Nationwide Building Society Annual Results - for the 12 months ending 4 April 2023

Nationwide Building Society

Business Overview

Nationwide is the UK's largest building society with a balance sheet of £272bn and over 16m members.

As a mutual organisation with no equity shareholders, Nationwide is managed for the benefit of its current and future members, who are its retail savers, owner-occupied mortgage borrowers and current account customers[1]. As the largest building society, we can deliver the value, service and mutual good to our customers and members that others cannot.

Nationwide rewarded members with £1,055m of Member Financial Benefit[2] during 2023 (2022: £325m), reflecting better pricing and incentives than the market average.

The Society also announced the 'Nationwide Fairer Share' payment[3], which will return £340m of value directly to eligible members through a £100 payment in June 2023. We remain no.1 for customer satisfaction amongst relative to our high street peer group, with a lead of 3.8%[4] pts (2022: no.1;+4.6%pts).

Nationwide extended its 'Branch Promise' until at least 2024 and launched a dedicated cost of living helpline and supermarket shopping cash back offer to support members facing financial difficulty.

Financial Performance

Underlying profit for the period was £2,233m (2022: £1,604m), with statutory profit before tax reported at £2,229m (2022: £1,597m). The increase in profit was mainly related to increases in the Bank base rate.

Total income increased to £4,673m (2022: £3,867m), supported by rising bank base rate, with net interest margin increasing to 1.57% (2022: 1.26%).

Total costs increased to £2,323m (2022: £2,234m), reflecting higher inflation and decisions taken to support members and colleagues.

Credit impairment charges were higher at £126m (2022: release of £27m), which includes provisions to reflect the affordability risk associated with a high inflation and interest rate environment.

Trading Performance

Member deposit balances increased to £187.1bn (2022: £178.0bn), with particularly strong flows into interest bearing products, including fixed rate bonds. As a result, our market share of retail deposits increased to 9.6% (2022: 9.4%).

Gross mortgage lending remained robust at £33.6bn (2022: £36.5bn) despite challenging market conditions and included supporting 1 in 7 first-time buyers.

	2022	2023
Underlying profit before tax (£m)	1,604	2,233
Net interest income	3,562	4,498
Costs	(2,234)	(2,323)
Loan impairments	27	(126)
Net interest margin (%)	1.26	1.57
Underlying cost income ratio (%)	57.8	49.7

Balance Sheet

Balance sheet growth from mortgage lending was offset by reduced liquidity balances as a result of decreases in wholesale funding including early repayment of £4.5bn TFSME.

98% of total lending is secured on residential property.

£bn	2022	2023	%
Residential mortgages[5]	197.9	201.4	74
Retail unsecured	4.1	3.9	1
Other lending[6]	6.1	5.5	2
Liquidity	58.7	56.1	21
Other assets	5.6	5.0	2
Assets	**272.4**	**271.9**	**100**
Retail deposits[7]	178.0	187.1	69
Wholesale funding	67.3	57.9	21
Other liabilities	3.0	3.1	1
Capital and reserves[8]	24.1	23.8	9
Liabilities	**272.4**	**271.9**	**100**

Asset Quality

Asset quality metrics remained broadly stable. Average new business LTV was slightly lower at 69%, whilst the indexed stock LTV increased to 55% as a result of recent house price falls.

LTV	2022	2023
Average LTV new business	70%	69%
Indexed LTV of loan stock	52%	55%

Three-month-plus arrears for residential mortgage lending reduced to 0.32% (2022: 0.34%) and remain below the UK Finance industry average of 0.71%[9]. Balances in forbearance reduced in the period to £1,158m (2022: £1,303m).

There has been a rise in arrears rates on the unsecured portfolio, though they remain below pre-pandemic levels[10].

Cases 3m+ in arrears	2022	2023
Prime	0.30%	0.29%
Buy-to-Let & Legacy	0.50%	0.44%
Total Residential Lending	**0.34%**	**0.32%**
UK Finance industry average	0.77%	0.71%
Unsecured Lending	**1.13%**	**1.21%**

Provisioning

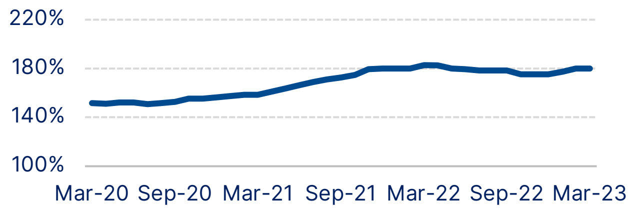
The cost of risk increased to 6bps, reflecting the greater economic uncertainty and affordability pressures presented by higher inflation and interest rates, though this is broadly in line with the pre-pandemic period.

Included within the provision charge was a model adjustment of £199m to recognise the impact on borrower affordability of rising inflation and interest rates (£177m) and a loss given default uplift relating to valuations for cladding risk (£22m).

[1]Holders of CCDS, deferred shares, PIBS, and AT1 instruments issued by the Society are also members. [2]Member financial benefit is quantified as our interest rate differential plus incentives and lower fees. [3]Any future payments through Nationwide Fairer Share will remain discretionary, subject to the Society's ongoing satisfactory financial performance and Board approval. Payments through Nationwide Fairer Share will only be considered after any payment of capital distributions, including those for CCDS and AT1. [4]Ipsos 2023, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to 12 months ending 31 March 2023. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 51,000 adults (aged 16+) a year in total across Great Britain. Interviews were face to face, over the phone and online, taking into account (and weighted to) the overall profile of the adult population. The results reflect the percentage of extremely satisfied and very satisfied customers minus the percentage of customers who were extremely or very or fairly dissatisfied across those customers with a main current account, mortgage or savings. Those in our peer group are providers with more than 3.3% of the main current account market as of April 2022 – Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB. Prior to April 2017, those in our peer group were providers with more than 6% of the main current account market – Barclays, Halifax, HSBC, Lloyds Bank (Lloyds TSB prior to April 2015), NatWest and Santander. [5]Balances are shown net of provisions. [6]Other Lending includes public sector lending to UK registered social landlords and Private Finance Initiative. [7]Shares (member deposits). [8]Total members' interests, subordinated liabilities and subscribed capital. [9]The UKF data is as at December 2022. [10]3m+ arrears (%) for the unsecured portfolio was 1.32% as at 31 Dec 2019.

Liquidity

LCR Pillar 1 % - 12m rolling average[11]



The 12 month average LCR was 180% (2022: 183%). Our internal assessment of liquidity explicitly considers characteristics of Nationwide's deposit book, including the level of uninsured balances and other factors that we expect to impact behaviour in a stress (e.g. digital activity), and is our binding constraint.

Liquid assets totalled £50bn (2022: £43bn) with a further estimated central bank drawdown capacity of £70bn. This is materially above the £29bn (15%) of retail deposit balances that were in excess of the £85k FSCS limit (2022: £26bn).

Capital

The Society's capital position remains strong with a CET1 ratio of 26.5% (2022: 24.1%) and leverage ratio of 6.0% (2022: 5.4%). MREL resources are also comfortably in excess of requirements.

Key Ratios (%)	2022	2023
CET1 Ratio	24.1	26.5
Leverage Ratio	5.4	6.0

Leverage continues 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.

We repurchased £100m of CCDS in February following receipt of PRA permission to repurchase up to 2% of our CET1 resources.

The PRA has consulted on Basel 3.1 and our interpretation of the draft rules suggests our CET1 ratio would reduce to a low-to-mid 20% range on a pro-forma, end-point basis. Our leverage requirements are expected to remain our binding Tier 1 capital constraint in the medium term.

Note that any future payments through Nationwide Fairer Share will remain discretionary, subject to the Society's ongoing satisfactory financial performance and Board approval. Payments through Nationwide Fairer Share will only be considered after any payment of capital distributions, including those for CCDS and AT1.

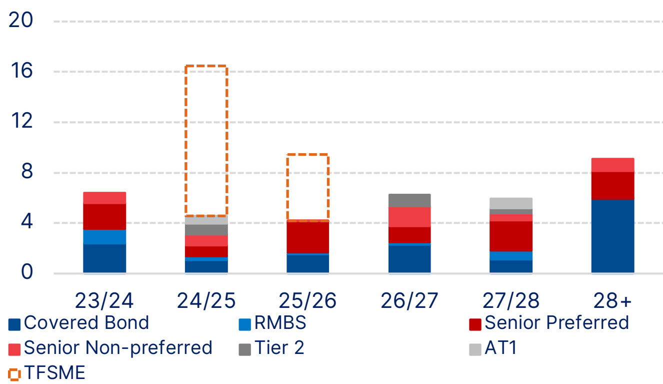
Funding

Nationwide issues across secured, senior unsecured, and subordinated platforms. Term funding is diversified across products and currencies, both in public and private placements.

The Society drew a total of £21.7bn from the TFSME scheme. In Q4 2022/23 we repaid £4.5bn of TFSME ahead of contractual maturity, leaving £17.2bn of drawings outstanding. As TFSME drawings are repaid, we will reduce our LCR to c. 135-145%, in line with pre-pandemic levels.

Currently it is our intention to maintain at least one benchmark outstanding in each instrument across the liability structure and we expect to issue c. £6-8bn equivalent in 2023/24 subject to mortgage and deposit volumes.

Long Term Wholesale Funding Maturities[12] (£bn)



Credit Ratings

S&P affirmed all ratings in January 2023[13]. Moody's affirmed all ratings in March 2023[14]. Fitch affirmed all ratings in January 2023[15].

Rating Agency	Senior preferred	Short term	Senior non-preferred	Outlook
S&P	A+	A-1	BBB+	Stable
Moody's	A1	P-1	A3	Stable
Fitch	A+	F1	A	Stable

ESG Ratings

Nationwide continues to progress the TCFD report and Responsible Business Hub[16]. We are committed to the further development of our ESG disclosures, and recently published our science based targets.

Rating Agency	Rating	Scale	Time stamp
MSCI ESG Rating[17]	AAA	AAA to CCC	Dec 2022
Morningstar Sustainalytics Rating[18]	10.2, low risk	0 to 100 Neg. to severe	Nov 2022
Moody's Analytics ESG Assessment[19]	57	0 to 100 weak to adv'd	Jan 2022
ISS ESG[20]	C+, Prime	A+ to D-	Feb 2022
CDP	A-	A to D-	Dec 2022
S&P Global	54	0 to 100	May 2023

Contact Details:

Sarah Abercrombie
Head of Investor Relations, Credit Ratings & Treasury Sustainability
E: Sarah.Abercrombie@nationwide.co.uk
T: +44 (0) 7587 886500

Vikas Sidhu
Senior Manager, Investor Relations
E: Vikas.Sidhu@nationwide.co.uk

Investor Relations Mailbox
nationwide.treasury@nationwide.co.uk

[11]Data points represent 12 month simple average of LCR. [12]Maturities are based on the assumption all calls are exercised at the first available call date. This is not an indication of future redemption and should not be interpreted in that way. [13]S&P Global Ratings – Update: Nationwide Building Society 20 January 2023. [14]Moody's Investors Service – Credit Opinion 6 March 2023. [15]Fitch Ratings – Ratings Report 19 January 2023 [16]www.nationwide.co.uk/investor-relations/responsible-business. [17]The use by Nationwide of any MSCI ESG Research LLC or its affiliates ("MSCI") data, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation, or promotion of Nationwide by MSCI. MSCI services and data are the property of MSCI or its information providers and are provided 'as-is' and without warranty. MSCI names and logos are trademarks or service marks of MSCI. [18]Copyright © 2023 Morningstar Sustainalytics. All rights reserved. This publication contains information developed by Sustainalytics (www.sustainalytics.com). Such information and data are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data) and are provided for informational purposes only. They do not constitute an endorsement of any product or project, nor an investment advice and are not warranted to be complete, timely, accurate or suitable for a particular purpose. Their use is subject to conditions available at https://www.sustainalytics.com/legal-disclaimers [19]www.moodys.com/esg [20]www.issgovernance.com/esg/ratings/.

Disclaimer

This document has been prepared by and is the property of Nationwide Building Society (“Nationwide”). By attending this presentation or accepting this document you represent, warrant and agree that (i) you will not reproduce or transmit the contents (in whole or in part) of this document by any means; (ii) you have understood and agreed to the terms set out herein; (iii) you consent to delivery of this document by electronic transmission, if applicable; (iv) you are not a US Person, as defined below; (v) if you are in the United Kingdom, then you are a person who is (a) an investment professional within the meaning of Article 19 (5)of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (“FPO”) or (b) a high net worth entity falling with Article 49(2)(a) to (d) of the FPO; and (vi) if you are within the European Economic Area (“EEA”), then you are a person who is a “qualified investor” within the meaning of Article 2(1)(e) of EU Directive 2003/71/EC, as amended (the “Prospectus Directive”).

This document shall not constitute or form part of any offer to sell or the solicitation of an offer to buy or subscribe for any securities. Any securities subsequently issued by Nationwide will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any state or any other jurisdiction of the United States. Any securities subsequently issued by Nationwide may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

NOT FOR DISTRIBUTION TO ANY US PERSON (AS SUCH TERM IS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

In the United Kingdom, this communication is directed only at persons who (i) have professional experience in matters relating to investments falling within Article 19 of the FPO, as amended; or (ii) are Professional Clients (as defined by FCA Rules), all such persons in (i) and (ii) together being referred to as “relevant persons”.

This communication must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

In the EEA, this communication is only addressed to and directed at persons who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive.

NEITHER THIS DOCUMENT NOR ANY COPY HEREOF MAY BE DISTRIBUTED IN ANY JURISDICTIONS WHERE ITS DISTRIBUTION MAY BE RESTRICTED BY LAW. PERSONS WHO RECEIVE THIS DOCUMENT SHOULD MAKE THEMSELVES AWARE OF AND ADHERE TO ANY SUCH RESTRICTIONS. Any failure to comply with these restrictions may constitute a violation of the laws of any such other jurisdictions. In particular, neither this document nor any copy of it nor the information contained in it is for distribution directly or indirectly in or into the United States, Canada, Australia or Japan.

This document does not constitute an offering document. The information presented herein is an advertisement and does not comprise a prospectus for the purposes of the Prospectus Directive and/or Part VI of the Financial Services and Markets Act 2000. The information herein has not been reviewed or approved by any rating agency, government entity, regulatory body or listing authority and does not constitute listing particulars in compliance with the regulations or rules of any stock exchange. Any future potential transaction is qualified in its entirety by the information in the final form documentation relating to any such proposed transaction. Investors should not subscribe for any securities except on the basis of the information contained in the final form documentation relating to any such proposed issue of securities, in particular, each reader is directed to any section headed “Risk Factors” in any such documentation.

This document is published solely for informational purposes and should not be treated as giving investment advice.

It has no regard to the specific investment objectives, financial situation or particular needs of any recipient. No representation or warranty, express or implied, is or will be made in relation to, and no responsibility is or will be accepted by Nationwide and its affiliates, agents, directors, partners and employees as to the accuracy or completeness of the information contained in this presentation and nothing in this presentation shall be deemed to constitute such a representation or warranty or to constitute a recommendation to any person to acquire any securities. Nationwide and its affiliates, agents, directors, partners and employees accept no liability whatsoever for any loss or damage howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

Although the statements of fact in this document have been obtained from and are based upon sources that are believed to be reliable, their accuracy is not guaranteed by Nationwide and any such information may be incomplete or condensed.

All opinions and estimates included in this document are subject to change without notice. Nationwide is under no obligation to update or keep current the information contained herein.

This document may contain statements that constitute forward-looking statements. Such forward-looking statements can be identified by the use of forward-looking terminology, such as the words “believes”, “expects”, “may”, “intends”, “should” or “anticipates”, or the negative or other variations of those terms. Such statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of securities, Nationwide or the UK residential mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among others: general economic and business conditions in the United Kingdom; currency exchange and interest rate fluctuations; government, statutory, regulatory or administrative rules or initiatives affecting Nationwide; changes in business strategy, lending practices or customer relationships; and other factors that may be referred to in the document. While such statements reflect projections prepared in good faith based upon methods and data that are believed to be reasonable and accurate as of the date thereof, Nationwide undertakes no obligation to revise these forward-looking statements to reflect subsequent events or circumstances. Recipients of this presentation should not place undue reliance on forward-looking statements and are advised to make their own independent analysis and determination with respect to the forecast periods, which reflect Nationwide’s view only as of the date hereof.

Losses to investments may occur due to a variety of factors. Before purchasing any securities described in this document you should take steps to ensure that you understand and have made an independent assessment of the suitability and appropriateness thereof, and the nature and extent of your exposure to risk of loss in light of your own objectives, financial and operational resources and other relevant circumstances.