Nationwide Building Society

Interim Management Statement
Q3 2015/16

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.

12 February 2016

Nationwide Building Society today publishes its Interim Management Statement covering the nine-month period from 5 April 2015 to 31 December 2015 ("Q3 2015/16").

Graham Beale, Nationwide's Chief Executive, said:

"Nationwide has continued with the success reported at the half year, with the third quarter performance demonstrating the strength of our franchise and proposition across all of our principal markets. In the nine months to 31 December 2015:

- gross and net residential mortgage lending increased 16% and 18% respectively
- growth in member deposits increased 29%
- new current account openings increased 13%.

This success is the result of continued investment in our products, our branches, our digital channels and our services. As a building society, our primary focus is on our members, and notwithstanding the continued low interest rate environment, we will continue to invest in the Society and our member proposition going forward. We continue to be ranked number one for customer satisfaction amongst our high street peer group with a lead of 5.3%[1].

Our underlying profit increased 15% to £1,129 million and statutory profit is up 19% to £1,123 million. The financial results have benefited from our success in key markets and a strong margin, reflecting the higher market rates for mortgage loans prevailing in recent years.

These results have further enhanced our capital strength, with our Common Equity Tier 1 ratio now at 22.6%, the highest in our peer group[2]. Our leverage ratio has also strengthened to 4.3%[2] taking it to the likely maximum we will be required to hold based on our interpretation of emerging guidance.

We recently announced that Joe Garner will succeed me as Chief Executive from 5 April this year. I am proud to have led the Society for the last nine years and to have played my part in demonstrating that Nationwide is a compelling alternative to the established banks. I remain confident and excited about what Nationwide can offer in the future and I wish Joe every success."

[1] © GfK 2015 (FRS), Financial Research Survey (FRS), 3 months ending 31 December 2015 vs 30 September 2015, 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 providers with main current account market share >6% (Barclays, Halifax, HSBC, Lloyds Bank (inc C&G), NatWest and Santander).

[2] The capital ratios provided have been calculated under CRD IV on an end point basis. The leverage ratio is calculated using the CRR definition of Tier 1 for the capital amount and the delegated act definition of the exposure measure. Peer group defined as Lloyds Banking Group, RBS, HSBC, Barclays and Santander.

Trading performance

	9 months ended 31 December 2015 £bn	**%**	9 months ended 31 December 2014 £bn	%
Gross residential mortgage lending/market share	**23.6**	***13.5***	20.4	*13.0*
Net residential mortgage lending/market share	**6.7**	***22.3***	5.7	*29.5*
Group net receipts	**4.2**		3.1	
Member deposits balance movement[3]/market share	**4.9**	***9.3***	3.8	*8.7*
Number of new current accounts opened	**384,000**		339,000	

	At 31 December 2015 £bn	**%**	At 4 April 2015 £bn	%
Residential lending balances	**159.8**		152.9	
Member deposit balances[3]	**137.3**		132.4	
Current account market share[4]		**6.9**		6.8

Providing members with long term good value products and innovative services is a priority. During the quarter we continued to support first time buyers with a new Help to Buy ISA, rewarded new and existing members with new Regular Saving products and showed our commitment to offering inclusive banking for all with the launch of the FlexBasic current account. We continued to expand Nationwide Now, our innovative high speed video link which connects branches to consultants based elsewhere, and during the quarter completed our delivery of over 400 installations into the branch network.

Gross mortgage lending for the nine months to 31 December 2015 was up 16% on the comparative period at £23.6 billion, representing a market share of 13.5%. Our improved performance has been supported by proposition changes aimed at increasing our support for first time buyers.

The average LTV of new lending was consistent with the same period last year at 69%.

Net lending increased 18% and our market share of 22.3% continues to be significantly greater than our 12.0% par share of the mortgage market, driven by both strong gross lending and retention.

Our net receipts for the period increased by 35% to £4.2 billion and member deposits[3] increased by £4.9 billion to £137.3 billion. Our market share of balance growth was 9.3%, driven by competitive savings and current account propositions which offer long term good value and seek to support members in the current low base rate environment.

Despite a very competitive market place we opened 384,000 new current accounts and we were a net beneficiary of the current account switching service, gaining 11.8% of gross switchers. Our market share of main and standard packaged accounts was 6.9%[4].

[3] Member deposits include current account credit balances.
[4] Based on CACI market data as at 31 October 2015. Main standard and packaged accounts exclude FlexOne accounts designed for the youth market.

Financial performance

	9 months ended 31 December 2015 £m	**%**	9 months ended 31 December 2014 £m	%
Underlying profit before tax[5]	**1,129**		980	
Statutory profit before tax	**1,123**		946	
Net interest margin[5]		**1.56**		1.50
Underlying cost income ratio[5]		**53.1**		49.8
Statutory cost income ratio		**53.3**		51.4

	At 31 December 2015 £bn	**%**	At 4 April 2015 £bn	%
Total assets	**205.2**		195.6	
Loans and advances to customers	**176.4**		170.6	
Common Equity Tier 1 (CET1) ratio[2]		**22.6**		19.8
Leverage ratio[2]		**4.3**		4.1
Liquidity coverage ratio		**135.3**		119.3
Wholesale funding ratio		**24.8**		23.3

Underlying profit before tax for the nine-month period ended 31 December 2015 was up 15% at £1,129 million (Q3 2014/15: £980 million[5]) due to higher net interest income and lower impairment provisions, offset by growth in underlying costs. Statutory profit before tax was up 19% to £1,123 million.

Net interest margin of 1.56% increased 6bps when compared with the same period last year (Q3 2014/15: 1.50%[5]). This reflects market trends of lower funding costs which have been only partly offset by reducing asset margins as competition in the mortgage market has become more sustained.

The underlying cost income ratio has increased from 49.8%[5] to 53.1%. Cost growth has arisen from investment in new digital technology and the modernisation of point of sales systems, inflation and continued investment in our brand to broaden our appeal and support business growth.

Our credit performance continues to be strong with impairments down period on period. The improvements mostly reflect the deleveraging of commercial real estate (CRE) and out of policy treasury assets, together with stable performance in our retail portfolios.

We continue to review compliance with ongoing and emerging regulatory matters, including consumer credit legislation, and have recognised a net provision charge of £55 million year to date in respect of potential customer redress, of which £31 million was raised in the quarter. Current provisions include latest experience and information included in the FCA's consultation paper on PPI and the Plevin case.

Our capital position has continued to improve with consolidated CET1 and leverage ratios as at 31 December 2015 of 22.6% and 4.3% respectively (4 April 2015: 19.8% and 4.1% respectively)[2]. This further improvement has been driven by an increase in retained earnings and lower risk weighted assets as a result of reduced CRE exposures and improved buy to let asset quality. Further information on our capital position can be found in Appendix 1.

At 4.3%[2] our leverage ratio is now in line with our interpretation of emerging guidance including the recent consultation on the Financial Policy Committee's framework for the systemic risk buffer.

[5] Comparatives have been restated to exclude foreign currency retranslation amounts from net interest margin within underlying profit, in line with presentational changes made in the Group's Interim Results at 30 September 2015.

Outlook

As a building society, our objective is to optimise, rather than maximise, profitability. In line with this approach we target financial performance in a range which maintains our capital strength, whilst funding growth and business investment for the benefit of our members.

The profitability experienced this year has benefited from unusually strong margins for lending over the last few years in line with market trends. Looking forward, we expect the level of profit to moderate as mortgage assets reprice to prevailing rates.

Our latest results demonstrate the success of our strategy. Our focus on doing the right thing for our members, combined with our scale and financial strength, means we are well placed to continue to show the real and refreshing difference that Nationwide can make.

Economic environment

The pattern of economic recovery in the UK is now well established with moderate levels of growth, increasing employment, and the combination of low inflation and interest rates underpinning a recovery in household spending. However, the broader global picture looks less predictable with geo-political instability and concerns over the prospects for some of the major drivers of growth, including China and a number of major oil producing nations. In a UK context, in the short term this uncertainty may be compounded by the EU referendum.

Given this mixed picture, we expect the UK economy to continue to grow but potentially at a slightly slower rate. Improving household finances will continue to support both domestic demand and a relatively stable outlook for the housing market. Concerns over global growth will, however, tend to delay any move in interest rates, and we now believe it is unlikely that the Monetary Policy Committee will increase interest rates before late 2016 at the earliest.

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 2014/15 Annual Report and Accounts, except for a voluntary change in accounting policy to reclassify gains and losses arising from the retranslation of foreign currency items, as described in note 2 of the 2015/16 Interim Results.

For further information please contact:

Investor queries:
Sarah Hill: 0845 602 9053 or 07720 426 180, sarah.hill@nationwide.co.uk

Media contact:
Stuart Williamson: 01793 654756 or 07545 740 195, stuart.williamson@nationwide.co.uk
Alan Oliver: 01793 655287 or 07850 810 745, alanm.oliver@nationwide.co.uk

Appendix 1 – Capital position

Capital structure and ratios

Common Equity Tier 1 (CET1) capital resources have increased over the period by approximately £0.7 billion. This is the result of a strong trading performance, with £852 million of profit after tax for the period, which was offset by an increase in intangible assets driven by continuing investment in our business.

	31 December 2015 £m	4 April 2015 £m
Common Equity Tier 1 capital before regulatory adjustments	**9,420**	8,620
Total regulatory adjustments to Common Equity Tier 1	**(1,432)**	(1,341)
Common Equity Tier 1 capital	**7,988**	7,279
Additional Tier 1 capital before regulatory adjustments	**992**	992
Total regulatory adjustments to Additional Tier 1 capital	**-**	-
Additional Tier 1 capital	**992**	992
Total Tier 1 capital	**8,980**	8,271
Tier 2 capital before regulatory adjustments	**1,559**	1,679
Total regulatory adjustments to Tier 2 capital	**-**	-
Tier 2 capital	**1,559**	1,679
Total capital	**10,539**	9,950
	%	%
Ratios:		
Common Equity Tier 1	**22.6**	19.8
Tier 1	**25.4**	22.5
Total capital	**29.8**	27.0

Note: Data in the table is reported under CRD IV on an end point basis, being full implementation of Capital Requirements Directive IV with no transitional provisions.

Capital adequacy

Risk weighted assets (RWAs) reduced over the period by approximately £1.4 billion due to continued deleveraging in the commercial portfolio and an improvement in credit quality, notably in specialist mortgage assets, due to the increase in the house price index. These movements, alongside the strong profitability described above, have resulted in an increase in the CET1 ratio to 22.6% (4 April 2015: 19.8%).

	31 December 2015		4 April 2015	
	RWAs £m	**Pillar 1 Capital requirements* £m**	RWAs £m	Pillar 1 Capital requirements* £m
Credit risk	**30,099**	**2,408**	31,750	2,540
Counterparty credit risk	**502**	**40**	398	32
Market risk**	**-**	**-**	-	-
Operational risk	**4,228**	**338**	4,228	338
Credit valuation adjustment	**541**	**43**	428	34
Total	**35,370**	**2,829**	36,804	2,944

* The Group also holds capital to meet Pillar 2 and capital buffer requirements. Details of Pillar 2 requirements as at 4 April 2015 are set out in the Group's Pillar 3 disclosures at www.nationwide.co.uk
** Market risk has been set to zero in 2015 as permitted by the CRR as exposure is below the threshold of 2% of own funds.

Leverage ratio

The Group holds capital to meet a leverage ratio requirement, with the current regulatory threshold set at 3%. The leverage ratio has increased to 4.3% (4 April 2015: 4.1%) as growth in Tier 1 capital outstripped the increase in balance sheet exposure, which in turn was predominantly driven by increases in mortgage balances.

	31 December 2015 £m	4 April 2015 £m
Tier 1 capital	**8,980**	8,271
Leverage exposure	**211,169**	200,665
	%	%
Leverage ratio	**4.3**	4.1