| RMBS amortised cost | **40** | **100** | **-** | **-** | **-** | **100** | **-** |
| Other investments (note iv) | **64** | **-** | **11** | **-** | **89** | **89** | **-** |
| **Other securities total** | **989** | **93** | **1** | **-** | **6** | **99** | **-** |
| Loans and advances to banks and similar institutions | **2,860** | **-** | **85** | **14** | **1** | **82** | **13** |
| **Total** | **56,110** | **22** | **71** | **7** | **-** | **68** | **9** |
| | | | | | | | |
| 2022 | £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 |
| Supranational bonds | 1,318 | 58 | 42 | - | - | - | - |
| Covered bonds | 2,630 | 99 | 1 | | | 48 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Covered bonds | 2,630 | 99 | 1 | - | - | 48 | - |
| Residential mortgage backed securities (RMBS) | 584 | 100 | - | - | - | 71 | - |
| Other asset backed securities | 289 | 100 | - | - | - | 89 | - |
| Liquid assets total | 54,621 | 18 | 76 | 6 | - | 71 | 8 |
| Other securities (note iii): | | | | | | | |
| RMBS FVOCI | 889 | 100 | - | - | - | 100 | - |
| RMBS amortised cost | 118 | 100 | - | - | - | 100 | - |
| Other investments (note iv) | 77 | - | 18 | - | 82 | 82 | - |
| Other securities total | 1,084 | 93 | 1 | - | 6 | 99 | - |
| Loans and advances to banks and similar institutions | 3,052 | - | 77 | 21 | 2 | 83 | 11 |
| Total | 58,757 | 19 | 75 | 6 | - | 72 | 8 |

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).

## dit risk - Treasury assets (continued)

**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** |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| Austria | **418** | **-** | **-** | **-** | **-** |
| Belgium | **360** | **-** | **-** | **-** | **-** |
| Denmark | **105** | **-** | **9** | **-** | **-** |
| Finland | **355** | **-** | **23** | **-** | **-** |
| France | **939** | **-** | **139** | **-** | **60** |
| Germany | **274** | **-** | **57** | **-** | **72** |
| Ireland | **-** | **-** | **-** | **-** | **-** |
| Netherlands | **306** | **191** | **-** | **-** | **-** |
| Norway | **-** | **-** | **128** | **-** | **-** |
| Sweden | **11** | **-** | **107** | **-** | **-** |
| **Total Europe** | **2,768** | **191** | **463** | **-** | **132** |
| Australia | **43** | **-** | **153** | **-** | **-** |
| Canada | **2,506** | **-** | **852** | **-** | **6** |
| Japan | **2,383** | **-** | **-** | **-** | **-** |
| Singapore | **-** | **-** | **76** | **-** | **-** |
| USA | **4,959** | **-** | **-** | **-** | **384** |
| Supranational entities (note iii) | **-** | **-** | **-** | **2,838** | **-** |
| **Total** | **12,659** | **191** | **1,544** | **2,838** | **522** |

## Credit risk - Treasury assets (continued)

**Country exposures (continued)**

| **Country exposures (note i)** | | | | | |
|---|---|---|---|---|---|
| 2022 | Government Bonds (note ii) | Mortgage backed securities | Covered bonds | Supranational bonds | Loans and advances to banks and similar institutions |
| | £m | £m | £m | £m | £m |
| Austria | 373 | - | - | - | - |
| Belgium | 571 | - | - | - | - |
| Denmark | 115 | - | 10 | - | - |
| Finland | 535 | - | 23 | - | - |
| France | 1,533 | - | 143 | - | 23 |
| Germany | 656 | - | 57 | - | 129 |
| Ireland | 130 | - | - | - | - |
| Netherlands | 440 | 170 | - | - | - |
| Norway | - | - | 150 | - | - |
| Sweden | - | - | 108 | - | - |
| Total Europe | 4,353 | 170 | 491 | - | 152 |
| Australia | - | - | 133 | - | 18 |
| Canada | 1,830 | - | 656 | - | 18 |

| | | | | | |
|---|---|---|---|---|---|
| Japan | 2,501 | - | - | - | - |
| Singapore | - | - | 70 | - | - |
| USA | 4,389 | - | - | - | 326 |
| Supranational entities (note iii) | - | - | - | 1,318 | - |
| Total | 13,073 | 170 | 1,350 | 1,318 | 514 |

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).

## Credit risk - Treasury assets (continued)

**Derivative financial instruments**

Derivatives are used to manage exposure to market risks, and not for trading or speculative purposes, although the application of accounting rules can create volatility in the income statement in a given financial year. The fair value of derivative assets as at 4 April 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** | | | | |
| **Counterparty credit quality** | **AA** | **A** | **BBB** | **Total** | AA |
| | **£m** | **£m** | **£m** | **£m** | £m |
| Derivative assets as per balance sheet | **636** | **6,287** | **-** | **6,923** | 541 |
| Netting benefits | **(182)** | **(1,104)** | **-** | **(1,286)** | (212) |
| **Net current credit exposure** | **454** | **5,183** | **-** | **5,637** | 329 |
| Collateral (cash) | **(451)** | **(5,183)** | **-** | **(5,634)** | (329) |
| **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

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.

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.

**Funding risk**

***Funding strategy***

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

| **Funding profile** | | | |
|---|---|---|---|
| **Assets** | **2023** | 2022 | **Members' interests, equity and liabilities** |
| **(note i)** | **£bn** | £bn | |
| Retail mortgages | **201.4** | 197.9 | Retail funding |
| Treasury assets (including liquidity portfolio) | **56.1** | 58.8 | Wholesale funding |
| Commercial lending | **5.5** | 6.0 | Other liabilities |
| Consumer lending | **3.9** | 4.1 | Capital and reserves (note ii) |
| Other assets | **5.0** | 5.6 | |
| **Total** | **271.9** | 272.4 | **Total** |

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.

## Liquidity and funding risk (continued)

***Wholesale funding***

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

Wholesale funding has decreased by £9.4 billion to £57.9 billion during the year. The decrease is primarily due to a reduction in balances relating to repurchase agreements (repo) 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** | | | | | | | |
| | **GBP** | **EUR** | **USD** | **Other** | **Total** | **% of** | GBP | EUR |
| | **£bn** | **£bn** | **£bn** | **£bn** | **£bn** | **total** | £bn | £bn |
| Repos | **1.4** | **0.1** | **0.6** | **-** | **2.1** | **4** | 4.2 | 2.9 |
| Deposits | **11.0** | **-** | **-** | **-** | **11.0** | **19** | 8.8 | 0.1 |
| Certificates of deposit | **1.0** | **-** | **-** | **-** | **1.0** | **2** | - | - |
| Covered bonds | **6.0** | **7.2** | **-** | **1.2** | **14.4** | **25** | 5.4 | 6.4 |
| Medium term notes | **1.1** | **4.8** | **3.9** | **1.3** | **11.1** | **19** | 1.8 | 3.8 |
| Securitisations | **2.3** | **-** | **0.2** | **-** | **2.5** | **4** | 2.6 | - |
| Term Funding Scheme with additional incentives for SMEs (TFSME) | **17.2** | **-** | **-** | **-** | **17.2** | **29** | 21.7 | - |
| Other (note i) | **-** | **(1.1)** | **(0.2)** | **(0.1)** | **(1.4)** | **(2)** | - | (0.2) |
| **Total** | **40.0** | **11.0** | **4.5** | **2.4** | **57.9** | **100** | 44.5 | 13.0 |

Note:
i. Other consists of fair value adjustments to debt securities in issue for micro hedged risks.

## Liquidity and funding risk (continued)

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** | **Over one month but not more than three months** | **Over three months but not more than six months** | **Over six months but not more than one year** | **Subtotal less than one year** | **Over year bu more two y** |
| | **£bn** | **£bn** | **£bn** | **£bn** | **£bn** | |
| Repos | **2.1** | **-** | **-** | **-** | **2.1** | |
| Deposits | **7.6** | **1.6** | **1.4** | **0.3** | **10.9** | |
| Certificates of deposit | **1.0** | **-** | **-** | **-** | **1.0** | |
| Covered bonds | **0.8** | **0.1** | **-** | **1.6** | **2.5** | |
| Medium term notes | **0.7** | **-** | **-** | **1.4** | **2.1** | |
| Securitisations | **0.7** | **-** | **0.2** | **0.2** | **1.1** | |
| TFSME | **-** | **-** | **-** | **-** | **-** | |
| Other (note i) | **-** | **-** | **-** | **-** | **-** | |
| **Total** | **12.9** | **1.7** | **1.6** | **3.5** | **19.7** | |
| Of which secured | **3.6** | **0.1** | **0.2** | **1.8** | **5.7** | |
| Of which unsecured | **9.3** | **1.6** | **1.4** | **1.7** | **14.0** | |
| **% of total** | **22.3** | **2.9** | **2.8** | **6.0** | **34.0** | |

| Wholesale funding - residual maturity | | | | | | |
|---|---|---|---|---|---|---|
| 2022 | Not more than one month | Over one month but not more than three months | Over three months but not more than six months | Over six months but not more than one year | Subtotal less than one year | Over year bu more two y |
| | £bn | £bn | £bn | £bn | £bn | |
| Repos | 11.1 | - | - | - | 11.1 | |
| Deposits | 5.8 | 1.1 | 2.0 | - | 8.9 | |
| Certificates of deposit | - | - | - | - | - | |
| Covered bonds | - | - | 1.0 | 1.7 | 2.7 | |
| Medium term notes | 0.2 | 0.6 | - | 1.3 | 2.1 | |
| Securitisations | 0.4 | - | 0.2 | 0.5 | 1.1 | |
| TFSME | - | - | - | - | - | |
| Other (note i) | - | - | - | - | - | |
| Total | 17.5 | 1.7 | 3.2 | 3.5 | 25.9 | |
| Of which secured | 11.5 | - | 1.2 | 2.2 | 14.9 | |
| Of which unsecured | 6.0 | 1.7 | 2.0 | 1.3 | 11.0 | |
| % of total | 26.0 | 2.5 | 4.8 | 5.2 | 38.5 | |

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 and funding risk (continued)

**Liquidity risk**

***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** | | | | | | | | |
| | **GBP** | **EUR** | **USD** | **JPY** | **Other (note i)** | **Total** | GBP | EUR | U |
| | **£bn** | **£bn** | **£bn** | **£bn** | **£bn** | **£bn** | £bn | £bn | |
| Cash and reserves at central banks | **25.5** | **-** | **0.1** | **-** | **-** | **25.6** | 30.0 | 0.2 | |
| Government bonds (note ii) | **5.9** | **3.2** | **5.3** | **1.3** | **1.1** | **16.8** | 2.2 | 2.0 | |
| Supranational bonds | **0.1** | **2.2** | **0.5** | **-** | **-** | **2.8** | 0.1 | 0.8 | |
| Covered bonds | **1.1** | **1.6** | **0.1** | **-** | **-** | **2.8** | 0.9 | 1.6 | |
| Residential mortgage backed securities (RMBS) (note iii) | **1.3** | **0.2** | **-** | **-** | **-** | **1.5** | 0.1 | 0.1 | |
| Asset-backed securities and other securities | **0.2** | **-** | **-** | **-** | **-** | **0.2** | 0.2 | - | |
| **Total** | **34.1** | **7.2** | **6.0** | **1.3** | **1.1** | **49.7** | 33.5 | 4.7 | |

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).

## Liquidity and funding risk (continued)

**Residual maturity of financial assets and liabilities**

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

| **Residual maturity (note i)** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **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 ... fi** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | |
| **Financial assets** | | | | | | | |
| Cash | **25,635** | **-** | **-** | **-** | **-** | **-** | |
| Loans and advances to banks and similar institutions | **1,887** | **-** | **-** | **-** | **-** | **-** | |
| Investment securities | **81** | **151** | **41** | **68** | **402** | **772** | |
| Derivative financial instruments | **77** | **1** | **59** | **44** | **243** | **450** | |
| Fair value adjustment for portfolio hedged risk | **(16)** | **(31)** | **(297)** | **(26)** | **(314)** | **(1,118)** | |
| Loans and advances to customers | **2,784** | **1,371** | **2,127** | **2,053** | **2,076** | **7,957** | |
| **Total financial assets** | **30,448** | **1,492** | **1,930** | **2,139** | **2,407** | **8,061** | |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Shares | **149,642** | **2,153** | **6,955** | **8,292** | **6,473** | **10,116** | |
| Deposits from banks and similar institutions | **7,882** | **13** | **1** | **-** | **-** | **11,890** | |
| *Of which repo* | **2,075** | **-** | **-** | **-** | **-** | **-** | |
| *Of which TFSME* | **-** | **6** | **-** | **-** | **-** | **11,890** | |
| Other deposits | **1,806** | **1,559** | **1,374** | **224** | **103** | **116** | |
| Fair value adjustment for portfolio hedged risk | **-** | **1** | **1** | **-** | **-** | **-** | |
| Secured funding - ABS and covered bonds | **1,501** | **41** | **264** | **233** | **1,592** | **1,328** | |
| Senior unsecured funding | **1,685** | **12** | **53** | **200** | **1,126** | **805** | |
| Derivative financial instruments | **56** | **-** | **2** | **1** | **24** | **134** | |
| Subordinated liabilities | **8** | **2** | **31** | **14** | **-** | **795** | |
| Subscribed capital (note iii) | **1** | **-** | **1** | **-** | **-** | **-** | |
| **Total financial liabilities** | **162,581** | **3,781** | **8,682** | **8,964** | **9,318** | **25,184** | |
| Off-balance sheet commitments (note iv) | **10,333** | **-** | **-** | **-** | **-** | **-** | |
| **Net liquidity difference** | **(142,466)** | **(2,289)** | **(6,752)** | **(6,825)** | **(6,911)** | **(17,123)** | |
| **Cumulative liquidity difference** | **(142,466)** | **(144,755)** | **(151,507)** | **(158,332)** | **(165,243)** | **(182,366)** | **(1** |

## Liquidity and funding risk (continued)

| Residual maturity (note i) | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2022 | Due less than one month (note ii) | Due between one and three months | Due between three and six months | Due between six and nine months | Due between nine and twelve months | Due between one and two years | betw... fi |
| | £m | £m | £m | £m | £m | £m | |
| Financial assets | | | | | | | |
| Cash | 30,221 | - | - | - | - | - | |
| Loans and advances to banks and similar institutions | 2,031 | - | - | - | - | - | |
| Investment securities | 61 | 17 | 68 | 50 | 279 | 784 | |
| Derivative financial instruments | 90 | 119 | 5 | 118 | 43 | 255 | |
| Fair value adjustment for portfolio hedged risk | 4 | 8 | (134) | (108) | (93) | (824) | |
| Loans and advances to customers | 2,808 | 1,532 | 2,183 | 2,188 | 2,140 | 8,489 | |
| Total financial assets | 35,215 | 1,676 | 2,122 | 2,248 | 2,369 | 8,704 | |
| | | | | | | | |
| Financial liabilities | | | | | | | |
| Shares | 157,455 | 2,395 | 7,238 | 1,725 | 1,880 | 5,272 | |
| Deposits from banks and similar institutions | 14,712 | 2 | - | 11 | - | - | |
| *Of which repo* | *11,064* | - | - | - | - | - | |
| *Of which TFSME* | - | *1* | - | - | - | - | |
| Other deposits | 2,111 | 1,096 | 1,923 | 29 | 28 | 17 | |
| Fair value adjustment for portfolio hedged risk | 1 | 3 | 2 | - | 1 | 3 | |
| Secured funding - ABS and covered bonds | 387 | 26 | 1,247 | 1,079 | 1,061 | 3,607 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Secured funding - ABS and covered bonds | 387 | 20 | 1,247 | 1,079 | 1,061 | 3,607 |
| Senior unsecured funding | 239 | 555 | 21 | 40 | 1,262 | 1,885 |
| Derivative financial instruments | 52 | 5 | 23 | 1 | 15 | 35 |
| Subordinated liabilities | 792 | - | 31 | 3 | - | 765 |
| Subscribed capital (note iii) | 1 | - | 1 | - | - | - |
| Total financial liabilities | 175,750 | 4,082 | 10,486 | 2,888 | 4,247 | 11,584 |
| Off-balance sheet commitments (note iv) | 15,258 | - | - | - | - | - |
| Net liquidity difference | (155,793) | (2,406) | (8,364) | (640) | (1,878) | (2,880) |
| Cumulative liquidity difference | (155,793) | (158,199) | (166,563) | (167,203) | (169,081) | (171,961) |

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

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

## Liquidity and funding risk (continued)

**Financial liabilities - gross undiscounted contractual cash flows**

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

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

| **Gross contractual cash flows 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** |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Shares | **149,642** | **2,430** | **7,194** | **8,468** | **6,587** | **10,335** |
| Deposits from banks and similar institutions | **7,882** | **195** | **183** | **182** | **182** | **12,437** |
| Other deposits | **1,806** | **1,573** | **1,380** | **226** | **104** | **117** |
| Secured funding - ABS and covered bonds | **1,516** | **56** | **346** | **322** | **1,777** | **1,741** |
| Senior unsecured funding | **1,688** | **17** | **109** | **210** | **1,252** | **1,064** |
| Subordinated liabilities | **9** | **-** | **94** | **59** | **90** | **1,040** |
| Subscribed capital (note ii) | **1** | **-** | **4** | **1** | **4** | **11** |
| **Total non-derivative financial liabilities** | **162,544** | **4,271** | **9,310** | **9,468** | **9,996** | **26,745** |
| | | | | | | |
| Derivative financial liabilities: | | | | | | |
| Gross settled derivative outflows | **(1,477)** | **(106)** | **(267)** | **(232)** | **(404)** | **(3,634)** |
| Gross settled derivative inflows | **1,439** | **89** | **244** | **205** | **381** | **3,555** |
| Gross settled derivatives - net flows | **(38)** | **(17)** | **(23)** | **(27)** | **(23)** | **(79)** |
| Net settled derivative liabilities | **(237)** | **(370)** | **(917)** | **(918)** | **(932)** | **(3,039)** |
| **Total derivative financial liabilities** | **(275)** | **(387)** | **(940)** | **(945)** | **(955)** | **(3,118)** |
| **Total financial liabilities** | **162,269** | **3,884** | **8,370** | **8,523** | **9,041** | **23,627** |
| | | | | | | |
| Off-balance sheet commitments (note iii) | **10,333** | **-** | **-** | **-** | **-** | **-** |
| **Total financial liabilities including off-balance sheet commitments** | **172,602** | **3,884** | **8,370** | **8,523** | **9,041** | **23,627** |

## Liquidity and funding risk (continued)

| Gross contractual cash flows 2022 | Due less than one month (note i) | Due between one and three | Due between three and six months | Due between six and nine months | Due between nine and twelve months | Due between one and two years |
|---|---|---|---|---|---|---|

| | | months | | | | |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Shares | 157,455 | 2,422 | 7,261 | 1,744 | 1,897 | 5,320 |
| Deposits from banks and similar institutions | 14,712 | 43 | 41 | 52 | 41 | 163 |
| Other deposits | 2,111 | 1,099 | 1,923 | 29 | 28 | 17 |
| Secured funding - ABS and covered bonds | 388 | 35 | 1,284 | 1,118 | 1,156 | 3,845 |
| Senior unsecured funding | 240 | 559 | 48 | 49 | 1,328 | 2,078 |
| Subordinated liabilities | 796 | 1 | 104 | 29 | 101 | 990 |
| Subscribed capital (note ii) | 1 | - | 4 | 1 | 4 | 11 |
| Total non-derivative financial liabilities | 175,703 | 4,159 | 10,665 | 3,022 | 4,555 | 12,424 |
| | | | | | | |
| Derivative financial liabilities: | | | | | | |
| Gross settled derivative outflows | (4,828) | (49) | (377) | (97) | (1,685) | (1,690) |
| Gross settled derivative inflows | 4,795 | 30 | 316 | 54 | 1,634 | 1,552 |
| Gross settled derivatives - net flows | (33) | (19) | (61) | (43) | (51) | (138) |
| Net settled derivative liabilities | (23) | (70) | (139) | (219) | (225) | (1,497) |
| Total derivative financial liabilities | (56) | (89) | (200) | (262) | (276) | (1,635) |
| Total financial liabilities | 175,647 | 4,070 | 10,465 | 2,760 | 4,279 | 10,789 |
| | | | | | | |
| Off-balance sheet commitments (note iii) | 15,258 | - | - | - | - | - |
| Total financial liabilities including off-balance sheet commitments | 190,905 | 4,070 | 10,465 | 2,760 | 4,279 | 10,789 |

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

**Asset encumbrance**

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

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

## Liquidity and funding risk (continued)

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

| **Asset encumbrance** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **2023** | **Assets encumbered as a result of transactions with counterparties other than central banks** | | | | **Other assets (comprising assets encum central bank and unencumbered a** | | |
| | | | | | | **Assets not posit at the central b** | |
| | **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** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Cash | **522** | **637** | **-** | **1,159** | **-** | **23,972** | **-** |
| Loans and advances to banks and similar institutions | **-** | **-** | **589** | **589** | **1,944** | **-** | **-** |
| Investment securities (note i) | **-** | **-** | **4,508** | **4,508** | **-** | **23,050** | **-** |
| Derivative financial instruments | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Loans and advances to customers | **20,254** | **8,705** | **-** | **28,959** | **66,591** | **61,924** | **53,308** |
| Non-financial assets | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Fair value adjustment for portfolio hedged risk | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **20,776** | **9,342** | **5,097** | **35,215** | **68,535** | **108,946** | **53,308** |
| | | | | | | | |
| 2022 | £m | £m | £m | £m | £m | £m | £m |
| Cash | 412 | 708 | - | 1,120 | - | 28,726 | - |
| Loans and advances to banks and similar institutions | - | - | 513 | 513 | 1,860 | - | - |
| Investment securities (note i) | - | - | 12,345 | 12,345 | - | 11,698 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Derivative financial instruments | - | - | - | - | - | - | - |
| Loans and advances to customers | 20,190 | 10,644 | - | 30,834 | 72,187 | 51,333 | 53,712 |
| Non-financial assets | - | - | - | - | - | - | - |
| Fair value adjustment for portfolio hedged risk | - | - | - | - | - | - | - |
| Total | 20,602 | 11,352 | 12,858 | 44,812 | 74,047 | 91,757 | 53,712 |

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.

## Liquidity and funding risk (continued)

Under the most severe internal 30 calendar day stress test (a combined market-wide and Nationwide-specific stress scenario), the average 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 |
| Standard & Poor's | A+ | A-1 | BBB+ | BBB | |
| Moody's | A1 | P-1 | A3 | Baa1 | |
| Fitch | A+ | F1 | A | BBB+ | |

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.

**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.

## Capital risk (continued)

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 |
| | **£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

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 15 to the consolidated 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.

## Capital risk (continued)

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.
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)** | **Operational risk (note ii)** | **Total risk weighted assets** | Credit risk (note i) | Operat risk (nc |
| | **£m** | **£m** | **£m** | £m | |
| Retail mortgages | **34,609** | **2,991** | **37,600** | 34,935 | |
| Retail unsecured lending | **5,145** | **1,114** | **6,259** | 4,694 | |
| Commercial loans | **1,883** | **60** | **1,943** | 2,272 | |
| Treasury | **1,559** | **290** | **1,849** | 1,865 | |
| Counterparty credit risk (note iii) | **989** | **-** | **989** | 1,052 | |
| Other (note iv) | **1,715** | **1,376** | **3,091** | 1,798 | |
| **Total** | **45,900** | **5,831** | **51,731** | 46,616 | |

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.

## Capital risk (continued)

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.

**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 linked to Nationwide's balance sheet assets and liabilities include interest rate risk, basis risk, swap spread risk, currency risk, product option risk and structural interest rate risk.

**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%.

## Market risk (continued)

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.

***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

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** | | |
|---|---|---|
| | **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.

**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.

## Consolidated financial statements

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# Consolidated income statement

| **For the year ended 4 April 2023** | | | |
|---|---|---|---|
| | **Notes** | **2023 £m** | 2022 £m |
| Interest receivable and similar income: | | | |
| Calculated using the effective interest rate method | 3 | **8,776** | 4,501 |
| Other | 3 | **49** | 11 |
| Total interest receivable and similar income | 3 | **8,825** | 4,512 |
| Interest expense and similar charges | 4 | **(4,327)** | (950) |
| **Net interest income** | | **4,498** | 3,562 |
| Fee and commission income | | **432** | 475 |
| Fee and commission expense | | **(311)** | (218) |
| Other operating income | 5 | **54** | 48 |
| Losses from derivatives and hedge accounting | 6 | **(4)** | (7) |
| **Total income** | | **4,669** | 3,860 |
| Administrative expenses | 7 | **(2,323)** | (2,234) |

| | | | |
|---|---|---|---|
| Impairment (charge)/release on loans and advances to customers | 8 | **(126)** | 27 |
| Provisions for liabilities and charges | 12 | **9** | (56) |
| **Profit before tax** | | **2,229** | 1,597 |
| Taxation | 9 | **(565)** | (345) |
| **Profit after tax** | | **1,664** | 1,252 |

# Consolidated statement of comprehensive income

| **For the year ended 4 April 2023** | | |
|---|---|---|
| | **2023** **£m** | 2022 £m |
| **Profit after tax** | **1,664** | 1,252 |
| | | |
| **Other comprehensive (expense)/income:** | | |
| **Items that will not be reclassified to the income statement** | | |
| Retirement benefit obligations: | | |
| Remeasurement of net retirement benefit asset | **(85)** | 836 |
| Taxation | **29** | (293) |
| | **(56)** | 543 |
| Revaluation reserve: | | |
| Revaluation of property | **2** | 7 |
| Taxation | **(1)** | (2) |
| | **1** | 5 |
| Fair value through other comprehensive income reserve: | | |
| Revaluation (losses)/gains on equity instruments at fair value through other comprehensive income | **(3)** | 10 |
| Taxation | **1** | (2) |
| | **(2)** | 8 |
| | **(57)** | 556 |
| **Items that may subsequently be reclassified to the income statement** | | |
| Cash flow hedge reserve: | | |
| Hedging net gains arising during the year | **40** | 27 |
| Amount transferred to income statement | **(50)** | (42) |
| Taxation | **2** | 4 |
| | **(8)** | (11) |
| Other hedging reserve: | | |
| Hedging net gains arising during the year | **16** | 8 |
| Amount transferred to income statement | **(23)** | (4) |
| Taxation | **3** | (1) |
| | **(4)** | 3 |
| Fair value through other comprehensive income reserve: | | |
| Revaluation (losses)/gains on debt instruments at fair value through other comprehensive income | **(66)** | 12 |
| Amount transferred to income statement | **(74)** | (48) |
| Taxation | **39** | 8 |
| | **(101)** | (28) |
| | | |
| **Other comprehensive (expense)/income** | **(170)** | 520 |
| | | |
| **Total comprehensive income** | **1,494** | 1,772 |

# Consolidated balance sheet

| **At 4 April 2023** | | | |
|---|---|---|---|
| | | **2023** | 2022 |
| | **Notes** | **£m** | £m |

| Assets | | | |
|---|---|---|---|
| Cash | | **25,635** | 30,221 |
| Loans and advances to banks and similar institutions | | **2,860** | 3,052 |
| Investment securities | | **27,615** | 25,484 |
| Derivative financial instruments | | **6,923** | 4,723 |
| Fair value adjustment for portfolio hedged risk | | **(5,011)** | (2,443) |
| Loans and advances to customers | 10 | **210,782** | 208,066 |
| Intangible assets | | **862** | 913 |
| Property, plant and equipment | | **744** | 880 |
| Accrued income and prepaid expenses | | **302** | 252 |
| Deferred tax | | **119** | 59 |
| Current tax assets | | **15** | 33 |
| Other assets | | **101** | 106 |
| Retirement benefit asset | 14 | **946** | 1,008 |
| **Total assets** | | **271,893** | 272,354 |
| **Liabilities** | | | |
| Shares | | **187,143** | 177,967 |
| Deposits from banks and similar institutions | | **25,056** | 36,425 |
| Other deposits | | **5,191** | 5,208 |
| Fair value adjustment for portfolio hedged risk | | **2** | 11 |
| Debt securities in issue | | **27,626** | 25,629 |
| Derivative financial instruments | | **1,524** | 1,428 |
| Other liabilities | | **695** | 668 |
| Provisions for liabilities and charges | 12 | **82** | 153 |
| Accruals and deferred income | | **334** | 299 |
| Subordinated liabilities | 11 | **6,755** | 8,250 |
| Subscribed capital | 11 | **173** | 187 |
| Deferred tax | | **406** | 430 |
| **Total liabilities** | | **254,987** | 256,655 |
| **Members' interests and equity** | | | |
| Core capital deferred shares | 15 | **1,233** | 1,334 |
| Other equity instruments | 16 | **1,336** | 1,336 |
| General reserve | | **14,184** | 12,753 |
| Revaluation reserve | | **38** | 46 |
| Cash flow hedge reserve | | **176** | 184 |
| Other hedging reserve | | **(47)** | (43) |
| Fair value through other comprehensive income reserve | | **(14)** | 89 |
| **Total members' interests and equity** | | **16,906** | 15,699 |
| **Total members' interests, equity and liabilities** | | **271,893** | 272,354 |

# Consolidated 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** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| At 5 April 2022 | 1,334 | 1,336 | 12,753 | 46 | 184 | (43) |
| Profit for the year | - | - | **1,664** | - | - | - |
| Net remeasurements of retirement benefit obligations | - | - | **(56)** | - | - | - |
| Net revaluation of property | - | - | - | **1** | - | - |
| Net movement in cash flow hedge reserve | - | - | - | - | **(8)** | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net movement in other hedging reserve | - | - | - | - | - | (4) |
| Net movement in FVOCI reserve | - | - | - | - | - | - |
| **Total comprehensive income** | **-** | **-** | **1,608** | **1** | **(8)** | **(4)** |
| Reserve transfer | - | - | 9 | (9) | - | - |
| Repurchase of core capital deferred shares | (101) | - | - | - | - | - |
| Distribution to the holders of core capital deferred shares | - | - | (108) | - | - | - |
| Distribution to the holders of Additional Tier 1 capital | - | - | (78) | - | - | - |
| **At 4 April 2023** | **1,233** | **1,336** | **14,184** | **38** | **176** | **(47)** |

| 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 |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| At 5 April 2021 | 1,334 | 1,336 | 11,140 | 44 | 195 | (46) |
| Profit for the year | - | - | 1252 | - | - | - |
| Net remeasurements of retirement benefit obligations | - | - | 543 | - | - | - |
| Net revaluation of property | - | - | - | 5 | - | - |
| Net movement in cash flow hedge reserve | - | - | - | - | (11) | - |
| Net movement in other hedging reserve | - | - | - | - | - | 3 |
| Net movement in FVOCI reserve | - | - | - | - | - | - |
| Total comprehensive income | - | - | 1,795 | 5 | (11) | 3 |
| Reserve transfer | - | - | 4 | (3) | - | - |
| Distribution to the holders of core capital deferred shares | - | - | (108) | - | - | - |
| Distribution to the holders of Additional Tier 1 capital | - | - | (78) | - | - | - |
| At 4 April 2022 | 1,334 | 1,336 | 12,753 | 46 | 184 | (43) |

# Notes to the consolidated financial statements

## 1. Reporting period

These results have been prepared as at 4 April 2023 and show the financial performance for the year from, and including, 5 April 2022 to this date.

## 2. Basis of preparation

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

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

The accounting policies adopted for use in the preparation of this Preliminary Results Announcement and which will be used in preparing the Annual Report and Accounts for the year ended 4 April 2023 were included in the 'Annual Report and Accounts 2022' document except as detailed below. Copies of these documents are available at **nationwide.co.uk**

**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.

**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.

**Judgements in applying accounting policies and critical accounting estimates**

The preparation of the Group's consolidated financial statements in accordance with IFRS involves management making judgements and estimates when applying those accounting policies that affect the reported amounts of assets, liabilities, income and expense. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. For the year ended 4 April 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 8 | Note 8 |
| Retirement benefit obligations (pensions) | Note 14 | |

**Going concern**

The directors have assessed the Group's ability to continue as a going concern, with reference to current and anticipated market conditions including the 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 in preparing this preliminary financial information.

## 3. Interest receivable and similar income

| | **2023 £m** | 2022 £m |
|---|---|---|
| On financial assets measured at amortised cost: | | |
| Residential mortgages | **4,904** | 4,278 |
| Other loans | **602** | 531 |
| Other liquid assets (note i) | **1,002** | 109 |
| Investment securities | **2** | 10 |
| On investment securities measured at FVOCI | **310** | 134 |
| Net income/(expense) on financial instruments hedging assets in a qualifying hedge accounting relationship | **1,956** | (561) |
| **Total interest receivable and similar income calculated using the effective interest rate method** | **8,776** | 4,501 |
| Interest on net defined benefit pension surplus (note 14) | **26** | 4 |
| Other interest and similar income (note ii) | **23** | 7 |
| **Total** | **8,825** | 4,512 |

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

| | **2023 £m** | 2022 £m |
|---|---|---|
| On shares held by individuals | **1,915** | 456 |
| On subscribed capital | **11** | 13 |
| On deposits and other borrowings: | | |
| Subordinated liabilities | **272** | 258 |
| Other (note i) | **1,070** | 99 |
| On debt securities in issue | **769** | 449 |
| Net expense/(income) on financial instruments hedging liabilities | **290** | (325) |
| **Total** | **4,327** | 950 |

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. Other operating income

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| (Losses)/gains on financial assets measured at fair value through profit and loss (FVTPL) | **(10)** | 9 |
| Gains on disposal of fair value through other comprehensive income (FVOCI) investment securities | **74** | 47 |
| Other expense | **(10)** | (8) |
| **Total** | **54** | 48 |

There were no gains or losses on disposal of financial assets measured at amortised cost in the year ended 4 April 2023 (2022: £nil).

## 6. 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.

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Losses from fair value hedge accounting | **(62)** | (21) |
| Gains from cash flow hedge accounting | **1** | 2 |
| Fair value gains from other derivatives (note i) | **56** | 13 |
| Foreign exchange retranslation (note ii) | **1** | (1) |
| **Total** | **(4)** | (7) |

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. Administrative expenses

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Employee costs: | | |
| Wages and salaries | **597** | 542 |
| Bonuses | **78** | 64 |
| Social security costs | **90** | 71 |
| Pension costs | **153** | 145 |
| | **918** | 822 |
| Other administrative expenses | **862** | 801 |
| Bank levy | **20** | 16 |
| Depreciation, amortisation and impairment | **523** | 595 |
| **Total** | **2,323** | 2,234 |

## 8. 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)** | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Prime residential | **11** | (19) |
| Buy to let and legacy residential | **83** | (109) |
| Consumer banking | **31** | 93 |
| Commercial and other lending | **1** | 8 |
| **Total** | **126** | (27) |

| **Impairment provisions** | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Prime residential | **84** | 73 |
| Buy to let and legacy residential | **196** | 114 |
| Consumer banking | **469** | 529 |
| Commercial and other lending | **16** | 30 |
| **Total** | **765** | 746 |

## 8. 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.

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

**Critical accounting estimates and judgements (continued)**

**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.

**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 Group's financial planning process. The upside and downside scenarios are reasonably likely favourable and adverse alternatives to the base case, and the severe downside scenario is aligned with the Group's internal stress testing. The impact of applying multiple economic scenarios (MES) is to increase provisions 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 |

# 8. 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.

Graphs showing the historical and forecasted GDP level, average house price and unemployment rate for the Group's economic scenarios, including the previous base case economic scenario, are included in the 2023 Preliminary Results on nationwide.co.uk

# 8. 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** |

## 8. 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.

## 8. 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** |
| **4 April 2023** | **£m** | **£m** | **£m** | **£m** | **£m** | **%** | **%** | **%** | **%** |
| Residential mortgages | **160** | **179** | **236** | **789** | **280** | **14.6** | **13.9** | **13.5** | **35.7** |
| Consumer banking - credit cards | **213** | **212** | **228** | **264** | **225** | **37.8** | **37.8** | **39.0** | **40.2** |
| Consumer banking - personal loans and overdrafts | **227** | **233** | **247** | **281** | **244** | **34.6** | **37.5** | **41.4** | **46.5** |
| Commercial lending | **16** | **16** | **16** | **17** | **16** | **3.3** | **3.3** | **3.3** | **3.3** |
| **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 |
| Consumer banking - credit cards | 237 | 240 | 260 | 376 | 263 | 40.0 | 40.2 | 41.4 | 49.9 |
| Consumer banking - personal loans and overdrafts | 239 | 247 | 265 | 364 | 266 | 31.7 | 34.4 | 42.9 | 62.8 |
| Commercial lending | 29 | 30 | 30 | 31 | 30 | 2.9 | 2.9 | 2.9 | 2.9 |
| 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.

## 8. 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 | T |
| | **£m** | **£m** | **£m** | £m | £m | |
| PD uplift for economic uncertainty | **77** | **100** | **177** | 13 | 146 | |
| LGD uplift for property valuation risks | **22** | **-** | **22** | 25 | - | |
| **Total** | **99** | **100** | **199** | 38 | 146 | |
| | | | | | | |
| Of which: | | | | | | |
| Stage 1 | **5** | **8** | **13** | 8 | 15 | |
| Stage 2 | **89** | **90** | **179** | 26 | 131 | |
| Stage 3 | **5** | **2** | **7** | 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.

## 9. Taxation

**Tax charge in the income statement**

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Current tax: | | |
| UK corporation tax | **565** | 368 |
| Adjustments in respect of prior years | **17** | (19) |
| Total current tax | **582** | 349 |
| | | |
| Deferred tax: | | |
| Current year (credit)/charge | **(4)** | (1) |
| Adjustments in respect of prior years | **(13)** | (4) |
| Effect of deferred tax provided at different tax rates | **-** | 1 |
| Total deferred taxation | **(17)** | (4) |
| **Tax charge** | **565** | 345 |

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**

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Profit before tax: | **2,229** | 1,597 |
| Tax calculated at a tax rate of 19% | **424** | 303 |
| Adjustments in respect of prior years | **4** | (23) |
| Tax credit on distribution to the holders of Additional Tier 1 capital | **(15)** | (15) |
| Banking surcharge | **145** | 72 |
| Temporary differences where no deferred tax is recognised | **1** | 1 |
| Expenses not deductible for tax purposes/(income not taxable): | | |
| Depreciation on non-qualifying assets | **2** | 2 |
| Bank levy | **4** | 3 |
| Customer redress | **(2)** | 4 |
| Other | **-** | (3) |
| Effect of deferred tax provided at different tax rates | **2** | 1 |
| **Tax charge** | **565** | 345 |

## 10. Loans and advances to customers

| | **2023** | | | | | | 2022 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Loans held at amortised cost** | | | | **Loans held at FVTPL** | **Total** | Loans held at amortised cost | | | |
| | **Gross** | **Provisions** | **Other (note i)** | **Total** | | | Gross | Provisions | Other (note i) | Tota |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** | £m | £m | £m | £ |
| Prime residential mortgages | **157,511** | **(84)** | **-** | **157,427** | **47** | **157,474** | 154,363 | (73) | - | 154,29 |
| Buy to let and legacy residential mortgages | **44,104** | **(196)** | **-** | **43,908** | **-** | **43,908** | 43,693 | (114) | - | 43,57 |
| Consumer banking | **4,408** | **(469)** | **-** | **3,939** | **-** | **3,939** | 4,638 | (529) | - | 4,10 |
| Commercial and other lending | **4,994** | **(16)** | **430** | **5,408** | **53** | **5,461** | 5,453 | (30) | 549 | 5,97 |
| **Total** | **211,017** | **(765)** | **430** | **210,682** | **100** | **210,782** | 208,147 | (746) | 549 | 207,95 |

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.

The tables on the following pages 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 key movements shown in the table on the next page 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 8.

- 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.

## 10. Loans and advances to customers (continued)

| **Reconciliation of movements in gross balances and impairment provisions** | | | | | |
|---|---|---|---|---|---|
| | **Non-credit impaired** | | | | **Credit impair** |
| | **Subject to 12-month ECL** | | **Subject to lifetime ECL** | | **Subject to life** |
| | **Stage 1** | | **Stage 2** | | **Stage 3 an** |
| | **Gross balances** | **Provisions** | **Gross balances** | **Provisions** | **Gross balances** |
| | **£m** | **£m** | **£m** | **£m** | **£m** |
| At 5 April 2022 | 188,130 | 48 | 18,326 | 380 | 1,691 |
| | | | | | |
| **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** |
| Transfers from stage 2 to stage 1 | **44,341** | **375** | **(44,341)** | **(375)** | **-** |
| Transfers from stage 3 | **270** | **3** | **484** | **30** | **(754)** |
| Net remeasurement of ECL arising from transfer of stage | | **(336)** | | **448** | |
| **Net movement arising from transfer of stage (note ii)** | **(22,866)** | **(12)** | **22,540** | **34** | **326** |
| | | | | | |
| New assets originated or purchased (note iii) | **35,327** | **37** | **-** | **-** | **-** |
| Net impact of further lending and repayments (note iv) | **(9,851)** | **(25)** | **(826)** | **(38)** | **(65)** |
| Changes in risk parameters in relation to credit quality (note v) | **-** | **6** | **-** | **58** | **-** |
| Other items impacting income statement (including recoveries) | **-** | **-** | **-** | **-** | **-** |
| Redemptions (note vi) | **(18,682)** | **(4)** | **(2,583)** | **(24)** | **(307)** |
| Income statement charge for the year | | | | | |
| Decrease due to write-offs | **-** | **-** | **-** | **-** | **(143)** |
| Other provision movements | **-** | **-** | **-** | **-** | **-** |
| **At 4 April 2023** | **172,058** | **50** | **37,457** | **410** | **1,502** |
| **Net carrying amount** | | **172,008** | | **37,047** | |

## 10. Loans and advances to customers (continued)

| Reconciliation of movements in gross balances and impairment provisions | | | | | |
|---|---|---|---|---|---|
| | Non-credit impaired | | | | Credit impaire |
| | Subject to 12-month ECL | | Subject to lifetime ECL | | Subject to life |
| | Stage 1 | | Stage 2 | | Stage 3 anc |
| | Gross balances | Provisions | Gross balances | Provisions | Gross balances |
| | £m | £m | £m | £m | £m |
| At 5 April 2021 | 187,839 | 116 | 11,868 | 388 | 1,919 |
| | | | | | |
| 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 |
| Transfers from stage 2 to stage 1 | 18,108 | 287 | (18,108) | (287) | - |
| Transfers from stage 3 | 283 | 4 | 440 | 30 | (723) |
| Net remeasurement of ECL arising from transfer of stage | | (250) | | 316 | |
| Net movement arising from transfer of stage (note ii) | (8,187) | (31) | 7,873 | 25 | 314 |
| | | | | | |
| New assets originated or purchased (note iii) | 37,853 | 47 | - | - | - |
| Net impact of further lending and repayments (note iv) | (8,832) | (32) | (257) | (29) | (89) |
| Changes in risk parameters in relation to credit quality (note v) | - | (47) | - | 14 | - |
| Other items impacting income statement (including recoveries) | - | - | - | - | - |
| Redemptions (note vi) | (20,543) | (5) | (1,158) | (18) | (327) |
| Income statement release for the year | | | | | |
| Decrease due to write-offs | - | - | - | - | (126) |
| Other provision movements | - | - | - | - | - |
| At 4 April 2022 | 188,130 | 48 | 18,326 | 380 | 1,691 |
| Net carrying amount | | 188,082 | | 17,946 | |

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.

# 10. Loans and advances to customers (continued)

**Asset backed funding**

Certain prime residential mortgages have been pledged to the Group's asset backed funding programmes or utilised as whole mortgage loan pools for 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** | | | | | 2 | |
| | | **Notes in issue** | | | | | |
| | | | **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) |
| | **£m** | **£m** | **£m** | **£m** | **£m** | £m | £m |
| Covered bond programme | **20,253** | **13,496** | **-** | **-** | **13,496** | 20,189 | 12,879 |
| Securitisation programme | **8,705** | **2,535** | **-** | **2,632** | **5,167** | 10,644 | 2,954 |
| Whole mortgage loan pools | **23,045** | **-** | **17,166** | **-** | **17,166** | 29,511 | - |
| **Total** | **52,003** | **16,031** | **17,166** | **2,632** | **35,829** | 60,344 | 15,833 |

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.

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 Group and mortgage loan pools that have been pledged to the BoE but not utilised.

Mortgages pledged under the Nationwide Covered Bond programme provide security for issues of covered bonds made by the Group. During the year ended 4 April 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 Group. 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 Group. The remaining beneficial interest in the pledged mortgages of £3.4 billion (2022: £4.8 billion) stays with the Group and includes its required minimum seller share in accordance with the rules of the programme. The Group is under no obligation to support losses incurred by the programme or holders of the notes and does not intend to provide such further support. The entitlement of note holders is restricted to payment of principal and interest to the extent that the resources of the programme are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form. During the year ended 4 April 2023, £0.8 billion (sterling equivalent) of notes were issued, and £1.2 billion (sterling equivalent) of notes matured or were repurchased.

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

# 11. Subordinated liabilities and subscribed capital

| | **2023** | 2022 |
|---|---|---|
| | **£m** | £m |
| **Subordinated liabilities** | | |
| Senior non-preferred notes and Tier 2 eligible subordinated notes (note i) | **7,052** | 8,351 |
| Fair value hedge accounting adjustments | **(281)** | (81) |
| Unamortised premiums and issue costs | **(16)** | (20) |
| **Total** | **6,755** | 8,250 |
| **Subscribed capital** | | |
| Permanent interest-bearing shares | **173** | 173 |
| Fair value hedge accounting adjustments | **1** | 15 |
| Unamortised premiums and issue costs | **(1)** | (1) |
| **Total** | **173** | 187 |

Note:

i. 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

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 Group of holders of PIBS, AT1 instruments and CCDS.

All of the Group's subordinated liabilities and permanent interest-bearing shares (PIBS) are unsecured. The Group may, with the prior consent of the Prudential Regulation Authority (PRA), repay the PIBS and redeem the Tier 2 eligible subordinated notes early. The redemption of senior non-preferred notes does not require regulatory consent.

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

## 12. Provisions for liabilities and charges

| 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 a £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.

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.

## 13. Contingent liabilities

During the ordinary course of business, the Group may be subject to complaints and threatened or actual legal proceedings brought by or on behalf of current or former employees, customers, investors or other third parties. 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

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.

## 14. Retirement benefit obligations

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

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

In line with UK pensions legislation, a formal actuarial valuation ('Triennial Valuation') of the assets and liabilities of the Fund is carried out at least every three years by independent actuaries. 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 Group 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.

## 14. Retirement benefit obligations (continued)

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 | | |
|---|---|---|
| | **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.

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.

## 14. Retirement benefit obligations (continued)

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

| Movements in net defined benefit asset | | |
|---|---|---|
| | **2O23** | 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 |

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.

## 14. Retirement benefit obligations (continued)

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** | 2022 |
| | **years** | 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.

**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.

## 15. Core capital deferred shares

| | Number of shares | CCDS | Share premium | Treasury share reserve | Total |
|---|---|---|---|---|---|
| | | £m | £m | £m | £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 Group.

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 Group 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 Group. 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.

## 16. Other equity instruments

| | Issuance date | Next reset date | Reset rate | 2023 £m |
|---|---|---|---|---|
| 5.875% Additional Tier 1 | 17 September 2019 | 20 June 2025 | Benchmark gilts + 5.39% | **600** |
| 5.75% Additional Tier 1 | 10 June 2020 | 20 December 2027 | Benchmark gilts + 5.625% | **750** |
| | | | | **1,350** |
| Issuance costs | | | | **(14)** |
| **Total** | | | | **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.

## 17. 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.

## Responsibility statement

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

report provide a description of the principal risks and uncertainties faced.

A full list of the board of directors will be disclosed in the Annual Report and Accounts 2023.

Signed on behalf of the Board by

**Chris Rhodes**
**Chief Financial Officer**

18 May 2023

## Other information

The financial information set out in this announcement which was approved by the Board on 18 May 2023 does not constitute accounts within the meaning of section 73 of the Building Societies Act 1986.

The Annual Report and Accounts 2022 have been filed with the Financial Conduct Authority and the Prudential Regulation Authority. The Annual Report and Accounts 2023 will be published on the website of Nationwide Building Society, **nationwide.co.uk** The report of the auditor on those accounts is unqualified and did not draw attention to any matters by way of emphasis. The Annual Report and Accounts 2023 will be lodged with the Financial Conduct Authority and the Prudential Regulation Authority following publication.

A copy of this Preliminary report is placed on the website of Nationwide Building Society, **nationwide.co.uk** from 19 May 2023. The directors are responsible for the maintenance and integrity of information on the Society's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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