Nationwide Building Society

Full Year Update
For the financial year ending 4 April 2019

Business Overview

Nationwide is the UK's largest building society with a balance sheet of £238.3bn and 15.9m 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.

Nationwide rewarded members with £705m of Member Financial Benefit in 2019 (2018: £560m), and remains no. one for customer satisfaction amongst our high street peer group, with a lead of 4.8%[1] (March 2018: 4.6%).

Trading Performance

Strongest ever year of gross mortgage lending at £36.4bn (2018: £33.0bn);

- Net mortgage lending increased by £2.8bn to £8.6bn (2018: £5.8bn),
- Continue to support first-time buyers, helping 77,000 into their own home this year (2018: 76,000),
- Increased market share of gross mortgage lending to 13.4% (2018: 12.8%).

Member deposit balances grew by £6.0bn[2] (2018: £3.5bn) following the success of our Single Access and Loyalty ISAs, together with higher current account balances;

- Market share of member deposits increased to 10.1% (4 April 2018: 10.0%),
- More than 1 in 5 current account switchers choose Nationwide, with current account openings of 794,000 (2018: 816,000) have led to an increase in market share of main standard and packaged current accounts to 8.0% (4 April 2018: 7.9%).

Financial Performance

Underlying profit for the period, at £788m, is broadly flat year on year, excluding a charge of £227m relating to technology asset write-offs and additional technology spend.

We achieved a further £103 million of in-year sustainable saves. On a cumulative basis, including the full year benefit of sustainable saves delivered over the last two years, we have now delivered approximately half of our target of £500 million of sustainable saves by 2023.

Net interest margin (NIM) reduced to 1.22% (2018: 1.31%). We expect market conditions to remain competitive, and product switching and BMR balance attrition to continue in line with recent experience, therefore we anticipate that our reported NIM will continue to trend lower in the year ahead.

	FY 18/19	FY 17/18	
Underlying profit before tax (£m)[3]	788	977	
Net interest margin (%)[4]	1.22	1.31	
Underlying cost income ratio (%)	71.1	64.6	
	4-Apr-19	5-Apr-18[5]	4-Apr-18
Total assets (£bn)	238.3	288.9	229.1
Loans and advances to customers (£bn)	199.1	191.4	191.6
Member deposit balances (£bn)	154.0	148.0	148.0
CET1 ratio (%)	32.4	30.4	30.5
UK Leverage ratio (%)	4.9	4.9	4.9
Liquidity coverage ratio (%)	150.2	N/A	130.3

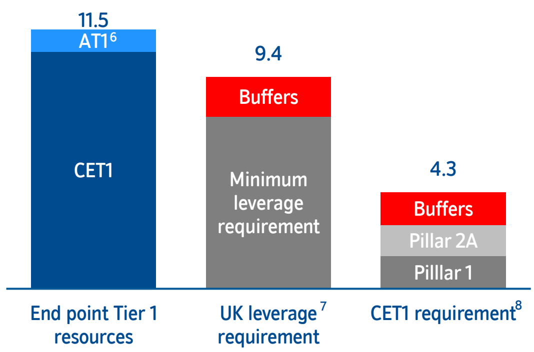
Capital and Liquidity

CET1 ratio improved to 32.4% (4 April 2018: 30.5%) and UK leverage ratio stable at 4.9% (4 April 2018: 4.9%).

Finalisation of the Basel III framework includes the introduction of IRB output floors. Whilst this will lead to a significant increase in the Society's risk weights, the Society expects the UK leverage ratio to continue to be Nationwide's binding capital requirement.

Liquidity Coverage Ratio (LCR) increased to 150.2% (4 April 2018: 130.3%).

Going concern capital, end point (£bn)



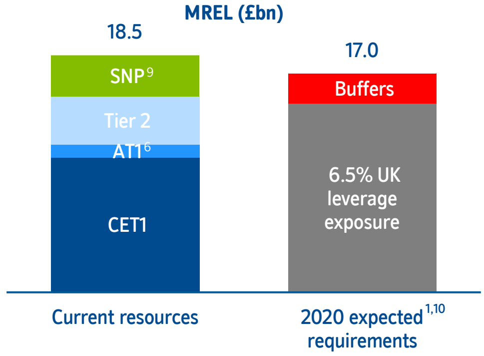
Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

Nationwide has to meet its expected MREL requirement of twice the minimum UK leverage ratio (6.5% leverage exposure) plus applicable buffers (0.75%) by 1 January 2020.

In order to meet this pending requirement, Nationwide issued a further £1.0bn of senior non-preferred notes through public and private placements in the financial year which are MREL eligible.

At 4 April 2019, total MREL resources were equal to 7.9% of UK leverage ratio exposure (4 April 2018: 7.5%), above the anticipated 2020 requirement of 7.25% described above.

MREL (£bn)



Funding

Debt securities in issue have increased during the year by £1.8 billion to £35.9 billion (5 April 2018: £34.1 billion) largely due to wholesale funding issued in order to finance our core activities.

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

Given Nationwide's participation in the Term Funding Scheme, wholesale funding requirements were reduced over the 2018/19 financial year. Typically, Nationwide would issue £7-10bn term funding per annum across secured and unsecured asset classes.

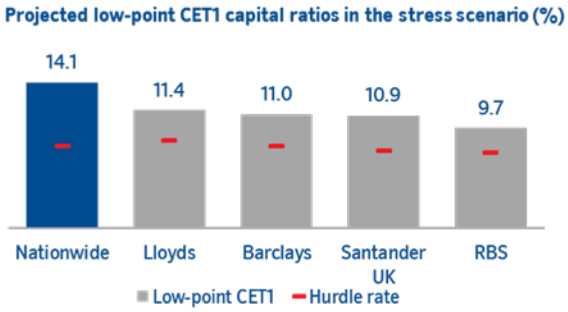
Bank of England Stress Test 2018[11]

The 2018 Annual Cyclical Scenario (ACS) stress test was the same as the 2017 scenario, but was conducted under IFRS9.

Economic variables (%)	2018 ACS scenario[12]	Global financial crisis[12]	2018 Actual
UK GDP growth	(4.75)	(6.25)	1.4[13]
Peak unemployment rate	9.5	8.0	4.1[13]
House price growth	(33.0)	(17.0)	1.3[14]

Nationwide remained profitable throughout the 2018 BoE stress test, and continued to make full distributions on all Tier 1 capital instruments.

The FPC stated the 2018 stress test was sufficiently severe to encompass the outcomes based on 'worst case' assumptions about the challenges the UK economy could face in the event of a cliff-edge Brexit.

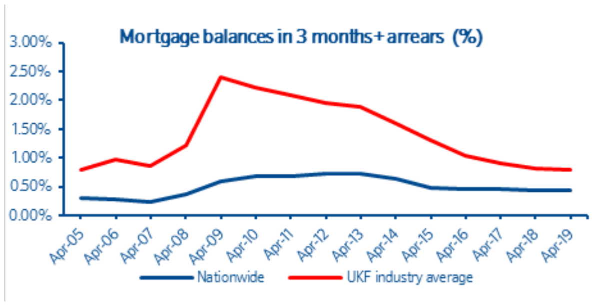


Nationwide's low point CET1 ratio was 14.1%, 620bps above the regulatory hurdle and the low point UK leverage ratio was 5.1%.

Asset Quality

Asset quality remains strong, with an average loan to value (LTV) of loan stock for residential lending at 58% (4 April 2018: 56%) and the average LTV of new lending in the period of 71% is consistent with the prior period.

	2019	2018
Average LTV of loan stock	**58%**	56%
Average LTV new business	**71%**	71%



Three month plus arrears have been stable at 0.43% (4 Apr 2018: 0.43%)[15] and we continue to remain well below the UK Finance (UKF) industry average for arrears at 0.78%[16].

Number of cases in 3m+ arrears	4-Apr-19	4-Apr-18
Prime	**0.35%**	0.34%
Specialist	**0.82%**	0.83%
Total	**0.43%**	0.43%
UKF industry average	**0.78%**	0.81%

Credit Ratings

S&P affirmed positive outlook in November 2018[17].

Moody's affirmed Nationwide's long and short term ratings in February 2019[18]. Moody's changed the Society's outlook to negative from stable in October 2018[19].

In March 2019, Fitch changed Nationwide's long term Issuer Default Rating outlook to rating watch negative from stable in a sector-wide action for all UK banks relating to Brexit uncertainty[20].

Rating Agency	Senior preferred	Outlook
Standard & Poor's (S&P)	A	Positive
Moody's	Aa3	Negative
Fitch	A+	Rating Watch Negative

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[1] Ipsos MORI 2019, Financial Research Survey (FRS), 12 months ending 31 March 2019 and 12 months ending 31 March 2018, c.60,000 adults surveyed per annum, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings. Peer group defined as providers with main current account market share >4% (Barclays, Halifax, HSBC, Lloyds Bank, NatWest, Santander and TSB)
[2] Member deposits include current account credit balances
[3] Comparatives have been restated to reflect changes to the definition of underlying profit. Underlying profit now contains the Bank Levy and FSCS management expenses, which were previously excluded.
[4] The opportunity has been taken to reclassify certain items previously included within net interest income to reflect better the nature of the transactions. As a result, gains and losses recognised on the disposal of investment securities classified as FVOCI (2018: available for sale) are now presented within net other income.
[5] Balances as at 5 April 2018 reflect the impact of applying IFRS 9: Financial Instruments
[6] Redemption of Additional Tier 1 capital announced 24 April 2019.
[7] Leverage buffers comprise: 0.35% additional leverage ratio buffer and 0.4% countercyclical leverage ratio buffer
[8] CET1 buffers comprise: 1% countercyclical capital buffer; 1% systemic risk buffer; and 2.5% capital conservation buffer
[9] Senior non-preferred notes
[10] Based on 4 April 2019 balance sheet
[11] Bank of England, Stress testing the UK banking system 2018
[12] Bank of England, Financial Stability Report, November 2018, p22.
[13] Office for National Statistics
[14] Nationwide House Price Index
[15] Arrears calculated by percentage of loans, by number
[16] UK Finance arrears: 3m+ arrears balance divided by latest contractual payment
[17] S&P Global Ratings Credit Opinion, 6 Nov 2018.
[18] Moody's Investors Service Credit Opinion, 18 Feb 2019
[19] Moody's Investors Service Rating Action, 26 Oct 2018.
[20] Fitch Ratings Press Release, 'Fitch places Long-Term IDR's of 19 UK Banking Groups on Ratings Watch Negative', 1 Mar 2019

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