

Intermediate Net-Zero Ambitions 2022: Basis of Preparation



Summary

Following international support for the Paris Agreement in 2015 and Glasgow Climate Pact in 2021, countries across the world, including the UK, have passed legislation¹ to progress towards the long-term target of limiting global temperature increases to well below 2°C above pre-industrial levels, and preferably limiting the increase to no more than 1.5°C above pre-industrial levels. With the financial services sector providing funding to those sectors which produce greenhouse gas emissions, which in Nationwide's case includes our lending to residential property, it can play a role in supporting the UK's climate ambitions in achieving net-zero (to achieve an overall balance between greenhouse gas (GHG) emissions produced and taken out of the atmosphere) by 2050.

Helping to mitigate the impact of climate change aligns with our mutual purpose which is why, as the UK's second largest mortgage lender, with over 95%² of our lending secured against residential mortgages, Nationwide can play a role in supporting the UK's net-zero ambition.

Nationwide has calculated the reductions necessary in its scope 1, 2 and 3 emissions in order to meet 2030 intermediate science-based targets. These reductions were determined in accordance with the methodologies of the Science Based Targets initiative.

In calculating the reductions necessary to achieve the intermediate emissions reduction targets, we remain confident in achieving our scope 1 and 2 emissions targets but for scope 3 emissions, we consider it highly unlikely that, at present, these targets can be achieved particularly in light of the uncertainty over the current and future Government's policies in connection with the UK's housing stock. We have very limited control over practical measures to reduce emissions from properties which are owned by our borrowers. The emissions associated with our residential mortgage lending currently account for the majority (approximately 80%) of our total scope 3 emissions.

The UK Government has committed in law to ambitious emissions reduction targets (including to achieve net zero by 2050 and to reduce emissions by 78% by 2035 compared with 1990 levels). The Government's commitment to the UK's climate targets and domestic law aimed at reducing emissions continues to evolve. Changes in law may fail to have the desired effect of reducing emissions from housing to a sufficient extent in line with the highly ambitious targets of the Science Based Targets initiative. The market and/or borrowers may also fail to respond sufficiently to the measures put in place. These are factors outside of Nationwide's control. Consequently, we consider, given the basis of current government policy, it highly unlikely that our scope 3 targets can be achieved. Nevertheless, we will continue to monitor the delivery of market and policy developments on a regular basis to inform our progress towards our targets.

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¹ The Climate Change Act 2008 (2050 Target Amendment) Order 2019

² Annual Report & Accounts 2022 | Nationwide



Background and context

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

Environmental and climate consciousness are aligned to our purpose of *building society, nationwide*. This compels us to take meaningful action – to reduce the emissions from our operations and encourage members and customers to green their homes, by making them more energy efficient.

Nationwide is already in an advantageous position — **our business model means that our strategy does not involve lending to, or investing in, the fossil fuel industry.**

We are calling for much-needed industry and government action, to help us all achieve a just transition to net-zero. We recognise ambition alone is insufficient, so we will continue to try to influence government, and our members and customers, on the importance of taking action to green the UK's homes, to support the UK with this important agenda.

It is our ambition to reduce our carbon footprint in line with net-zero

In June 2021, Nationwide signed up to the United Nations Environment Programme Finance Initiative's (UNEP FI) Net-Zero Banking Alliance (NZBA), and Glasgow Financial Alliance for Net-Zero (GFANZ), joining other financial services organisations in setting targets to achieve net-zero by 2050.

As part of our sign-up to the NZBA, Nationwide committed to publicly disclosing a set of intermediate (by 2030) net-zero-aligned science-based targets within 18 months. The targets within this document cover the vast majority of our scope 1, scope 2, and scope 3 carbon emissions, as per the Greenhouse Gas (GHG) Protocol³, and are aligned to a 1.5°C pathway - to limit global temperature rises to 1.5°C above pre-industrial levels - where possible.

In September 2021, Nationwide signed up to the Science Based Targets initiative's (SBTi's) Business Ambition for 1.5°C. As part of our sign-up, we committed to publicly disclosing a set of near-term (by 2030) science-based targets, aligned to the methodologies of the SBTi, within two years.

Definitions of scope 1, 2, and 3 emissions, that are relevant to Nationwide, are as follows:

Emissions	Description	Category	Baseline emissions 2021/22 (tCO ₂ e/y) ⁴	Control indicator ⁵
Scope 1	Direct emissions from owned sources. This includes the emissions resulting from the use of gas in our buildings, diesel used to power our backup generators, and the fuel used by the Society's car fleet.	Energy and travel	3,002	Full control
Scope 2	Indirect emissions from the generation and consumption of purchased electricity and heating. This includes the electricity bought by the Society to power its buildings.	Renewable electricity	0*	Full control
Scope 3 – Upstream – categories 1, 2 and 4	Indirect upstream emissions that occur in our value chain from our supply chain. This includes the emissions resulting from the Society's spend across goods and services (category 1), capital goods (category 2), and upstream transportation and distribution (category 4). [†]	Categories 1, 2 and 4	230,000	Partial control
Scope 3 – Downstream investments – category 15	Indirect downstream emissions that occur in our value chain from capital investment or financing. This includes the emissions associated with the Society's mortgage, commercial real estate, and registered social landlord lending.	Mortgages	2,795,000	Very limited control
		Registered social landlords	346,000	
		Commercial real estate	96,000	

³ [ghg-protocol-revised.pdf \(ghgprotocol.org\)](https://ghgprotocol.org/ghg-protocol-revised.pdf)

⁴ Baseline emissions for scope 1 and 2 are for financial year ended 4 April 2022. Baseline emissions for scope 3 are for calendar year ended 31 December 2021.

⁵ The control indicator provides an indicative view on Nationwide's ability to control its emissions reductions, with full control indicating a level of control within Nationwide's abilities, and very limited control being a level of control outside of Nationwide's abilities, with significant reliance on government, members, customers and other industry parties.

* Our net scope 2 emissions have been calculated at 0 tCO₂e/y using a market-based approach. Our scope 2 emissions net out at 0 tCO₂e/y through our renewable energy and Power Purchase Agreement carbon reduction activities. Our gross scope 2 emissions for 2021 are 14,972 tCO₂e/y.

[†] Further descriptions of scope 3 categories can be found in the Glossary on page 23.



Nationwide's highly ambitious intermediate science-based targets cover the sectors applicable to our business model, which includes our scope 1, 2, and 3 emissions. These include our business operations and upstream supply chain, and our residential mortgages, registered social landlords (RSL), and commercial real estate (CRE) lending portfolios. Nationwide does not lend to any other carbon intensive sectors, such as agriculture, aluminium, cement, coal, iron and steel, oil and gas, power generation, or transport. Setting targets for these sectors is therefore not applicable to us.

Our strategy is aligned to the concept of a just transition

Nationwide is a member of the Financing a Just Transition Alliance, which is coordinated by the Grantham Research Institute at the London School of Economics. The aim of the alliance, which is supported by around 50 organisations globally, is to realise a low-carbon economy in an inclusive and just way. This strongly aligns with our mutual ethos and our purpose.

Alongside the UK Government, Nationwide is committed to meeting the aim of achieving net-zero by 2050. However, we will only do so whilst also ensuring a just transition – continuing to provide green finance propositions whilst reducing emissions and emissions intensity in an inclusive way, that achieves a better future for all.



Intermediate science-based targets

Calculating our targets using the methodologies of the SBTi

Nationwide's carbon footprint represents the total GHG emissions caused by our activities, expressed as a carbon dioxide equivalent per year (CO₂e/y), across scope 1, 2 and 3 emissions. Calculating these emissions, and setting highly ambitious intermediate science-based targets (and hence meeting our NZBA and SBTi's Business Ambition for 1.5°C commitments), across all scopes, can help us understand the energy efficiency of our business model and our impact on the environment. It can also support engagement activities with our stakeholders. This includes communicating with our members and customers regarding the greening of their homes and our green finance options, having better conversations with our investors and policymakers on the importance of cross-industry collaboration regarding net-zero, and engaging suppliers on improving the sustainability of their businesses.

Nationwide uses the methodologies of the SBTi⁶, in line with climate science, to calculate intermediate (near-term, by 2030) Society-wide targets for our scope 1, 2, and 3 emissions.

It is our long-term ambition to achieve net-zero by 2050 and, as methodologies develop, we will consider setting an explicit 2050 science-based target.

The SBTi provides industry standard methodologies, aligned to 1.5°C (Absolute Contraction Approach (ACA)) and well-below 2°C (Sectoral Decarbonisation Approach (SDA)) scenarios, for the setting of intermediate science-based targets. The SDA is in accordance with the International Energy Agency (IEA) Energy Technology Perspectives (ETP) Beyond 2°C Scenario (B2DS).

The targets result in prescribed reductions in emissions for the ACA, and in emissions intensity for the SDA.

The Society signed up to the SBTi's Business Ambition for 1.5°C in September 2021 and recognises that for our targets to be net-zero aligned, a 1.5°C scenario should be used. However, at the time of publication of this document, the only available SBTi-developed 1.5°C pathway is the ACA, which is used to calculate targets for scope 1, scope 2 (when not setting a renewable energy target) and scope 3 upstream emission reductions. The current methodology used by the SBTi for the setting of intermediate targets for residential mortgages, RSL, and CRE lending portfolios is the SDA, which is aligned to a well-below 2°C scenario. The SDA approach applies sector-specific considerations and emissions reduction factors aligned to specific asset classes, for example residential property.

Whilst Nationwide recognises that this approach is not fully aligned to net-zero, and therefore the ambition of the NZBA (which is to align targets to a 1.5°C scenario), the Society also considers it important to use the industry standard target setting tools of the SBTi when setting intermediate targets. It is our understanding that the SBTi is developing its SDA to align to a 1.5°C scenario. As the SBTi and the NZBA release further tools and guidance, and as industry guidance, market practice, and regulations evolve over time, we will revise our targets as required.

Nationwide is a UK-based organisation. Nationwide's targets are set at Group level, capturing our subsidiaries⁷ (including our largest subsidiary, The Mortgage Works), and covering all required activities applicable to Nationwide, as per SBTi guidelines⁸. Our targets cover 100% of our emissions across scope 1, scope 2, and scope 3 downstream category 15

(investments) emissions (applicable to the SBTi methodology), and 92%⁹ of our upstream scope 3 emissions. Our scope 3 downstream category 15 (investments) targets cover the emissions from our residential mortgage, CRE, and RSL lending, which account for approximately 98% of loans and advances to members and customers.¹⁰



⁶ [About Us - the Science Based Targets initiative](#)

⁷ [Page 309 | Annual Report & Accounts 2022 | Nationwide](#)

⁸ [Financial-Sector-Science-Based-Targets-Guidance.pdf \(sciencebasedtargets.org\)](#)

⁹ Scope 3 (upstream) categories 1, 2 and 4 have been included in our target due to meeting the SBTi guideline of covering at least two-thirds of emissions. Categories 3, 5, 6, 7 and 8, have been excluded from our emissions target due to them collectively accounting for around 8% of category 1-8 emissions.

¹⁰ [Page 57 | Annual Report & Accounts 2022 | Nationwide](#)



Scope 1 and 2 emissions targets

Nationwide is targeting to reduce its absolute scope 1 emissions by at least 42% between 2021/22¹¹ and 2030, and continually sourcing 100% renewable electricity for its scope 2 emissions to 2030.

We have been reducing the emissions of our business operations (scopes 1 and 2), over which we have full control, since 2012. In April 2020, we achieved carbon neutrality — no net release of carbon dioxide into the atmosphere — for our scope 1 and 2 emissions. Carbon neutrality can be achieved by reducing or eliminating emissions, or through funding equivalent carbon savings through renewable or offsetting projects. 100% of our scope 2 energy is powered by renewable sources through a solar Power Purchase Agreement (PPA), which produces emissions-free energy from its operation, and the use of green tariff electricity. We currently offset our scope 1 emissions through a pre-purchase agreement, which is made up of carbon avoidance and removal projects, such as community reforestation, validated and verified under both the Verified Carbon Standard (VCS) and the Climate, Community and Biodiversity Standard (CCB).

The SBTi's 1.5°C-aligned ACA was used to calculate our scope 1 intermediate target and, as supported by the SBTi, we have used the market-based approach¹² to set a scope 2 renewable electricity target. Therefore, for scope 2, Nationwide has set a target which commits us to continually sourcing 100% renewable electricity through to 2030.

Our scope 1 and 2 targets are as follows:

Scope 1 target set using Absolute Contraction Approach 1.5°C scenario, to reduce absolute emissions		
Absolute emissions at 2021/22 base year (tCO ₂ e/y)*	Absolute emissions at 2030 target year (tCO ₂ e/y)	Percentage reduction in absolute emissions to 2030
3,002 ¹³	1,741	42%
Scope 2 target using market-based approach to continually source 100% renewable electricity		
Percentage renewable electricity sourced at 2021/22 base year (%)	Percentage renewable electricity sourced at 2030 target year (%)	
100%	100%	

Our approach to carbon offsets

Since 2020, we have used offsets to neutralise our scope 1 business operation emissions. The offsets Nationwide purchases are issued under the VCS and CCB.

Nationwide will target a reduction in absolute emissions across our scope 1 business operations of at least 42% by 2030. Until 2030, we will continue to use offsets to neutralise any scope 1 emissions that are not yet feasible to eliminate. **However, the use of offsets does not form part of our intermediate science-based target.**

Scope 3 upstream target

Nationwide is targeting to reduce its absolute scope 3 upstream emissions, across categories 1, 2 and 4, by at least 42% between 2021 and 2030.

The SBTi's 1.5°C-aligned ACA was used to calculate our scope 3 upstream intermediate target across categories 1 (purchased goods and services), 2 (capital goods), and 4 (upstream transportation and distribution). We have made the decision not to include other upstream categories at this stage as most of our upstream emissions (around 92%¹⁴) result from our spending across categories 1, 2 and 4. This aligns to the SBTi's principle to cover at least two-thirds of emissions. Our target for scope 3 upstream emissions covers 100% of our spend, and hence 100% of our emissions, across categories 1, 2 and 4.

Our scope 3 upstream target is as follows:

Scope 3 upstream target set using Absolute Contraction Approach 1.5°C scenario, to reduce absolute emissions		
Absolute emissions at 2021 base year (tCO ₂ e/y)*	Absolute emissions at 2030 target year (tCO ₂ e/y)	Percentage reduction in absolute emissions to 2030
230,000	133,000	42%

¹¹ Baseline emissions for scope 1 and 2 are for financial year ended 4 April 2022.

¹² A market-based approach allows flexibility to utilise market-based measures such as renewable energy to achieve net-zero. Conversely, a location-based approach doesn't factor in these measures and considers operational absolute emissions only.

¹³ Scope 1 emissions are broken down into: Travel 82 tCO₂e/y, Diesel generation 7 tCO₂e/y, Gas 2,913 tCO₂e/y.

¹⁴ Based on our 2019/2020 upstream emissions as disclosed in our 2021 CDP response.

* Baseline emissions for scope 1 are for financial year ended 4 April 2022. Baseline emissions for scope 3 are for calendar year ended 31 December 2021. These emissions have been calculated using the methodology of the Partnership of Carbon Accounting Financials (PCAF). Further details on our approach can be found in Data dependencies and limitations on page 21.



Scope 3 downstream category 15 (investments) targets

Nationwide is targeting to reduce its scope 3 downstream category 15 (investments) emissions intensity for its mortgage portfolio by at least 44%, its RSL portfolio by at least 45%, and its CRE portfolio by at least 46%, between 2021 and 2030.

Scope 3 downstream category 15 (investments) emissions account for around 93% of our total carbon footprint, with the emissions from our residential mortgage lending (owner-occupier and buy to let) making up the majority (around 80%). Our highly ambitious targets for residential mortgages, RSL, and CRE account for 100% coverage of these portfolios. As our CRE portfolio is approximately 55% residential property, our target has been aligned to the residential property asset class within the commercial real estate sector, as part of the SBTi methodology.

Our scope 3 downstream category 15 (investments) emissions intensity reductions have been calculated using the SBTi's SDA, which is aligned to the IEA ETP B2DS. The SDA tracks a reduction in emissions intensity, calculated using the methodology of the Partnership of Carbon Accounting Financials (PCAF), whereby carbon emissions are calculated per unit of property floor area.

Due to having very limited control over the practical measures needed to reduce emissions from UK homes, as well as limited ability to influence government policy relating to the UK housing stock, and action by wider society, we consider it highly unlikely that, at present, our scope 3 downstream category 15 (investments) emissions targets (for residential mortgages, RSL and CRE) can be achieved.

Target methodology and baseline assurance

Our intermediate (near term, by 2030) science-based targets for scope 1, scope 2, scope 3 upstream, and scope 3 downstream category 15 (investments), including mortgages, CRE and RSL portfolios, have been set in line with the methodologies of the SBTi. Our intermediate targets have been set using 2021 emissions data as our baseline. Our baseline emissions were

independently assured by Ernst and Young LLP (EY) and disclosed within our Climate-related Financial Disclosures 2022¹⁵. Information on how our baseline emissions have been calculated can be found in our Climate-related Financial Disclosures 2022. Details on the assurance activity performed by EY can be found in the Emissions Assurance Report 2022¹⁶.

Our scope 3 downstream category 15 (investments) emissions intensity targets are as follows:

Scope 3 downstream investment (category 15) targets set using Sectoral Decarbonisation Approach well-below 2°C scenario: IEA ETP B2DS (world), to reduce emissions intensity				
	Financed emissions at 2021 base year (tCO ₂ e/y)*	Emissions intensity at 2021 base year (kgCO ₂ e/m ² /y)	Emissions intensity at 2030 target year (kgCO ₂ e/m ² /y)	Percentage reduction in emissions intensity to 2030
Mortgages	2,795,000	19	11	44%
Registered social landlords (RSL)	346,000	22	12	45%
Commercial real estate (CRE)	96,000	46	25	46%

¹⁵ [Climate-related Financial Disclosures 2022 | Nationwide](#)

¹⁶ [EY Emissions assurance report 2022 | Nationwide](#)

* Baseline emissions for scope 3 are for calendar year ended 31 December 2021. These emissions have been calculated using the methodology of the [Partnership of Carbon Accounting Financials \(PCAF\)](#). Further details on our approach can be found in Data dependencies and limitations on page 21.



Actions – scopes 1 and 2

Scope 1

Target: To reduce our absolute scope 1 emissions by at least 42% between 2021/22 and 2030.

Expectation to achieve our target: High, due to high levels of control relating to our operational energy usage, and actions underway to remove gas from our buildings.

Achieving our scope 1 emissions reduction target through the removal of gas usage within our premises

The use of gas in our buildings accounts for approximately 97% of our scope 1 emissions. Branches account for approximately 8% of our scope 1 emissions, with admin sites and data centres accounting for approximately 82% and 7% respectively.

It is Nationwide's ambition that, by the end of 2022, we will have removed the gas from over 75% of our branches and, by 2030 at the latest, 100% of gas will be removed from the branch network, replacing it with electrical solutions. In addition, a project is underway to optimise the size and composition of our admin sites and data centres, for our future needs given the evolving ways of working¹⁷. This will run alongside a project to explore the removal of gas from our admin sites and data centres, or the move to sites that are either gas-free or which use less gas. Combined, these initiatives should enable us to make our business operations gas-free by 2030.

Nationwide will continue to neutralise our remaining scope 1 emissions, that are not yet feasible to eliminate, through offsets to achieve carbon neutrality. The use of offsets does not form part of our net-zero strategy and it remains our focus to reduce our absolute scope 1 emissions as much as feasible. The removal of gas usage from our buildings will significantly reduce our reliance on carbon offsets.

Greening our business travel from our fleet vehicles, and exploring further emissions reduction actions

Nationwide is also considering how we can reduce the scope 1 emissions which result from business travel from our fleet vehicles. Business travel through fleet vehicles accounts for around 3% of our total scope 1 emissions.

Since 2019, Nationwide no longer offers employees the option to join the company car scheme — eligible employees instead receive a company car allowance. By 2026, we will no longer be providing any fleet vehicles; but are instead exploring the introduction of an electric vehicle salary sacrifice scheme available to all employees.

We are also exploring options to remove diesel usage in our backup generators. Whilst Nationwide has control over our backup power sources, there are currently limited alternatives to diesel generators to provide the power needed in case of an outage. However, the impact on reducing our scope 1 emissions

will be very limited as diesel use accounts for less than 0.5% of total scope 1 emissions.

Supporting our colleagues to go greener

Whilst not a key part of the Society's strategy to progress towards our scope 1 science-based target, we recognise that our employees have a role to play in tackling climate change. Formed of over 2000 employees, Nationwide's Green Network leads the Society's internal conversations on green and sustainability, to build and maintain a 'big picture' of all the green activity connected to the Society and our colleagues.

In 2022, Nationwide launched an all-colleague climate change e-learning module, which introduces climate change, climate change risk, and the UK's net-zero ambition. Nationwide intends to enhance this climate change training suite to further help colleagues understand the implications of climate change, including Nationwide's net-zero ambition and its science-based targets.



¹⁷ Nationwide recognises that homeworking emissions, which would fall into scope 3, may increase as a result of this activity. These emissions are currently excluded from our emissions calculations due to the data limitations outlined in the Data dependencies and limitations section on page 21.



Levers to support achieving our scope 1 target are:

Target: To reduce absolute scope 1 emissions by at least 42% by 2030 from a 2021/22 base year.			
Levers	Control indicator*	Outcome	Impact indicator*
Removal of gas from our branches Removal of gas from 75% of our branches by the end of 2022 at the latest. Removal of gas from 100% of our branches by 2030 at the latest.	Full control	Around an 8% reduction in scope 1 emissions.	Medium impact
Removal of gas from, or moving to gas-free, admin sites and data centres by 2030	Full control	Up to 82% reduction in scope 1 emissions by removing gas from admin sites. Up to 7% reduction in scope 1 emissions by removing gas from data centres.	High impact
Removal of fleet vehicles attributable to our business travel Removal of fleet vehicles through closure of the company car scheme by 2026. Exploring the introduction of an Electric Vehicle (EV) salary sacrifice scheme. Continue to encourage colleagues to purchase more energy efficient vehicles.	Full control	Around a 3% reduction in scope 1 emissions.	Low impact
If viable alternatives are identified, and implemented, to remove diesel used in our back up generators	Partial control**	Less than 0.5% reduction in scope 1 emissions.	Low impact



* Control and impact indicators indicative of control and impact on individual target.

** Partial control due to lack of viable alternatives on the market.



Background and context

Intermediate science-based targets

Actions – scope 1 and 2

Potential actions – scope 3

Governance

Scope 2

Target: To continually source 100% renewable electricity to 2030.

Expectation to achieve our target: High, due to high levels of control regarding our renewable electricity usage.

Achieving our scope 2 renewable energy target through continually sourcing green electricity

Approximately 65% of our energy is supplied from a 50MWh solar farm in the UK, through a Power Purchase Agreement (PPA). On-site electricity is also supported by Solar Photovoltaic (PV) panels on the roof of our Head Office, Nationwide House, in Swindon. The remainder (approximately 35%) is sourced through a 100% green electricity tariff (wind, solar and hydro) that has a renewable energy guarantee of origin (REGO) certificate. Using renewable electricity through a solar PPA and green tariff enables us to neutralise our scope 2 emissions through a market-based approach, as supported by the SBTi methodology.

We are committed to continuing to source renewable energy to help us achieve this target, and to ensure we continue to remain carbon neutral for our business operations.

Levers to support achieving our scope 2 target are:

Target: To continue to annually source 100% renewable scope 2 electricity through to 2030.			
Levers	Control indicator*	Outcome	Impact indicator*
Continue to acquire renewable electricity through a Power Purchase Agreement (PPA) and through our on-site solar panels at Nationwide House	Full control	Neutralisation of around 65% of our scope 2 emissions.	High impact
Continue to purchase green tariff electricity	Full control	Neutralisation of around 35% of our scope 2 emissions.	High impact



* Control and impact indicators indicative of control and impact on individual target.



Potential actions – scope 3 upstream

Target: To reduce our absolute scope 3 upstream emissions, across categories 1, 2 and 4, by at least 42% between 2021 and 2030.

Expectation to achieve our target: Medium, due to partial levels of control and influence over our suppliers and their ambitions to reduce emissions.

Achieving our scope 3 upstream emissions reduction target through supplier engagement

We control our procurement processes and purchasing decisions, and are keen to work with our suppliers to achieve our desired outcomes. As part of our Third Party Code of Practice, we require all large suppliers¹⁸ to set and disclose emissions reduction targets (for scope 1 and 2 as a minimum), and we consider environmental factors in our procurement risk assessments. If a supplier fails to respond to our requirement for them to set and disclose emissions reduction targets, we will conduct an internal investigation. In cases where the supplier does not meet our requirements, they will be asked to address the gaps within an agreed time period, and agree to a sustainability schedule being added to their contract. Should they refuse, approval from our Chief Procurement Officer will be required, should we wish to continue using the supplier. Alternatively a different supplier may be selected.

We also believe companies that are more ESG (Environmental, Social and Governance)-focused will be more likely to improve their sustainability credentials, reduce their emissions and contribute to us achieving our scope 3 upstream target. In 2021, Nationwide signed up to EcoVadis (a sustainability ratings provider). EcoVadis assesses the ESG credentials of a business by collecting various sustainability details, including information on carbon emissions

and net-zero targets. Through accessing our supplier's data on the EcoVadis platform, Nationwide is better able to understand individual suppliers' impacts on our scope 3 upstream target.

Nationwide has invited over 200 of our suppliers to join EcoVadis. Some were able to share their existing scorecards, with the remainder requested to complete one. Using the information on the platform, Nationwide is able to understand better a supplier's impact on the Society's scope 3 upstream target. We are targeting 60% of our invited suppliers and our top 20 suppliers (which account for around 50% of spend) to join the platform by the end of 2022. We aim for our suppliers to be rated 'Good' by EcoVadis. Whilst a 'Good' or above outcome does not necessitate alignment to net-zero, we expect those suppliers who score highly to have stronger ESG credentials, and hence be more focused on reducing their emissions. Further medium-term targets will be developed.

In addition, we are aiming for suppliers who account for two-thirds of our scope 3 upstream emissions to set and disclose targets aligned to net-zero by no later than 2030. Factoring these considerations into the process early will ensure sustainability credentials and net-zero ambitions (and therefore the impact on our scope 3 upstream target) are front of mind when deciding supplier relationships.

We have introduced a 10% minimum weighting for sustainability actions as part of our supplier tendering process. This is to ensure we are evaluating suppliers based on the Society's values and in line with our sustainability commitments. We have a set of sustainability questions, including whether the company has set a science-based target in line with industry-standard methodology (such as the methodologies of the SBTi). Suppliers implementing activity to achieve their science-based targets will have a direct impact on the reduction of emissions and will support the achievement of our scope 3 upstream target.

Nationwide recognises the shift in ways of working caused by Covid-19 and has embraced a hybrid working model, where colleagues have the flexibility to choose how and where they work – be it at home, in the office, or a mixture of the two. We remain aware that our emissions may vary over the coming years as working behaviours adapt. Homeworking emissions are currently excluded from our emissions data due to the challenges with their calculation. For more information, please see Data dependencies and limitations on page 21.

Considering sustainability impacts in our procurement decisions

In 2021, responsible business heat maps were included within our templates used for procurement planning. This involves assessing the relevance (potential impact or opportunity), and leverage, Nationwide has within a category with respect to climate change. Supplier emissions attributable to our supply chain are scaled based on the amount we spend as a percentage of the supplier's revenue. Whilst we can control our spend, we may see volatility in emissions due to factors outside of our control, such as fluctuations in a supplier's emissions or revenue.

Nationwide employees are encouraged to consider the environmental impact of goods and services bought, and third parties used, through our Responsible Purchasing Principles. Nationwide is also aiming for all colleagues who are actively involved in procurement decisions to be aware of our Third Party Code of Practice and ESG impacts, to promote better purchasing decisions that contribute to the achievement of our scope 3 upstream target.

¹⁸ Suppliers with over 250 employees.



Potential levers to support achieving our scope 3 upstream target are:

Target: To reduce absolute scope 3 upstream emissions by at least 42% by 2030 from a 2021 base year.			
Levers	Control indicator*	Outcome	Impact indicator*
Ensure a proportion of our suppliers join EcoVadis and share their ESG credentials Request our top 20 suppliers (who account for around 50% of spend) to sign up to the service in 2022. Ensure 60% of invited suppliers join EcoVadis by the end of 2022.	Partial control	Increased supplier awareness and focus on ESG is likely to result in more action to reduce emissions and contribute to us achieving our scope 3 upstream target.	Medium impact
Encourage our suppliers who account for two-thirds of our scope 3 upstream emissions to set, disclose and achieve their own science-based targets by no later than 2030	Partial control	Encouraging those suppliers who account for two-thirds of our emissions to set, disclose, and track against, science-based emissions reduction targets, should have an impact on reducing Nationwide's upstream scope 3 emissions.	High impact
Continue to increase colleague awareness of the impact of procurement decisions on our ESG strategy	Full control	By improving colleague understanding of our ESG strategy we can encourage purchasing decisions that consider the ESG credentials of our suppliers.	Low impact



* Control and impact indicator indicative of control and impact on individual target.



Potential actions – scope 3 mortgages

Target: To reduce our scope 3 downstream category 15 (investments) emissions intensity for our mortgage portfolio by at least 44%, between 2021 and 2030.

Expectation to achieve our target: Very low, due to very limited levels of control and influence over government policy, and action by wider society including our members, to green UK homes.

Achieving our scope 3 residential mortgage emissions intensity reduction target requires both member and cross-industry action, led by the Government

The emissions associated with our residential mortgage lending account for the majority (around 80%) of our total emissions. We have focused our science-based target setting activity on developing an understanding of the potential actions needed to help us achieve our residential mortgage target and reduce our residential mortgage emissions intensity in line with a net-zero pathway. To calculate the potential emissions intensity reduction opportunity for residential mortgages, out to 2030, we developed a model that estimates the impacts of key carbon reducing activities on UK housing. Our residential mortgage transition model applies several policy assumptions to estimate emissions reductions - these include:

- **New builds and portfolio evolution** — 300,000 new homes in England are built annually by 2030¹⁹
- **Retrofitting** — by 2030, around 1.7 million homes will be retrofitted per year²⁰ through measures such as loft and wall insulation, more efficient glazing, or the installation of solar panels
- **Heat and Buildings Strategy** — the Future Home Standard is in place from 2025 requiring all new-build homes to be fitted with low carbon heating, and high levels of energy efficiency. In

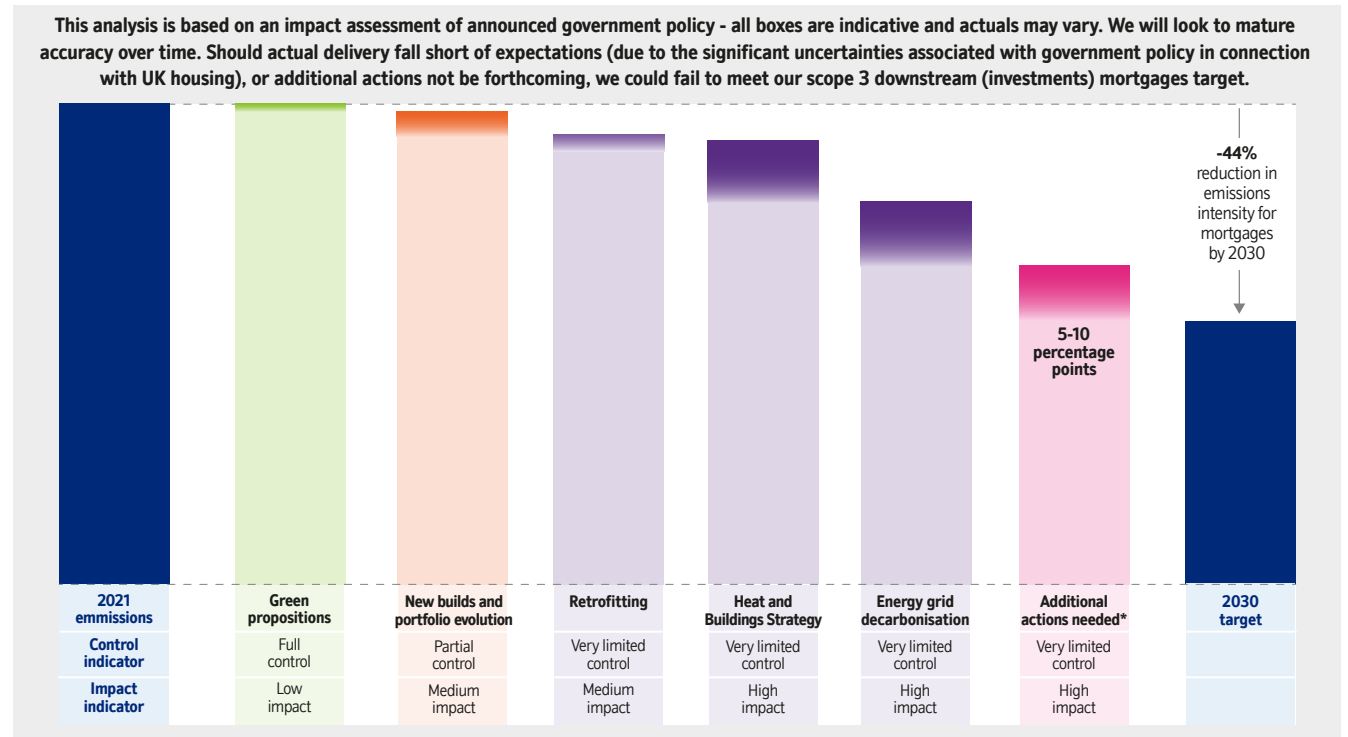
addition, 600,000 heat pumps are installed per year at 2030 in line with the commitments of the Government's Heat and Buildings Strategy²¹

- **Energy grid decarbonisation** — the energy grid is decarbonised by 2035 in line with the Government target announced in October 2021.

These assumptions are based on policy announcements made by the Government, and expectations of the Climate Change

Committee (CCC)²² who report²³ to Parliament annually on its assessment of the Government's performance in combatting climate change. If the delivery of government policy falls short of our assumptions, or in the absence of a strong homeowner response, there will be a need for additional government-led policy actions. We will monitor the delivery of these policies to inform our progress towards our highly ambitious scope 3 downstream (investments) mortgages target.

The output of our modelling is shown below.



¹⁹ Assumption in line with the commitments of the [Government's Heat and Buildings Strategy's](#) aim to meet this target by mid-2020's. However, we have assumed a slight delay to the timings due to the impacts of the pandemic.

²⁰ We have aligned our model to a retrofit scenario mid-way between that seen historically (using publicly available BEIS data) and the ask of the [Climate Change Committee's \(CCC's\) publication "UK housing: Fit for the future?"](#) which depicts a net-zero aligned scenario and an aggressive retrofit plan. We believe this assumption is reasonable due to the unclear nature of policy action in this decade.

²¹ Despite the [Government's Heat and Buildings Strategy](#) aiming to deploy 600,000 heat pumps per year by 2028 we modelled a more prudent uptake, achieving 600,000 installations per year by 2030.

²² The CCC measures the Government's actions against the national and international legal obligations to which the UK is committed.

²³ Latest report: <https://www.theccc.org.uk/wp-content/uploads/2022/06/Progress-in-reducing-emissions-2022-Report-to-Parliament.pdf>

* Additional government-led policy actions will be needed to reduce mortgage emissions intensity, across UK homes, in line with a 1.5°C pathway.



Reducing our scope 3 residential mortgage emissions intensity by 44% by the end of 2030, from a 2021 baseline, will be challenging as there are very limited levers in our control that we could use to drive a reduction in emissions intensity. Those within our control²⁴, partially in our control²⁵, or with very limited control²⁶ are highlighted on the previous page.

With the UK having the oldest homes in Europe²⁷ the most impactful action to reducing UK home emissions is through the delivery of government policy, for example, through the actions outlined in the Government's Heat and Buildings Strategy and the decarbonisation of the electricity grid. Current domestic Minimum Energy Efficiency Standard regulations require domestic privately rented properties to have an EPC rating of E or better. The Clean Growth Strategy 2017, set a goal for as many private rented homes as possible to be upgraded to EPC band C or above by 2030. Implementing the Department for Business, Energy and Industrial Strategy's (BEIS) consultation recommendations for the privately rented sector, which aims to upgrade all privately rented properties in England and Wales to EPC C or above by 2028, will support the reduction in UK home emissions. Whilst these requirements will only impact our buy to let mortgages, subject to timing and implementation, the effect of these recommendations will be supportive of progress towards our scope 3 residential mortgage emissions intensity reduction target.

The Future Homes Standard will also support the reduction in UK home emissions. It aims to ensure all new builds are built to the highest energy efficiency standards from 2025. With new builds tending to be more energy efficient than existing properties, emissions intensity is expected to naturally improve through time. However, the reduction in emissions intensity due to new build growth is expected to be slow. The effects of the Future Home Standard and BEIS's consultation have been incorporated into our portfolio evolution modelling.

Retrofitting and green finance propositions will also support the

reduction in emissions. Whilst the CCC's Sixth Carbon Budget depicts an aggressive retrofit plan out to 2050 to achieve net-zero, historical data from BEIS suggests a more modest uptake of retrofitting measures to-date. With the Government's Heat and Buildings strategy focused on low-carbon heating solutions, such as heat pumps, there is little current policy in place to encourage the uptake of other retrofitting solutions. Therefore, we expect a low impact on emissions intensity reduction from retrofitting. Whilst we will continue to develop green finance propositions to help support our members and customers make green home improvements, the uptake of these propositions has been low to-date. Therefore, the potential impact on emissions intensity reduction out to 2030 is expected to be minimal.

As a mutual, and as a member of the Financing a Just Transition Alliance, we also believe in supporting a just transition and ensuring that the most vulnerable in society are not disadvantaged, and have access to housing, as we transition to a net-zero economy. For this reason, we do not intend to negatively select against less energy efficient mortgage properties and hence the composition of our mortgage book is likely to be broadly representative of the UK housing stock.



We have adopted five principles that help articulate our commitment to progressing towards net-zero with a just transition in mind.

Our five principles are as follows:

1. **We will prioritise the principles of a just transition whilst aiming to achieve net-zero by 2050, led by our social purpose, to reduce the risk of mortgage prisoners in energy-inefficient properties**
2. **We will continue to innovate and develop cost-effective green finance propositions for those who want and can afford them**
3. **We will continue to drive member engagement, awareness, and education around the benefits of greening homes**
4. **We will not compromise our credit quality by lowering our underwriting standards to support green lending**
5. **Any advice provided in relation to retrofit activity will focus on solutions likely to deliver good consumer outcomes.**

Even if members retrofit their homes in line with expectations, and the Government delivers on its policy ambitions, there will still be a gap in the emissions intensity reduction needed to achieve our highly ambitious science-based target by 2030. Our analysis predicts that additional actions are needed to close the gap. Based on our sensitivity analysis (described on page 15) we believe it highly unlikely that our intermediate target for mortgages will be achieved.

²⁴ In our control: expanding our green finance propositions. More information on our green finance propositions is on page 16.

²⁵ Partially in our control: growth and evolution of our book (as, to support of a just transition, we are consciously choosing not to introduce a restrictive lending policy).

²⁶ Of very limited control: members retrofitting their homes, delivery of current and future government policy, execution of the Government's plans to decarbonise the UK's electricity grid.

²⁷ [The Housing Stock of the United Kingdom by BRE Trust](#)



We conducted sensitivity analysis on the levers to understand the potential impact on the additional actions required

Given the uncertainty around future policy and consumer take-up, we have undertaken a sensitivity analysis across the levers to understand the impact on the emissions reduction required from additional actions. This analysis may help inform where additional actions might be focused best.

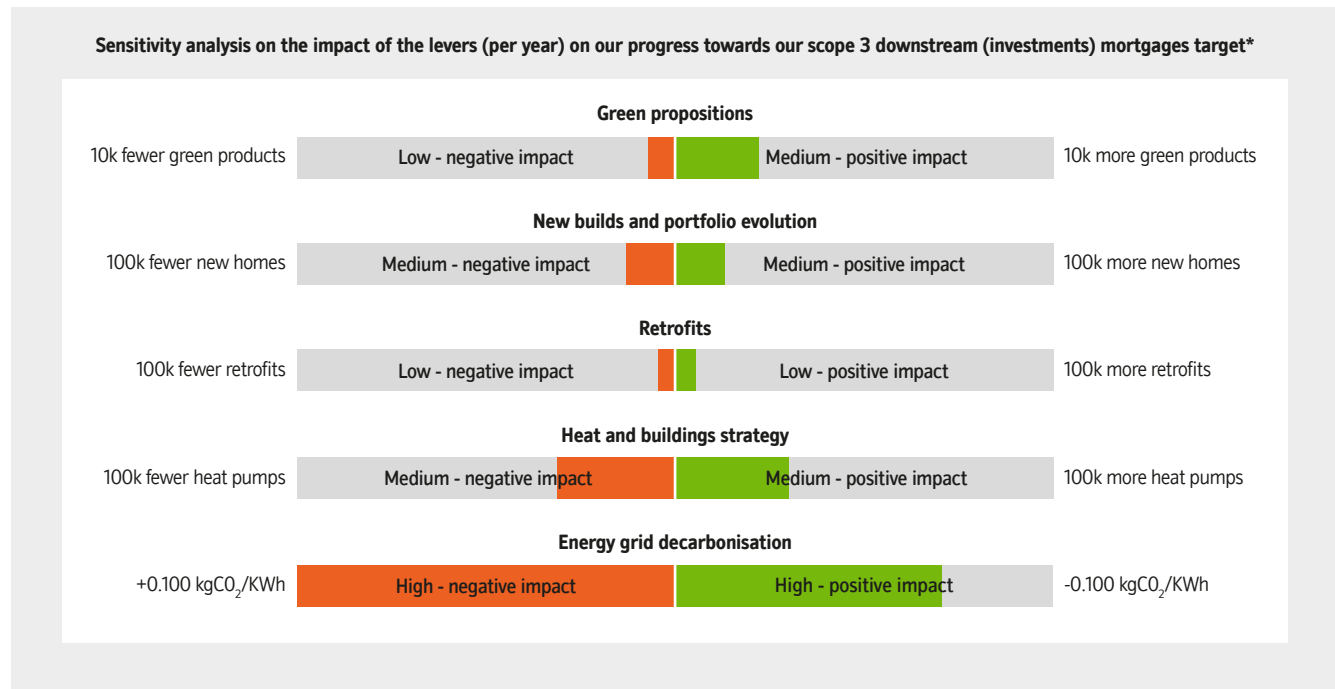
Our sensitivity analysis considered the following:

- Green propositions** – Our modelling scales current green product uptake with national retrofitting activity which increases over time. We have assumed that each green product sold results in retrofitting activity that leads to a 10-15 increase in Standard Assessment Procedure (SAP) points, and hence a one band increase in a homes Energy Performance Certificate (EPC) rating. Our analysis explored a variation of +/- 10,000 green products per year (floored at zero – hence the asymmetrical result).
- New builds and portfolio evolution** – Whilst the Government has a target to build 300,000 new homes per year, current levels are much lower, with a glidepath assumed from around 204,000 in 2021²⁸ to 300,000 by 2030. Our analysis explored a variation of +/- 100,000 homes from the 300,000 new homes per year target.
- Retrofitting** – Whilst government policy will drive some retrofitting activity, we assume a mid-way scenario between BEIS’s historical outturn (around 400,000 homes per year) and the CCC’s recommendations (3 million homes by 2030), resulting in around 1.7 million homes per year retrofitting with a one band EPC increase. Our analysis explored a variation of +/- 100,000 retrofits per year.
- Heat and Buildings Strategy** – With the strategy setting out targets for the installation of 600,000 heat pumps per year by 2028, our modelling assumes 54,000 heat pumps installations initially (up from 37,000 in 2020), scaling to 600,000 by 2030. Our analysis explored a variation of +/- 100,000 installations per year.

- Energy grid decarbonisation** – The CCC’s recommendations were used to model the impact of decarbonisation of the electricity grid by 2050²⁹. In 2021, as part of the CCC’s Sixth Carbon Budget³⁰, the Government brought forward the requirement to decarbonise the grid to 2035, significantly reducing the emissions of UK homes. Our modelling uses the assumptions for electricity supply carbon intensity, which reduces from 0.195 kgCO₂/KWh in 2020 to 0.068 kgCO₂/KWh in 2030. Our analysis explored a variation of +/- 0.100 kgCO₂/KWh per year (floored at zero – hence the asymmetrical result).

Despite these actions, and the variations explored in our sensitivity analysis, additional measures and government-led actions will still be required for Nationwide and wider society to achieve net-zero mortgage targets. This will require a significant level of influencing, focused on new government policy and strategies to support UK homeowners. Information on the actions Nationwide has taken to influence the Government is on page 17. The government-led additional policy actions required are the balance (around 5-10 percentage points) of our 44% emissions intensity reduction target for mortgages after all other known measures have been delivered. With these challenges existing, it is unlikely that further emissions intensity reduction from UK homes will be possible without stronger policy action, led by the Government, and action by wider society.

A summary of our sensitivity analysis is below:



²⁸ Assuming NHBC registrations ([nhbc-annual-registration-statistics-2021-data-booklet.pdf](https://www.nhbc.org.uk/annual-registration-statistics-2021-data-booklet.pdf)) account for approximately 75% of total UK new build homes.

²⁹ UK housing: Fit for the future? - Climate Change Committee ([theccc.org.uk](https://www.theccc.org.uk))

³⁰ The Sixth Carbon Budget: The UK's path to Net-Zero ([theccc.org.uk](https://www.theccc.org.uk))

* Low implies less than 1% impact, Medium implies 1-5% impact, High implies greater than 5% impact.



We continue to explore opportunities to accelerate emissions reductions and are part of the pioneering Greenwich Thermal Infrastructure Motivating Electrification (Greenwich TIME) project. Funded by the Heat Pump Ready Programme, which is part of the BEIS's Net Zero Innovation Portfolio, the project aims to assess the feasibility of switching gas-heated, owner-occupied homes in high density areas to low carbon heating in the form of networked ground source heat pumps.

We are committed to continuing to offer green finance propositions

As something within our control, Nationwide is committed to continuing to offer green finance propositions to support members with energy efficient home improvements, emphasising the benefits of warm, affordable, and healthy homes. In 2020, Nationwide launched our £1 billion green lending fund which supports the development of finance propositions to help green the UK's homes. It enables us to offer our members, and The Mortgage Works customers, preferential rate mortgages and additional borrowing to support green home improvements (through our Green Additional Borrowing and Green Further Advance products), as well as incentivising the purchase of higher energy efficient properties (through our Green Reward mortgage which offers cashback to members purchasing a more energy efficient home rated EPC A or high B).

Whilst we are committed to continuing to provide green finance propositions which support our members and customers in the greening of their homes, we recognise that this alone is not enough to achieve our scope 3 downstream (investments) mortgages target. Uptake of our green mortgage propositions has been low to-date, as detailed below, and hence the impact on our target and overall emissions reduction across our residential mortgage portfolio, from our green propositions, is expected to be low.

Green Reward mortgage	Year to 4 April 2022
Number of completed applications	2,234
Total value of cashback released (£m)	0.6
Total value of completed applications (£m)	529.9

	Green Further Advance mortgage – year to 4 April 2022	Green Additional Borrowing mortgage – year to 4 April 2022	Green Additional Borrowing mortgage – year to 4 April 2021
Number of applications	27	765	419
Number of completed applications	15	665	345
Total value of applications (£m)	0.2	12.8	6.6
Total value of completed applications (£m)	0.1	11.1	5.3

Our initiatives that have supported greening UK homes

In 2021, we engaged with 70,000 The Mortgage Works customers helping to increase their awareness of the need for an EPC for their property. This pool of customers (which accounted for around 33% of our buy to let portfolio) did not appear to have a valid EPC. The aim of the activity was to remind our customers of current regulation whilst educating them about energy efficiency, referencing key government tools and guides.

In October 2021, through our partner MakeMyHouseGreen, we launched our solar panel pilot. The pilot supported a small number (under 300) of consumers in understanding their options and buying solar panels, with installation provided by a trusted supply chain.

Understanding the implications of greening our members' and customers' homes

We commissioned research into the retrofitting options for UK homes to understand the potential barriers and solutions that could help decarbonise the UK's homes and transition society towards net-zero. The work, conducted by Element Energy and concluded in 2022, helps articulate the steps required to achieve this, and the ask on government to do more.

Nationwide's research indicates that around 90% of homes in the UK rely on fossil fuels for heating (either through use of gas or oil), with the vast majority (around 83%) using a gas boiler. About 53% of homes have insulated walls, and of those homes that are uninsulated, only around 10% are easy to treat. Comparatively, less than half (around 39%) of homes have insulated lofts, but of those that are uninsulated only around 31% are easy to treat. A very small proportion of homes (about 5%) have insulated floors.

These statistics indicate that retrofitting homes will prove a significant challenge. Our research highlighted a number of barriers to uptake, with government-led interventions necessary to tackle them, including:

- **Financial** – addressing the upfront cost of low-carbon measures and consumer payback period and providing increased government funding to support private investment by homeowners. The Government's Heat and Buildings Strategy, and its associated heat pump grants, goes some way to support this.
- **Informational** – enhancing homeowner education to increase consumer awareness of the need to act, and how they can make the transition to net-zero by 2050.
- **Supply chain and innovation** – addressing the shortage of skilled workers by upskilling and increasing the workforce in low-carbon technologies (particularly heat pumps) and innovating more palatable solutions.
- **Long-term policy** – national and local cross-government plans aligned to net-zero to balance both the incentive to act and the disincentives for inaction, such that there is a compelling reason to overcome the disruption and complexities of installation, and changes required, within the home to accommodate low-carbon solutions.
- **Regulation and standards** – ensuring existing and future standards are met and compliance issues are appropriately addressed.



Our research identified opportunities that, if implemented, could improve the rate at which UK homes are decarbonised:

- **Building net-zero compatible new builds now** – doing so could be up to five times cheaper than retrofitting an existing home³¹
- **Targeting homes where heat pumps are easier to install, cost-effective and suitable** – typically requiring the home to be well-insulated
- **Prioritising government funding for those in fuel poor³² and low-income households** – supporting a just transition and those who may find energy efficient solutions unaffordable
- **Accelerating the decarbonisation of the electricity grid**
- **Focusing on the benefits that come from greening the home to encourage uptake of retrofitting solutions** – such as increased warmth and being more affordable to heat.

These opportunities align to the work we have done as part of the Nationwide-convened Green Homes Action Group, which was formed in 2021. The group is made up of 15 cross-industry organisations and leaders³³ representing the housing, construction, financial services, charity, and energy sectors. The group meets approximately every two months and aims to address some of the barriers to greener homes.

The group called for the Government to do more through seven policy asks to help encourage a more comprehensive national retrofit strategy:

- Introduce a public information campaign that inspires
- Make it fairly financed
- Regulate green retrofitting
- Create new jobs in green retrofitting
- Make property fit for the future
- Support green homes with green power
- Build green homes for the future now.

We will continue to engage with our members and customers, through our branch network, member communications, and advertising, on the benefits of greening their homes as well as influencing the need for a government-led National Retrofit Strategy, through the Green Homes Action Group.

With the Government's Heat and Buildings Strategy having a larger focus on low-carbon heating technologies (through the Boiler Upgrade Scheme), the skills required to install these solutions, and decarbonise the grid, means there is less support for other retrofitting measures. Therefore, the uptake of retrofitting measures is expected to have a low impact on emissions intensity reduction by 2030. However, we recognise the current energy crisis may increase consumer uptake of retrofitting solutions due to the increased energy prices. We will continue to monitor the

impact of this on our ability to achieve our targets.

Nationwide will continue to engage with specialist organisations to share knowledge, increasing our expertise and understanding of the areas where we can make the most impact, and support others' understanding of the impacts of climate change on Nationwide. Nationwide partners, and plays an active role, with a number of key organisations' working groups including, PCAF, GFANZ, the Climate Financial Risk Forum, and UK Finance.

Details of the research Nationwide conducted with Element Energy, and a full list of our partnerships, can be found in our Climate-related Financial Disclosures 2022.

Detail on the potential levers to support achieving our scope 3 downstream category 15 (investments) mortgages target are:

Target: To reduce mortgage emissions by at least 44% per square metre by 2030 from a 2021 base year.			
Levers	Control indicator*	Outcome^	Impact indicator*
Continue to provide green finance propositions which support cost of living and energy efficient home improvements	Full control	Low potential reduction in scope 3 mortgage emissions intensity.	Low impact
Continue to grow and evolve our book, in line with UK housing stock	Partial control	Medium potential reduction in scope 3 mortgage emissions intensity.	Medium impact
The impact of retrofitting around 1.7 million UK homes per year	Very limited control	Medium potential reduction in scope 3 mortgage emissions intensity.	Medium impact
The impact of the Government delivering against its Heat and Buildings Strategy	Very limited control	High potential reduction in scope 3 mortgage emissions intensity.	High impact
The Government delivering on its ambition to decarbonise the electricity grid by 2035	Very limited control	High potential reduction in scope 3 mortgage emissions intensity.	High impact
Continue to campaign for further, government-led, action that supports additional emissions reduction from UK homes	Very limited control	Around a 5-10 percentage point gap in mortgage emissions intensity reduction remains, where further action is needed in order to achieve our target.	High impact

³¹ UK-housing-Fit-for-the-future-CCC-2019.pdf (theccc.org.uk)

³² Fuel poor homes represent those in which the homeowner is unable to afford to heat or cool their home to an adequate temperature.

³³ Green Homes Action Group members include Nationwide Building Society, Ashden, B&Q, E.ON, the Energy Savings Trust, the Federation of Master Builders, igloo, Metropolitan Thames Valley, National Energy Foundation, Energiesprong UK, Rockwool, Shelter, Switchd, Trustmark, and University College London.

* Control and impact indicator indicative of control and impact on individual target.

^ Low implies less than 1% impact, Medium implies 1-5% impact, High implies greater than 5% impact.



Potential actions – scope 3 RSL and CRE

Scope 3 – Registered social landlords

Target: To reduce our scope 3 downstream category 15 (investments) emissions intensity for our registered social landlord portfolio by at least 45%, between 2021 and 2030.

Expectation to achieve our target: Very low, due to very limited levels of control and influence over government policy and social landlords, to green social housing.

Achieving our scope 3 registered social landlord (RSL) emissions intensity reduction target requires enhanced regulation and government policy, supported by sustainable incentives

Nationwide continues to regularly engage with the housing associations we lend to, to understand and support them on their net-zero journey. We have developed a Sustainability Linked Loan (SLL) for registered social landlords. The SLL aims to reward housing associations with a rate reduction if they achieve agreed sustainability criteria across their portfolio. Suitably ambitious sustainable key performance indicators (KPIs) are agreed with the housing association upon loan completion and performance against the KPIs is monitored on an annual basis. Once the sustainable KPIs are met, and are evidenced by the housing association, Nationwide provides a rate reduction on the relevant loan.

It is our hope that the SLL will encourage housing associations to gradually improve the energy efficiency of their portfolio, and to make warmer, healthier homes. Nationwide will continue to discuss the benefits of our SLL with new customers, and as part of renewals, whilst continuing to explore the development of further sustainable social housing propositions. By continuing to work with our RSLs to understand their needs for sustainable social housing propositions, and by conducting annual due diligence on their ESG reporting (to understand how they are performing against their own ESG targets), we can help encourage the energy efficiency improvements of our social housing portfolio.

Achieving our target for RSL is subject to similar challenges to those of our residential mortgage portfolio, whereby it is significantly reliant on enhanced government policy and regulation, and action by the social housing sector, both of which are uncertain. Regulation and policy developments have the potential to have the largest impact on improving energy efficiency of social housing, for example, by influencing the Housing Associations Act. Additionally, through the nature of RSLs, it is their aim to provide homes that are safe, comfortable to live in, and as affordable as possible for tenants to run.

The social housing sector is more highly regulated than the owner-occupier and buy to let sectors. In the UK, social landlords are captured by the Minimum Energy Efficiency Standards where all tenanted homes must be EPC E or above (since April 2018 for new tenancies or renewals, and since April 2020 for continued tenancies). In Scotland, landlords are also subject to Energy Efficiency Standards for Social Housing, and Scottish Housing Quality Standards, which require all social housing property to meet certain energy efficient standards (since February 2019). The UK Government has indicated, as part of its Heat and Buildings Strategy, that it intends to set regulatory standards for social housing. Through the Clean Growth Strategy 2017,

governments in England, Scotland and Wales have set EPC targets for social housing (England aiming for EPC C by 2030, Scotland for EPC B by 2032, and Wales for EPC A by 2032). In 2022, the Government announced its Social Housing Decarbonisation Fund, where £800 million has been allocated to support the improvement of the energy performance of social housing in England. All measures are to be made by 30 June 2025. Additionally, in July 2022, the Government passed the Energy Company Obligation (ECO4) energy efficiency scheme, which aims to improve the least energy efficient homes of low income and vulnerable households.

There will also be an impact on our scope 3 downstream (investments) RSL target resulting from the Government's plans to decarbonise the electricity grid by 2035. As our RSL portfolio is made up of 100% residential properties, and despite the higher levels of energy efficiency regulation for social housing, if delivered, the decarbonisation of the electricity grid should realise a similar emissions intensity reduction to that for our residential mortgages. Further government-led policy, and action by social landlords, is needed to green UK social homes.

Potential levers to support achieving our scope 3 downstream (investments) category 15 RSL target are:

Target: To reduce registered social landlord emissions by at least 45% per square metre by 2030 from a 2021 base year.			
Levers	Control indicator*	Outcome	Impact indicator*
Continue to provide sustainable social housing propositions	Full control	Encouraging the uptake of our SLL and working with our social landlords on their plans to create more sustainable housing will help support the reduction in emissions intensity across our RSL portfolio.	Low impact
Enhanced regulatory and policy developments of social housing standards	Very limited control	Regulation and policy developments have the potential to have the largest impact on improving energy efficiency, and emissions intensity, of social housing.	High impact
The Government delivering on its ambition to decarbonise the electricity grid by 2035	Very limited control	High potential reduction in scope 3 RSL emissions intensity ³⁴ .	High impact

³⁴ The assumptions for emissions intensity reduction potential have been kept the same as mortgages, due to the alignment with the decarbonisation assumptions of the CCC.

* Control and impact indicator indicative of control and impact on individual target.



Scope 3 — Commercial real estate

Target: To reduce our scope 3 downstream category 15 (investments) emissions intensity for our commercial real estate portfolio by at least 46%, between 2021 and 2030.

Expectation to achieve our target: Very low, due to very limited levels of control and influence over government policy to green UK homes. Whilst we have some control over the run-off of this activity, which will materially reduce our absolute emissions by 2030, we have low control over our emissions intensity which will reduce at a slower rate until the portfolio has repaid in full.

Achieving our scope 3 commercial real estate (CRE) emissions intensity reduction target is reliant on the completion of our portfolio run-off activity, but this is unlikely to occur before 2030

Nationwide ceased lending to CRE in 2016. Since then, it has been our strategy to run off the CRE lending portfolio, with completion of CRE run-off expected in line with the last maturity, in 2039. Since its closure in 2016, we have reduced the portfolio size by approximately 75% (from £2.6 billion in 2016/2017 to £0.6 billion in 2021/2022).

Residential property accounts for around 55% of our CRE portfolio (with the remainder comprising service buildings) so it is our expectation that some of the impacts from government policy intervention, for example the decarbonisation of the electricity grid, will impact the reduction in emissions intensity of the CRE book by 2030.

It is our expectation that our scope 3 downstream (investments) CRE target will not be achieved until the run-off activity has completed (which is expected in 2039). Once run-off is concluded we will see a 100% reduction in both absolute emissions and emissions intensity of the portfolio. However, we expect around an

85% reduction in absolute emissions by 2030³⁵, in line with the expectation that the balance of our CRE portfolio will be less than £100 million, and therefore immaterial post-2030.

Potential levers to support achieving our scope 3 downstream (investments) category 15 CRE target are:

Target: To reduce commercial real estate emissions by at least 46% per square metre by 2030 from a 2021 base year.			
Levers	Control indicator*	Outcome	Impact indicator*
Continue to run-off the CRE book, completing in 2039	Full control	100% reduction in emissions intensity upon completion of run-off in 2039, but a low expected impact on emissions intensity by 2030.	Low impact
The Government delivering on its ambition to decarbonise the electricity grid by 2035	Very limited control	A reduction in emissions intensity will be seen across the portfolio as government decarbonise the electricity grid by 2035.	High impact



³⁵ Calculated based on predicted run-off rate to 2030 from December 2021 portfolio size.

* Control and impact indicator indicative of control and impact on individual target.



Governance

Our scope 1, 2 and 3 targets are governed through our well-established climate change governance model

The Board has ultimate accountability for all climate change risk related matters at Nationwide, with the Board Risk Committee (BRC) and Executive Risk Committee (ERC) responsible for oversight of climate-related risks. ERC is chaired by the Chief Risk Officer (CRO), with membership formed from the Nationwide Leadership Team. The ERC has delegated authority from BRC to monitor and review the risk exposures of the Society in accordance with the Enterprise Risk Management Framework, Board risk appetite, and the Society's strategy, including reviewing the Society's targets.

We also have a dedicated Climate Change Risk Committee (CCRC), which was established in 2019, to support the maturing approach to climate change risk management. The committee meets monthly and escalates any key climate-related risks and relevant climate change subject matters to ERC and BRC for formal discussion.

Ownership for responding to climate change sits within the Strategy team, whilst Senior Managers Regime (SMR) accountabilities sit with the Chief Executive Officer (CEO).

To align to the expectations of the NZBA, Nationwide's science-based targets have been through robust governance. The targets were discussed at CCRC and with Nationwide's Leadership Team, endorsed by ERC and BRC, and approved by the Board. In addition, this disclosure has been subject to external legal review.

As part of our governance process, the risks associated with setting science-based targets were comprehensively reviewed. This included the consideration of the legal and reputational risks associated with setting targets over which we do not have full control, along with the potential liquidity and market risks associated with not meeting the expectations of members and investors.

Progress against our targets will be discussed at ERC and BRC every six months as part of our climate change management information.

Our climate change governance model



Our climate change governance model shows the committees and groups where climate change is discussed and the frequency of climate change risk on their respective agendas. Climate Change Risk Committee is a sub-committee of Responsible Business Committee. Climate change risk-related matters are escalated to Executive Risk Committee every quarter.

Reporting on our targets

Progress against our targets will be reported on externally, on an annual basis, within our Climate-related Financial Disclosures. In addition, we are developing a set of internal metrics to monitor progress of the individual actions within the targets to better track progress. This will include progress of others, including the Government, against their objectives upon which we are reliant. Further information on our climate change governance approach, including considerations of climate-related activities within remuneration, is in our Climate-related Financial Disclosures 2022.

Reviewing our targets

Nationwide is committed to reviewing our intermediate science-based targets, at a minimum, every five years. Should significant changes to methodology, data availability, climate science, or guidance and expectations from regulators or industry-leaders change, Nationwide may deem it prudent to review our targets sooner. We reserve the right to determine whether the current or future methodologies and guidance remain applicable to Nationwide.



Data dependencies and limitations

Nationwide recognises certain data dependencies and limitations in climate change-related data affecting the setting of our science-based targets. Due to the limited public availability of accurate climate data (especially emissions data on UK homes), and the relatively immature nature of science-based target methodologies, Nationwide has applied a number of assumptions and judgements in order to model our carbon emissions exposure and calculate the baseline emissions for our targets. The most important are as follows:

Exclusion of certain Greenhouse Gases within scope 1 emissions

We calculate our scope 1 emissions by converting Greenhouse Gases (GHG) into carbon dioxide equivalent (CO₂e). This includes fluorinated gases (F-gases) such as hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF₆) and nitrogen trifluoride (NF₃).

To calculate this we convert our energy usage (in kilowatt hours) into CO₂e using the Department for Environment, Food & Rural Affairs (DEFRA) conversion factors. Our exposure to other GHG other than carbon dioxide is low.

Due to reporting challenges, the F-gases which are used in, and escape from, our cooling systems are currently excluded from our baseline scope 1 emissions and targets. As our understanding of, and ability to measure, these gases improves in the future, we will include these emissions in our scope 1 emissions reporting and targets to ensure transparency in our progress.

Energy Performance Certificate data limitations

Publicly available EPC data is used to calculate baseline emissions for our residential mortgage, RSL, and CRE portfolios. Despite the inherent limitations of EPCs, the modelling informs the calculation of the EPC composition of the Society's

mortgaged properties, to calculate our scope 3 downstream category 15 (investments) emissions. Limitations exist, including:

- **Energy price dependencies** – the current EPC methodology is sensitive to fuel prices and so a property on a grade boundary can improve its EPC rating purely by having its assessment undertaken when energy prices are low.
- **Lack of carbon neutral incentives** – the methodology rates efficient gas boilers above carbon neutral sources like air or ground source heat pumps.
- **Incomplete data set** – an EPC is required every time a property is built, sold or rented and is valid for 10 years; therefore, only around half of Nationwide mortgage properties have a valid EPC.³⁶
- **Out-of-date data** – changes to the energy efficiency of a property (for example, due to improved insulation) will not be captured unless the homeowner chooses to have the property reassessed.

The upcoming changes to the Standard Assessment Procedure (SAP) methodology

The Government is continually updating the SAP methodology used to determine EPC ratings. In 2020, the UK Government commissioned a project to design the next version of SAP (SAP 11) taking into consideration potential enhancements to support net-zero commitments for buildings. SAP 11 will consider improving the accuracy and robustness of the process to ensure it is fit for purpose to support net-zero.

SAP 11 is due to come into force in 2025, alongside the Future Homes Standard. Whilst this will improve the process of EPC ratings from this point, it will take longer for the improvements to filter through to the whole EPC register. Therefore, even if the Government progress with their ambition to decarbonise the electricity grid, until the SAP methodology is fully updated

to reflect it, we are unlikely to see significant improvements in our calculated emissions, and emissions intensities, for our residential mortgages, RSL, and CRE portfolios. We will consider applying an adjustment, in our modelling, to correct for this.

Calculating our scope 3 upstream emissions

Our scope 3 upstream emissions for category 1 (purchased goods and services), category 2 (capital goods), and category 3 (transportation and distribution), are calculated using publicly disclosed supplier emissions data (covering scopes 1-3) from CDP responses, and revenue from the most recent publicly available annual reports, where available. Data gaps are supplemented using industry average emissions contained within the GHG Protocol and Quantis's Scope 3 Evaluator tool. Volatility in our scope 3 upstream emissions could result from:

- Fluctuations in supplier emissions and/or industry averages
- Fluctuations in supplier revenues, not reflected in their emissions
- Changes in the availability of supplier emissions data.

We recognise the shift in ways of working post Covid-19 and have embraced a hybrid working model, where employees have the flexibility to choose how and where they work. We currently exclude homeworking emissions from our scope 3 (upstream) emissions baseline and targets due to the challenges with their calculation, such as the:

- Lack of real-time home energy usage data
- Lack of clarity on appliance usage
- Potential for double-counting emissions attributable to homeworking for colleagues who are Nationwide mortgage holders.

³⁶ For those properties where a valid EPC is unavailable, Nationwide has built a model which uses artificial intelligence and machine learning techniques to estimate the property's floor area and emissions. Through time, we expect the availability of data to improve, and our model to evolve.



Science-based target scenario alignment

The SBTi provides methodologies aligned to both 1.5°C (ACA) and well-below 2°C (SDA) scenarios for the setting of intermediate science-based targets. Whilst regarded as industry-standard, we recognise that developing targets using the SDA will mean that some targets (for scope 3 downstream category 15 (investments)) will not fully align to a 1.5°C net-zero pathway. However, the use of the SDA is required for the setting of targets relating to residential property and commercial real estate (our residential mortgage, RSL and CRE portfolios).

The SDA approach applies sector-specific considerations and emissions reduction factors aligned to specific asset classes in accordance with the IEA ETP B2DS. The IEA ETP B2DS are global scenarios and are not UK specific.

The SBTi SDA requires the setting of baseline emissions and emissions intensity to calculate a projected target to 2030. Nationwide calculates our emissions baselines for scope 3 downstream category 15 (investments) emissions (residential mortgages, CRE and RSL) using the PCAF GHG Reporting Standard. The methodology of PCAF in calculating carbon emissions is seen as best practice across the industry. Whilst the process for calculating emissions is in line with the PCAF guidance, there are limitations with estimating emissions due to the quality of the emissions and energy usage data which it relies upon.

PCAF’s methodology for calculating financed emissions is as follows:

Building Emissions x Attribution Factor
Where: Attribution Factor = Outstanding Balance / Property Value at Origination
In our methodology, we calculate Building Emissions using the following approach: Building Emissions = CO₂ Emissions per m² x Floor space (m²)

Nationwide’s baseline building emissions are calculated using our EPC model, and the attribution factor is calculated using the loan-to-value of the mortgaged property.

As our science-based target progress reporting is, for the moment, dependent upon the above limitations, especially the lagging nature of EPCs, there is potential for progress being made which we cannot currently acknowledge. Nationwide will continue to look for better data sources to improve our carbon reporting, including calling on government to make actual energy usage data available.

Reliance on the delivery of government policy relating to homes

Whilst Nationwide is committed to its ambition to achieve net-zero by 2050, we recognise significant challenges in achieving our highly ambitious intermediate scope 3 downstream (investments) science-based targets set out in this document, particularly for real estate.

As outlined on page 13 onwards, the Government has committed to delivering key policies, including the Future Homes Standard and its Heat and Buildings Strategy, as well as targeting the decarbonisation of the energy grid by 2035. We need full implementation of these policies, within the committed time frames, in order to go some way towards helping us achieve our targets. However, we recognise current uncertainties over these policies (of which we have no control),

Certain statements in this document are forward-looking with respect to plans, goals and expectations relating to the performance 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

and as a result, we consider it highly unlikely that we will achieve our scope 3 targets. However, we will continue to monitor the development and delivery of policy relating to UK homes, to inform our progress towards our targets.



of Nationwide including, amongst other things, government policy, the policies and actions of regulatory authorities, and the impact of legislation and other regulations in the jurisdictions in which Nationwide operates. 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.



Background and context

Intermediate science-based targets

Actions – scope 1 and 2

Potential actions – scope 3

Governance

Glossary

Glossary & Abbreviations	
Item	Description
Absolute Contraction Approach	SBTi's scientifically informed method for organisations to set GHG reduction targets necessary to stay within a 1.5°C temperature rise above pre-industrial levels.
Carbon Neutral	Carbon neutral is no net release of carbon dioxide into the atmosphere, achieved by reducing or eliminating emissions, and/or through funding equivalent carbon savings through renewable or offsetting projects.
CDP	CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Nationwide participates in the CDP questionnaire annually.
Department for Business, Energy & Industrial Strategy (BEIS)	BEIS is the Government department which replaced the Department for Business, Innovation and Skills (BIS) and the Department of Energy and Climate Change (DECC) in July 2016. BEIS seeks to lead economy-wide transformation by backing enterprise and long-term growth, generating cheaper, cleaner, homegrown energy and unleashing the UK as a science superpower through innovation.
Emissions Intensity	Emissions intensity is the volume of emissions per unit. In the case of mortgages, RSL and CRE, emissions intensity is calculated as kilograms of CO ₂ per square metre of floor area.
Energy Performance Certificate (EPC)	An EPC is a document which sets out the energy efficiency of a property, is valid for 10 years, and is required when a property is built, sold or rented. Produced by an accredited domestic energy assessor, an EPC provides an indication of how much it will cost to heat (both water and space) and light a property. EPCs also include recommendations for energy-efficiency improvements, the cost of carrying them out, and the potential savings that each one could generate. Energy efficiency is indicated using a traffic light system rating from A to G, based on Standard Assessment Procedure (SAP) points, with A being the most efficient.
Environmental, Social and Governance (ESG)	Environment, Social and Governance factors are core to Nationwide's sustainability approach as a responsible business. We report on ESG matters annually within our Strategic Report in our Annual Report and Accounts, and in our Climate-related Financial Disclosures.
Financed Emissions	GHG emissions that are attributable to financing, such as the funding and investment Nationwide provides to others. Nationwide considers its financed emissions through its investment and lending activities and calculates and reports on these emissions in order to estimate Nationwide's impact on the wider economy.
Future Homes Standard	A government-led proposal around options to increase the energy efficiency requirements for new homes in the 2020s, with the aim to be introduced by 2025.
Glasgow Financial Alliance for Net Zero (GFANZ)	Formed in 2021, GFANZ is a global coalition of leading financial institutions committed to accelerating the decarbonisation of the economy. Nationwide has participated in two of the seven GFANZ workstreams, Financial institution transition plans and Policy call to action, since their inception in 2021.



Glossary & Abbreviations	
Item	Description
Greenhouse Gases (GHG)	GHG are atmospheric gases that trap heat or longwave radiation in the atmosphere, increasing the temperature of the Earth's surface. There are seven gases considered as part of the GHG Corporate Protocol Standard: carbon dioxide (CO ₂), methane (CH ₄), nitrous oxide (N ₂ O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF ₆), and nitrogen trifluoride (NF ₃). CO ₂ makes up the vast majority of these emissions.
International Energy Agency (IEA) Energy Technology Perspectives (ETP) Beyond 2°C Scenario (B2DS)	The IEA ETP's global decarbonisation pathway to limit global temperature rises to well-below 2°C above pre-industrial levels.
Location-based approach	A location-based approach does not factor in measures such as renewable energy to achieve net-zero and considers operational absolute emissions only.
Market-based approach	A market-based approach allows flexibility to utilise market-based measures such as renewable energy to achieve net-zero.
Net-zero ambition	A UK-wide ambition to achieve an overall balance between GHG emissions produced and taken out of the atmosphere, keeping global temperature increases to below 1.5°C. Nationwide signed up to net-zero in 2021, and is committed to playing our part in supporting the transition to a net-zero economy.
Net-Zero Banking Alliance	This industry-led, UN-convened alliance recognises the vital role of banks in supporting the global transition of the real economy to net-zero emissions. All banks who are members of the NZBA have committed to net-zero and the setting of intermediate science-based targets at 2030 or sooner.
Partnership for Carbon Accounting Financials	PCAF is a global partnership of financial institutions to measure and disclose the greenhouse gas (GHG) emissions associated with loans and investments. Nationwide follows PCAF's Global Greenhouse Gas Accounting and Reporting Standard to calculate its scope 3 carbon emissions.
Science-based targets	Emissions reduction targets set in line with the latest climate science. Nationwide uses the tools and methodologies of the SBTi.
Science Based Target initiative (SBTi)	A partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the Worldwide Fund for Nature (WWF). The SBTi aims to drive ambitious climate action in the private sector by enabling companies to set science-based emissions reduction targets through the provision of industry standard methodologies and tools.
SBTi's 1.5-degree Business Ambition	A call to action by the SBTi to encourage companies, across all sectors, to set science-based net-zero aligned emissions reduction targets, in line with a 1.5°C net-zero future. Nationwide signed up to the 1.5°C business ambition in 2021.
Scope 1 emissions	Direct emissions from owned sources, such as the fuel Nationwide burns to heat its buildings.
Scope 2 emissions	Indirect emissions from the generation and consumption of purchased electricity and heating.



**Glossary & Abbreviations**

Item	Description
Scope 3 Upstream – Categories 1-8 – emissions	<p>Indirect upstream emissions that occur in an organisation’s value chain. Upstream emissions (GHG Protocol categories 1-8) cover emissions which result from the organisation’s supply chain. The categories are as follows:</p> <ol style="list-style-type: none"> 1. Purchased goods and services 2. Capital goods 3. Fuel- and energy-related activities not included in scope 1 and 2 4. Upstream transportation and distribution 5. Waste generated in Operations 6. Business travel 7. Employee commuting 8. Upstream lease assets
Scope 3 Downstream – Categories 9-15 – emissions	<p>Indirect downstream emissions that occur in an organisation’s value chain. Downstream (GHG Protocol categories 9-15) emissions covering emissions resulting from the good and services provided by the organisation. The categories are as follows:</p> <ol style="list-style-type: none"> 9. Downstream transportation and distribution 10. Processing of sold products 11. Use of sold products 12. End-of-life treatment of sold products 13. Downstream leased assets 14. Franchises 15. Investments
Sectoral Decarbonisation Approach	SBTi’s scientifically informed method for companies to set GHG reduction targets necessary to stay within a 2°C temperature rise above pre-industrial levels.
United Nations Environment Programme Finance Initiative (UNEP FI)	The United Nations Environment Programme Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilise private sector finance for sustainable development. UNEP FI works with more than 400 members, including banks, insurers, and investors, and over 100 supporting institutions.

