Nationwide Building Society

Interim Management Statement
Q3 2014/15

Underlying profit and pre provision underlying profit
Statutory profit before tax has been adjusted for a number of items, consistent with prior periods, to derive an underlying profit before tax figure. The purpose of this measure is to reflect management's view of the Group's underlying performance and to assist with like for like comparisons of performance across periods. Underlying profit is not designed to measure sustainable levels of profitability as that potentially requires exclusion of non-recurring items even though they are closely related to (or even a direct consequence of) the Group's core business activities.

13 February 2015

Nationwide Building Society today publishes its Interim Management Statement covering the nine month period from 5 April 2014 to 31 December 2014 ("Q3 2014/15").

Graham Beale, Nationwide's Chief Executive, said:

"Our performance in the third quarter reflects a continuation of the strong trends disclosed in our half year results, with underlying profit in the period to 31 December 2014 up 79% at £963 million and statutory profit up 105% at £946 million. As a result, we have continued to strengthen our capital position, with our CET1 ratio now standing at 19.3%[1] and our leverage ratio at 4.0%[1].

"In December 2014 the PRA published stress test results for UK banks. Nationwide was able to meet the stress test without any regulatory requirement for further capital actions, demonstrating the underlying strength of our balance sheet.

"As a mutual, we are firmly committed to meeting the needs of our members and our performance is testament to this. During the quarter we launched FlexOne, a current account designed specifically for the youth market, which offers a range of interactive educational tools to help young people feel confident when managing their finances. We are also investing in our branches, introducing new layouts and technology; and we continue to roll out Nationwide Now, which connects members to mortgage, personal banking and financial consultants via a high definition video link. By the end of the financial year we will have rolled out Nationwide Now to 160 branches with significant further roll-out next year and, in the process, we will have created approximately 200 new jobs nationally.

"Our continued focus on member service means that we retain the number one position for customer service satisfaction and have increased our lead over our high street peer group during this period[2]."

Highlights

- Underlying profit increased 79% to £963 million and statutory profit increased 105% to £946 million
- Underlying cost income ratio reduced 3.7% to 50.1%
- CET1 ratio increased 4.8% to 19.3%[1] and leverage ratio increased 0.6% to 4.0%[1]
- Gross mortgage lending year to date was £20.4 billion compared to £21.6 billion in the same period last year; gross mortgage balances increased £5.6 billion to £151.3 billion
- Member deposit[3] movement year to date was £3.8 billion compared to £5.7 billion in the same period last year; total member deposit balances were £134.3 billion compared to £130.5 billion at 4 April 2014
- 339k new current accounts opened compared to 317k in the same period last year; the Group's market share of main standard and packaged accounts has increased 0.5% to 6.7%[4]
- Independently ranked number one for customer satisfaction within our high street peer group; our lead over the nearest competitor at 31 December 2014 has increased 4.0 percentage points to 8.2%[2]
- The only high street financial services provider within the top 30 companies in the UK Customer Satisfaction Index, improving our ranking to be 6th out of 196 companies[5]

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[1] The capital ratios provided have been calculated under CRD IV on an end point basis. The leverage ratio comparative has been restated to reflect the revised BCBS definition.
[2] © GfK NOP Ltd, Financial Research Survey (FRS), 3 months of interviews to March 2014 compared with 3 months of interviews to December 2014, c15,000 adults interviewed per quarter, proportion of extremely/very satisfied customers minus proportion of extremely/very/fairly dissatisfied customers summed across current account, mortgage and savings, high street peer group defined as Barclays, Halifax, HSBC, former Lloyds TSB Group (including Lloyds Bank, TSB and C&G), NatWest and Santander.
[3] Member deposits include current account credit balances.
[4] Based on CACI market data as at 30 November 2014. The FlexOne product is not included within this definition.
[5] January 2015 survey published by the Institute of Customer Satisfaction.

Financial performance

	9 months ended 31 December 2014		9 months ended 31 December 2013	
	£m	**%**	£m	%
Underlying profit before tax	**963**		539	
Statutory profit before tax[6]	**946**		461	
Net interest margin		**1.49**		1.17
Underlying cost income ratio		**50.1**		53.8
Statutory cost income ratio[6]		**51.4**		57.3

	At 31 December 2014		At 4 April 2014	
	£bn	**%**	£bn	%
Total assets	**196.6**		189.9	
Loans and advances to customers	**169.7**		166.6	
Common Equity Tier 1 (CET1) ratio[1]		**19.3**		14.5
Leverage ratio[1]		**4.0**		3.4

- Underlying profit to 31 December 2014 was up 79% at £963 million (Q3 2013/14: £539 million) due to lower impairment provisions and an improvement in net interest income, reflecting the trends in net interest margin observed at the half year.
- Net interest margin for the nine month period ended 31 December 2014 was 1.49% (Q3 2013/14: 1.17%), in line with the Group's 2014/15 half year position. The growth in margin over the last year has been driven by lower costs of funding reflecting market trends and the Group's margins are expected to be relatively stable over the remainder of the financial year.
- Income growth continues to exceed the growth in the Group's underlying costs resulting in an improved underlying cost income ratio of 50.1% (Q3 2013/14: 53.8%). The phasing of certain costs within the year, combined with a relatively stable margin, means the full year cost income ratio is likely to increase modestly.
- The Group's impairment provisions continue to be significantly lower than experienced last year. This largely reflects the deleveraging of non-core commercial real estate assets and the stabilisation of the commercial real estate market.
- The Group's capital position has improved with consolidated CET1 and leverage ratios as at 31 December 2014 of 19.3%[1] and 4.0%[1] respectively (4 April 2014: 14.5%[1] and 3.4%[1] respectively). This improvement is a result of continued strong trading performance and the continued deleveraging of the commercial real estate portfolio and out of policy treasury assets.
- The wholesale funding ratio at 31 December 2014 was 21.2% (4 April 2014: 19.6%). The Group's liquidity coverage ratio at 31 December 2014 was 111.1% (4 April 2014: 90.7%).
- Distributions for CCDS and AT1 capital securities totalling £63 million were paid on 22 December 2014.

[6] Comparatives have been updated in accordance with IFRIC 21.

Trading performance

	9 months ended 31 December 2014 £bn	%	9 months ended 31 December 2013 £bn	%
Residential lending – gross	**20.4**		21.6	
Residential lending – net	**5.7**		8.4	
Average LTV of new residential lending (by volume)		**67**		69
Member deposits balance movement[3]	**3.8**		5.7	
	'000s		'000s	
Current accounts opened	**339**		317	

	At 31 December 2014 £bn	%	At 4 April 2014 £bn	%
Residential lending balances	**151.3**		145.7	
Member deposit balances[3]	**134.3**		130.5	
Current account market share[4]		**6.7**		6.2
Customer satisfaction within high street peer group – lead over nearest competitor[2]		**8.2**		4.2
Member service satisfaction – branch[7]		**96**		96
Member service satisfaction – online[7]		**88**		85

- Gross mortgage lending for the nine months to 31 December 2014 was broadly in line with the comparative period at £20.4 billion (Q3 2013/14: £21.6 billion), representing a market share of 13.0% (Q3 2013/14: 15.2%).
- The Group's market share of mortgage stock continued to grow through the quarter. Net mortgage lending was £5.7 billion (Q3 2013/14: £8.4 billion), representing a market share of 29.5% (Q3 2013/14: 75.3%).
- Average loan to value (LTV) of the residential mortgage book (by volume) was 47% (4 April 2014: 48%). Average LTV of new business (by volume) for the nine months to 31 December 2014 was 67% (Q3 2013/14: 69%).
- The credit quality of the Group's mortgage portfolio improved. The proportion of residential mortgage accounts greater than three months in arrears as at 31 December 2014 was 0.52% (4 April 2014: 0.63%).
- Member deposits[3] have increased by £3.8 billion to £134.3 billion (4 April 2014: £130.5 billion). The Group's market share of balance growth was 8.7% (Q3 2013/14: 20.4%).
- In the nine months to 31 December 2014, the Group opened over 339k new current accounts (Q3 2013/14: 317k) and was a net beneficiary of the current account switching service, gaining 8.6% of gross switchers. Consequently, the Group's market share of main standard and packaged accounts increased to 6.7%[4] (4 April 2014: 6.2%).
- Nationwide continues to be endorsed for its customer satisfaction and service quality. Nationwide remains independently ranked number one for customer satisfaction within its high street peer group and its lead over the nearest competitor has increased to 8.2% over the period[2]. Member satisfaction[7] with branch experience remained at 96% (4 April 2014: 96%) and online satisfaction increased to 88% (4 April 2014: 85%).

[7] Source: Nunwood, Service Tracker. Based on an external survey commissioned by Nationwide, covering recent branch, telephone and internet banking experience of c15,000 members a month, the quoted results reflect 3 month rolling survey results for respondents who are 'extremely satisfied' or 'quite satisfied' in the quarters ended 31 March 2014 and 31 December 2014.

Market conditions

- The mortgage market was on a declining trend for most of 2014. Against this backdrop levels of competition for new lending have increased and this, combined with the low interest rate environment, has resulted in falling interest rates for borrowers.

- Market deposit growth continues to exceed net lending, reducing competition for retail funds. The launch of the National Savings and Investments (NS&I) '65 Plus Pensioner Bonds' in January 2015 has impacted savings balances across the industry. Nationwide's savings outflow has been in line with management's expectation based on our share of the over 65 savings market segment.

- The personal current account market remains subject to intense competition. Despite this, we have increased the number of accounts opened and our market share continues to grow.

Additional information

- The financial information on which this Interim Management Statement is based is unaudited and has been prepared in accordance with Nationwide's previously stated accounting policies described in the 2013/14 Annual Report and Accounts.

- IFRIC 21 was implemented during the nine months to 31 December 2014. As a result, the costs of the UK bank levy and FSCS levy are now recognised when they become legally enforceable. The comparative period statutory profit has been increased by £117 million to reflect a like for like basis.

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