



Nationwide

2003-04 RESULTS

Graham Beale

Group Finance Director

- **Overview**
 - ▶ **Results Highlights**
 - ▶ **Strategic Focus**
- **Performance Highlights**
- **Summary of Results**
- **Market Outlook**

Overview

Profit up 21%.....

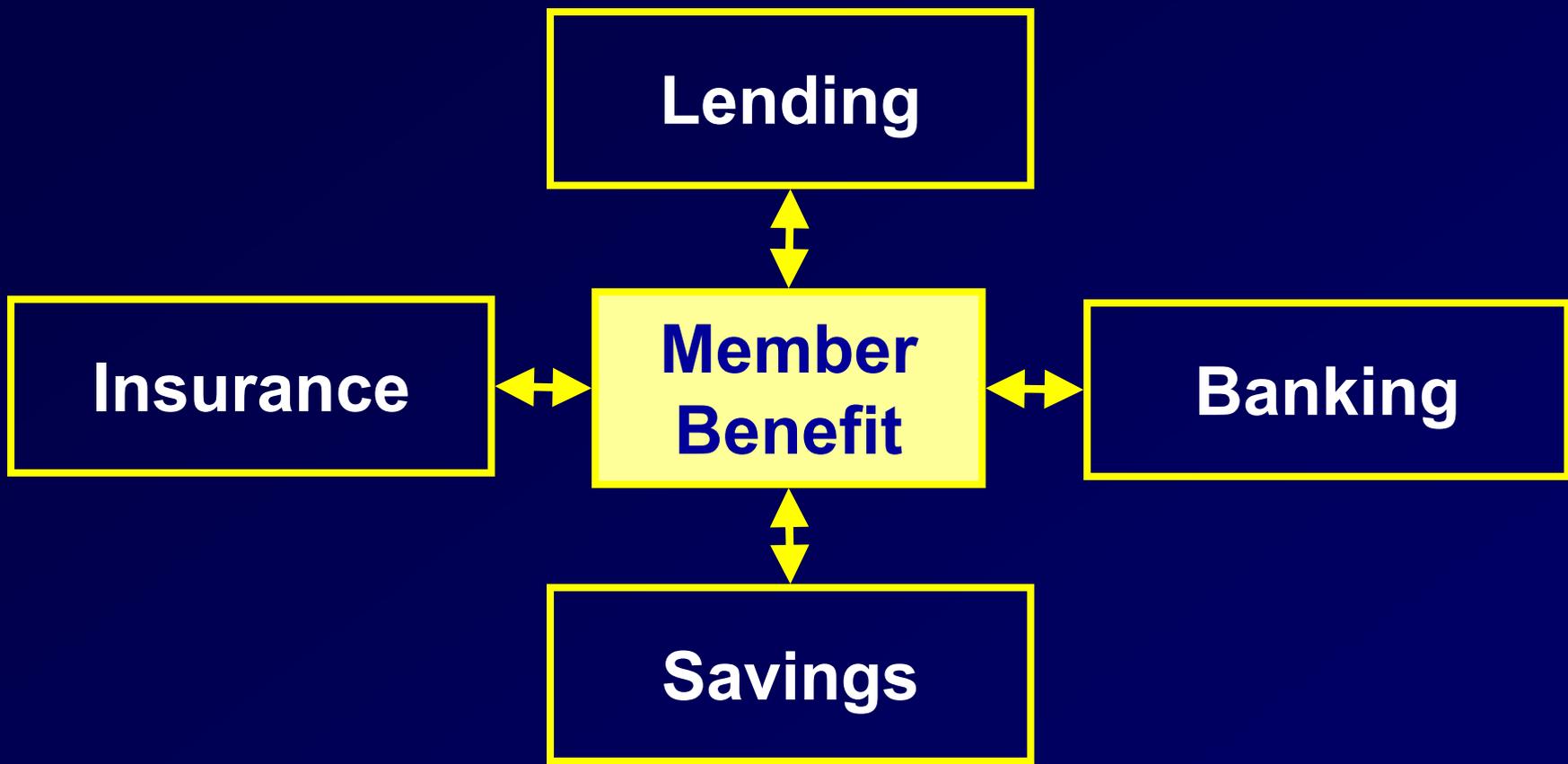
	03/04	02/03	Increase
	£m	£m	%
Pre Tax Profit	427	353	21
Pricing Benefit	588	510	15
Total Member Value Generated	906	773	17

Assets exceed £100bn....

	03/04	02/03	Increase
	£bn	£bn	%
Mortgage Advances	24.4	17.4	40
Total Assets	101.4	85.4	19
Total Capital	6.2	5.1	21
Solvency Ratio	11.72%	11.68%	-

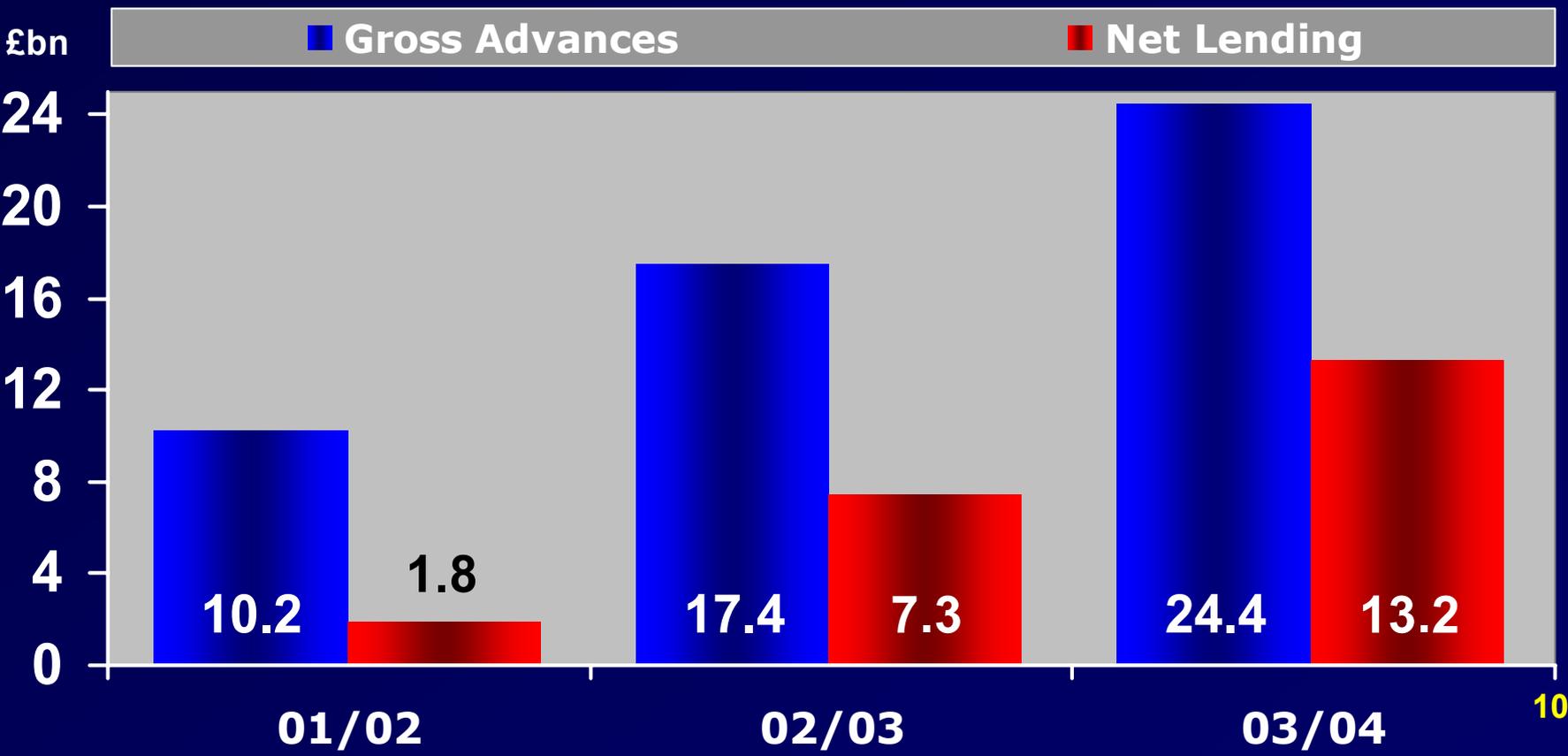
- **“Modern mutual”**
- **No shareholders – aim is to generate maximum value for members for:**
 - ▶ **Distribution – Pricing Benefit**
 - ▶ **Retaining – fund growth of business**
 - ▶ **Investing – in our people and in our business**
- **Business approach**
 - ▶ **Full range of FS products**
 - ▶ **Full range, integrated distribution channels**
 - ▶ **Strong organic growth**
 - ▶ **UK focused**

Performance Highlights

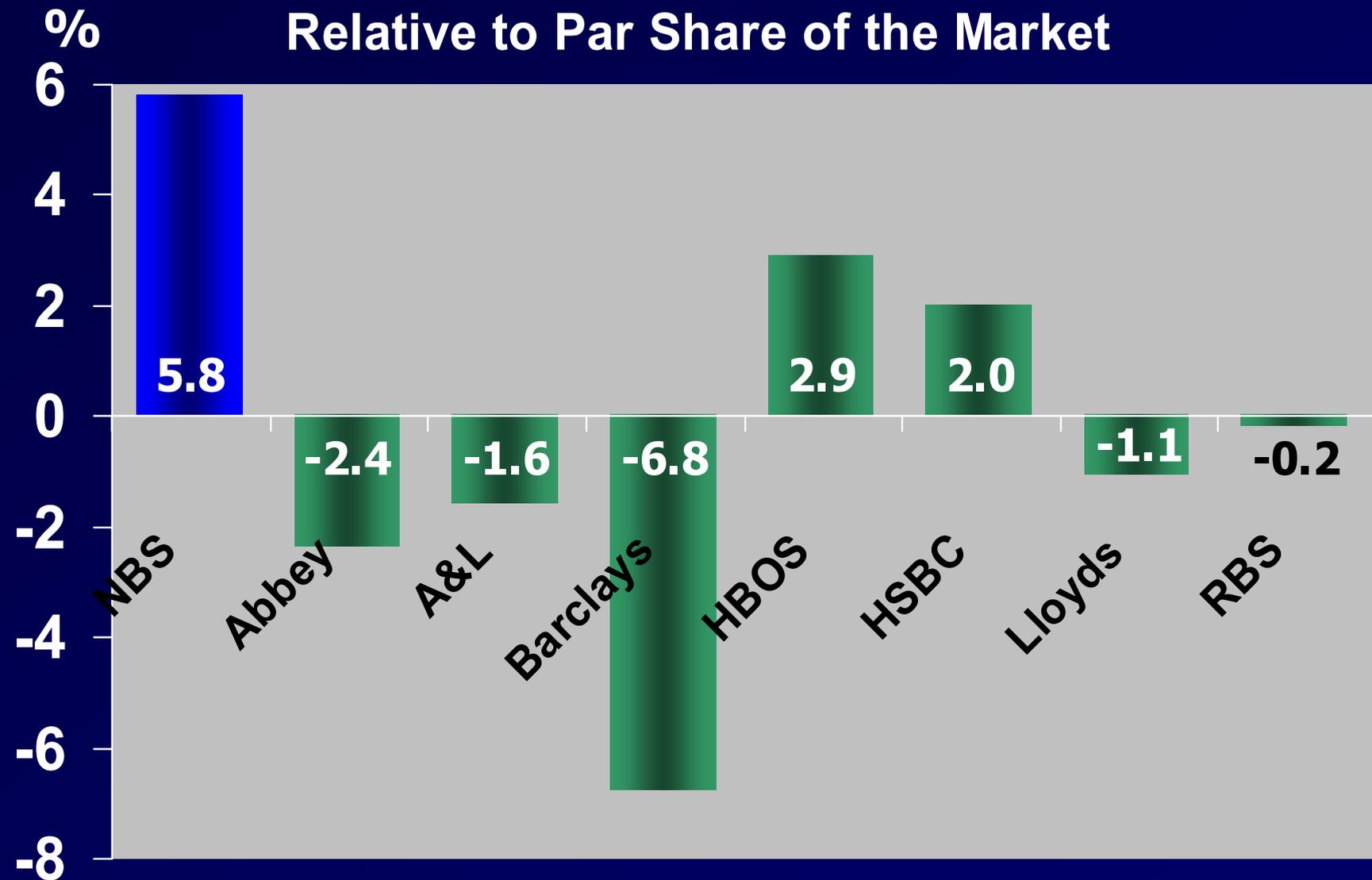


Lending - Net Mortgage Growth Nationwide

- Gross Advances £24.4bn – 8.5% market share
- Principal Repaid £11.1bn - 6.1% market share
- Net Lending £13.2bn – 12.8% market share

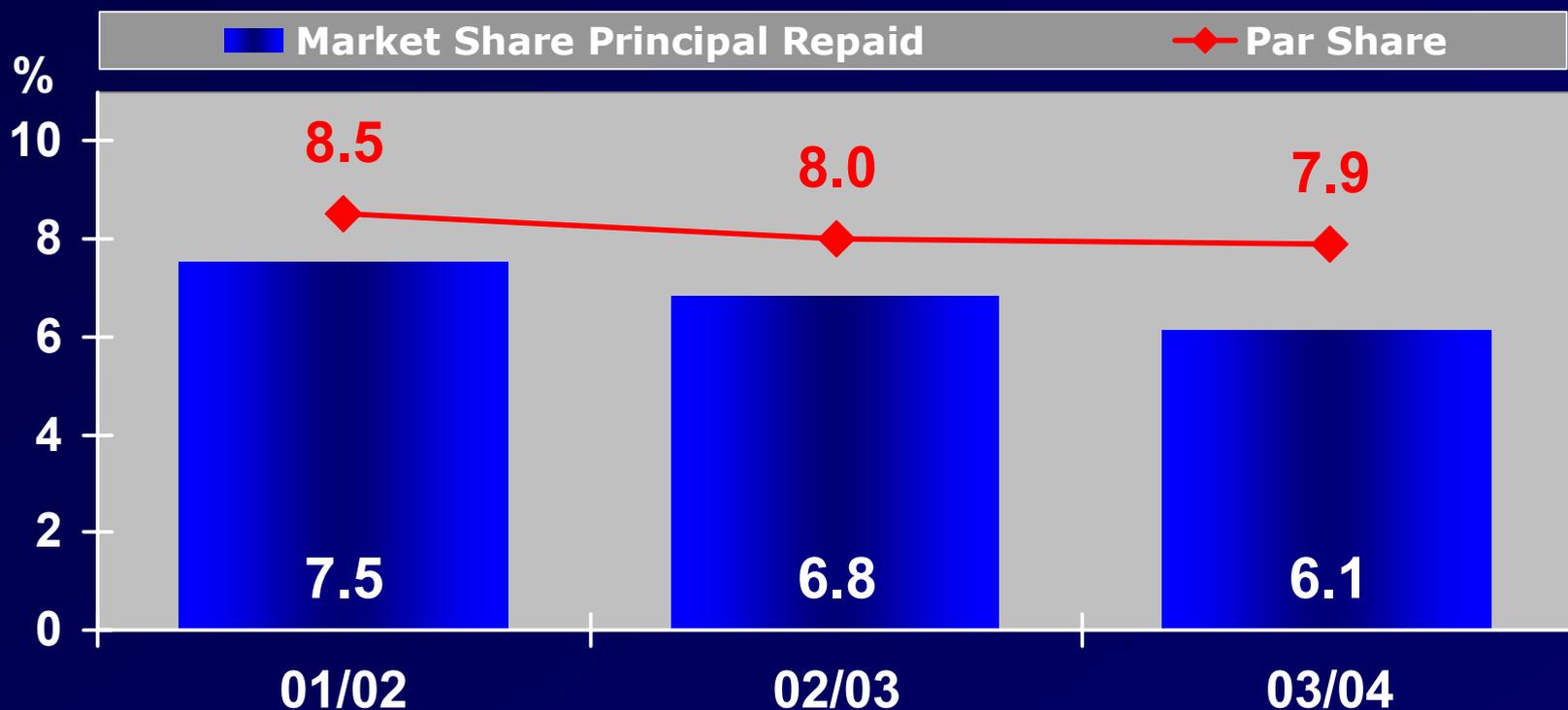


Competitor Net Lending 2003



All numbers are 2003 calendar year

- 82% retained 6 months post maturity
- Boosted net lending by c.£4.5bn in 2003/04



- **Responsible lender**

- ▶ No lending over 95% Loan to Value
- ▶ Loan size based on ability to service repayment

- **Society only lends in core markets**

- ▶ House purchase
- ▶ Re-mortgage
- ▶ Further advances

- **Specialist lending through UCB**

- ▶ Self Certified – robust approval systems in place
- ▶ Buy to Let – total balances £750m – c.1% of Group Residential balances

- Arrears levels keep falling

Mortgage Arrears 3 Months Plus



- Record levels of lending in recent months
 - ▶ Gross advances **£897m** – up **25%**
 - ▶ Net Advances **£181m** – up **49%**
 - ▶ Total balances **£1,190m** – up **18%**
- Single pricing for all loan sizes - **6.7% APR**
- Strenuous credit assessment
 - ▶ **1 in 2** cases rejected
 - ▶ **80%** of lending to existing Nationwide customers

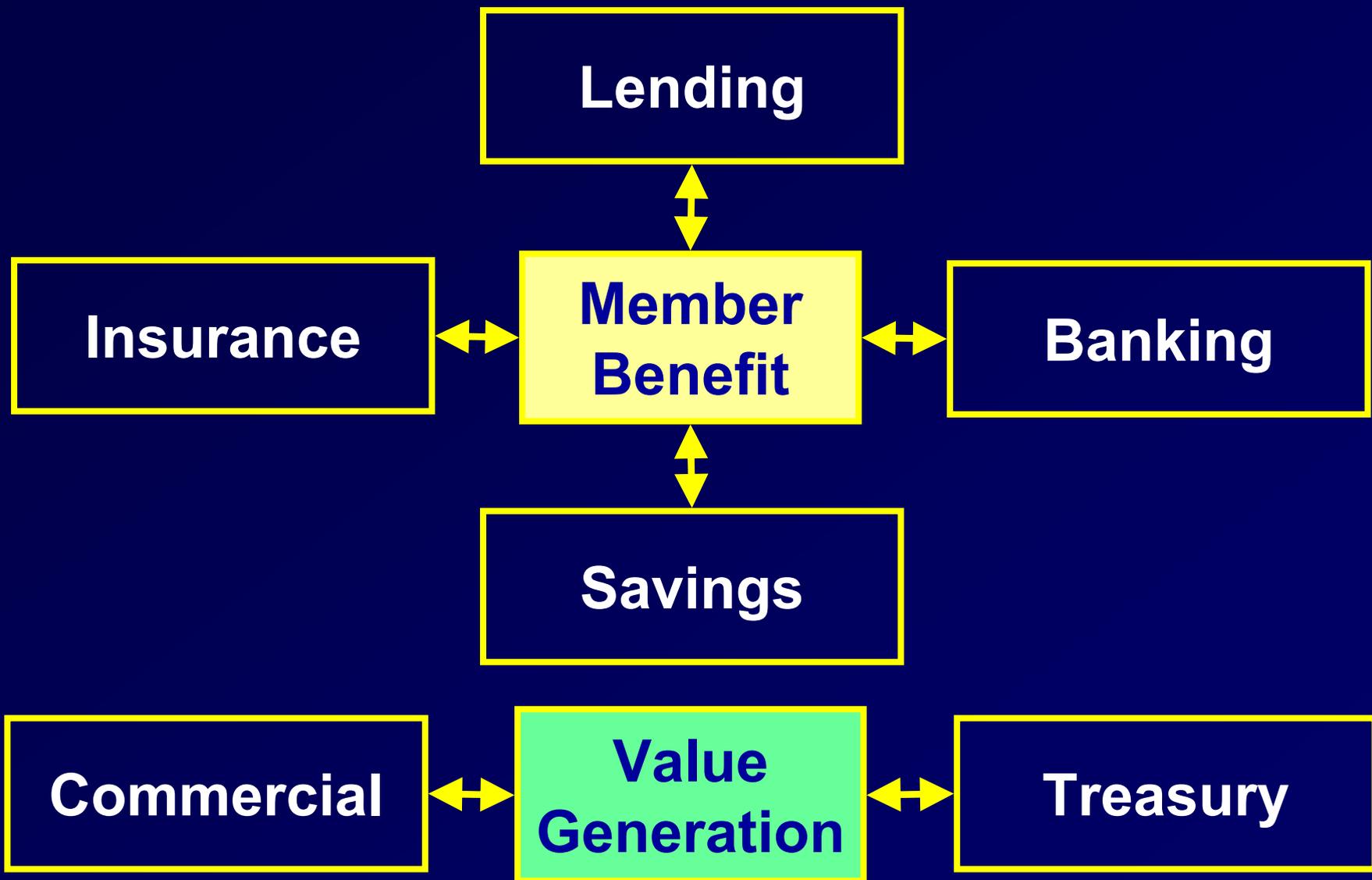
- **£5.0bn** increase in savings balances (**6.9%** market share)
 - ▶ Renewed focus on retail savings in market – strong competition
 - ▶ Inflows into e-savings, fixed rate bonds and member loyalty bonds
 - ▶ Total balances **£65.9bn** – UK's **third largest** Retail Savings provider

- **500,000** new Current Accounts (**8.3%** market share – par **4%**)
 - ▶ **3 million** customers
 - ▶ **23%** regularly use our online bank
- **222,000** Credit Cards issued – up **25%**
 - ▶ Gross lending **£1.4bn** (**1%** market share)
 - ▶ **868,000** cards in issue
 - ▶ Good quality - benchmark performance for accounts over limit **1.3%** - average **3.9%**

- **159,000** new **Life** policies and **Investment** products issued – up **5%**
 - ▶ Strong sales of term assurance – up **16%**
 - ▶ No with profit sales
 - ▶ Mortgage payment protection free of charge for first 12 months
- **529,000 General Insurance** covers sold
 - ▶ Total covers **1.6m**
 - ▶ All underwritten by third parties

Cross holding ratio improved despite adding 0.5m new members....

	03/04		02/03	
	m	%	m	%
Total Members	11.0		10.5	
With 1 product	6.6	60	6.6	63
With 2 products	2.4	22	2.3	22
With 3 products	1.1	10	0.9	9
With 4 products	0.5	5	0.4	4
With 5+ products	0.4	3	0.3	2
Average Product Groups per member	1.70		1.65	



- Gross lending **£4.1bn** – up **6%**
- Net Lending **£1.6bn** – up **15%**
- Outstanding balances represent **14%** of total Group lending
- 20 year track record
- Whole book is secured
 - ▶ No development finance
- Asset quality strong - arrears balances only **0.03%** of total book (2003 – 0.04%)
- Strong margin and fee contribution

- Wholesale funding used to support asset growth
 - ▶ Additional **£9.4bn** raised – wholesale funding ratio **28.9%**
 - ▶ Active MTN programmes – UK, USA, Euro
- Capital raising
 - ▶ **\$625m** Sub Debt
 - ▶ **£400m** PIBS – very attractive pricing – 1.5x over subscribed
- Liquid assets and investment - **£17.4bn**

Planning for strong organic growth...

- Mortgages above par growth – net lending 9-11% p.a.
- Savings to grow at par share
- Strong growth in other PFS lines
- Controlled growth of Commercial & Treasury

...while continuing to closely manage...

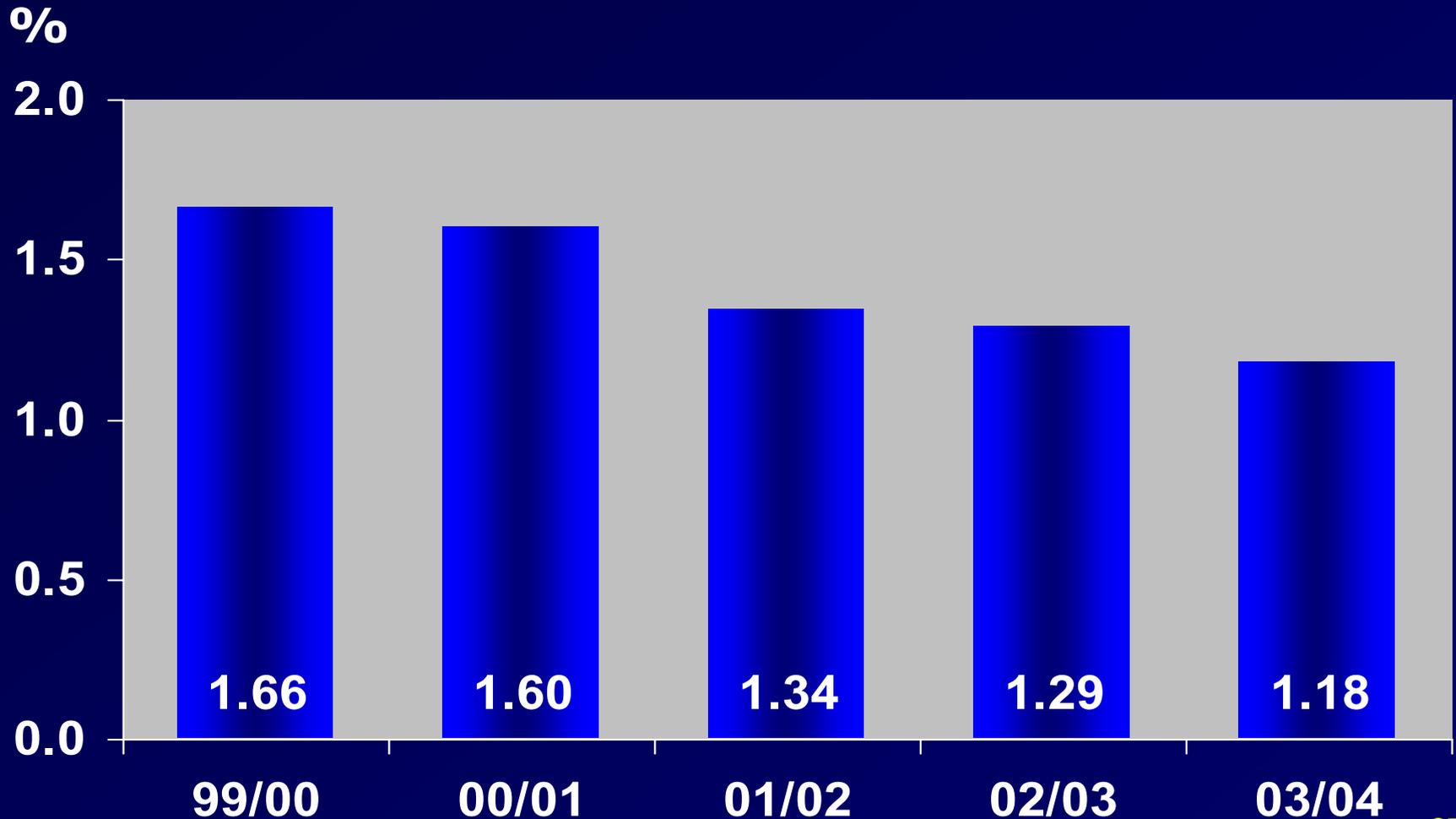
- Margin & spreads – to deliver required profit
- Asset quality – to maintain earnings quality
- Profit retention – strong solvency ratio
- Profit distribution – meaningful difference
- Investment – building a modern business

Summary of Results

	03/04	02/03	
	£m	£m	%
Total Income	1,350	1,259	7
Expenses & Deprec.	(866)	(807)	7
Provisions / Write Offs	(57)	(99)	(42)
Profit Before Tax	427	353	21
Profit Post Tax	318	263	21

	03/04	02/03	Change
	£m	£m	%
Net Interest Income	1,099	1,031	7
Non-Interest Income	251	228	10
Total Income	1,350	1,259	7

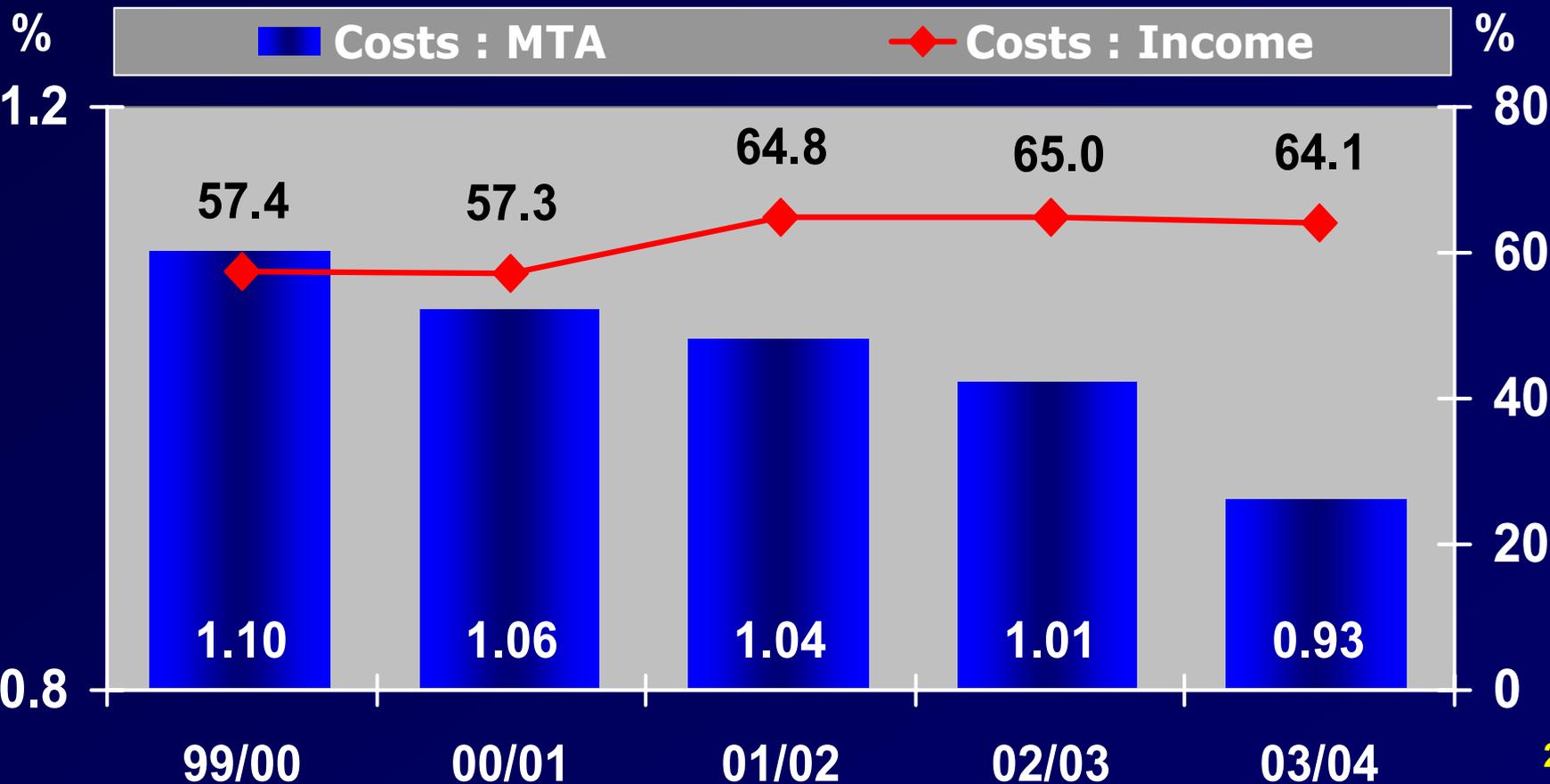
Margin impacted by low interest rate environment



Competitor NIMs 2002 and 2003 Nationwide



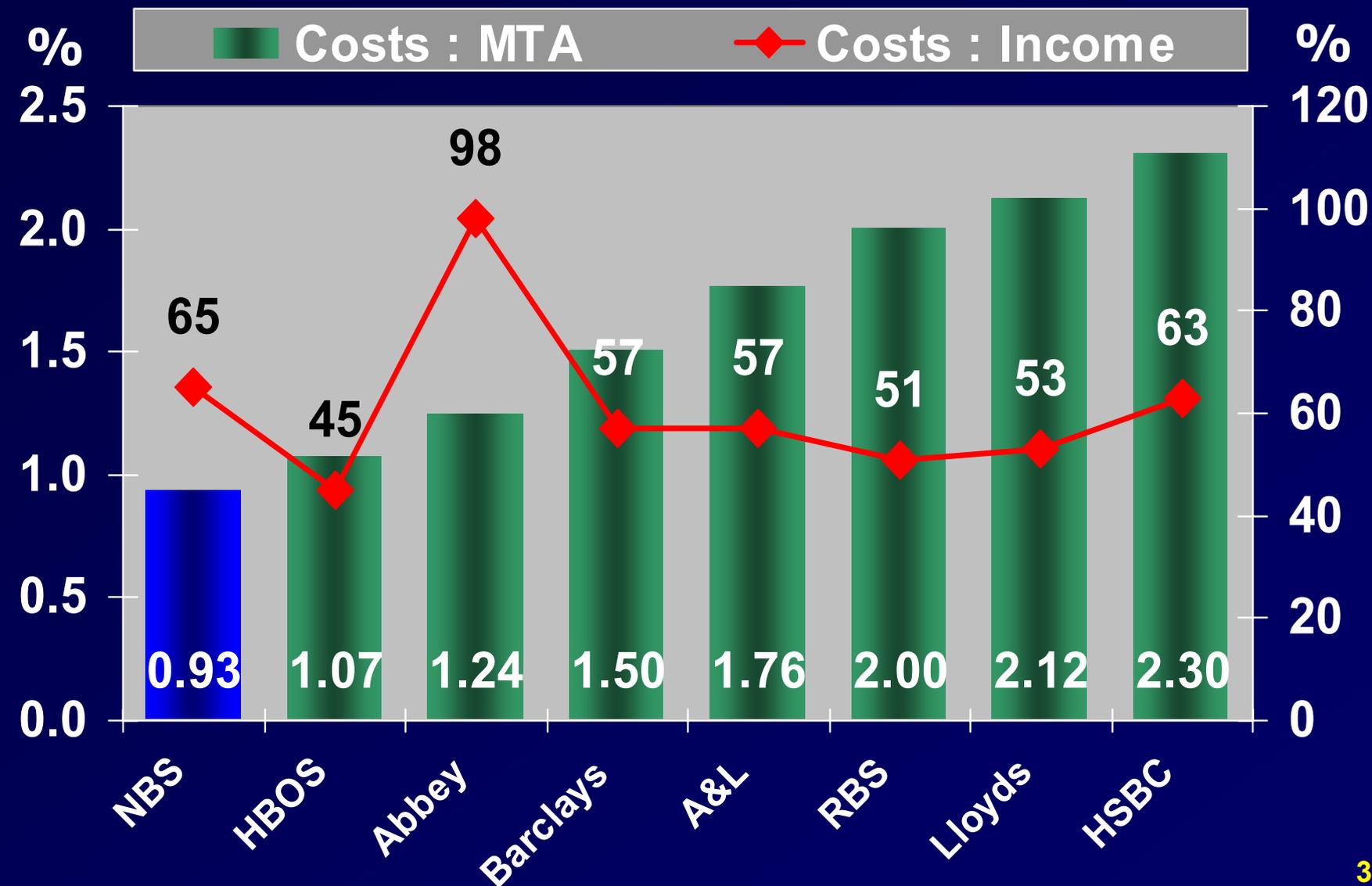
- Costs : Mean Total Assets fallen for 15th year
- Targeting improvement in Cost : Income ratio to 55% by 2006-07



Competitor Efficiency 2003



Nationwide

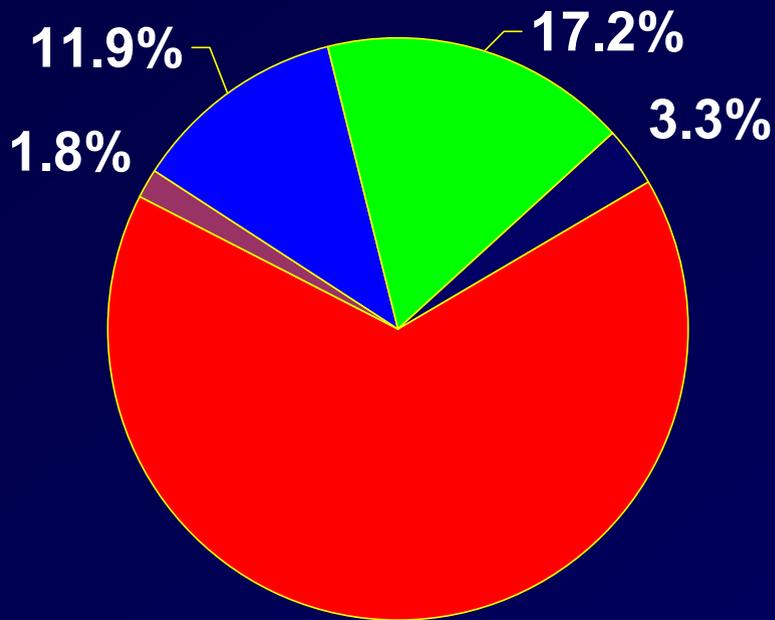


	03/04	02/03
	£m	£m
Bad debt provisions	(44)	(49)
Liabilities provisions	(40)	(11)
Fixed asset investments	26	(38)
Total	(58)	(98)

- Liabilities provision includes £34m for customer redress relating to current and future endowment review claims
- Fixed asset investment held at mark to market – enjoyed improvements in underlying value

High quality asset composition – 98.2% secured / AA rated

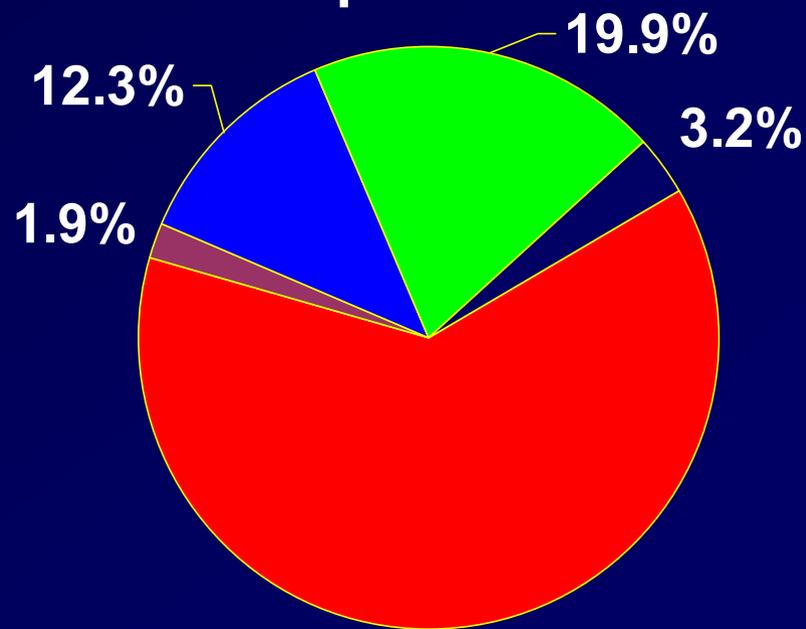
April 2004



65.8%



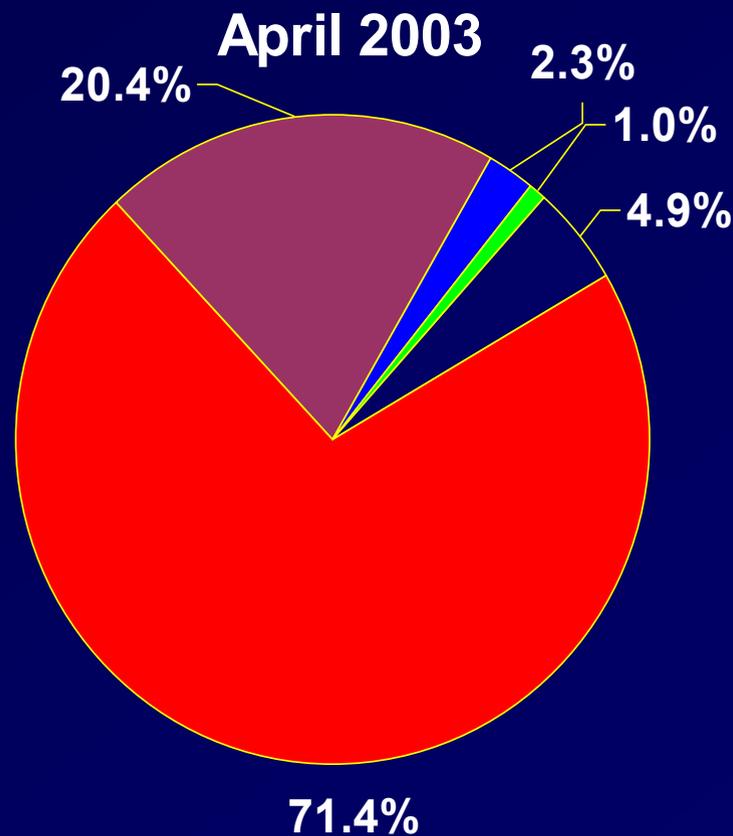
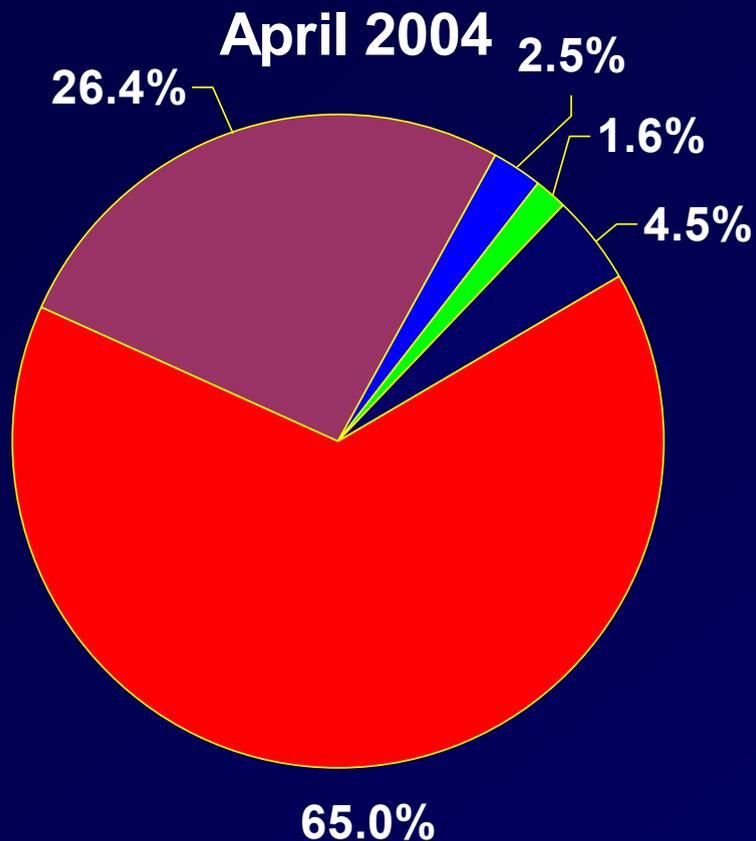
April 2003



62.7%



Efficient funding of asset growth



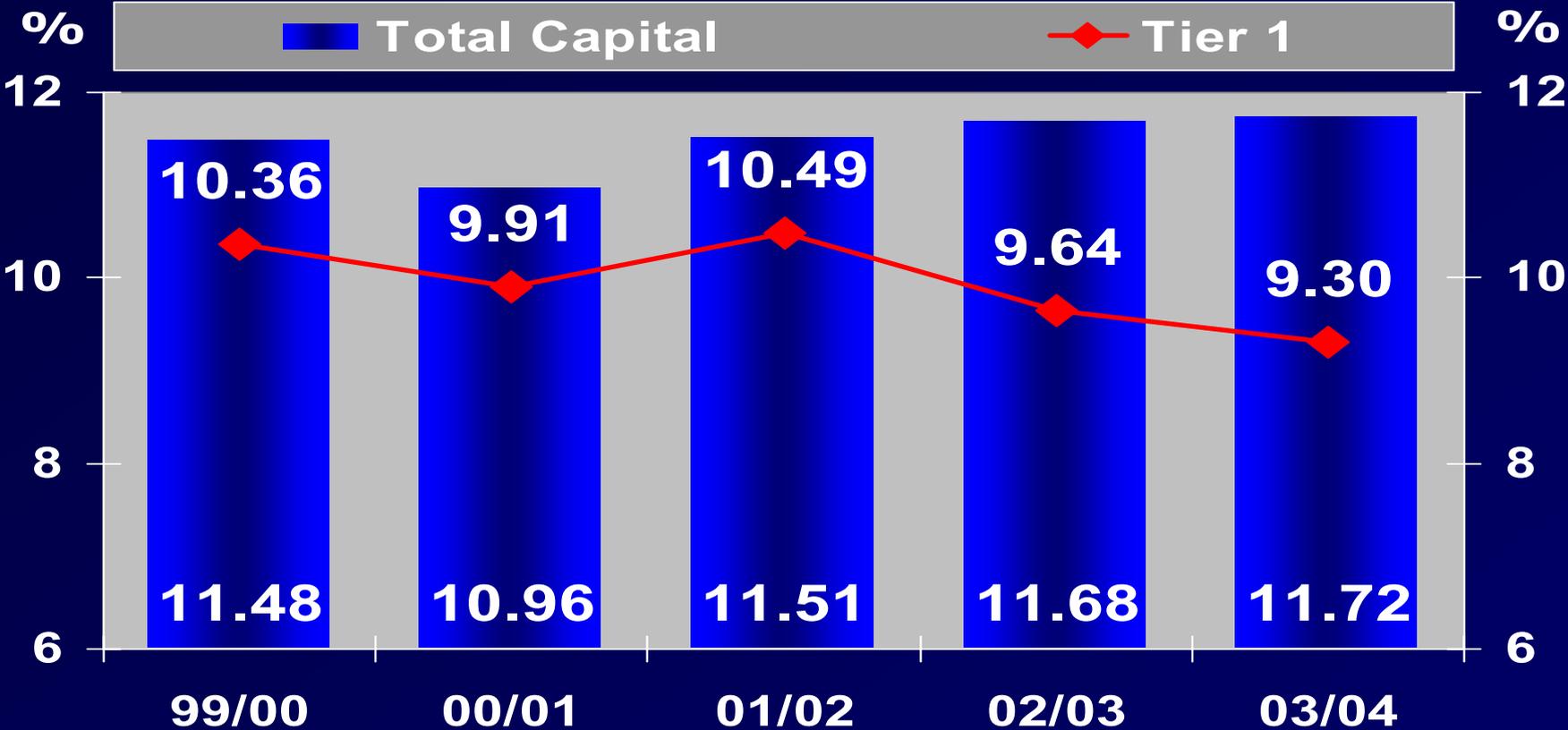
- Shares
- Debt Securities
- Other
- SD & PIBS
- Reserves

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Capital Solvency Ratios



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Credit Rating

Fitch IBCA

Moody's

S & P

Short Term

F1+

P-1

A-1

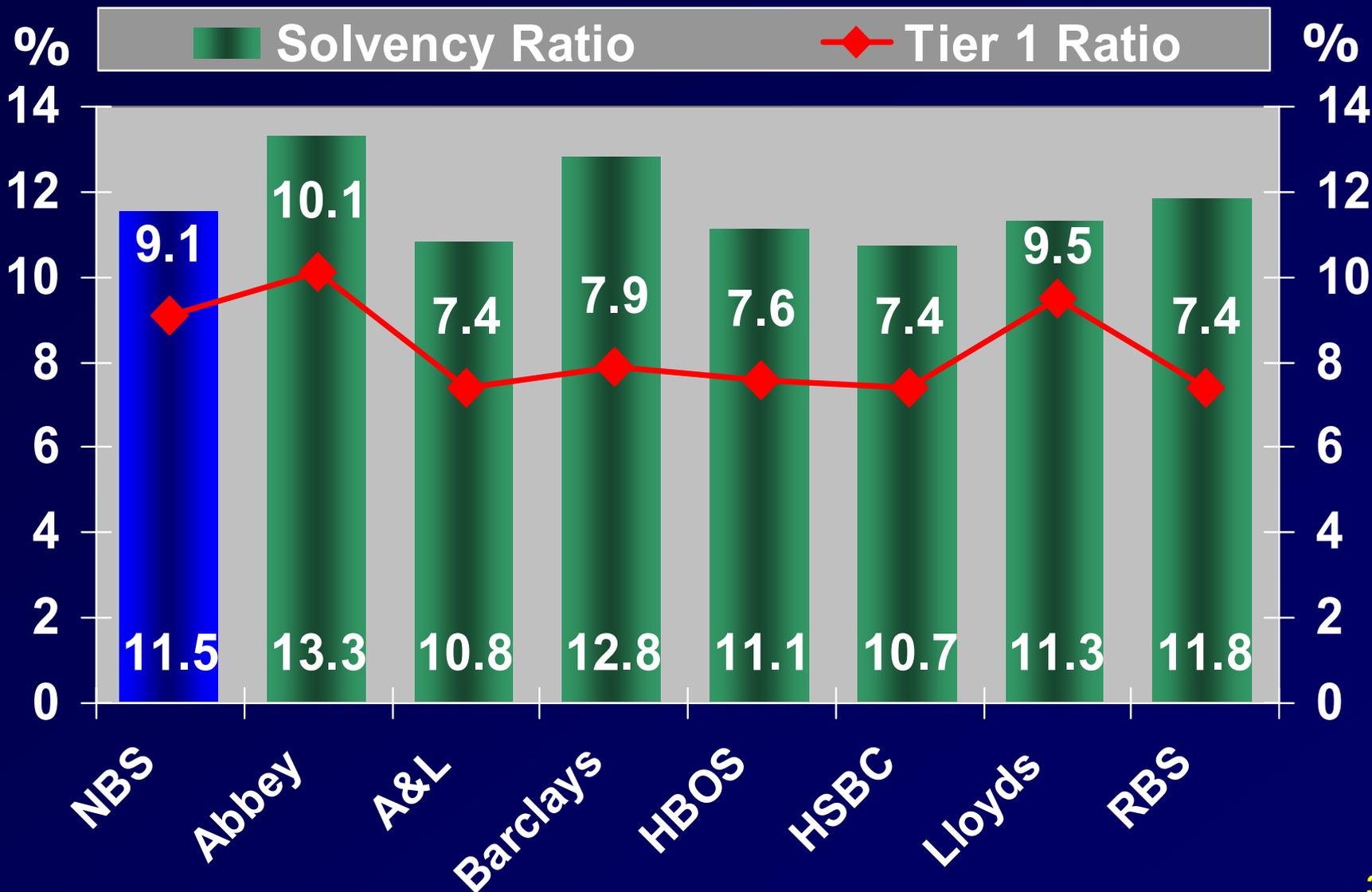
Long Term

AA-

Aa3

A+

Competitor SR's end 2003



Basel II

- On course to achieve IRB status
- Core risk systems in place / being developed
- Should be a net beneficiary

International Accounting Standards

- On schedule to report in 2005/06

Mortgage & Insurance Regulation

- Developing appropriate policies and processes
- Greater transparency consistent with Nationwide's agenda
- Will be compliant on time

Summary

Strong financial results...

- Profits up 21% to £427m
- Capital strength - total solvency 11.72%
- Asset quality – average LTV of 38% (41%)
- Efficiency - Cost:MTA down again for 15th year

...underpin growth across all of our markets

- Total Assets up 19% in 03/04
- 12.8% share of net mortgage market
- 6.9% share of savings market
- 508,000 new current accounts issued
- Secured commercial lending assets exceed £12bn

Market Outlook

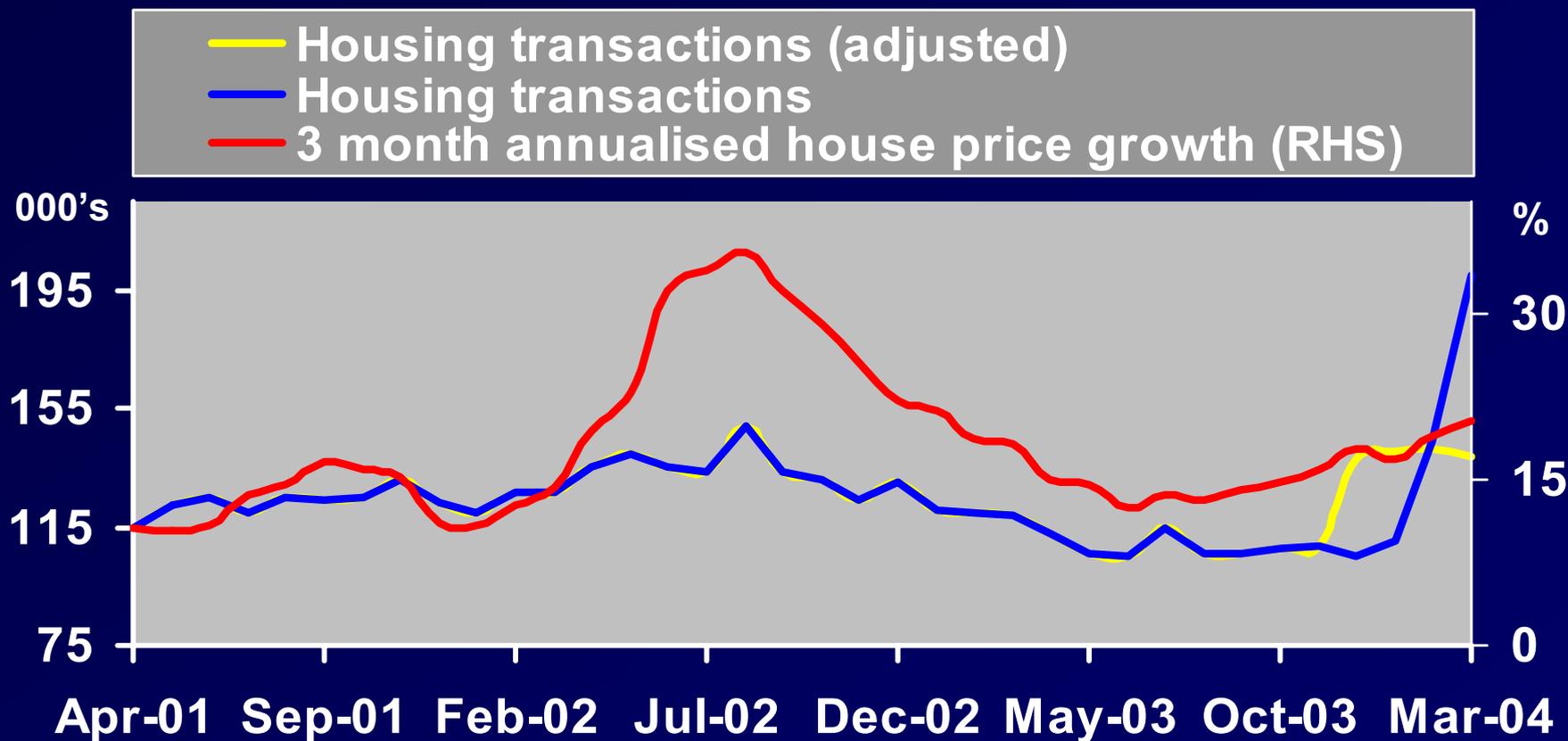
- **Recent Trends**

- ▶ **Housing Market**
- ▶ **Lending & Savings Markets**
- ▶ **Retail Spreads**

- **Outlook**

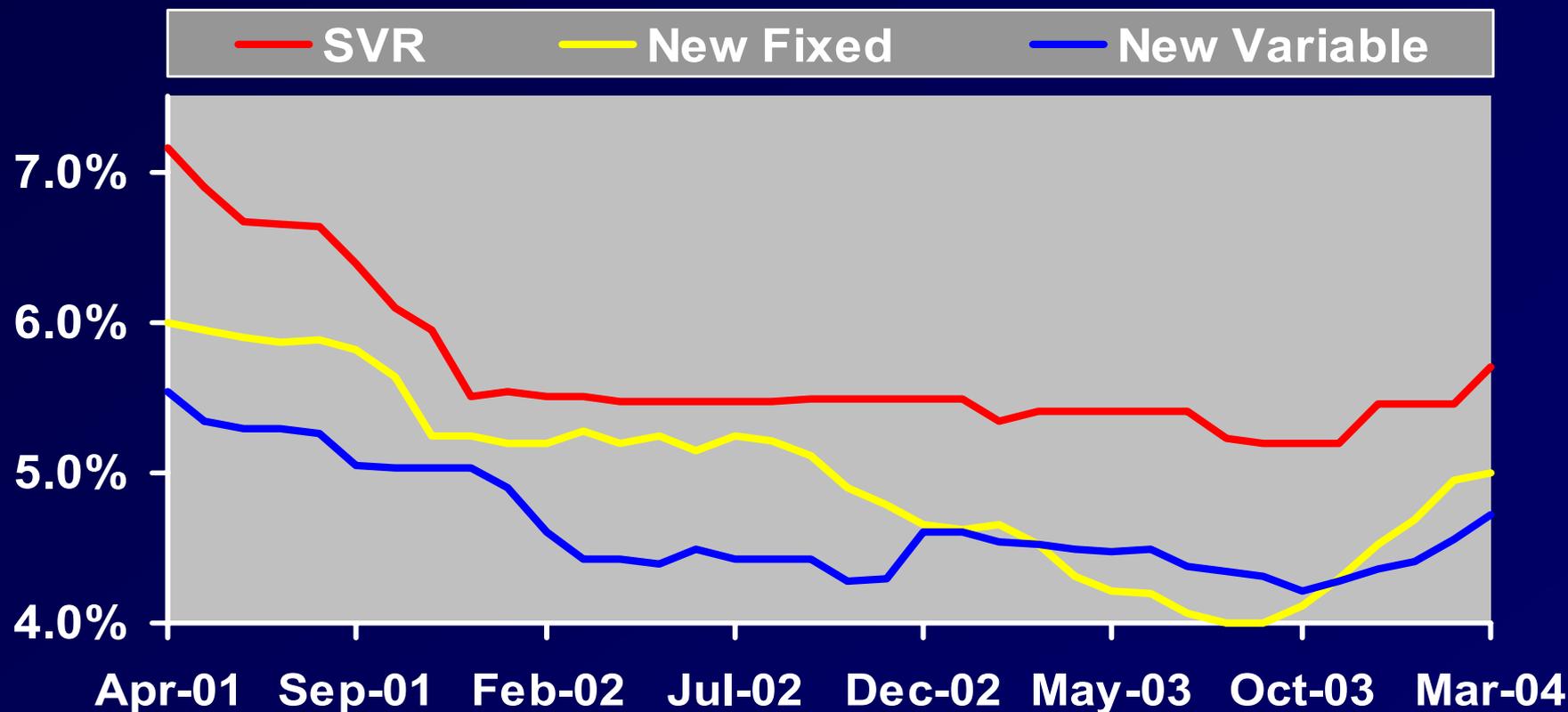
- ▶ **Debt levels**
- ▶ **Interest rates**
- ▶ **Economy**

● Housing market accelerated in last six months



Source: Nationwide, Inland Revenue

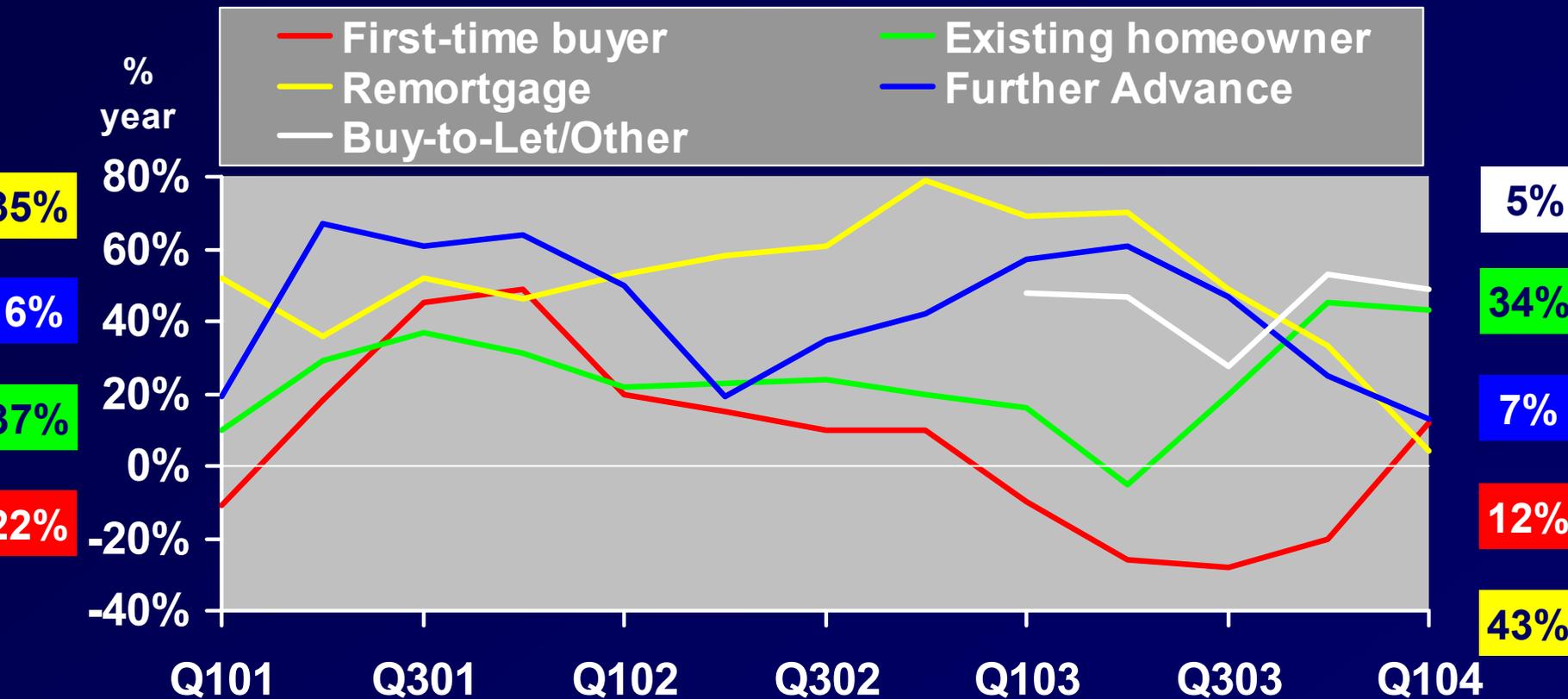
- 'Front' book – 'Back' book gap persists
- Worth £600 off annual payment for £100k mortgage



Source: Nationwide, Survey of Mortgage Lenders

Mortgage Lending

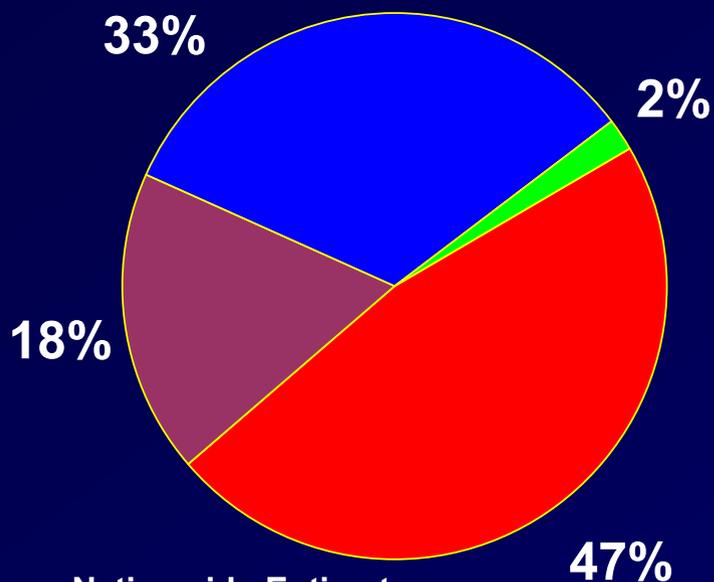
- Housing market being driven by existing owners
- Equity withdrawal boosting net lending
- Internal switching equivalent to remortgage advances



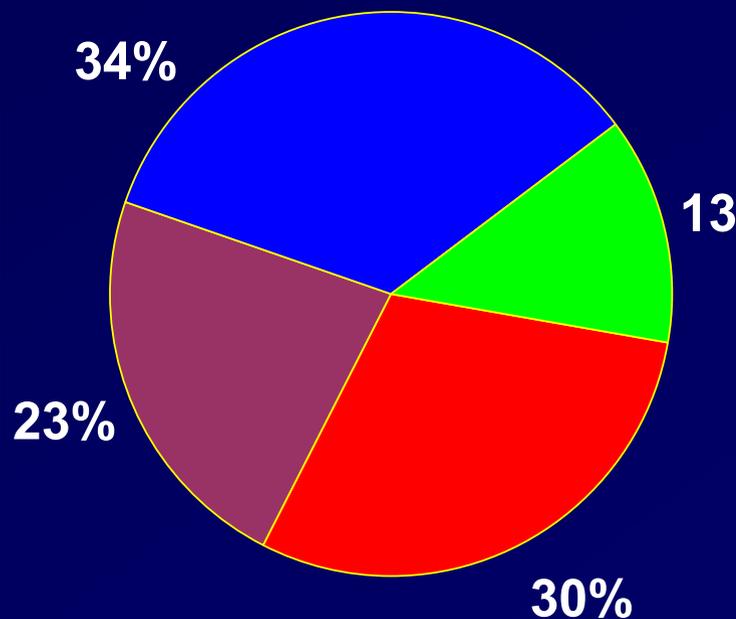
Source: Nationwide, Survey of Mortgage Lenders

- Churn is reducing proportion of SVR balances
 - ▶ 25bp SVR increase yields 17bp book rate rise

December 2000



February 2004

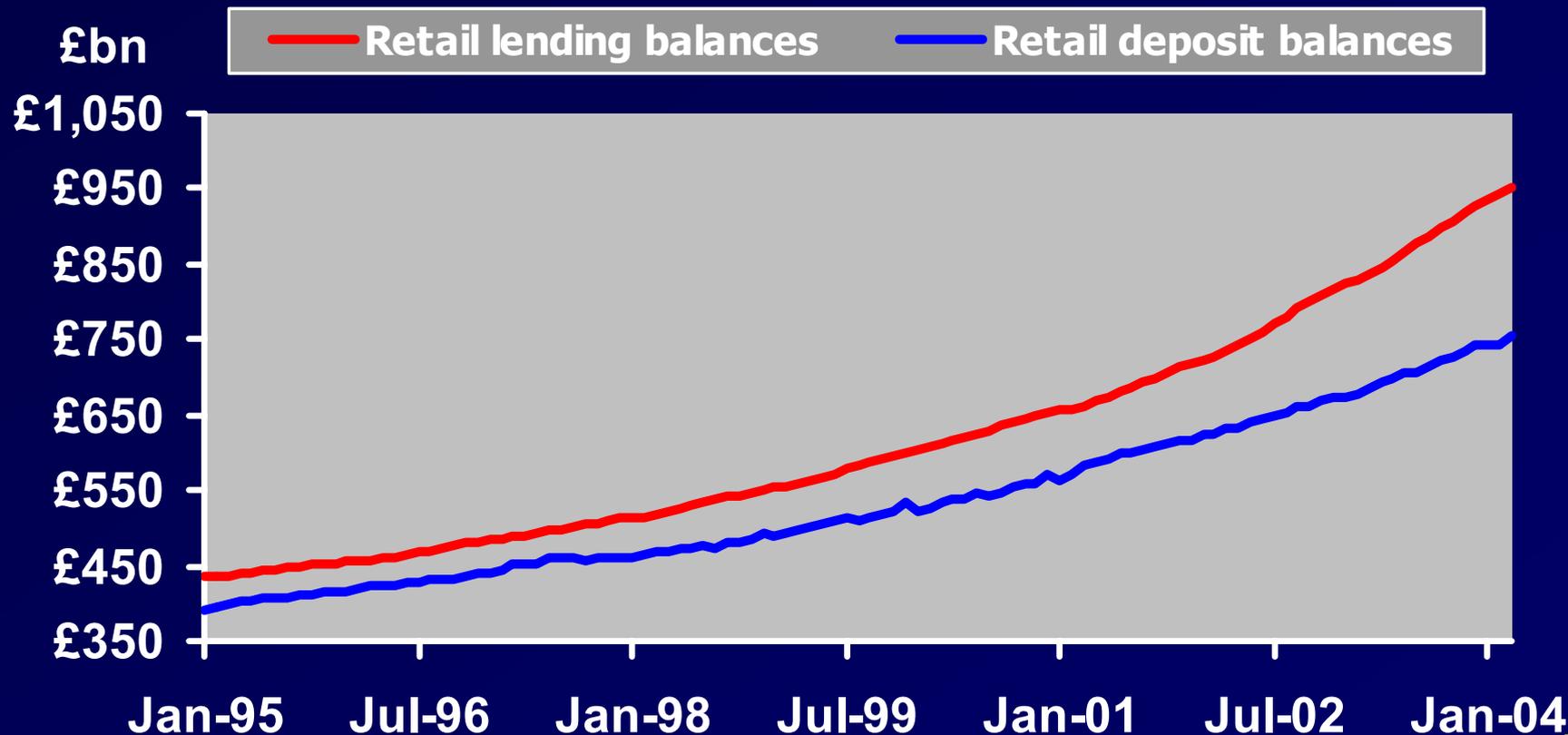


Source: Nationwide Estimates

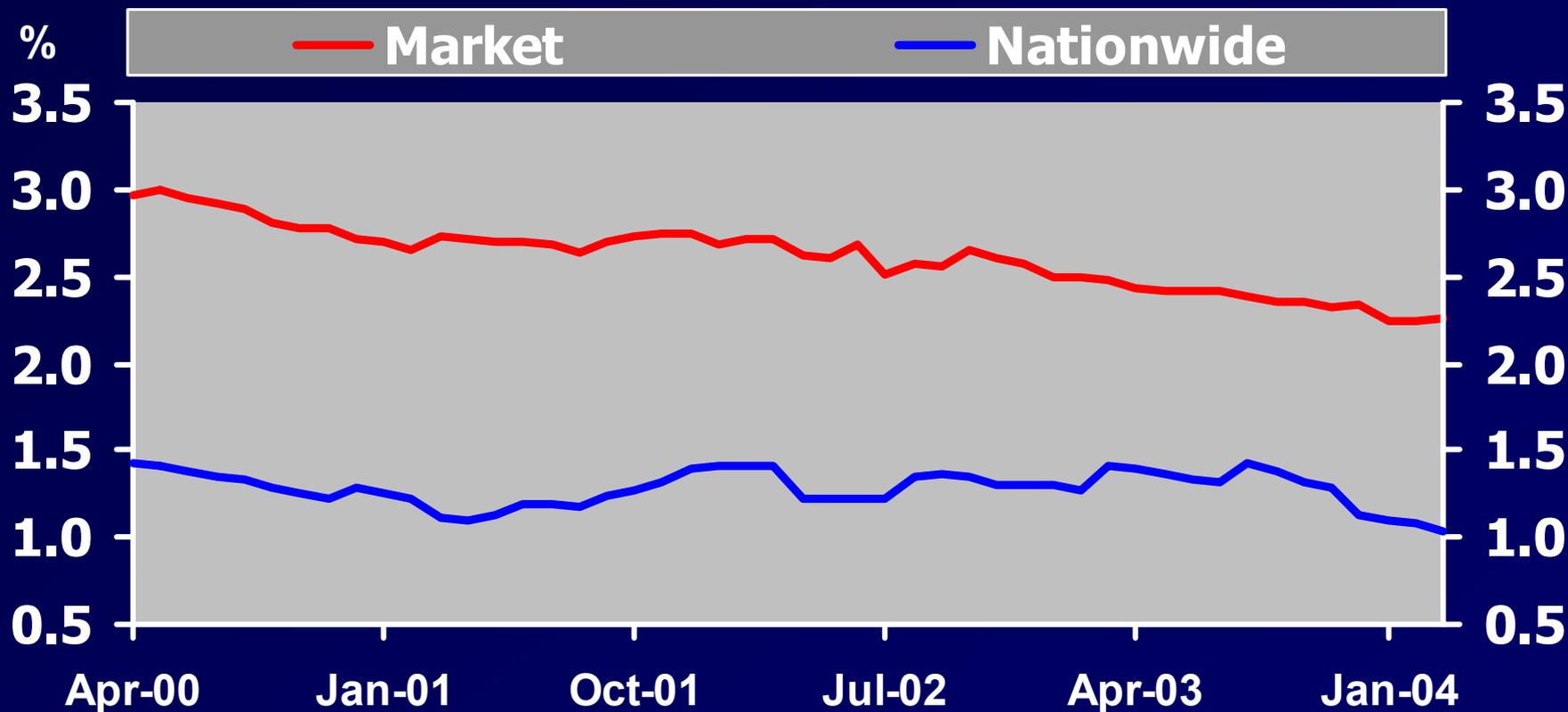
- Retail Savings flows are strong

- ▶ 8% of income vs average 6% 1960-2003

- ▶ But retail saving has been outstripped by lending



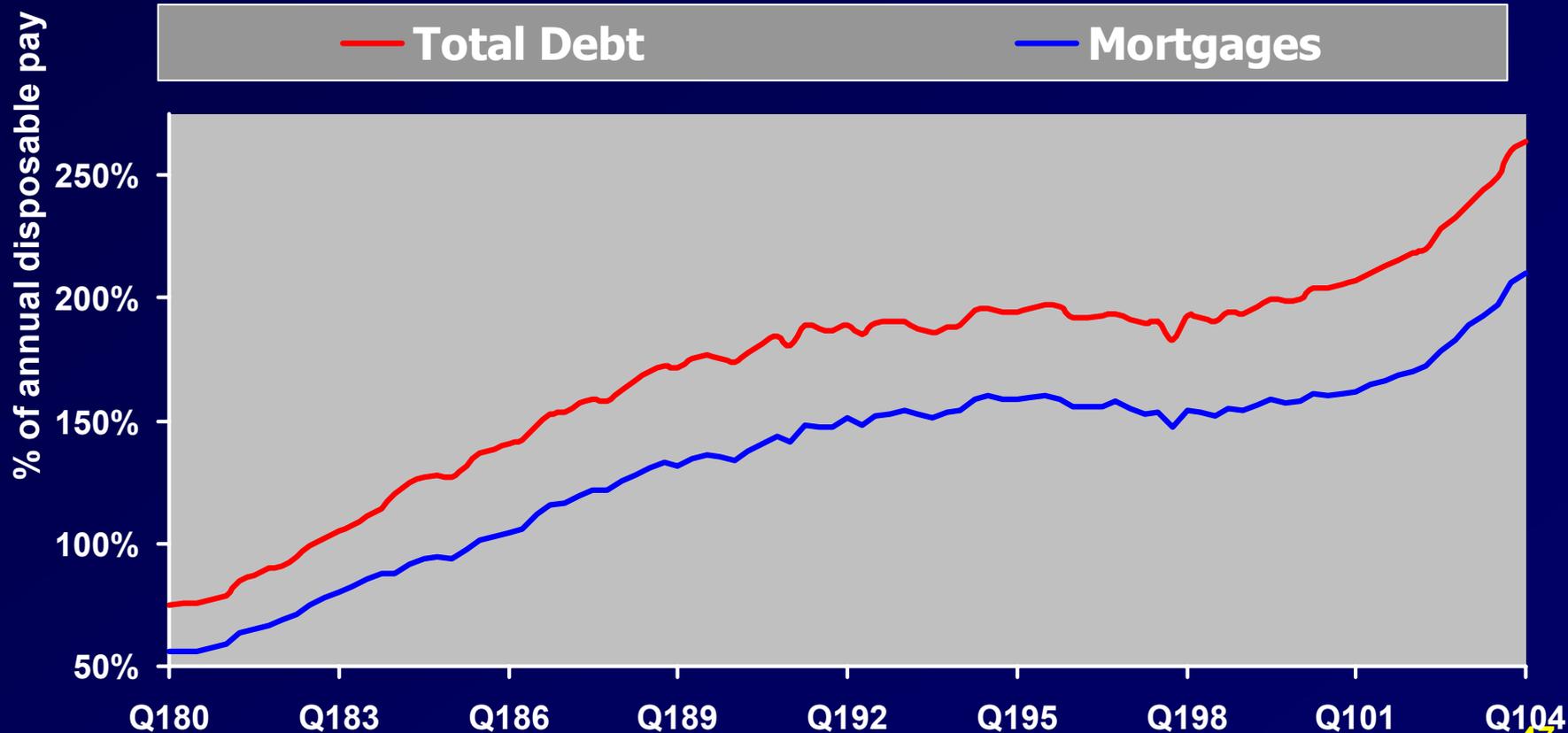
- Remortgage churn & deals pushing mortgage rates down
- Savings rates broadly stable since 2002



Source: Nationwide, Bank of England

● Debt at record levels

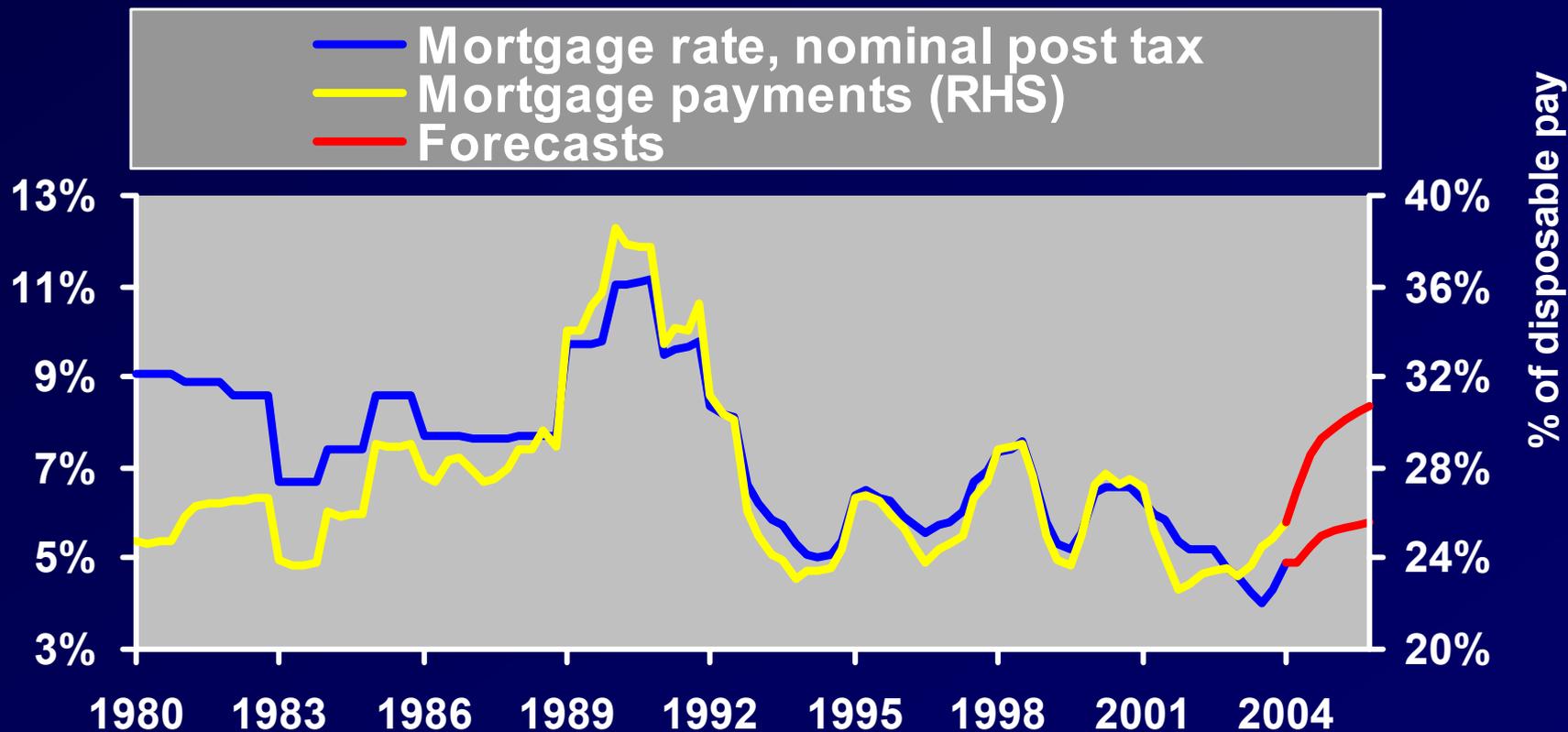
- ▶ More widespread borrowing
- ▶ Easier servicing & confidence in economy



Source: Bank of England



- Debt servicing sensitive to rising interest rates
 - ▶ Peak in rates of c5% expected
 - ▶ 8% base rate moves payments back to peak



Source: Nationwide, NES, SML

- Economy to grow in line with trend
- Labour market to remain supportive



Source: ONS



Nationwide

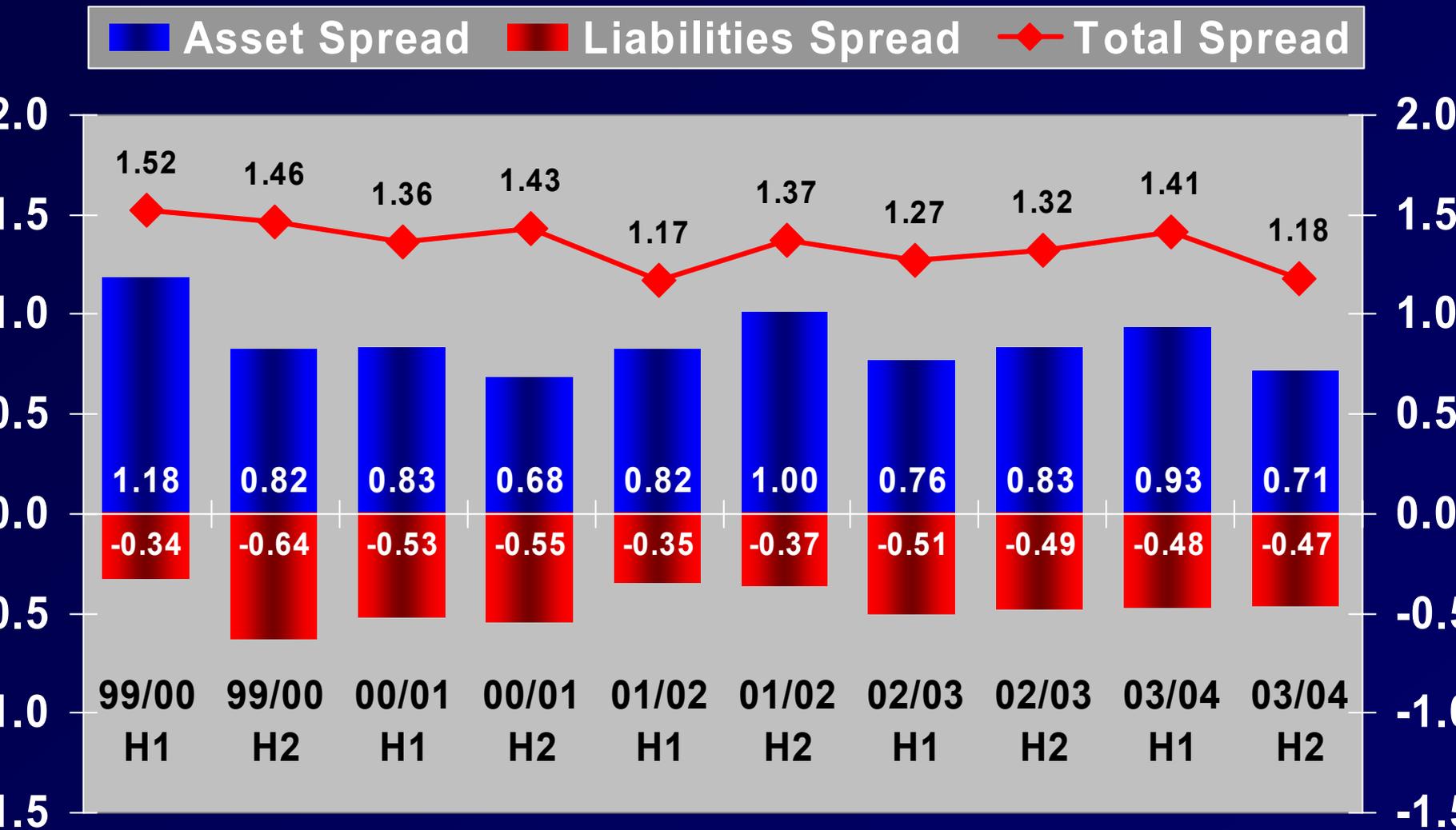
Questions



Nationwide

- Gross advances **£1.9bn** - up **19%**
- Net advances **£0.7bn** - up **40%**
- Outstanding Balances **£4.8bn** – up **17%**
- Deals with:
 - Self Certified applications
 - Buy to Let
- Robust approval processes & strong control of arrears
- Only **3.7%** of customers in arrears (2003 - 3.95%)

Retail banking spreads



Charge for losses

	03/04			02/03
	H1	H2	Total	
	£m	£m	£m	£m
Residential Mortgages	11	(6)	5	11
Banking	17	16	33	29
Total Retail Banking	28	10	38	39
Commercial	2	4	6	10
Treasury	(11)	(15)	(26)	38
Group Total	19	(1)	18	87

	03/04	02/03
	£m	£m
Balance Sheet	250	272
<i>% of book</i>	0.30%	0.40%
Charge	18	87
of which:		
Loan loss	44	49
<i>% of book</i>	0.28%	0.33%
Investment assets	(26)	38

Balance Sheet Liabilities

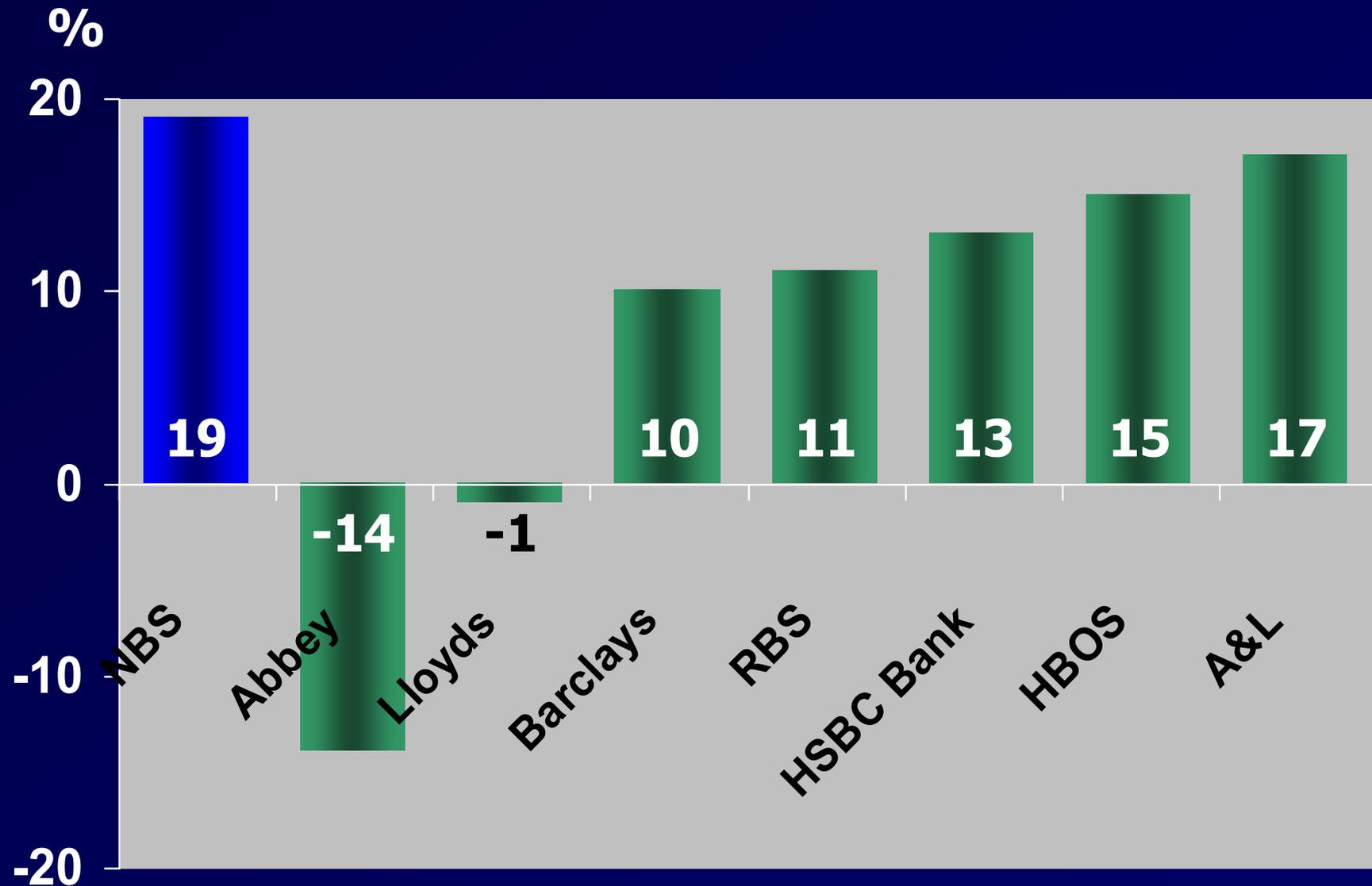


	03/04	02/03	Change
	£bn	£bn	%
Retail Shares & Deposits	67.4	62.7	7.5
Wholesale & Other	25.3	16.1	57.1
Life Assurance Assets	1.8	1.5	20.0
Capital	6.1	5.1	19.6
Total Liabilities	100.7	85.4	17.9

Competitor Asset Growth 2003



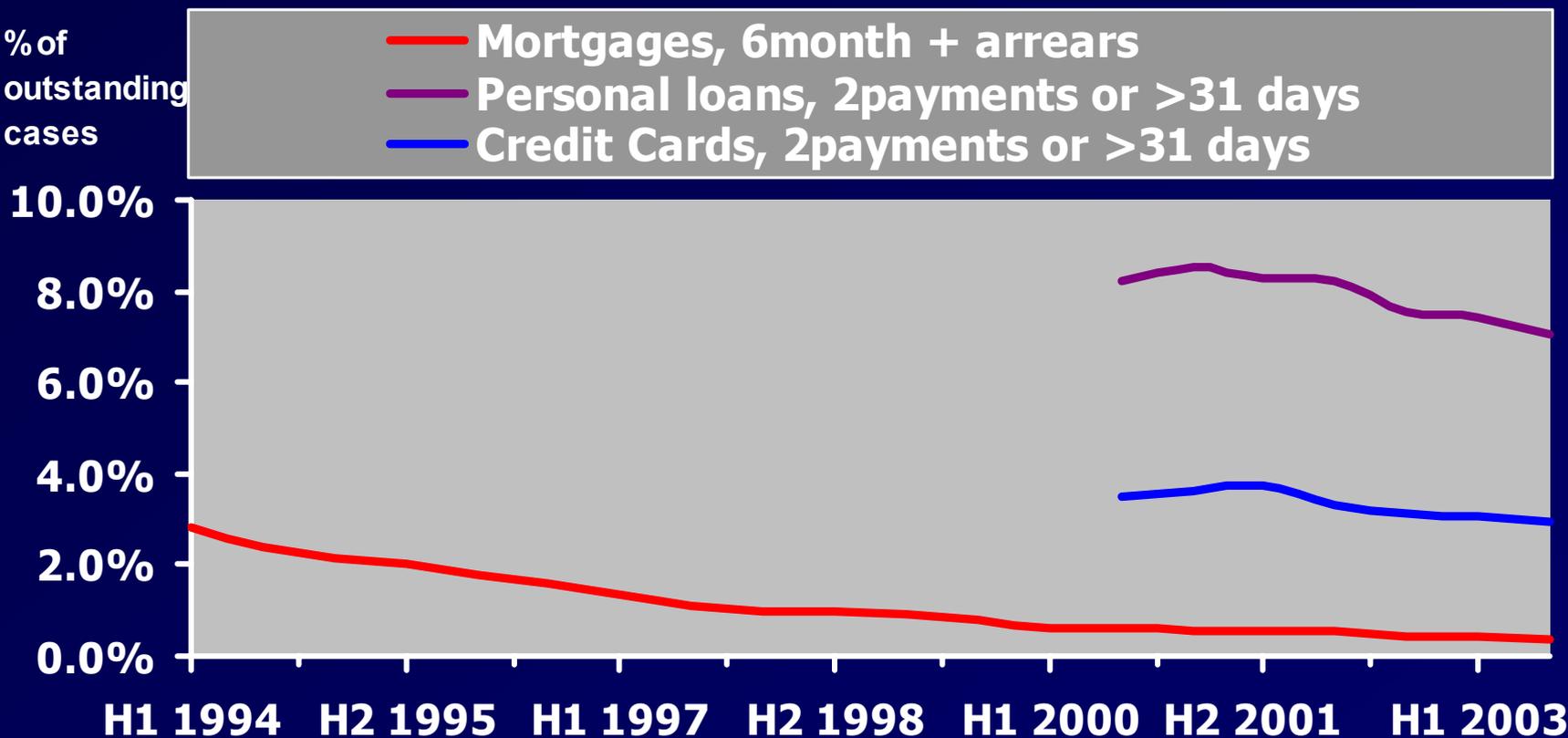
Nationwide





- Arrears at record lows

- Debt servicing relatively easy
- Unemployment at 30-year low



- **Maintain Pricing Benefit - over £500m p.a.**
 - ▶ Meaningful spread – 75bp above competition
 - ▶ Balance distribution between borrowers, savers and other customers
- **Add to Capital from Retained Profit**
 - ▶ Maintain Tier 1 ratio above 8.0%
- **Net Interest Margin of 1.20%**
- **Reduce Cost : Income ratio to 55% by 2006/07**
 - ▶ Hold costs below rate of earnings inflation
 - ▶ Grow income by more than 8% per annum