Pillar 3 Disclosures

Q3 2023-24

Contents

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1 Executive Summary

1.1 Background

Nationwide's Pillar 3 disclosure Q3 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 Annex 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) and on an end-point basis with IFRS 9 transitional arrangements applied. In addition, the disclosures are on a consolidated Group basis, including all subsidiary entities, unless otherwise stated.

Nationwide's capital position remains strong, with both the Common Equity Tier 1 (CET1) ratio and leverage ratio comfortably above regulatory capital requirements of 12.9% and 4.3% respectively. The CET1 capital requirement includes a 7.4% minimum Pillar 1 and Pillar 2 requirement and the UK CRD V combined buffer requirements of 5.5% 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 improvement is a result of an increase in CET1 capital of £0.8 billion, partially offset by an increase in RWAs of £2.4 billion. The CET1 capital resources increase was driven by £1.1 billion profit after tax, partially offset by £0.2 billion of capital distributions and a second repurchase of Core Capital Deferred Shares (CCDS) in June 2023 of £0.1 billion. RWAs increased, predominantly due to an increase in residential mortgage balances in conjunction with a higher residential mortgage portfolio average loss given default (LGD) linked to property valuations.

UK CRD V requires firms to calculate a leverage ratio, which is non-risk based, to supplement risk-based capital requirements. Nationwide's leverage ratio is 6.2% (4 April 2023: 6.0%), with Tier 1 capital increasing by £0.8 billion as a result of the CET1 capital movements referenced above. Partially offsetting this, was an increase in leverage exposure of £4.4 billion, predominantly due to an increase in residential mortgage balances and treasury investments for the period.

The leverage ratio remains in excess of Nationwide's leverage capital requirement of 4.3%, which comprises a minimum Tier 1 capital requirement of 3.25% and buffer requirements of 1.05%. The buffer requirements include a 0.7% UK countercyclical leverage ratio buffer, in force from July 2023, and a 0.35% additional leverage ratio buffer.

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, prescribes the minimum requirement for own funds and eligible liabilities (MREL). From 1 January 2023, Nationwide's requirement is to hold twice the minimum capital requirements (6.5% of leverage exposure), plus the applicable capital requirement buffers, which amount to 1.05% of leverage exposure. This equals a total loss-absorbing requirement of 7.55%. Nationwide maintains a surplus above overall requirements in respect of any additional buffers.

At 31 December 2023, total MREL resources, which include total regulatory capital and eligible liabilities, were in excess of the requirement at 9.2% (4 April 2023: 8.8%) of leverage exposure.

Nationwide's Liquidity Coverage Ratio (LCR), which ensures sufficient high-quality liquid assets are held to survive a short-term severe but plausible liquidity stress, averaged 192% over the 12 months ended 31 December 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 150% for the four quarters ended 31 December 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 Stress Testing

The Bank of England returned to the Annual Cyclical Scenario (ACS) Stress Test framework in September 2022. This followed two years of Covid-19 pandemic-related stress testing and its decision to postpone the test in March 2022. The 2022 ACS tested the resilience of the UK banking system to deep simultaneous recessions in the UK and global economies, large falls in asset prices and higher global interest rates, and a separate stress of misconduct costs.

Nationwide's low point CET1 ratio through the scenario was 20.3% before strategic management actions. This was in excess of peers, showing Nationwide is well capitalised and positioned to meet stressed economic conditions. The leverage ratio low point was 5.6%, remaining in excess of the 3.6% regulatory requirement at that time.

On 10 October 2023, the Bank of England confirmed it intends to run a desk-based stress test exercise in 2024, rather than an ACS, to support the Financial Policy Committee (FPC) and PRA monitoring and assessment of the resilience of the UK banking system to potential downside risks.

1.4 Future regulatory developments

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. A near-final policy statement covering market, counterparty credit and operational risks was published on 12 December 2023. Near-final rules covering credit risk and the output floor are due in Q2 2024.

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 July 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 31 December 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 not yet final.

Nationwide will remain engaged in the development of the regulatory approach to ensure it is prepared for any resulting change.

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

2.1 UK KM1 - Key metrics template

UK KM1 - Key metrics template

£m		a	b	c	d	e
		31 Dec 23	30 Sep 23	30 Jun 23	04 Apr 23	31 Dec 22
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**14,496**	14,322	13,909	13,733	13,444
2	Tier 1 capital	**15,832**	15,658	15,245	15,069	14,780
3	Total capital	**17,568**	17,428	17,030	16,908	16,689
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**54,174**	52,311	51,806	51,731	51,258
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	**26.8**	27.4	26.8	26.5	26.2
6	Tier 1 ratio (%)	**29.2**	29.9	29.4	29.1	28.8
7	Total capital ratio (%)	**32.4**	33.3	32.9	32.7	32.6
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)					
UK 7a	Additional CET1 SREP requirements (%)	**2.9**	2.5	2.5	2.5	3.1
UK 7b	Additional AT1 SREP requirements (%)	**1.0**	0.8	0.8	0.9	1.0
UK 7c	Additional T2 SREP requirements (%)	**1.2**	1.1	1.1	1.1	1.4
UK 7d	Total SREP own funds requirements (%)	**13.1**	12.5	12.5	12.5	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 (%)	**2.0**	2.0	1.0	1.0	1.0
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 (%)	**5.5**	5.5	4.5	4.5	4.5
UK 11a	Overall capital requirements (%)	**18.6**	18.0	17.0	17.0	17.9
12	CET1 available after meeting the total SREP own funds requirements (%)	**19.3**	20.4	19.8	19.5	18.6
	Leverage ratio					
13	Total exposure measure excluding claims on central banks	**253,708**	245,767	245,825	249,299	252,663
14	Leverage ratio excluding claims on central banks (%)	**6.2**	6.4	6.2	6.0	5.8
	Additional leverage ratio disclosure requirements					
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**6.2**	6.4	6.2	6.0	5.8
14b	Leverage ratio including claims on central banks (%)	**5.4**	5.7	5.2	5.5	4.9
14c	Average leverage ratio excluding claims on central banks (%)	**6.2**	6.2	6.1	5.8	5.7
14d	Average leverage ratio including claims on central banks (%)	**5.5**	5.3	5.2	5.0	4.9
14e	Countercyclical leverage ratio buffer (%)	**0.7**	0.7	0.4	0.4	0.4
	Liquidity Coverage Ratio[1]					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	**56,563**	56,353	55,171	53,255	52,178
UK 16a	Cash outflows - Total weighted value	**31,402**	31,614	32,051	31,652	31,805
UK 16b	Cash inflows - Total weighted value	**1,862**	1,896	1,935	1,843	1,842
16	Total net cash outflows (adjusted value)	**29,540**	29,718	30,116	29,809	29,962
17	Liquidity coverage ratio (%)	**192**	191	184	180	175
	Net Stable Funding Ratio[1,2]					
18	Total available stable funding	**244,972**	245,053	244,855	242,726	
19	Total required stable funding	**163,138**	163,935	165,278	165,466	
20	NSFR ratio (%)	**150**	149	148	147	

Notes:
[1] The Liquidity Coverage and Net Stable Funding Ratios are calculated as a simple average of twelve month and four quarter end observations respectively
[2] 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	b	c	d	e
		31 Dec 23	30 Sep 23	30 Jun 23	04 Apr 23	31 Dec 22
	Available own funds (amounts)					
1	CET1 if IFRS 9 transitional arrangements had not been applied	**14,496**	14,322	13,909	13,718	13,428
2	CET1 capital without applying the temporary treatment of gains and losses measured at fair value through OCI	**14,496**	14,322	13,909	13,733	13,426
3	Tier 1 if IFRS 9 transitional arrangements had not been applied	**15,832**	15,658	15,245	15,054	14,764
4	Tier 1 capital without applying the temporary treatment of gains and losses measured at fair value through OCI	**15,832**	15,658	15,245	15,069	14,762
5	Total capital if IFRS 9 transitional arrangements had not been applied	**17,568**	17,428	17,030	16,903	16,683
6	Total capital without applying the temporary treatment of gains and losses measured at fair value through OCI	**17,568**	17,428	17,030	16,908	16,671
	Risk-weighted exposure amounts					
7	Total risk weighted assets if IFRS 9 transitional arrangements had not been applied	**54,174**	52,311	51,806	51,735	51,261
	Capital ratios (as a percentage of risk-weighted exposure amount)					
8	CET1 ratio if IFRS 9 transitional arrangements had not been applied (%)	**26.8**	27.4	26.8	26.5	26.2
9	CET1 ratio without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**26.8**	27.4	26.8	26.5	26.2
10	Tier 1 ratio if IFRS 9 transitional arrangements had not been applied (%)	**29.2**	29.9	29.4	29.1	28.8
11	Tier 1 ratio without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**29.2**	29.9	29.4	29.1	28.8
12	Total regulatory capital ratio if IFRS 9 transitional arrangements had not been applied (%)	**32.4**	33.3	32.9	32.7	32.5
13	Total regulatory capital without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**32.4**	33.3	32.9	32.7	32.5
	Leverage ratio					
14	Leverage ratio exposure measure if IFRS 9 transitional arrangements had not been applied	**253,708**	245,767	245,825	249,299	252,663
15	Leverage ratio if IFRS 9 transitional arrangements had not been applied (%)	**6.2**	6.4	6.2	6.0	5.8
16	Leverage ratio without applying the temporary treatment of gains and losses measured at fair value through OCI (%)	**6.2**	6.4	6.2	6.0	5.8

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

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

£m		a	b	c	d	e
		31 Dec 23	30 Sep 23	30 Jun 23	04 Apr 23	31 Dec 22
1	Total own funds and eligible liabilities available	**23,313**	22,139	22,039	22,001	22,665
2	Total risk weighted assets	**54,174**	52,311	51,806	51,731	51,258
3	Total own funds and eligible liabilities available as a percentage of total risk weighted assets (%)	**43.0**	42.3	42.5	42.5	44.2
4	UK leverage exposure ratio measure	**253,708**	245,767	245,825	249,299	252,663
5	Total own funds and eligible liablities available as a percentage of UK leverage exposure ratio measure (%)	**9.2**	9.0	9.0	8.8	9.0

2.4 UK OV1 - Overview of risk weighted exposure amounts[1]

UK OV1 – Overview of risk weighted exposure amounts

		a	b	c
		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
£m		31 Dec 23	04 Apr 23	31 Dec 23
1	**Credit risk (excluding CCR)**	**47,123**	44,647	**3,770**
2	Of which the standardised approach	**3,767**	3,463	**302**
3	Of which the foundation IRB (FIRB) approach	**2,898**	2,967	**232**
4	Of which slotting approach	**619**	681	**50**
UK 4a	Of which equities under the simple riskweighted approach	**243**	211	**19**
5	Of which the advanced IRB (AIRB) approach	**39,596**	37,325	**3,167**
6	**Counterparty credit risk - CCR**	**980**	989	**79**
7	Of which the standardised approach	**360**	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	**486**	517	**38**
9	Of which other CCR	**8**	11	**1**
15	**Settlement risk**	**–**	–	**–**
16	**Securitisation exposures in the non-trading book (after the cap)**	**240**	264	**19**
17	Of which SEC-IRBA approach	**–**	–	**–**
18	Of which SEC-ERBA (including IAA)	**240**	264	**19**
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)**	**342**	305	**27**
29	**Total**	**54,174**	51,731	**4,334**

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 slightly since the prior quarter as a result of a small increase in high quality liquid assets and a slightly lower net cash outflow requirement.

(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)	**31 Dec 23**	30 Sep 23	30 Jun 23	04 Apr 23	**31 Dec 23**	30 Sep 23	30 Jun 23	04 Apr 23
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)**					**56,563**	56,353	55,171	53,255
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	**191,030**	189,105	186,324	183,617	**11,472**	11,711	11,882	11,807
3	*Stable deposits*	**133,876**	135,193	137,477	140,280	**6,694**	6,760	6,874	7,014
4	*Less stable deposits*	**37,817**	38,657	38,753	37,515	**4,763**	4,935	4,993	4,776
5	Unsecured wholesale funding	**9,415**	9,142	9,215	9,344	**8,766**	8,457	8,475	8,548
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	**–**	–	–	–	**–**	–	–	–
7	*Non-operational deposits (all counterparties)*	**2,767**	2,855	2,954	2,970	**2,118**	2,170	2,214	2,174
8	*Unsecured debt*	**6,648**	6,287	6,261	6,374	**6,648**	6,287	6,261	6,374
9	Secured wholesale funding					**107**	103	107	110
10	Additional requirements	**12,551**	13,006	13,145	12,364	**8,540**	8,738	8,669	7,835
11	*Outflows related to derivative exposures and other collateral requirements*	**8,507**	8,926	8,751	7,842	**7,832**	8,095	7,862	7,027
12	*Outflows related to loss of funding on debt products*	**374**	304	456	449	**374**	304	456	449
13	*Credit and liquidity facilities*	**3,670**	3,776	3,938	4,073	**334**	339	351	359
14	Other contractual funding obligations	**255**	251	236	197	**101**	102	93	60
15	Other contingent funding obligations	**17,613**	17,606	18,277	19,336	**2,416**	2,503	2,825	3,292
16	**TOTAL CASH OUTFLOWS**					**31,402**	31,614	32,051	31,652

UK LIQ1 - Quantitative information of LCR (cont.)

£m		a	b	c	d	e	f	g	h
		Total unweighted value (average)				**Total weighted value (average)**			
	Quarter ending on (DD Month YYY)	**31 Dec 23**	30 Sep 23	30 Jun 23	04 Apr 23	**31 Dec 23**	30 Sep 23	30 Jun 23	04 Apr 23
CASH - INFLOWS									
17	Secured lending (e.g. reverse repos)	**1,518**	985	773	769	**138**	131	105	97
18	Inflows from fully performing exposures	**1,836**	1,865	1,893	1,858	**1,478**	1,499	1,516	1,477
19	Other cash inflows	**246**	266	314	269	**246**	266	314	269
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**	**3,600**	3,116	2,980	2,896	**1,862**	1,896	1,935	1,843
UK-20a	*Fully exempt inflows*	**–**	–	–	–	**–**	–	–	–
UK-20b	*Inflows subject to 90% cap*	**–**	–	–	–	**–**	–	–	–
UK-20c	*Inflows subject to 75% cap*	**3,600**	3,116	2,980	2,896	**1,862**	1,896	1,935	1,843
TOTAL ADJUSTED VALUE									
UK-21	LIQUIDITY BUFFER					**56,563**	56,353	55,171	53,255
22	TOTAL NET CASH OUTFLOWS					**29,540**	29,718	30,116	29,809
23	**LIQUIDITY COVERAGE RATIO**					**192**	191	184	180

4 Annex XXI | IRB approach to credit risk

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

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 30 September 2023**	**41,796**
2	Asset size (+/-)	**892**
3	Asset quality (+/-)	**668**
4	Model updates (+/-)	**–**
5	Methodology and policy (+/-)	**–**
6	Acquisitions and disposals (+/-)	**–**
7	Foreign exchange movements (+/-)	**–**
8	Other (+/-)	**–**
9	**Risk weighted exposure amount at 31 December 2023**	**43,356**

RWAs in relation to loans risk weighted under the IRB approach increased in the period due to an increase in asset size and reduction in asset quality. The asset size increase was due to an increase in residential mortgage balances and fair value changes of items in the portfolio hedge for interest rate risk. For capital purposes these items are combined with underlying loans when computing the retail mortgage RWAs. The asset quality reduction was driven by a higher portfolio average loss given default (LGD) linked to property valuations.