Nationwide Building Society

Interim Management Statement
Q1 2015/16

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.

18 August 2015

Nationwide Building Society today publishes its Interim Management Statement covering the three month period from 5 April 2015 to 30 June 2015 ("Q1 2015/16").

Graham Beale, Nationwide's Chief Executive, said:

"Our new financial year started strongly with increased levels of lending to support home ownership, the introduction of new technology to improve service, and underpinned by robust financial results.

"Nationwide accounted for more than a quarter of total net lending to the UK housing market. Our gross mortgage lending in the first quarter increased 17.2% to £6.8 billion and net lending increased 23.5% to £2.1 billion.

"Innovation was a strong theme this quarter with Nationwide being one of the first financial institutions to introduce Apple Pay allowing contactless payments via iPhones. We also introduced access to our current account balance information on Apple Watch and enabled members to send and receive payments using mobile telephone numbers via Paym.

"Service and member satisfaction remain paramount. We have again been independently ranked first for customer satisfaction and our lead over our nearest competitor has grown since the year end[1]. We are in the top 10 out of 225 organisations in the UK Customer Satisfaction Index, again the highest ranking in our peer group[2].

"Profitability in the quarter is up 52% at an underlying level and 50% at a statutory level, being £400 million and £379 million respectively, demonstrating that you can be successful by putting members first and doing the right thing.

"The proposed changes to the bank levy and introduction of the tax surcharge on banking companies announced in last month's budget may benefit UK headquartered international banks but will have a disproportionate effect on building societies such as Nationwide. This represents a missed opportunity to support diversity by acknowledging that building societies are different to banks and to recognise the contribution Nationwide and other mutuals make by lending to the UK economy, and the housing market in particular."

Highlights

- Gross mortgage lending for the quarter increased 17.2% to £6.8 billion, net lending increased 23.5% to £2.1 billion taking total mortgage balances to £154.9 billion
- Strong financial performance in the quarter with underlying profit before tax increasing 52% to £400 million and statutory profit before tax increasing 50% to £379 million
- Enhanced capital ratios with best in peer group[3] CET1 ratio increasing by 1.0% to 20.8%[4] and leverage ratio strengthening by 0.1% to 4.2%[4]
- Improved credit performance in the quarter with impairment provisions materially lower than experienced last year
- Independently ranked number one for customer satisfaction within our high street peer group; with a lead over the nearest competitor at 30 June 2015 of 6.0%[5]

[1] © GfK 2015 (FRS), Financial Research Survey (FRS), 3 month rolling data, c.15,000 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, Lloyds Bank (inc C&G)[1], NatWest and Santander. [1]Prior to Apr 15, Lloyds Bank and TSB combined as Lloyds TSB Group (inc Lloyds Bank, TSB and C&G).
[2] July 2015 survey published by the Institute of Customer Service. High street financial services provider defined as Lloyds Bank, TSB, Halifax, RBS, NatWest, Santander, HSBC, Barclays and Co-op.
[3] Peer group defined as Lloyds Bank, RBS, HSBC, Barclays and Santander.
[4] 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.
[5] © GfK 2015 (FRS), Financial Research Survey (FRS), 3 months of interviews conducted between April 2015 and June 2015, c.15,000 adults interviewed, 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, Lloyds Bank (inc C&G), NatWest, and Santander.

Financial performance

	3 months ended 30 June 2015 £m	3 months ended 30 June 2015 %	3 months ended 30 June 2014 £m	3 months ended 30 June 2014 %
Underlying profit before tax	**400**		263	
Statutory profit before tax	**379**		253	
Net interest margin		**1.63**		1.47
Underlying cost income ratio		**51.2**		51.5
Statutory cost income ratio		**52.5**		53.3

	At 30 June 2015 £bn	At 30 June 2015 %	At 4 April 2015 £bn	At 4 April 2015 %
Total assets	**198.0**		195.6	
Loans and advances to customers	**172.2**		170.6	
Common Equity Tier 1 (CET1) ratio[4]		**20.8**		19.8
Leverage ratio[4]		**4.2**		4.1
Liquidity coverage ratio		**133.7**		119.3

- Underlying profit before tax to 30 June 2015 was up 52% at £400 million (Q1 2014/15: £263 million) due to higher net interest income and lower impairment provisions. Statutory profit before tax was up 50% to £379 million.

- Net interest margin in the quarter was 1.63% (Q1 2014/15: 1.47%). This increase has been driven by the market fall in retail funding costs over the last twelve months. A modest reduction in the net interest margin from the levels achieved in the quarter is expected over the remainder of the year as a result of increased competition within the mortgage market.

- Income growth exceeded the growth in the Group's underlying costs resulting in an improved underlying cost income ratio of 51.2% (Q1 2014/15: 51.5%). The phasing of costs within the year, combined with our margin expectations, means the full year cost income ratio is likely to be higher than that reported for the first quarter.

- Credit performance in the quarter has been strong with negligible net impairments. This reflects the continuation of improving market conditions and deleveraging of commercial real estate (CRE) assets in 2014/15.

- The Group continues to review its compliance with ongoing and emerging regulatory matters, including consumer credit legislation, and during the period has recognised a net provision charge of £13 million in respect of potential customer redress to reflect its latest estimate of potential exposure.

- The Group's capital position has improved with consolidated CET1 and leverage ratios as at 30 June 2015 of 20.8%[4] and 4.2%[4] respectively (4 April 2015: 19.8%[4] and 4.1%[4] respectively). This improvement is due to continued strong financial performance and lower risk weighted assets as a result of reduced CRE exposures and improved asset quality on our buy to let portfolio.

- The Group's liquidity coverage ratio at 30 June 2015 was 133.7% (4 April 2015: 119.3%). The wholesale funding ratio[6] at 30 June 2015 was 24.7% (4 April 2015: 23.3%).

[6] The wholesale funding ratio shown is calculated on an internal management basis which includes all sources of funding, including securitisations. On a statutory basis the wholesale funding ratio at 30 June 2015 is 22.6% (4 April 2015: 21.1%).

Trading performance

	3 months ended 30 June 2015 £bn	**%**	3 months ended 30 June 2014 £bn	%
Gross residential lending	**6.8**		5.8	
Market share		**13.1**		11.4
Net residential lending	**2.1**		1.7	
Market share		**27.5**		24.2
Average LTV of new residential lending (by value)		**69**		70
Member deposits balance movement[7]	**0.1**		1.5	

	At 30 June 2015 £bn	**%**	At 4 April 2015 £bn	%
Residential lending balances	**154.9**		152.9	
Member deposit balances[7]	**132.5**		132.4	
Current account market share[8]		**6.8**		6.8

- Gross mortgage lending for the three months to 30 June 2015 was up on the comparative period at £6.8 billion (Q1 2014/15: £5.8 billion), representing a market share of 13.1% (Q1 2014/15: 11.4%).
- Net mortgage lending was £2.1 billion (Q1 2014/15: £1.7 billion), representing a market share of 27.5% (Q1 2014/15: 24.2%).
- Average loan to value (LTV) of the residential mortgage book (by value) was 55% (4 April 2015: 56%). Average LTV of new business (by value) for the three months to 30 June 2015 was 69% (Q1 2014/15: 70%).
- The credit quality of the Group's mortgage portfolio remains stable. The proportion of residential mortgage accounts greater than three months in arrears as at 30 June 2015 was 0.47% (4 April 2015: 0.49%).
- Member deposits have grown modestly by £148 million in the quarter, reflecting the impact of the popular National Savings and Investments' Pensioner Bonds.
- In the three months to 30 June 2015, the Group opened 115,000 new current accounts (Q1 2014/15: 110,000) and was a net beneficiary of the current account switching service, gaining 7.4% of gross switchers. The Group's market share of main and standard packaged accounts was stable at 6.8%[8] (April 2015: 6.8%).

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

Market conditions and environment

- We expect the UK macroeconomic environment to continue to improve in line with recent trends. Overall market lending activity has remained subdued with tentative signs of a recovery in house purchase activity during the quarter and annual house price growth edging up to 3.5% in July from 3.3% in June. Recent months have seen some evidence of increased competition within the mortgage market which we expect to impact margin over the remainder of the year.

- Rates available to savers continue to be challenged by the low interest rate environment and competition in the mortgage market. The National Savings and Investment's Pensioner Bonds, offering rates significantly above market levels, attracted substantial deposits during the first six months of 2015. Since its withdrawal in May we have experienced increased retail inflows in line with our expectations.

- The personal current account market is expected to remain intensely competitive. We continue to support the aims of the Competition and Markets Authority's investigation work into the supply of personal current accounts, which continues to be dominated by the established banks.

- We welcome plans announced by the FCA to review access to savings for consumers and the need for greater market transparency. This is in line with Nationwide's SavingsWatch service where savers are updated on their interest rates via email or text; the FCA report highlights this as an innovative example of how to communicate with customers.

- We also welcome the Financial Advice Market Review which will explore what can be done to make sure all consumers can access quality and affordable financial advice. We will look to engage in constructive conversations as part of this debate.

- The estimated impact of the proposed changes to the bank levy and introduction of a tax surcharge on banking companies announced in the July budget is to increase the net tax cost to Nationwide by £300 million over the next five years. This is equivalent to the capital required to support about £10 billion of lending. The phasing to the changes is such that the impact is larger in earlier years.

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.

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Forward looking statements
Certain statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of Nationwide. Although Nationwide believes that the expectations reflected in these forward looking statements are reasonable Nationwide can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Nationwide including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Nationwide operates. As a result, Nationwide's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Due to such risks and uncertainties Nationwide cautions readers not to place undue reliance on such forward looking statements.

Nationwide undertakes no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

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