Pillar 3 Disclosure

Q1 2023-2024

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

Nationwide
Building Society

Contents

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1 Executive Summary

1.1 Background

Nationwide's Pillar 3 disclosure Q1 2023-24 provides an update on the capital and liquidity position disclosed in Nationwide's annual Pillar 3 disclosure 2023. The information has been prepared in accordance with the UK Prudential Regulatory Authority (PRA) Rulebook (Capital Requirements Regulation (CRR)) with conventions aligned to the 'Disclosure' part of the Rulebook. Capital and leverage ratios reported include profits for the quarter that have been externally verified, less foreseeable dividends. For the basis of preparation and disclosure framework, refer to Nationwide's Pillar 3 disclosure 2023.

1.2 Summary of key metrics

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

Nationwide's capital position remains strong, with both the CET1 ratio and leverage ratio comfortably above regulatory capital requirements of 11.5% and 4.0% respectively. 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 risk weighted assets (RWAs). The CET1 ratio increased to 26.8% (4 April 2023: 26.5%). The leverage ratio increased to 6.2% (4 April 2023: 6.0%).

The CET1 ratio increase is a result of an increase in CET1 capital of £0.2 billion, with RWAs remaining stable. The CET1 capital resources increase was driven by £0.2 billion profit after tax, net of distributions. Profit after tax includes Nationwide's first Fairer Share payment of £0.3 billion to eligible members. Although other CET1 capital deductions remained flat in total, the deductions included a second repurchase of Core Capital Deferred Shares (CCDS) in June 2023 of £0.1 billion.

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 increased to 6.2% (4 April 2023: 6.0%), with Tier 1 capital increasing by £0.2 billion as a result of the CET1 capital movements outlined above. In addition, there was a decrease in leverage exposure of £3.5 billion driven by a reduction in Nationwide's Treasury related assets, partially offset by an increase in off-balance sheet commitments.

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 has increased to 0.7% in July 2023 post the period-end accounting date.

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.

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. This equals a total loss-absorbing requirement of 7.2%. Nationwide maintains a surplus above overall requirements in respect of any additional buffers.

At 30 June 2023, total MREL resources were 9.0% (4 April 2023: 8.8%) of leverage exposure, in excess of the loss-absorbing requirement of 7.2% described above.

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 184% over the 12 months ended 30 June 2023 (4 April 2023: 180%). The average Net Stable Funding Ratio (NSFR), which assesses the stability of funding relative to the liquidity of assets, was 148% for the four quarters ended 30 June 2023 (4 April 2023: 147%), which is in excess of the 100% minimum requirement. Nationwide continues to manage its liquidity against internal risk appetite which is more prudent than regulatory requirements. Further detail is included in Annex XIII (Liquidity requirements).

1.3 Future 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 26.8% reported at 30 June 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 5 July 2023 the Financial Policy Committee (FPC) increased the UK countercyclical capital buffer (CCyB) rate to 2%. This will lead to an increase in Nationwide's risk-based capital requirements in future public disclosures. Nationwide's leverage requirements will also increase as the countercyclical capital buffer is relevant in the leverage framework, in addition to an increase in loss-absorbing requirements which are leverage based. Capital surpluses will reduce as a result of these changes; however, they will remain comfortably above Board risk appetite based on current forecasts.

2 Annex I | Key metrics and overview of risk-weighted exposure amounts

2.1 UK KM1 - Key metrics template

UK KM1 - Key metrics template - Group		a	b	c	d	e
£m		30 Jun 23	04 Apr 23	31 Dec 22	30 Sep 22	30 Jun 22
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**13,909**	13,733	13,444	12,957	12,713
2	Tier 1 capital	**15,245**	15,069	14,780	14,293	14,049
3	Total capital	**17,030**	16,908	16,689	16,349	16,062
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**51,806**	51,731	51,258	50,791	51,644
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	**26.8**	26.5	26.2	25.5	24.6
6	Tier 1 ratio (%)	**29.4**	29.1	28.8	28.1	27.2
7	Total capital ratio (%)	**32.9**	32.7	32.6	32.2	31.1
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	**2.5**	2.5	3.1	3.1	3.0
UK 7b	Additional AT1 SREP requirements (%)	**0.8**	0.9	1.0	1.0	1.0
UK 7c	Additional T2 SREP requirements (%)	**1.1**	1.1	1.4	1.4	1.3
UK 7d	Total SREP own funds requirements (%)	**12.5**	12.5	13.4	13.5	13.4
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	**2.5**	2.5	2.5	2.5	2.5
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**–**	–	–	–	–
9	Institution specific countercyclical capital buffer (%)	**1.0**	1.0	1.0	0.0	0.0
UK 9a	Systemic risk buffer (%)	**–**	–	–	–	–
10	Global Systemically Important Institution buffer (%)	**–**	–	–	–	–
UK 10a	Other Systemically Important Institution buffer	**1.0**	1.0	1.0	1.0	1.0
11	Combined buffer requirement (%)	**4.5**	4.5	4.5	3.5	3.5
UK 11a	Overall capital requirements (%)	**17.0**	17.0	17.9	17.0	16.9
12	CET1 available after meeting the total SREP own funds requirements (%)	**19.8**	19.5	18.6	17.9	17.1
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	**245,825**	249,299	252,663	248,187	252,284
14	Leverage ratio excluding claims on central banks (%)	**6.2**	6.0	5.8	5.8	5.6
	Additional leverage ratio disclosure requirements					
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**6.2**	6.0	5.8	5.8	5.6
14b	Leverage ratio including claims on central banks (%)	**5.2**	5.5	4.9	5.1	4.9
14c	Average leverage ratio excluding claims on central banks (%)	**6.1**	5.8	5.7	5.6	5.5
14d	Average leverage ratio including claims on central banks (%)	**5.2**	5.0	4.9	4.9	4.7
14e	Countercyclical leverage ratio buffer (%)[1]	**0.4**	0.4	0.4	–	–
	Liquidity Coverage Ratio[2]					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	**55,171**	53,255	52,178	51,616	52,450
UK 16a	Cash outflows - Total weighted value	**32,051**	31,652	31,805	30,788	31,021
UK 16b	Cash inflows - Total weighted value	**1,935**	1,843	1,842	1,600	1,462
16	Total net cash outflows (adjusted value)	**30,116**	29,809	29,962	29,188	29,559
17	Liquidity coverage ratio (%)	**184**	180	175	179	179
	Net Stable Funding Ratio[2, 3]					
18	Total available stable funding	**244,855**	242,726			
19	Total required stable funding	**165,278**	165,466			
20	NSFR ratio (%)	**148**	147			

Notes:
[1] In line with the UK leverage framework, the countercyclical leverage ratio buffer (CCLB) has been set as 35% of the equivalent buffer (CCyB) under the risk weighted framework and rounded to the nearest 10 basis points
[2] The Liquidity Coverage and Net Stable Funding Ratios are calculated as a simple average of twelve month and four quarter end observations respectively
[3] In line with PS22/21 'Implementation of Basel Standards…', disclosures for the NSFR were not required until reporting reference dates after 1 January 2023

2.2 IFRS 9 / Article 468 - Impact of IFRS 9 transitional arrangements & temporary treatment in accordance with CRR Article 468

IFRS9 - Key metrics template

£m		a 30 Jun 23	b 04 Apr 23	c 31 Dec 22	d 30 Sep 22	e 30 Jun 22
	Available own funds (amounts)					
1	CET1 if IFRS 9 transitional arrangements had not been applied	**13,909**	13,718	13,428	12,942	12,697
2	CET1 capital without applying the temporary treatment of gains and losses measured at fair value through OCI	**13,909**	13,733	13,426	12,953	12,712
3	Tier 1 if IFRS 9 transitional arrangements had not been applied	**15,245**	15,054	14,764	14,278	14,033
4	Tier 1 capital without applying the temporary treatment of gains and losses measured at fair value through OCI	**15,245**	15,069	14,762	14,289	14,048
5	Total capital if IFRS 9 transitional arrangements had not been applied	**17,030**	16,903	16,683	16,344	16,054
6	Total capital without applying the temporary treatment of gains and losses measured at fair value through OCI	**17,030**	16,908	16,671	16,345	16,061
	Risk-weighted exposure amounts					
7	Total risk weighted assets if IFRS 9 transitional arrangements had not been applied	**51,806**	51,735	51,261	50,794	51,647
	Capital ratios (as a percentage of risk-weighted exposure amount)					
8	CET1 ratio if IFRS 9 transitional arrangements had not been applied (%)	**26.8**	26.5	26.2	25.5	24.6
9	CET1 ratio without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**26.8**	26.5	26.2	25.5	24.6
10	Tier 1 ratio if IFRS 9 transitional arrangements had not been applied (%)	**29.4**	29.1	28.8	28.1	27.2
11	Tier 1 ratio without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**29.4**	29.1	28.8	28.1	27.2
12	Total regulatory capital ratio if IFRS 9 transitional arrangements had not been applied (%)	**32.9**	32.7	32.5	32.2	31.1
13	Total regulatory capital without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**32.9**	32.7	32.5	32.2	31.1
	Leverage ratio					
14	Leverage ratio exposure measure if IFRS 9 transitional arrangements had not been applied	**245,825**	249,299	252,663	248,171	252,268
15	Leverage ratio if IFRS 9 transitional arrangements had not been applied (%)	**6.2**	6.0	5.8	5.8	5.6
16	Leverage ratio without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**6.2**	6.0	5.8	5.8	5.6

2.3 UK KM2 - Key metrics template – MREL (at resolution group level)

UK KM2 - Key metrics template - MREL (at resolution group level)

£m		a 30 Jun 23	b 04 Apr 23	c 31 Dec 22	d 30 Sep 22	e 30 Jun 22
1	Total own funds and eligible liabilities available	**22,039**	22,001	22,665	21,916	21,354
2	Total risk weighted assets	**51,806**	51,731	51,258	50,791	51,644
3	Total own funds and eligible liabilities available as a percentage of total risk weighted assets (%)	**42.5**	42.5	44.2	43.1	41.3
4	UK leverage exposure ratio measure	**245,825**	249,299	252,663	248,187	252,284
5	Total own funds and eligible liablities available as a percentage of UK leverage exposure ratio measure (%)	**9.0**	8.8	9.0	8.8	8.5

2.4 UK OV1 - Overview of risk weighted exposure amounts

UK OV1 – Overview of risk weighted exposure amounts				
		a	b	c
		Group [1]		
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
£m		30 Jun 23	04 Apr 23	30 Jun 23
1	**Credit risk (excluding CCR)**	44,694	44,647	3,576
2	Of which the standardised approach	3,468	3,463	277
3	Of which the foundation IRB (FIRB) approach	2,808	2,967	225
4	Of which slotting approach	653	681	52
UK 4a	Of which equities under the simple riskweighted approach	221	211	18
5	Of which the advanced IRB (AIRB) approach	37,544	37,325	3,004
6	**Counterparty credit risk - CCR**	1,007	989	81
7	Of which the standardised approach	370	358	30
8	Of which internal model method (IMM)	–	–	–
UK 8a	Of which exposures to a CCP	126	103	10
UK 8b	Of which credit valuation adjustment - CVA	493	517	40
9	Of which other CCR	18	11	1
15	**Settlement risk**	–	–	–
16	**Securitisation exposures in the non-trading book (after the cap)**	274	264	22
17	Of which SEC-IRBA approach	–	–	–
18	Of which SEC-ERBA (including IAA)	274	264	22
19	Of which SEC-SA approach	–	–	–
UK 19a	Of which 1250%/ deduction	–	–	–
20	**Position, foreign exchange and commodities risks (Market risk)[2]**	–	–	–
21	Of which the standardised approach	–	–	–
22	Of which IMA	–	–	–
UK 22a	**Large exposures**	–	–	–
23	**Operational risk**	5,831	5,831	466
UK 23a	Of which basic indicator approach	–	–	–
UK 23b	Of which standardised approach	5,831	5,831	466
UK 23c	Of which advanced measurement approach	–	–	–
24	**Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)**	293	305	23
29	**Total**	51,806	51,731	4,145

Notes:
[1] Specific rows of this table have not been presented as they are not applicable in the UK
[2] Nationwide's Pillar 1 capital requirement for market risk is currently zero (as Nationwide does not have a trading book and FX exposures are below the threshold of 2% of total own funds capital requirements) and hence no figures are disclosed

3 Annex XIII | Liquidity requirements

3.1 UK LIQB – Qualitative information on LCR, which complements template UK LIQ1

(a) Main drivers of LCR results

Nationwide's LCR is driven by a combination of the size of the liquid asset buffer, modelled stressed retail net outflows, wholesale funding requirements from upcoming maturities and collateral outflows that could arise in a stress. As Nationwide is predominantly retail funded, retail deposit outflows continue to be the largest contributor to net outflows in the LCR.

(b) Explanations on the changes in the LCR over time

The 12-month average LCR has increased with growth in high quality liquid assets exceeding that in net cash outflow requirements. An increase in requirements for derivative exposures and other collateral outflows was partially offset by decreases in requirements for contingent funding obligations and unsecured wholesale funding.

(c) Explanations on the actual concentration of funding sources

Nationwide is predominantly retail deposit funded and also has a wholesale funding platform which 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.

(d) High-level description of the composition of the institution`s liquidity buffer

Nationwide's liquid assets, which predominantly comprise reserves held at central banks and highly rated debt securities issued or guaranteed by a restricted range of governments, central banks and supranationals, are held and managed centrally by its Treasury function. The assets held in the liquid asset buffer are primarily sterling, US dollar and Euro.

(e) Derivative exposures and potential collateral calls

The Society only uses derivatives to manage and mitigate exposures to market risks, and not for trading or speculative purposes. The LCR net cash outflows related to derivative transactions primarily reflects the risk of potential additional collateral outflows due to adverse market rate changes. Credit ratings downgrades by external credit rating agencies could also lead to collateral outflows which are considered when determining LCR outflows.

(f) Currency mismatch in the LCR

Liquid assets are primarily denominated in sterling, US dollar or Euro, with the currency mix of the liquid asset buffer being subject to internal risk limits and policy requirements. This ensures that no undue level of currency mismatch arises between the currency composition of the liquid asset buffer and currency profile of stressed outflows in the LCR.

(g) Other items in the LCR calculation that are not captured in the LCR disclosure template

There are no other relevant items.

3.2 UK LIQ1 – Quantitative information of LCR

UK LIQ1 - Quantitative information of LCR		a	b	c	d	e	f	g	h
£m		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on (DD Month YYY)	**30 Jun 23**	04 Apr 23	31 Dec 22	30 Sep 22	**30 Jun 23**	04 Apr 23	31 Dec 22	30 Sep 22
UK 1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	**Total high-quality liquid assets (HQLA)**					**55,171**	53,255	52,178	51,616
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	**186,324**	183,617	181,288	179,725	**11,882**	11,807	11,684	11,548
3	*Stable deposits*	**137,477**	140,280	142,866	144,440	**6,874**	7,014	7,143	7,222
4	*Less stable deposits*	**38,753**	37,515	35,926	34,535	**4,993**	4,776	4,522	4,307
5	Unsecured wholesale funding	**9,215**	9,344	9,966	10,004	**8,475**	8,548	9,097	9,060
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	**–**	–	–	–	**–**	–	–	–
7	*Non-operational deposits (all counterparties)*	**2,954**	2,970	3,108	3,344	**2,214**	2,174	2,240	2,400
8	*Unsecured debt*	**6,261**	6,374	6,858	6,660	**6,261**	6,374	6,858	6,660
9	Secured wholesale funding					**107**	110	102	118
10	Additional requirements	**13,145**	12,364	11,549	10,360	**8,669**	7,835	7,066	6,043
11	*Outflows related to derivative exposures and other collateral requirements*	**8,751**	7,842	6,964	5,734	**7,862**	7,027	6,286	5,286
12	*Outflows related to loss of funding on debt products*	**456**	449	416	392	**456**	449	416	392
13	*Credit and liquidity facilities*	**3,938**	4,073	4,169	4,234	**351**	359	363	364
14	Other contractual funding obligations	**236**	197	202	176	**93**	60	64	39
15	Other contingent funding obligations	**18,277**	19,336	20,522	21,063	**2,825**	3,292	3,791	3,981
16	**TOTAL CASH OUTFLOWS**					**32,051**	31,652	31,805	30,788

UK LIQ1 - Quantitative information of LCR (cont.)

		a	b	c	d	e	f	g	h
£m		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on (DD Month YYY)	**30 Jun 23**	04 Apr 23	31 Dec 22	30 Sep 22	**30 Jun 23**	04 Apr 23	31 Dec 22	30 Sep 22
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	**773**	769	623	573	**105**	97	70	61
18	Inflows from fully performing exposures	**1,893**	1,858	1,880	1,768	**1,516**	1,477	1,479	1,365
19	Other cash inflows	**314**	269	293	174	**314**	269	293	174
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**–**	–	–	–
UK-19b	(Excess inflows from a related specialised credit institution)					**–**	–	–	–
20	**TOTAL CASH INFLOWS**	**2,980**	2,896	2,796	2,514	**1,935**	1,843	1,842	1,600
UK-20a	*Fully exempt inflows*	**–**	–	–	–	**–**	–	–	–
UK-20b	*Inflows subject to 90% cap*	**–**	–	–	–	**–**	–	–	–
UK-20c	*Inflows subject to 75% cap*	**2,980**	2,896	2,796	2,514	**1,935**	1,843	1,842	1,600
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					**55,171**	53,255	52,178	51,616
22	TOTAL NET CASH OUTFLOWS					**30,116**	29,809	29,962	29,188
23	**LIQUIDITY COVERAGE RATIO**					**184**	180	175	179

4 Annex XXI | IRB approach to credit risk

4.1 UK CR8 - RWEA flow statements of credit risk exposures under the IRB approach[1]

UK CR8 – RWEA flow statements of credit risk exposures under the IRB approach

		a
£m		Risk weighted exposure amount
1	**Risk weighted exposure amount at 04 April 2023**	41,184
2	Asset size (+/-)	(324)
3	Asset quality (+/-)	366
4	Model updates (+/-)	–
5	Methodology and policy (+/-)	–
6	Acquisitions and disposals (+/-)	–
7	Foreign exchange movements (+/-)	–
8	Other (+/-)	–
9	**Risk weighted exposure amount at 30 June 2023**	41,226

IRB credit risk RWAs remained flat in the period with no material movements.

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