

Nationwide Building Society

Issuer View • 7 March 2023

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The cooperative Nationwide Building Society (NBS) is the largest building society and the second largest mortgage lender in the UK and is considered nationally systemically important. It has over 16 million members and has a strong market position in the UK, particularly in residential mortgage lending (FY/2022: market share 12.4%), deposits (9.4%) and current accounts (10.3%). In its main business segment, the retail business, NBS focuses on residential mortgages as well as deposit and insurance business and personal banking. NBS's lending business comprises Residential Mortgages (H1/2023: 95% of the loan portfolio; of which just under one-fifth is buy-to-let), Consumer Banking (2%) and Commercial & Other Lending (3%). The funding mix of NBS mainly consists of the two components Retail Funding (H1/2023: 65% of assets) and Wholesale Funding (H1/2023: 25%). The most important wholesale funding instruments are: TFSME (refinancing via the Bank of England; H1/2023: 31%), covered bonds (21%), deposits (22%) and medium term notes (18%). As a member of the Net-Zero Banking Alliance, in addition to the target of reducing CO₂ emissions to net zero by 2050, NBS plans to have at least 50% of its mortgage portfolio in a high energy efficiency class (EPC rating level "C" or better) by 2030. As a result of changed regulatory requirements for the calculation of risk-weighted assets, the CET1 ratio of 25.5% (H1/2023) was below the value of FY/2021 (36.4%). The current financial year will end on 04 April.

Ratings Senior Pref.

	Rating	Outlook
Fitch	A+	Stable
Moody's	A1	Stable
S&P	A+	Stable

Homepage

www.nationwide.co.uk

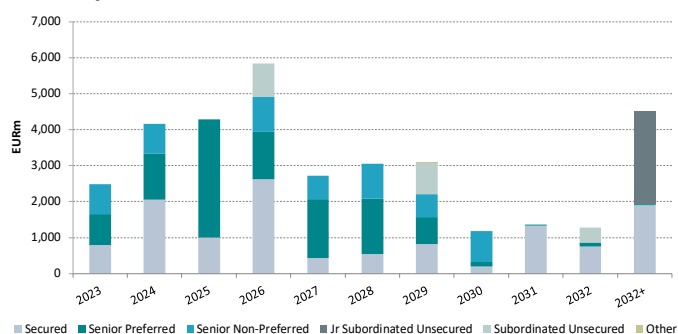
Balance Sheet

(EURm)	2021Y	2022Y	2023H1
Net Loans to Customers	237,039	248,301	242,497
Total Securities	35,551	33,133	30,024
Total Deposits	205,623	218,597	213,478
Tier 1 Common Capital	14,121	14,883	14,724
Total Assets	299,803	325,021	318,105
Total Risk-weighted Assets	38,776	61,844	57,717

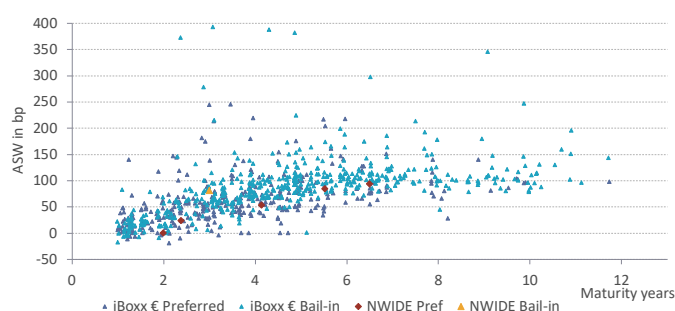
Income Statement

(EURm)	2021Y	2022Y	2023H1
Net Interest Income	3,527	4,189	2,412
Net Fee & Commission Inc.	166	302	99
Net Trading Income	84	58	55
Operating Expense	2,505	2,611	1,292
Credit Commit. Impairment	213	-32	127
Pre-tax Profit	923	1,878	1,137

Redemption Profile



Senior Unsecured Bonds (EUR BMK)



Company Ratios

	2021Y	2022Y	2023H1
Net Interest Margin	1.27	1.37	1.51
ROAE	4.57	8.40	9.10
Cost-to-Income	67.31	57.51	50.53
Core Tier 1 Ratio	36.42	24.06	25.51
Liquidity Coverage Ratio	158.51	180.97	176.84
IFRS Tier 1 Leverage Ratio	4.76	4.62	4.69
NPL/ Loans at Amortised Cost	-	-	-
Reserves/Loans at Amort. Cost	0.42	0.36	0.38

As of: 07.03.2023; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Markets Strategy & Floor Research

Strengths / Opportunities

- Franchise position in the home market
- Capitalisation

Risks / Weaknesses

- Concentration risks (UK Residential Mortgages)
- Profitability (competition)

Covered Bonds

Author: Melanie Kiene

Nationwide Building Society with issues in GBP, EUR and CHF

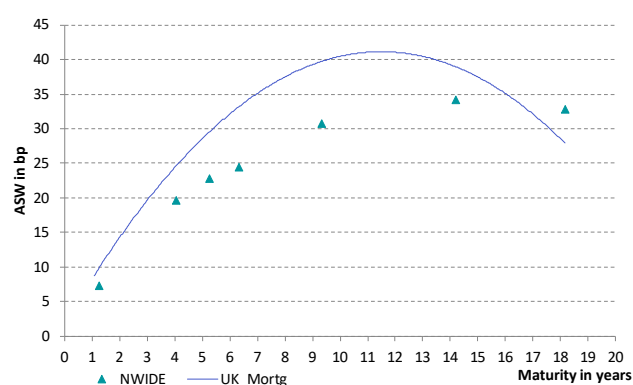
Nationwide Building Society reports an outstanding covered bond volume of GBP 13.525bn (EUR approx. 15.2bn) as of 31 December 2022. This compares with cover assets of GBP 21.267bn (EUR approx. 23.9bn). This makes Nationwide one of the largest covered bond issuers on the British market. At 57.2%, the overcollateralisation ratio is above the legally required overcollateralisation of 8%. The issuer's outstanding covered bonds are denominated in British pounds, Swiss francs and euros, with the largest share (just under 50%) being accounted for by covered bonds denominated in euros. In addition, Nationwide is represented in the iBoxx EUR Covered with a total of seven listed ISINs (EUR 4.35bn). The issuer's covered bonds are – as is customary in the United Kingdom – issued as soft bullets.

Programme data

31 December 2022	Mortgage
Covered bonds outstanding	GBP 13,525m
Cover pool volume	GBP 21,267m
Current OC (nominal / legal)	57.2% / 8.0%
Type	100% Residential
Country	100% UK
Number of loans	207,766
10 largest exposures	0.04%
ØLTV (unindexed / indexed)	55.5% / 43.9%
Fixed interest (Cover Pool / CBs)	85.5% / 61.8%
WAL (Cover Pool / CBs)	18.9y / 5.7y
CB Rating (Fitch / Moody's / S&P)	AAA / Aaa / AAA

Source: Issuer, rating agencies, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview (BMK; maturity >1y – <10y) – UK



Exclusively residential cover assets from the UK

The Nationwide Mortgage Cover Pool contains only primary cover assets, all of which are residential loans. In addition, the cover assets are all located in the United Kingdom and denominated in GBP. With a loan number of 207,766 and a resulting average volume of GBP 102,359 (EUR approx. 115,223), the Nationwide Pool can be described as granular. Furthermore, at 68.4%, slightly more than two-thirds of the residential mortgages used for coverage have been in existence for five years or longer. Looking at the regional distribution within the United Kingdom, the Outer Metropolitan region accounts for the largest share of original cover assets at 15.0%. The Outer South East (12.4%), London (11.9%) and Scotland (10.9%) also account for shares of more than ten percent. 85.5% of mortgage loans have a fixed interest rate. The NPL ratio in the cover pool was 0.4%.

Rating and regulatory

The rating agencies Fitch, Moody's and S&P each give Nationwide's covered bond programme their top rating (AAA/Aaa/AAA). The Moody's analysts also attest the quality of the collateral in the cover pool with a collateral score (5.0%). With regard to regulatory treatment, Brexit was of great importance, as the UK is now considered a so-called "third country". We understand that the treatment of NBS EUR benchmarks as Level 2A assets in the context of LCR management would be appropriate based on the prevailing UK regulatory framework and the issuer's transparency disclosures. However, we believe that actual recognition is still pending, in particular due to the lack of formal confirmation of equivalence of the UK framework with that in the EU (see our [LCR study](#)).

Appendix

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