Nationwide Building Society Annual Results 24/25 Webinar

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Transcript *(amended in places to improve accuracy and readability)*

Nationwide Attendees:

Debbie Crosbie, Group Chief Executive Officer

Muir Mathieson, Group Chief Financial Officer

Vikas Sidhu, Head of Investor Relations & Treasury Sustainability

Annual Results 2024-25 Webinar

Debbie Crosbie

Group Chief Executive Officer, Nationwide Building Society

Good morning, and thank you for joining us for Nationwide's full year results presentation. My name is Debbie Crosbie, I'm the Group Chief Executive Officer, and I'm joined on the call this morning by Muir Mathieson, our Group Chief Financial Officer.

So it's been an outstanding 12 months for Nationwide. We've achieved record growth, remain number one for customer satisfaction with an extended lead over our peers, and we've chosen to deliver record value back to our members. We've also successfully acquired Virgin Money, allowing us to bring the benefits of the mutual model to more customers. And we have achieved this against a very strong financial performance that includes record Group statutory profits outturn. Our long standing approach to provide better value products was demonstrated through record growth in our mortgage and deposit markets despite persistent competitive pressures. In the first quarter of 2025 alone, Nationwide mortgage net lending exceeded 5.4 billion, a record three months trading period for Nationwide, and contributed to the strongest 12 month performance of 15.5 billion across the whole UK banking sector. This excellent performance was underpinned by our highly competitive mortgage pricing, renewed focus on supporting first time buyers through our expanded helping hand proposition, and our slick digital journey, which has supported market leading levels of retention. Record deposit growth was also helped by another strong ISA season, in which Nationwide took 25% of all market flow between January and March.

We also continue to grow our presence in current accounts, once again achieving the highest volume of switchers in the market and a record 1 in 4 student accounts opening last year. Despite the reductions in bank rate, we have chosen to pass less of these cuts on to our savers than our competitors, with our average deposit rates over the past 12 months 30% higher than the market average. Together with our competitive mortgage pricing, this has contributed to a member financial benefit of 1.8 billion, which rises to a record 2.8 billion when you account for the direct member reward payments of over £1 billion. Following our decision to make a one-off direct payment of £50 back to 12 million members through The Big Nationwide Thank You, we believe we're providing a real point of differentiation between us and the shareholder run banks, and given our strong financial performance this year, I'm delighted to confirm that we will be making another Fairer Share payment to eligible members in June.

Alongside these brilliant achievements within the Nationwide brand, I'm pleased to say that Virgin Money business has been performing strongly in the first six months since our acquisition. We've returned to positive net mortgage lending in Virgin Money and continued strong growth in business lending, supported by resilient demand across our core sectors.

Our stock of business current accounts has also grown by 5% since acquisition. And I'm delighted to say that we plan to pilot referrals for Nationwide customers to our digital business current account, which ranks strongly against our high street peers. Our previously announced investment in Virgin Money customer experience is already leading to improvements in service metrics, including a material uplift in our call answer rate, which are now comparable to the existing Nationwide service levels.

This will ensure the Virgin Money business is well positioned as we progress our long-term integration ambitions. The strategic review, which commenced following the acquisition last year, is well underway and we'll be able to share more details and next steps with you later in the year. Having said that, it's no secret one of the key attractions of Virgin Money is a business banking capability, and that's why we're progressing plans to introduce processes that allow us to bring the existing Virgin Money offering to Nationwide customers in the future.

I'm pleased to say that in the meantime, integration plans are progressing well. The expenditure directly on integration activities has been lower than we expected. In September, we will move to streamline governance structures and we're actively working towards a Part VII legal transfer process next calendar year.

You'll be very familiar that our branch network remains fundamental to our support for customers, and that's underpinned by our branch promise, which we have now also extended to Virgin Money.

We continue to see tangible benefits and value from maintaining face-to-face service, evidenced by over 40% of new ISA openings and over 30% of new current account openings are taking place in person in the branch network. We've also seen more than a 20% increase in current account openings, where Nationwide is the last branch in town, and that really underlines the significant value that customers place on a physical, face-to-face touchpoint.

We're continuing to invest and enhance our digital services at pace to ensure that we can really deliver giving our customers the true choice of how they bank with us. Our digital self-service mortgage manager platform is enabling over half of customers at deal maturity to switch to our best rates in a matter of minutes, and that supports our market leading levels of retention.

Since the launch of our new Nationwide mobile banking app last year, we've delivered many new features which has now resulted in an 11% year-on-year increase in customer mobile app usage. We'll continue to innovate, rolling out capabilities that we know our customers value. Muir will provide more details on the financials shortly, but I wanted to highlight that record volume growth has been delivered against a very strong cost outturn, with underlying cost growth well below the rate of headline inflation.

This has been supported by our strategic investment in technology, with solutions and processes that are simultaneously improving experience and productivity. This includes generative AI where we are enabling quality control 100% of our contact center calls that helps us meet our customer needs quickly, improve efficiency and deliver great service. And much of our recent mortgage success can be attributed to our focus on enabling faster offers with new automated income verification and valuation tools helping borrowers move from application to offer within just 20 minutes.

Our achievements are reflected across many customer service metrics, including Nationwide being named number one for customer satisfaction for the 13th consecutive year, and we're delighted that Which? just named us Banking Brand of the Year. And now I'm going to ask Muir to run through the group financials in detail.

Financial Results

Muir Mathieson

Group Chief Financial Officer, Nationwide Building Society

Thank you Debbie, and good morning everyone. We have delivered record organic growth on both sides of the balance sheet, increasing market share in our core products of mortgages and retail deposits in a highly competitive market, whilst increasing our lead in customer satisfaction over our peer group.

We've delivered record member value by continuing to price competitively versus the market, and we have returned £1 billion through member reward payments. As Debbie has highlighted, the acquisition of Virgin Money provides us with opportunities to grow and meet the needs for more of our members, whilst also diversifying our balance sheet. I'm pleased to say that we have delivered all of this against another very strong financial performance.

Before I go into the detail, please note that the financials that follow are presented on a group basis for the year ending 31st March. This consists of 12 months of Nationwide subgroup performance from 5th of April to 31st March, and six months of Virgin Money performance following our acquisition on 1st of October.

Statutory profit for the group increased to a record £2.3 billion, compared to £1.8 billion last year, excluding member reward payments relating to the Fairer Share and the one off Big Nationwide Thank You, statutory profit was £3.3 billion. Post completion, we have reported higher income, higher costs and higher impairments, reflecting six months of Virgin Money. I will provide further detail on each of these lines later.

As anticipated, underlying profit of £1.85 billion was slightly lower than last year as we chose to return value through better customer rates.
Balance sheet growth in the year reflects both the acquisition and record organic growth in our core portfolios. Mortgage net lending of £15.5 billion was a record Nationwide performance, and the strongest performance across the whole sector over the last 12 months. Record organic retail deposit growth of £14 billion reflects strong inflows into our competitively priced savings accounts, including strong ISA inflows.

Capital ratios remain strong, having reduced year on year due to the acquisition. The group CET1 ratio remains peer leading at 19.1%. In H2 24/25 NIM increased by 10 basis points on the prior six months, primarily due to the contribution of Virgin Money and its higher margin business banking and consumer portfolios. With the Nationwide subgroup NIM broadly flat. Year-on-year, underlying group NIM was broadly unchanged at 155 basis points.

Nationwide record mortgage performance was supported by strong and consistent pricing across LTV bands, including market leading levels of retention. Mortgage book margins continue to decline but at a decreasing pace. New business completions in the second half of the financial year were written at 73 basis points over swap rates across the Group.

The retail deposit market continues to grow broadly in line with expectations.
The Nationwide brand has outperformed the wider market over the past 12 months, supported by competitively priced fixed term products and strong inflows into ISAs. Additional Virgin Money balances, including over £17 billion of business banking deposits, have diversified our mix of customer deposits with a greater volume of balances held within non-interest-bearing products. The average member pay rate for retail deposits was 291 basis points, 72 basis points higher than the market average
deposit rates. And despite recent bank base rate cuts, our member financial benefit measure of value delivered to members through better pricing totalled £1.8 billion.

With respect to NIM looking forward, there remain both headwinds and tailwinds. Mortgage competition is heightened with the blended margin on the pipeline today at circa 60 basis points. We expect deposit margins to continue to compress as bank base rate reduces with the broad expectation that the margin widening which occurred as rates increased, will be reversed as rates fall.

These headwinds, however, will be broadly mitigated by the continued repricing of our structural hedges.

We continue to maintain strong cost discipline. After adjusting for one-off items, underlying Nationwide subgroup costs grew by just 0.8% on a like-for-like basis, well below the rate of inflation. Inflationary increases and record growths in volumes were more than mitigated by retail and strategic efficiencies.

Total underlying group costs increased by 25%, reflecting the inclusion of Virgin Money business-as-usual run costs. Virgin Money costs are inclusive of a planned and short-term uplift to improve Virgin Money customer experience, which Debbie described is already delivering results through improved customer metrics. Below the line costs of £367 million relate to the acquisition, most materially of which is the one-off cost related to the amendment of the trademark licensing agreement agreed with Virgin Enterprises Limited.

Moving forward, our continued ambition for group BAU costs is to contain growth within the bounds of inflation. We plan to increase investment spend on integration and will provide more detail at the interim results disclosure as our strategic review progresses.

Asset quality across all portfolios remains robust, with low and stable levels of arrears. The multiple economic scenarios remain broadly consistent with last year.

The weightings applied to each scenario remain unchanged, with a 15% weighting applied to the severe downside scenario reflecting global uncertainties. The statutory impairment charge of £632 million includes £456 million for one-off impacts relating to the acquisition. In line with recognized acquisition accounting practices, this reflects the reinstatement of stage one and a proportion of stage two IFRS9 provisions for the Virgin Money portfolio following the acquisition dates.

It also reflects harmonization of accounting approaches, including multiple economic scenarios. The net underlying group impairment charge of £176 million predominantly comprises a £164 million underlying charge relating to Virgin Money. The remaining £12 million charge relates to the Nationwide subgroup, and is materially lower than the £112 million recognized last year, following a reduction in judgmental provisions as previously anticipated increases in arrears have not materialized. As a result, and in line with our expectations given the change in lending mix following the acquisition, the Group cost of risk in H2 24/25 has increased to 11 basis points on an annualized basis. This is broadly in line with our expectations for group cost of risk moving forward. Group mortgage three month plus arrears are almost unchanged at 43 basis points, which remains significantly below the industry average. The average LTV of new mortgage business increased to 73% from 70% last year, primarily driven by our support of first-time buyers. The average stock LTV is broadly stable at 56%, supported by our market leading levels of retention. Mortgage forbearance balances increased to £1.4 billion, including £517 million of Virgin Money balances. Nationwide subgroup forbearance balances reduced by £92 million, largely due to reduction in interest only concessions.

Consumer lending three month plus arrears have decreased from 136 basis points to 111 basis points, driven by changes in product mix.

In light of the acquisition, we have included more detail on our business, commercial and consumer lending segments. The business and commercial portfolio is well diversified and defensively positioned with lending focused on lower risk, UK-centric businesses. We assess the impact from geopolitical risks and higher tariffs to be low.

The Nationwide subgroup portfolio predominantly comprises lending to housing associations. The consumer lending portfolio is focused on prime borrowers across a range of segments.

The 12 month average group LCR was 174%, compared to 191% at the end of the prior period. £11.3 billion of TFSME drawings were repaid during the period, with now less than £1 billion left outstanding across the group. On balance sheet group liquidity totals £51 billion, which comprises cash and high quality liquid assets. In addition, we have a significant level of drawdown capacity at the central bank, much of which can be drawn intraday.

We issued approximately 11 billion sterling equivalent of wholesale funding in the last financial year, and a further 1 billion sterling equivalent since the 31st March year end. We will continue to be a regular issuer in benchmark size across the liability structure in our core currencies of sterling, euro and dollar. Our expectation is that the Nationwide group issuance will total between 8 and 10 billion sterling equivalent this financial year across our secured and unsecured programs. All new unsecured and capital instruments are issued from Nationwide and downstreamed to Virgin Money as required.

Our issuance plans continue to take account of credit rating agency requirements for loss absorbing capacity. Group capital resources remain comfortably above regulatory requirements, with substantial buffers across risk-based, leverage and MREL frameworks. The group CET1 and leverage ratios were 19.1% and 5.2%, respectively. We do not expect there will be a material day one impact on the Group CET1 ratio from Basel 3.1, based on our interpretation of the PRA’s near final rules. Leverage requirements are expected to remain the binding tier one constraint. Thank you, and I will now pass back to Debbie.

Conclusion

Debbie Crosbie

Group Chief Executive Officer, Nationwide Building Society

So just very briefly to summarise, it's been an outstanding 12 months for the society. We’ve returned our highest ever member value, delivered record growth, and we're super proud to be bringing the benefits of mutuality to more customers following the Virgin Money acquisition, and it's all been underpinned by a very strong financial performance. So with that, we're delighted to move to questions. I'm going to hand to Vikas who’s going to host the Q&A.

Q&A

Vikas Sidhu: Thanks, Debbie, and good morning everyone. A reminder, please, to submit your questions through the portal. Though I can see we've had quite a few already come in, which is great, so we'll jump straight in, and probably, start with one in the detail a little bit for Muir. John Cronin has asked just to unpack a little bit around mortgage spreads, and I know you covered some of this just in your words, but, could you just remind us at what level we wrote new business through the last financial year on a blended basis, and then also on an owner occupier and buy-to-let basis, and where are spreads today?

Muir Mathieson: Yeah thanks Vikas, as just previously covered 73 basis points over swap rates was the blended margin for last year or the last reported 12 month period, slightly up on the prior period and relatively close to stock position of 90. That is, as you alluded to, John, a blend of owner-occupied and buy-to-let, buy-to-let would be a little bit above that and owner-occupied very close to that, owner-occupied being the vast majority of the business written of course. As I mentioned a minute ago, 60 basis points is where our pipeline sits today and is about where we’re writing business today, reflecting the renewed competition, I would describe it as, in the market. We expect that competition to continue and plan on that basis.

Vikas Sidhu: Thanks Muir, and perhaps on a related point, a question from Sharada Patel at Citi. She's just asked around the expectation on NIM going forwards, and whether the NIM has been supported through our structural hedges?

Muir Mathieson: Yeah, thanks Vikas, As I mentioned earlier, we've got headwinds and tailwinds. Broadly you should expect them to net out, so the key headwinds being one we just discussed, the continued competition and compression of mortgage margins, and the other key one being the continued compression in deposit margins as bank base rate continues to decline, and we're expecting a few more cuts from the MPC. Offsetting both of those is our structural hedge position, which if you look in the appendices, I think it's slide 23 of our presentation pack today, you'll see current structural hedge rates on our very large hedge balance is 225 with the five year swap rate this morning at 393. You can see that as that continues to reprice, that provides significant tailwinds to the margin, broadly the things will net out. Clearly, one big benefit from the acquisition of Virgin Money has been that ten basis points step up in net interest margin, and in fact, a larger structural hedge balance, so that is a clear demonstration of the financial benefits of the deal coming through.

Vikas Sidhu: Great, thanks Muir. A question for you, Debbie, from John Cronin again, a bit more on the outlook. So following a year of record loan growth, what is the outlook for the next 12 months and beyond in our core markets, and how will the addition of the Virgin franchise play into this?

Debbie Crosbie: So look as Muir said, we expect competition to strengthen. The mortgage market is very competitive and we see a lot of competition in the deposit market. So I think we're very proud of the performance this year and will, of course, strive to do as well as we can, but we do expect competition to heighten.
I think what we are very pleased about is the amount of business that we are writing through our branch network. You'll see that that supported significant current account acquisition, very strong performance in our ISAs and as John’s mentioned, Virgin Money offers a new set of opportunities to expand in both business banking and also in unsecured. We’re quite excited about some of the opportunities into the Nationwide base and on unsecured through the credit card portfolio. So, optimistic but we expect competition to be heightened.

Vikas Sidhu: Thanks, Debbie, and probably just a related question here from Harry Doughty of Verition. So when we think about the business banking franchise, how will this progress with the integration of Virgin Money and what levels of market share are we looking to capture here?

Debbie Crosbie: So look, I think what I'd describe as, whilst we're very optimistic about the opportunity, we're going to be cautious because we know that service is a core part of Nationwide’s brand ethos and we don't want to compromise.
So what we're going to do is start with a digital business current account, and that's at the very small end of SME. Now we're going to introduce that in a sort of soft way almost as an introduction into the Virgin Money brand. Muir’s outlined that we plan to do Part VII, so post

that Part VII period into next calendar year, we'll start to think much more broadly about the overall strategy in business banking. Business banking and the segment strategy that Virgin Money are running is going very well,
they're seeing growth, and we want to make sure that we selectively expand both geographically throughout the country and do more in those chosen segments. So I'd sum up by saying we're very optimistic, but it will be a cautious and very thoughtful introduction into the Nationwide brand, and you should expect that to begin next calendar year and take several years just to mature through the integration process.

Vikas Sidhu: Brilliant thanks, Debbie. A follow up for Muir from John Cronin around costs. So can you give us a bit more detail on the 275 million of costs associated with the amended trademark licensing agreement between Virgin Money UK and Virgin Enterprise Limited?

Muir Mathieson: Yeah thanks John. Not new news, this was one and the same cost that we announced when we announced the acquisition last March.
So as part of the deal agreed with Virgin and Virgin Enterprises, there was a charge for exiting the brand, which any acquirer would have had to pay, and that cost plus VAT is what's been accounted for in this period, so in line with what we'd previously disclosed.

Vikas Sidhu: Brilliant, and just sticking with operating expenses Muir, a question from James Hyde at PGIM. It looks like the underlying expenses that VM UK include a very large number of improvements in customer experience, as mentioned in the presentation. Can you scale this? It looks like the H2 underlying cost for the combined group, compares to a 1.7 billion pro forma in H1 and 1.8 billion and H2.

Muir Mathieson: Yeah, so as Debbie’s already mentioned, part of our plans has always been to improve customer service in Virgin Money, more commensurate with the service levels that Nationwide customers enjoy today, and we're delighted with that progress. The fact that we've got to call answer rates in line with Nationwide in the six month period, I think is quite remarkable and there is a whole host of other improvements which we've already seen. That has been clearly assisted by both recruitment into Virgin Money but also, as you mentioned James, an uplift of £125 million, in terms of improving their service levels, but also preparing the groundwork within Virgin Money for integration. What you should expect to see over the coming years is there will be further investment in integration, as you would entirely expect, as we bring the banks together and we'll disclose more around the exact size and shape of that at our half year once we've concluded our previously disclosed 12 month review period. And of course, in the medium to longer term, as we bring together IT systems, as we bring everything together under one brand, as we complete the Part VII transaction that Debbie just mentioned, there will of course be material synergies as you would entirely expect. We have, of course, been pleased to already see funding synergies, and starting to see synergies come through in terms of our third party arrangements where we have greater economies of scale and purchasing power, but it will be in the medium to longer term that you'll see more material synergies more broadly.

Vikas Sidhu: Brilliant, thanks Muir. Just pivoting over to capital, a question from Sharada at Citi. On the leverage ratio, do you expect the requirement to increase, and if so, when? And with this in mind, what is the outlook for leverage going forward and what levels are we comfortable with?

Muir Mathieson: So we had expected an increase to take place from January next year, as a result of the acquisition, we moved up into the next grade within the OC buffer requirements. However, I would say the PRA are currently consulting on those buffer requirements and the exact grading, such that if the consultation is received positively and becomes policy, then we would no longer expect to see an increase. So, our current regulatory requirement, 4.3%, we had expected to go to 4.5%, let's see where the consultation goes. It may well stay at 4.3%. In terms of what you should expect going forward, we're comfortable around and above 5%, and with the organic capital accretion that we expect going forwards from continued profitability, all other things being equal, you should expect to see that stable and/or growing.

Vikas Sidhu: Great, and a question from, Maximilian Renouf-Watkins. Given the impact of the acquisition of on the group CET1 ratio, what's the expectation there moving forward? Are we looking to rebuild group buffers, or are we comfortable where we are?

Muir Mathieson: I mean, I would say 19.1% remains one of the strongest CET1 ratios in UK banking and indeed in European banking and globally, so very comfortable there. The way we set our minimum requirement for CET1 ratio, as many on this call will have heard us say before, is during a Bank of England severity stress test, do we breach MDAs. If we stay above MDAs during a Bank of England stress test, then we deem that we have comfortable buffers from a CET1 perspective. Within the last few published Bank of England stress tests, you will have noted that we continue to pay all of our distributions, hence are not breaching MDA levels. We're currently running the latest Bank of England stress test, so you'll have to wait until the Bank publish the results of that at the back end of this year, but that's how we set risk appetite. 19.1%, I would say, is a very, very strong start position, and we wouldn't want to be below risk appetite. Again, as we generate comfortable profits in the years to come, you should expect to see our capital ratios at least stable, if not growing, as they have done in the past.

Vikas Sidhu: Great, Muir, just to close off on capital, Sharada notes that permission to repurchase CCDS has been renewed. Is there any change in approach there?

Muir Mathieson: Still the same approach as before. We like to have the option to be able to step into the market and buy back CCDS, hence why we continue to renew the authority to be able to do that, and that permission remains outstanding until January next year. As we said last year, you shouldn't take that as definitive guidance that we are going to do a buy back but the option’s open for us should we choose to.

Vikas Sidhu: Thank you, and so just moving on and pivoting to regulation and reform, we've had a couple of questions, one from Soumya Sarkar. There are a number of potential reforms in the pipeline for UK banking sector including restrictions on the Building Society sourcebook and ring fencing. Debbie, Muir, what are your views on such reforms, and is there any particular ones which would be on your wish list?

Debbie Crosbie: So I'll maybe start, then Muir. The Building Society Sourcebook is great for smaller building societies, it really doesn't affect Nationwide given our size and scale. I think the most important one for us, certainly in the short term, is the changing of the LTI limit, which the FPC committee, which is at 15% for higher loan to income lending, and we are very pleased that this year we've moved to be number one for first time buyers. We feel very passionate that getting more first time buyers on the housing ladder would be great, not just for Nationwide customers, but for society. So, at the moment we're bumping up against that 15% limit. We have very constructive engagement, but we're hopeful that it will be reconsidered by the FPC, so we're waiting to hear how that goes. I mean, just more broadly, I think the government's ambition to simplify regulation and streamline it, we really support, we're very engaged with the government on a whole range of matters. But for me, the LTI is one that I pull out as a core focus for us at the moment.

Muir Mathieson: Not too much to add. With regards to ring fencing, we're not subject to the ring-fencing requirements so probably more for others to commentate than for us to on that one, but as Debbie says, we're constructively engaging with the government on the growth agenda.

Vikas Sidhu: Fab, thank you, and another question from Soumya around our preparations ahead of the Part VII transfer, perhaps one for you, Muir. What, if any, impact will there be on any outstanding Virgin Money externally issued capital and MREL instruments, please?

Muir Mathieson: Yeah thanks Soumya great question. Clearly there's a lot of detail within the Part VII transfer and, as we said, it's completely subject to legal and regulatory approval, and so that's the process and the detail that we're working through now. We're not disclosing any of that detail today, we're just giving the headline that that is our intention, and so when we have more detail on what will happen to all assets, liabilities, including the outstanding, externally issued instruments, we will disclose that in the market. I would just remind all attendees that we were granted grandfathering forbearance, if you like, on all outstanding Virgin Money MREL and capital instruments until December 2028. They can count towards group requirements, so there is no requirement for us to do anything before December 2028. Equally, and as we've previously said, and as we always do on a Nationwide basis, we review our outstanding liabilities across the capital stack to see, are there economic ways in which we could simplify and align our capital stack.

Vikas Sidhu: Thanks Muir, a question from Aman Rakkar at Barclays. Can you elaborate, or comment, on your expectations around reversal of deposit margin expansion from here? Can you talk to your pass-through expectations, across instant access?

Muir Mathieson: Yeah, broadly what you should expect to see is the widening, the pass through rates that we pass through to our members on the way up,
we'll have a similar level of pass through on the way down, so it should be broadly symmetrical. Clearly in a lower rates world that does mean margin compression, that will

inevitably likely result in slightly lower returns to our members. But as a mutual building society we'll try to return as much as possible to our members whilst still maintaining sufficient profitability to support our capital ratios.

Vikas Sidhu: Thanks. Question from Badis Chibani, perhaps for you Muir around asset quality and what is our ideal terminal rate to keep margins interesting, while not seeing any deterioration in asset quality?

Muir Mathieson: Well, far be it from me to tell the MPC where to set interest rates just to keep Nationwide's profitability ideal. Look, we managed for 15 years at close to zero rates, and Nationwide hasn't reported a loss in over 100 years, so we will do alright whatever the base rate environment is. What was very interesting, actually, over the last couple of years, was despite the very rapid increase in bank base rate in response to the double-digit inflation which the UK was experiencing at that time, our arrears barely increased, they barely moved up at all. So, what we take away from that, and what that should tell you is, the segments we lend to, the borrowers who borrow from us, our underwriting criteria are very, very robust. Those borrowers, how very resilient, managed to service their outstanding debt in a very robust way. And we barely saw arrears increase whatsoever. So would I be concerned if, inflation is sticky and interest rates go back up again from an asset quality perspective? I wouldn't based upon our underwriting standards and our previous experience. As I say, higher interest rates are conducive to bank profitability, better margins, better returns for our members. Clearly, the MPC will do what they feel they need to do to meet their objectives.

Vikas Sidhu: Thanks, And a follow up on ECLs actually from Mike Eberhardt at Blackrock. He would be grateful if you could please touch upon your modelling of ECLs, including the workings around PD uplifts and the developments with affordability risks.

Muir Mathieson: Yeah, thanks Mike. So, as you may have seen in the disclosures already and, as we touched on earlier, the impairment charge for Nationwide subgroup this year is very, very benign and that's because we have had to release some of our judgmental provisions. So going back to the previous question, when we saw that very large increase in interest rates, we started to provision for what we thought would be a large uptick in arrears, based upon the squeeze on household finances and the rate shock that our customers would be experiencing. As it turns out, and as we just covered, arrears did not go up and are now very, very flat and, in our consumer lending portfolio, is coming down. So we can no longer justify those judgmental provisions and have seen a release in our Nationwide judgmental provisions as a result of that. However, we have still got, I would say, a very prudent approach to provisioning. If you look at our multiple economic scenarios, they remain at the gloomier end of the market, I would say, in 15% weighting on the severe downside scenario, which includes a 30% fall in house prices, more than the UK has ever seen on modern records. I think we're still very, very prudently provisioned against our loans.

Vikas Sidhu: Thanks Muir. Debbie, perhaps one for you in the first instance, a question from Aman Rakkar. You're highly capital generative, with limited methods to distribute, how should we expect Nationwide to deploy its surplus capital in coming years? Sustained member payments, increase member benefits, or something else?

Debbie Crosbie: So I think it's definitely the first two, you know, we are very thoughtful about making sure that we strike the right balance between distributing payments direct to members, that’s very popular. And what we see is that it's really resonated particularly with young people. I think it's done a lot to promote, not just Nationwide, but actually the benefits of mutuality, and it's really helped people understand how our models different from shareholder owned banks, so we will absolutely continue to do that. Rates, as Muir’s covered, remain very important to both savers and mortgage holders, so we'll do our very best. But I think the other thing that we'll continue to do is invest in services. For example, keeping our branches open has proven very popular, continue to invest in digital services and making sure that we're also returning to society. One of the things that we're very proud of is, you know, we return 1% of our profits every year to a range of good causes and will continue to do so. So all of the above, And then, you know, one of the best parts of my job is thinking about creative ways to return better levels of value and higher levels of value. So the more capital that we generate, the more opportunity we get to do that.

Muir Mathieson: Thanks, Debbie. A related question actually from Harry Doughty again. How do you see your digital platforms versus peers? And do you see high sensitivity of customers to the quality of digital offering? And what is your ongoing work with regards to your digital strategy?

Debbie Crosbie: Yeah, so this is fascinating. For an organization that prides itself in face to face contact, it's essential that we are as good as our peers when it comes to digital. So I covered briefly, we've seen an 11% increase in usage of our mobile banking app. We’re also completely refreshing our internet banking. We get a lot of our older customers just not comfortable yet on the mobile. They want to use digital services, but they want to access it through internet banking. So we’re renewing that as well. So what you can expect is, continued investment. Our new customers, we found very well react to, we do a lot of serving of what do people want. One of the things that's at the forefront of digital services is it has to be simple. You have to be able to when you get to difficulty, either access chat or access a human being. So we very much pride ourselves on customer choice and how the whole thing hangs together. So I think we now benchmark very favourably, our customer satisfaction in mobile banking is very high. But we've always got more to do, so you can expect us to continue to invest. We've done something called the mobile banking hub where we are providing different additional services, and this is particularly important for SMEs, for lower end SMEs.
So what I'd sum up by saying is we think we benchmark well, we always will see a lot of investment and you can expect us to continue to be innovative, particularly when it comes to younger customers and SMEs.

Vikas Sidhu: Thanks, Debbie. just a final question then to close off, directed to you Muir, it's a question from Samir Patel at Invesco. Just a follow up, really on CCDS, and he's asked, circa 17% of CCDS is now held by Nationwide, is there also a concentration consideration there? I.e. you wouldn't want to hold significantly more than you currently do.

Muir Mathieson: It's a good question, Samir. Like I say, we are very keen to make sure that CCDS continues to be regarded by the market as a viable instrument, a liquid instrument, and it remains an important part of our capital stack and our optionality. So you're right, the CCDS that we have brought back to date, we haven't cancelled those CCDS. We're not uncomfortable holding them as treasury shares, as it were, and would even potentially contemplate, as we've disclosed before, a recycling of the treasury shares back into the market, if we deemed that that was in the interest of the overall instrument. We want a reasonable amount of the instrument outstanding, benchmark size at least. So no concerns in terms of our on balance sheet treasury share holdings.

Vikas Sidhu: Brilliant, thanks Muir. We have had just one further question from Corinne Cunningham at Autonomous. She just wants to understand the fall in NII, I think at a Nationwide subgroup level, where margins have been stable and the book has expanded. Is that something to do with TFMSE, for example? Thanks.

Muir Mathieson: So the headline, Corinne, as we, said at the top of the call is we prioritise value back to our customers, value back to our members. So you have seen a bit of compression on the mortgages side as we walk through in the slides and you will continue to see some compression on the savings side. There is a timing impact from bank base rate changes as well, a lag impact, if you like, when bank base rate goes up, assets reprice immediately, liabilities have a lag. That's a one-off, one-time benefit that would have been in last year's NII. This year we've seen some cuts in bank base rates, and that lag effect works the other way round. That's a factor too, so it's those kinds of drivers that's driving the change in NII. Clearly the big picture here is we'll return as much value as we can to our members, but whilst maintaining profitability levels that sustain or grow our capital ratios.

Vikas Sidhu: Fab, thank you. I have one last question, which has just come in, and then we will close of course. This one's from Grace Dargan, and she's just asked, perhaps one for you Debbie. Do we have any stated market share ambitions across our key products of mortgages, savings and current accounts?

Debbie Crosbie: So the short answer to that is we prioritise value, so we're not chasing market share. We're prioritizing value, and that's why we're different to a shareholder run bank. So we want to continue to grow, and that's because we want to deliver better services to more customers, and I think what you can see is this year in both sides of our balance sheet, we have increased market share, but it's not something that we focus on.

Vikas Sidhu: Fabulous. Thank you.

Debbie Crosbie: Thank you. Thanks for joining everyone.

[END OF TRANSCRIPT]