Nationwide Building Society Annual Results - for the 12 months ending 4 April 2021

Nationwide Building Society

Business Overview

Nationwide is the UK's largest building society with a balance sheet of £255bn and 16.3m members.

As a mutual, Nationwide is managed for the benefit of its current and future members, who are its retail savings, owner-occupied mortgage and current account customers[1].

Nationwide rewarded members with £265m of Member Financial Benefit[2] during the year (2019/20: £735m), reflecting the historically low interest rate environment and Nationwide's decision to reduce savings rates and protect our financial strength during a period of significant uncertainty. The Society remains no.1 for customer satisfaction amongst its high street peer group, with a lead of 1.6%[3] pts (2019/20: no1.+5.4%pts).

Financial Performance

Underlying profit for the period was £790m (2019/20: £469m), with statutory profit before tax for the year increasing to £823m (2020: £466m), reflecting strong income and a reduction in administrative expenses.

Total income increased by £239m to £3,285m (2019/20: £3,046m), as our net interest margin increased to 1.21% (2019/20: 1.13%). Mortgage income increased as the macroeconomic uncertainty resulted in stronger new business margins across the market.

Underlying costs decreased by £94m to £2,218m (2019/20: £2,312m), reflecting re-prioritisation of investment spend and lower business-as-usual costs, partially offset by increased restructuring spend.

	2020/21	2019/20
Underlying profit before tax (£m)[4]	790	469
Net interest margin (%)	1.21	1.13
Underlying cost income ratio (%)	67.5	75.9
	04-Apr-21	04-Apr-20
Total assets (£bn)	255	248
Loans and advances to customers (£bn)	202	201
Member deposit balances (£bn)	170	160

Trading Performance

Member deposit balance growth was strong, with balances increasing by £10.6bn (2019/20: £5.7bn) to £170.3bn as a reduction in consumer spending during the lockdowns led to an increase in current account balances.

Gross lending remained robust at £29.6bn (2019/20: £30.9bn). Total mortgage net lending in the year was £1.9bn (2019/20: £2.8bn) which includes buy-to-let (BTL) net lending of £3.6bn (2019/20: £3.3bn).

Balance Sheet

Balance sheet growth of 3% was driven by higher holdings of cash and liquid assets driven largely by an increase in member deposits.

£bn	04-Apr-21	04-Apr-20	%
Residential mortgages[5]	190.7	188.6	74.8
Retail unsecured	3.9	4.5	1.5
Other lending[6]	6.9	7.9	2.7
Liquidity[7]	45.8	37.4	18.0
Other Assets	7.6	9.6	3.0
Assets	**254.9**	**248.0**	**100**
Retail deposits[8]	170.3	159.7	66.8
Wholesale funding	59.5	62.3	23.3
Other liabilities	3.2	3.5	1.3
Capital and reserves[9]	21.9	22.5	8.6
Liabilities	**254.9**	**248.0**	**100**

Asset Quality

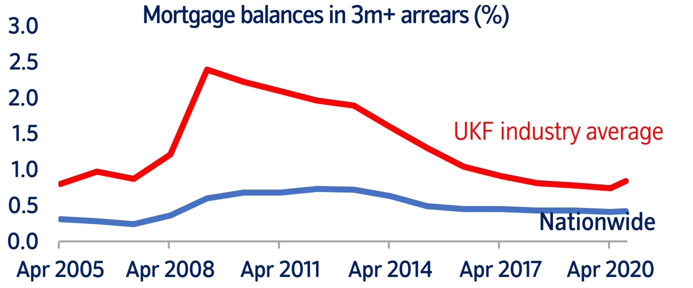
Asset quality metrics remained broadly stable. Average LTV of new business reduced during the year as a result of our prudent risk management during the pandemic. Average stock LTV reduced over the period reflecting the strong housing market.

Group	04-Apr-21	04-Apr-20
Average LTV new business	**70%**	72%
Average LTV of loan stock	**56%**	58%

Arrears rates have remained low and continue to outperform the industry average. It is expected that arrears have been suppressed by payment deferrals and government support measures, which Nationwide has considered when calculating provisions.

Number of cases in 3m+ arrears	04-Apr-21	04-Apr-20
Prime	0.35%	0.33%
Buy-to-Let & Legacy	0.72%	0.74%
Total Residential Lending	**0.43%**	**0.41%**
UK Finance industry average	0.85%	0.74%

Three-month plus arrears for residential mortgage lending increased slightly to 0.43% (4 Apr 2019/20: 0.41%)[10] as a result of the suspended flow of cases from arrears to possessions during the pandemic. The Society continues to remain well below the UK Finance (UKF) industry average for arrears at 0.85%[11].



Impairments and Covid-19 Support

Impairment losses have decreased year on year to £190m (2019/20: £209m) but remain elevated due to the continued uncertainty over the economic impacts of the pandemic.

Cost of Risk remains slightly elevated at 9bps (2019/20: 10bps) representing the uncertain economic outlook.

During the year, the Society provided 256,000 mortgage payment holidays (PHs) and granted 105,000 payment breaks or interest-free periods on loans, credit cards and overdrafts.

Residential Mortgages – status of PHs, as at 4 April 2021 Total Granted 260,000 (£32,887m)		
Expired 226,000 (£31,528m)	Resumed payment	214,900 (£30,133m)
	Interest only concession	2,900 (£396m)
	Other concessions	400 (£55m)
	In arrears* (<3mths)	5,500 (£649m)
	In arrears* (>3mths)	2,300 (£295m)
Outstanding 9,000 (£1,359m)	Extended	6,300 (£957m)
	Initial	2,700 (£402m)
Closed 21,000		

**in arrears with no concessions.*

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. © Ipsos MORI 2021, Financial Research Survey (FRS), for the 12 months ending 31 March 2013 to the 12 months ending 31 March 2021. Results based on a sample of around 47,000 adults (aged 16+). The survey contacts around 54,000 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 3.5% of the main current account market as of April 2020 - 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. 4. Underlying profit represents management's view of underlying performance. In order to provide a more meaningful presentation of performance the following items are excluded from statutory profit to arrive at underlying profit: A) FSCS costs arising from institutional failures; B) Gains or losses from derivatives and hedge accounting. 5. Balances are shown net of provisions. 6. Other lending as at 30 September 2020 comprises £5.6bn (4 April 2020: £6.0bn) of lending to Registered Social Landlords and £1.8bn (4 April 2020: £1.9bn) of Other Commercial lending. Other Commercial lending compromises of Commercial Real Estate and Project Finance. 7. Treasury assets (including liquidity portfolio). 8. Shares (member deposits). 9. Total members' interests, subordinated liabilities and subscribed capital. 10. Residential: Proportion of residential mortgage accounts more than 3 months in arrears. Unsecured: percentage of balances, exc. charge offs. 11. Source: UK Finance, 3m+ arrears balance divided by latest contractual payment.

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Capital

The Society's capital position remains strong and comfortably in excess of regulatory requirements. The CET1 ratio increased to 36.4% (4 April 20: 31.9%) as a result of an increase in CET1 capital of £1.3bn and a reduction in RWAs of £0.4bn.

The UK leverage ratio increased to 5.4% (4 April 20: 4.7%), with Tier 1 capital increasing by £2.1bn as a result of the CET1 capital movements referenced above and the issuance of £0.7bn of AT1 in June 2020.

Key Ratios (%)	04-Apr-21	04-Apr-20
CET1 Ratio	36.4	31.9
UK Leverage Ratio	5.4	4.7

We are expecting a material decrease of approx. one third in our reported CET1 ratio during the next 12 months, primarily as a result of the implementation of new hybrid mortgage models.

The PRA will be consulting on Basel 3.1 later this year. On a 2020/21 year-end proforma basis, we expect CET1 ratio to reduce by approx. 50% as a result of the RWA output floor.

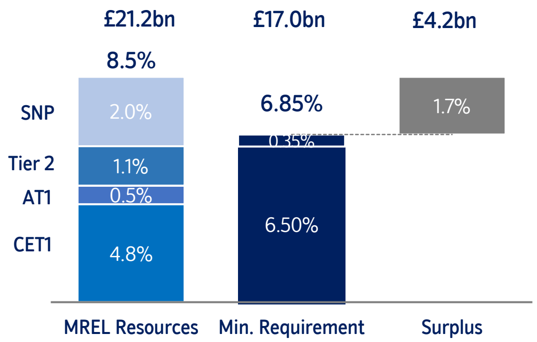
We expect to remain leverage constrained over the medium-term notwithstanding the anticipated changes to the risk-based capital framework.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

Nationwide is required to hold twice the minimum capital requirements (2x3.25% of UK leverage exposure), plus the applicable capital requirement buffers, which amount to 0.35% of UK leverage exposure.

At 4 April 2021, total MREL resources were equal to 8.5% (4 April 20: 8.4%) of UK leverage ratio exposure, in excess of the 2021 loss-absorbing requirement of 6.85%. This represents £4.2bn buffer over the minimum requirement.

MREL (% of Leverage Exposure)[12]



Liquidity and Funding

Nationwide's average LCR over the 12 months increased to 159% (2019/20: 152%). The Net Stable Funding Ratio was 141% (4 April 20: 134%)

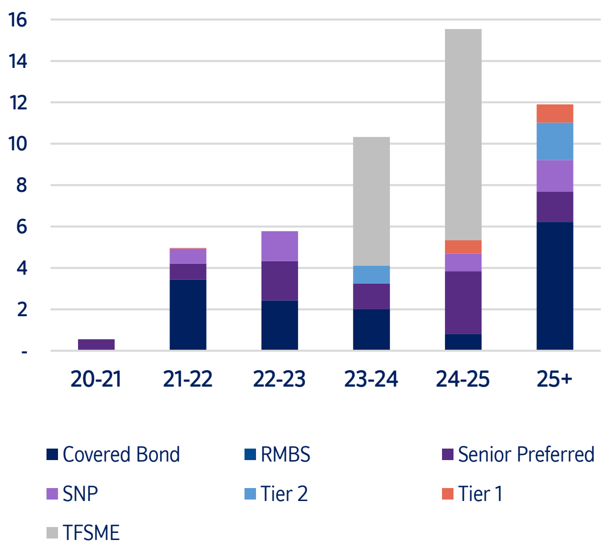
Nationwide issues across secured, senior unsecured, and subordinated platforms. Term funding is diversified across products and currencies, both in public and private placements.

Nationwide's funding plan assumes that a combination of wholesale and retail markets will contribute to refinancing these maturities. When and if necessary, Nationwide will pre-fund and hold additional liquidity ahead of these contractual repayments.

The Society has fully repaid all £17bn of TFS funding, primarily with drawings from the TFSME scheme, having drawn a total £21.7bn as at the end of April 2021.

The Society continues to manage maturities, targeting new issue maturities beyond the TFSME redemption window.

Long-term Wholesale Maturities by Financial Year[13] (£bn)



Credit Ratings

In June 2021, Standard & Poor's revised Nationwide's outlook to positive from stable[14].

In July 2021, Moody's revised Nationwide's outlook to stable from negative, following Nationwide's €1 billion senior preferred issuance[15].

In July 2021, Fitch revised Nationwide's outlook to stable from negative outlook[16].

Rating Agency	Senior preferred	Outlook	Latest Update
Standard & Poor's (S&P)	A	Positive	June 2021
Moody's	A1	Stable	July 2021
Fitch	A+	Stable	July 2021

ESG Ratings

During the period, the Society received an upgrade with MSCI, Sustainalytics, Vigeo Eiris (V.E) and ISS ESG.

Nationwide launched its inaugural TCFD report and Responsible Business Hub[17]. We are committed to continue to further develop our ESG disclosures.

Rating Agency	Rating	Scale	Date
MSCI[18]	A	AAA to CCC	March 2021
Vigeo Eiris (V.E)[19]	58	0 to 100	January 2021
ISS ESG[20]	C+	A+ to D-	July 2020

Contact Details:

Charlie Wood
Head of Financial Risk Strategy and Investor Relations
E: Charles.Wood@nationwide.co.uk
T: +44 (0) 7500 999612

Carly Thomas
Senior Manager, Investor Relations and Treasury Sustainable Finance
E: Carly.Thomas@nationwide.co.uk
T: +44 (0) 7464 491600

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

12. Leverage requirements comprise of a 3.25% minimum & 0.35% additional leverage ratio buffer (ALRB). Buffers reflect the capital conservation buffer of 2.5% and a 1% systemic risk buffer. 13. Excludes CCDS. Maturities assume 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. 14. S&P Global Ratings - Full Analysis, 24 June 2021. 15. Moody's Investors Service – Ratings Action,13 July 2021. 16. Fitch Ratings - Full Rating Report, 5 July 2021. 17. www.nationwide.co.uk/about/responsible-business/. 18. 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. 19. www.vigeo-eiris.com. 20. www.issgovernance.com/esg/ratings/.

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